FORTY-FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1987-88)

(EIGHTH LOK SABHA)

COCHIN SHIPYARD LIMITED

(Ministry of Surface Transport)

[Action taken by Government on the recommendations contained in the 26th Report of the Committee on Public Undertakings (Eighth Lok Sabha)]

Presented to Lok Sabha on 12.4.1988

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LOK SABHA SECRETARIAT
NEW DELHI

April, 1988/Chaitra, 1910 (Saka)

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*Ceased to be a Member of the Committee consequent on his/her retirement from Rajya Sabha on 2-4-1988.

ACTION TAKEN SUB-COMMITTEE OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1987-88)

1. Shri Vakkom Purushothaman—*Chairman*
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6. Prof. P. J. Kurien
7. Prof. Saif-ud-din Soz

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf present this Forty-first Report on Action Taken by Government on the recommendations contained in the Twenty-Sixth Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Cochin Shipyard Ltd.

2. The Twenty-sixth Report of the Committee on Public Undertakings (1986-87) was presented to Lok Sabha on 24 April, 1987. Replies of Government to all the recommendations contained in the Report were received by 15 February, 1988. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 30 March 1988. The Committee also considered and adopted this Report at their sitting held on 30 March, 1988.

3. An analysis of the action taken by Government on the recommendations contained in the Twenty-Sixth Report (1986-87) of the Committee is given in Appendix-II.

NEW DELHI;
April 11, 1988
Chaitra, 1910 (*S*)

VAKKOM PURUSHOTHAMAN
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by the Government on the recommendations contained in the Twenty-sixth Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Cochin Shipyard Ltd. which was presented to Lok Sabha on 24 April, 1987.

2. Action taken replies have been received from the Government in respect of all the 32 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/observations that have been accepted by the Government:
Sl. Nos. 7, 8, 17, 18, 20, 21-22, 25, 26 and 28-32.

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies:
Sl. Nos. 4, 9 and 27

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:
Sl. Nos. 1—3, 5, 19, and 24

(iv) Recommendations/observations in respect of which final replies of Government are still awaited:

Sl. Nos. 6, 10, 11-16 and 23.

3. The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by Government should be furnished to the Committee expeditiously.

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

A. *Objectives and Corporate Plan*

Recomendations Sl. Nos. 1—3 (Paras 1.8—1.11)

4. The Committee had observed that even after more than a decade of existence of Cochin Shipyard Ltd., the financial and economic objectives of the undertaking had not been formulated. While expressing concern over the low production and heavy losses of the Company, the Committee had pointed out that the future of the shipyard was also uncertain as there was no long term planning

for shipbuilding industry at the national level. They were, therefore, of the opinion that the objectives and aims of the undertaking should have been clearly defined and approved by the Ministry for proper direction and growth of the shipyard. The Committee had also desired that a reassessment of the role of the shipyard in the context of the shipping scenario existing in the world, being made at the level of Secretaries Committee and the Cabinet should be completed without any further loss of time and the micro objectives of the Cochin Shipyard should be set out in unambiguous and clear terms. It was also suggested that specific approval of Government to the Corporate Plan of the Shipyard submitted in August, 1978 was necessary having regard to the need to correlate it with the national Five Year Plans.

5. In their reply, Government have stated that a revised Corporate Plan of Cochin Shipyard Ltd. as approved by the Board of Directors has been submitted to Government for approval. However, after the submission of the Plan to Government on 6 August, 1987, the Board is reported to have decided on 11 August, 1987 that the Plan should incorporate specific financial statements for both short term as well as long term, bringing out the necessity for restructuring the capital of the Company. Action taken by the management in this regard is yet to be reported to the Board of Directors. A high level Committee is also stated to have been constituted to go in depth and suggest long term solutions to the problems of CSL. The Committee's report is awaited.*

6. The Committee are constrained to observe that the Corporate Plan of Cochin Shipyard Ltd. originally submitted to Government in August, 1978 is yet to be finalised and approved by Government even after almost a decade by now. It is indeed strange that the revised Corporate Plan approved by the Board of Directors themselves and sent to Government for approval was later found by the Board to be wanting in certain respects. Not only that, action taken by the Management on the decision of the Board to incorporate specific financial statements for both short term and long term remains unreported to the Board. All this goes to show that the recommendation of the Committee for early finalisation of the Corporate Plan of Cochin Shipyard pending for the last 10 years has not been taken seriously by the undertaking and the Government. The Government's reply is also silent about the formulation of micro-objectives of the shipyard in accordance with the guidelines issued by BPE in November, 1970 and again in May, 1979. The Committee expect

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* At the time of factual verification, the Ministry of Surface Transport have stated that "The Committee's Report has now been received and is being examined."

(Ministry of Surface Transport O.M. No. SY—16014|1/87—CSL dated 28-3-1988)

that the matter would at least now be given the attention it deserves and the Corporate Plan and micro-objectives of the Shipyard formulated with a sense of urgency for proper direction and growth of the shipyard.

B. *Fund for additional tonnage*

Recommendation Sl. No. 5 (Paras 2.46 and 2.47)

7. The Committee had observed that in an atmosphere of uncertainty regarding orders, cancellation of orders already received and total dependence on imported inputs such as ship designs and raw materials, it was impossible for the Cochin Shipyard to function normally in a planned manner. They had also pointed out that in the absence of any long term plan for acquisition of ships (apart from maintaining the ratio of 65:35 between public and private sector) and without any financial provision having been made for the shipping industry during the 7th Plan, the Ministry could not render any assistance to the shipyards in the form of orders for construction of new ships.

8. Government have stated in their reply that a long term acquisition programme for the shipping industry had been formulated on the basis of the requirements of the Indian trade. The tonnage Acquisition Committee submitted its report for the requirement of additional tonnage during the 7th Plan of 1.5 MGRT. The long term plan had included the capacity of the Indian Shipyards which was 0.8 million GRT for a five year period and the requirement was far in excess of the capacity of the Indian Shipyards.

9. As regards fulfilment of *pari passu* obligations, the Government are stated to have issued the following guidelines:

(i) An Indian Shipping Company purchasing a new ship from abroad will be required to place an order for equivalent tonnage on an Indian shipyard or in the case of a second-hand vessel to the extent of the value of the ship acquired from abroad. This provision would not apply to specialised vessels or vessels of a significantly higher DWT than 75,000 DWT.

(ii) The *Pari passu* clause, will not be applicable till the company owns tonnage in excess of 50,000 DWT or completes five years of operation whichever is earlier;

(iii) The shipowner is required to place an order on an Indian shipyard within six months from the date of the delivery of the foreign vessel purchased by him.

Pari passu obligations were also applicable to the offshore supply vessels. However, this obligation was in the ratio of one ship from an Indian shipyard against acquisition of four vessels from abroad.

10. It has also been stated that there have been large outstanding *pari passu* obligations against several private sector shipping companies. The shipping industry has been suffering from prolonged global recession and therefore, their financial position has been substantially eroded. Accordingly, the Government has not been insisting on the strict observance of the *pari passu* obligations.

11. The *pari passu* guidelines are stated to be under review in the Government at present so as to ensure that the shipyards do not suffere for want of orders on the one hand and the shipping industry does not suffer from the higher cost of the Indian built ships on the other.

12. The Committee are really surprised that how in the absence of any long term plan and without any financial provision having been made for the shipping industry during the 7th plan, the Ministry could render any assistance to the shipyards in the form of orders for construction of new ships. The Government have not even now indicated whether any funds are available for the shipping industry during the 7th plan. They fail to understand as to why no financial allocation has been indicated even after formulation of the long term acquisition programme for the shipping industry. The Committee recommend that the question of allocation of funds should immediately be finalised in accordance with this long term plan. They also desire that the review of the pari passu **guidelines reported to be under consideration of Government should be completed urgently and the guidelines observed thereafter strictly so that the shipyards do not suffer for want of orders on the one hand and the shipping industry does not suffer from the higher cost of the Indian built ships on the other.**

C. *Order book position*

Recommendation Sl. No. 7 (Para 2.49)

13. The Committee had noticed that the Cochin Shipyard Ltd. had orders for the construction of 3 tankers of 86,000 DWT for Shipping Corporation of India which was likely to keep the shipyard busy till 1988-89. The Committee had, therefore, recommended that in orders for the construction of 3 tankers of 86,000 DWT for Shipping of securing further orders from SCI for their further requirements of ships during 8th plan should be explored on a priority basis.

14. In their reply, the Government have stated that SCI has indinated a requirement of 3 more tankers of 86,000 DWT for delivery by 1990. CSL would not be in a position to deliver more than three tankers already on order by this date. However, it might be possible for the Shipyard to deliver a fourth tanker on a repeat order basis in early 1991, provided an order was placed by mid 1988. Efforts in this direction were being made.

15. The Committee hope that Cochin Shipyard Ltd. would make concerted efforts to supply the three tankers currently under construction to Shipping Corporation of India by 1990. The Committee also desire that the Government should ensure that further orders for construction of ships are placed by Shipping Corporation of India on Cochin Shipyard Ltd. so as to enable it to fully utilise its capacity beyond 1990.

D. Diversification

Recommendation S. No. 8 (Para 2.50)

16. The Committee had observed that with the change in the international scenario, nobody was willing to go in for large sized ships which the Cochin Shipyard Ltd. was originally intended to manufacture. They had, therefore, desired that a systematic study might be undertaken to find out the areas in which Cochin Shipyard could diversify. Thereafter, the Ministry of Surface Transport should coordinate with the other concerned Ministries and secure firm orders for execution by the Cochin Shipyard. One of such areas suggested by the Committee was manufacture of trawlers for fishing industry required by the Ministry of Agriculture.

17. Government have stated in their reply that the Cochin Shipyard has been advised to conduct a techno-economic feasibility study for identification of effective diversification areas. As regards construction of deep sea fishing trawlers, it has been stated that the acquisition of fishing trawlers are primarily by private entrepreneurs and so far Cochin Shipyard has not been successful to get any order for building such trawlers.

18. The Committee hope that the techno-economic feasibility study for identification of effective diversification areas would be completed expeditiously by the Company. They would also stress that the Cochin Shipyard should make all out efforts to secure orders for fishing trawlers by being competitive in its price and delivery.

E. Pricing of Indian built ships

Recommendations Sl. Nos. 11-14 (Paras 3.21-3.24)

19. The Committee had observed that according to the existing formula announced by the Government in February, 1981, the prices of Indian built ships were determined on the basis of a notional figure known as International Parity price. Even though, the formula gave a 30 per cent price advantage to the Indian built ships, it had no rational relationship with the cost of construction in a shipyard.

20. The Committee also noted that the cost of tanker to the fabricated by CSL for SCI worked out to about Rs. 69 crores but SCI projected an anticipated price of Rs. 37 crores per tanker on the basis of existing IPP formula. Therefore, the Committee felt that the pricing policy being adopted at present was not realistic *vis-a-vis* the cost of construction and needed to be modified urgently. They had also noticed in this connection that a reference had been made to Bureau of Industrial Costs and Prices in May, 1985 for determining the normative cost of construction of ships. The Committee therefore desired that an early decision on the subject should be taken.

20. In their reply, Government have stated that the BICP's final report received on 25.9.1987 was being examined.

21. The Committee hope that a final decision on the revision of pricing formula for Indian built ships would be taken urgently and the Committee apprised of the same.

F. Repairs of foreign ships

Recommendation S. No. 19 (Para 5.20)

22. The Committee found that the foreign exchange earnings of Cochin Shipyard Ltd. through repairs of foreign ships declined from Rs. 24.66 lakhs in 1984-85 to Rs. 0.48 lakhs in 1985-86: The Committee had suggested that the decline in the foreign exchange should be analysed to ascertain the reasons as to why very few foreign ships were coming to the shipyard for repairs. Based on such a study, the facilities in the repair dock should be augmented and the services rendered made more competitive with a view to attract more of foreign ships.

23. It has been stated in Government's reply that CSL had earlier repaired a few foreign ships and the concerned owners had been fully satisfied with their performance. However, the rates were not

competitive with foreign shipyards because they were giving attractive discount which could not be matched. The time taken by them was also less because they did not face cumbersome procedures in import of items required for ship repair. The Government have also expressed that as the down time had to be limited they insisted on performance bond and with the existing difficulties being faced by CSL it might result in paying heavy liquidated damages. Therefore, CSL usually undertook repairs of foreign ships which broke down in India as happened during 1984-85. Moreover, by undertaking repair of Indian vessels, CSL was indirectly saving foreign exchange as otherwise these ships would have to go abroad and spend foreign exchange.

24. The Committee are not satisfied with the Government's reply since it is silent about the steps taken to make the facilities for repair of foreign ships competitive. The Committee are strongly of the opinion that Cochin Shipyard Ltd. should try to get more repair work of foreign ships by making the services rendered more competitive and should not merely feel content with the indirect saving in Foreign exchange by the repair of Indian vessels alone. The procedures for import of items required for ship-repair should also be simplified by taking up the matter with appropriate authorities.

G. *Analysis of idle machine—hours*

Recommendation S. No. 24 (Para 7.25)

25. The Committee had pointed out that with a view to watch utilisation of machinery, log books were required to be maintained for each machine and reviewed periodically to find out whether there was avoidable idle time. However, out of about 350 machines in Cochin Shipyard Ltd. log books in respect of only 86 machines were being maintained. The Committee had therefore, wondered how in the absence of log books, the utilisation of the machines was being watched in the shipyard.

26. Government have stated in their reply that after conducting a detailed examination of all items of machinery with a view to covering their operations on the basis of log books, CSL was now maintaining log books for 203 items of machinery against the 86 items for which such books were being maintained previously. For the balance items, it has been stated that these were in the nature of general purpose facilities and, therefore, did not fall within the scope of log book accounting. However, idle time analysis was being made only in respect of 96 machines.

27. The Committee are constrained to observe that though the log books are now being maintained by Cochin Shipyard Ltd. for 203

items of machinery, idle-time analysis is being made only in respect of 96 machines. They need hardly stress that log books serve little purpose unless idle-time analysis is made periodically to find out the extent to which such idle-time could be avoided and suitable remedial measures taken. The Committee, therefore, need hardly emphasise that idle-time analysis should be made in respect of all the machines for which log books are being maintained.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Serial No. 7, Paragraph No. 2.49

So far as Cochin Shipyard is concerned, it has currently orders for the construction of 3 tankers of 86,000 DWT for Shipping Corporation of India. This is likely to keep the shipyard busy till 1988-89. The Committee recommend that in order to ensure continuity of work beyond 1988-89, the possibilities of securing further orders from Shipping Corporation of India for their further requirements of ships during 8th Plan may be explored on a priority basis.

Reply of the Government

CSL has held dialogue with M/s. SCI, DG (Shipping) and Essar Shipping on requirement of future ships for their expansion/replenishment. Essar Shipping Company indicated their requirements of product carrier but this is in the neighbourhood of 35000 and 40000 DWT and does not fit into the optimum size of ships for which CSL is designed. It will not be economical for CSL to undertake the construction of smaller ships unless it is faced with a situation of no orders for the optimum size of vessels. SCI has indicated a requirement of 3 more tankers of 86000 DWT for delivery by 1990. CSL will not be in a position to deliver more than three tankers already on order by this date. However, it may be possible for CSL to deliver a fourth tanker on a repeat order basis in early 1991, provided an order were placed by mid, 1988. Efforts in this direction are being made.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-1988].

Comments of the Committee

(Please see Paragraph 15 of Chapter I of the Report)

Recommendation Serial No. 8, Paragraph No. 2.50

Originally the Cochin Shipyard was intended to manufacture large sized ships. However, with the change in the international scenario, nobody is willing to go in for large sized ships. Inevitably, therefore, the Shipyard has to look around for alternatives. It has been brought to the notice of the Committee that ONGC, have got nearly Rs. 3500 crores worth of equipment to buy. These equipments cannot be manufactured by Indian shipyards without going in for foreign collaborations, which may ask for very high prices. Under the circumstances the best that can be done is that ONGC can retain their prerogative to place orders on foreign collaborators, who can be made to take Indian Shipyards as partners through a stipulation in the collaboration agreement to that effect. This will ensure some work for the Indian shipyards in the form of sub-contracts and help the shipyards in avoiding idleness. Similarly, the Ministry of Agriculture has plans for the acquisition of 500 trawlers for fishing industry during the 7th Plan. These trawlers can very well be manufactured in the indigenous shipyards who are suffering for dearth of orders. Another area in which the Cochin Shipyard can venture on competitive basis is the requirement of vessels by Navy and Coast Guards. The Committee desire that a systematic study may be undertaken to find out the areas in which Cochin Shipyard can diversify. After these areas have been identified, the Ministry of Surface Transport should coordinate with the other concerned Ministries and secure firm orders for execution by the Cochin Shipyard.

Reply of the Government

CSL has only one Building Dock and one Wharf. So long as the tanker is under construction there is no possibility of undertaking construction of any small vessel over 150 T in weight. However, CSL is examining possibility of construction of one small product carrier and one small OPV in tandum if order for 4th tanker is not received from SCI by end 1988.

Audit's Observations

Government's reply is silent about the undertaking of systematic study to identify the areas where other Ministries have plans for acquisition of trawlers etc. as recommended by the Committee.

Reply to Audit Observations:

The Ministry has advised the shipyard to conduct a techno-economic feasibility study for identification of effective diversification areas. As stated earlier in the reply that having only one building dock at their disposal, any meaningful diversification has to take into cognisance that their present commitment for delivering the vessels on order are not disturbed. As of now, Cochin Shipyard is busy building three tankers on order and efforts are on to get one or two more tankers during the 7th Five Year Plan period.

As regards construction of deep sea fishing trawlers, it may be stated that Cochin Shipyard, alongwith other 21 shipyards in India, are duly registered to build deep sea fishing trawlers. The acquisition of fishing trawlers are primarily by private entrepreneurs and so far Cochin Shipyard has not been successful to get any order for building such trawlers.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-1988].

Comments of the Committee

(Please see Paragraph 18 of Chapter I of the Report)

Recommendation Serial No. 17, Paragraph No. 5.18

One of the main activities of CSL is ship repairs. As per RPR ship repair dock in CSL was expected to achieve a yearly volume of 10,00,000 GRT within 9 years from commencement of production. Since 1981 when the repair dock was commissioned, the shipyard has reached a level of 4,30,525 GRT by the end of the 1985-86. In financial terms the turnover in 1985-86 was of the order of Rs. 7.41 crores. However, since the project cost of the ship repair complex is very high the fixed overheads can be fully absorbed only when CSL reaches a very high level of performance. The Committee cannot but emphasise that all out efforts should be made to put the facilities already created to the maximum use and to achieve a level of performance where the shipyard is not only able to break even but also to earn profits. It is no doubt necessary that the deficiencies, if any, in the existing facilities are removed by taking appropriate and adequate measures.

Reply of the Government

The shiprepair tonnage in the dock has not reached the projected figure because very few ships of the required size are being deployed on coast. All large size bulk carriers are being utilised on cross trade. CSL is therefore, utilising the dry dock fully in repairs of tankers and at the same time smaller size vessels which would otherwise have to go from Cochin to Bombay. Though tonnage-wise CSL's performance is poor, on financial terms the shiprepair activities are increasing year after year. The number of days the dock has been utilised and shiprepair turnover is as follows:—

	No. of days of occupancy	Turnover (Rs. lakhs)
1986-87	334 days out of 365 days available	845
1987-88 (Upto 31-12-87)	255 days of out of 274 days available	94

Because of the world-wide recession in the shipping scenario, the shiprepair tariff rates have remained static from 1981 onwards and these '81 tariff rates are being applied even now. In other words, larger financial turnover is being achieved at the tariff rates fixed in 1981.

A scheme for expansion of Quay-I by 212 metres to a total length of 290 metres and for providing associated other facilities at an estimated cost of Rs. 17 crores has already been approved. The extended quay will be ready for operational use by 1990.

The extension of Quay will enhance berthing facilities for repairing ships, enable simultaneous repair of a maximum of upto 3 ships and will promote more efficient use of the repair dock facilities.

Audit's Observations:

Income under ship-repairs for 1986-87 was Rs. 845.00 lakhs as against expenditure of Rs. 767 lakhs and interest on Government loans amounting to 206.00 lakhs. The Shipyard has not thus been able to break even in the ship-repair activities so far.

Reply to Audit Observations:

It is true that the Shipyard has not been able to break even in ship repair activities so far.

An agreement has been signed by CSL with M/s. Shipping Corporation of India for revising ship repair tariff rates upwards with effect from 1-10-87. Payment terms for ship repair invoices have also been revised by M/s Shipping Corporation of India to provide for 70 per cent payment immediately on submission of invoice as against 40 per cent hitherto.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-88].

Recommendation Serial No. 18, Paragraph No. 5.19

It has been brought out by Audit that there was no arrangement for regular job-wise analysis of costs and incomes and hence it was difficult to pinpoint reasons for losses incurred by the shipyard in many of the repairs jobs undertaken. The Committee desire that this lacuna should be removed forthwith. There is also need for having a costing system for apportioning the direct costs and overheads.

Reply of the Government

(1) A job order costing system in which costs are compiled separately for each ship repaired under the following expenditure heads is now in operation in CSL:—

(1) Material cost
(2) Labour hours expended and cost thereof
(3) Sub contract expenses
(4) Other direct expenses
(5) Apportionment of overheads
(6) Apportionment of depreciation.

Each shiprepair work is further divided into separate jobs for each items/components of repair work involved, job order nos. are allotted for each of these items|components and costs are collected separately for each of these jobs under the above heads of expenditure.

(2) Greater use is now made of the computer:—

(a) Booking of man-power in the shiprepair area has been computerised. This is done on a daily basis against each work Order|Job Order with the result that as soon as the work on the repair of a vessel is completed, print-out of the manpower utilised can be obtained from the computer.

(b) Material inputs are also fed to the computer and print-out of the cost of materials is also available.

(3) Finalisation and passing for payment of sub-contractors' bills take some time under the existing procedure as assessment of quantum of work by the executing engineers, negotiation with sub-contractors by nominated committees wherever necessary, etc., are involved. Consequently, the sub contract payments cannot be entered

into the computer in the same manner as labour and material booking. CSL have been to requested to speed up this activity and overcome this problem so that the total cost of the repairs of the ship can be ascertained within a reasonable time after departure of the vessel.

(4) Operational results of shiprepair activities for the year 1986-87 are given below:—

	Income	845.00 lakhs
Expenses		
Material .	. . . . .	85.36 lakhs
Labour .	. . .	62.41 lakhs
Sub Contract .	. .	153.41 lakhs
Other Expenses	. .	0.16 lakhs
Overheads . .	. . .	319.90 lakhs
Depreciation . .	. .	145.85 lakhs
		766.99 lakhs
Net Margin		78.01 lakhs

The expenses shown above do not include the interest amounting to Rs. 206.60 lakhs on GOI loans apportioned to shiprepair activities.

Audit's Observations

The shipyard is maintaining Cost records and job-wise contributions are worked out after the close of the financial year. A periodical in-depth job-wise analysis is not being done to pin-point the reasons for losses.

Reply to Audit Observations

The position is that the periodical in depth job-wise analysis to pin-point the reasons for losses was not done in the past. This exercise has been started now.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 20, Paragraph No. 5.21

The Committee feel that in the context of the uncertain order book position of the shipyard in the matter of ship construction, it is necessary to pay greater attention to the better utilisation of the shiprepair facilities in the yard. Admittedly there is large scope for ship repairing work in the country because at present most of the repairing is being done outside the country. The total repairing work being done outside has been estimated to be worth Rs. 70 crores and presently the Cochin Shipyards repair work is only of the order of about Rs. 7 crores. With sustained efforts it should be possible to secure and undertake successfully more repair jobs. The Committee are sure that now that the total shiprepair work is being systematically managed by the DG (Shipping) it should not be difficult for the Cochin Shipyard to get adequate orders for repair jobs. The only thing needed is that the yard should gear up its activities in the ship repair department, devise a suitable strategy for improving its performance and deploy more manpower by diverting excess staff from ship production side with a view to enhance its capacity in shiprepair work.

Reply of the Government

(1) *Assistance of DG (SHIPPING) to get adequate shiprepair orders*

Quarterly meeting of Ship Repairers and Owners are held under the auspices of DG (Shipping) to prepare shiprepair plan for each quarter. This has resulted in (i) better utilisation of CSL's Repair dock facilities (ii) facilitate advance planning on CSL side and consequently (iii) reduce the total repair period of ships and (iv) register better performance. Under the present system of allotment of vessels for repair CSL experiences less difficulty in securing sufficient number of ships for dry docking and repairs keeping with their existing facilities/capabilities. However, there have been periods when the dry dock has not been utilised because the ship scheduled for repairs are not released in time by shipowners. The DG (Shipping) is unable to allot bigger vessels for repair to CSL because most of such vessels are on cross trade and do not touch Indian Ports. When attending the Quarterly Repair Co-ordination Committee Meeting at DG (Shipping) Officer the Shipyard Representatives carry with them the draft programme indicating the vessels and dry docking period for which enquiries have been directly received. Sometimes the DG (Shipping) is not able to fill in the vacant position in the draft programmes. SCI has been helping the yard to fill the gaps to some extent. However, this results in CSL repairing mostly SCI vessels only. The Shiprepair turnover has increased from Rs. 7.41 crores in 1985-86 to Rs. 8.45 crores in 1986-87 and the budgeted figure for 1987-88 is Rs. 9 crores (Actuals upto 31.12.87 is Rs. 9.45 crores).

(2) *Gearing up of shiprepair activities by CSL*

Steps have been taken to improve performance and reduce cycle time for dry docking/major repairs by closely monitoring all activities without recourse to too much overtime. The last 3 ships have been completed ahead of schedule as follows:—

(i) Rafi Ahmed Kidwai

(No. of days quoted: 40, actually completed in 38 days).

(ii) J. N. Vyas

(No. of days quoted: 40, actually completed in 27 days).

(iii) State of Nagaland

(No. of days quoted: 14, actually completed in 10 days).

(3) *Shifting of workmen from shipbuilding to shiprepair activity*

CSL have been shifting workmen from shipbuilding to shiprepair from time to time depending on the volume of work. However, from October, 1987 the tempo of tanker construction is expected to increase substantially with the shipbuilding division having a steel throughput of 1600 MT to 1700 MT per month against prior best of 1200 MT and average of less than 900 MT. Hence no further shifting of workmen from shipbuilding to shiprepair work will be feasible.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 21, 22, Paragraph No. 6.10, 6.11

The Committee find that neither Cochin Shipyard had developed their own research and development organisation nor is there any Central designs centre where the design and technological capabilities have been adequately developed for shipbuilding. CSL is, therefore, obliged to go in for foreign collaboration for obtaining ship designs whenever orders for a new ship or series of ships are received. This not only involves high cost in terms of financial outgo but also hampers the indigenous R&D efforts. As a result there are no plans worth the name for achieving self-reliance in

design and technological capabilities. The Committee have been informed that a study for having a design centre at the national level was carried out and a project costing Rs. 6 crores was thought of during 6th Plan. But due to constraint of resources this was shelved. The Ministry of Surface Transport has now a proposal to set up a National Ship Design and Research Centre in Central Sector for catering to the needs of the Indian Shipyards. This scheme has yet to be approved by the Government. The Committee cannot but emphasise that the proposal, for the Design Centre should be vigorously pursued, finalised and implemented without any further delay.

The Committee need hardly point out that research and design development related to ship design and construction has to be tackled at the national level and as a joint effort of all the Indian Shipyards. Unless indigenous designs are developed to match the national requirements of advanced technology for shipbuilding based on long term plans it will not be feasible to construct ships by using indigenously manufactured components & materials. The Committee desire that the policy of haphazard and *ad-hoc* imports of technology & design and foreign collaboration by individual shipyards should be immediately done away with. To this end there is urgent need for drawing up and implementing a long term plan for strengthening the design and development capabilities. The Committee recommend that positive steps should be taken by the Government in this direction on priority basis and Committee informed o the action taken in this direction within next six months.

Reply of the Government

A scheme entitled "Basic Design and Research Facilities at HSL" at an estimated cost of Rs. 4 crores has been included in the 7th Five Year Plan. The Netherlands Government was asked to give us an appraisal report on the project. This project is being envisaged for implementation on finalisation of detailed project report and Master Plan by a Joint Dutch and Indian Management Team. Firm estimates to the extent of actual investment required will be made after the availability of the detailed project report by the abovementioned joint team. This scheme will no doubt serve the requirements of various shipyards including that of Cochin Shipyard.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 25, Paragraph No. 7.26

The Committee note that another conspicuous feature relating to machine utilisation was the large number of idle hours *vis-a-vis* total available hours. The Committee find that the percentage of utilisation of the machines as compared to the total hours available ranged between 52 and 57 per cent during the last 5 years. This would indicate that the percentage of idle hours during the same period ranged between 43 and 47 per cent. This position is not at all a happy one. The situation needs to be reviewed systematically with a view to identify such of the costly machines which are not being used at all or which are very scarcely used and which of them could be dispensed with. The Committee desire that such an exercise should be undertaken immediately and the action taken in the matter should be intimated to them.

Reply of the Government

Utilisation of the machines have been reviewed by CSL.

The machines installed fall under the following categories:—

(1) Material handling facilities—*e.g.* Cranes (52 items).

(2) Service facilities—e.g. water pumps, frequency convertor sets, air compressors, P&H cranes, Fork lifts, Trucks, Tractor Trailers, Centrifugal pumps, boiler equipment, etc. (30 items).

(3) Accessories required for the operation of Docks—e.g. Pumping equipment, Travelling stages, etc. (13 items).

(4) Machinery required for shipbuilding/repair operations (108 items).

The machinery under item (4) are positioned in

(1)	Hull Shop	17 items
(2)	Pipe Shop	12 items
(3)	Sheet Metal Shop	7 items
(4)	Engine Shop and Machine Shop	25 items
(5)	Electric Shop	4 items
(6)	Maintenance Shop	13 items
(7)	Laboratory Equipment	8 items
(8)	Training School	8 items
(9)	Carpentry Shop	10 items
(10)	Mould Loft	2 items
(11)	General Store	2 items
		108

It is seen that Bar boring equipments 150 mm, 200 mm. and 360 mm capacity and engine seat facing machine installed in the Engine shop and Machine shop were 100 per cent idle during 1986-87. The bar boring equipment is required for boring the stern frame of ships during construction. The different types provided are for different sizes of ships. The engine seat facing machine is required during the installation of the main engine of the ship. These and other equipments installed in the Engine shop & Machine shop are essential for the construction of the ship, though their use is limited to once per ship. These machines can also be used for ship repair and are in fact used, if and when repairs requiring the use of these equipments come up. The utilisation of most of the other machines installed conform more or less to the overall capacity utilisation of the yard.

The necessity to position these machinery was questioned by the Project authorities with the Collaborators for yard construction, M/s. MHI during consideration of the Revised Project Report itself and extract of their comments in this connection are reproduced below:—

"*Invariable demand irrespective of production capacity*
The much more expensive equipment of higher capacity is required for the building of larger ships. Among this equipment, a 1200 Ton Press, for example is indispensable and one set of this Press must be installed, whether only one ship is built per year or 3 ships per year. Thus, some major equipment does not increase nor decrease in accordance with the production index such as the processed steel quantity per month, while others vary in proportion to the product. The former, we may say, weighs more among the whole facility demand in the rather smaller production scale of building two ships per year as proposed in the RPR".

A certain amount of idleness is inescapable even with full capacity utilisation in respect of some of the specialised equipments. It is, therefore, not desirable to dispose of the idle machines as these machines are required for use some time or the other.

As a result of the review, two of the machines have been identified for disposal.

Audit's Observations

Though the Company is maintaining the log books for 203 machines, idle-time analysis is being made only in respect of 96 machines.

Reply to Audit Observations:

Idle time analysis is being made only in respect of 96 machines, as intimated by CSL.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 26, Paragraph No. 7.27

It has been pointed out by Audit that the cause-wise break-up of the idle time reveals that most of the idleness was due to "want of job". The Committee are clearly of the opinion that this underscores the need for improving the performance of the undertaking as also for finding adequate work load for men and machinery deployed. It goes without saying that only fuller utilisation of the installed capacity can lead to optimum utilisation of the factors of production and urgent steps should be taken in this direction.

Reply of the Government

(1) Construction of 3 Nos. 86,000 DWT tankers for the Shipping Corporation of India will be done in accordance with a time bound programme, which will ensure better utilisation of men and machinery.

(2) Diversification activities have been taken up.

(3) Greater stress is placed on increasing the ship repair business.

These steps will lead to the greater utilisation of the installed capacity and optimum utilisation of factors of production.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 28, Paragraph No. 7.45

The Committee are somewhat perplexed to find that even though the actual production in the Cochin Shipyard in terms of ships built and repaired was much lower than envisaged in the RPR and the productivity of the factors of production such as labour and machines was far less than the optimal, the incidence of overtime wages has not only been quite substantial but also has been rising from year to year. Notwithstanding satisfactory man power position *vis-a-vis* RPR projections, the percentage of overtime to salaries and wages has been very high. In the case of shipbuilding staff the percentage of overtime to salaries & wages was as high as

43.41 in the year 1981-82 and has ranged between 26.56 and 34.78 per cent during the years 1982-83 to 1985-86 except in 1983-84, when it was 14.73. Similarly, in the case of shiprepair staff the percentage of overtime to salaries & wages was as high as 69.58 in 1985-86. The total payments on account of overtime were of the order of Rs. 95.34 lakhs in 1984-85 and Rs. 98.01 lakhs in 1985-86 These payments constituted more than 13 per cent and 12 per cent respectively of the total cost during these years. The Committee are constrained to say that in the context of law order book position, excessive idle time and poor utilisation of machines and equipment, the payment of high sums towards overtime wages sounds rather paradoxical. The inevitability of such payments do not appeal to the Committee. The Committee get a clear impression that an element of idle labour cost has become in-built in the direct labour cost and there is undoubtedly a vested interest in work being done only during overtime. Such huge payments of overtime wages are not at all justified and smack of poor management capabilities. To say the least there is need for looking into the matter most immediately and taking urgent remedial steps. The overtime payments have to be brought down to a reasonable level within a fixed time-frame. The Committee would await a report within six months.

Reply of the Government

Overtime payments have been brought down from Rs. 98.01 lakhs in 1985-86 to Rs. 37.62 lakhs in 1986-87. Strict control is continuously exercised on this aspect.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 19-2-1988]

Recommendation Serial No. 29, Paragraph No. 8.26

The Committee note that the material management and inventory control system in the Cochin Shipyard leave much to be desired. It is surprising to find that even the basic essential such as periodical reviews and physical verification of stocks have been found to be lacking. According to Audit, except some test verification conducted by Internal Audit, no independent verification of stocks has been done till 1986 and the codification of the materials was started only from 1st April, 1986, after the Audit had pointed out the lacuna. The levels of inventories of different kind held by the shipyard at the end of each year were very high indicating that a lot of capital was locked up in inventories. The norms of consumption of various items of inventory have either not been laid down or are not being scrupulously enforced. The closing stock of store items including boughtout items represented 5.5 years consumption as on 31st March, 1986. The Committee find it even more distressing to note that the non-moving stores of Rs. 423.04 lakhs on 31st March, 1984 included stores and spares valued at Rs. 189.96 lakhs which had not moved for three years or more. The Committee, therefore, desire that a systematic exercise may be undertaken to properly assess the shipyard's requirements of inventory, identify the surplus stocks & stores, lay down realistic norms for consumption of different stores and take steps for the disposal of surplus material at the earliest. The Committee would like to be apprised of the concrete steps taken in this direction within six months.

Reply of the Government

1. (a) *Physical verification of stock by Internal Audit.*—Internal Audit has verified 2405 items (value Rs. 180.92 lakhs) which represents over 20 per cent both in number and value of the inventory during 1986-87. CSL expect to do 25 per cent in 1987-88.

(b) *Physical Verification of stock by Materials Deptt.*—Internal verification of items held in stock is systematically carried out by the Materials department of CSL from 1985. The progress made in this respect is given below:—

Year	No. of items verified
1985-86 .	2439
1986-87 . . .	3076
1987-88 (upto 30 June) .	611 (further verification is in progress).

2. *Surplus stocks in Stores to be identified*: Exercise have been carried out by CSL in respect of following high value items to identify surplus stocks:—

(a) *Steel*· Out of approximately 70,000 MT of Steel purchased for construction of five (5) Bulk Carriers approximately 4573 MT was identified as surplus. 2277 MT was sold between 1984 and 1986. Further review of balance quantity was made by CSL and a list comprising 2050 MT was circulated in January/February, 1987 to other Public Sector Undertakings. But there has been no demand except for 4 MT of steel sections However, during this period, there has been internal consumption for shiprepair, diversification jobs and for Oil Tanker totalling approximately 922 MT. The entire stock of surplus steel has been identified, physically verified and stacked separately. 1379 MT is now available as surplus stock of the yard.

(b) *Pipes and pipe fittings*: Surplus pipes and pipe fittings available in the Yard's stock have been physically verified and a stock statement has been prepared by CSL. It is estimated that approximately 50,000 metres of pipes will be left behind after meeting the complete requirements of ship 005 now under construction. From this balance, approximately 13,000 metres of pipes (approx. Rs. 22 lakhs value) has been diverted by CSL for shiprepair requirements during the year 1986-87 and approximately 3,000 metres of pipes at a value of Rs. 5 lakhs have been reserved for meeting part requirement of the first Oil Tanker. A balance of 34,000 Metres is left over as surplus stock. Possibility of utilising some more of the existing surplus pipes for tanker construction is being looked into. The list of surplus pipes has been circulated by CSL among other Public Sector Shipyards.

(a) *Cables*: It has been identified that approximately 22,000 metres of various sizes of cables are available in CSL as surplus after completion of five (5) ships in the Bulk Carrier series. Last year, approximately 3,750 metres were diverted for shiprepair requirements and such requirements are expected to continue. Possibility of utilising part of the surplus stock to meet the requirements of Oil Tanker construction, is being looked into by the CSL.

3. *Steps to be taken for disposal of surplus materials*:—

(a) Steps taken for disposal of surplus steel have been already explained above. Periodical statements of slow moving and non-moving items are prepared in the shipyard. These lists are regularly reviewed by CSL and items that can be disposed of are identified. Items so identified are disposed of through sealed tenders. Timber, vehicles and a number of similar items have been disposed of by CSL in the last two years. Value of surplus items other than steel which were disposed of during past two years is given below:—

Year	Value (Rs. in lakhs)
1985-86	9 52
1986-87	6 36

Tenders have also been invited by CSL for disposal of more items of surplus/obsolete category.

(b) CSL have materials valued at approximately Rs. 90 lakhs held as surplus stock in their Bonded Warehouse. These are surplus left over from pipes, machinery and fittings imported for shipbuilding purposes. Many of these materials have little market value unless required by other shipyards. Some of them may bring only scrap price on disposal. But, before the Shipyard debond and sell such surplus materials, the Customs department will have to be paid heavy dues comprising Customs Duty and interest on duty as applicable. Thus, the dues payable to Customs Department and Sales Tax payable to State Government may add upto more than or equal to the disposal price of some of the items and CSL may have to suffer considerable cash loss on this account. This is an inhibiting factor which stands in the way of any serious attempts to dispose of the surplus stock of bonded stores.

4. *Procedure for acquiring and maintenance of Inventory to be streamlined:—*

(a) Materials Manual has been introduced in 1986 (October, 1986) laying down purchase of stores procedures;

(b) A system of 'Approval of Necessity' has recently been introduced. Necessity for purchase of any item is thoroughly examined before administrative sanction is accorded,

(c) Delegation of powers for purchase and disposal etc., has been revised;

(d) Stores lay out, stacking and issue procedures have been streamlined;

(e) Computerisation has been introduced in both purchase monitoring and in custody of stores. Approximately 60 per cent of the shipbuilding stores have been computerised and the further computerisation is in progress.

(Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL, dated 15.2.88)

Recommendation Serial No. 30, Paragraph No. 8.27

The weaknesses in the system of inventory management at Cochin Shipyard have been brought into focus by a recent judgement of the Kerala High Court. While quashing the order of suspension issued by the management of CSL against an officer of shipyard for over indenting of pipes far in excess of the actual requirements, the Court had made some very serious observations about the large scale irregularities in indenting, purchase, storage and utilisation of material worth over half a crore of rupees in the shipyard. The Committee hope that as recommended by the Court a thorough investigation would be ordered by the Government immediately, if not already done so, with a view to streamline the procedures for acquiring & maintaining inventories.

Reply of the Government

A high level committee headed by Shri Lovraj Kumar has been constituted to go in depth and suggest long-term solution to the problems of CSL. The terms of reference *inter alia* include—

> To examine the existing practice of material procurement and purchase, system of inventory control and to what extent surplus material, if any, procured for a specific ship is integrated into the general inventory. What systems of feed back are available to the indenting department in the event of excessive indent of items?

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 31, Paragraph No. 9.11

The working results of the Cochin Shipyard from 1975-76, when it commenced production, to the end of 1985-86 reveal that the operations of the shipyard have resulted only in losses except in two years i.e. 1980-81 and 1981-82 when some profits were shown in the account. As on 31-3-1986, the cumulative loss of CSL works out to Rs. 54.98 crores and out of the total loss of Rs. 54.98 crores, the loss in shipbuilding activity alone was of he order of Rs. 33,08 crores. The value of production as a percentage of the capital employed in an industrial undertaking is an index of the capacity utilisation in financial terms. In the case of CSL the percentage of value of production to the total net assets varied from 14 in 1983-84 to 19 in 1984-85 and 17 in 1985-86. The primary reason for this sorry state of affairs is undoubtedly very low level of capacity utilisation achieved so far in physical terms and the low productivity of both man and machines. The Committee feel that effective planning and construction management in CSL as well as long term planning for shipbuilding industry at the national level are imperative for increasing the capacity utilisation in the shipyard. A comprehensive long term plan for optimal utilisation of the infrastructure already created needs to be drawn up and implemented. For the proper implementation of any such plan it is necessary that the shipyard should economise in all fields of its expenditure and take energetic steps for maximising its capacity utilisation.

Reply of the Government

The following measures have been taken by the Cochin Shipyard for improving capacity utilisation and for the optimum use of the infrastructure created:—

(1) PERT has been introduced for tanker construction, progress monitored, and remedial steps taken in time to overcome delays and other hindrances.

(2) The Corporate Plan of CSL is under finalisation in the shipyard in consultation with the Ministry.

(3) The following works, essential for increasing productivity, have been done by CSL from Revenue/R&R funds:—

(a) 2010 sq. metres of area on the eastern end of the Building Dock was consolidated for storage of units/blocks.

(*b*) Existing welding skids have been levelled.

(c) 14 numbers of welding sets have been purchased as replacements.

(*d*) Universal jigs, small tools and tackles were procured.

(4) Necessary re-arrangements, modifications and augmentation of facilities and resources are being carried out to increase the capacity utilisation and optimise productivity in the various cost centres in consultation with IHI Consultant in respect of 007 tanker construction.

(5) Great stress is now laid on increasing shiprepair activities.

(6) CSL have been able to secure some orders for small crafts and general engineering works as part of their diversification activities.

(7) For provision of additional facilities for tanker construction and rectification of imbalances on the shipbuilding side Government have sanctioned an amount of Rs. 3.90 crores. This is under implementation. It is hoped that the above measures will result in maximising capacity utilisation.

[Ministry of Surface Transport O.M. No. SY-16014|1|87-CSL dated 15-2-88].

Recommendation Serial No. 32, Paragraph No. 9.12

According to the Ministry of Surface Transport the main reasons for the losses in CSL are *inter alia,* unremunerative prices fixed by Government for the ships, heavy interest burden due to high cost of CSL project and high cost of indigenous inputs and longer delivery time. Interestingly a solution to all these problems can be found only by the Government. The Committee desire that since problems have now been clearly identified, no time should be lost in resolving them. It is seen that the proposal for conversion of the present debt equity ratio of CSL, interest holiday, moratorium on repayment of loans and rescheduling of repayment terms of the remaining loans have been under the consideration of the Government for quite sometime but final decisions have yet to be taken. One particular matter which the Committee would like to be highlighted is the fact that the proposals for rectification of some imbalances in the facilities of the yard made by the Datta Committee in March, 1984, still continue to be under the consideration of the Government without any decisions having been taken so far. The Committee cannot but emphasize that various suggestions made by the management of the CSL for streamlining the working of the shipyard should have been examined and considered with a sense of urgency and in any case decisions thereon should not be delayed any longer so that the shipyard is put back on the rails without further loss of time.

Reply of the Government

Government are seized of the problem of financial losses faced by the shipyard.

In order to tackle these problems effectively Government have appointed a High Level Gommittee, with wide terms of reference, which also cover the financial aspects of the Company. The proposals for the Capital restructuring of the Company and grant of financial reliefs are closely linked with the pricing of vessels built in indigenous shipyards. The Bureau of Industrial Costs and Prices, who were entrusted to conduct a study in this regard, have now submitted their report to Government. Their recommendations are under examination.

The main recommendations made by the Datta Committee *inter alia* included rectification of certain imbalances in the facilities of the shipyard. The shipyard's proposal for rectification of imbalances involved investment of about Rs. 16 crores and addition to man-power to the extent of about 400 persons. In view of the inadequacy of rate of return on investment and the inadvisability of adding to the man-power, when the labour productivity of the shipyard is very low, the proposal was not acceptable. However, a revised proposal involving an outlay of Rs. 3.89 crores, for rectification of imbalances, with reference to the construction of the new series of ships *viz.*, Oil Tankers, has been accepted.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

CHAPTER III

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

Recommendation Serial No. 4, Paragraph No. 2.45

The installed capacity of the Cochin Shipyard according to the Revised Project Report is two ships a year in terms of Panamax bulk carriers of 75,000 DWT. The actual production in the Shipyard was much less than the RPR targets. The Shipyard constructed and delivered only one ship during the five years from 1976-77 to 1981-82 against the RPR target of 3 ships of 75,000 DWT by 1981-82. The average capacity utilisation of CSL *vis-a-vis* installed capacity for the 9 years period *i.e.* from 1976, when the production started and upto 1984-85, was only about 30 percent. Not only was the capacity utilisation much below the targets, there were heavy delays in the construction of ships and the cycle time involved was much longer than originally envisaged. According to the Ministry detailed analysis of the reasons for the reduced capacity utilisation and larger construction cycle times in the yard had revealed that there was need to rectify some imbalances in the facilities available in the yard for which substantial investment in terms of infrastructure and equipment was required. However, a Working Group on the ship-building and Ship-repair Industry for the 7th Plan held the view that while all necessary measures may be taken by the yard to improve the over-all productivity of the yard, it was necessary to have a smaller expert group to go into the various reasons of shortfall and, if necessary, reassess the installed capacity as well as production target of the yard in the light of the present day situation. The Committee desire that a small task force consisting of technical experts may be set up without any further loss of time for making a reassessment of the capabilities and weaknesses of the yard.

Reply of the Government

Government have recently set up a High Level Committee to go in depth and suggest long term solutions to the problems of Cochin

Shipyard. The terms of reference of this Committee *inter alia* include:—

(i) The factors leading to the non-achievement of production *vis-a-vis* the targets as set in the revised project report with reference to each vessel built/being built by the yard from the very inception of the yard;

(ii) Reasonableness or otherwise of the achieved capacity utilisation and ascertain imbalances, if any, in the existing basic infrastructure and production procedures and systems, keeping in view delay in delivery of ships/shortfall in capacity utilisation;

(iii) Whether there has been proper linkage between the various inputs, *viz*, technical consultancy, plants and equipments and other facilities and their actual contribution/utilisation towards achievement of envisaged production and productivity;

(iv) To suggest corrective steps required to be taken by the shipyard to overcome the defects and deficiencies in the system which has resulted in poor production and productivity.

Also in order to rectify certain imbalances in the facilities in the yard, Government have recently sanctioned a scheme at a cost of Rs. 3.89 crores for providing additional facilities for ship construction in CSL.

In view of these facts, there is no need to set up a separate task force to look into these problems.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-88].

Recommendation Serial No. 9, Paragraph No. 2.51

It is disconcerting to note that at present there is no specific proposal for diversification of activities of Cochin Shipyard and it is apprehended that an amount of Rs. 2 crores provided for diversification schemes during the 7th Plan may not be utilised. This is indicative of the absence of any long term and perspective planning for the optimal utilisation of the facilities created at huge cost.

Reply of the Government

The areas in which CSL can diversify have been identified and incorporated in the Corporate Plan of the Company, which is under consideration of the Government.

CSL has been making vigorous attempts to obtain work for the yard for small crafts and other general engineering works and participated in many tenders including work for Kerala Tourism Department and Kerala Inland Navigation Corporation. Details of major orders which CSL has been able to secure as part of its diversification activities are given below:—

Sl. No.	Item	Owners	Delivery	Value of works exclusive of taxes and duties (Rs. lakhs)
1	2	3	4	5
A. *Orders received and executed* :				
1.	1 No. Floating Platform	NPOL, Cochin	18-4-86	22.334
2.	10 Nos. Counter weights	BEML Bangalore	8-5-86	3.200
3.	1 No. 100 T Dumb Barge	CPT, Cochin	4-8-86	16.846
4.	20 Nos. Counter weight	BEML, Bangalore	28-2-87	5.060
B. *Orders received and under execution*:				
1.	1 No. Dumb Barge	NHQ, New Delhi	Sept. 1987	126.75
2.	1 No. Structure -10	DINT, Cochin	Expected June, 1988	37.26
3.	2 Nos. Tourist excursion launches	Deptt. of Tourism Kerala Govt.	Delivery expected 4th quarter 1988	155.262
C. *Orders expected/under negotiation*				
1.	3 Nos. Cradles for Slipway	B.R.O. Cochin	Order expected soon, delivery 10 months from order.	37.120

There is a provision of Rs. 45 crores in the 7th Plan for investment in Cochin Shipyard Limited. So far the following schemes have been approved and necessary funds provided.

(Rs. in lakhs)

S. No.	Schemes	Outlay
1.	Township	166.00
2.	Shipbuilding facilities	389.50
3.	Extension of Quay I	1670.00
4.	Adoption of New Designs	300.00
5.	Augmentation of Training facilities	100.00
6.	Renewals & Replacements	500.00
	Total :	3125.50

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL, dated 15-2-1988]

Recommendation Serial No. 27, Paragraph No. 7.36

It is seen that the payments on account of idle time wages increased from Rs. 12.60 lakhs in 1979-80 to Rs. 26.36 lakhs in 1983-84. This figure has, however, been brought down to Rs. 14.34 lakhs in 1984-85 and Rs. 15.59 lakhs in 1985-86. Here again the main reasons for idle time was "want of jobs". The Committee have been informed that the percentage of total idle hours to total available hours, which was 20.60 in 1983-84 has been brought down to 8.96 in 1985-86. This is a healthy sign but at the same time it proves that idle time can not only be reduced further but also even totally eliminated. The Committee desire that as assured by the CMD of the Cochin Shipyard more concerted efforts should be put into reduce the idle time to the barest minimum if not totally eliminate it in the shortest possible time.

Reply of the Government

Though idle time due to internal factors (waiting for raw materials, utilities, etc.) were brought down from 0.85 per cent in 1985-86 to 0.31 per cent in 1986-87, idle time due to external factors (inclement weather, power failure etc.) increased from 1.10 per cent in 1985-86 to 1.59 per cent in 1986-87 mainly due to interruptions in power supply. Idle time for 'want of jobs' also increased from 7.01 per cent in 1985-86 to 9.18 per cent in 1986-87 due to production vacuum. Thus the total idle time increased from 8.96 per cent in 1985-86 to 11.08 per cent of the total available hours in 1986-87.

With effect from early August, 1987, CSL experienced 40 per cent power cut. Idle time is inescapable when power cuts are imposed. The Kerala Government has also given instructions that the utilisation of power should be mostly at night and minimum power only should be used during day time.

An advanced training programme has been introduced during the current year whereby workmen who are idle for 'want of job' are given suitable training so that their efficiency level and skills are increased. This will help in increasing productivity when tanker construction gains momentum.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-88].

CHAPTER IV

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

Recommendation Serial Nos. 1, 2, 3, Paragraph Nos. 1.8, 1.9, 1:10 & 1:11

The Cochin Shipyard Limited was incorporated on 29th March, 1972 as a fully owned Central Government Company. Unlike other Shipyards in the Public Sector, which were all acquired by Government at certain point of time, Cochin Shipyard is the only project of its kind, created as a result of fresh investment made by the Government, with Japanese collaboration. The project was commenced in 972 with an estimated cost of Rs. 40 crores and was to be completed within 5 years. The project was delayed and finally completed in 1980-81 at total cost of Rs. 130 crores. The Shipbuilding commenced in 1976 and the first ship was completed and handed over in 1981.

Even after more than a decade of its existence, it has not been possible for the Government to formulate the financial and economic objectives of the undertaking. A corporate plan drafted by the undertaking sometime in 1978 has yet to be reappraised and finalised even though the shipyard had been fully commissioned by 1981-82. In these circumstances no wonder the shipyard had been drifting without any long term plans or objectives. The level of production in the shipyard has been far too low. It has been struggling to make one ship a year against the projected capacity of two ships of 75,000 DWT per annum. The total annual value of its production has been stagnating around Rs. 30 crores during the past 3 years whereas the capital investment was of the order of Rs. 130 crores. As on 31st March, 1986, the shipyard has accumulated a loss of Rs. 54.98 crores according to its latest annual report. The future is equally uncertain as unfortunately there is no long term planning for shipbuilding industry at the national level. The Committee feel that in the peculiar situation in which the Shipyard was placed right from the beginning, it was all the more necessary that the objectives and aims of the undertaking should have been clearly defined and approved by the Ministry for proper direction and growth of the Shipyard.

It has been stated that in the context of the Shipping Scenario existing in the world, a reassessment of the role of the Shipyard in the country was being made at the level of Secretaries Committee and the Cabinet. The Committee desire that this exercise should be completed without any further loss of time and the micro objectives of the Cochin Shipyard may be set out in unambiguous and clear terms as envisaged in the guidelines issued by BPE in November, 1970 and again in May, 1979. The Committee would like to be apprised of the action taken in this behalf at an early date.

The Committee find that a draft Corporate Plan of the Shipyard submitted to Government in August, 1978 has not yet been approved. The main, reason given for the delay in reappraising of the Corporate Plan is that the Shipbuiliding capacity of the Shipyard has to be reassessed and refixed on a realistic basis, without which long term projections may not serve any useful purpose. Steps are reportedly being taken to assess the position in detail to enable formulation of the Corporate Plan. The Committee cannot but emphasise that in the larger interest of the Shipyard, where uncertainties regarding orders seem to have totally disrupted the planning process, the finalisation of the Corporate Plan should not be delayed any further. The Committee feel that specific approval of the Corporate Plan of the Shipyard by the Government was necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Shipyard should take.

Reply of the Government

A revised Corporate Plan of CSL, as drawn up by the Company in August, 1987, and approved by the Board of Directors, has been submitted to Government for approval.

The Corporate Goals are sought to be achieved through maximum utilisation of existing facilities, provision for marginal facilities wherever required to increase productivity, reduction in cycle time for shipbuilding, utilisation of spare capacity for miscellaneous production and diversified activities, gearing up the yard and facilities for taking up construction work for Navy, reduction in down-time of ships under repair and increase in shiprepair earnings, promotion of ancillary industries, promotion of indigenisations of equipments, required for shipbuilding and creation of additional employment opportunities both direct and indirect.

Though the Corporate Plan encompasses the 7th Plan, 8th Plan and beyond, it will be reviewed yearly to modify goals and strategies in tune with the emerging business environment.

A High Level Committee has been constituted to go in depth and suggest long terms solutions to the problems of CSL. The Committee's report is awaited.* A similar study was conducted with regard to HSL also. Based on the reports of the High Level Committees, a reassessment of the role of the shipyards in the country will be made in the context of Shipping Scenario existing in the world.

Audit's Observations

The Corporate Plan sent to Government on 6-8-1987 for approval was placed before the Board of Directors of the Company on 11-8-1987 and Board decided that the Plan should incorporate specific financial statements for both short term as well as long term, bringing out the necessity for restructuring the capital of the Company. Action taken by the Management has not so far been reported to the Board.

Reply to Audit Observation

The position is that action taken by the Management has yet to be reported to the Board of Directors of CSL.

[Ministry of Surface Transport O.M. No. SY-16014/1|87-CSL dated 15-2-88].

Comments of the Committee

(Please *see* Paragraph 6 of Chapter 1 of the Report)

Recommendation Serial No. 5, Paragraph No. 2.46, 2.47

Since ship-building is predominantly and assembling industry wherein shipyards have to depend substantially on the bought out items and raw materials from the open market, a great deal of advance planning for design and production of each ship is called for. The optimum utilisation of ship-building capacity, therefore, presupposes a reasonable amount of order book position covering at least 4 to 5 years total production capacity. In Cochin Shipyard, however, the uncertainties regarding orders have disrupted the working of the shipyard from time to time. Upto May, 1981, the shipyard had secured orders for construction of 6 ships of 75000 DWT. The sixth ship was to be delivered in 1985 but because of the longer cycle time involved in the construction of ships, the yard could build five ships and before the construction of the sixth ship could be taken up, the order for the ship placed by a private shipp-

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*At the time of factual verification, the Ministry of Surface Transport have stated that "The Committee's Report has now been received and is being examined."

(Ministry of Surface Transport O.M. No. SY-16014|1|87-CSL dated 28|3|1988).

ing company was cancelled. The Shipping Corporation of India had also placed orders for three 67000 DWT bulk carriers in 1984 through a letter of intent. This order was also subsequently cancelled in October, 1984. This left the shipyard without any work beyond the 5th ship which was expected to be completed in February, 1987. It was only on 30 March, 1986, that a new contract for the construction of three 86000 DWT oil tankers for Shipping Corporation of India was signed. This order for 3 tankers is likely to keep the shipyard busy till 1988-89, when again the shipyard will be forced with a situation of no work unless some further orders are received. In such an atmosphere of uncertainty regarding orders, cancellation of orders already received and total dependence on imported inputs such as ship designs and raw materials it is no doubt impossible for the shipyard to function normally in a planned manner.

In this context the role played by the Ministry of Surface Transport assumes greater importance. The Committee find that even though the Government had an extremely liberal policy for financing the purchase of ships in the form of SDFC loans, there was no long term integrated plan for the acquisition and building of ships in the country. The Committee have been informed that a provision of Rs. 673 crores has been made during the 7th Plan period but this provision is barely sufficient to meet the committed requirement for ships already acquired during the 6th Plan period. There is thus no financial allocation available for the purchase of any new ships during 7th Plan. In regard to long term integrated Plan for acquisition of ships and their construction in the indigenous shipyards the Committee have been informed that apart from maintaining the radio of tonnage of 65:35 between public and private sector, there was no other long term integrated plan for acquisition of ships. The Committee find it difficult to appreciate how in the absence of any long term plan and without any financial provision having been made for the shipping industry during the 7th Plan, the Ministry can render any assistance to the shipyards in the form of orders for construction of new ships.

Reply of the Government

Government have issued the following guidelines for fulfilment of *pari passu* obligations:—

(i) An Indian Shipping Company purchasing a new ship from abroad will be required to place an order for equivalent tonnage on an Indian shipyard or in the case of a second-hand vessel to the extent of the value of the ship acquired from abroad. This provision would not apply to specialised vessels or vessels of a significantly higher DWT than 75,000 DWT.

(ii) The *pari passu* clause will not be applicable till the company owns tonnage in excess of 50,000 DWT or completes five years of operation whichever is earlier.

(iii) The shipowner is required to place an order on an Indian shipyard within six months from the date of the delivery of the foreign vessel purchased by him.

Pari passu ogligations are also applicable to the offshore supply vessels. However, this obligation is in the ratio of one ship from an Indian shipyard against acquisition of four vessels from abroad.

There have been large outstanding *pari passu* obligations against several private sector shipping companies. The shipping industry has been suffering from prolonged global recession and, therefore; their financial position has been substantially eroded. Indian built ships worked out to be extremely uneconomical for the shipping companies due to their high cost of construction and delayed delivery schedules resulting in technical obsolence. Since shipping is an international industry these factors have to be kept in mind. Accordingly, the Government has not been insisting on the strict observance of the *pari passu* obligations.

In the case of public sector the acquisitions, proposals of SCI are examined at various levels of Government including PIB and CCEA. Before giving clearance for import of ships, the Indian Shipyard's capacity, the existing order book and feasibility of building such ships within time frame required is carefully examined. As such only if the Indian Shipyard's then existing order book position did not allow them to accommodate further order of ships to be delivered at certain point of time, commensurate with economic viability of the proposed ships, the Shipping Company is allowed to acquire their vessels from abroad.

The *pari passu* guidelines are under review in the Government at present so as to ensure that the shipyards do not suffer for want of orders on the one hand and the shipping industry does not suffer from the higher cost of the Indian built ships on the other.

The Government had formulated a long term acquisition programme for the shipping industry on the basis of the requirements of the Indian trade. The tonnage acquisition Committee submitted its report for the requirement of additional tonnage during the 7th Plan of 1.5 MGRT. The long term plan had included the capacity of the Indian shipyards which was 0.8 million GRT for a five year period and the requirement is far in the excess of the capacity of the Indian shipyards.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Comments of the Committee

Please *see* Paragraph 12 of Chapter I of the Report.

Recommendation, Serial No. 19, Paragraph No. 5.20

The Committee note that the shipyard earned some foreign exchange by carrying out repairs of the foreign ships. The foreign exchange earnings had gone up to Rs. 24.66 lakhs in 1984-85 but came down to just Rs. 0.48 lakhs in 1985-86. The decline in the foreign exchange has to be analysed to ascertain as to what were the reasons for very few foreign ships coming to the shipyard for repairs. Based on such a study the facilities in the repair dock should be augmented and the services rendered made more competitive with a view to attract more of foreign ships.

Reply of the Government

(1) The foreign exchange earnings from shiprepair during 1986-87 was Rs. 2.76 lakhs against Rs. 0.48 lakhs in 1985-86.

(2) CSL had earlier repaired a few foreign ships and the concerned owners had been fully satisfied with their performance. However, the rates are not competitive with foreign shipyards because they are giving attractive discount which cannot be matched. The time taken by them is also less because they do not face cumbersome procedures in import of items required for shiprepair. As the down time has to be limited they insist on performance bond and with the existing difficulties being faced it may result in CSL having to pay heavy liquidated damages. Therefore, CSL usually undertake repairs of foreign ships which break-down in India as happened during 1984-85. Moreover, by undertaking repair of Indian vessels, CSL are indirectly saving foreign exchange as otherwise these ships will have to go abroad and spend foreign exchange.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Comments of the Committee

Please *see* Paragraph 24 of Chapter I of the Report.

Recommendation, Serial No. 24, Paragraph No. 7.25

The Committee find that CSL had about 350 machines valued at Rs. 36.41 crores as at the beginning of 1983-84. With a view to watch utilisation of machinery, log books are required to be maintained for each machine and reviewed periodically to find out whether there was avoidable idle time. Out of the 350 machines in CSL, log books in respect of about 86 machines only are reportedly being maintained. How in the absence of the log books the utilisation of the machines is being watched in the shipyard is difficult to understand. One of the reasons given for non-maintenance of log books is that some of the machines are very scarcely operated and hence log book was not being maintained.

Reply of the Government

CSL has conducted a detailed examination of all items of machinery with a view to covering their operations on the basis of log books. CSL is now maintaining log books for 203 items of machinery against the 86 items for which log books were maintained previously. For the balance items, these fall within groups such as gangway ladders, supporting blocks, fair leads, roller conveyors, welding skids, vice tables, marking tables, working slabs; exhaust fans, propeller fans, jacks, universal jigs, welding sets etc. These are in the nature of general purpose facilities and, therefore, do not fall within the scope of log book accounting.

Audit's Observations

Though the Company is maintaining the log books for 203 machines, idle-time analysis is being made only in respect of 96 machines.

Reply to Audit Observations.

Idle time analysis is being made only in respect of 96 machines, as intimated by CSL.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Comments of the Committee

Please *see* Paragraph 27 of Chapter I of the Report.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation Serial No. 6, Paragraph No. 2.48

What is all the more disquieting is the fact that there is no meaningful coordination between different wings of the Government in regard to planning for acquisition of ships or development of maritime facilities in the country. At present there are at least three Ministries who are involved in the development of maritime facilities. These are the Ministries of Surface Transport, Defence and Agriculture. While much has been said about the recessionary situation in the shipping world and its impact on the indigenous shipyards, there is no evidence of any coordinated efforts having been made to secure orders for the shipyards who were suffering from acute underutilisation of capacities due to paucity of orders. The Committee are of the view that whatever be the conditions in their international market, the indigenous shipyards in which huge investments have been made, should not be allowed to suffer because of lack of orders. They have to be kept busy and to that end it will be helpful to have a central authority to register the capacities and categories of the shipyards and then distribute the construction of vessels according to their respective capacities keeping in view the orders already in hand. Such an authority could be the first step towards a coordinated development of maritime facilities including the ancillaries. In addition the proposed central authority should be entrusted with the task of processing steel requirements of yards and arranging for other necessary inputs.

Reply of the Government

The above recommendation has been referred to the concerned Ministries/Departments viz. Ministries of Agriculture, Defence, Steel, Petroleum & Natural Gas and DGTD. Their comments with regard to feasibility of constituting a Central Authority are awaited.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

Recommendation Serial No. 10, Paragraph No. 2.52

The Committee find that a Shipping Development Fund Committee was set up in 1959 for administering a loan scheme, under which shipping companies both in public and private sector could get loans on very easy terms for purchase of ships. The SDFC extended credit upto 95 per cent of the cost of acquiring a ship repayable in 16 years at a low interest rate of 4½ per cent. Later on from 1971 the interest rate was raised to 6.75 percent for Indian built ships and 7.5 per cent in case of foreign ships. Although the terms of the SDFC loans stipulate that every second ship acquired by a recipient of SDFC assistance should be from Indian Shipyards, this *pari passu* obligation has not been honoured scrupulously in the past by the ship owners. Nor has SDFC insisted on the ship owners for the fulfilment of their *pari passu* obligation. From the information made available to the Committee it is seen that against 42 ships of 13,79,686 DWT acquired by the Shipping Corporation of India from foreign countries, it placed orders for only 10 ships of 4,77,000 DWT on Indian Yards under *pari passu* obligations. Similarly there is a large *pari passu* obligation outstanding against private sector shipping companies. If only the *pari passu* obligation clause had been enforced on all shipowners, there would have been no dearth of orders for all the shipyards in the country, who have only a limited capability. Further the failure to enforce *pari passu* obligation has resulted in indirect subsidisation of the foreign shipyards at the cost of the indigenous shipyards. The Committee cannot but express their displeasure at the failure of the authorities to safeguard their own interest. The Committee recommend that Government should review the entire situation and take appropriate measures urgently under intimation to the Committee.

Reply of the Government

The existing guidelines regarding the *pari passu* obligations came into existence in 1977. This was a period during which the recessionary trend in the industry had already started and which has cintinued unabated since then except for a short period of one and a half years in 1980-81. It is for this reason that the *pari passu* obligation has not been strictly enforced by the Government. The impact of the recession is already manifest in that several compaines have been forced to close down or are in the process of being wound up/liquidated. It is with the realisation that the recession has adversely affected the industry that a whole new system of rehabilitation package is being worked out by the Ministry of Finance (Banking Division) through the SCICI. However, as stated earlier, the *pari passu* obligation is being reviewed in this Ministry with a view to ensure that the shipyards do not suffer for want of orders in future.

The following table gives the number of orders placed on CSL by the public sector Shipping Corporation of India:

Year	CLS's Order Book Position	SCI share
1984-85	3	..
1985-86	2	..
1986-87	5	3

[Ministry of Surface Transport O.M. No. SY-16011|87-CSL dated 15-2-1988]

Recommendation Serial Nos. 11, 12, 13, 14, Paragraph Nos. 3.21, 3.22, 3.23, 3.24

The Committee find that in accordance with the existing pricing formula announced by the Government in February, 1981, the prices of Indian built ships are determined on the basis of a notional figure known as International Parity Price. As per the pricing formula the shipyards are paid a direct subsidy of 20 per cent of the International Parity Price by the Government and the shipowners also pay to the shipyards 10 per cent over and above the IPP towards partial cost of import substitution. Such a pricing policy, even though it gives a 30 per cent price advantage to the Indian built ships, has no rational relationship with the cost of construction in a shipyard. It is seen that as a result of the existing pricing policy Cochin Shipyard has incurred huge losses on ships 001 to 003 which have actually been delivered. For these three ships the total loss i.e. the difference between the actual cost and the selling price including subsidy and escalation charges works out to a staggering amount of Rs. 28.84 crores. It is also relevant to note that according to the estimates prepared by the Cochin Shipyard, the cost of a tanker to be fabricated for the Shipping Corporation of India works out to about Rs. 69 crores. However, the Shipping Corporation of India has projected an anticipated price of only Rs. 37 crores per tanker on the basis of the existing IPP formula. Obviously, therefore, the pricing policy being adopted at present is in the opinion of the Committee unrealistic vis-a-vis the cost of construction and needs to be modified urgently.

The Committee are not happy to note that even though the experience of the working of the pricing formula had clearly shown that the formula was causing hardship to both the shipyards as well as Shipping Companies, a review of the formula with a view to evolving measures for reducing the genuine hardships of the shipyard has not been completed with any sense of urgency. Even though the matter has been debated at different forums yet no decision has been arrived at so far. In fact instead of taking any decision a reference has reportedly been made to Bureau of Industrial Costs and Prices in May, 1985 for determining the normative cost of construction of ships. BICP has yet to complete its study and give its report and even after the report of BICP is received, the Ministries concerned will take their own time to come to some conclusion. The Committee cannot but express their displeasure at the unduly long time taken in revising the pricing formula, which was clearly unjust and unrealistic. The Committee desire that no further time should be lost in arriving at a decision on the subject, under intimation to the Committee.

The Committee are in agreement with the view that in order to make the shipyards viable it is necessary that the pricing policy of shipyards should be based on the actual cost of construction of the vessel plus a reasonable margin. Furthermore in the light of prolonged shipping recession and the falling prices of ships in foreign yards, when the shipping companies are keen to place orders on fodeign yards, it is absolutely essential that indigenous shipyards are afforded enhanced subsidies and other suitable assistance to make them commercially viable.

Another question related to the pricing policy is the delay in stage payments being received by the Cochin Shipyard. As on 31st March, 1985 the stage payments due but outstanding amounted to Rs. 2157.30 lakhs. The total amount due on this account in respect of ships 004 and 005 as at the close of the year 1985-86 was Rs 20.52 crores. The Committee desire that unseemly disputes regarding the price fixed for the ships according to IPP formula and delays in stage payments by the private ship owners should be dealt with firmly by Government. It needs to be pointed out that even though the private ship owners have to make payments only out of the loans given by SDFC, they have a vested interest in delaying as much as possible the availing of loans because in the process they are able to transfer a good part of the interest burden on the shipyard. The Committee desire that this aspect should be carefully taken note and dealt with appropriately.

Reply of the Government

The question of evolving a viable pricing formula for the ships built in Indian Shipyards has been entrusted to BICP. The BICP forwarded a draft report, based on which a series of discussion were held by the officials of this Ministry and Shipyards with them. BICP's final report has been received on 25th September, 1987 which is being examined. The outstanding dispute between M/s. Chowgule Steamship Limited and Cochin Shipyard Limited regarding the price and delivery of the Ship No. 004 has been settled and M/s. Chowgules have paid their share of the dues. Government are also taking all possible steps to assist the Shipyards in obtaining the outstanding dues from the Shipping Companies.

Audit's Observations

Specific action taken for early realisation of outstanding dues from the Shipping Companies has not been spelt out in the reply.

Reply to Audit Observation

The position is that the amount due to CSL from different Shipping Companies as on 31st March, 1987 is Rs. 1673.71 lakhs as detailed in the statement given below. Out of this Rs. 1322.10 lakhs relate to price differential on ship 004 and 005.

SHIPBUILDING CONTRACTS (SHIP 001 TO 005

	Dues as on 31-3-87 Rs. in lakhs	Remarks
002— M/s. Ratnakar Shipping Company Limited	126.61	Legal action to recover dues being considered.
003— M/s. Chowgule Steamships Limited	NIL	
004— M/s. Chowgule Steamshps Limited		
(1) Dock trial instalment due on 15-3-86 at provisional price of Rs. 22.50 crores.	225.00	Detailed Government orders on the final price to be paid awaited. Outstanding amount will undergo change based on the final price so fixed.

	Due as on 31.3.87 (Rs in lakhs)	Remarks
(2) Price differential between Rs. 32.527 crores orginally fixed by Government and provisional price of Rs. 22.50 crores—85% of Rs. 10.27 crores due upto 31-3-86.	852.30	
	1077.30	
005— M/s. Surendra Overseas Limited		
(1) Instalment due as on 31-3-87 remaining unpaid	NIL	
(2) Price differential between Rs. 32.527 crores originally fixed by Government and the provisional price of Rs. 27 crores (85% of Rs. 5.527 crores due upto 31-3-87)	469.80	
Grand Total	1673.71	

(Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-88)

Comments of the Committee

(Please *see* Paragraph 21 of the Chapter I of the Report)

Recommendation Serial No. 15, 16 Paragraph No. 4.26, 4.27 and 4.28

The Committee find that a contract was concluded in August, 1970 with M/s. Mitsubishi Heavy Industries (MHI) of Japan for technical assistance in construction of the shipyard at Cochin. The question of technical assistance in the building of ships was to be a subject of separate negotiations with MHI as that firm preferred to settle the terms of consultancy on a stage to stage basis. Consequently in August, 1970 a memorandum was exchanged with MHI for technical cooperation in ship design, shipbuilding and ship-repairs but no contract could be finalised as the Japanese offer of Rs. 3.41 crores for the technical collaboration was not comparable with the offer of Rs. 1.97 crores made by the UK firm M/s. Scott Lithgow Limited for similar works. Ultimately an agreement was entered into with M/s. Scott Lithgow Limited under which the latter was to give technical assistance in shipbuilding. This agreement was originally for a period of five years i.e. upto 15th August, 1978. This consultancy agreement was later on extended upto 30th June, 1981 and the total payment made to M/s. SLL was Rs. 2.04 crores as against Rs. 3.41 crores asked for by M/s. MHI of Japan;

Ostensibly the comparative economics of the two offers seems to have weighed with the authorities while accepting the offer of M/s. SLL. However, in Committee's view while considering the two offers some important aspects were obviously overlooked. It was well known that the shipbuilding technology of U.K. was different from the Japanese technology and since the shipyard had been built with Japanese technical collaboration, the infrastructure created was more suitable for the production technology and techniques of Japanese industry. It should have been anticipated that when the consultancy for shipbuilding was being obtained from U.K. rather than from Japan, there was the likelihood of a mismatch between the facilities already created and the new technology being obtained. This is precisely what happened when the shipbuilding consultancy was assigned to the U.K. firm. The Committee are sorry to find that lack of interface between Japanese layout of the shipyard and the methods of production of M/s. SLL not only resulted in poor performance and delay in construction of the ships but also involved lot of extra expenditure on substantial modifications made in the production design to suit the shipyard facilities.

The productivity level achieved with the help of U.K. consultancy services was much below the target envisaged in the RPR and it was then alone realised that the rated output of 2 ships per annum could be achieved only when total potential of the facilities established in CSL was fully exploited by adopting latest advance outfitting techniques and related production design/engineering practices. With this end in view the Japanese firm of M/s. MHI was brought back again after a great deal of persuation soon after the collaboration agreement with the U.K. firm M/s. SLL came to an end in 1981. The expenditure on the new consultancy agreement entered into with M/s. MHI has been estimated at Rs. 1.42 lakhs. From the facts placed before them, the Committee get an impression that the initial selection of the U.K. firm M/s. SLL as consultants for shipbuilding in preference to the Japanese firm of M/s. MHI, who had collaborated in the construction of the shipyard and then again bringing back the same Japanese firm for consultancy were not dictated by financial considerations alone. The Committee apprehend that there must be something more than meets the eye. The Committee therefore, recommend that the matter needs to be probed more thoroughly by an independent person or body and the Committee apprised of the outcome thereof.

Reply of the Government

The CBI has been requested to conduct a thorough probe into the whole case and furnish a report to this Ministry.

(Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL, dated 15.2.88.)

Recommendation Serial No. 23, Paragraph No. 7.13

The Revised Projects Report of the Cochin Shipyard envisaged employment of 1996 persons for attaining the target production of two ships a year and an annual shiprepair capacity of upto 10,00,000 GRT. The requirements of man power were reassessed in 1971 in consultation with M/s. MHI at 2032 persons and again in 1974, considering larger size of vessels of 75,000 DWT proposed to be constructed as against ships of 66,000 DWT envisaged in the RPR, the requirements of manpower were reassessed at 2166 persons. The actual number of men-in-position has, however, been higher than this level since 1980-81, even though the level of production was much less than that assumed at the time of assessing manpower needs. In fact, the total number of men-in-position has gone up from 2286 in 1980-81 to 2540 at the end of the year 1985-86. In between two studies had been undertaken for assessing the man power needs and also for initiating a man power development programme. The first of the studies was done by the Administrative Staff College of India, who were paid a remuneration of Rs. 70,000. The assignment to ASCI covered not only an assessment of the man power needs but also included services for management development and personnel management strategy. ASCI submitted part one of their report in July, 1980, which was placed before the Board in March, 1983. The other study was done by a Committee of officers constituted in October 1981 to look into the manpower problems. The report of this Committee was received in June, 1982. However, no worthwhile action seems to have been taken by the undertaking in pursuance of these reports and the process of rationalising the manpower planning is still continuing. The Committee feel that in the context of the very low level of capacity utilisation and large number of idle machine and man hours in the undertaking there is urgent need for having a scientific assessment of the manpower raquirements in the shipyard. The Committee desire that such a study may be entrusted to a recognised management consultancy agency, who may be required to complete the work within a given time frame. The Committee would like to be apprised of the action taken in this behalf.

Reply of the Government

The Kerala State Productivity Council, which is a recognised Management Consultancy Agency, has been entrusted with the task of undertaking a scientific assessment of manpower requirements.

The Council shall develop norms and assess man-power requirements upto and inclusive of supervisory personnel in different disciplines, bringing out excess/shortage of man-power, if any, in each discipline/area, suggest possible changes in methods to reduce wastage and improve productivity and assist in the implementation of the consultancy report.

The Report is expected to be received by the end of March, 1988.

[Ministry of Surface Transport O.M. No. SY-16014/1/87-CSL dated 15-2-1988]

NEW DELHI;
April 11, 1988
Chaitra 22, 1910 (*S*)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

Minutes of the 33rd sitting of the Committee on Public Undertakings held on 30-3-1988

The Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

Shri Vakkom Purushothaman—*Chairman*

MEMBERS

2. Shri K. P. Singh Deo
3. Shri Dinesh Goswami
4. Smt. Prabhawati Gupta
5. Shri Harish Rawat
6. Shri Lal Vijay Pratap Singh
7. Prof. Saif-ud-din Soz
8. Shri Jagesh Desai
9. Shri Chimanbhai Mehta

SECRETARIAT

1. Shri R. D. Sharma—*Chief Financial Committee Officer*
2. Shri Rup Chand—*Senior Financial Committee Officer*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Shri C. P. Mittal—*Chairman, Audit Board*
2. Shri D. N. Anand—*Secretary, Audit Board*

The Committee considered and adopted the following draft Action Taken Reports as approved by the Action Taken Sub-Committee:

* * * * *

(ii) Draft Report on Action Taken by Government on the recommendations contained in 26th Report of Committee on Public Undertakings (1986-87) on Cochin Shipyard Ltd.

* * * * *

3. The Committee authorised the Chairman to finalise the Reports on the basis of factual verification by the Ministries/Undertakings concerned and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the 26th Report of the Committee on Public Undertakings (Eighth Lok Sabha)

I.	Total number of recommendations made	32
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at Sl. Nos. 7,8,17,18,20-22, 25, 26 and 28-32) . . .	14
	Percentage to total	43.75%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendations at Sl. Nos. 4, 9 and 27)	3
	Percentage to total	9.37%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at Sl. Nos. 1-3, 5, 19 and 24) .	6
	Percentage to total	18.75%
V.	Recommendations in respect of which final replies of Government are still awaited (*Vide* recommendations at Sl. Nos. 6, 10-16 and 23) . .	9
	Percentage to total	28.13%