

THIRTEENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1980-81)

(SEVENTH LOK SABHA)

EXPORT OF DEFENCE STORES
AND
MODERNISATION OF PROCESSES OF PRODUCTION
IN A FACTORY

MINISTRY OF DEFENCE

[Action taken on 81st Report (Sixth Lok Sabha)]



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Corrigenda to 13th Report of Public
Accounts Committee(7th Lok Sabha)

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(1980-81)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Thirteenth Report on action taken by Government on the recommendations contained in their Eighty-First Report (Sixth Lok Sabha) on Paragraphs 9 and 11 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Defence Services). The 81st Report dealt with a case of export of defence stores. The stores reportedly shipped to the country with which the export deal was finalised, actually landed in another country resulting in their falling in the hands of unauthorised parties. In this Action Taken Report, the Committee have reiterated their earlier recommendation that responsibility for various omissions and commissions in the matter of this deal by the officers of all levels should be fixed for suitable action.

2. On 20 August, 1980, the following 'Action Taken Sub-Committee' was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Public Accounts Committee in their earlier reports:

- | | |
|-----------------------------------|-----------|
| 1. Shri Chandrajit Yadav—Chairman | |
| 2. Shri K. P. Unnikrishnan | } Members |
| 3. Shri K. P. Singh Deo | |
| 4. Shri V. N. Gadgil | |
| 5. Shri Satish Agarwal | |
| 6. Shri N. K. P. Salve | |

3. The Action Taken Sub-Committee of the Public Accounts Committee (1980-81) considered and adopted the Report at their sitting held on 19 March 1981. The Report was finally adopted by the Public Accounts Committee (1980-81) on 28 March, 1981.

4. For reference facility and convenience the recommendations and observations 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.

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CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Eighty-First Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraphs 9 and 11 of the Report of the Comptroller & Auditor General of India for the year 1975-76, Union Government (Defence Services). The Eighty-first Report was presented to the Lok Sabha on 27 April, 1978.

1.2. Action Taken Notes have been received from Government in respect of all the 25 recommendations/ observations contained in the Report and these have been categorised as follows:

(i) *Recommendations or observations that have been accepted by Government*

Sl Nos. 5, 11, 18, 19, 21, 23 and 25.

(ii) *Recommendations or observations which the Committee do not desire to pursue in view of Government's reply.*

Sl. Nos. 1, 2, 8, 12, 14, 15, 16, 17, 20, 22 and 24.

(iii) *Recommendations or observations in respect of which replies of Government have not been accepted by the Committee and which require reiteration.*

Sl. Nos. 3-4, 6-7, 9-10 and 13.

(iv) *Recommendations or observations to which Government have furnished interim replies*

Nil.

1.3. The Committee will now deal with action taken by Government on some of the recommendations.

Finalization of the sale deal with the Agent in contravention of Government directions (Paragraphs 1.80 and 1.81—Sl. Nos. 3 and 4)

1.4. Dealing with the question of finalisation of the deal for export of 35000 Units of a store, entirely with an Agent in contravention of necessary directions of the Government in that behalf,

the Committee had in Paragraphs 1.80 and 1.81 (Sl. Nos. 3 and 4 of their 81st Report (Sixth Lok Sabha) recommended as follows:

"1.80. The Committee note that at the high level meeting held in September, 1973, in the Ministry of Defence, it was *inter alia* decided that while agents could be appointed to explore the market for export of stores, the final deals would be on Government-to-Government basis, and stores in all cases despatched direct to the Government concerned. The representative of the Ministry confirmed in very explicit terms during evidence that "we have been, for some years engaged in exports on a limited scale, on a highly selective basis, as discreetly as we can and on a low profile and taking as much care as we can, not to get involved and entangled in any areas of conflict or supply to countries which might prove embarrassing to us." The Committee deem it highly lamentable that in a case of execution of an order for export of 35,000 units of stores, the entire deal was struck and executed in utter disregard of the aforesaid considerations and the discreet and cautious approach enjoined upon in such matters was given a go by. That the deviation from the prescribed procedure was not entirely unintentional is borne out by the fact that the deal was not only concluded in entirety with the foreign Agent, but, graver still, no steps were taken to ensure that the stores actually reached the intended foreign destination."

"1.81. Justifying the correctness of finalizing the entire deal with the foreign Agent, the Secretary (Defence Production) pleaded during evidence that the same meeting (September, 1973) in which the policy of Government-to-Government transaction was enunciated also authorised dealings with foreign agents direct, if they were reputable. When the transaction with the Agent was really authorised under the original guidelines of September, 1973, the Committee fail to appreciate the need for obtaining special approval from the authorities concerned for this unusual step. On perusal of the relevant portion of the record of discussion at the aforesaid meeting the Committee do not find any such authorization. It speaks only of selection of foreign Agents, if they were reputable, for purposes of initiating negotiations and not for purposes of finalisation of the deal with them."

1.5. The Ministry of Defence (Department of Defence Production) furnished the following action taken note on Paragraph 1.80 vide their O.M. of 14 February, 1980:

"The first 'End User Certificate' from country "A" furnished by the foreign Agent was not accepted. The Second 'End User Certificate' from country "B" was investigated and was not accepted. The third 'End User Certificate' from country "C" was received through our Military Adviser in London, who stated that he had checked from his sources that the signatory on the End User Certificate was the same person who was until then recently country 'C's High Commissioner in London and was then holding the appointment of the Permanent Secretary in the Ministry of Foreign Affairs of Country 'C'. It may also be mentioned that the E.U.C. received from the foreign Agent was also shown to a Military Officer of country 'C' who happened to be in India at that time and this Military Officer also identified the signatures of the authority issuing the End User Certificate.

Although our Military Adviser in U.K. High Commission had no reservations regarding genuineness of the EUC, he had expressed some doubt about the agent. However, there was subsequent correspondence with the M.A. in the matter, immediately thereafter and before finalising the deal. In this correspondence, he did not raise any doubts regarding the authenticity of the E.U.C. or the agent. It was, therefore, inferred that he had satisfied himself about the reservations which he might have had. The instructions regarding despatch of stores were received from our Military Adviser in London, who had advised that the documents other than the priced copies, should be sent to the Permanent Secretary, Ministry of Foreign Affairs of Government 'C' under a confidential cover. It was also stated by the Military Adviser that the port of disembarkation was to be Dar-e-Slam, (since country 'C' is a land-locked country). Accordingly, Dar-e-Slam was mentioned as the port of destination in the Bill of Lading. The consignee was marked "NV Slavenburg's Bank Cool-singel-63 Rotterdam (for Ministry of Defence, Government of 'C')." According to the procedure laid down in Ministry of Defence Office Memorandum dated 31-7-75, the Ministry of Defence is to arrange the delivery of stores upto the f.o.b. point. The shipment of the goods is the

responsibility of the purchaser. It would thus be clear from the above that all possible care and caution was exercised in handling the export deal in this case."

1.6. Action Taken note dated 14 February, 1980 furnished by the Ministry of Defence (Department of Defence Production) on paragraph 1.81 states as follows:

"The kind attention of the P.A.C. is invited to para 1 of the minutes of the meeting held in September, 1973 referred to in this recommendation. It is submitted that it is provided in the minutes of this meeting that the export of defence stores would be purely on economic considerations, but the over-riding political considerations would not be lost sight of. It is true that in September, 1973 meeting it was mentioned that the export deals would be on Government-to-Government basis only and the stores would be despatched direct. In the case under consideration also, an End-User Certificate from the country 'C' was obtained before the despatch of the stores. The stores were also despatched direct to the port of disembarkation and were not despatched to some other destination. It may be pointed out from the experience in the field of exports that some foreign countries do not wish to enter into a direct Government to Government transaction and for various political and diplomatic reasons, these Governments prefer to deal through the Agents. The export of stores by obtaining an End User Certificate is one of the well recognised and established method of export of such stores on Government-to-Government basis, in that a certificate is obtained to the effect that the stores in question are required by the purchasing country for the exclusive use of their Military or Police Forces. In the light of the above, it would appear that the export transaction in this particular case was within the four walls of the directive issued in September, 1973. The transaction was reported to the highest authority concerned in the Department of Defence Production for information and no approval for deviation from the laid down procedure was sought since it was considered that there was no deviation involved in this case.

As regards the criticism that according to the Record of discussions held on 6th September, 1973, the role of the agent is to be confined to the initiation of negotiations and not

for finalisation of deals with them, we do not find anything categorical to that effect in the said discussions. The circumstances under which deals have to be finalised with the agent in some cases has already been explained in detail. We submit that there was no contradiction involved in finalisation of the deal through the agent. We may also state that the deal was finalised after keeping Raksha Utpadan Mantri aware of the full facts of the transaction.”

Omissions and commissions resulting in despatch of the stores to unapproved destination (Paragraphs 1.83, 1.84, 1.86 and 1.87—Sl. Nos. 6, 7, 9 and 10)

1.7. Commenting upon the various omissions and commissions of the concerned authorities which resulted in despatch of the stores to an unapproved destination *viz.* country ‘A’, when these stores were meant for country ‘C’, the Committee had in paragraphs 1.83, 1.84, 1.86 and 1.87 (Sl. Nos. 6, 7, 9 and 10) of their 81st Report recommended as follows:—

“1.83. The Committee were informed during evidence that there was not so much concern about the sale of the defence stores but what was of more concern was that they did not get into unapproved hands, and as a safeguard, production of an ‘end-user certificate’ had been prescribed. The ‘end-user certificate’ is a written affirmation from the foreign Government that the stores are intended for its own exclusive use and would not be sold, transferred or diverted without the seller’s permission. The Committee are surprised to see the lack of seriousness displayed in conducting verification of the genuineness and authenticity of the final ‘end-user certificate’ from country ‘C’.”

“1.84. Explaining the position about the earlier rejection of the proposal for sale of stores to countries ‘A’ and ‘B’, the Secretary (Defence Production) stated during evidence that in the case of country ‘A’ there was ‘political hesitation’ but in the case of the country ‘B’, the end-user certificate was not acceptable as it was “from a level lower than acceptable”. Finally, an end-user certificate was received on 23 August, 1975, from the Agent emanating from foreign Government ‘C’, which did not figure in their earlier negotiations. The very fact that the agent was successively naming countries and had previously

submitted a certificate which was not found acceptable, and the final one from a source which had not figured previously in the negotiations should have ordinarily cautioned the Government to verify the *bona fide* of the Agent's latest proposal. Even when the Military Adviser to one of our High Commissioners had, expressed some doubts at the time of confirming whether the signature on the 'end-user certificate' was genuine or not, the matter was not followed up. Subsequently, when the trade delegation of the country 'C' visiting this country at the time, stated, "that they were not aware of such a transaction or such a need on the part of their country" the doubt should have further strengthened. Yet, the officers responsible for negotiating the deal remained completely unperturbed and did not move to investigate the credentials of the agent and the genuineness of his proposal and the authenticity of the end-user certificate furnished by him. The Committee fail to agree with the contention of the representative of the Ministry that "we had really no means of knowing whether document was forged or spurious or not". The unfortunate consequences of this deal could have perhaps been avoided had, at that stage, verification of the end-user certificate been made at least from this country's Ambassador/diplomat in country 'C'—a course now proposed to be followed after the sad experience in this case. Even the Secretary (Defence Production) himself during evidence admitted the desirability for such a verification. The Committee are amazed to learn from the Secretary (Defence production) that the Government "are not in a position to say till this day" whether the end-user certificate produced by the Agent from country 'C' was spurious or otherwise. The Committee are at a loss to understand as to why it has not been found possible thus far to verify the authenticity of the end-user's certificate—from country 'C'. The Ministry of Defence owe an explanation to the Committee for this apathy."

"1.86. Apart from the foregoing the Committee have observed the following glaring lapses and omissions and commissions in the case which prove beyond doubt the perfunctory approach and indifference to the prescribed procedures on the part of the authorities concerned:—

- (i) Though the 1973 guidelines required the stores to be despatched direct to the foreign government concerned,

these were actually despatched in September, 1975 on f.o.b. basis with bill of lading in favour of the agent's bankers.

- (ii) The shipping documents, which according to the negotiated terms were required to be sent to the foreign buyer, were in fact handed over to the agent. The Department has not been able to find from the existing records any explanation for this violation of the negotiated terms of agreement.
- (iii) Copies of shipping documents were sent to the foreign government for whom the defence stores were sold to the agent, 4 weeks after the despatch of stores. This delay facilitated in the diversion of stores to a country other than that for which they were intended and this country was the same to whom the sale of stores were earlier refused on political considerations."

"1.87. The above distressing features of the transaction create an irresistible impression in the mind of the Committee that there might have been complicity and collusion between the officers responsible for the deal and the agent. The Committee consider that this matter requires a thorough investigation with a view to fixing responsibility for the lapses in this case and for taking necessary remedial measures for avoiding its recurrence in future."

1.8. The Ministry of Defence (Department of Defence Production) have furnished the following action taken note on 29 May, 1979, with regard to paragraph 1.83:

"It is submitted that there had been no lack of seriousness in conducting verification of the genuineness and authenticity of the end-user certificate from country 'C'. The end-user certificate was handed over by the Agent to our Military Adviser in London. While forwarding the end-user certificate, our Military Adviser stated that he had checked from his sources and found that Mr. 'M' (who had signed the end-user certificate) was the same person as Mr. 'M' who had been holding till recently the office of High Commissioner of country 'C' in London and that he was then holding the appointment of Permanent Secretary in the Ministry of Foreign Affairs of Country 'C'. The Military Adviser mentioned that he was trying to confirm whether the signatures on the End-user certificate were of the same person. He also stated that

so far the letter seemed to be genuine. The Military Adviser in High Commission of India in London, in further correspondence with the Ministry of Defence on the subject, did not refer to any doubts about the authenticity of the End-user Certificate forwarded by him. In his subsequent correspondence which was exchanged before the despatch of stores, the Military Adviser in the High Commission of India London stated that the documents, other than the priced copies, should be sent to Mr. 'M' Permanent Secretary, Ministry of Foreign Affairs 'Country 'C'.

Apart from the above, the End-user Certificate received in the Ministry of Defence was also shown to a senior military officer of the Government 'C', who happened to be in Delhi on 25-8-1975. This officer of country 'C' also confirmed that the signatory of the end-user certificate was the Foreign Secretary of country 'C'.

It would be clear from the above that all possible steps were taken to verify the genuineness and authenticity of the end-user certificate from country 'C'. Since our Military Adviser in London who had forwarded the end-user certificate had done the necessary checks and as he had finally intimated on 26-8-1975 that the documents should be sent to Mr. 'M' Permanent Secretary, Ministry of Foreign Affairs of country 'C', it was considered that no further verification about the genuineness or authenticity of the certificate was called for. In these circumstances, it would be clear that there was no lack of seriousness in conducting the verification of the genuineness and authenticity of the final end-user certificate for country 'C'."

1.9. Action Taken Note on paragraph 1.84, also furnished by the Department of Defence Production on 29 May, 1979 reads as follows:—

"It is a fact that the foreign Agent first produced an end-user certificate from Country 'A' and when it was not accepted, he produced a certificate from country 'B'. On the certificate from country 'B' not being accepted by us, the Agent produced a certificate from country 'C'. As already pointed out, the End-User Certificate from Country 'C' was received through our Military Adviser in London. The Military Adviser in London informed the Ministry of

Defence that he had checked from his sources and that the signatory on the end-user certificate was then holding the appointment of Permanent Secretary in the Ministry of Foreign Affairs of country 'C'. The Military Adviser had no doubt mention that he was trying to confirm whether the signatures on the End-User Certificate were of the same person. But he had also categorically mentioned that so far the letter seemed to be genuine. Our Military Adviser in London intimated the Ministry of Defence on 26-8-75, about a week after sending the end-user certificate, that the documents regarding this transaction should be sent to Mr. 'M' Permanent Secretary, Ministry of Foreign Affairs of the country 'C' (who had signed the End-User Certificate). It was, therefore, not considered necessary to take up the matter with our Military Adviser in London about the genuineness or authenticity of the End-User Certificate. Further, as already pointed out in our reply to recommendation No. 1.83, a Military Officer from country 'C', who happened to be in Delhi on 25-8-1975, also confirmed the credentials of the signatory on the end-user certificate. When the end-user certificate from Country 'C' was shown to a military officer of country 'C', the officer could not say about the requirements of the stores as he had stated that he was not dealing with the subject. In view of the totality of the circumstances that the Indian Military Adviser in London had stated that the certificate seemed to be genuine and he subsequently informed that the documents should be sent to the signatory of the certificate in country 'C' and the officer from country 'C' also confirmed the credentials of the signatory on the end-user certificate, there was no reason to doubt the genuineness of the end-user-certificate and seek verification thereof, through this country's Ambassador in country 'C' and accordingly no further verification was done by the Ministry of Defence.

It may be pointed out that the country 'C' came to know about the above transaction in September, 75 itself and they had sent their officers to investigate the end-user certificate. The country 'C' has, however, not intimated to us the results and findings of their investigations. Since the foreign Government of country 'C' was conducting the investigations into the matter, it was not considered necessary for Government of India to start investigations into

the matter for verification of the authenticity of the end-user certificate from country 'C'."

1.10. The Ministry of Defence (Department of Defence Production) have sent the following reply in regard to the recommendation in paragraph 1.86 *vide* their O.M. of 29 May, 1979:

"It is submitted that this deal was entered into in the best interests of the Department. It is correct that the 1973 guideline required the stores to be despatched direct to the foreign country concerned. In this case also, the goods were despatched direct to Dar-e-slam, the only port nearest to the concerned country 'C'. In the Bill of Lading it was clearly stated that the goods were for carriage to Dar-e-slam. It was also clearly mentioned in the Bill of Lading that the shipment was for carriage to Dar-e-slam for the Ministry of Defence, Government of 'C'. The name of the Banker of the Agent, was mentioned in the Bill of Lading apparently to ensure that the Letter of Credit was negotiated at sight and we received the payment immediately on presentation of documents.

As already stated during Oral evidence before the PAC, we have not been able to find from the existing records any explanation for the handing over of the shipping documents to the agents in violation of the negotiated terms of agreement. The stores were despatched from Bombay between 12-9-1975 and 14-9-1975. While copies of the shipping documents were sent to the foreign government *i.e.* country 'C', after an officer of the country 'C' had visited India, it cannot be accepted that delay in despatch of the shipping documents facilitated the diversion of stores to a country other than that for which they were intended, since that country *i.e.* country 'C' came to know of the deal in the month of September itself."

1.11. Action Taken Note dated 29 May, 1979 on the recommendation in paragraph 1.87, furnished by the Ministry of Defence (Department of Defence Production) reads as follows:—

"The Ministry of Defence have considered the matter in the light of the observations made by the Public Accounts Committee. As has been pointed out at other places, the end-user certificate from country 'C' was accepted as genuine, since it had been certified as genuine by the Indian Military Adviser in London, who had forwarded

it and the credentials of the signatory on the end-user certificate were also confirmed by an officer of country 'C' who happened to be in India at that time. The Ministry of Defence consider that there are no reasons to suspect the complicity between the officers who handled this deal and the foreign Agent and hence do not consider the need for any detailed investigation. The transaction was handled by the officers of Ministry of Defence in good faith and the competent authorities were kept informed of the deal. It will be pertinent to add in this connection that the agent involved was a foreign national and any investigations at this stage would bring out nothing but on the contrary might cause diplomatic embarrassments aound.

As regards remedial measures, it may be pointed out that a procedure has now been evolved whereby the end-user certificate, if received from any country, is got verified by making a reference to our Embassy/Mission in that country before finalisation of any transaction regarding export."

1.12. The Ministry of Defence have admitted that "in September, 1973 meeting it was mentioned that the export deals would be on Government-to-Government basis only and the stores would be despatched direct." In the present case both the conditions were discarded inasmuch as the export deal was struck with an agent claiming to represent a foreign Government and not with the foreign Government itself. In fact, the foreign Government was never consulted directly about the bonafides of the agent or the genuineness of the deal. Moreover, the Defence stores were not despatched directly to the foreign Government concerned. The Ministry have sought to cover up this grave lapse on the part of the authorities concerned resulting in defence stores falling into the hands of unauthorised parties, by saying that since the end-user certificate was produced by the agent, the deal could be deemed to have been on Government-to-Government basis. Further, according to them, the guideline that "the stores would be despatched direct" was complied with as the stores were despatched direct to the port of disembarkation even though the Bill of Lading was drawn up in the name of the Bankers of the Agent". This position is entirely unconvincing and the Committee are unable to shake off their earlier misgivings about the deal expressed in paragraphs 1.80 and 1.81 of the original Report.

1.13. The explanations furnished by the Ministry in reply to paragraphs 1.83, 1.84, 1.86 and 1.87 of the original report are also not adequate for the Committee to alter their earlier findings. It is

clear that the authorities concerned did not verify the authenticity and genuineness of the end-user certificate from Government 'C' by making a reference to that Government or at least from the Indian Mission in that country. The authorities further failed to obtain specific reply from Indian Military Adviser in London when initially he had stated that "he was trying to confirm whether the signatures on the end-user certificate were genuine or not." Moreover, even though the Military Adviser wrote to the Ministry of Defence on 26-8-1975 that the documents regarding this transaction should be sent to Permanent Secretary, Ministry of Foreign Affairs of the country 'C' (who had signed the end-user certificate), it was not done. Proper verification of such a basic document was necessary in view of the fact that this certificate was introduced precisely as a safeguard against defence stores getting into unapproved hands, which unfortunately happened in this case due to the negligence on the part of the authorities.

1.14. Further, the action taken notes do not explain the circumstances and reasons justifying the following deviations which also aided in the diversion of the stores to unapproved destination:—

- (i) Handing over of the shipping documents to the Agent.
- (ii) Delay of 4 weeks in despatch of the copies of shipping documents to the foreign Government.

1.15. The clear contravention of express decisions taken in September, 1973 and other irregularities create well founded apprehensions in the mind of the Committee about this deal. As the lapses on the part of the authorities directly connected with the deal are quite grave and have resulted in misdirection of defence stores into unauthorised hands, the Committee are unable to accept the plea advanced by the Ministry, that "the transaction was handled by the officers of the Ministry of Defence in good faith and the competent authorities were kept informed."

The Committee consider it a serious matter where the procedure laid down in respect of export of defence stores has been blatantly violated. The Committee therefore reiterate their earlier recommendation that responsibility for various omissions and commissions in the matter of this deal by officers at all levels should be fixed for suitable action.

Loss due to unaccounted for supply of accessories (Paragraph 1.90—Sl. No. 13)

1.16 Dealing with the question of unaccounted for supply of accessories valued at Rs. 8.90 lakhs with the stores, the Committee

had in paragraph 1.90 (S. No. 13) of their 81st Report recommended as follows:—

“The Committee are further perturbed to learn that accessories valued at Rs. 8.90 lakhs have been supplied with the stores though these were not taken into account in the cost data on which the price was based. The Secretary (Defence Production) conceded during evidence that there was an omission in not taking specific note of the element of accessories. The Committee would like that the inquiry suggested by them in paragraph 1.87 would also cover this costly lapse resulting in a loss of Rs. 8.90 lakhs.”

1.17. The action taken note dated 29 May, 1979 furnished by the Ministry of Defence (Department of Defence Production) reads as follows:—

“It has already been admitted that there was an omission in not taking specific note of the element of accessories in fixing the price of Rs. 710/-. In the note sent to the Ministry of Finance (Defence), it was mentioned that the item will be supplied along with one magazine. In the absence of any indication to the contrary, it was assumed by the Ministry of Finance (Defence) that the cost data included the cost of this item also. Subsequently investigations, however, revealed that the estimated maximum cost of Rs. 624/- was only for the weapon and did not include the cost of one magazine or the other accessories, which although not mentioned in the note to the Ministry of Finance (Defence) were actually supplied.

There does not appear to be any necessity for conducting an inquiry into this lapse as it is evident that lapse occurred due to an assumption made that the maximum cost of production of Rs. 624/- included the cost of magazine etc. also. As already mentioned the total value of the 35,000 equipment and the accessories issued ex-stock, as indicated by the Controller General of Defence Accounts (based on payment issue rates) was Rs. 2.08 crores. Against this the total realisation from export was Rs. 2.48 crores in foreign exchange. Thus in effect there was a profit of Rs. 40 lakhs in the transaction, if it is viewed with reference to the total value of the stores issued. The lapse of not taking into account the accessories could not thus be treated as costly, as the total amount realised by

export was more than the total value of the stores issued based on the payment issue rates. In these circumstances, it is considered that there is no necessity for holding any inquiry into the above matter.”

1.18. The Committee are not satisfied with the explanation given by the Ministry for supplying accessories valued at Rs. 8.90 lakhs with the stores, free of cost. The overall profit of Rs. 40 lakhs does not cover the lapse which is established beyond doubt and also admitted. The Committee would like that the responsibility for this lapse is also fixed and suitable action taken against all those who may be responsible.

CHAPTER II

RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee note that initially, the Agent wanted to negotiate the export deal for country 'A' but that was not followed, as the country was not acceptable. Thereafter, the Agent negotiated the deal for country 'B' on the production of an 'end user certificate' from that country, but this certificate was rejected because it was not signed at the required level. Finally the export deal was finalised for country 'C'.

[Sl. No. 5 (Para 1.82) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

The facts stated in the above recommendation are correct. From these facts, it would be clear that due care and caution was exercised in the scrutiny of the End-User Certificate produced by the purchaser.

2. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D(SPL), dated 29-5-1979]

Recommendation

According to the detailed procedure prescribed by the Ministry of Defence on 31st July, 1975, Ministry of Finance were required to be consulted with regard to the contractual provisions for prices, terms of payment, delivery etc. The prices were to be determined with reference to the current estimated cost of production with specific additional provisions for material and labour escalation, element of profits etc. The concurrence of the Ministry of Finance (Defence) was in this case sought/obtained, ex-post-facto on 26/28 August, 1975 to a unit price of Rs. 710/- f.o.b. on the basis of the cost data

of the basic equipment (without accessories). It was stated that supplies would be delivered ex-stock and the stores would be replenished through subsequent manufacture.

[Sl. No. 11 (Para 1.88) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

In June, 1975, an inquiry was received from an Indian firm regarding the supply of 9 mm Carbine to a foreign country. The party had neither indicated the firm quantity nor the name of the country for which the stores were required. However, it was mentioned that the requirements were large and the goods were required for a country friendly to India. A price of Rs. 900|- was telegraphically communicated to the Indian party. On the request of the firm, the price was reduced by 5 per cent as a special case. During further discussions, the firm stated that the quantity required would be one lakh Nos. In view of the large quantity involved a price of Rs. 700|- for one lakh Nos. and Rs. 775|- for a quantity of 50,000 was quoted to the party.

2. When the Officer on Special Duty went to London in July, 1975, he was aware of the fact that in June, 1975 the estimated maximum and minimum FOB Bombay cost of production for the store in question as intimated by the DGOF was Rs. 624|- and Rs. 397|- respectively. The maximum price of Rs. 624|- included in addition to the cost of production, cost of packaging, tool charges plus anticipated increase due to escalation which was 31.7 per cent of the cost of production and freight to Bombay. The price of Rs. 710|- was the best possible price which the OSD could obtain during negotiations with the foreign Agent. This price of Rs. 710|- was more than the latest known maximum FOB cost, viz., Rs. 624|-, by 13.78 per cent.

3. As regards obtaining the concurrence of Ministry of Finance (Defence) the remarks offered against Sl. No. 2—Para 1.79 may kindly be referred to. We may add that though the estimated cost of production was Rs. 829|- for 1976-77 the actual cost was Rs. 706|- as already stated before the PAC. While the negotiations had started to secure the sale at Rs. 900|- each it had to be brought down to Rs. 710|- as the agent did not agree to pay more than that sum. At the time of the conduct of the negotiations we had the latest FOB price of Rs. 624|- which included cost of packaging and anticipated increase in price equal to 31.7 per cent.

The replenishment cost during 1976-77 was high not so much because the cost of the production increased but because of the loading of the overheads on the production costs. If the production had been undertaken according to the rated capacity of the factory the replenishment cost would not have been that high. Under normal circumstances, 'replenishment' would involve making good, deficiencies, within the immediate future. In the present case the deficiencies appear to have been made good over a number of years as they were not required for immediate use, but were intended to build up reserve stocks and the production was accordingly staggered to keep the manufacturing capacity alive. The position has been stated in detail, at para 4 of our action taken note against Sl. No. 12, para 1.89.

FA (DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75-D(SPL), dated 14-2-1980]

Recommendation

According to the time schedule drawn up by the Director General Ordnance Factories and given in December, 1971, to the Military Engineering Service (MES) for completion of civil works the building shell was to be handed over by the MES in 16 months after the issue of administrative approval. In January, 1972 MES authorities indicated that they could not agree to the time-schedule and that completion of shell stage of Phase-I and Phase-II works would require 25 months and 29 months respectively from the date of issue of administrative approval. The Committee regret the fact that the MES could not be associated by the DGOF while drawing up the time-schedule. The Secretary, Defence Production conceded during evidence that it would have been very desirable if at the time of purchasing the plant itself they were in a position to know precisely the time required by consulting the engineers concerned. He also informed the Committee that in the light of this particular experience his Department was examining how best to streamline the system so as to avoid in future a possible disharmony between the works-calenders assumed by the two parties, viz., DGOF and MES. While regretting that this was not done in the present case, the Committee hope that a lesson would be learnt from this experience and the procedure in such cases would be streamlined so as to avoid a situation of the type that had developed in this case.

[Sl. No. 18 (Para 2.64) of Appendix to 81st Report of PAC,
(6th Lok Sabha)]

Action Taken

It is true that DGOF did not associate MES in drawing up the time-schedule required for the completion of civil work. However, the lack of co-ordination between DGOF and MES would now be removed, with the re-structuring of the DGOF organisation on the basis of the recommendations of Rajadyaksha Committee. In the light of the recommendations of Rajadyaksha Committee, a Chief Engineer would be placed under Ordnance Factory Board to plan and co-ordinate the execution of the civil works relating to Ordnance Factories. Since the Chief Engineer would now be a part of the OF Organisation, the necessary co-ordination, which was earlier lacking, would be achieved and it is hoped that such cases of lack of co-ordination would not occur in future.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6)/78-D(PA), dated 28-3-1979]

Recommendation

A period of more than two years of the delay in commissioning of these plants is attributable to the defects noticed in the 'Blenders'. The work on blenders is stated to have been completed in December, 1974 but during testing in March, 1975, leakages were noticed which had to be rectified. The rectificatory work was completed in June and October, 1976 and at the end of it a final clearance from Vikram Sarabhai Space Centre was obtained. The Original cost of construction of blenders was around Rs. 2.70 lakhs. The rectificatory work cost Rs. 2.2 lakhs. The rectificatory work included coating of the blenders with "epoxy paint". As the coating is required to be done periodically it naturally would add to the maintenance cost of the plant. The Committee have been told that the blenders are made of RCC instead of steel and that it was for the first time that blenders of RCC were constructed and experimented with in such a big project like this. The Committee would like the Government to compare the expenditure capital as well as maintenance, on RCC blenders with the expenditure that would have been incurred if the blenders were made of steel, to find out whether the decision to experiment with blenders made of RCC in this project of strategic importance was justified. It should also be examined whether on safety considerations it was worthwhile taking the risk of building RCC blenders instead of having those built of steel. The Committee would like to be informed about the results of the examination. The Committee understand that Vikram Sarabhai Space Centre had recommended

certain safeguard while putting the blenders in use. The Committee fervently hope that these safeguards are being followed.

[Sl. No. 19 (Para 2.65) of Appendix to 81st Report of the PAC,
(6th Lok Sabha)]

Action Taken

The requirement of constructing RCC blenders was part of the technical specifications/requirements given by the Plant supplier. The choice between RCC blenders and Stainless steel blenders was not that of purchaser, as the plant supplier desired the blenders to be built with RCC. The plant supplier too was using RCC blenders in its works, which were reported to be giving satisfactory service. This was also verified by a team of officers of DGOF which had visited the works of the plant supplier. Since the blenders of the type required to be constructed for these plants were taken up for construction by MES for the first time, the blenders developed certain incipient leaks. These leaks were, however, rectified subsequently and the blenders are now giving satisfactory performance.

2. The comparative economics of using RCC blenders and stainless steel blenders has been worked out by DGOF and is given below:—

	RCC Blender	Stainless steel Blender
		Rs. Lakhs
Original cost	Rs. 1.75 lakhs (duly gunnited and epoxy coated 14 times)	23
Maintenance	Only periodical epoxy painting is required once in two years at a cost of about Rs. 10,000	..

It will be seen from the above analysis that it was very economical to use RCC blenders, as use of Stainless Steel blenders would have been prohibitive.

3. As regards safety considerations, it may be pointed out that RCC Blender duly gunnited and epoxy coated is considered as safe as a stainless steel blender. The fact that there has been no trouble with the RCC Blenders so far itself points to the conclusion that

RCC Blenders are safe. It is confirmed that the safeguards recommended by the Vikram Sarabhai Space Centre are being followed.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6)/78-D(PA) dated 28-3-1979]

Recommendation

The warranty period of unit II of Plant 'Y' is due to expire in February, 1979. For enjoying the full benefit of one year warranty this unit should have been commissioned in February, 1978. However, the unit is at present scheduled to be commissioned from January to May, 1980. This means that warranty benefits in respect of this unit would not be available to the factory at all. This position is fraught with danger as in the event of any defects noticed during trial runs, commissioning and initial working of the unit, no legal remedy would be available against the suppliers. It is a sad reflection on the poor planning and listless execution of the project. The Committee would like the Department to investigate as to how this situation has come to develop with a view to fixing responsibility, and take such remedial measures as may be possible at this stage.

[Sl. No. 21 (Para 2.67) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action Taken

It is submitted that according to the terms of the Contract concluded with the plant supplier, the defects noticed during trial runs| commissioning of the plant are to be rectified by the Plant supplier before the plant is accepted by the Purchaser. Adequate safeguards have been provided in the contract against defects noticed during performance runs. The plant is taken over by the Purchaser only after the performance runs have been proved satisfactorily. A copy of Article XII of the Contract is enclosed for ready reference in this regard. (Not printed).

2. The warranty period applies after the plant has been taken over by the Purchaser on successful completion of performance runs. In the case of Unit II of Plant 'Y', it is true that the warranty period expired in February, 1979. The Plant supplier has, however, since agreed to allow a warranty period for Unit II of plant 'Y' for a period of 6 months from the date it is taken over by the

Factory after satisfactory trial|performance runs, which are expected to take place in May, 1980. Thus a warranty period of 6 months would also be available for Unit II of Plant 'Y'.

3. In the circumstances explained above, it would appear that there is no need to hold any investigations with a view to fixing responsibility. As regards remedial measures, it may be pointed out that, consequent upon the formation of an Ordnance Factory Board in the DGOF Organisation, a full time Member of the Board will be responsible for the preparation and monitoring of both the short and long-term projects|plans required for meeting the overall targets. It is hoped that the snags and shortcomings of the nature pointed out by the PAC in the planning|execution of this project would not occur in future.

[Ministry of Defence (Department of Defence Production)
O. M. No. F. 26(6)/78-D(PA), dated 28-3-1979]

Recommendation

Now, that the revised target of September, 1979 has been laid down for the completion of the project, the Committee hope that all efforts would be made to complete the work by the target date. The completion of the scheme by the new target of September, 1979 assumes added importance in the context of commissioning of unit II of plant 'Y' scheduled from January to May, 1980 by which time the availability of water should be adequate to enable the plants being run to optimum capacity.

[Sl. No. 23 (Para 2.60) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

It is confirmed that the work on the de-silting of Kateri lake is proceeding according to schedule, as given below:—

Up to 30-4-78	1.1 Lakh cubic metre of silt has been removed.
Up to April, 79	. An additional 1.5 lakh cubic metre of silt would be removed.
Up to 30-9-79	. A further 0.65 lakh cubic metre of silt would be removed.

By September, 1979, a total of 3.25 lakh cubic metre of silt would have been removed which would improved the storage capacity equivalent to 35 days reserve at 26.5 lakh gallons per day maximum pumping capacity. The requirements of water during lean season

for peak production would thus be available well before May, 1980, when the Unit II of Plant 'Y' would be commissioned.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6)/78-D(PA), dated 28-3-1979]

Recommendation

Even after the idea was mooted in 1972 it took nearly two years thereafter for the contract to be completed by the DGS&D. The civil works for the plant were completed in January, 1976 and the plant was erected in May, 1976. The justification offered for the delay that "it was necessary to have preliminary technical discussions/clarifications with the firm and select suitable supplier" is not sufficiently convincing. The Committee feel that by advance planning and energetic action the time taken could have been curtailed and the acid mixing plant could have been erected earlier than May, 1976. The Committee hope that the Department of Defence Production will give due deference to the snags highlighted in this report and so streamline the project planning and execution procedures as to make for a synchronised and coordinated effort leading to planning and execution of the project according to a well laid-out programme.

[Sl. No. 25 (Para 2.71) of Appendix to 81st Report of the PAC
(Sixth Lok Sabha)]

Action Taken

The modernisation of acid mixing system involved complicated technical features. The long time taken in the construction of civil works and erection and commissioning of the plant was due to the fact that the Factory is located in a hilly terrain linked by metre gauge Mountain Railway. The contractor for the Acid Mixing Plant brought the material at site, fabricated the items and then erected/commissioned the plant. There was no delay in the completion of civil works, as there were completed within the time frame of commissioning the plant. The work relating to construction of civil works and plant erection work proceeded simultaneously and thus the plant could be commissioned within 4 months of completion of the civil works.

It may be pointed out that consequent upon re-organisation of the DGOF Headquarters organisation and formation of an Ordnance

Factory Board, the work of planning and execution of the projects will be the charge of a full time Member of the Ordnance Factory Board. The main responsibilities of this Member would be to prepare and monitor both the short-term and long-term corporate plants including production and projects required for meeting the targets. It is hoped that in future the projects would be planned and executed in a co-ordinated manner and the snags pointed out by the PAC in this project would not occur in future.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 2(6)/78-D(PA) dated 28-3-1979]

CHAPTER III

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

Recommendation

The Committee note that in February, 1973, a special cell was set up in the Ministry of Defence (Department of Defence Production) to handle export orders for some specific items of equipment and stores on commercial basis. This was done in implementation of the decision of the Ministry to promote the export of such items, with the intention of utilising spare capacity in the Ordnance factories and to earn foreign exchange. At a high level meeting held on September, 1973, broad guidelines for undertaking export of specific defence items were enunciated. The Committee were informed during evidence that defence requirements had a tendency to fluctuate and sometimes fluctuate very widely. Further, for certain items, like the one, dealt with in this Report, a stage had reached, where the demand for defence had dropped very considerably calling for some alternative avenues of utilization of the installed capacity either by picking the export orders or by diversification of the capacity and skills to produce goods for civilian needs so as to improve the economic viability of the factories and to keep managerial and administrative skills alive so that they could be instantaneously pressed into service to produce requirements of defence, whenever that picked up again. The Committee appreciate the general approach for this important decision. However, the Committee fail to understand as to why no formal detailed directive was issued in pursuance and elaboration of the decisions taken at the high level meeting held in September, 1973, which according to the Department, themselves had enunciated only the broad guiding principles.

[Sl. No. 1 (Para 1.78) of Appendix to 81st Report of PAC
6th Lok Sabha]

Action Taken

The high level meeting held in September, 1973 in the Department of Defence Production was an inter-departmental meeting

to discuss the modalities of export of Defence stores to foreign countries. The minutes of the above meeting were circulated to all concerned. The record of discussions of this meeting itself constituted a directive to all concerned in the Department of Defence Production with the export of Defence Stores.

2. FA (DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D (SPC), dated 29th May, 1979]

Recommendation

The Committee are further distressed to note that detailed procedure for sale of defence stores was laid down only in July, 1975. Had such detailed instructions been issued the omissions and commissions that have been referred to in the Audit Para would not have perhaps occurred. The Committee would like to know as to why the question of laying down detailed procedure was not considered essential at the initial stage itself in the light of broad guidelines enunciated in September, 1973, particularly when a special cell was in existence since February, 1973 to handle the export orders.

[Sl. No. 2 (Para 1.79) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action Taken

A detailed sale procedure for export of defence stores was laid down as early as 1956 *vide* Ministry of Defence letter No. 25(16)/5405/D(O&D) dated 6-7-1956. The question of revising the procedure, laid down in 1956, was taken up as early as June, 1973 and series of meetings were held at a high level to formulate the revised procedure. The revised draft procedure was circulated to all concerned including the C.G.D.A. After obtaining the approval of all concerned Departments, the revised procedure was finally issued on 31-7-1975. in supersession of the procedure contained in the Ministry of Defence No. 25(16)/5405/D(O&D) dated 6-7-1956, in so far as export of defence stores on commercial basis was concerned. The export of Defence stores to foreign Governments, which are not on a commercial basis, still continues to be regulated in accordance with the Ministry of Defence instructions dated 6-7-1956, and other special orders on the subject.

2. The present transaction was under negotiation with the agent during June/July 1975 and a valid End User Certificate was required for further progressing of the transaction. The End User

Certificate was received from our Military Adviser in U.K. High Commission on 23/25-8-1975 and a note was submitted to Finance on 26-8-1975, for clearance of the proposal from financial angle. The goods were shipped on 13-9-1975. The case could not be referred to Finance for their clearance earlier as the deal was not mature for want of the acceptable E.U.C.

3. The detailed instructions under orders dated 31-7-1975 related to the following aspects:—

1. Political clearance from Ministry of External Affairs.
2. Ascertaining availability of stores from concerned depot/ Service Headquarters.
3. Fixation of price in consultation with Ministry of Finance (D.P.).
4. Method of ordering supply ex-stock/Manufacture.
5. Despatch of stores—Loading at FOB point.
6. Realisation of the amounts and payment of agency commission.

4. The procedures followed, in the present case, were in conformity with the provisions of the above instructions. The belated issue of these orders has not, by itself, in any way given rise to the 'errors of omission and commission' in the present case.

FA (DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D(SPE), dated 14th February, 1980]

Recommendation

It was also decided at the high level meeting in September, 1973 that "agents' commission upto 5 per cent of the f.o.b. price could be paid without the concurrence of the Ministry of Finance (Economic Affairs Department); commission beyond 5 per cent would require specific approval of the Ministry of Finance." The Committee are surprised to learn from Audit Paragraph that during the course of negotiations with the Agent, it was mutually agreed upon that the transaction would be with the agent who would in turn be free to quote its own price to the foreign Government. This aspect of sale was not brought to the notice of Finance(Defence). The Committee feel that a blanket authority to the agent for quoting his own price is in complete contravention of the decision taken in

September, 1973 with regard to the payment of agents' commission. In fact, this authorization appears to be one of the reasons for prompting the agent to play foul in this whole deal culminating in the despatch of stores to country 'A' which was not originally approved of by adopting a devious course of action.

[Sl. No. 8 (Para 1.85) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action taken

It is correct that it was mutually agreed upon that the transaction would be with the agent who would in turn be free to quote its own price to the foreign Government. It is also correct that this aspect was not brought out in the note sent to the Ministry of Finance (Defence) for approving the price for the export of the item in question. The Agent had opened a Letter of Credit and since we received our entire payment for stores despatched, the Agent could quote his own price, to cover his financing charges, shipping charges and his profit/commission in the transaction. The deal with the foreign Agent was finalised on economic and commercial considerations. It is considered that the authorisation that the Agent could quote his own price to the foreign country could not in itself be a reason for promoting the Agent to play foul in the deal, culminating in the despatch of the stores to country 'A'.

2. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40) 75/D(SPL) Dated 29th May, 1979]

Recommendation

The Committee are surprised to learn that according to the calculations made by Audit, Government had to suffer a huge loss of about Rs. 41.66 lakhs, being the additional expenditure involved in the manufacture of basic equipment alone (for replenishment of stocks) on the basis of estimated cost of manufacture for 1976-77. The Secretary (Defence Production), however, explained during evidence that the extent of loss was not to the aforesaid extent as the audit's estimate of loss is based on the estimated cost of production of Rs. 829 per unit whereas the actual cost has turned out to be Rs. 706. According to him, the figure of loss of Rs. 41.66 lakhs would come down to about Rs. 24 lakhs on the basis of actual cost of production. Further, according to him, in the year 1975-76, to which the transaction related the demand on this factory had dropped to 9,092 units as against the production level of 45,000 units and the demand for

1976-77 got reduced to zero. As such, but for the order in question, there would have been a loss of Rs. 36 lakhs on account of non-utilisation of the capacity of that factory skill-wise, labour-wise and equipment-wise and if the element of interest on the money earned on this particular transaction was also added, it would have come to a total amount of Rs. 44 lakhs. According to the Secretary (Defence Production) the loss of Rs. 24 lakhs on the basis of actual cost of production for replenishment purposes would have to be viewed against the notional loss of Rs. 44 lakhs if they did not have this order and consequently kept the factory idle. The plea advanced by the Secretary (Defence Production) for off-setting the actual loss of Rs. 24 lakhs by a notional loss of Rs. 44 lakhs due to the possible closure of the factory for a year is not acceptable to the Committee in view of the fact that export is not the main objective of defence production and the question of closure of the ordnance factory was only hypothetical. The Committee are astonished that even the Ministry of Finance (Defence), accorded their *ex-post-facto* sanction to the deal disregarding the prescribed procedures for working out the cost price.

[Sl. No. 12 (Para 1.89) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action taken

The guiding factor which prompted the Ministry of Defence to finalise the deal in question was the large idle capacity in the Ordnance Factory for the store in question, due to decline in the demand of Army for this equipment. The orders on the Factories for this equipment dwindled to 9092 in 1975-76 against a normal production level of 45,000 and there was no order for 76-77. Against this background the export order for this equipment was accepted, as this would bring additional load on the Factory and the capacities would not be rendered idle. The export order was finalised on these economic and commercial considerations. It would be seen that originally a quotation of Rs. 900/- per unit was given for this equipment. However, the best possible price that could be secured was Rs. 710/- and that is what, it is presumed, the market could bear. In the highly competitive international arms market, our price had to be competitive if we wanted to bag the order.

2. It may be pointed out that the total value of stores, including accessories, (based on payment Issue rates, which are worked out on the basis of actual cost of production and by adding handling/transport charges) which were issued ex-stock, was Rs. 2.08 crores.

while the total realisation from export was Rs. 2.48 crores. On the basis of actual cost of the stores issued, there was a profit of Rs. 40 lakhs in this deal.

3. The loss of Rs. 41.66 lakhs mentioned in the Audit Para was based on the estimated cost of production for 76-77 viz. Rs. 829 each. On the basis of actual cost of production in 76-77, which was about Rs. 706/- each, the loss in this transaction was of the order of Rs. 24 lakhs only. This loss has to be viewed against the background that we earned foreign exchange in this transaction and that the idle capacity in the Factories were utilised to some extent by accepting this order. Had this order not been finalised, there would have been a loss of Rs. 36 lakhs on account of non-utilisation of capacity, payment of idle time wages to the labourers, who could not be re-trenched or re-deployed.

4. As regards the determining of 'replenishment cost' we may submit that the items were issued ex-stock held at COD JABALPUR out of quantity 58,000 held by them for issue to payment Indentors including Ministry of Home Affairs and the Air Force. Although 4 indents were raised for a total number of 35,000 carbines, which included 7,000 silent version carbines and 10,000 for the purpose of 'special reserve' between August 1975 to November 1975 by the D. O. S. the manufacture was actually carried out or programmed as under:—

74-75	2,000	} Special reserve indent of 10,000
75-76	4,150	
76-77	2,400	
77-78	1,450	
76-77	6,760	
77-78	520	Silent version
By 78-79	11,240	Normal version — (4,000 only have been provided.)
79-80	2,380	Ordy. version (upto 31-12-79)
By 80-81	6,480	Silent version (1500 manufactured upto 31-12-1979)

It would be seen from the above manufacturing programme that the order for 35,000 Carbines was spread over a number of years and enabled building up of reserves or keeping the production line with minimum load. Any attempt at estimating the 'replenishment cost' keeping in view the long period of replacement manufacture in this case and the consequential increase in material and labour costs would be stretching the concept of 'replenishment cost' to an unrealistic extent. The estimate of loss of over Rs. 24 lakhs, made above would not, therefore, appear to be real.

5. It is true that the export is not the main objective of the defence production, but the decision to export goods to foreign countries was taken by Government to utilise idle capacities for production lines for which the demand of the Army declined or ceased to exist due to various reasons. Had the export order in question not been accepted, the production line for the equipment in question would have faced closure in 76-77 as there was no demand for the Army for this equipment from 76-77 onwards. The closure of the production line was thus not hypothetical but real, inasmuch as the plant and equipment engaged in this production line would have been rendered completely idle. Moreover, the workers engaged in this production line would have had no work and we would have been compelled to pay idle time wages to the workers without any production. It is, therefore, submitted that the question of closure of the production line for this equipment was real and influenced materially the Ministry of Defence in finalising the order for the equipment in question.

6. When the Department of Defence Production referred the proposal to the Ministry of Finance (Defence), it was clearly indicated that the price of Rs. 710/- was the best possible price that could be obtained after negotiations. This price was also more than Rs. 624/-, which was the estimated maximum cost of production given by DGOF on 3-6-75. This estimated cost of Rs. 624/- obviously took into account the escalation, as in 1973—74 the maximum cost of production was Rs. 442.70. In view of the fact that the estimated cost of production took into account the escalation factor and having regard to the fact that the production line for the equipment faced closure, the Ministry of Finance (Defence) agreed to the price of Rs. 710/-, as proposed by the Department of Defence Production.

FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75[D(SPL) Dated 29th May, 1979]

Recommendation

From the facts placed before the Committee in writing as well as during evidence, the Committee cannot help concluding that the project for Modernisation of Processes of Production in a factory was ill-planned and its execution was not very well co-ordinated resulting in delays ranging from 24 months to 30 months in commissioning of various units of the plants and exceeding practically the entire warranty period for the plants available under the agreements with the suppliers. That there was concurrent loss of production needs hardly be emphasised. Some of the notable features

which the Committee would like to highlight are indicated in the following paragraphs.

[Sl. No. 14 (Para 2.60) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

The project relating to the modernisation of the process plants at the Factory, was originally planned as a 'renewal/replacement' for the then existing old and worn out plants. Subsequently, when the plants were ordered and the technical data was received, which necessitated the requirement for additional infra-structure facilities required for the running of the new Plants, a project Report was prepared for the project as a whole and a consolidated Government sanction for the complete project was issued in July, 73. The delays in the commissioning of the plant resulted due to longer time required for the completion of civil works than anticipated earlier and due to leakage in the blenders, the rectification of which took some time. The delay in the commissioning of the plants could not be avoided, as it was due to stringent technical requirements in the construction of blenders. During the period the civil works for the new Plants were under construction, it was ensured that the production with the old plants and facilities, continued so that there was no break in production. It is, therefore, not correct that there was concurrent loss of production due to delay in the commissioning of the old plants.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 28(6)|78|D(PA) Dated 28th March, 1979]

Recommendation

To begin with, the project was estimated, in May 1970, to cost Rs. 507 lakhs. This estimate was, according to the Department of Defence Production, "only an estimated expenditure for budgetary purpose" which was based on "in formal budgetary offers obtained from 3 different firms." The fact that at the time of actual response to tender enquiries the very firms from whom the "informal budgetary offers" were obtained quoted a price which was almost double of what was indicated on initial inquiry, indicates, the perfunctory manner in which the original estimates were prepared. The Committee can at this stage only regret the lack of seriousness in preparing the original estimates for the project.

Another explanation given for the variation between the initial estimate and the final sanction is that whereas the initial estimate was only for placing the indent for plants on DGS&D, the final sanction was for actual contract price of the plants, fuller details of

civil works, erection and commissioning costs, utilisation and acid mixing facilities. That the final sanction should be for an amount almost double of the initial estimate is a sad reflection on project estimation.

[Sl. Nos. 15 & 16 (Paras 2.61 & 2.62) of Appendix the 81st Report of the PAC (6th Lok Sabha)]

Action Taken

The estimates prepared by D.G.O.F. in May, 1970 were based on preliminary offers received from two foreign firms for higher capacity plants. The estimates for lower capacity plants required by DGOF were worked out by reducing proportionately the estimates (available for higher capacity plants) in conformity with the lower capacity plant requirements. There was no lack of seriousness in preparing the estimates in May, 1970. The indent was placed on DGS&D on the basis of the estimates prepared by DGOF. DGS&D floated global tenders for the plants. The rates received from firms 'A' and 'B' in the first instance (by the DGOF) and those quoted by them in reference to DGS&D tender enquiry are as under:—

Original preliminary offer on which DGOF prepared the original estimates		Final offer made in response to DGS&D inquiry	
Plant X	Plant Y	Plant X	Plant Y
Firm 'A'	Rs. 160.67 lakhs	Rs. 312.99 lakhs	
Firm 'B'	Rs. 83.82 lakhs		Rs. 133.54 lakhs

It will be seen from the above that only in the case of plant 'X' the final offer from Firm 'A' was almost double the price given in the preliminary offer. In the case of Plant 'Y' the final offer of firm 'B' was only 50 per cent higher than the first offer. The prices given in the final offer were obviously made on the basis of detailed specifications and other technical requirements given in the tender documents. It may be pointed out that it is not unusual that the original tentative estimates prepared for purpose of placing indents on DGS&D are exceeded on the basis of tenders floated. The main reason why the original estimates in this project were exceeded to a considerable extent is because the offer of the firm 'C' for both plants 'X' and 'Y' (which though the highest, was considered the only technically acceptable offer) was accepted. The offer of the

firm 'C' for the Plants 'X' and 'Y' and the final negotiated price (on FOB basis) are given below:—

	Quotation in response to DGS&D Tender	Final negotiated price accepted
Plant 'X'	Rs. 322.65 lakhs	Rs. 309.37 lakhs
Plant 'Y'	Rs. 146.35 lakhs	Rs. 139.19 lakhs

It will be clear from the above that the main reason why the original estimates of May, 70 were exceeded is not the lack of seriousness in preparing the estimates, but due to acceptance of the highest offer of firm 'C' on technical considerations.

2. The original estimates for plant and equipment and civil works were prepared on the basis of the project as a "renewal/replacement" project. The estimates for plant and machinery were prepared to give an indication of cost to DGS&D on f.o.b. basis. These estimates did not include incidence of customs duty, spare parts etc. The final sanction was based on the total cost of the project, including f.o.b. cost of the plant and equipment, erection/commissioning charges, incidence of customs duty, ocean and inland freights, spare parts requirement etc. It was because of these factors that the final sanction was almost double the initial estimates.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6)|78|D(PA) Dated 28th March, 1979]

Recommendation

The contract for the procurement of plant was concluded in November, 1971 but the sanction for the project as a whole was accorded in July, 1973. Thus, it took the Department of Defence Production nearly 18 months to collect the necessary details for according sanction. The Committee consider this as an unduly long period. They feel that if the sanction could have been issued earlier, the civil works would have started earlier and the Department would not have found itself in the none-too-happy predicament whereunder the execution of the project had to be spilled over the warranty period fixed for the plants.

[Sl. No. 17 (Para 2.63) of Appendix to 81st Report of the PAC, (6th Lok Sabha)]

Action Taken

As stated in the 'Action Taken Note' against Recommendation No. 2.60 to 2.62, the project was originally planned as a replacement for the two old and worn out plants. The contract for the procurement of plants was placed in November, 71 on the above basis. Subsequently, on receipt of the technical details and other requirements of infra-structure facilities required for the operation of these Plants, a detailed project Report was prepared. After due scrutiny of the detailed project Report, a Government sanction was issued in July, 73, which consolidated the sanctions for expenditure already given and also for the new facilities required. There was no delay on the part of the Department of Defence production in preparing the project report and according a consolidated sanction, as the detailed project Report had to be comprehensive and covered all the possible infra-structure facilities required for the operation of the modern plants procured from firm 'C'. In so far as Civil Works are concerned, it may be pointed out that though the contract for supply of plant was concluded in November, 71, the effective contract date was February, 1972. In April, 1972, i.e. even before the formation of the Sitting Board for Civil Works (which was formed in July, 72), a 'go-ahead' sanction was issued for Rs. 45 lakhs to enable the Engineers to commence preliminary works on the project. The Administrative Approval for the civil works was issued, after due scrutiny, within about four months of the receipt of final Approximate Estimates from the Engineers in December, 1972. The execution of the project spilled over the warranty periods fixed for the plants due to the reason that the actual time required for the completion of civil works was longer than what was estimated by DGOF, and that even after completion of civil works, the blenders had to be rectified in order to avoid any risk of explosion.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6) 178/D(PA) dated 28th March, 1979]

Recommendation

The Committee note that in terms of the contract with the suppliers, the warranty period in respect of plant 'X' (unit I and II) and plant 'Y' (unit I) expired in July, 1976 and July, 1977 respectively. As these plants were commissioned in July, 1977, the benefits of the warranty were not available. The Committee are, however, informed that as a special consideration, the suppliers have extended the warranty period upto December, 1977. Because of what the Secretary, Defence Production called "our special approach" to the

suppliers, Government were able to get a warranty period of 5 months instead of the usual one year from the date of commissioning of the plant. The Committee regret that the factory was not able to enjoy the normal warranty benefit of one year after the commissioning of the plant precisely because of the delay in commissioning.

[Sl. No. 20 (Para 2.66) of Appendix to 81st Report of the PAC,
(6th Lok Sabha)]

Action Taken

It is admitted that the factory was not able to enjoy the normal warranty benefit of one year after commissioning the plant. It may, however, be pointed out that the Plant supplier had agreed to extend the warranty period and as a result of this extension, the warranty run of about 6 months was enjoyed by the Factory. It may be added that the plants were accepted by the Factory only after the performance of the Plants was proved during trial and test runs after commissioning the plants.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6)|78|D(PA) dated 28th March, 1979]

Recommendation

Another field in which lack of perspective planning is discernible is the water supply for the plants. The sanction for the project issued in July 1973 included a provision for treatment and filtration of water. The work against this sanction was completed in July, 1975. Meanwhile, the requirement of water was re-assessed in April, 1974 and it was found that in addition to the existing scheme, an additional supply of 27 lakhs gallons was required. The sanction for the new scheme was sought in August 1974 and accorded in July 1975. The new scheme was originally scheduled to be completed by May 1978. The committee, however, find that the new scheme (comprising of desilting of a lake) is "expected to be completed by September, 1968." The Department has sought to minimise the implications of the delay in the execution of the scheme by stating that the scheme 'was necessarily independent of the decision to procure plants 'X' and 'Y' and it was "an adequate insurance against dry spells encountered in... (the area) and to ensure supply of raw water during lean periods." The Department have, however, in another note furnished to the Committee, themselves

pointed out that "the quantum of raw water available and purification facilities were/are adequate for the phase I when commissioned in July 1977 and for running the factory at about 50 to 60 per cent of full capacity." The Committee regret that the requirements of water were not assessed properly at the time of issue of comprehensive sanction in 1973. They would like the Department to enquire into the reasons for the anticipated delay in the completion of the scheme for augmentation of water supply of nearly 16 months.

[Sl. No. 22 (Para 2.68) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

It is perhaps not correct to conclude that the requirements of water were not assessed properly at the time of issue of the comprehensive project sanction in 1973. At the time of preparation of detailed project report, which led to the issue of comprehensive project sanction in July 1973, it was assessed that the water facilities would require augmentation both in regard to the volume and in regard to filtration/treatment. It was assessed that the quality and quantity of the then available industrial clean water would not be able to meet the requirements of the specifications for Plants 'X' and 'Y'. It was, therefore, assessed that additional facilities for storage, clarification, filtration and pumping would be required for this project. The problem relating to water for this project was two fold:—

- (a) Additional capacities for filtration/purification, and
- (b) additional capacities for water pumping

There are two sources of water supply to the Factory viz. (i) a River and a Lake. With the replacement of the old plants with new modern plants, it was assessed that the requirements of water would increase from 35 lgd to 42 lgd and the entire requirement of 42 lgd of water would be in filtered condition, as against the availability of only 12 lgd of filtered water. Thus the additional requirement of filtered water worked out to 29 lgd [42 lgd (—) 1.3 lgd] per day, or 12000 kilo-litres per day. The augmentation of facilities for filtration of water from the river source was sanctioned in July 73, and this covered only 6000kld. It was considered that the balance requirement of 6000 kld of filtered water would be covered by augmenting the facilities at the Lake. The Augmentation of facilities for filtration of water at the Lake have also been sanctioned by Government, so that the requirements of water are

met when all the units of the two plants go into operation. It will thus be seen that there was no lack of planning in sanctioning facilities for augmentation of filtered water. The scheme relating to the desilting of the Lake is in no way connected with the project relating to modernisation of plant and equipment at the Factory. This scheme related to improving the storage capacity of the lakes which has been choked due to accumulation of silt during the last 50 years. This project related to desilting of the Lakes mainly to restore them to their original impounding capacity so that enough storage cushion equivalent to at least 24 days requirements at the peak level of production during the lean part of the year was available. The delay in the execution of this project is due to reasons beyond human control. This has occurred due to failure of monsoons, which resulted in the stoppage of dredging work. Due to improvement in the monsoons during the last year, it is now assessed that by September 79, 2.25 lakhs cubic meter of silt would have been removed which would improve the storage capacity of the tank equivalent to 35 days reserve at 26.5 lakh gallons per day maximum pumping capacity. Since the delay has been caused due to natural reasons, it is not proposed to make any inquiries/investigations into the matter.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26 (6) | 78 | D (PA) dated 28th March, 1979]

Recommendation

Modernisation of mixed acid system was another scheme forming part of the project which was not thought of at the time of projecting the proposals for modernisation of processes of production in the factory in May, 1970. Consequently, 'operational' indents placed by the DGOF on the DGS&D in June 1970 did not include the acid mixing plant. The proposal for modernisation of the acid mixing plant could not be mooted earlier than 1972. The Department have sought to explain this lack of foresight by stating that "even with the best possible planning and technical knowledge some unforeseen problems do arise whenever modernisation of a factory, more especially a chemical plant producing diverse set of product mix, is undertaken." The Committee are not convinced and they regard this as a lapse on the part of the Department.

[Sl. No. 24 (Para 2.70) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

It is not correct that modernisation of mixed acid system was not thought of at the time of projecting the proposals for procurement of modern plants in May, 1970. DGOF had included the requirement for supply of plant and equipment for mixing facilities for acids required for production of industrial Paste P, in the indent placed on DGS&D in June 1970. However, at the time of evaluation of tenders, this portion of supply was deleted from the scope of the supply on account of high cost quoted by the firm and also because of uncertainty of its not matching with other acid mixing facilities available in the Factory. After receipt of technical details from the plant supplier, it was noted that the quality of acid required for the production in the modern plant would not be available from the existing old and worn out facilities which had served their useful life and were otherwise due for replacement. Since the responsibility for supply of mixed acid to the requisite quality standards was that of the purchaser and since the old plant for acid mixing had outlived its utility, it was decided to modernise the acid mixing system and this requirement was covered by the consolidated project sanction issued in July, 73. There was thus no lapse on the part of the Department in not planning modernisation of acid mixing plant in May, 1970 itself, as the need for modernisation was felt only after receipt of technical data from the plant supplier 'C'.

[Ministry of Defence (Department of Defence Production)
O.M. No. F. 26(6) |78|D (PA) dated 28th March, 1979]

CHAPTER IV

RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee note that at the high level meeting held in September, 1973, in the Ministry of Defence, it was *inter alia* decided that while agents could be appointed to explore the market for export of stores, the final deals would be on Government-to-Government basis, and stores in all cases despatched direct to the Government concerned. The representative of the Ministry confirmed in very explicit terms during evidence that "We have been, for some years engaged in exports on a limited scale, on a highly selective basis, as discreetly as we can and on a low profile and taking as much care as we can, not to get involved and entangled in any areas of conflict or supply to countries which might prove embarrassing to us." The Committee deem it highly lamentable that in a case of execution of an order for export of 35,000 units of stores, the entire deal was struck and executed in utter disregard of the aforesaid considerations and the discreet and cautious approach enjoined upon in such matters was given a go by. That the deviation from the prescribed procedure was not entirely unintentional is borne out by the fact that the deal was not only concluded in entirety with the foreign Agent, but graver still, no steps were taken to ensure that the stores actually reached the intended foreign destination.

[Sl. No. 3 (Para 1.80) of Appendix to 81st Report of the PAC
(6th Lok Sabha)]

Action Taken

The first 'End User Certificate' from country "A" furnished by the foreign Agent was not accepted. The Second 'End User Certificate' from country "B" was investigated and was not accepted. The third 'End User Certificate' from country "C" was received through our Military Adviser in London, who stated that he had checked from his sources that the signatory on the End User Certi-

ificate was the same person who was until then recently country 'C's High Commissioner in London and was then holding the appointment of the Permanent Secretary in the Ministry of Foreign Affairs of country 'C'. It may also be mentioned that the E.U.C. received from the foreign Agent was also shown to a Military Officer of country 'C' who happened to be in India at that time and this Military Officer also identified the signatures of the authority issuing the End User Certificate.

2. Although our Military Adviser in U.K. High Commission had no reservations regarding genuineness of the EUC, he had expressed some doubt about the agent. However, there was subsequent correspondence with the M.A. in the matter, immediately thereafter and before finalising the deal. In this correspondence, he did not raise any doubts regarding the authenticity of the E.U.C. or the agent. It was, therefore, inferred that he had satisfied himself about the reservations which he might have had. The instructions regarding despatch of stores were received from our Military Adviser in London, who had advised that the documents other than the priced copies, should be sent to the Permanent Secretary, Ministry of Foreign Affairs of Government 'C' under a confidential cover. It was also stated by the Military Adviser that the port of disembarkation was to be Dar-e-Slam, (since country 'C' is a land-locked country). Accordingly, Dar-e-Slam was mentioned as the port of destination in the Bill of Lading. The consignee was marked "NV Slavenburg's Bank Coolsingel-63 Rotterdam (for Ministry of Defence, Government of 'C')." According to the procedure laid down in Ministry of Defence Office Memorandum dated 31-7-75, the Ministry of Defence is to arrange the delivery of stores upto the f.o.b. point. The shipment of the goods is the responsibility of the purchaser. It would thus be clear from the above that all possible care and caution was exercised in handling the export deal in this case.

FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D(SPL) dated 14th February, 1980]

Recommendation

Justifying the correctness of finalizing the entire deal with the foreign Agent, the Secretary (Defence Production) pleaded during evidence that the same meeting (September 1973) in which the policy of Government-to-Government transaction was enunciated also authorised dealings with foreign agents direct, if they were reputable. When the transaction with the Agent was really authorised

under the original guidelines of September, 1973, the Committee fail to appreciate the need for obtaining special approval from the authorities concerned for this unusual step. On perusal of the relevant portion of the record of discussion at the aforesaid meeting the Committee do not find any such authorisation. It speaks only of selection of foreign Agents, if they were reputable, for purposes of initiating negotiations and not for purposes of finalisation of the deal with them.

[Sl. No. 4 (Para. 1.81) of Appendix to 81st Report of the
PAC (6th Lok Sabha)]

Action Taken

The kind attention of the P.A.C. is invited to para 1 of the minutes of the meeting held in September, 1973 referred to in this recommendation. It is submitted that it is provided in the minutes of this meeting that the export of defence stores would be purely on economic considerations, but the over-riding political considerations would not be lost sight of. It is true that in September, 1973 meeting it was mentioned that the export deals would be on Government-to-Government basis only and the stores would be despatched direct. In the case under consideration also, an End-User Certificate from the country 'C' was obtained before the despatch of the stores. The stores were also despatched direct to the port of disembarkation and were not despatched to some other destination. It may be pointed out from the experience in the field of exports that some foreign countries do not wish to enter into a direct Government to Government transaction and for various political and diplomatic reasons, these Government prefer to deal through the Agents. The export of stores by obtaining an End User Certificate is one of the well recognised and established method of export of such stores on Government-to-Government basis, in that a certificate is obtained to the effect that the stores in question we required by the purchasing country for the exclusive use of their Military or Police Forces. In the light of the above, it would appear that the export transaction in this particular case was within the fourwalls of the directive issued in September, 1973. The transaction was reported to the highest authority concerned in the Department of Defence Production for information and no approval for deviation from the laid down procedure was sought since it was considered that there was no deviation involved in this case.

2. As regards the criticism that according to the Record of discussions held on 6th September, 1973, the role of the agent is to be confined to the initiation of negotiations and not for finalisation

of deals with them, we do not find anything categorical to that effect in the said discussions. The circumstances under which deals have to be finalised with the agent in some cases has already been explained in detail. We submit that there was no contradiction involved in finalisation of the deal through the agent. We may also state that the deal was finalised after keeping Raksha Utpadan Mantri aware of the full facts of the transaction.

FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D, (SPL) dated 14th February, 1980]

Recommendation

The Committee were informed during evidence that there was not so much concern about the sale of the defence stores but what was of more concern was that they did not get into unapproved hands and as a safeguard, production of an 'end-user certificate' had been prescribed. The 'end-user certificate' is a written affirmation from the foreign Government that the stores are intended for its own exclusive use and would not be sold, transferred or diverted without the seller's permission. The Committee are surprised to see the lack of seriousness displayed in conducting verification of the genuineness and authenticity of the final 'end-user certificate' from country 'C'.

[Sl No. 6 (Para. 1.83) of Appendix to 81st Report of
PAC (6th Lok Sabha)]

Action Taken

It is submitted that there had been no lack of seriousness in conducting verification of the genuineness and authenticity of the end-user certificate from country 'C'. The end-user certificate was handed over by the Agent to our Military Adviser in London. While forwarding the end-user certificate, our Military Adviser stated that he had checked from his sources and found that Mr. 'M' (who had signed the end-user certificate) was the same person as Mr. 'M' who had been holding till recently the office of High Commissioner of country 'C' in London and that he was then holding the appointment of Permanent Secretary in the Ministry of Foreign Affairs of Country 'C'. The Military Adviser mentioned that he was trying to confirm whether the signatures on the End-user certificate were of the same person. He also stated that so far the

letter seemed to be genuine. The Military Adviser in High Commission of India in London, in further correspondence with the Ministry of Defence on the subject, did not refer to any doubts about the authenticity of the End-User Certificate forwarded by him. In his subsequent correspondence which was exchanged before the despatch of stores, the Military Adviser in the High Commission of India in London stated that the documents, other than the priced copies, should be sent to Mr. 'M' Permanent Secretary, Ministry of Foreign Affairs, Country 'C'.

2. Apart from the above, the End-User certificate received in the Ministry of Defence was also shown to a senior military officer of the Government 'C', who happened to be in Delhi on 25-8-1975. This officer of country 'C' also confirmed that the signatory of the end-user certificate was the Foreign Secretary of country 'C'.

3. It would be clear from the above that all possible steps were taken to verify the genuineness and authenticity of the end-user certificate from country 'C'. Since our Military Adviser in London, who had forwarded the end-user certificate, had done the necessary checks and as he had finally intimated on 26-8-1975 that the documents should be sent to Mr. 'M' Permanent Secretary, Ministry of Foreign Affairs of country 'C', it was considered that no further verification about the genuineness or authenticity of the certificate was called for. In these circumstances, it would be clear that there was no lack of seriousness in conducting the verification of the genuineness and authenticity of the final end-user certificate for country 'C'.

4. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75(D)SPL), dated 29th May, 1979]

Recommendation

Explaining the position about the earlier rejection of the proposal for sale of stores to countries 'A' and 'B', the Secretary (Defence Production) stated during evidence that in the case of country 'A' there was 'political hesitation' but in the case of country 'B', the end user certificate was not acceptable as it was "from a level lower than acceptable". Finally, an end-user certificate was received on 23 August, 1975, from the Agent, emanating from foreign Government 'C', which did not figure in their earlier negotiations. The very fact that the agent was successively naming countries and had previously submitted a certificate which was not found acceptable, and the final one from a source which had not

figured previously in the negotiations should have ordinarily cautioned the Government to verify the *bona fide* of the Agent's latest proposal. Even when the Military Adviser to one of our High Commissioners had, expressed some doubts at the time of confirming whether the signature on the 'end user certificate' was genuine or not, the matter was not followed up. Subsequently, when the trade delegation of the country 'C' visiting this country at the time, stated, "that they were not aware of such a transaction or such a need on the part of their country" the doubt should have further strengthened. Yet, the officers responsible for negotiating the deal remained completely unperturbed and did not move to investigate the credentials of the agent and the genuineness of his proposal and the authenticity of the end-user certificate furnished by them. The Committee fail to agree with the contention of the representative of the Ministry that "we had really no means of knowing whether document was forged or spurious or not". The unfortunate consequences of this deal could have perhaps been avoided had, at that stage, verification of the end-user certificate been made at least this country's Ambassador/diplomat in country 'C'—a course now proposed to be followed after the sad experience in this case. Even the Secretary (Defence Production) himself during evidence admitted the desirability for such verification. The Committee are at a loss to understand as to why it has not been found possible thus far to verify the authenticity of the end-user's certificate—from country 'C'. The Ministry of Defence owe an explanation to the Committee for this apathy.

[Sl. No. 7 (Para 1.84) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action Taken

It is a fact that the foreign Agent first produced an end-user certificate from country 'A' and when it was not accepted, he produced a certificate from country 'B'. On the certificate from country 'B' not being accepted by us, the Agent produced a certificate from country 'C'. As already pointed out, the End-User Certificate from country 'C' was received through our Military Adviser in London. The Military Adviser in London informed the Ministry of Defence that he had checked from his sources and that the signatory on the end-user certificate was then holding the appointment of Permanent Secretary in the Ministry of Foreign Affairs of country 'C'. The Military Adviser had no doubt mentioned that he was trying to confirm whether the signatures on the End User Certificate were of the same person. But he had also categorically mentioned

that so far the letter seemed to be genuine. Our Military Adviser in London intimated the Ministry of Defence on 26th August, 1975, about a week after sending the end-user certificate, that the documents regarding this transaction should be sent to Mr. M, Permanent Secretary, Ministry of Foreign Affairs of the country 'C' (who had signed the End-User Certificate). It was, therefore, not considered necessary to take up the matter with our Military Adviser in London about the genuineness or authenticity of the End-User certificate. Further, as already pointed out in our reply to recommendation No. 1.83, a Military Officer from country 'C', who happened to be in Delhi on 25-8-1975, also confirmed the credentials of the signatory on the end-user certificate. When the end-user certificate from country 'C' was shown to a military officer of country 'C', the officer could not say about the requirements of the stores as he had stated that he was not dealing with the subject. In view of the totality of the circumstances that the Indian Military Adviser in London had stated that the certificate seemed to be genuine and he subsequently informed that the documents should be sent to the signatory of the certificate in country 'C' and the officer from country 'C' also confirmed the credentials of the signatory on the end-user certificate, there was no reason to doubt the genuineness of the end-user certificate and seek verification thereof, through this country's Ambassador in country 'C' and accordingly no further verification was done by the Ministry of Defence.

2. It may be pointed out that the country 'C' came to know about the above transaction in September, 75 itself and they had sent their officers to investigate the end-user certificate. The country 'C' has, however, not intimated to us the results and findings of their investigations. Since the foreign Govt. of country 'C' was conducting the investigations into the matter, it was not considered necessary for Govt. of India to start investigations into the matter for verification of the authenticity of the end-user certificate from Country 'C'.

3. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75/D(SPL) dated 29th May, 1979]

Recommendation

Apart from the foregoing, the Committee have observed the following glaring lapses and omissions and commissions in the case which prove beyond doubt the perfunctory approach and indifference to the prescribed procedures on the part of the authorities concerned:—

- (i) Though the 1973 guidelines required the stores to be despatched direct to the foreign government concerned, these

were actually despatched in September, 1975 on f.o.b. basis with bill of lading in favour of the agent's bankers.

- (ii) The shipping documents, which according to the negotiated terms were required to be sent to the foreign buyer, were in fact handed over to the agent. The Department has not been able to find from the existing records any explanation for this violation of the negotiated terms of agreement.
- (iii) Copies of shipping documents were sent to the foreign government for whom the defence stores were sold to the agent, 4 weeks after the despatch of stores. This delay facilitated in the diversion of stores to a country other than that for which they were intended and this country was the same to whom the sale of stores were earlier refused on political considerations.

[Sl. No. 9 (Para 1.86) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action taken

It is submitted that this deal was entered into in the best interests of the Department. It is correct that the 1973 guideline required the stores to be despatched direct to the foreign country concerned. In this case also, the goods were despatched direct to Dar-e-slam, the only port nearest to the concerned country 'C'. In the Bill of Lading it was clearly stated that the goods were for carriage to Dar-es-salm. It was also clearly mentioned in the Bill of Lading that the shipment was fro carriage to Dar-e-salm for the Ministry of Defence, Government of 'C'. The name of the Banker of the Agent was mentioned in the Bill of Lading apparently to ensure that the Letter of Credit was negotiated at sight and we received the payment immediately on presentation of documents.

2. As already stated during oral evidence before the PAC, we have not been able to find from the existing records any explanation for the handing over of the shipping documents to the agent in violation of the negotiated terms of agreement. The stores were despatched from Bombay between 12-9-1975 and 14-9-1975. While copies of the shipping documents were sent to the foreign government i.e. country 'C', after an officer of the country 'C' had visited India, it cannot be accepted that delay in despatch of the shipping documents facilitated the diversion of stores to a country other than that for which they were intended, since that country i.e. country 'C' came to know of the deal in the month of September itself.

3. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
O.M. No. 12(40)/75|D(SPL) dated 29th May, 1979]

Recommendation

The above distressing features of the transaction create an irresistible impression in the mind of the committee that there might have been complicity and collusion between the officers responsible for the deal and the agent. The Committee consider that this matter requires a thorough investigation with a view to fixing responsibility for the lapses in this case and for taking necessary remedial measures for avoiding its recurrence in future.

[Sl. No. 10 (Para 1.87) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action taken

The Ministry of Defence have considered the matter in the light of the observations made by the Public Accounts Committee. As has been pointed out at other places, the end-user certificate from country 'C' was accepted as genuine, since it had been certified as genuine by the Indian Military Adviser in London, who had forwarded it and the credentials of the signatory on the end-user certificate were also confirmed by an officer of country 'C' who happened to be in India at that time. The Ministry of Defence consider that there are no reasons to suspect the complicity between the officers who handled this deal and the foreign Agent and hence do not consider the need for any detailed investigation. The transaction was handled by the officers of Ministry of Defence in good faith and the competent authorities were kept informed of the deal. It will be pertinent to add in this connection that the agent involved was a foreign national and any investigations at this stage would bring out nothing but on the contrary might cause diplomatic embarrasments alround.

2. As regards remedial measures, it may be pointed out that a procedure has now been evolved whereby the end-user certificate, if received from any country, is got verified by making a reference to our Embassy|Mission in that country before finalisation of any transaction regarding export.

3. FA(DS) has seen.

[Ministry of Defence (Department of Defence Production)
OM No. 12 (40)|75|D(SPL) Dated 29th May, 1979]

Recommendation

The Committee are further perturbed to learn that accessories valued at Rs. 8.90 lakhs have been supplied with the stores though these were not taken into account in the cost data on which the price was based. The Secretary (Defence Production) conceded during evidence that there was an omission in not taking specific note of the element of accessories. The Committee would like that the inquiry suggested by them in paragraph 1.78 would also cover this costly lapse resulting in a loss of Rs. 8.90 lakhs.

[Sl. No. 13 (Para 1.90) of Appendix to 81st Report of PAC
(6th Lok Sabha)]

Action taken

It has already been admitted that there was an omission in not taking specific note of the element of accessories in fixing the price of Rs. 710/-. In the note sent to the Ministry of Finance (Defence), it was mentioned that the item will be supplied along with one magazine. In the absence of any indication to the contrary, it was assumed by the Ministry of Finance (Defence) that the cost data included the cost of this item also. Subsequent investigations, however, revealed that the estimated maximum cost of Rs. 624/- was only for the weapon and did not include the cost of one magazine for the other accessories, which although not mentioned in the note to the Ministry of Finance (Defence), were actually supplied.

2. There does not appear to be any necessity for conducting an inquiry into this lapse, as it is evident that lapse occurred due to an assumption made that the maximum cost of production of Rs. 624/- included the cost of magazine etc. also. As already mentioned the total value of the 35,000 equipment and the accessories issued ex-stock, as indicated by the Controller General of Defence Accounts, (lowered on payments for the year) was Rs. 2.03 crores. Against this the total realisation from export was Rs. 2.48 crores in foreign exchange. Thus in effect there was a profit of Rs. 40 lakhs in the transaction, if it is viewed with reference to the total value of the stores issued. The lapse of not taking into account the accessories could not thus be treated as costly, as the total amount realised by export was more than the total value of the stores issued based on the payment issue rates. In these circumstances, it is considered that there is no necessity for holding any inquiry into the above matter.

3. FA (DS) has seen.

[Ministry of Defence (Deptt. of Defence Production)
O.M. No. 12(40)/75-D(SPL), dated 29th May, 1979]

CHAPTER V

RECOMMENDATIONS OR OBSERVATIONS TO WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

NIL

NEW DELHI;
March 29, 1981.

Chaitra 8, 1903 (Saka).

CHANDRAJIT YADAV,
Chairman,
Public Accounts Committee.

APPENDIX

Conclusion and Recommendation

S. No.	Para No.	Ministry / Deptt. Concerned	Conclusion/ Recommendation
1	2	3	4
1	1.12	Defence (Department of Defence Production)	<p>The Ministry of Defence have admitted that "in September, 1973 meeting it was mentioned that the export deals would be on Government-to-Government basis only and the stores would be despatched direct". In the present case both the conditions were discarded inasmuch as the export deal was struck with an agent claiming to represent a foreign Government and not with the foreign Government itself. In fact, the foreign Government was never consulted directly about the bonafides of the agent or the genuineness of the total. Moreover, the Defence stores were not despatched directly to the foreign Government concerned. The Ministry have sought to cover up this grave lapse on the part of the authorities concerned resulting in defence stores falling into the hands of unauthorised parties, by saying that since the end user certificate was produced by the agent, the deal could be deemed to have been on Government-to-Government basis. Further, according to them, the guidelines that "the stores would be despatched direct" was complied with as the stores were despatched direct to the Port of disembarkation even though the Bill of Lading was drawn up in the name of the Bankers of the Agent. This position is entirely</p>

unconvincing and the Committee are unable to shake off their earlier misgivings about the deal expressed in paragraphs 1.80 and 1.81 of the original Report.

The explanations furnished by the Ministry in reply to paragraphs 1.83, 1.84, 1.86 and 1.87 of the original report are also not adequate for the Committee to alter their earlier findings. It is clear that the authorities concerned did not verify the authenticity and genuineness of the end-user certificate from Government 'C' by making a reference to that Government or at least from the Indian Mission in that country. The authorities further failed to obtain specified reply from Indian Military Adviser in London when initially he had stated that "he was trying to confirm whether the signatures on the end-user certificate were genuine or not." Moreover, even though the Military Adviser wrote to the Ministry of Defence on 26-8-1975 that the documents regarding this transaction should be sent to Permanent Secretary, Ministry of Foreign Affairs of the country 'C' (who had signed the end-user certificate), it was not done. Proper verification of such a basic document was necessary in view of the fact that this certificate was introduced precisely as a safeguard against defence stores getting into unapproved hands, which unfortunately happened in this case due to the negligence on the part of the authorities.

Further, the action taken notes do not explain the circumstances and reasons justifying the following deviations which also aided in

the diversion of the stores to unapproved destination:—

- (i) Handing over of the shipping documents to the Agent.
- (ii) Delay of 4 weeks in despatch of the copies of shipping documents to the foreign Government.

4 1.15 Defence (Department of
Defence Production)

The clear contravention of express decisions taken in September, 1973 and other irregularities create well founded apprehensions in the mind of the Committee about this deal. As the lapses on the part of the authorities directly connected with the deal are quite grave and have resulted in misdirection of defence stores into unauthorised hands, the Committee are unable to accept the plea advanced by the Ministry that "The transaction was handled by the officers of the Ministry of Defence in good faith and the competent authorities were kept informed." The Committee consider it a serious matter where the procedure laid down in respect of export of defence stores has been blatantly violated. The Committee therefore reiterate their earlier recommendation that responsibility for various omissions and commissions in the matter of this deal by officers at all levels should be fixed for suitable action.

5 1.18

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The Committee are not satisfied with the explanation given by the Ministry for supplying accessories valued at Rs. 8.90 lakhs with the stores, free of cost. The overall profit of Rs. 40 lakhs does not

cover the lapse which is established beyond doubt and also admitted. The Committee would like that the responsibility for this lapse is also fixed and suitable action taken against all those who may be responsible.
