

**COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1987-88)**

**(EIGHTH LOK SABHA)**

**SHIPPING CORPORATION OF INDIA LIMITED**

**(MINISTRY OF SURFACE TRANSPORT)**



सत्यमेव जयते

*Presented in Lok Sabha on 27 April, 1988*

*Laid in Rajya Sabha on 27 April, 1988*

**LOK SABHA SECRETARIAT  
NEW DELHI**

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(1987-88)

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## INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-Fourth Report on Shipping Corporation of India Ltd.

2. The Committee's examination of the working of the Company was mainly based on the Report of the Comptroller and Auditor General of India, 1986, Union Government (Commercial), Part III.

3. The Committee took evidence of the representatives of Shipping Corporation of India Ltd. on 1, 2, 3 December, 1987 and 7 January, 1988 and of the representatives of the Ministry of Surface Transport on 25 February, 1988. The Committee also took evidence of the representatives of Cochin Shipyard Limited and Hindustan Shipyard Limited on 23 December, 1987.

4. The Committee considered and adopted the Report at their sitting held on 21 April, 1988.

5. The Committee wish to express their thanks to the Ministry of Surface Transport and Shipping Corporation of India Ltd. for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Ministry of Surface Transport, SCI, Cochin Shipyard Ltd. and Hindustan Shipyard Ltd. who appeared for evidence and placed their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered by the Comptroller & Auditor General of India.

NEW DELHI;

April 26, 1988

Vaisakha 6, 1910 (Saka)

VAKKOM PURUSHOTHAMAN,

*Chairman,*

*Committee on Public Undertakings.*

## CHAPTER I

### *Background*

The Shipping Corporation of India Ltd. (SCI) was formed on 2nd October, 1961 by the amalgamation of Eastern Shipping Corporation Ltd. and Western Shipping Corporation Limited. In June, 1966, the Government took over the Management of a private Shipping Company named Jayanti Shipping Company (Jayanti) and appointed the Shipping Corporation of India Ltd., as Managing Agents. "Jayanti" became a subsidiary of the Shipping Corporation of India Limited from 17-10-1971 and was amalgamated on 1st January, 1973.

1.2 On 30th June, 1986, the Mogul Lines Ltd. which was a Public Sector Enterprise and had accumulated huge losses was also merged with Shipping Corporation of India. The main activities of the Corporation are to operate Shipping Services (both cargo and Passenger). The Shipping Corporation of India is also operating passenger services between Bombay and Goa and for the annual Haj pilgrimage.

1.3 For the first time since inception, the Company incurred a loss of Rs. 14.74 crores in 1977-78. The losses for the subsequent two years 1978-79 and 1979-80 were Rs. 37.01 crores and Rs. 1.85 crores respectively. However, the Company made a profit of Rs. 18.36 crores in 1980-81 and Rs. 4.74 crores in 1981-82. The Company incurred a loss of Rs. 24.44 crores in 1982-83 and Rs. 51.64 crores in 1983-84. During the years 1984-85, 1985-86 and 1986-87, the Company had earned profits of Rs. 2.27 crores, Rs. 7.50 crores (15 months) and Rs. 5.50 crores respectively. The paid up capital of the Company as on 30 June, 1986 was Rs. 70 crores.

### *Objectives and Obligations*

#### *A. Objectives*

1.4 The Bureau of Public Enterprises *vide* their O.M. dated 3-11-1970 requested the Ministries to initiate action to lay down the objectives and obligations of Individual Public Enterprises. Accordingly, the Government of India asked all public sector undertakings in November, 1970 to formulate their financial and economic objectives/obligations early. In terms of BPE's instructions the SCI had finalised its objectives and obligations in October, 1972 which *inter alia* included :—

- (i) To acquire, own and operate the ships on commercial basis so that public sector has an increasing and predominant role in Shipping.
- (ii) To promote and assist India's international trade in general cargo and bulk commodities like iron ore and oil.
- (iii) To generate surpluses from commercial shipping services at a level which, over a period, is comparable to that of surpluses generated by the Shipping Industry of other countries engaged in international trade.

- (iv) To maximise earnings and savings of foreign exchange by increasing participation in national sea borne trade and international trade.

1.5 According to Audit the Government approval to the above objectives has not so far been obtained. When enquired why the objectives and obligations of the Corporation have not been approved even after 15 years of their submission to the Government, the Shipping Corporation of India informed the Committee in a written reply as under :—

“At its meeting held on 30th October, 1972 the Board of Directors of the Corporation had approved the basic objectives of the Corporation and also the objectives & obligations of the Corporation for the Fifth Five Year Plan period for submission to the Ministry of Shipping & Transport. The Corporation had been following these objectives in the pursuit of growth of its tonnage and commercial activities. However, no correspondence is available in the files of the SCI to indicate any further developments with regard to these basic objectives and obligations pertaining to the five year plan.”

1.6 During evidence the Chairman and Managing Director of SCI, however, admitted “It was not followed up on either side”.

1.7 In this connection, the Ministry of Surface Transport stated in a written reply as under :—

“Records in the Ministry show that a file was opened in 1971 on this Subject and was closed on 8th February, 73. Despite best efforts it has not been possible to locate the above mentioned file. SCI has also intimated that they do not have in their file copy of the letter, if any, written by the SCI to the Ministry forwarding objectives and obligations. The Shipping Corporation has been following the objectives as approved by the Board.”

### B. *Micro Objectives*

1.8 In terms of the BPE's instructions of May, 1979 the Public Sector Undertakings were also required to formulate their micro objectives consistent with the broad objectives spelt out in the Industrial Policy Statement of December, 1977. In October, 1983, as desired by the Bureau of Public Enterprises (BPE), the Ministry of Shipping & Transport asked the Corporation to frame its micro objectives pursuant to the recommendation of the Committee on Public Undertakings made in their 38th Report (1978-79) and in consonance with the macro objectives spelt out for the Public Sector in the Industrial Policy Resolution of December, 1977. Accordingly, the Corporation formulated its micro objectives. These were approved by the Board of Directors of the Corporation on 23rd January, 1984 and submitted to the Ministry of Shipping & Transport for approval on 25th January, 1984. The Ministry conveyed the approval of Government of India to these micro objectives on 7th February, 1984. However, on 23rd February, 1984, the Ministry informed the Corporation that the approval conveyed on 7th February, 1984 should be treated as cancelled and that the matter was being re-examined. The Ministry is reported to

have forwarded the micro objectives of the Corporation (as approved by the Board of the Corporation on 23rd January, 1984) to the Planning Commission and BPE for their comments and suggestions.

1.9 It has also been stated that in July, 1987, when the Corporation checked up with the Ministry about the position regarding approval of the Government to the micro objectives of the Corporation formulated in January, 1984, the Ministry advised that they had written to the Corporation on 3rd January, 1985 asking the Corporation to reframe its micro objectives on the lines of the corporate objectives of Hindustan Shipyard Ltd. (HSL) which had already been approved by the Government. This communication was, however, not available on the files of the SCI and a copy was, therefore, obtained in October, 1987 from the Ministry of Surface Transport.

1.10 On being enquired in the matter, the Ministry of Surface Transport informed the Committee in a written reply that the Shipping Corporation of India submitted revised proposals of its micro objectives on 11-1-88 and Ministry's approval was conveyed on 10-2-1988.

1.11 When asked about the reasons for cancellation of Ministry's approval to micro objectives formulated by SCI, within a fortnight after having been given, the Ministry stated in a written reply as follows :—

“It was noticed that the approval conveyed by the Government on 7-2-84 was without the approval of the competent authority and that the micro objectives of the SCI required to be reformulated with reference to the various policy resolutions of the Government. In view of the above, the approval given on 7-2-84 was cancelled *vide* Ministry's letter dated 23-2-84.”

1.12 The Committee desired to know how the micro objectives were earlier approved when they were not in conformity with the various policy resolutions of the Government and why were those not got approved by the competent Authority in February, 1984. To this, the Secretary, Ministry of Surface Transport stated during evidence :—

“the decision to approve the micro objectives was taken at the level of the Joint Secretary. Thereafter, the file was submitted to the Secretary and the Minister for their information. The then Secretary took the view that since it was an important matter, approval should have been issued after the micro objectives were approved by the Secretary and the Minister. So, he immediately directed that this be cancelled, and he wanted the approved micro objectives, which had earlier been given, be examined in relation to certain other matters. That was why they were cancelled in our letter of 23rd February, 1984.”

### C. Corporate Plan

1.13 According to Audit, SCI has no system of preparing a Corporate Plan (other than 5 years Tonnage Acquisition Plans). These Plans only indicate the acquisition of additional ships and their financing. These, however, do not either bring out the profitability aspect of the additional investment, long term projections of overall profitability, deployment of

tonnage, cargo to be carried, capacity utilisation, running of non-commercial services and the long term measures proposed for the maximisation of earnings and reduction of operating and administrative costs.

1.14 The Company informed the Aduit in September 1983 that the Government of India had not given to it any guidelines for the acquisition of tonnage and that it was the Government's objective that the Public Sector should acquire 55% of the additional tonnage.

1.15 On being asked how Shipping Corporation of India assessed its overall performance over a period in the absence of the Corporate Plan, the Chairman & Managing Director of S.C.I. stated *inter alia* in evidence as under :—

“One of the objective, when we set up Planning Department in October, 1985 was that we should prepare a Corporate Plan. We realised that a large number of inputs, which would be necessary for the Corporation to formulate a Corporate Plan, were not available. . . . We are now in a position to develop a Corporate Plan and we have already takeff this work in hand. We expect that we will complete this work next year. Whatever the means and mechanisms available to us in the absence of a Corporate Plan are proposed to the Government to ensure that we are proceeding on the right path. There are several instruments available which have ensured this. One of course, is our Five Year Ship Acquisition Plan. The Ship Acquisition Plan is reviewed and there is a mid-term appraisal. Every year we prepare the detailed capital budget, annual budget, performance plans and these are submitted to our Board. After the approval of the Board, it is submitted to the Government and these are regularly reviewed by the Board. An Action Plan has been introduced by the Government for the last two years. We are preparing an Annual Action Plan and this is monitored on monthly basis.”

The witness further added :

“A Corporate Plan, of course, has a longer term perspective and, therefore, should, definitely help us in providing a broad framework within which we should develop our more short term plans. We definitely want to do that and we expect to do it in the next year.”

1.16 The Committee were informed during evidence that the Shipping Corporation of India was asked by the Ministry on 20 October, 1977 to prepare its Corporate Plan. When asked whether the Ministry did not feel that SCI should have prepared a Corporate Plan, the Ministry of Surface Transport in a written reply stated :—

“The Ministry agree that the Corporation should have a Corporate Plan providing long term projections of profitability, deployment of tonnage, capacity utilisation, cargo to be carried etc. The Shipping Corporation of India Ltd. has been asked to prepare the Corporate Plan and submit the same to the Ministry for

approval within 6 months. The past decade or so has been a period of unprecedented recession for the Shipping industry with sharp fluctuations in freight rates. The freight rates have shown improvement and the SCI would be able to prepare a Corporate Plan.”

1.17 Emphasising the need for having a Corporate Plan, the Secretary of the Ministry stated during evidence :—

“Absolutely there is no doubt that it is necessary in any case. It is part of the government instruction and every Organisation has to prepare a Corporate Plan. It is a lapse on the part of the Ministry and the Shipping Corporation that they have not been able to do it so far. SCI have set up a small group to prepare a Corporate Plan. We have given them six months. So, we will see that this is adhered to.”

1.18 The Committee are surprised to note that the Shipping Corporation of India Ltd. have not formulated its Objectives and Obligations and got them approved by Government in spite of BPE's instructions issued on the subject as back as in 1970. The Committee are informed that in October, 1972 the Board of Directors of SCI approved the basic objectives and also the Objectives and Obligations of the Corporation for the 5th Five Year Plan. But these objectives do not appear to have been sent to the Ministry for approval. There is no correspondence available in SCI file to indicate any further development with regard to these objectives. In fact the CMD of SCI admitted in evidence that “It was not followed up on either side.” In this connection, the Ministry of Surface Transport have also informed the Committee that “Records in the Ministry show that file was opened in 1971 on this subject and was closed in February, 1973, and despite best efforts it has not been possible to locate the above-mentioned file and SCI also do not have in their file a copy of the letter written by them to the Ministry forwarding their objectives and obligations.” The Committee cannot but express their displeasure over this sorry state of affairs where the important papers dealing with objectives of the Company are available neither in the Ministry nor in the records of the Company. There is lack of monitoring mechanism to ensure implementation of important issues. As a result, even till today the objectives and obligations have not been approved by the Ministry. What is most surprising is that neither the Company nor the Ministry followed up the matter. The Committee recommend that immediate action be taken to formulate the objectives and obligations of SCI and get them approved by the Ministry without any further loss of time. The Committee need hardly emphasise that clearly spelt out objectives will not only enable the Company to know the areas of operations but will also enable the Government to evaluate on realistic basis the performance of the Company with reference to approved objectives. The monitoring mechanism should be streamlined and strengthened to keep track of important issues.

1.19 The Committee are also informed that in October, 1983 in terms of BPE's instructions of May, 1979 the then Ministry of Shipping and Transport asked SCI to frame its micro objectives in consonance with macro objectives spelt out for Public Sector in the Industrial Policy Resolution of December, 1977. Accordingly, the company is reported to have

formulated the micro objectives and submitted the same to Ministry for approval on 5 January, 1984. The Ministry's approval to the micro objectives conveyed on 7 February, 1984, was withdrawn a fortnight later on 23-2-1984, as it was not approved by the competent authority. In July, 1987 when the Company checked up with the Ministry about the decision regarding the approval of their micro objectives formulated in January, 1984, they were informed that the Ministry had written back to them on 3rd January, 1985 suggesting the Corporation to formulate its micro objectives on the lines of Corporate objectives of Hindustan Shipyard Ltd. which had been approved by Government. This communication is also reported to be not available in the file of SCI and a copy thereof was obtained by SCI from the Ministry in October, 1987. Shipping Corporation of India is now reported to have formulated micro objectives in January, 1988 which were approved by the Ministry on 10 February, 1988. This is indicative of the lukewarm attitude of the Government and the SCI to this important issue and the pace of finalisation of micro objectives appears to have been accelerated only after the Committee on Public Undertakings took up examination of SCI.

1.20 The Committee also find that SCI do not have at present any system of preparing Corporate Plan. They prepare only 5 years Tonnage Acquisition Plans, which indicate the acquisition of additional ships and their financing. These do not bring out the profitability aspect of the additional investment, long term projections of overall profitability, deployment of tonnage, capacity utilisation and long term measures for maximisation of earnings etc. In this connection, the Secretary of the Ministry of Surface Transport also informed the Committee during his oral evidence that in pursuance of BPE's instructions issued in 1974 every organisation has to prepare a Corporate Plan. He admitted that it was a lapse on the part of the Ministry and the Shipping Corporation of India that they had not been able to do it so far. He also informed the Committee during evidence that they had given the Corporation 6 months to prepare the Corporate Plan and they would see that this was adhered to. The Committee hope that with a view to providing a more definite basis to the Corporation for planning its activities, the Corporate Plan would be framed and got approved by Government within the time frame indicated by the Secretary of the Ministry.

## CHAPTER II

### ACQUISITION OF VESSELS

#### (i) Procedure for acquisition of new vessels

2.1 The Committee were informed that till June, 1985 the Company acquired new vessels on the basis of limited tenders. According to audit, the Company does not issue world-wide public tenders but only gave outline specifications to shipyards who could build the required type of vessels. In December, 1982, Audit Board pointed out that the limited tenders procedure was not sound as other shipyards were denied the benefit of discussion. In June, 1985 the Ministry is reported to have evolved a revised procedure according to which advertisements were to be given in selected newspapers in India and selected Journals abroad so as to allow SCI a wider choice of Shipyards. According to revised procedure, two weeks prior to the last date of submission of offers, SCI convenes a clarification meeting with the shipyards, who have collected tender documents. The sealed offers are then evaluated and a short list upto a maximum of 10 would be prepared. After detailed discussions with short-listed shipyards the Shipyards would give final specifications and commercial offers which are thereafter evaluated and put up to Ship Acquisition Committee.

2.2 Asked from when the revised procedure was being followed by SCI and to what extent it had proved useful to the Corporation, the SCI stated in a written reply as under :

“The experience of the SCI with respect to global tendering has shown that the scope of its choice has remained the same as earlier. The new procedure now followed from 1985 incorporates global tendering and shortlisting by the Ship Acquisition Committee of the SCI Board. Earlier the shortlisting used to be done by a Committee appointed by the Chairman & Managing Director.”

2.3 In this connection, the Ministry of Surface Transport, however, stated in a written reply :—

“S.C.I. is now calling for global tenders in all cases. The magnitude of response from the shipyards has remained more or less the same after introducing the global tendering procedure. However, the revised procedure is an improvement over the earlier procedure as it gives opportunity to all the shipyards to quote.”

2.4 On being asked about the number of ships acquired after introduction of the new procedure, the CMD of SCI stated :—

“After following the new procedure, we have placed an order for two passenger-cum-cargo vessels from Poland. These are meant for plying between the mainland and Andaman Islands. Though no final decision has been taken, it has been examined whether the third sister ship of this should be built by the



Hindustan Shipyard in Vizag. In that case a technical collaboration will have to be arranged between Hindustan Shipyard and the builder in Poland. We have included it as a condition of our contract that if this is required, then the Poland Shipyard would enter into collaboration with the Hindustan Shipyard."

He also added :

"We have also negotiated the price for another three Phosphoric Acid Tankers and it has been approved by our Ship Acquisition Committee. We expect to submit the proposal to the Government within a week or so."

2.5 When enquired whether Indian Shipyards could not build these kinds of ships, the CMD stated in his evidence :

"The ship is required by us within a certain time frame. May be Indian shipyards want a little more time. That can certainly be examined. But if the capacity of an Indian Shipyard is booked for another four or five years, then obviously even though they may be capable of building that ship theoretically, they are not capable of accepting that order."

2.6 The Committee wanted to know why SCI did not plan its requirements and place orders on Indian Shipyards well in advance. To this, the witness stated :

"In every case, this matter is examined in a very great detail whether the Indian shipyard is capable or whether a particular order can go to the Indian Shipyard or not. After our proposal is formulated, we go to our Ministry. It has to be approved by the Public Investment Board (PIB). Before that a meeting is held in which again all agencies of the Government, including the Planning Commission, the Ministry of Finance, the Economic Affairs Department, the Project Appraisal Division, everyone is present and one of the issues which is considered every time is whether this order can go to an Indian Shipyard. Only if everyone is satisfied that this ship should go abroad and not to an Indian Shipyard, is the approval given. After that, the Public Investment Board's meeting is held where again all these agencies are represented and where the SCI is asked to give a presentation of their project. After the Public Investment Board have given their approval, we submit another formal request to the Government saying that here is our project which has been approved by the PIB. Then, of course, it goes to the Government and is approved by the Cabinet. So, there are a number of stages where the Government satisfies itself fully whether a particular order can go abroad or should it go to an Indian Shipyard.

(ii) *Time taken for processing of Ship Acquisition Proposals*

2.7 It has been reported that the time span in processing the ship acquisition proposals and obtaining the Government's approval for acquisition has been inordinately long. In the case of purchase of 2 M.R. tankers

from Japan where the proposal was mooted in July, 1977, the Board's approval was given in December, 1978 and approved by Government in July 1980. This involved an additional expenditure of Rs. 736 lakhs. In another case of purchase of L.R. Tankers, while the outline specifications were given in August, 1981, the proposal was approved by Board in November 1982 and by Government in May 1983.

2.8 The Committee noted that the inordinate delay on the part of the Government in taking a decision resulted in an additional expenditure of Rs. 736 lakh in the purchase of 2 tankers. When enquired about the reasons for delay, the C&MD of SCI explained the position during evidence :—

“this relates to the purchase of two tankers and the main reason for the delay was that at that point of time the Government was not convinced and not certain whether there was a requirement for tankers or not and the SCI was asked to go back to the oil industry and along with the oil industry again investigate and establish whether the requirement is there or not and it so happened that while this exercise was going on, in between for some time the market became firm and, therefore, in relation to what we had assumed a price earlier, the price which was finally paid was higher.”

2.9 On an enquiry whether the procedure of finalising the ship acquisition proposals had been streamlined so that the benefit of lower offers was not lost because of delay in decision making, the SCI informed the Committee in a written reply :

“The SCI streamlined its internal procedure for ship acquisition in early 1987. The entire procedure has been broken down into a series of events and against each event the time normally required to be taken has been indicated. This streamlined procedure, which starts with the insertion of advertisements for purchase of ships and ends with the submission of the project report to the Government requesting for sanction to purchase, is estimated to take about 30 weeks. After the introduction of the streamlined procedure the SCI has not entered into any contract for acquisition of ships. However, in November, 1987, the SCI finalised a deal for acquisition of 3 phosphoric acid carriers and this proposal has been submitted to the Government for approval. As against a target of 30 weeks this project took 32 weeks to complete.”

2.10 When enquired about the justification for inordinate delays in processing the Ship acquisition proposals, the Ministry of Surface Transport informed the Committee in a written reply as under :

“An acquisition proposal of the SCI involving more than Rs. 20 crores, after its receipt by the Ministry, has to pass through following stages :

- (a) On the basis of the Project Report prepared by the SCI, a PIB paper is circulated for consideration of the appraising agencies to whom a minimum of 4 weeks time is

given and if points for clarifications are raised, further time also is given.

- (b) After receipt of comments from Appraising agencies, a pre-PIB meeting is convened by the Financial Adviser;
- (c) thereafter, a final Administrative-cum-FA's note is prepared for consideration of the PIB;
- (d) on approval by the PIB, a paper is prepared for the consideration of the CCEA; and
- (e) after approval by the CCEA, final sanction is issued.

The above procedure would indicate that a certain amount of time lag (about six months) in finally sanctioning the ship acquisition proposals of the SCI is in-built in the system because of approvals at different levels. All efforts have been made in the past to see that such time lag is kept to the minimum. If the proposal involves investment by less than Rs. 20 crores, the proposal is considered by the Expenditure Finance Committee and approved by the Finance Minister, and the Minister in Ministry of Surface Transport but cases coming within the purview of Expenditure Finance Committee are rare. The extant Government orders also prescribe obtaining revised approval of PIB whenever the cost of the project goes over 20% of the cost at which approved was accorded earlier by the PIB."

2.11 As regards the delay in sanctioning the ship acquisition proposal, the National Shipping Board, the highest statutory body to render advice to Government on matter of shipping has also reported to have taken a serious view of this delay and has suggested that ship acquisition clearance should be given within six weeks but the Finance Ministry is not changing its stances.

2.12 With regard to streamlining of the procedure of finalising the ship acquisition proposals so that benefit of lower offer was not lost because of delay in decision making, the Ministry had stated that the procedure of sanctioning acquisition proposals of the SCI had recently been studied. Certain suggestions for streamlining the acquisition procedure were under examination.

2.13 According to Audit, as on 31st March 1973 the Company had a total fleet of 95 vessels of 11.95 lakhs G.R.T. Between 1973-74 and 1984-85 the SCI acquired 90 foreign built vessels (22.97 lakhs GRT), 8 Indian built vessels (1.14 lakhs GRT) and 3 second-hand vessels (0.29 lakh GRT). As on 31st March 1985, the Company had 17 vessels on order with foreign Shipyards and one with Hindustan Shipyards Limited. During the financial year 1985-86 SCI acquired 5 foreign built vessels (1.71 lakh GRT) and none from Indian shipyards. SCI has, however, informed in December, 1987 that as of now the SCI has on order 10 ships and all these ships are on order with Indian Shipyards (HSL : 7 bulk carriers with the last delivery scheduled in 1990-91 : CSL : 3 tankers with the last ship likely to be delivered in 1991).

2.14 In this connection, the Committee on Public Undertakings, in their Twentieth Report (Fifth Lok Sabha), had recommended that for achieving the target fixed under the Five Year Plans a need-based programme should be drawn up and there should be a close liaison between the Shipping Corporation of India Limited and Indian Shipyards.

2.15 When asked about the reasons for placement of only a few orders on the Indian Shipyards, the C&MD of SCI stated during evidence :—

“It is true that in the period 1973-74 to 1984-85, SCI acquired 101 ships, 90 of them were from abroad, 3 of them were second-hand and 8 of them were built in India but what was the position of the two Indian Shipyards at that time, namely, the Cochin Shipyard and the Hindustan Shipyard. The first order was placed by the SCI with the Cochin Shipyard in 1975 and this ship was delivered by them in 1981. Obviously, ships which were required by the SCI or by the industry during this period could not have been built by the Cochin Shipyard. Now I come to the Hindustan Shipyard. It was capable of building cargo ships of 25,000 tonnage. During this period, 40 liner ships and 10 off-shore supply vessels were involved, in this size range. Out of forty liner ships, six ships were built in the Hindustan Shipyard and three were acquired second-hand and the others were acquired from abroad from Poland, GDR and USSR against rupee payment and from UK against some governmental grant.

In 1979, SCI ordered three liner vessels on Hindustan Shipyard and these were delivered by Hindustan Shipyard between 1983 and 1986 and after 1979, SCI has not placed orders for any cargo liner with any Shipyard so far. At the time when we acquired the ten offshore supply vessels, we made enquiries and these were ordered outside only because they could not be built in time by the Indian Shipyards. There was a considerable urgency for the offshore oil development in a big way after the Bombay High came and it was completely dependent on foreign ships. A decision was taken that the Indian Shipping industry should get into this area and as a result of this policy, our allocation came to ten ships and the rest offshore supply vessels were allocated to the private sector companies and we placed the orders outside, so did the private companies. The Indian Shipyards had the orders for the ships they were in a position to build when SCI ordered.”

2.16 In this connection the Ministry of Surface Transport stated in a written reply as under :—

“The total installed production capacity of the two shipyards (Hindustan Shipyard and Cochin Shipyard) together per annum is to the tune of 215,000 DWT equivalent. However, in terms of actual performance, these shipyards have never achieved their installed capacity. Out of the total 8 number of ships ordered so far on CSL, SCI's share has been 4 ships whereas, out of a total of

19 ships ordered on HSL during the period 1975-76 to 1986-87, SCI's share has been 8 ships.

Even, at its optimum level of production, these two shipyards can produce about 1.5 lakh DWT per annum. Taking into account the overall projected demand in the Seventh Five Year Plan for acquisition of ships, the indigenous capacity can at its best cater to about 20 to 52% of our demand. In view of the above, the actual order placed by Indian Shipping Companies *vis-a-vis* their total acquisition will be only very few compared to the overall figure due to our capacity constraints."

2.17 Explaining the reasons for placing only a few orders by SCI on Indian Shipyards during the period 1973-74 and 1984-85, the Ministry have stated as under :—

- (1) The capacity of the Indian Shipyards is limited.
- (2) Even the same limited capacity got further reduced due to poor productivity and inordinately longer period taken by Indian Shipyards to build a ship.
- (3) Relatively higher price of Indian ship *vis-a-vis* the lowest international price paid by a shipowner.

2.18 On an enquiry if Government had formulated any policy for acquisition of ships and if so, what were the main features of that policy, the Ministry in a written reply stated :

"Acquisition proposal of SCI is examined at various levels of Government, including Public Investment Board and Cabinet Committee on Economic Affairs. Before giving clearance for import of ships, the Indian Shipyards' capacity, the existing order book and feasibility of building such a ship within the required time-frame is carefully examined. If the Indian Shipyards' then existing order book position did not allow them to accommodate further order of ships to be delivered at a certain point of time, commensurate with economic viability of the proposed ship, Government policy is to allow the shipping company to acquire their vessels from abroad."

2.19 On an enquiry if the higher cost and/or longer time taken by the Indian Shipyards could be attributed as the reasons for placing a few orders on Indian Shipyards, SCI stated in a written reply :—

"Indian shipyards quoted much longer delivery schedules as compared to foreign shipyards and the actual delivery took even longer than the quoted delivery schedules.

The SCI patronised Indian shipyards despite the fact that ships built by them are very expensive and actual deliveries have been generally rather uncertain. Also, while approving the purchase of ships from abroad the Government always takes into account the capacity of Indian shipyards.

The excessive price of Indian built ships is certainly a deterrent to the Indian shipping industry in placing orders with Indian shipyards. The delivered price of a ship built at Indian yards is about 40% to 50% more expensive (sometimes even more) than the comparable price of a ship built by the most competitive yard abroad. Delivery periods of Indian yards are also much longer. It is important that ships built by Indian shipyards are delivered at the most competitive price at which similar ships can be obtained from foreign shipyards. The Indian shipping industry has to compete with foreign shipping lines at prevailing market rates and, unlike most other Indian industries, does not operate in a fully sheltered domestic market. Hence to burden Indian shipping companies with expensive Indian ships is self-defeating and is a recipe to make them internationally uncompetitive, loss making entities. If Indian shipbuilding industry has to be subsidised then the subsidy should be made available directly to the Indian shipyards rather than placing a burden, even partly, on the Indian shipping lines."

2.20 As regards SCI's assertion that the Indian Shipyards took longer time in delivery of the ships as compared to foreign yards, the Committee took evidence of the representatives of the Cochin Shipyard Ltd. and Hindustan Shipyards Ltd. to ascertain their views in the matter.

2.21 The Cochin Shipyard Ltd. has on hand at present an order for construction of 3 tankers of 86,000 DWT each for SCI. The third ship is to be delivered by CSL in 1991. When enquired about the time frame within which Cochin Shipyard Ltd. could deliver a ship, the C&MD of CSL stated in his evidence :—

"Previously we were taking a long time. Now we are clear in our mind that we will not be able to deliver one ship every six months as in Japan but we will be delivering one every nine months. That is possible. Actually, out of three ships which are with us, we have to deliver the first by March, 1989. The time for construction will not be nine months. Time will be 1½ years. The third ship will be delivered somewhere in February, March 1991. Eight months before that our building dock will become empty. We have to get orders by 1988 because it takes time to order the equipments. Unless we get the orders by 1988, we cannot continue the cycle. That is, what has happened in the shipyards in 1984, the Shipyard had lot of orders and we found that because of world depression, the Shipping Corporation of India cancelled orders for three ships which were under *pari-passu* and Chowgule cancelled orders for one ship."

The witness, however, further added :—

" . . . . . now we have got Japanese Consultant, we are taking certain steps to improve our method of construction. We have signed a consultancy arrangement with them. They have agreed to make sure that we built the ships in 20 months from the start

of time to the time of finish. But certainly, if not 20 months, it will be 23 or 24 months."

2.22 When asked about his views in the matter, the C&MD of Hindustan Shipyard Ltd. stated during evidence :—

"If we work on a five year perspective plan of placement of orders, then there should be no difficulty for me to build the ship on time because it takes me a minimum of 12-14 months to start laying the keel. The steel procurement itself takes 8 months. Before that considerable amount of work has to be done on drawings.

A ship normally takes, depending on the size 3 years to be built. You have to do certain advance planning. The normal period of construction of a ship is usually considered to be 4 to 5 years."

2.23 With regard to the reasonable time required for construction of a ship, the Ministry of Surface Transport, in a written note, informed the Committee *inter alia* as under :

"The actual construction time i.e. for laying of the keel of the vessel till trial and commissioning of the same is the actual construction cycle-time. For example, CSL has got three 86,000 DWT tankers on order at the moment. If a fresh order is placed on CSL now, the actual fabrication work for that ship can commence earliest in January-February 1990, keel for the same ship can be laid in April-May 1990, launched in April-May 1991 and delivered in January-February, 1992. While the actual construction cycle-time from keel laying to delivery will be only about 20 to 22 months."

2.24 According to the Ministry the Comparative reasonable period of construction cycle-time (keel laying to delivery) for the two categories of vessels ordered by SCI on HSL and CSL *vis-a-vis* the foreign yards is as follows :—

	In Japan	In Korea	In HSL	In CSL
42,000 DWT B.C.	—	9 to 10	30 months	—
86,000 DWT Tankers	12 to 14 months	months	—	20 to 22 months

2.25 Since the Cochin Shipyard Ltd., Hindustan Shipyard Ltd. and Shipping Corporation of India are under the Ministry of Surface Transport, the Committee desired to know the nature of coordination among them to see that the Indian Shipyards were kept fully occupied. In a note the Ministry stated that the quarterly review meeting taken by Secretary (Surface Transport) for SCI as well as the two Shipyards, were attended by representatives from all the three organisations. Depending on the order book position of these two shipyards, Ministry also coordinated to the extent possible to persuade SCI to place order on these two Shipyards. In addition to this all acquisition proposals of SCI were scrutinised at various levels of the Government before giving clearance for import of ships. The Indian Shipyards' capacity, existing order book position and technical capability of building such a vessel were taken into consideration.

2.26 When asked if the Ministry had drawn any long term strategy in consultation with the Shipyards and SCI to place sufficient orders during the Eighth Five Year Plan to ensure that the Shipyards might not suffer due to lack of orders, the Ministry in their written reply stated :

“Detailed acquisition programme of SCI during the 8th Five Year Plan period has not yet been finalised. With the prevailing resource constraints and limited availability of funds for acquisition of ships during the 7th Five Year Plan, it is doubtful whether the targets set out for acquisition of Indian tonnage could be fully realised. With the prevailing uncertain shipping scenario, it is difficult to have any long-term perspective commensurate with trade pattern which may emerge, hopefully, at the end of the present recessionary condition. However, there is provision for 3 more Tankers to be ordered by SCI in the 7th plan. Subject to availability of fund and production requirement of Indian Shipyards, all efforts will be made to place orders on indigenous shipyards for these tankers.”

(iii) *Pari-Passu Obligations*

2.27 In their guidelines issued in February, 1977 the Government of India had imposed a *pari-passu* obligation on the Indian Shipping Companies purchasing vessels from abroad to place orders on indigenous shipyards. However, neither the Director General of Shipping who was responsible for administering the guidelines nor the Shipping Development Fund Committee which was given the role on advising the Government on the proposals of acquisition of vessels from abroad has ensured the implementation of *pari-passu* obligations. The outstanding *pari-passu* obligation at the end of November, 1985 in respect of SCI alone was of the order of 6.42 lakh DWT. The Ministry is also reported to have informed Audit that the *pari-passu* obligation was not implemented and kept pending for some time as international prices for ships were falling. Which situation the Company should exploit by purchasing ships from abroad.

2.28 The following guidelines were issued by Government 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* 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.



2.29 On being enquired why the *pari-passu* obligation as laid down in the above cited guidelines was not being observed, the C&MD of S.C.I. stated during evidence :—

“*Pari-passu* obligation can be met only if the shipyards are in a position to build ships. We had been permitted to go outside when that situation did not exist. *Pari-passu* obligation is rather unrealistic; it is not related to the indigenous ship building capacity. I think this is a matter which is receiving the attention of the government as to whether the current *Pari-passu* policy should be continued or whether it should be amended in any manner.”

2.30 On being pointedly asked about his reaction in the matter the Chairman & Managing Director of Cochin Shipyard Limited stated during evidence :

“If the shipyards are without orders how can they say it? You may not give one for one but do ensure that the orders which can be executed within the country are not placed abroad and our shipyards’ order book is more than full.”

2.31 Cochin Shipyard is reported to have been designed to build ships of the size of 75,000 DWT. The shipyard is, however, presently executing an order placed by SCI for 3 tankers of 86,000 DWT each. SCI is reported to have informed CSL that they do not want ships of this size now but only want ships of 1,20,000 DWT. When enquired in this matter, the CMD of CSL informed the Committee during evidence :

“It is not possible to build such big ships in our country. The present 86,000 tonne tanker under construction is also a special design of SCI because our ports are shallow. If after three ships they say that we want to get 1,20,000 tonne ships, for some reasons or the other, we will find ourselves into a situation where we will not be able to get anything. For such ships there is no *pari-passu* obligation for SCI.”

2.32 On an enquiry if Cochin Shipyard Ltd. could meet requirements of the Shipping Corporation of India, the witness stated :

“I think 86,000 is a very good size and it is going to meet the requirements and that is why we started it. We can’t build 1,20,000 DWT tankers in India and it is above the *pari-passu* size and therefore they want it.”

2.33 When the Committee asked for the views of the Ministry in this regard, the Ministry stated in their written reply as under :

“Out of the total number of 134 ships in the SCI fleet, only about 10 vessels fall within the large category of one lakh DWT or above size. We would like to add that the overwhelming number of vessels in the Indian fleet will remain below one lakh DWT size. As such, there is no valid reasons for shipyards’ apprehension that SCI may go for procuring vessels of 1,20,000 DWT to avoid placement of orders an Indian Shipyards.”

2.34 In this connection, the Secretary of the Ministry informed the Committee during evidence :

“So far as the public sector shipping companies are concerned, before any order of SCI is allowed to be placed in a foreign yard, they examine very thoroughly whether that order is capable of being executed here itself within a reasonable time frame. If it is capable of being executed here, they don't allow that order to be placed outside. We try to induce the private shipping companies by *pari-passu* policy.”

2.35 When asked if any standing Committee had been constituted to devise some long term measures in this regard, the Secretary of the Ministry informed the Committee in evidence :

“I think it is a very good suggestion. We will certainly act upon it because we are also feeling the need. There is no institutional arrangement till now by which the concerned agencies plus the Ministry sit down and review what is going to happen after two or three years and whether once a particular stage of construction is over, there is any other order. I think, it is better standing sort of machinery is set up in the right direction. We will examine and take a view on it very quickly.”

2.36 With regard to the application of *pari-passu* obligations in the case of Indian Shipyards, the Ministry also stated in a written reply :

“The existing *pari-passu* obligations in the ratio of 1 : 1 do not appear to be commensurate with the shipbuilding capacity of the Indian Shipyards. The indigenous shipbuilding capacity for the ocean-going sector at its best can produce about 1.5 to 1.75 lakhs DWT per annum, i.e. during each five year plan, the presently rated indigenous shipbuilding capacity is about 7.50 lakhs DWT.

As against the above, the tonnage acquisition by the various Indian shipping companies during the Sixth Five Year Plan has been to the tune of 1.38 million GRT (Approx. 2.35 million DWT) and the target for acquisition during the Seventh Five Year Plan is for 3.64 million GRT (approx. 6.2 million DWT). In view of the above, having 1:1 *pari-passu* obligation does not appear to be commensurate with the actual indigenous shipbuilding capacity.”

2.37 When enquired about the present position of outstanding *pari-passu* obligations in so far as Indian Shipyards are concerned, the Ministry have informed the Committee that the present outstanding *pari-passu* obligations in favour of Indian Shipyards are as follows :

(a) on account of SCI	.. .. .	10.56 lakhs DWT
(b) on account of other Indian shipping companies	.. .. .	11.14 lakhs DWT
		Total .. 21.70 lakhs DWT

2.38 The Ministry have also stated that the huge backlog of *pari-passu* obligations yet to be discharged by the Indian Shipping Companies has been attributed mainly due to the following three factors :

- (i) Indigenous shipbuilding capacity is far short of the 50% acquisition target of the Indian Shipping companies. At its best, indigenous shipbuilding capacity can cater to about 20% of the acquisition target set out during the 7th Plan.
- (ii) Indian shipping companies are allowed to import their ships first and then expected to discharge their *pari-passu* obligations. With the prolonged recessionary condition during the 6th and 7th Plan period, ships are available at a much lower price in the International market and the shipping companies were finding difficult to remain viable within the international freight structure by acquiring indigenous ships which cost them about 15 to 40% higher compared to the lowest International prevailing price.
- (iii) Due to the lower freight structure, Indian shipping companies were also acquiring more and more second-hand craft which was available at a throw away price in the International market. The existing *pari-passu* principle envisages *pari-passu* obligation for second-hand vessel in terms of value and not in terms of tonnage.

2.39 It has been stated by the Ministry that considering the problem faced by the Indian shipowners as well as Indian shipyards for successful implementation of the existing *pari-passu* principle, the Ministry has reviewed the efficiency of the existing *pari-passu* principle. The review has just been completed and suitable re-structuring of the same is under consideration. Since the *pari-passu* principle was under review for some time, in some of the recent acquisition proposals of the Indian shipping companies, the fulfilment of the backlog of *pari-passu* obligation on the part of these shipping companies has not been strictly enforced, but by no means it has been waived as such.

2.40 When enquired about the results of the review and when the Ministry hoped to take a final decision in the matter, the Secretary of the Ministry explained the position during evidence :

“The Ministry had appointed the Committee under the Chairmanship of D.G. (Shipping) to review the entire scenario regarding *pari-passu* policy and what measures are required to implement effectively. The Committee was appointed in April 1987 and had submitted its report in September. The major recommendation of the Committee under the Chairmanship of D.G. Shipping, is that the *pari-passu* policy should continue but certain difficulties that have arisen in the implementation of the *pari-passu* policy should be removed. They have stated that at present the back log of *pari-passu* obligation is, about 20 lakh tonnes for both the public sector and private sector companies. The capacity of Indian yards for ships is about 8 lakh tonnes per year. So the present *pari-passu* itself if applied to the Indian yards they will be occupied for 11 to 12

years. So, the Committee has recommended that it is unrealistic to expect that *pari-passu* in the ratio of 1 : 1 is possible of being enforced. So, they have suggested that *pari-passu* may be changed to 1.2. That is, for every two ships permitted to be purchased abroad, the owner had the obligation to place order for one. So, he has suggested that we must have a cut-off date of 1-1-1984 and whatever was the *pari-passu* obligation that was accumulated earlier than that, we may ignore it."

(iv) *Price Escalation of vessels purchased from abroad*

2.41 According to Audit, a review of the ship acquisition between 1973 and 1983, revealed that in some cases increase in price was allowed though the contract was for firm price. There were also technical defects in the vessels purchased from G. D. R., Romania and Yugoslavia, like cranes not lifting the designed weight, vessels suffering from operational problems and consuming excessive fuel or being structurally defective.

2.42 The Committee desired to know the number of ships out of 90 foreign build ships acquired by SCI during 1973-74 and 1984-85 where the escalation in prices had been allowed against the contracted fixed prices. In his reply, the C&MD of SCI informed the Committee during evidence that price escalation was permitted in respect of 16 out of 90 ships—four from Rumania, four from GDR and eight from Yugoslavia.

2.43 On being enquired about the number of ships out of them which were reported to be suffering from technical and structural defects, operational problems and excessive fuel consumption, the SCI furnished the following details :

*Structural defects*

Four OBOs ordered from a shipyard in Yugoslavia developed structural defects. These ships also had operational problems. Defects and problems were particularly severe with the first two ships.

*Technical problems*

Six Indik class cargo vessels and two VLCCs ordered with GDR and Yugoslav shipyards respectively had problems with generators. Four Rumanian ships had some problems with their cranes. Apart from these major problems there were also minor deficiencies in the cargo gear and auxiliary machineries of some other ships acquired from East European countries.

*Excessive Fuel Consumption*

The daily fuel consumption of Indik class vessels is high. However this is so because fuel consumption is related to the speed of the ships and these ships were designed to operate at high speeds. Also, when these ships were ordered fuel was cheap and fuel costs did not constitute a major component of the ship's operating costs. Hence these ships cannot be regarded as having a technical problem of excessive fuel consumption.

2.44 The approximate cost stated to have been incurred by the SCI in carrying out repairs on these vessels was as under :

(a) *Indik class vessels built in GDR*

The cost of replacement of generator engines on all the six vessels amounted to Rs. 228.93 lakh.

(b) *Bulk carriers built in Rumania*

The cost incurred in strengthening of cranes & jibs during the first year of service on these vessels was Rs. 7.27 lakh. Subsequent repairs to the cranes were carried out as and when required as running repairs.

(c) *VLCCs from Yugoslavia*

The cost of installing additional generators on both the vessels was about Rs. 193.36 lakh.

(d) *OBOs built at Split Shipyard, Yugoslavia*

The cost of structural repairs in respect of all the four vessels upto end of 1985 was above Rs. 3.8 crore.

2.45 The Committee wanted to know if before the delivery of the ships by the Shipyards SCI had made a thorough checking to ensure that the ships were free from defects. In his evidence, the C&MD of SCI explained the position, *inter alia*, as under :

“Checks are made. The design of the ships will be developed by the Shipyard with the approval of Classification Societies. These classification societies ensure that the ships are built as per the rules and regulations laid down by these classification societies. After preparing the design, detailed working plans will have to be made and each one of them has to be approved by the Classification Society.

In the world insurance market, when you negotiate with the shipyard, you negotiate a particular price, and which classification society will classify that. During the construction stage two types of jurisdiction and scrutiny are exercised by these classification societies. One is drawing. Every drawing must be approved by them. Second is that they post their inspectors to supervise the construction. They make sure that the ship is built in accordance with the designs approved by them. On top of that, SCI posts its own officers in the shipyard to see and supervise construction, the safeguards are followed. There is a UN specialised agency called the International Maritime Organisation with its headquarters at London. This organisation lays down certain criteria in relation to safety. The classification societies also ensure that ships are built to comply with the international rules and regulations. At the time of delivery, detailed trials are held. These trials which are held after the ship has been built and completed and which are held before we accept the delivery, our representatives, in fact, go there and in their presence these trials are held. Our contract provides

what should be the result of these trials and what is the tolerance margin available to the shipyard, and beyond what margin we can say that we cannot accept the ships. Despite that, if certain defects develop, the contract provides for a particular time. Generally it is one year and within one year after the delivery if some defects develop and if we are able to establish that these defects developed not because of our inefficiency or lack of maintenance but because of the defect in the equipment or because of some inherent fault which has sprung up, then the shipyard is obliged to repair those defects at its cost."

2.46 In reply to a question whether the defects which later on developed in the vessels during their operation were brought to the notice of the Ministry and if so, what action was taken by the Ministry in the matter, the Ministry in a written note stated :

"The matter of guarantee claim on account of guaranteed defects in respect of bulk carriers purchased from Romanian Shipyard was brought to the notice of the Ministry by the SCI in November, 1976.

The matter was taken up by the Ministry at diplomatic level and was also taken up in the Indo-Romanian Joint Commission. Simultaneously, the matter was also pursued by the SCI at commercial level.

After detailed discussions and keeping in view the considerations of politico-economic co-operation between the two countries a commercial settlement was reached in June, 80 between the trade commission for Romania & SCI in respect of guarantee claims. The Government representative also participated in the final settlement.

No reference was made to Government in respect of defects in GDR vessels."

(v) *Increase in price against firm price contract*

Some of the cases where increase in price was allowed against contract for firm price are briefly discussed as under :

(a) *Additional payment of Rs. 592.50 lakhs to Romanian Shipyard*

2.47 In October, 1969, the Corporation is reported to have entered into a contract with a shipyard in Romania for the purchase of 4 bulk carriers (of 15,000 DWT each) at a fixed price of Rs. 237 lakhs each. The vessels were to be delivered on different dates between December 1972 and June 1975.

2.48 In August 1971, the Shipyard sought enhancement in price on the ground that its cost of equipment, materials and labour had substantially gone up. The Corporation, in July, 1972, agreed to an increase of 25% and the price of each vessel was fixed at Rs. 296.25 lakhs. One vessel was delivered in September, 1973. For the remaining 3 vessels the Shipyard sought in February 1974 further revision in price ranging from Rs. 483.07 lakhs to Rs. 670.25 lakhs. The price was fixed at

Rs. 414.75 lakhs per vessel. This resulted in a total increase of Rs. 592.50 lakhs.

2.49 Each of the vessels was fitted with 8 cranes of 5 ton capacity each and they were stated to have been tested before taking delivery of the vessels. The cranes, however, failed to lift the designed load during actual operation and due to the unsatisfactory performance of the cranes, the Corporation had difficulty in operating the vessels and obtaining satisfactory freight/charter hire rates.

2.50 When asked about the level at which the decision to place orders on the Romanian Shipyard was taken the C&MD of SCI informed the Committee that the decision was taken in October, 1968 at the level of the then Minister of Shipping and Transport. A protocol was signed with the Romanian Government and it was agreed that the ships would be purchased from them. Out of these 10 ships, four were allocated to SCI.

2.51 On an enquiry if the procedure of inviting tenders had been undertaken at that time, the witness stated :

“In fact at that time, there was no procedure of inviting or issuing tenders because it was absolutely the sellers’ market. Of course due precautions were taken.”

2.52 In reply to a question if no Indian Shipyard was capable of manufacturing those ships at that time, the witness informed the Committee :—

“Their order book was full. Fifteen ships were ordered from Hindustan Shipyard. The Romanian Shipyard offered the ships at very attractive price. They also gave them under ‘deferred credit’ at the interest rate of 2½ per cent plus of course it is a rupee payment, against which exports were made from India.”

2.53 The Committee wanted to know why the prices were enhanced when the contract for the purchase of these ships was for a fixed price. In his reply, the C&MD stated :

“You are absolutely right. The shipyard had no right to ask for a higher price. But the fact is that they did ask for it and therefore SCI and the Government had to face the situation and then take a decision and then in the SCI and in the Government at the various levels in the Ministry of Shipping, in the Ministry of Finance, in the Department of Economic Affairs, everywhere the matter was considered and the conclusion reached was that it was in the overall interest—it was not a good thing but still in the overall interest—to pay a higher price and still get the ships.”

2.54 On being enquired whether S.C.I. ascertained the price of the ships from other countries also at that time, the witness stated :—

“Yes, Sir. Even at a higher price these ships were competitive and when I say they were competitive, it is the total package.

Even today the price of ship is a package price plus payment terms. The negotiated price was Rs. 2.96 crores per ship. The revised price was Rs. 4.14 crores. The international valuation was Rs. 5.36 crores. And I think later on when we revised the price and took a fresh valuation was obtained at that point of time."

2.55 When the Committee pointed out that the cranes fitted on the ships failed to lift the load during actual operation and due to this unsatisfactory performance of the cranes, the Corporation had difficulty in operating the vessels, the witness admitted before the Committee. "It was true that cranes developed defects and could not pick up the required load." On being enquired if the cranes were inspected before delivery, the witness stated :—

"We did make inspection. It was provided in our shipbuilding contract that the design of the cranes will be vetted by the Classification Society with whom ships were classed. They checked and confirmed the design. After the installation, again each crane was tested to 5-tonne normal load and also a certain amount of overload as required by the rules of Classification Society and this test was done, in the presence of the Shipyard officials and the buyers of the Ship."

2.56 The witness, however, admitted during evidence :—

"Obviously something was wrong with the cranes which was not detected at the time of inspection.

When testing is done, it is not done over a long period but it is done once or may be twice. It is also tested for overload. In actual operation, the crane is required to lift the load and operate every few minutes a cycle. But within a very short time, the cranes were not able to lift the rated load.

When testing is done, it is done under actual operation. It is a one time operation. When you operate the crane actually handling the cargo, the crane is required to work about 20 cycles an hour and 24 hours a day and that is where the machinery may not perform to the specification for which it was rated."

2.57 In this regard, the Committee were, however, informed by the SCI in a subsequent written note :—

"According to the specifications the cranes were designed to lift a weight of 5 tonnes when fitted with grabs. Although the shipyard was expected to provide the grabs on delivery of the vessels these grabs were, in fact, supplied to the first two vessels only in 1977. In the absence of the grabs, the cranes discharged cargo with slings and with the use of slings a load of only 2 tonnes could be lifted. Hence, even on the first ship the cranes were never used to lift a load of 5 tonnes till the delivery of the last vessel in the series. However, even after delivery of grabs these cranes could not lift the designed loads since by then cracks had already developed in the cranes."



2.58 The Committee enquired whether the Corporation took up the matter with the Romanian Shipyards for compensation on account of these defects. To this, the C&MD replied during evidence :—

“We did submit our claims to the Romanian Shipyard about the cranes as well as some other deficiencies and the value of these claims was Rs. 2,37,00,000. These relate not to one ship but to a total of ten ships. There is always our assessment that this is the price and the Shipyard says, “No, that is not the price” Naturally there is bargaining, there are negotiations. Ultimately the Shipyard gave us Rs. 90 lakhs.”

(b) *Additional payment of Rs. 354.76 lakhs to G.D.R. Shipyard*

2.59 In July, 1969 the Corporation entered into a contract with a G.D.R. firm for the construction of 6 cargo vessels at a fixed price of Rs. 412.50 lakhs each, due for delivery between December, 1972 and December, 1975. In March 1974, the Shipyard demanded Rs. 717.5 lakhs each for the first 3 vessels and Rs. 787.5 lakhs each for the remaining 3 vessels on account of increase in cost. According to Audit the price of 4 ships yet to be delivered was fixed at Rs. 501.19 lakhs per vessel. As such, the Corporation allowed an increase in price of Rs. 354.76 lakhs although the contract was a fixed price contract.

2.60 Generator engines fixed on the vessels encountered major break-downs resulting in frequent repairs. These generators had to be ultimately replaced at a cost of Rs. 2.28 crores. These vessels were also found to suffer from major operational problems in respect of stability, stress and high fuel consumption.

2.61 When asked about the compelling reasons for making extra payments even the contract was for a fixed price, the S.C.I. stated in a written reply :

“During the period of construction of ships ranging from 4 to 6 years shipbuilding costs witnessed unprecedented escalation. Despite this increase the SCI did not pay any price increase for the first two ships. However, the SCI was forced to pay enhanced price for the last four vessels. But valuations obtained by the SCI in April, 1974, from international valuers showed that the revised price of Rs. 5.01 crore was less than half the international valuation of about Rs. 11.4 crore which prevailed in April, 1974, for deliveries in 1975. Moreover, the shipyard also accommodated the SCI by agreeing to make certain modifications to the specifications more than two years after the contract was signed in order to enable the SCI to incorporate latest technological changes. The Shipyard had agreed to make these modifications at no extra cost.”

2.62 In this connection, the CMD of SCI informed the Committee during evidence :—

“We refused to pay. We said ‘No’ and it was against the contract but ultimately they insisted. It was commercial decision with the full involvement and concurrence of the Government.”

2.63 In reply to a question whether the problems regarding the defective generators were taken up with the Shipyard, the SCI stated in a note :—

“Some defects were noticed during the guarantee period (9 months) and these defects were reported to the shipyard under guarantee. These were attended to by the service engineers of M/s. SKL and the SCI was not required to pay for the spare parts. At that time it was thought that these were probably teething problems and the engines would settle down and give satisfactory service. Serious problems developed on the first vessel about two years after the delivery of the last vessel.”

2.64 On being asked whether the matter regarding defective generators was brought to the notice of the Ministry by the SCI, the Secretary of the Ministry stated during evidence :—

“There are no instructions that these cases have to be reported to us. They have reported in the earlier case of the Romanian vessels. That was in the guarantee period. Some defects in Romanian ships were found out. So, they wanted us to take it up through diplomatic channel. So, we wrote to our Ambassador in Romania. That was the main reason why earlier cases have been reported.”

*(c) Vessels purchased from Yugoslavia*

2.65 Between 1973 and 1981, the Company acquired 18 vessels from different shipyards in Yugoslavia. Although these were covered by fixed price contracts, in respect of 8 vessels the Company allowed price increase aggregating to Rs. 1,303 lakhs on the ground that prices had gone up after signing the agreement with the Shipyard. There were, however, delays in delivery ranging from 54 days to 733 days in respect of 16 out of 18 vessels.

2.66 The Committee note that till June, 1985 acquisition of vessels of SCI was on the basis of limited tenders. To overcome the limitations of negotiation with only the short-listed shipyards, the Government of India at the instance of Audit revised procedure in June, 1985 whereby advertisements are now given in selected newspapers in India and selected journals abroad. The Committee are also informed that two weeks prior to the last date of submission of offers, SCI convenes a clarification meeting with Shipyards who had collected tender documents. The sealed offers when received are evaluated and a short list upto a maximum of 10 is prepared. After detailed discussions with short-listed Shipyards, Shipyards are asked to give final specifications and commercial offers which are again evaluated and submitted to Ship Acquisition Committee.

2.67 The Committee are surprised to find that even after introducing the global tender system the magnitude of response from Shipyards has remained more less the same as was admitted both by SCI and the Ministry in their evidence before the Committee. The Committee recommend that the matter should be examined in greater details with a view to finding out the factors responsible for the low key response from foreign shipyards and

constraints, if any, removed to enable the maximum number of foreign shipyards to participate in the scheme for acquisition of ships.

2.68 The Committee are also informed that after the introduction of new procedure the Company has placed orders for two passenger-cum-cargo vessels from Poland which are plying between Mainland and Andaman. The Company is also reported to be negotiating the price of another 3 phosphoric acid tankers. This has also been approved by the Ship Acquisition Committee and the proposal is being submitted to Government for approval shortly.

2.69 The Committee have found that during 1973-74 to 1984-85 SCI acquired only 8 Indian vessels as against 90 foreign vessels. Further as on 30-1-85 there were 17 vessels on order with foreign shipyards and only one order on Hindustan Shipyard. Thus a huge amount of foreign exchange was spent for the purchase of vessels from foreign countries.

2.70 Explaining the reason for placing only a few orders by SCI on Indian Shipyards during 1973-74 to 1984-85, the Ministry have informed the Committee that the capacity of the Indian Shipyards was very much limited and it got further reduced due to poor productivity and inordinately longer time taken by them to build a ship. Relatively higher prices of their ships vis-a-vis the low international price paid by a shipper was another reason. However, the CMD of Cochin Shipyard Ltd. during his oral evidence before the Committee informed the Committee that "previously we were taking a longer time. . . . Now we will be delivering one ship every 9 months as against 6 months in Japan." He further stated that in 1984 Shipyard had lot of orders and because of world recession SCI cancelled orders for 3 ships being built in pari-passu obligation. C.S.L. has now got Japanese consultants and is taking steps to improve its method of ship construction. In this connection, the CMD of Hindustan Shipyard also asserted that if they work on 5 year perspective plan of placement of orders then there will be no difficulty for HSL to build a ship on time.

2.71 The Committee are not happy over the plea taken by SCI for placing orders for acquisition of ships from foreign shipyards especially when Indian Shipyards are reported to be starving for orders. Needless to say that when we place orders on foreign shipyards we are indirectly helping the foreign Shipbuilding Industry at the cost of our own shipyards. Therefore, the Committee suggest that the orders for acquisition of ships should be placed on foreign shipyards only in very exceptional circumstances to conserve scarce foreign exchange of the country as far as possible. If, there is any difficulty to get the ships manufactured by Indian Shipyards that could be sorted out by Government as both SCI and Shipyards are under the administrative control of the Ministry of Surface Transport. The Committee also suggest that to assist the Indian Shipyards who are heavily losing because of stoppage of ship-building activities, Government should draw-up a need-based integrated ship acquisition programme well in advance so that enough time could be given to Indian Shipyards to meet the requirements of Shipping Industry. The Government should fully ensure that orders are placed on Shipyards to enable them to continue their cycle of production. The Committee also desire that even if Indian built ships are a bit costly and Indian Shipyards take a little more time, Government should ensure that as a matter of policy all future orders for acquisi-

tion of ships are placed on indigenous shipyards, subject to availability of funds and their order book position.

2.72 The Committee note that the time spent in processing the ship Acquisition Proposals and for obtaining Government approval thereto has been inordinately long. In the case of purchase of two MR Tankers from Japan, the delay involved was of the order of almost 3 years. The proposal was mooted in July, 1977, the Board's approval was given in December, 1978 and the proposal was finally approved by Government in July, 1980. This delay resulted in additional expenditure of Rs. 736 lakhs. In another case of purchase of L. R. Tankers while the outline specifications were given in August, 1981, the proposal was approved by SCI Board in November, 1982 and by Government in May, 1983. In this connection, the Committee are informed that SCI streamlined its internal procedure for ship acquisition in early 1987. This envisages a time frame of 30 weeks beginning with insertion of advertisement for purchase of ships and ending with the submission of Project Report. In this connection, the Ministry also informed the Committee during evidence that the procedure for sanctioning ship acquisition proposals of SCI had recently been studied and certain suggestions in this regard are under consideration of Government. The Committee do feel that certain amount of time lag in finally sanctioning the Ship Acquisition Proposals by Government is in-built in the system because of approvals needed at various levels. But there appears to be no justification for long delay of three years as happened in the above-cited cases. Needless to say that the delay and long procedures involved in clearance of proposals have proved major hurdles in the acquisition of vessels resulting in the slippage in acquisition of additional tonnage both at public and private sectors despite the recession in the world shipping market.

2.73 While taking a serious view of the long delay involved in clearing the Ship Acquisition Proposals, the Committee urge that the Government should take an early decision with regard to streamlining the procedure which is stated to be under consideration at present and cut down the delay to the barest minimum.

2.74 The Committee have observed that in February, 1977 Government had issued guidelines imposing a pari-passu obligation on Indian Shipping companies purchasing vessels from abroad to place orders on indigenous shipyards. The pari-passu obligation stipulates inter-alia that if the Indian Shipping Company purchases a new ship from abroad it must place order for equivalent tonnage on Indian Shipyard or in the case of second hand ship to the extent of the value of the ship acquired from abroad. However, this provision does not apply to specialised vessels or vessels of higher DWT than 75,000 DWT. The Ship-owners are also required to place an order on the Indian Shipyard within 6 months from the date of delivery of the purchased foreign vessel. In so far as off-shore supply vessels are concerned, the application of pari-passu obligation will be in the ratio of 1:4 i.e. one ship to be built in Indian Shipyard against acquisition of 4 ships from abroad.

2.75 Not surprisingly, neither the Director General, Shipping, who is responsible for administering the guidelines nor the Shipping Development Funds Committee which has been given the role on advising the Government on the proposal for acquisition of vessels from abroad has ensured

the implementation of pari-passu obligation. As a result, the present outstanding pari-passu obligation in favour of Indian Shipyards is of the order of 21.70 lakhs DWT (10.56 lakhs on account of SCI and the balance on account of other Shipping Companies). This large un-met obligation has, therefore, led to a situation where indigenous shipyards have been starved of orders and have in turn incurred heavy losses. According to Ministry, the main reasons for the huge backlog of pari-passu obligation was the steep fall in international prices of ships due to global recession in shipping industry, enabling the country to exploit the purchase of ships from abroad.

2.76 In this connection, the CMD of SCI also stated in evidence that 'pari-passu' obligation can be met only if the shipyards are in a position to build ships. . . . Pari-passu obligation is rather un-realistic as it is not related to indigenous ship-building capacity." To supplement this, the ministry also stated before the Committee that the pari-passu obligation in the ratio of 1:1 does not appear to be commensurate with actual ship-building capacity of Indian Shipyards.

2.77 While the Committee are inclined to agree that in view of the existing ship building capacity of national shipyards it may not be possible to fulfil the obligation in the ratio of 1:1, the Committee cannot but stress that the Government must ensure that at least an order which can be executed within the country is not placed outside.

2.78 As regards ship-building capacity of Indian Shipyards, the Chairman of Cochin Shipyard Ltd., during his evidence before the Committee stated that Cochin Shipyard was designed to build ships of the size of 75,000 DWT and at present it was executing an order placed by SCI for the construction of 3 tankers of 86,000 DWT each. He also stated that SCI has informed CSL that in future they would need big ships of 1,20,000 DWT. He, therefore, stated that it would not be possible for Indian Shipyards to build big ships of this magnitude. He also stated that tanker of 86,000 DWT under construction at present with CSL, has been specifically designed at the instance of SCI and after completion of the present order CSL will not be able to receive any other order from SCI as vessels of higher DWT than 75,000 DWT are outside the purview of pari-passu obligation. The Committee feel that in view of the huge losses suffered by Indian Shipyards and to stop the outgo of foreign exchange, the Government should advise SCI to avoid purchasing of big vessels of higher DWT from foreign shipyards especially when vessels of 86,000 DWT are reportedly suited to meet its requirement and can now be built by CSL. The Committee would also like the Government to fully ensure that SCI is not allowed to go in for 1,20,000 DWT vessels to circumvent pari-passu obligation as apprehended by Indian Shipyards. The Committee recommend that the Government should consider the feasibility of having some institutional arrangement in the form of a Standing Body which should thoroughly examine proposals for ship acquisition and satisfy itself whether the ships acquisition orders to be placed abroad cannot be executed by indigenous shipyards within a reasonable time. This arrangement, to a great extent, will act as deterrent and will indirectly force the Shipping Companies to place orders with Indian Shipyards and will also help in discharging the pari-passu obligation.

**2.79** The Committee are informed that in order to sort out the problems faced by Indian Ship-owners and also by the Indian Shipyards with regard to implementation of existing pari-passu obligation, the Government is reported to have reviewed the existing pari-passu policy. The review has revealed that pari-passu in the ratio of 1:1 is un-realistic and should be changed into 1:2. It has also been suggested that pari-passu obligation accruing earlier to 1.1.1984 should be waived. As a result of this review, re-structuring of the pari-passu obligation is reported to be under consideration of the Government. The Committee recommend that Government should take an early decision with regard to restructuring the pari-passu policy on a realistic basis so that it could be effectively implemented.

**2.80** A review of the ships acquired SCI between 1973 and 1984 has revealed that in some cases cost escalation was allowed by SCI even though the contract was for a firm price. There were also technical defects in the vessels purchased from G.D.R., Romania and Yugoslavia, like cranes not lifting the designed weight, vessels suffering from operational problems and consuming excessive fuel or being structurally defective. Out of 90 ships purchased from abroad during 1973-74 to 1984-85, price escalation was allowed by SCI in as many as 16 ships i.e. 4 each from Romania and GDR and 8 from Yugoslavia. In this connection, SCI had also admitted in their written reply that :

“4 OBOs ordered from Yugoslavia developed structural defects and also had operational problems. Defects and problems were particularly severe with first two ships. Six Indik class cargo vessels and two VLCCs ordered with GDR and Yugoslavia respectively had problems with generators. Four Romanian ships had some problems with their cranes. Apart from these major problems there were also minor deficiencies in cargo gear and auxiliary machineries of some other ships acquired from European Countries.”

**2.81** As regards enhancement of the price of ships contracted for fixed price, even the company had admitted that Shipyards had no right to ask for high price but they did ask and the matter was then considered at various levels in the Ministry of Shipping, Finance and Department of Economic Affairs and in over-all interest, though it was not good, it was finally decided to pay higher price and get the ships. With regard to unsatisfactory performance of 8 cranes fitted in 4 bulk carriers purchased from Romanian Shipyard, CMD of SCI also admitted in evidence that “obviously something was wrong in cranes which was not detected at the time of inspection ..... Within the short time the cranes were not able to lift the rated load.”

**2.82** Also in the case of 6 cargo vessels purchased from G.D.R. at a fixed price of Rs. 412.5 lakhs each, the shipyard demanded payment to the extent of Rs. 717.5 lakhs each for first 3 vessels and Rs. 781.5 each for the remaining 3 vessels on account of increase in cost. The price of the 4 ships yet to be delivered was then agreed by SCI at Rs. 501.19 lakhs per vessel involving an additional payment of Rs. 354.76 lakhs. Generator Engines fixed on the vessels encountered major break-downs resulting in frequent repairs and these generators had to be ultimately replaced at a

cost of Rs. 2.28 crores. Even after incurring so much expenditure the vessels are reported to be suffering from major operational problems in respect of stability and high fuel consumption. However, no reference was made by the Company to the Ministry for their intervention and guidance in respect of these defective vessels purchased from G.D.R. as admitted by the Ministry in their written reply.

2.83 The Committee are not satisfied with the explanation given by the representatives of SCI in their oral evidence and also in the written information furnished before the Committee with regard to purchase of defective vessels from Romanian, G.D.R. and Yugoslavian Shipyards. At this stage the Committee can only express their unhappiness over these deals. However, the Committee are of the view that had the S.C.I. ensured thorough inspection of these vessels by their officers before taking delivery, the Company would have been saved from incurring heavy expenditure on getting the defects rectified. The Committee recommend that the inspection procedures and the programme evaluation of the ships during warranty period should be thoroughly overhauled and streamlined to detect and pin-point deficiencies and defects at the time of take over or immediately thereafter.

## CHAPTER III OPERATIONS

### A. Tonnage in operation

3.1 As on 31-3-1985, SCI's operative tonnage was 158 vessels of 33.16 lakh GRT. The number of ships slumped from 158 to merely 134 in September, 1987 and operative tonnage from 33.16 GRT to 30.54 GRT during the same period.

3.2 A summary of the SCI fleet as on 31st March, 1985 and September, 1987 is given in the Table below :—

	SCI fleet as on				Variance	
	31-3-85		Sept. 87			
	No. of ships	GRT (lakh)	No. of ships	GRT (lakh)	No. of ships	GRT (lakh)
Liner vessels	73	7.62	47	5.32	-26	-2.30
Passenger-cum-cargo vessels	6	0.42	6	0.27	—	-0.15
Timber Carriers	2	0.07	1	0.04	-1	-0.03
Tankers	34	13.90	36	14.60	+2	+0.70
Bulk Carriers	21	5.33	30	7.59	+9	+2.26
Combination Carriers	12	5.59	4	2.59	-8	-3.10
Offshore Supply Vessels	10	0.13	10	0.13	—	—
<b>Total</b>	<b>158</b>	<b>33.16</b>	<b>134</b>	<b>30.54</b>	<b>-24</b>	<b>-2.62</b>

3.3 From the above table it would be noticed that the overall decline in the SCI fleet was 24 ships aggregating 2.62 lakh grt. However, the maximum decline was in the case of liner vessels which registered a decline of the order of 26 ships aggregating 2.3 lakh grt.

### B. Scrapping of ships

3.4 The following table shows the tonnage disposed off by SCI during the Sixth and Seventh Five Year Plans (upto November, 1987) :—

Year	No. of ships	GRT (lakh)	DWT (lakhs)
1980-81	5	0.31	0.45
1981-82	4	0.27	0.41
1982-83	4	0.31	0.45
1983-84	2	0.31	0.52
1984-85	5	0.46	0.67
<b>Total Sixth Plan</b>	<b>20</b>	<b>1.66</b>	<b>2.50</b>
1985-86	20	2.84	4.51
1986-87*	25	5.48	9.24
1987-88* (upto Nov. 87)	15	2.41	4.05
<b>Total Seventh (Plan upto Nov. 87)</b>	<b>60</b>	<b>10.73</b>	<b>17.80</b>
<b>Grand Total</b>	<b>80</b>	<b>12.39</b>	<b>20.30</b>

\*Including ships owned by the erstwhile MLL.



3.5 It would be seen while 20 ships aggregating 1.66 lakh GRT were disposed off in the Sixth Plan period, in the current plan period the S.C.I. has upto November, 1987 disposed of 60 ships aggregating 10.73 lakh GRT. It has been stated that out of these 60 ships, 52 were sold to shipbreakers for scrapping, 5 sold for further trading, 1 was sold due to severe damage and 2 were lost in accidents. It has also been stated that out of 58 ships sold/scrapped, 35 ships had completed their useful life and 23 ships were sold before completing their balance life.

A statement showing the details of ships sold before completing their balance life is at Appendix I.

3.6 When asked about the reasons for such heavy scrapping of ships, the C&MD of SCI stated in his evidence :—

“There were a large number of ships in our fleet which, taking into account our short term and medium term possibilities, were proving a drag on our financial viability. Therefore, we took a very deliberate decision that we would review our whole fleet, taking into account the techno-economic aspects of each ship, change in the trade environment and other related aspects. We developed a plan for the Seventh Five Year Plan. We came to the conclusion that there is something like 2 million tonnage which we must shed during the Seventh Plan in order to be viable and remain viable. Side by side, our thrust is on modernisation too. While on the one hand, we get rid of the old ships, at the same time we also modernise our fleet. In the modernisation process, one of the important considerations is to achieve fuel economy, that is, to get rid of the ships which are relatively fuel inefficient and to add ships to the fleet which are more fuel-efficient.”

3.7 When enquired about the Ministry's policy in respect of such heavy scrapping of ships, the Ministry of Surface Transport stated in a written reply :—

“The policy in the Seventh Plan was to rectify structural weaknesses of shipping sector. The aim was to build a modern and efficient merchant fleet. The strategic emphasis would be on replacement of overaged and uneconomic ships by modern fuel efficient ships as well as on diversification of the fleet through acquisition of container ships, specialised carriers and crafts to service the off-shore oil industry. With this end in view, it further envisaged replacement of overaged tonnage of 2.5 million GRT (nearly 40% of the Indian fleet at the beginning of the Seventh Five Year Plan.”

3.8 When enquired whether SCI had taken permission from Government before disposal of ships, the C&MD stated :—

“Yes. Because for every ship which we dispose of, we have to obtain the Government’s approval and the Government have given this approval—apart from the Central Government in Delhi, the Director General of Shipping in Bombay which is a specialised agency of the Government in the area of shipping, they are involved and they have to clear. As far as the SCI is concerned, the management makes a plan, they submit it to the Board and the Board first approves it. Apart from that, each individual case is submitted for approval. So, scrutiny is exercised at various levels and after we come to a firm conclusion that it is necessary that we should sell, we sell it.”

3.9 In this connection, the Ministry informed the Committee in a written reply as under :—

“The scrapping of ships is permitted by the DG Shipping under the statutory powers under Section 42.1 of the Merchant Shipping Act, which have been delegated to DG Shipping by the Central Government. In exercising these powers, the DG Shipping is guided by the policy of the Government, as laid down in the 7th Plan document, to build modern and efficient merchant fleet. At the beginning of the 7th Five Year Plan, about 40% of the Indian tonnage was overaged with attendant high operational costs and adverse effects on the financial viabilities of the shipping companies as well as their competitiveness in the international market. Therefore, the DG Shipping’s approach in permitting such scrapping has been to replace ships which are overaged or are unviable from techno-economic angle.”

3.10 On an enquiry if the Ministry had any mechanism to make sure that all the ships were sold only in genuine cases and that there was no scope for corruption, the Secretary of the Ministry stated during his evidence :—

“The procedure that we have now has a number of in-built safeguards. The Shipping Corporation of India advertises and finds out whether somebody is prepared to buy them for trading purposes. If none is prepared then they send a notice to the MSTC’s registered shipbreakers. They will approach an independent authority, an officer of the Ministry, namely DG Shipping and have to satisfy that this is done. Before that they try to have an assessment to what is likely to be the earning of the

ship in the next three years to come and what it has been in the past three years. With that back-up data they have to satisfy the DG Shipping, the statutory authority. After that the sale is done. Therefore, there are enough safeguards in the present system by which a ship that is totally unsuitable only is actually scrapped."

3.11 When asked about the reasons for scrapping of some of the vessels which had not completed their normal life, the CMD of SCI stated :—

"A few ships were disposed of or scrapped before what we regard as the normal life was over. Because we find that operating them would mean much more loss to the SCI than selling them off. Secondly, they did not fit into the changed pattern of the country's trade."

3.12 When the Committee asked about the views of the Ministry about 23 ships which were sold before completion of their balance life, the Ministry in a note stated :—

"Each proposal for scrapping was considered by the Board of Directors of SCI alongwith the nominee directors of the Government. This Ministry agrees with the decision of the DG (Shipping) to permit scrapping/selling of these ships on techno-economic considerations even when there was some balance life remaining."

3.13 When enquired whether Ministry's approval was sought by the SCI while scrapping 9 ships (mentioned in Appendix I which had a balance life between 6-10 years, the Ministry in a written reply stated :—

"In the specific case of scrapping/selling 9 ships of the SCI/MLL where balance life left was between 6-10 years, approval of the Ministry was sought by DG(S), as a special case, though it was within his powers to permit, or otherwise, disposal of these ships. The Ministry granted the approval in respect of 5 ships after considering the recommendations made by DG (S) which were based on the revised submission made by the SCI."

3.14 As regards the policy adopted by SCI for selling the ships for trading, the witness stated :—

"The ships can be disposed of either for trading which means the buyer continues to operate, or for scrapping. As per our policy, first we see if we can find a buyer for trading, otherwise we

decide to sell it as scrap. We have found only for a few ships we could find a buyer for trading; the rest had to be sold for scrapping.

Generally it happens only between known parties that ships are sold directly between the buyer and the seller. Overwhelming bulk of ships that we are talking about, are sold by brokers who act as intermediaries. They help in the carrying out of the negotiations; they help in interpreting one side with another side. In some cases it happens that one does not even know who the buyer is."

3.15 With respect to the procedure being followed for scrapping of ships, the witness stated :—

"We send a communication to the Indian National Ship owners Association. This is a body in which majority of the ship owners are represented. We advise them to communicate to their members so that if any Indian ship owner is interested, we have that channel also.

Once we find no buyer for trading, we sell the ship for scrap. There are recognised ship scrapping agencies in India, they are recognised by the Metal Scrap Trading Corporation which is a public sector undertaking. We are authorised by Government to sell ships for scrapping in India only to those people, who are registered with the Corporation.

We also send registered letters to all the people who are recognised ship scrappers. In addition, we also put in a press advertisement. After that we announce that the tender forms may be collected from our office."

### *C. Overseas Cargo Liner Services*

3.16 Plying of ships on regular scheduled services between specified ports is known as a liner service and ships deployed in such services are called "Liners". Liners are common carriers offering cargo space to all shippers who require them and are normally engaged on trade routes where large volume of cargo is available. According to Audit, at the time of its incorporation (1961) the Company's liner fleet consisted of 15 ships (1.06 lakhs G.R.T.) which had gone upto 73 ships (7.62 lakhs G.R.T.) as on 31-3-1985. The fleet strength, however, declined to 47 ships in September, 1987. In addition, cargo ships are also taken on charter for short durations to meet the trade requirements.

3.17 The table below indicates operational results (Sector-wise) of liner vessels during the years 1979-80 to 1986-87.

Sector	(Rs. in lakhs)								
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 (15 months)	1986-87	
1. W. C. India/East Africa	33.90	94.61	(-)75.49	(-)194.99	(-)306.57	(-)145.69	(The two services have been combined)	(-)105.03	(-)96.88
2. E. C. India/East Africa	(-)113.35	(-)7.60	(-)26.90	(-)152.08	(-)95.27	(-)51.51			
3. India/W. Africa	—	(-)16.05	32.78	(-)66.11	—	—			
4. E. C. India/Australia	(-)163.48	(-)51.62	(-)182.02	(-)181.11	(-)464.79	(-)529.53		(-)310.72	—
5. W. C. India/Australia	(-)245.97	(-)20.63	(-)73.04	(-)292.00	(-)391.61	(-)159.18		(-)154.62	(-)375.15
6. E. C. India/Far East	103.08	37.30	130.61	116.02	141.06	108.31		(-)7.52	(+)288.12
7. W. C. India/Far East	343.94	268.33	247.49	344.88	77.66	584.09		(+)465.88	(+)980.39
8. Far East/W. A. Gulf	—	—	—	(-)212.47	(-)65.34	(-)63.32		—	(Discontinued)
9. India/U.K. Continent	22.58	80.93	16.14	(-)1020.73	(-)386.36	(-)8.39		(+)4.45	(-)242.96
10. India/Black Sea	48.92	105.79	302.50	335.37	302.75	56.09		(+)211.98	(+)421.22
11. India/USA (Atlantic)	221.81	121.72	(-)10.80	(-)89.91	(-)273.59	(-)456.16		(-)211.02	(-)177.72
12. India/USA (Pacific)	(-)354.64	(-)253.29	(-)125.54	(-)115.93	(-)182.70	(-)158.29		(-)192.07	(-)47.87

3.18 On being enquired about the main reason for incurring losses on cargo liner services, the SCI informed the Committee as under :—

- (a) Supply of excessive shipping tonnage in the world as compared to the demand generated by the world trade which has pushed down freight rates to the very low uneconomic levels.
- (b) The breakdown of the conference system which has led to more intensive and unhealthy competition. This in turn led to a fall in freight rates in several liner sectors.
- (c) While freight rates have declined due to these reasons, costs have escalated due to inflation.
- (d) Use of Indian ports as way ports by large operators who fill up their ships on an incremental cost basis by dumping shipping service at Indian ports. For them Indian ports are way ports and whatever cargo they can pick up is a bonus. On the other hand the SCI has to rely upon Indian ports to provide base cargo and this cargo base is eroded on account of the operations of large foreign operators.
- (e) Provision of cargo preference/support by many countries to their merchant marine in some form or the other. There is no scheme for cargo support for Indian ships at Indian ports.

3.19 As regards the steps taken to bring down the losses, the SCI stated that almost all liner services have been rationalised or restructured. The following steps are reported to have been taken to bring down the losses.

(a) *Restructuring of UK-Continent/USA service*

The SCI has restructured its container services to UK-Continent and USA by combining both the services into one. This combination was achieved through transhipment of containers destined for USA at Algeciras in Spain. Recently (in July, 1987), this transhipment point has been changed from Algeciras to Lisbon and through certain operational changes the SCI has been able to withdraw one ship out of three ships which used to operate as Trans-Atlantic feeder vessels. As a result, the SCI will be able to save about Rs. 3 crore per annum on account of reduction of one unit as Trans-Atlantic feeder and the shifting of transhipment point from Algeciras to Lisbon.

(b) *Restructuring of India/Australia service*

The SCI operated two separate services on the India/Australia sector viz. one from the East Coast of India and the other from the West Coast of India. Each of these services was operated by deploying two vessels. By integrating the two services into one and by transshipping the East Coast of India cargo at Singapore the SCI was able to operate a combined service with three units. With effect from October, 1987 the mainline ship on this sector is now turned round at Colombo and the Bombay/Cochin cargoes are feedered at Colombo by the SCI feeder service. This has resulted in further economy and the operating losses on this sector are expected to decline by about Rs. 2 crore per annum.

(c) *Suspension of the US-Pacific breakbulk service*

In view of lack of adequate cargo the SCI has suspended its breakbulk service from the US (Pacific Coast) to India with effect from July, 1987. However, inward cargo from the United States (whenever available) is being covered through an arrangement with Continental Line of Belgium and this arrangement enables the SCI to maintain a foothold in this market.

(d) *Restructuring of India-East Africa service*

The SCI used to operate two separate services—one from the East Coast and the other from the West Coast of India—to East Africa. These were amalgamated into a single service which has brought down the losses appreciably.

(e) *Renegotiation of several contracts to achieve savings*

The SCI has re-negotiated P&I contracts and some stevedoring contracts with a view to achieving savings. The impact of lower coast will ultimately improve the operations of the liner sector.

(f) *Increase in market shares through aggressive marketing*

With a view to increasing its market share the SCI has resorted to aggressive marketing. As a result its market shares in export cargo have increased from the four major ports of Bombay, Calcutta, Cochin and Madras.

(g) *Coverage of trade to certain Latin American countries*

The SCI did not have any service to South America. With a view to covering this cargo the SCI has entered into a space charter arrangement with Continental Line which would not only enable the SCI to provide a service from South America but also enhance its earnings.

3.20 On being asked to justify losses of Rs. 16.53 crores in 1985-86 and Rs. 6.55 crore (provisional) in 1986-87 in the field of cargo line services, the CMD stated during evidence :—

“Basically it is cut throat competition from our export cargoes and the losses are primarily because of that. Because of this, freight rates declined sharply in some areas. By middle of last year, freight rates on some sectors and some commodities were 40% lower than the previous year. On the other hand, because of inflation and other factors, cost go on increasing. We have rationalised our services and taken other steps to bring down costs. Otherwise, our losses would have been enormous.”

3.21 As regards providing cargo support to Indian ships at Indian ports, the Ministry informed Audit in March, 1984 that a legislation for implementing the provisions of the U.N. Convention on Code and Conduct for Liner Conference was under consideration. The legislation when passed would ensure that at least 40% of the trade is carried on by the vessels of the various conference covering Indian trade. It was also proposed to licence the Shipping Agents with a view to curb malpractices like undercutting of rates, issuance of the predated bills of lading etc.

3.22 On being enquired why there was no cargo support for the Indian Ships in the Indian ports, the C&MD of SCI informed the Committee :—

“It is mainly because the exporters have a very strong lobby which is understandable. An apprehension is there in their mind that if really there is a cargo support for the Indian ships then somehow their costs are going to increase. We have tried to have a dialogue with them, we talked to them, we have produced facts and figures, particularly All India Shippers Council (AISC) how we have progressed and how in various areas of operations of SCI, we have been helping them and honouring the recommendations of AISC. . . . But yet, somehow or other they have not come to the point where they would support a national legislation.”

He also stated :

“The base for us is the Indian cargo. For the foreigners, they combine it with cargoes for India, Pakistan, Sri Lanka and Bangladesh. According to the agreement entered into between India and Pakistan, whereas our ships can go to each other's ports, we cannot participate in Pakistan trade with other countries. Then, our southern neighbour—Sri Lanka. They have a Government Organisation called ‘Central Freight Bureau’. All export cargoes are channelised through it. The Organisation will decide to which line, they will give the cargo. Their first preference is Ceylon Shipping Corporation.”

3.23 To a query if Sri Lanka has any law in this field, the witness stated :

“Yes, they have a legislation. Only when the Ceylon Shipping Corporation does not operate in that area or it is not convenient for them at that particular point of time, they will allot cargo to others.

Bangladesh is the only country, where SCI has a very prominent role. Of course, they have a law that cargo is to be given to Bangladesh Shipping Corporation and for anyone else on a ship by ship basis they give dispensation.”

3.24. During the course of his evidence before the Committee, the C&MD of SCI pleaded :

“I do not know of any other industry in the country other than Shipping industry which is exposed to more free and fierce foreign competition because traditionally our ports are open for everyone. There is no reservation by law for saying that Indian cargo will be made available only to this Company.

Government should seriously consider giving cargo support because otherwise we put all this money into the industry without any reasonable assurance that this very highly expensive and capital intensive investment will have sufficient business.

“The aim now is to fight for cargoes, for increasing our market share. Because, unless we do that it would have been difficult for us to become financially viable.”



3.25 On being enquired why India has not enacted a legislation for giving cargo support to the Indian liner shipping industry when other countries have done so, the Secretary of the Ministry stated during evidence :

“So far as our Ministry is concerned, we have been pressing for some arrangement for cargo support for Indian Vessels for quite some time. There is a U.N. Code which says that countries can have arrangements by which we can distribute the cargo in the proportion of 40 : 40 i.e. 40% for ships of exporting country and 40% for ships of the importing country and 20% for third country vessels. In fact, we went to the Cabinet sometime in January 1986 with a proposal to initiate a legislation by which shippers will be compelled to carry a minimum of 40% in Indian vessels for the export trade. Unfortunately, this particular proposal has attracted a lot of opposition from the exporters and the Commerce Ministry is not in favour of any legislation because they feel that if we are compelling the exporters to export through Indian vessels, it may act as a damper on exports. We have been trying to assuage the fears of the exporters by saying that this is not likely to dampen their trade and we have the flexibility. We are asking for a share of 40 per cent minimum. But, unfortunately we have not been able to carry conviction to the Commerce Ministry. There is a group of Ministers constituted by the Cabinet itself, to look into this matter. They met last Tuesday and again they are going to meet on Saturday to sort out the inter-Ministerial difference of opinion. We, on our part, are pressing very hard for some arrangement by which the minimum 40% will be carried by the Indian ships.”

3.26 On being asked when a final decision was expected to be taken in the matter, the witness stated “after the Group of Ministers reconcile, I think it would be possible to arrive at a final decision.”

#### D. Capacity Utilisation

3.27 The liner capacity available and the capacity utilised during the years from 1978-79 to 1986-87 were as under :

	Capacity Available		Capacity in Capacity utilised		(Capacity in lakh ft) Percentage Utilisation	
	Outward	Inward	Outward	Inward	Outward	Inward
1978-79 . . . . .	892.60	897.36	690.17	801.83	77.32	89.35
1979-80 . . . . .	916.66	973.71	687.24	891.31	74.97	91.54
1980-81 . . . . .	1071.44	1070.95	691.24	918.14	64.52	85.73
1981-82 . . . . .	1170.13	1185.65	806.68	1063.08	68.94	89.66
1982-83 . . . . .	1323.06	1317.50	813.05	1123.98	61.45	85.31
1983-84 . . . . .	1097.31	1127.53	542.49	939.58	49.44	83.33
1984-85 . . . . .	1296.80	1322.91	670.39	1146.15	51.70	86.64
1985-86 . . . . .	1609.43	1644.24	781.08	1399.21	48.53	85.10
1986-87 . . . . .	1359.11	1471.79	784.97	1335.09	58.62	90.71

3.28 It would be seen that the capacity utilisation in outward direction has steadily fallen from 77% in 1978-79 to 49% in 1983-84. It marginally increased to 51.70% in 1984-85 but again slumped to 48% in 1985-86.

3.29 When enquired about the reasons for steep fall in the capacity utilisation, the S.C.I. stated in a written reply as under :

“For the purposes of analysing the reasons for fall in capacity utilisation the eight year period from 1978-79 to 1985-86 is divided into two phases, viz., the four year period between 1978-79 and 1981-82 and the period between 1982-83 to 1985-86. It is seen that in the second phase, i.e. 1982-83 to 1985-86 the capacity utilisation on the outward leg is lower than the capacity utilisation in the first phase. This is due to India's liner trade having undergone a significant change in the two phases which has had a tremendous impact on capacity utilisation on the outward leg. While in the first phase India's exports and imports were evenly balanced (with average annual import cargo being 8% more than export cargo) in the second phase imports were far more than exports (average annual import cargo was 45% more than export cargo).”

It has been further stated :

“The SCI has to cater to both, import and export cargoes and has to accordingly provide capacity. On account of increased imports the SCI had to provide additional capacity and in terms of cubic feet the average capacity during the period 1982-83 to 1985-86 was 25.4% more than average capacity between 1978-79 to 1981-82. Normally this increase has to be provided in both directions to balance sailings. But as the quantum of export cargo was declining (during the period 1982-83 to 1985-86) export liftings of the SCI also fell marginally by 2.4% (in terms of cubic feet) whereas Indian export cargo during this period fell by 9.2% (in terms of cargo in weight terms). But on account of increase in capacity to cater to imports the capacity utilisation on the outward leg fell sharply.”

3.30 As regards the measures adopted by the Company to improve its marketing strategy to step up its outward capacity utilisation at least to the level achieved in 1978-79, the SCI is stated to have taken the following steps as a result of which in 1986-87 the capacity utilisation on the outward leg rose to 58.62 per cent.

- (a) Removing surplus capacity by scrapping/sale of a large number of general cargo liner vessels which has brought the capacity in better alignment with available cargo taking into account increasing containerisation.
- (b) Aggressive marketing resulting in higher market share on several sectors from the major ports of Bombay, Calcutta, Madras and Cochin.

- (c) Emphasis on containerisation so as to meet the changing requirements of Indian trade.
- (d) Better quality of service through increased frequency and containerisation where needed.
- (e) Close liaison with suppliers, C&F agents and brokers with periodical meetings being organised to obtain a first hand feed back.
- (f) Improving market intelligence system to facilitate forward marketing.

3.31 The Committee pointed out while utilisation of capacity might be satisfactory in terms of cargo, revenue earnings in such cases must be small if the Corporation had carried more of low freighted cargo. In that context the Committee desired to know whether any analysis had been made about the nature of cargo carried, i.e. high freighted cargo and low freighted cargo and what was the percentage of these two types of cargo in the total cargo carried by SCI. In this connection, the SCI had informed the Committee that it had carried out an analysis of high freighted and low freighted cargoes carried by it in various sectors and the percentage was roughly as under :—

	High freighted (%)	Low freighted (%)
Australia . . . . .	35	65
Japan . . . . .	40	60
U.S.A. . . . .	45	55

Figures are approximate.

3.32 SCI has, however, stated that certain base cargo which is usually low freighted is needed to fill up the ship. Nevertheless, in order to attract more and more high freighted cargoes the SCI endeavours to maintain the stipulated transit time to the consignees.

3.33 It has also been stated that with the growing emergence of containerisation the concept of commodity rates is changing and the gradual trend is towards quoting FAK (Freight All Kinds) which positively dilutes the concept of high freighted/low freighted cargoes as the rate is quoted on a percontainer basis.

#### *E. Loss of Rs. 6.02 Lakhs on Charter of a Vessel*

3.34 The Company is reported to have chartered an Indian vessel for a period of six months, upto February, 1977 but as the owner was not agreeable to take back the vessel, the charter period was extended by another six months. This resulted in a loss of Rs. 5.09 lakhs for the first period and Rs. 0.93 lakh for the extended period. The Company informed Audit in June, 1981 that the vessel was chartered to meet trade obligation on liner services and also for promotional trade in which the S.C.I. was the sole Indian operator. The need for chartering the vessel was stated to have arisen as another vessel which was to lift Bangladesh cargo in addition to Calcutta cargo, lifted full cargo at Calcutta itself.

3.35 When the Committee enquired why the Corporation's vessel lifted full cargo at Calcutta when it was known that cargo from Bangladesh had to be lifted, the SCI explained the position in a written reply as under :—

“Due to upsurge of cargo in Calcutta, m.v. “Vishva Bhakti” positioned to cover East Coast of India/Australia cargo became full. The SCI being a national line could not afford to deny space to Indian shippers when the cargo was ready for shipment. Even from the commercial angle it was desirable to maintain good relations with the trade by accommodating shippers to the extent possible by picking up cargoes when required by the trade.

In this particular case buyers in Australia who were expecting Bangladesh cargo also became restive and threatened the SCI that if the SCI does not place a substitute vessel to lift this cargo they would approach a third flag, viz. Gulf Shipping Line, to place its vessel to lift the Bangladesh cargo. Considering the importance of Bangladesh cargo for this service it would have been detrimental to the interests of the SCI not to recognise their commercial threat for berthing a vessel to give coverage to Bangladesh cargo and allow non-conference lines to intrude into this trade against the SCI which had been all along the sole operator in this sector. To avoid this situation the SCI had to perforce charter “Indian Faith” for covering this berth even though there was insufficient cargo for the voyage to be profitable.”

3.36 When enquired whether SCI had any legal obligation to lift the cargo from Bangladesh from where there was a *pucca* booking, the C&MD of SCI stated during evidence that SCI had no legal obligation to lift at that particular point of time.

3.37 When pointed out that SCI knew that by chartering another vessel to lift cargo from Bangladesh it would incur loss, the witness stated :

“If one were to go purely by the considerations whether a voyage is going to result in profit or not, then probably several voyages would not be operated. But what we have to look at is in the totality. In the totality is it going to be better for SCI? Then we would deliberately incur a loss on a voyage.”

He further added :

“I can never claim that we are infallible or that all our decisions looked at in the hind-sight must be absolutely correct. But at that point of time, we consider various factors and take a decision. Sometimes the decisions work out well and sometimes not so well.”

#### F. Losses due to Operations of two Very Large Crude Carriers (VLCCS).

3.38 Two V.L.C.s “Kanchenjunga” and “Koyali” of 2.77 lakhs DWT each, built in Yugoslavia, were purchased by the Company under a resale

contract and were delivered in September, 1975 and February, 1976 respectively. The vessels had a combined generating and cargo pumping plant driven by diesel prime movers. Because of frequent breakdowns four independent diesel generating sets at a cost of Rs. 95.82 lakhs for the first vessel and Rs. 97.54 lakhs for the second vessel were installed in 1981-82 and 1982-83 respectively.

3.39 The Company informed Audit in April, 1983 that it was considered that the combined generating and cargo pumping plant would cater to the requirements adequately, but, in actual practice, it was found that the pumping and the generating function should be done by different engines.

3.40 The cumulative working results of these two vessels during the years 1979-80 to 1985-86 were as under :

(Rupees)

1979-80	(—)	11.73 crores
1980-81	(—)	11.95 crores
1981-82	(—)	8.95 crores
1982-83	(—)	0.12 crores
1983-84	(—)	0.86 crores
1984-85	(+)	0.57 crores
1985-86	(—)	1.04 crores

The vessels are now being used mainly as storage tankers.

3.41 According to Audit, the losses have been attributed by the Management to the slump in the tanker market that followed the acquisition of these vessels owing to the dwindling of crude movement on account of the 1973 oil crisis and because of cut-backs in production resorted to with a view to conserving the fast-depleting crude stocks. Discovery of off-shore oil near the points of consumption and laying of long pipe lines from the off-shore platforms to the refineries were stated to be the other factors contributing to a reduction in the transport of crude by sea. But, according to audit the following factors contributed to the losses :

- (i) While working out the profitability in the project report, the company had estimated that the vessels would be on off-hire for dry docking and repairs (no idling of the vessels was envisaged) for a maximum period of 20 to 27 days each year in the first four years of operation and 30 days thereafter. The actual out-of-employment periods were substantially higher and ranged from 19 days to 155 days.
- (ii) Because of the serious accidents encountered by the vessels, the company had to incur substantial expenditure on repairs and maintenance of the vessels. Total expenditure on repairs incurred till 1982-83 amounted to Rs. 1111.42 lakhs which appears to be unusually high for newly-built vessels.

- (iii) These vessels suffer from technical flaws as well. Explaining the difficulties in obtaining better charter rates, the Company, in September, 1978 reported to the Board as under :

“The size of our VLCCs, viz 2,72,000 d.w.t. at 72 ft. draft is an inhibiting factor in obtaining better rates while fixing her in market as generally size of tankers which are categorised as VLCCs ranges from 2,00,000 to 2,50,000 d.w.t. at 68 ft. draft which is the most suitable size for the VLCCs. Therefore, even in a market when there is demand for VLCCs, our ships are unable to take advantage at times because of the larger dead weight and draft *vis-a-vis* other VLCCs.”

3.42 When enquired about the reasons for the higher off-hire periods and higher repair expenditure for these relatively new vessels, the S.C.I. stated in a written reply :—

“One of the main problems has been the performance of auxiliary engines. They have also suffered from problems like vibrations and bad workmanship.

Hence, between delivery of these 2 VLCCs (in September, 1975 and February, 1976 respectively) and 1980 (i.e. first 5 years of operations), 198 ship-days were lost due to breakdowns. Independent diesel generating sets were installed on one VLCC in 1981-82 and on the other in 1982-83. After installation of these generating sets the performance of these vessels has improved and between 1983-84 and 1986-87, the total time lost due to breakdowns was only about 10 days.”

3.43 Subsequently in a written note received from SCI, the Committee were informed :—

“The auxiliary engines installed on those vessels were covered under guarantee for a period of six months from the date of delivery. Each of the VLCCs had 5 auxiliary engines 4 of which were being used for dual duty and the fifth engine only drove a cargo pump. There was no serious breakdown on any of the 10 engines during the 6 months period of guarantee. The first major defect was observed on KOYALI in November, 1976 during routine inspection. At the request of the SCI the makers of the engine replaced the crank shaft and the associated components free of charge even though the defect was observed about 3 months after expiry of the guarantee period.

In January, 1977, there was another serious breakdown on one of the auxiliary engines on Koyali. The matter was taken up with the makers of the auxiliary engines; however they did not accept the liability. During the period of next 2½ years, there were three more major breakdowns of auxiliary engines—two of these took place in KUNCHENJUNGA and one on KOYALI. It was envisaged that the maintenance expenditure on these auxiliary engines would be comparatively higher because of higher RPM rating and dual use. However, the extent of problems and the breakdowns that were experienced on these engines could not have been envisaged.”

3.44 In reply to a question whether the technical flaw of size/draft relation could not be eliminated while designing the vessels, the SCI stated :

"The fact that these vessels have a deeper draft than other vessels of this size was known at time of acquisition in early 1973. In fact, a lower charter hire than that prevailing in the market was built in the project report to this extent. The SCI had only two offers while acquiring these vessels viz. one from Japan and the other from Yugoslavia. Since the Yugoslavia offer was considerably cheaper and there was no scope for changing the principal dimensions of the vessels due to dimensions of the shipbuilding dock in the shipyard, the cheaper offer viz. the Yugoslavia offer was accepted. A lesser draft could have been obtained by reducing the deadweight capacity of the ship. However, it was considered to opt for maximum deadweight even with a deeper draft so as to obtain the possibility of earning additional revenue (on account of higher cargo carrying capacity) whenever the opportunity presented itself. The losses incurred were largely due to depressed tanker market rather than the size/draft ratio."

3.45 According to SCI, the provisional working results of these two vessels during the year 1986-87, show a loss of Rs. 66 lakhs. Both the ships were reported to have been deployed partly for transporting crude oil and partly for oil storage in the Indian coast.

#### G. Passenger Service

3.46 The Committee are informed that the first passenger service between India and Singapore known as India/Straits Service was started in 1950-51. Another passenger service between India/East Africa was commenced in 1954-55. These two services were thus inherited by the Company at the time of its formation in October 1961. The Company started a third service between India/West Asia (Gulf) in 1974-75.

3.47 The India/East Africa Service was discontinued in July 1976 after incurring losses aggregating to Rs. 215.03 lakhs, continuously for nine years from 1968-69 onwards. There had been a marked reduction in passenger traffic owing to the restrictions imposed by the East African Countries on immigrants, particularly the expulsion of Asian settlers in Uganda in 1972. Nevertheless, the service was continued for the next four years from 1973-74 to 1976-77 during which a loss of Rs. 130.73 lakhs was incurred.

3.48 The service to West Asia/Gulf started in 1974-75 was discontinued in March, 1978 after incurring an aggregate loss of Rs. 189.57 lakhs. Even though the total number of passengers carried had progressively increased, the average per voyage showed continuous decline as the number of voyages were increased every year (from 3 in 1974-75 to 14 in 1977-78). With the increase in the number of voyages to 14, the loss shot up to Rs. 141.26 lakhs in the year 1977-78.

3.49 Another factor which contributed to the higher losses in 1977-78 was that a 30 year old vessel 'Nancowry' deployed for the trade had to undergo heavy repairs.

3.50 During the last ten years ended 31st March, 1981, India/Straits service earned profit only in two years totalling Rs. 71.58 lakhs as against a loss of Rs. 441.48 lakhs during the remaining eight years. The service showed losses continuously from 1975-76. The adverse results of operation of the service upto 1980-81 have been commented upon in the Forty-third Report (April, 1982) of the Committee on Public Undertakings. In January, 1983 the Ministry of Shipping and Transport had informed the Committee that the S.C.I. management had introduced certain measures to improve the financial results and, as a result, the service was expected to show a profit of over Rs. 88 lakhs during 1981-82. Actual profit shown by the service during 1981-82 was Rs. 39.96 lakhs only which came down to Rs. 1.41 lakhs in 1982-83. Profit for 1983-84 was Rs. 15.14 lakhs (17 voyages). The Service, however, again resulted in a loss of Rs. 201.53 lakhs in 14 voyages undertaken till February, 1985 after which the vessel 'Chidambaram' operated in this service was withdrawn due to a fire accident on 12th February, 1985. The heavy losses in 1984-85 are attributed to fall in passenger traffic and increase in operating cost due to ageing of the vessel.

(i) *Operation of uneconomic Services*

3.51 Article 37 of the Articles of Association of the Corporation stipulates that in respect of any service operated by the Corporation in pursuance of any direction or instruction issued by the President of India, the Corporation shall be entitled to be reimbursed to the extent of the loss relating to the operation of that particular service provided that during the relevant financial year the company has suffered an overall loss in respect of the operation of its trade, route or service and of all its other activities.

3.52 In respect of Corporation's vessels operated in Andaman and Lakshadweep sectors, the Government since 1970-71 has been reimbursing 80% of the losses incurred on the vessels only when the corporation is in overall loss from that year.

3.53 The losses suffered by the Company during 1985-86 (15 months) are Rs. 10.10 crores for Andaman Services and Rs. 2.11 crores for Lakshadweep Services. During 1986-87 there was a loss of about Rs. 11.29 crores on the Andaman and Nicobar Sector and about Rs. 2.24 crores on the Lakshadweep Sector. Between 1970-71 and 1986-87, SCI has absorbed losses aggregating about Rs. 43 crores on this account.

3.54 When asked about the causes of losses in the operation of Andaman and Lakshadweep Services, the S.C.I. in a written reply stated :

"Passenger fares and freight rates fixed on the Andaman and Lakshadweep sector are abnormally low and are required to be increased substantially before these services can break even. The last increase in passenger fares on both sectors was granted in 1978. Freight rates were revised on the Mainland/Andaman sector with effect from 1st April, 1985, but even then they were fixed at a level substantially below cost and in the meantime the cost of operations has increased. There has been no revision in freight rates on the Mainland/Lakshadweep sector since 1978.



The SCI has no operational control on these services and the scheduling of these vessels is done by the Andaman and Lakshadweep Administrations respectively based on their operational requirements. The fare level has been kept very low by the Government due to socio-political reasons. Under the circumstances losses on these services are inevitable."

3.55 It has also been stated that when SCI took over Main/Andaman and Main/Lakshadweep Services on behalf of Government of India, the understanding was that SCI would be reimbursed full expenses in operating these services. SCI was reimbursed full losses till March, 1970. Thereafter, Government decided to reimburse only 80% of losses and that too in those years in which SCI incurred an overall loss. In profit making years, the Government decided that SCI should absorb these losses. SCI is reported to have represented to Government requesting for full reimbursement of losses both in Andaman and Lakshadweep Sectors but Government's decision in this regard was still awaited.

3.56 When enquired why the Government was not reimbursing the loss on operation without linking it to overall profitability/loss of the Corporation when the Services were being operated at the instance of the Government, the Ministry of Surface Transport in a written reply stated :—

"The principle adopted in the non-reimbursement of full losses on operation of the services being run by the Shipping Corporation of India at the instance of the Government is the one enunciated in the economy instructions issued by the Ministry of Finance in August, 1974, which were subsequently reiterated in May, 1977. These instructions *inter-alia* stipulate that the Public Sector Undertakings should absorb losses as a part of their activities in their over-all profits and that such subsidies should not be given as the Public Sector Undertakings should take the rough with the smooth and cross-subsidise particular losses by profits elsewhere. Also subsidy is limited to @ 80% by the Government with a view that the Public Sector Undertaking has also a direct stake in improving its operation as the balance 20% will have to be absorbed by it."

3.57 The Committee wanted to know if the Ministry felt that a commercial enterprise like Shipping Corporation of India should not be burdened with such heavy recurring losses which were mainly due to socio-political reasons and if so, what measures had been suggested by the Ministry to help the Company to get over the problem faced. In a written reply, the Ministry stated :

"Shipping Corporation of India has been pressing for full reimbursement of losses incurred by them in operating these services operated by them at the instance of Government. The matter has been considered by the Government from time to time and it has not been possible to agree to full reimbursement. The Government at the level of Finance Minister accordingly, took a conscious decision in 1983 not to accept the recommendations of COPU in para 17 of Part II of their 43rd Report (Seventh Lok Sabha) on Shipping Corporation of

India and to continue the practice of re-imbursing 80% losses during the years in which the company incurs losses in its overall operations including these passenger services.

This Ministry, has, however, again processed in January, 1988 fresh proposals for consideration of the Government for 100% reimbursement of losses by Government without linking it to overall profitability/loss of the Corporation and the decision of the Government is expected shortly."

3.58 When asked to spell out the reasons now advanced by the Ministry in their fresh proposals for Government's consideration for reimbursement of 100% of the losses of the Corporation, the Secretary of the Ministry stated during evidence :—

"The Shipping Corporation has been feeling the need for changing this formula. They are not expected to suffer losses. They are not running the services as a commercial proposition. Normally, the Shipping Corporation would not be running the ships but for the fact that Government has asked them to do it. Logically and reasonably any loss suffered on account of this should be borne by the Government.

Another reason is that loss suffered is also due to fact that the fares are fixed by the Government. Shipping Corporation does not have the freedom to fix the fares. Actual cost of carrying the passengers from the main-land to Andaman is about Rs. 656 whereas the actual running cost charged by the Shipping Corporation is much less. Shipping Corporation is not permitted to charge the fares because of socio-political reasons. Therefore, Shipping Corporation during the last five or six years has suffered loss of Rs. 39 crores in operating these services. They have represented to the Government that they should be given 100% reimbursement for the losses incurred in the services. We are now fully supporting the proposition. We are trying to persuade the Government to agree to it even though there are inter-ministerial differences. I do not know whether we will succeed or not."

3.59 The Committee were informed that the fare structure on these services was abnormally low and earnings from them did not recover even the direct operating expenses. When asked if the Government were considering the question of revision of fare structure and if not, how the Government proposed to help the Corporation to reach the break even point, the Ministry in a written reply stated :—

"The question of revision of passenger fares on the Andamans and Nicobar Sector and Lakshadweep Sector is under consideration of the Government. However, due to socio-political considerations, it would not be possible to revise the fares to the level of break-even fares. To that extent, the need to re-imburse the losses of the Shipping Corporation of India would continue."

(ii) *Cargo carried by Private Operators*

3.60 According to Audit, the total cargo movement and the share of cargo carried by SCI and Private Operators during 1982-83 to 1985-86 was as under :—

Year	Cargo carried by SCI (M/T)	Cargo carried by Private Operators (M/T)	Total cargo movement	SCI's share	Private Operators' share
1982-83	113834	76012	189846	60%	40%
1983-84	118996	85709	204705	58%	42%
1984-85	101009	83455	184464	55%	45%
1985-86	110690	72815	183505	60%	40%

3.61 In this connection, the SCI has stated that some of the Shipping Companies in the private sector were thriving at the cost of the Corporation and this fact had been brought to the notice of the Government. The Private Shipping Lines operating Cargo Services between the Mainland and the Andaman & Nicobar Islands are involved in trading as well as clearing and forwarding business. This helps them in retaining high freighted cargoes for their own vessels and releasing only low freighted cargoes to other vessels. It has been stated that the SCI is left with no choice but to accept all types of cargoes tendered on account of the Andaman and Nicobar Administration resulting in huge losses to SCI. The main reasons for the losses in cargo have been attributed due to the following factors :—

- (a) The SCI is the only shipping company which operates a combination of both, passenger and cargo services on this sector;
- (b) Passenger fares have remained at very low levels throughout and have not been revised since 1978; freight rates on the Mainland/Andaman Sector have been revised in 1985 while on the Mainland/Lakshadweep sector freight rates have remained stagnant since 1978;
- (c) Since private cargo vessels are small and carry only cargo they enjoy operational flexibility. Besides, owners have their own trading operations and can channelise their high freighted cargoes on their own ships.
- (d) The SCI is the only company which caters to carriage of timber logs from the Andaman and Nicobar Islands to the Mainland. The turnround of the ship m.v. "Diglipur" deployed for carriage of timber logs is poor. Moreover, the formula adopted for calculating the freight is faulty and adds to losses of the SCI.

3.62 Asked if Government had made any study to find out how the route which is uneconomic to the SCI is economic to the private shipping companies, the Ministry in a written reply stated :—

“Though no formal study has been made either by the Government or SCI, the private shipping companies enjoy the following advantages :—

1. They do not have to bear the burden of operating passenger services.
2. They only operate cargo vessels which are more amenable to meet the requirements of the trade.
3. The passenger carrying vessels have to follow a notified schedule. They also have limited stoppages at the ports within which to load the cargo and sail out even though there may be cargo waiting for being loaded.
4. The size of the cargo vessels owned by the private shipping companies is small and matches better with the needs of the trade.
5. It is understood that the private shipping companies take bunkers at Port Blair which is cheaper than the bunkers taken by the SCI's passenger carrying vessels from the Mainland.
6. Some of the private shipping companies are also involved in trading as well as in the clearing and forwarding business. This helps them in getting high freighted cargoes for their own vessels.”

3.63 On an enquiry if the Ministry agreed that the formula adopted for calculating the freight is faulty and needs revision and if so, has the Government taken any steps to increase the freight charges to minimise the loss in operation of the Service, the Ministry informed the Committee in a written reply that the representation made by the Shipping Corporation of India was taken into consideration before the Government notified the revised cargo freight rates in April, 1985 based on the recommendations of the Shipping Rates Advisory Board which also had taken into account representations made by the Shipping Corporation of India. The SCI is stated to have raised the question of revision of timber log again in September, 1985, wherein SCI had requested for an increase of 29% in the timber log freight rates notified in April, 1985. This increase was based on considerations of balancing the operating expenses and earning of SCI's timber carrier M.V. Diglipur and was not related to any formula for measuring the volumetric content of the timber cargo. This Shipping Rates Advisory Board did not accept this request.

3.64 The Committee pointed out that the private companies were making profit at the cost of the Corporation, when asked as to what action was taken by Government to help the corporation to tide over their difficulties, the Ministry in their written reply stated :—

“In March, 1977, SCI brought to the notice of the Government that some high freighted Defence and PWD cargoes were being carried by private shipping lines. Ministry of Home Affairs

accordingly took up the matter with the Ministry of Defence on 26-4-77 to issue instructions to all concerned authorities that Defence cargo to A&N islands should be transported by SCI/ Government vessels to avoid under-utilisation of cargo space available in these vessels. On the same date the A&N Administration was also requested to issue instructions to all concerned impressing that Government cargo should be booked by the SCI/Government vessels. The A&N Administration reiterated these instructions on 13-5-1982 and 9-10-84 addressed to all Deptt. under the A&N Admn. Further Ministry of Defence in 1977 have instructed Embarkation HQs. to utilise SCI ships for shipments of Defence cargo to A&N Inlands."

3.65 When asked if the Government had made any analysis of the reasons why high freighted cargo is available only to private companies and not to the Corporation, the Ministry stated :—

"SCI is basically operating passenger-cum-cargo service between Mainland Port Blair (in addition to 6000 DWT timber carrier M.V. Diglipur). Therefore, carriage of cargo by passenger vessels is incidental to movement of passengers in both the directions. The only cargo ship being operated by SCI is the timber carrier M.V. 'Diglipur' which is operated for transportation of timber logs from islands to Mainland Ports and on her return voyages transport essential commodities including foodgrains, consumable goods, general cargo etc. Some private sector companies viz. M/S. Hauers Lines and Transport Corporation of India are also operating cargo vessels of smaller size and these operators are also involved in trading as well as clearing and forwarding business which give them an advantage of carrying captive high freighted cargoes on their vessels resulting in profitable operation."

3.66 The Committee note that in 1985, SCI had 158 ships and also took over 12 ships from Moghul Lines after its merger with SCI in June, 1986. In September, 1987, the fleet strength came down to 134. The maximum fall of 26 ships was in the case of Liner vessels. In this connection, SCI informed the Committee during evidence that as it was incurring losses year after year, its large number of fleet was proving to be a drag on the financial viability of the Company and as such they took a deliberate decision to review the entire fleet taking into account the techno-economic aspects of each ship, change in the trade environment etc. As a result, SCI decided to shed two million tonnage during 7th Plan by getting rid of ships which were relatively fuel inefficient. As a result, SCI scrapped/sold as many as 80 ships from 1981-82 to 1986-87 i.e. 20 ships in 6th Plan and 60 ships in 7th Plan. Out of 60 ships scrapped/sold between 1985-86 to 1987-88 (upto November, 1987) as many as 23 ships had not completed their normal life of 20 years and 9 ships were still having a balance life of 6 to 10 years.

3.67 The Committee are also informed that according to the procedure being followed at present for the disposal of ships, the proposal is first considered by the Board of Directors of the Company and then approval of the Ministry is sought thereto. Apart from the Ministry's approval, the Director General of Shipping is also involved in this process. Therefore,

after clearance at various levels, the ship is disposed of. However, in view of very large number of ships disposed of during the last 4-5 years, the Committee have their own doubts that the present system of scrapping/disposal of ships is not fool-proof and leaves much scope for mal-practices and corruption. The Committee recommend that as the disposal/scrapping of ships involves crores of rupees and to obviate any scope for corruption etc., the Government should consider the feasibility of constituting a high powered committee to provide guidance and to resolve all problems connected with scrapping/disposal of ships. The recommendations of the so constituted Committee should be considered at the highest level in the Government and only thereafter SCI should be allowed to scrap/dispose of any ship.

3.68 The Committee note that liner fleet of SCI at the time of its incorporation in 1961 consisted of 15 ships (1.06 lakhs GRT). The number of ships increased to 73 (7.62 lakhs GRT) as on 31-3-1985. However, in September, 1987 the fleet strength declined to 47 ships. As a result, the liner cargo tonnage now constitutes 17.4% of the total as against 76% at the time of its incorporation.

3.69 The operational results of the liner vessels have revealed that the losses suffered by liner service have tremendously increased from Rs. 370.21 lakhs in 1979-80 to Rs. 1653.0 lakhs in 1985-86. Some of the Linear Services like W.C. India/East Africa and ECI/East Africa (now combined), E.C.I./Australia and W.C.I./Australia (amalgamated in October, 1987), India/USA (Atlantic) and India/USA (Pacific) have been continuously running into heavy losses during the period 1981-82 to 1986-87. The losses in India/UK/USA (combined), a New Service created by the company rose steeply from Rs. 233.27 lakhs in 1985-86 to an alarming figure of Rs. 1625.25 lakh in 1986-87.

3.70 According to SCI the main reasons for the losses are the breakdown of the conference system leading to more intensive and unhealthy competition resulting in fall in freight rates in several liner sectors. Furthermore, Indian ports are used as way ports by large foreign operators who fill up their ships on an incremental cost basis by dumping the shipper service at Indian ports. Whatever cargo they pick up at Indian ports is a bonus for them. On the other hand, SCI has to rely upon Indian ports to provide base cargo which is eroded on account of operation of large foreign operators.

3.71 The Committee have been informed that in order to bring down the losses SCI has restructured certain services like UK-Continent/USA Service, India/Australia Service and India/East Africa Service. In addition, the Company has entered into a chartered arrangement with continental Line to cover cargo from certain Latin American countries. The Committee desire that the operational results of all the services should be continuously monitored with a view to discontinue services which are commercially not viable and to promote only those services which have a chance of turning the corner. The Committee are of view that there is no point in operating a service which cannot be justified on commercial considerations.

3.72 The Committee find that there is no scheme for cargo support for Indian vessels at Indian ports as is the practice followed in many countries

in the world, including Sri Lanka and Bangladesh. The Committee, therefore, feel that in order to get the Indian Shipping enough cargo no less urgent is the need to ensure compulsory support to Indian ships through a legislation so that Indian Shipping Industry shall remain in business.

3.73 While supporting the scheme for cargo support for Indian vessels, the Secretary of the Ministry stated during evidence :

“We have been pressing for some arrangement for cargo support for Indian vessels for quite some time. There is a U.N. code which says that countries can have arrangements by which we can distribute the cargo in the proportion of 40 : 40 i.e. 40% for ships of exporting country and 40% for ships of the importing country and 20% for third country vessels. In fact, we went to the Cabinet sometime in January, 1986 with a proposal to initiate a legislation by which shippers will be compelled to carry a minimum of 40% in Indian vessels for the export trade. . . . . We are asking for a share of 40% minimum.”

3.74 In this connection, the Secretary of the Ministry of Surface Transport also informed the Committee that the Commerce Ministry has strongly opposed the idea of compulsory cargo support on the plea that “if we are compelling the exporters to export through Indian vessels, it may act as a damper on exports.” The Committee desire that the Surface Transport Ministry and the Ministry of Commerce must sort out the differences on this account and come to the aid of Indian Shipping Industry without delay. The Committee recommend that the proposed legislation on cargo support should be enacted at the earliest. Not surprisingly, the Government is taking its own time to settle this matter. The Committee desire that till such time the issue is decided, Government should ensure that at least Public Sector carries its cargo by SCI or other Indian Shipping Vessels.

3.75 The Committee have also noticed that as a result of out throat competition from foreign shippers, capacity utilisation of liner service of SCI in outward direction has steadily fallen from 77% in 1978-79 to 49% in 1985-86. It increased marginally to 51.70% in 1984-85 and again slumped to 48% in 1985-86. According to the company, the capacity utilisation of the liner service has now improved to 58.62% in 1986-87 by taking steps like scrapping/sale of large general cargo liner vessels; aggressive marketing strategy; emphasis on containerisation and close liaison with suppliers, agents and brokers.

3.76 The Committee are glad to note that to bring down the losses of liner service, SCI has taken steps like restructuring of certain routes including UK/USA Service, India/Australia Service, Indian East African Service and coverage of trade to certain Latin American countries. The Committee suggest that SCI/Government should also consider restructuring other remaining services and explore new areas of international trade to further improve the capacity utilisation of liner service in outward direction.

3.77 The Committee have also observed that the percentage of high freighted cargo carried by SCI was only to the extent of 35 to 45% and low freighted cargo carried by SCI was in the range of 55 to 65%. It is all due to unfair competition through which foreign vessels secure a large proportion of high freighted cargo. To protect the interest of Indian Shipping Industry in general and SCI in particular the Committee have already

recommended in para 3.74 of this Report for providing compulsory cargo support to Indian vessels at Indian Ports by enactment of a legislation. Besides, the Committee would also suggest that SCI should adopt more vigorous and dynamic strategy to attract cargo by keeping an effective liaison with foreign brokers and other trading agents. This will go a long way in improving the capacity utilisation of its vessels.

3.78 The Committee note that SCI chartered an Indian vessel for a period of six months, upto February, 1977 but the charter period was extended by another six months because the owner was not agreeable to take back the vessel. This resulted in a total loss of Rs. 6.02 lakhs, Rs. 5.09 lakhs for the first period and Rs. 0.93 lakh for the extended period. The need for chartering this vessel is reported to have arisen because one of the Company's own vessels which was to lift Bangladesh cargo, in addition to Calcutta cargo, lifted full cargo at Calcutta itself. In this connection, SCI has informed the Committee that "buyers in Australia who were expecting Bangladesh Cargo became restive and threatened the SCI that if the SCI does not place a substitute vessel to lift this cargo they would approach a third flag, to place its vessel to lift the Bangladesh Cargo. It would have been detrimental to the interests of SCI not to recognise their commercial threat for berthing a vessel to give coverage to Bangladesh Cargo and allow non-conference lines to intrude into this trade against the SCI which had been all along the sole operator in this sector." The Committee are constrained to observe that for their acts of commission and omission SCI had to incur a loss in chartering a vessel for lifting cargo from Bangladesh even though the cargo lifted was insufficient for the voyage and hence unprofitable.

3.79 The Committee cannot help expressing their displeasure over this deal. The Committee feel that as per their commitment with Bangladesh, SCI, though not legally bound, yet had a moral obligation to lift the cargo from Bangladesh at the desired time. The Committee are of the view that SCI could have avoided this loss had it acted in a judicious manner and in accordance with prudent commercial practices.

3.80 The Company acquired two Very Large Crude Carriers (VLCCs), Kanchanjunga and Koyali of 2.77 lakh DWT each from Yugoslavia in September, 1975 and February, 1976 respectively but both these vessels are now being used mainly as storage tankers. Due to frequent breakdowns, the Company had to instal four independent diesel generating sets at a cost of Rs. 95.82 lakhs in the first vessel in 1981-82 and Rs. 95.74 lakhs in the second vessels in 1982-83, respectively. The Company incurred heavy losses perpetually on these ships and the total loss suffered by the Company on account of these ships during the year 1979-80 to 1983-84 was of the order of Rs. 33.61 crores. There was a marginal profit of Rs. 0.57 crore in 1984-85 but in 1985-86 the vessels again incurred a loss of Rs. 1.04 crores.

3.81 An examination of the operational results of these vessels carried out by Audit had revealed that in addition to the slump in the tanker market following acquisition of the VLCCs the other factors which contributed to their losses were :

- (a) the company had estimated that these vessels would be on off-hire for dry docking and repairs for a maximum period of 20



to 27 days each year in the first 4 years of operation and 30 days thereafter but the actual out-of-employment period ranged from 19 days to 155 days.

- (b) unusually high expenditure of Rs. 1111.42 lakhs till 1982-83 on account of accidents of these newly built vessels.
- (c) the size of VLCCs is an inhibiting factor in obtaining better rates while fixing them in the market as generally size of such tankers ranges from 2,00,000 to 2,50,000 DWT which is the most suitable size for the VLCCs.

3.82 The Committee are distressed to find that even when there was a considerable demand for VLCCs in the market, the two VLCCs (Khanchanjunga and Koyali) of SCI were unable to take advantage of the situation because of their larger dead weight and draft vis-a-vis other VLCCs and as a result they have been incurring heavy losses continuously. The Committee, therefore, strongly urge that SCI should consider ways and means to utilise these two VLCCs gainfully and make them commercially viable. If these cannot be usefully deployed then the company should consider the feasibility of disposing them of so as to save itself from further losses on account of these vessels.

3.83 Article 37 of the Articles of Association of the Company stipulates that if any service operated by the company in pursuance of direction or instruction issued by the President of India, the company shall be reimbursed to the extent of the loss suffered for operation of that particular service provided the company has suffered an over-all loss during the relevant financial year in respect of the operation of its trade route or service etc. In this connection, the Committee on Public Undertakings (1964-65) in its Third Report had also recommended that Commercial Organisations like SCI should not be asked by Government to undertake any activity on non-commercial basis except by issuing a directive under Articles of the Corporations.

3.84 As back as in 1971-72, the Committee on Public Undertakings had desired SCI to popularise services to Andaman & Lakshadweep as these islands had great potential as tourist resorts and with the development of traffic there it would be possible for SCI to reduce losses in these sectors. The Committee are, however, distressed to find that there has been no appreciable increase in the number of passengers or the quantity of general cargo carried by SCI in these two sectors. In Andaman, the development of tourist traffic is also reported to have been hampered because of restrictions imposed by Andaman Administration on travelling by foreign tourists. As regards cargo movement, some of the Shipping Companies in the Private Sector are reported to be thriving at the cost of SCI as they carry only high freighted cargo leaving low freighted cargo for SCI. The Committee recommend that the Government in consultation with the Andaman Administration should take urgent steps to help SCI to get the maximum share of available cargo so that it does not suffer at the hands of private companies. The Committee also recommend that for this purpose, fresh instructions should be issued to all Government agencies requiring them to offer their cargo only to SCI.

**3.85** Although the Government has been re-imbursing losses both in respect of Mainland/Andaman and Mainland/Lakshadweep Services, no directive under Article 37 of the Articles of Association of the company has been issued by Government so far. The Committee would, therefore, like to reiterate the recommendation made by Committee on Public Undertakings in 1965 that "commercial organisations like SCI should not be asked to undertake any activity on non-commercial basis except by issuing a directive under Articles of Association."

**3.86** The Committee have noted the services at Andaman and Lakshadweep are being run by SCI at the instance of Government on low tariff due to socio-political consideration, entailing huge losses which do not cover even the operating expenses of SCI. Therefore, the Committee recommend that, in order to help SCI to meet its operational expenses and to reach the break even level, the Government should consider the feasibility of increasing to some extent the passenger and freight tariff which are abnormally low at present.

**3.87** The Committee also find that till 1970 SCI was being re-imbursed full losses but thereafter Government decided to re-imburse only 80% of the losses and that too only in those years in which SCI incurred an overall loss. In profit making years Government decided that SCI should absorb those losses. In their written note furnished to the Committee the Ministry of Surface Transport have also recognised the need to re-imburse the entire losses suffered by SCI on running socio-political services without linking to the overall profit or loss position of the Corporation. In this connection, the Ministry of Surface Transport is also reported to have moved a proposal in January, 1988 to re-imburse 100% losses of SCI and Government's decision in this matter is expected shortly. The Committee hope that the Government would take appropriate decision in the matter soon and apprise the Committee in the matter.

## CHAPTER IV

### CONTAINERISATION

4.1 The Committee have been informed by audit that the Company operates container services with COMBI type vessels, capable of loading both break bulk and containerised cargo. At present the Company has a container fleet of 32 vessels with a total container capacity of 10,789 Twenty Ft. Equivalent units (TEUs). The Corporation is reported to have worked out plans to acquire cellular container vessels and a proposal to acquire six such vessels was submitted to Government for approval in May, 1985. The Company is also reported to have gone in for containerisation keeping in line with the world trend. However, according to the Company, full benefits of containerisation have not been achieved by it due to lack of basic facilities for handling container traffic at Indian ports.

4.2 The financial results from 1977-78 to 1985-86 of the sectors on which container services with COMBI Vessels are operated regularly (with the year of introduction of service) are given in the Table below :

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
W. C. I./Australia (1978-79)	(-)50.06	(-)265.60	(-)245.97	(-)29.63	(-)73.04	(-)292.00	(-)391.61	(-)159.18	(-)154.62
India/U.S.A./Pacific (1978-79)	(-)49.38	(-)284.83	(-)354.64	(-)253.29	(-)125.54	(-)115.93	(-)182.70	(-)158.29	(-)192.07
India/USA (Great Lakes) (1980-81)	(-)243.16	(-)391.21	(-)120.75	(-)83.44	(-)253.15	(-)380.36	(-)285.55	(-)115.21	(-)926.88
India/West Africa (1980-81)	—	—	—	(-)16.05	(+)32.78	(-)66.11	—	—	—
India/U. K. Continent (1980-81)	(+)348.62	(-)28.81	(+)22.58	(+)80.93	(+)16.14	(-)1020.73	(-)386.36	(+)8.39	(-)391.34
E. C. I./Australia (1980-81)	(+)61.77	(-)164.36	(-)163.48	(-)51.62	(-)182.02	(-)181.11	(-)464.79	(-)529.53	(-)310.72
W.C.I./East Africa (1980-81)	—	(+)31.59	(+)33.90	(+)94.61	(-)75.49	(-)194.99	(-)306.57	(-)145.69	—
India/UK/USA (New Service started since February, 1986)	(+)57.79	(-)1103.22	(-)828.36	(-)258.50	(-)660.32	(-)2251.23	(-)2017.58	(-)1099.51	(-)2208.90

It would be seen that container services on the above sectors have been continuously running into losses.

4.3 The Committee on Public Undertakings in their Forty-third Report (1981-82) examined the aspect of Containerisation in SCI and recommended that although SCI operated container services on 6 liner routes with COMBI vessels, yet it has not so far acquired cellular container ships which are specifically suitable for container traffic and the same should be acquired.

4.4 When enquired why the Corporation took 3 years to submit the proposal for acquisition of cellular container ships to the Ministry, the SCI in a written reply stated :

"The SCI had no experience in operation of fully cellular vessels. Hence, in consultation with the International Maritime Organisation, the SCI appointed foreign consultants to examine this issue in 1982. The consultants submitted their recommendations which were examined in 1983 by a committee of senior officers in the SCI. After taking into account various port constraints and infrastructure available for handling containers etc. this committee came to certain conclusions. Accordingly, the SCI invited quotations in September, 1983. The Ship Acquisition Committee of the SCI Board considered the offers received in February, 1984 and selected the offer of a West German shipyard whose evaluated price was the lowest in the Deutsche Mark category and a Korean shipyard whose evaluated price was lowest in the US \$ category. As a rule, the SCI submits only the lowest offer to the Government for approval. Since there had been wide fluctuations in the US dollar vis-a-vis other currencies and since these ships were being acquired on the basis of yard credit a fluctuation in currency could ultimately have a large impact on the ultimate cost to the SCI. In view of these implications the SCI sought the advice of the Government in February, 1984, as to which offer it should consider. This issue was taken up by the Government at various levels and in January 1985, the SCI was advised by the Government to consider the Deutsche Mark offer. Accordingly the SCI entered into a preliminary agreement with the German Shipyard and submitted the project report to the Government in May, 1985."

4.5 The Committee wanted to know if Government had cleared the proposal submitted by the Corporation in May, 1985 for the acquisition of 6 cellular container vessels and if not, what were the reasons for this delay. In this connection, the Secretary of the Ministry informed the Committee during evidence as under :

"The proposal was received from Shipping Corporation of India in May, 1985. Right from the start this proposal ran into problems. Firstly because economics of the proposal underwent many changes because of foreign exchange variations. Their first proposal was for purchase of six ships of West German origin with a cost of Rs. 28 crores each. By the time it was appraised and it went to PIB for clearance on 1-5-1986 the foreign exchange variation was so great that a

ship costing Rs. 28 crores cost about Rs. 40 crores. Even though PIB gave its clearance they said since this offer was old and the economics of the project has undergone many changes you may invite fresh bids from the short listed yards. The only party that remained in the field was the West German offer. But there was appreciation of the Deutsche Mark. An inter-ministerial meeting took place. Three options were suggested. One was to negotiate the rate with the West German Yard. Second was to explore the rupee payment area because we did not have the scarce foreign exchange. The third alternative suggested was to explore the second-hand market.

The SCI were not able to reduce the interest rate on credit from the West German Yard. They explored the rupee payment area from where the party did not show interest at all. In any case, their order book is full, and it will take a long time for construction. They also explored the second hand market. Initially, they contacted the brokers. About thirty offers were received which were shortlisted to seven. Ultimately they sent a proposal in September, 1987 for 4 second-hand vessels for examination in the Ministry and appraisal by the agencies. The PIB has cleared the acquisition of four second-hand vessels at a cost not exceeding US \$ 14.7 million. The matter is now pending before the Cabinet for a final decision."

4.6 In reply to a query by when these vessels were expected to be cleared, the Secretary of the Ministry stated :

"The decision is yet to be taken at the higher level. After that, we have to check up whether the offer is available or not and only then we can take the decision."

4.7 In reply to a question if the Corporation has acquired fully cellular vessels or not, the SCI stated :

"The SCI has not acquired fully cellular vessels so far. However, Memorandum of Understanding have been signed with four Panamian Companies through their holding Company M/s. Hyundai Merchant Marine Co., Korea for acquisition of four second-hand cellular vessels with a capacity of 1570 TEUs. Subject to Government's approval these ships could be expected to join the SCI fleet in April, 1988."

4.8 On being enquired why the Company proposed to acquire second hand vessels and whether the Company did not feel that the acquisition of second hand container vessels will add to their operational cost as the old vessels would require frequent maintenance, the SCI stated in a written reply :—

"The prices of second-hand containing ships are relatively low at this juncture. A study shows that the economic viability of second hand ships is better than that of new ships. The ships proposed to be acquired by the SCI are only 3 years

old. The price of Rs. 19 crore per ship quoted for this is an attractive price and acquisition of comparable new ships might have costed the Corporation about Rs. 28 crore per ship. Thus, acquiring second hand ships will mean a low initial outlay for the SCI. And since interest and depreciation form a large chunk of ship costs, low initial outlay would increase competitiveness. Though second-hand ships will have higher operating costs but this would be more than off set on account of savings arising out of lower interest, insurance and depreciation charges resulting in total costs being lower than that of new ships."

4.9 The Chairman & Managing Director of SCI, however, stated during evidence :—

"Those ships are only three years old. It is not that from the beginning we thought of second-hand ships. In the beginning, we went in for new ships and invited tenders. It so happened that in the ships offered by the Germans, the package was slightly cheaper than the ships offered by Koreans. We were very apprehensive that the Deutche Mark was going up and up and that we would land up with a very very expensive ship. But they were giving very cheap long-term credit. After sometime, the Government said that you negotiate with the Germans which we did. But by that time, what we had apprehended had come through. DM German currency had gone up very much higher. We had a project on our hands where we would have lost very heavily. So we want back. Government said try to negotiate further with the Germans. Can they give you a better package, which the German could not. They also said that you explore other avenues, buying from rupee payment areas and buying second-hand."

4.10 As regards the delivery and operational cost of the second-hand container vessels, the Ministry of Surface Transport informed the Committee in a written reply :—

"It is a fact that by April, 1988 the second hand container vessels will be about 3½ years old. The shipyards normally take about 2 to 3 years for delivering the vessels whereas the second hand vessels will be available immediately for operation. The cost of new vessels are firming up and with the high cost for new construction, the project may not be viable. The second hand market is quite favourable and the vessels built in or after 1981-82 are fuel efficient and the proposed vessels are fully containerised in good condition and technically suitable for this trade normal life of such ships is twenty years and balance life for those 2nd hand ships would still be 16½ years."

4.11 When pointed out that the operational cost of the second-hand vessel would be more than the new one, the Secretary of the Ministry stated in evidence :—

“The operational cost of the second hand vessel is slightly more than the brand new vessel. What was identified for the purpose was about 3½ year old vessel. It serves well operationally.”

4.12 When enquired about the extent to which SCI's operations were affected because of the lack of cellular vessels, the SCI informed the Committee in a written reply :—

“The working of the Corporation has not been significantly affected for want of acquisition of cellular ships for the SCI did not wait till purchase of container ships its start its container operations. The SCI resorted to the policy of chartering cellular vessels to meet its requirements. In 1985 the SCI chartered ships of 750 TEU capacity and started a full cellular service. In February 1986 these ships were replaced by bigger vessels of 1250 TEU capacity. At the same time the container service to USA/UK-Continent was combined into a single service. So in the short run the Corporation has managed to start a full container service without resorting to the need to acquire its own cellular ships. However such strategies can work on in the short run and in the long run the SCI will have to acquire with own cellular ships.”

4.13 The Committee were also informed that the share of the SCI and the Indian Shipping Companies in the total container traffic during the years 1984, 1985 and 1986 was as follows :—

Year	Total container Traffic (TEUs)	Liftings by SCI Ships (TEUs)	%share of the SCI
1984	2,96,000	47,442	16.0%
1985	3,96,000	42,468	18.3%
1986	4,37,000	66,721	22.1%

4.14 The Company is stated to have gone in for containerisation keeping in line with the world trend. However, according to the Company, full benefits of containerisation have not been achieved by it due to lack of basic facilities for handling container traffic at Indian ports. When enquired about the facilities the Company required to be created for handling containers at Indian ports and had the Company approached the Government in the matter, the SCI stated in a note as under :—

“Indian ports lack basic equipment like forklifts, top lifters and gantry cranes for handling containers. As a result of this the output at Indian ports is very poor. Indian ports handle 6 to 12 containers per hour as compared with 25 to 30 or more containers handled at international container terminals.”



4.15 According to the SCI the following facilities are needed at Indian ports :

- (a) Container berths with gantries and back-up area served by Transtainers;
- (b) Container stockyards in the near vicinity of the container berths; and
- (c) Container freight stations with sufficient facilities (shed space higher capacity forklifts) for receiving and delivering of cargo besides stuffing and destuffing, storage of empty and loaded containers.

4.16 The above problems are stated to have been raised by SCI at various committees and in different forums and the Government is seized of the matter. Two container ports are being set up on the West Coast viz. Bombay and Cochin and two on the East Coast, viz. Madras and Haldia. It has been stated that the position at Bombay could be expected to further improve after the implementation of Nhava Sheva project.

4.17 When the Committee required about the action taken by the Government to provide the above facilities for handling containers at the Indian ports, the Ministry in a written note stated that ports of Bombay, Cochin, Madras, Calcutta and Haldia were identified for their development to handle containers. Accordingly, these major ports are being developed to handle containers keeping in view the shipping requirements and the limitations at the ports since the Sixth Five Year Plan.

4.18 The Committee note that SCI operates container services with COMBI type vessels capable of handling both breakbulk and containerised cargo. The Company has a container fleet of 32 vessels with a total container capacity of 10,789 Twenty Ft. Equivalent Units (TEUS). The SCI is also reported to have resorted to short term policy of chartering cellular vessels to meet its requirements.

4.19 While examining the aspect of containerisation, the Committee on Public Undertakings (1981-82) had inter alia commented that although SCI was operating container service on 6 liner routes with COMBI vessels it had not got so far cellular container ships which are specifically suited for container traffic and the same should be acquired by SCI. The Committee are unhappy to point out that its recommendation has not been implemented even after a lapse of six years.

4.20 The Committee are informed that the Company had submitted a proposal to Government in May, 1985, to acquire six such vessels from a West German Shipyard at a cost of Rs. 28 crores each but it has not yet been sanctioned by Government. The proposal is reported to have been considered at various levels and by the time it was appraised and submitted to PIB for clearance on 1-5-1986, the cost of the ships shot up from Rs. 28 crores to Rs. 40 crores each. Even after clearance of the proposal by PIB, the SCI was given three options by the Ministry i.e. to negotiate the rate with the West German Yard as the offer was old and might have undergone a change resulting in huge foreign exchange variations; to explore the rupee payment area; and to explore second hand market. Accordingly,

after exploring various possibilities, SCI sent a proposal to the Ministry in September, 1987 for purchase of four 3½ years' old second hand container vessels at a cost of Rs. 19 crores each. The proposal has been cleared by the PIB and is awaiting Cabinet's approval. The Committee were informed during evidence that the ships are expected to join the SCI fleet in April, 1988 provided the proposal was cleared by the Cabinet.

4.21 The Committee find that the SCI and the Ministry of Surface Transport together have taken inordinately long time of 6 years in finalising the proposal for purchase of vessels which is still pending before the Cabinet for approval. After analysing the facts placed before them, the Committee have come to the inescapable conclusion that the procedure currently being followed in acquiring the container vessels is quite cumbersome, long and inevitably results in avoidable delays which ultimately result in escalation of the prices of the ships. The Committee, therefore, recommend that the whole procedure should be thoroughly studied from all angles and streamlined with a view to ensure prompt clearance of the proposals.

4.22 The Committee note that SCI had originally requested the Ministry for 6 new cellular container vessels and had also invited tenders. It was only on the direction of the Ministry that SCI had to explore the second-hand market. It is now being argued that the economic viability of second-hand container vessels is better than the new ships. According to the Ministry, by April, 1988, the second-hand container vessels will be about 3½ years old and would still be having 16½ years more as the normal operational life of such ships is 20 years. It was also stated that "the operational cost of the second-hand vessels is slightly more than the brand new vessels. What was identified for the purpose was about 3½ years old vessel. It serves well operationally." The Committee have no doubt in their mind that second-hand ships are no substitute for new ones. As the technology in the field of shipbuilding is fast improving and latest techniques are being developed to manufacture ships which are fuel-efficient, the argument of the Ministry in favour of second-hand ships is untenable. Moreover, there is no guarantee that the second hand ships will continue to work efficiently for 16½ years. It would be relevant to point out here that SCI had an unpleasant experience of the worthiness of old ships when it had to sell 23 ships (discussed elsewhere in this report) before they could complete their normal life of 20 years and 9 of them had still a balance life between 6—10 years. The Committee, therefore, desire that the whole matter should be re-examined in all its ramifications to decide about the economics of the proposal so that the relative suitability of the new and second hand vessels is determined to the best interests of the Company.

4.23 The Committee have observed that the share of SCI in the total container traffic had increased from 16% in 1984 to 22% in 1986 but the container services on all the sectors have been continuously running into losses. Some of the services like WCI/Australia, India/USA (Pacific) and India/USA (Great Lakes) have been incurring losses since their introduction. Since more and more international shipping companies are switching over to container ships to attract world market, the SCI should also explore new avenues to attract more traffic to make its services viable and profitable. To achieve that end, the company should identify areas which are unprofitable and restructure its container services in those areas to contain rising losses. Vigorous efforts should also be made by SCI to popularise

container traffic among shippers and have adequate number of inland container depots besides developing proper feeder transport facilities by rail/road etc.

4.24 The SCI has entered into the field of Containerisation keeping in line with the world trend. But according to the Company, full benefits of containerisation have not been achieved by it due to lack of basic facilities for handling container traffic at Indian Ports. According to SCI the major drawbacks at the Indian ports are lack of basic equipment like forklifts, top lifters and gantry cranes for handling containers. These shortcomings have resulted in poor output at Indian ports.

4.25 It has been brought to the notice of the Committee that Indian ports handle 6 to 12 containers per hour as compared to 25 to 30 containers being handled at international container terminals. Therefore, in order to provide adequate infrastructural support to handle the container traffic the following facilities are required to be created at Indian ports :

- (a) Container berths with gantries and back-up area served by Transtainers;
- (b) Container stockyards in the near vicinity of the container berths; and
- (c) Container freight stations with sufficient facilities/shed space, higher capacity forklifts for receiving and delivering of cargo besides stuffing, storage of empty and loaded containers.

4.26 The Committee recommend that Government should take urgent steps to modernise the infrastructure at major Indian Ports by providing the above mentioned and other facilities as are considered essential to increase all round productivity.

## CHAPTER V

### REPAIRS AND MAINTENANCE OF VESSELS

5.1 According to audit, repairs and maintenance of the fleet constitutes one of the major items of expenses of the Company and includes expenditure on repairs of deck and engine, spares, chipping and painting and survey. It has been stated that subject to exigencies and availability of dry docks, it is the policy of the Company to carry out the repairs of vessels in home ports. However, due to limitations of size of the dry docks in India, the larger vessels are dry docked abroad for repairs.

5.2 While the Company contends that the repairs cost of each ship cannot be uniform because of diverse types and makes of ships, their age, and type of cargo carried, it has not laid down any norms for maintenance expenditure for ships in different age groups or class of ships. The Company informed Audit in February, 1984 that it was not feasible to lay down standards of repairs cost in view of complex/multiple factors which influence the quantum and cost of repairs. The repairs expenditure incurred by the Company on different classes of vessels during the years 1980-81 to 1985-86 (15 months) upto June, 1986 was as under :

Group	Year of built	Country of origin	D.W.T.	Purchase cost	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
<b>Tankers</b>										
1. Vivekanand	1974	Japan	89,371	1578	103.55	31.06	151.90	153.63	14.12	111.27
2. C. Shivaji	1974	Japan	89,490	1597	96.14	34.21	124.85	155.60	18.95	112.30
3. Lokmanya Tilak	1975	Japan	89,411	1611	127.07	33.37	98.88	16.74	91.37	84.65
4. Zakir Hussain	1975	Yugoslavia	1,15,853	1702	102.49	184.13	39.70	227.60	25.77	106.75
5. Kanchan Junga	1975	Do.	2,76,755	3748	44.09	52.80	205.26	31.66	45.47	160.80
6. Koyali	1976	Do.	2,76,800	4033	80.87	245.04	19.10	21.52	28.77	162.54
<b>Commodation Carriers</b>										
7. Motilal Nehru (Disposed of in 1986)	1973	Do.	1,14,086	1917	291.98	130.30	66.77	30.15	4.09	laid up for disposal
8. A. K. Azad (Disposed of in 1986)	1974	Do.	1,14,340	1961	222.30	107.08	92.59	105.45	1.99	
9. Vallatho	1976	Do.	1,64,152	2195	65.99	126.25	50.28	144.45	36.51	266.14
<b>Product Carriers</b>										
10. R. A. Kidwai	1975	Do.	24,439	1146	131.78	16.22	47.86	105.96	23.97	96.01
11. J. N. Vyas	1975	Do.	24,529	1183	18.84	159.90	32.47	129.33	19.84	89.19
12. Aurobindo	1976	Do.	24,411	1199	106.47	4.97	116.08	21.67	36.54	98.43

5.3 It would be seen that substantial expenditure on repairs was incurred even on vessels which were relatively new. The expenditure was as high as Rs. 282 lakhs in respect of 'Motilal Nehru' and Rs. 222 lakhs in respect of 'A. K. Azad' in 1980-81, Rs. 245 lakhs in respect of 'Koyal' in 1881-82, Rs. 205 lakhs in respect of 'Kanchanjunga' in 1982-83, Rs. 228 lakhs in the case of 'Zakir Hussain' in 1983-84. The expenditure on 'Vallathol' in 1985-86 was to the tune of Rs. 266 lakhs.

5.4 The expenditure incurred in repairs during the first five years of acquisition of vessels of similar size and class from different countries of origin, viz., Japan, Sweden and Yugoslavia is given below :—

#### A. Tankers/Product Carriers

Japanese Vessels	Yugoslavian Vessels	Yugo	
Name of the vessel	Expenditure during first five years (Rs. in lakhs)	Name of the vessel Expenditure during first five years (Rs. in lakhs)	
<b>Tankers</b>		<b>Tankers</b>	
C. Shivaji (1974/89, 490 dwt)	116.36	Rajendra Prasad (1974/115, 723 dwt)	127.16
B. R. Ambedkar (1974/89, 454 dwt)	76.04	Zakir Hussain (1975/115, 853 dwt)	160.91
Vivekanand (1974/89, 371 dwt)	81.79		
		<b>Product Carriers</b>	
Lokmanya Tilak (1975/89, 411 dwt)	92.54	Aurobindo (1976/24, 411 dwt)	139.58
N. S. Bose (1973/89, 392 dwt)	61.24	R. A. Kidwai (1975/24, 439 dwt)	102.50
Satyamurti (1975/89, 351 dwt)	84.37		

#### B. Combination Carriers

Combination Carriers (Sweden)	Expenditure during first 3 years (Rs. in lakhs)	Combination Carriers (Yugoslavia)	Expenditure during first 3 years (Rs. in lakhs)
Name of the vessel		Name of the vessel	
Maharshi Karve (1978/123, 450 dwt)	44.60	A. K. Azad (1974/114, 340 dwt)	115.68
Maharshi Dayanand (1978/123, 450 dwt)	41.16	Motilal Nehru (1973/114, 086 dwt)	86.62

It would be seen that repair expenditure incurred on vessels acquired from Yugoslavia was comparatively more than on Japanese/Swedish vessels.

5.5 The Company informed Audit in July 1978 that because of the difficulty in procuring ships from Japan or West European countries, which were insisting on cash down payments, the Company had taken a conscious decision to go in for the construction of vessels in Yugoslavia which offered competitive prices and favourable terms, although the Company was aware that the quality of ships built in Japan or West European countries would be better than the ships built in Yugoslavia. The Company, however, does not seem to have considered that large maintenance expenditure of the magnitude indicated above would have to be incurred on the Yugoslavian vessels. For instance, in the case of the two VLCCs purchased from Yugoslavia, the actual expenditure incurred on repairs was much more than that envisaged in the Project Report prepared at the time of acquisition of these vessels, as indicated below :—

(Rs. in lakhs)

Year of operation	Amount of repair expenditure envisaged in project Report	Actual expenditure incurred on	
		Kanchanjunga (3-9-1975)	Koyali (15-2-1976)
Ist	25.20	7.53 (Part of the year)	12.51
IIInd	28.89	32.76	60.33
IIIrd	32.58	49.63	112.85
IVth	35.17	34.23	60.59
Vth	36.61	93.74	80.87
VIth	39.15	44.09	245.04
VII th	42.84	52.80	19.18*
VIIIth	38.68	205.26	81.52*
IXth	41.22	31.66*	—

\*The vessels were being used mainly as storage tankers in those years (1982-83 & 1983-84 and now the vessels are being used partly as storage tankers and partly for carriage of crude oil.

5.6 The Yugoslavian VLCCs have still about 4 years life left and higher maintenance cost would continue to affect the operational results of the Company in future years also.

5.7 When enquired about the reasons for incurring such heavy expenditure on repairs even on new vessels, the SCI informed that these ships were built in Yugoslavia and it had been the experience of SCI that repair costs incurred with regard to ships built in Yugoslavia were generally higher than ships built in Japan or Western Europe. SCI also stated that the workmanship of ships built in Yugoslavia was generally

poorer than the workmanship of ships built in Japan or West European countries.

5.8 When pointed out that since the life of a ship normally is 20 years, was it not expected of the Company to ensure that the quality of the ships acquired was good so that it had not to incur heavy recurring expenditure on repairs for such a long time, the SCI in a written reply stated *inter alia* as under :

"These ships were ordered in 1971. Freight rates in those years were at a peak and neither Japan nor the West European countries were prepared to build ships for India. In 1971 the SCI received only two offers for building VLCCs, one from Japan and another from Yugoslavia. The Yugoslavian offer was considerably cheaper and hence a decision was taken to award the contract to the Yugoslavian shipyard. However, due precautions were taken to ensure that ships of good quality were delivered. Equipment and material specified were of a high standard. Each ship was to be built to rules and regulations of reputed classification societies."

5.9 On an enquiry whether any norms have now been laid down and if so, what are these and whether expenditure in excess of such norms is still being incurred, the S.C.I. stated in a written reply that no norms have been laid down for repair expenditure for a series or size of vessels. However, at the beginning of each financial year, a budget laying down the expenditure estimated to be incurred on repairs is prepared. The actual expenditure incurred on each ship is compared against the budgetary provision made for that ship.

#### *Dry Docking of vessels*

5.10 The preventive maintenance repairs involving dry docking are done at an interval of 18 to 24 months. According to the procedure laid down by Government, whenever an Indian shipowner wants to carry out repairs to his vessels abroad, he is required to obtain a 'no objection' certificate from the Indian shipyards before approaching the Director General of Shipping for permission to dry dock the vessel in a foreign shipyard. Till recently, it was only at Bombay, Calcutta and Vishakapatnam that small ships could be dry docked. With the commissioning of the Cochin Shipyard, facilities for dry docking vessels upto 80,000/85000 dwt. are now available in the country. According to Audit the repair expenditure incurred by the Company in India and foreign countries during the years 1980-81 to 1984-85 was as under :—

(Rs. in lakhs)

Year	Foreign	Indian	Total
1980-81	3139	1684	4823
1981-82	4421	2296	6717
1982-83	2881	2947	5828
1983-84	3036	2251	5287
1984-85	2316	2487	4803



It would be seen that the repair expenditure incurred in foreign countries accounts for about 2/3rd to 1/2 of the total expenditure incurred by the Company.

5.11 According to the Company, the dry docking facilities in India are limited and inadequate, a lot of time is lost by the Company's vessels in waiting for dry dock at Indian ports, cost of repairs is higher and the quality of workmanship is poor.

5.12 On being enquired about the reasons for incurring such heavy expenditure on repairs in foreign countries and the action taken by the Company to avoid this large foreign exchange outgo, the SCI stated in a written reply :

"The effort is that these Vessels which can be accommodated at Indian dry docks should be repaired there. Ships can be dry-docked abroad only with the prior permission of the Government. At times it may not be possible to accommodate the vessels within the facilities available in our country for want of availability of facilities when required. Besides there are other problems associated with drydocking ships at Indian ports. The time taken to drydock ships at Indian ports is much more than the time taken at foreign ports and it also costs much more to repair ships in India. Most Indian shipyards are still employing age old methods of hull preparation and ship repairs. The SCI is in the Process of modernising its fleet which has the latest equipment and needs special attention which is not available in most of the Indian shipyards.

Often adequate drydock capacity is not available at Indian ports. The larger drydocks available at Bombay are under Port Trust and are utilised by the merchant fleet, Indian Navy and the harbour crafts of Bombay Port Trust. The drydocks at Calcutta are fully utilised mainly by the liners vessels of the SCI. For the drydocks at Visakhapatnam and Cochin the Directorate General of Shipping has constituted Ship Repairs Coordination Committee which meets every quarter to review the position of drydocks at Visakhapatnam and Cochin. This Committee comprises members from the Directorate General of Shipping, Shipping Companies, Shipyards and Port Trusts. A rolling plan is prepared for maximum utilisation of ship repair facilities available within the country. But again the drydock available at Visakhapatnam can accommodate only vessels upto 45,000 dwt. This drydock has often been utilised by the Indian Navy, Dredging Corporation and for construction of new ships by the shipyard. The SCI has not been able to drydock any vessel at HSL, Visakhapatnam for the past 3 years except recently when the passenger vessel m. v. "Harsha Vardhana" was drydocked."

5.13 When the Committee enquired whether Indian Shipyards were not having the requisite capability to repair the ships, the Secretary of the Ministry stated in evidence :—

“The facilities for carrying out repairs in the country are not adequate. The Cochin Shipyard is expected to make a turnover of almost Rs. 12 crores in the next financial year. Similarly the Hindustan Shipyard have also increased their turnover this year compared to previous years. One big problem is that the ships which are in the field, some of them are very large and cannot be accommodated in our existing drydocks. Those ships *per force* have to go out. The DG (Shipping) normally convenes a meeting. He works out this system for ascertaining the occupancy position of the drydocks for necessary allocation of work to the Indian Shipyards. By and large for the last two years this has been working. Sometime this may not work out because the schedule of ships may change and all that.”

5.14 To the Committee's query that instead of spending so much money on the repairs abroad, why don't the Ministry create sufficient facilities in our shipyards, the Secretary of the Ministry stated :—

“You are very correct. It has been our attempt. I would like to submit to you that in the Seventh Plan—when it was formulated—we did put up a very comprehensive proposal for enhancement of our repairing facilities in the country. We did put up a proposal. We wanted about Rs. 135 crores. But the plan outlay approved was for Rs. 38.95 crores only. With that we have approved a number of schemes pertaining to Cochin Shipyard, Hindustan Shipyard, Bombay Port Trust, Calcutta Port Trust. The two Port Trusts cater to a very large extent on drydocking and repair work. So to augment further capacity, we need much bigger allocation. Since it was not available in the Seventh Plan, we could not go in for the creation of new facilities.”

*Repair work entrusted to public sector workshops vis-a-vis privately owned workshops*

5.15 Explaining the arrangements for maintenance and repairs of vessels, the company in January, 1982 had informed Audit that the bulk of the repairs work at Bombay and Calcutta was carried out by the Government owned/Government controlled workshops and only minor jobs which do not require high value expertise of Government workshops are carried out by privately-owned firms. The quantum of repair work given to Govern-

ment owned/controlled workshops and privately owned workshops at Calcutta during 1977-1978 to 1985-86 was as under :—

Year	Rs. in Lakh		Total	%age of work done at Govt. owned/controlled workshops to total repair work done
	Repair work done at Govt. owned/controlled workshops	Private workshops		
1977-78	301.76	428.91	730.67	41.29
1978-79	—	—	—	—
1979-80	127.44	397.47	524.91	24.28
1980-81	112.62	544.37	656.98	17.14
1981-82	231.02	743.61	974.63	23.70
1982-83	271.99	640.44	912.43	29.81
1983-84	182.08	690.61	872.69	20.86
1984-85	99.75	511.61	611.36	16.32
1985-86 (15 months)	153.70	486.54	640.24	24.00

5.16 The repair work entrusted to Government owned/controlled workshops at Calcutta was 41.29% in 1977-78 which dropped to 20.86% in 1983-84 and 16.32% in 1984-85. Major portion of the repair work, i.e. about 59% to 83% has gone to the private workshops. The Company stated in April, 1983 that the cost, particularly overheads, charged by the Government owned workshops had been considerably higher than the cost for similar items of work entrusted to private workshops and, therefore, the quantum of work given to the former had fallen.

5.17 When asked about the justification for entrusting the repair work to private workshops on such a large scale, the SCI in a written reply stated :—

“The SCI continues to patronise public sector workshops for the repair work of its fleet at Calcutta and also at other Indian ports. In the past, for a number of years, a major portion of the repair jobs were being entrusted by the SCI to Garden Reach Workshop (GRW) at Calcutta. However, this quantum declined lately for the following reasons :

- (a) The rates charged by public sector workshops are found to be much higher as compared to the rates charged by the private workshops.
- (b) The quantum of labour booked by public sector workshops, specially by GRW, was also found to be much higher than what was warranted by the job.
- (c) Very high overhead rates by public sector workshops.

In the past the SCI did entrust major repairs works at Calcutta to the public sector workshops despite their higher costs. As a result of continued recessionary conditions in shipping the SCI had to take into account the cost factor to effect saving in expenditure to the maximum extent possible which necessitated entrusting more jobs to the private workshops."

5.18 Repairs and maintenance of its fleet constitutes one of the major items of expenditure of SCI. The Committee have been informed that depending upon the availability of dry docks, the Company gets its vessels repaired in Indian ports. Due to limitations of size of the home dry docks, the larger vessels are, however, dry docked abroad for repairs. It has been brought out by audit that the SCI has not laid down any norms for maintenance expenditure as according to the Company the repair cost of each ship cannot be uniform because of diverse types of ships, their age group or class of ships. The Committee are not convinced with the explanation given by the Company. Since the Company has gained sufficient experience in operating these ships, it should not now be difficult for them to lay down the norms. The Committee, therefore, recommend that the norms for expenditure on repair of ships of various sizes and age groups should be prescribed forthwith and observed scrupulously.

5.19 The Committee note that majority of the ships purchased by SCI during the years 1973—76 were from Yugoslavia and a few from Japan and Sweden. From the information made available to them, the Committee find that the repair expenditure incurred on Yugoslavian vessels was disproportionately high as compared to Japanese or Swedish ships of almost similar class and size. The Committee were informed that "because of the difficulty in procuring ships from Japan or West European countries, which were insisting on cash-down payments, the Company had taken a conscious decision to acquire vessels from Yugoslavia which offered competitive prices and favourable terms, although the Company was aware that the quality of ships built in Japan or West European countries would be better than the ships built in Yugoslavia." SCI had also admitted during evidence that the "the workmanship of ships built in Yugoslavia was generally poorer than the workmanship of ships built in Japan or West European countries." Since the normal life of ships is reported to be 20 years and the Yugoslavian ships were known for their poor workmanship, it is surprising that quality was sacrificed to low price and the relative profitability of the ships and the huge expenditure expected to be incurred on the maintenance of Yugoslavian ships were not taken into consideration by the SCI. The Committee have no doubt the higher maintenance cost on Yugoslavian ships would continue to affect the operational results of the Company for the balance life of these ships and, therefore, this important factor should have been given due weightage in the purchase decision.

5.20 The Committee have been informed that whenever an Indian Shipowner wants to get his ship repaired abroad, he has to procure a "no objection" certificate from the Indian Shipyards before approaching the Director General (Shipping) for permission to dry dock the vessel in a foreign shipyard. The Committee find from the information furnished to them that during the years 1980-81 to 1984-85 the Company spent huge amounts ranging from Rs. 23 crores to Rs. 44 crores in getting its ships

repaired abroad whereas Indian Shipyards' share during the same period was between Rs. 17 crores to Rs. 29 crores. The reasons attributed by SCI for this big outflow of foreign exchange have been that dry docking facilities in India are inadequate, expensive and time taken to dry dock ships at Indian ports is more than the time taken abroad. The Committee are of the view that whatever the reasons may be, the country cannot afford such an enormous flight of scarce foreign exchange from the country especially when ships of 80,000 to 85,000 DWT can be dry docked in India and the company, according to its own admission, has only about 10 ships out of the total fleet strength of 134 ships, which fall within the large category of one lakh DWT or above size. The Committee have no doubt that Indian Shipyards have the requisite capability and expertise to repair ships in their docks. Also, the Committee fail to understand as to why 'no objection' certificate is issued by the Indian Shipyards for repair of ships in foreign yards, particularly when such facilities are available with them.

5.21 The Committee, however, recommend that Government should make all out efforts to remove the deficiencies, if any, in the Indian yards and augment the existing facilities of dry docking of ships in Indian ports with modern equipments to meet the requirements of the Shipping Companies which are engaged in modernising their fleet to compete in the world market.

5.22 The Committee find that at present adequate facilities for repairing of vessels within the country are not available. Further, due to limitation of size or dry docks in India, the large sized vessels are dry docked abroad for repairs and service. Even the Secretary, Ministry of Surface Transport admitted in his evidence before the Committee that "facilities for carrying out repairs are not adequate. One big problem is that some of the very large ships cannot be accommodated in our existing dockyards. These ships perforce have to go out for repairs." While agreeing to the suggestion made by the Committee for the creation of sufficient facilities in our own shipyards to avoid the outgo of huge foreign exchange, the Secretary informed the Committee that in the Seventh Plan they had put up very comprehensive proposals for enhancement of repairs facilities and for that purpose they demanded allocation of Rs. 135 crores. But the outlay approved was only to the extent of Rs. 38.95 crores. As a result, they could not go in for the creation of new facilities. The Committee cannot but express their serious concern over not making available adequate resources in the Seventh Plan for the creation of adequate repairing facilities within the country. The Committee recommend that the Ministry should take up the matter once again with the Planning Commission for the purpose of getting additional funds for creating additional repairing facilities in our shipyards so that the country could be saved from foreign dependence in regard to ship repairs.

5.23 The Committee have also been informed that bulk of the repairs work at Bombay and Calcutta was being carried out by the Government owned/controlled workshops and only minor jobs not requiring high value expertise were being carried out by privately owned firms but the quantum of repair work given to Government owned/controlled workshops and privately owned workshops at Calcutta during the years 1977-78 and 1985-86 has revealed that the repair work entrusted to Government owned/controlled workshops was 41% in 1977-78 which dropped to 21% in

1983-84 and just 16% in 1984-85. This implies that about 59% to 84% repair work had gone to the private workshops. According to the Company the factors responsible for this fall are, higher rates charged by public sector workshops, higher quantum of labour booked than required for the jobs and high overheads. The Committee do not approve of this large scale repair work being given by SCI to private workshops and Government Workshops share declining year after year. Even though Government policy is to give repair work to Government owned/controlled workshops but this policy is not being followed in all seriousness by SCI. Therefore, the Committee desire that Government should issue fresh instructions to SCI to follow the Government policy in this regard, strictly. The Committee also desire that the Government owned/controlled workshops should gear up their activities by devising a suitable strategy for improving their performance in the ship repair field with a view to be competitive with privately owned workshops.

NEW DELHI;  
26 April, 1988  
6 Vaisakha, 1910 (S)

VAKKOM PURUSHOTHAMAN  
*Chairman,*  
*Committee on Public Undertakings*

## APPENDIX I

(Vide Para No. 3.5 of the Reports)

*Statement showing the details of ship sold before completing their balance life*

Sr. No.	Name of the vessel	year built	G.R.T.	Normal life	Life at time of sale	Balance life if any	Reasons for disposal
1	2	3	4	5	6	7	8
1.	Vishva Bindu . . .	1969	8,121	20	16	4	Techno economically not suitable.
2.	Vishva vikas . . .	1968	8,422	20	17	3	Do.
3.	Vishva Chetana . . .	1969	8,119	20	16	4	Do.
4.	Nalanda . . .	1968	23,359	20	17	3	Do.
5.	Vishva Kalyan . . .	1966	8,955	20	19	1	Do.
6.	Vishva Vibhuti . . .	1966	8,959	20	19	1	Do.
7.	Himachal Pradesh . . .	1971	10,268	20	15	5	Unsuitable for container trade
8.	Sanchi . . .	1968	23,372	20	18	2	Do.
9.	Chidambaram . . .	1966	17,266	20	19	1	Damaged due to fire.
10.	Motilal Nehru . . .	1973	62,857	16	13	3	Vessel caused problems due to structural cracks
11.	Annapurna . . .	1975	10,921	20	11	9	Technical reasons.
12.	Annupama . . .	1975	10,526	20	11	9	Do.
13.	Azishva Tej . . .	1967	9,367	20	19	1	Techno economically not suitable
14.	Abul kalam Azad . . .	1974	62,857	16	12	4	Vessel caused problems due to cracks.
15.	Aradhana . . .	1973	10,921	20	14	6	Technical reasons
16.	Ajanta . . .	1968	23,395	20	19	1	Techno-economically not suitable
17.	Vishva Seva . . .	1968	9,360	20	19	1	Do.
18.	Jana Priya . . .	1975	24,563	20	11	9	Beyond economic repairs and high fuel consumption.
19.	Lok Nayak . . .	1973	10,921	21	13	7	Do.
20.	Archana . . .	1976	10,526	20	11	9	Uneconomical
21.	Lok Palak . . .	1975	10,526	20	12	8	Do.
22.	Lok Viha . . .	1976	10,526	20	11	9	Do.
23.	Lok Many . . .	1976	10,526	20	10	10	Beyond economic repairs and high fuel consumption

## APPENDIX II

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

Sl. No.	Reference to in the Report	Para No.	Conclusions/Recommendations
1	2		3
1.	1.18&1.19		<p>The Committee are surprised to note that the Shipping Corporation of India Ltd. have not formulated its Objectives and Obligations and got them approved by Government in spite of BPE's instructions issued on the subject as back as in 1970. The Committee are informed that in October, 1972 the Board of Directors of SCI approved the basic objectives and also the Objectives and Obligations of the Corporation for the 5th Five Year Plan. But these objectives do not appear to have been sent to the Ministry for approval. There is no correspondence available in SCI file to indicate any further development with regard to these objectives. In fact the CMD of SCI admitted in evidence that "It was not followed up on either side." In this connection, the Ministry of Surface Transport have also informed the Committee that "Records in the Ministry show that file was opened in 1971 on this subject and was closed in February, 1973, and despite best efforts it has not been possible to locate the above-mentioned file and SCI also do not have in their file a copy of the letter written by them to the Ministry forwarding their objectives and obligations." The Committee cannot but express their displeasure over this sorry state of affairs where the important papers dealing with objectives of the Company are available neither in the Ministry nor in the records of the Company. There is lack of monitoring mechanism to ensure implementation of important issues. As a result, even till today the objectives and obligations have not been approved by the Ministry. What is most surprising is that neither the Company nor the Ministry followed up the matter. The Committee recommend that immediate action be taken to formulate the objectives and obligations of SCI and get them approved by the Ministry without any further loss of time. The Committee need hardly emphasise that clearly spelt out objectives will not only enable the Company to know the areas of operations but will also enable the Government to evaluate on realistic basis the performance of the Company with reference to approved objectives. The monitoring mechanism should be streamlined and strengthened to keep track of important issues.</p> <p>The Committee are also informed that in October, 1983 in terms of BPE's instructions of May, 1979 the then Ministry of Shipping and Transport asked SCI to frame</p>



its micro objectives in consonance with macro objectives spelt out for Public Sector in the Industrial Policy Resolution of December, 1977. Accordingly, the company is reported to have formulated the micro objectives and submitted the same to Ministry for approval on 5 January, 1984. The Ministry's approval to the micro objectives conveyed on 7 February, 1984, was withdrawn a fortnight later on 23-2-1984, as it was not approved by the competent authority. In July, 1987 when the Company checked up with the Ministry about the decision regarding the approval of their micro objectives formulated in January, 1984, they were informed that the Ministry had written back to them on 3rd January, 1985 suggesting the Corporation to formulate its micro objectives on the lines of Corporate objectives of Hindustan Shipyard Ltd. which had been approved by Government. This communication is also reported to be not available in the file of SCI and a copy thereof was obtained by SCI from the Ministry in October, 1987. Shipping Corporation of India is now reported to have formulated micro objectives in January, 1988 which were approved by the Ministry on 10 February, 1988. This is indicative of the lukewarm attitude of the Government and the SCI to this important issue and the pace of finalisation of micro objectives appears to have been accelerated only after the Committee on Public Undertakings took up examination of SCI.

2. 1-20

The Committee also find that SCI do not have at present any system of preparing Corporate Plan. They prepare only 5 years Tonnage Acquisition Plans, which indicate the acquisition of additional ships and their financing. These do not bring out the profitability aspect of the additional investment, long-term projections of overall profitability, deployment of tonnage, capacity utilisation and long-term measures for maximisation of earnings etc. In this connection, the Secretary of the Ministry of Surface Transport also informed the Committee during his oral evidence that in pursuance of BPE's instructions issued in 1974 every organisation has to prepare a Corporate Plan. He admitted that it was a lapse on the part of the Ministry and the Shipping Corporation of India that they had not been able to do it so far. He also informed the Committee during evidence that they had given the Corporation 6 months to prepare the Corporate Plan and they would see that this was adhered to. The Committee hope that with a view to providing a more definite basis to the Corporation for planning its activities, the Corporate Plan would be framed and got approved by Government within the time-frame indicated by the Secretary of the Ministry.

3. 2-66 to 2-68

The Committee note that till June, 1985 acquisition of vessels of SCI was on the basis of limited tenders. To

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overcome the limitations of negotiation with only the short-listed shipyards, the Government of India at the instance of Audit revised procedure in June, 1985 whereby advertisements are now given in selected newspapers in India and selected journals abroad. The Committee are also informed that two weeks prior to the last date of submission of offers, SCI convenes a clarification meeting with Shipyards who had collected tender documents. The sealed offers when received are evaluated and a short list upto a maximum of 10 is prepared. After detailed discussions with short-listed Shipyards, Shipyards are asked to give final specifications and commercial offers which are again evaluated and submitted to Ship Acquisition Committee.

The Committee are surprised to find that even after introducing the global tender system the magnitude of response from Shipyards has remained more less the same as was admitted both by SCI and the Ministry in their evidence before the Committee. The Committee recommend that the matter should be examined in greater details with a view to finding out the factors responsible for the low key response from foreign shipyards and constraints, if any, removed to enable the maximum number of foreign shipyards to participate in the scheme for acquisition of ships.

The Committee are also informed that after the introduction of new procedure the Company has placed orders for two passenger-cum-cargo vessels from Poland which are plying between Mainland and Andaman. The Company is also reported to be negotiating the price of another 3 phosphoric acid tankers. This has also been approved by the Ship Acquisition Committee and the proposal is being submitted to Government for approval shortly.

4. 2.69 to 2.71

The Committee have found that during 1973-74 to 1984-85 SCI acquired only 8 Indian vessels as against 90 foreign vessels. Further as on 30-1-1985 there were 17 vessels on orders with foreign shipyards and only one order on Hindustan Shipyard. Thus a huge amount of foreign exchange was spent for the purchase of vessels from foreign countries.

Explaining the reason for placing only a few orders by SCI on Indian Shipyards during 1973-74 to 1984-85, the Ministry have informed the Committee that the capacity of the Indian Shipyards was very much limited and it got further reduced due to poor productivity and inordinately longer time taken by them to build a ship. Relatively higher prices of their ships vis-a-vis the low international price paid by a shipper was another reason. However, the CMD of Cochin Shipyard Ltd. during his oral evidence before the Committee informed the Committee that "previously we were taking a longer time. . . . Now we will

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be delivering one ship every 9 months as against 6 months in Japan." He further stated that in 1984 Shipyard had lot of orders and because of world recession SCI cancelled orders for 3 ships being built in *pari-passu* obligation. C.S.L. has now got Japanese consultants and is taking steps to improve its method of ship construction. In this connection, the CMD of Hindustan Shipyard also asserted that if they work on 5 year perspective plan of placement of orders then there will be no difficulty for HSL to build a ship on time.

The Committee are not happy over the plea taken by SCI for placing orders for acquisition of ships from foreign shipyards especially when Indian Shipyards are reported to be starving for orders. Needless to say that when we place orders on foreign shipyards we are indirectly helping the foreign Shipbuilding Industry at the cost of our own shipyards. Therefore, the Committee suggest that the orders for acquisition of ships should be placed on foreign shipyards only in very exceptional circumstances to conserve scarce foreign exchange of the country as far as possible. If, there is any difficulty to get the ships manufactured by Indian Shipyards that could be sorted out by Government as both SCI and Shipyards are under the administrative control of the Ministry of Surface Transport. The Committee also suggest that to assist the Indian Shipyards who are heavily losing because of stoppage of shipbuilding activities, Government should draw up a need-based integrated ship acquisition programme well in advance so that enough time could be given to Indian Shipyards to meet the requirements of Shipping Industry. The Government should fully ensure that orders are placed on Shipyards to enable them to continue their cycle of production. The Committee also desire that even if Indian built ships are a bit costly and Indian Shipyards take a little more time, Government should ensure that as a matter of policy all future orders for acquisition of ships are placed on indigenous shipyards, subject to availability of funds and their order book position.

5. 2-72 & 2-73

The Committee note that the time spent in processing the ship Acquisition Proposals and for obtaining Government approval thereto has been inordinately long. In the case of purchase of two MR Tankers from Japan, the delay involved was of the order of almost 3 years. The proposal was mooted in July, 1977, the Board's approval was given in December, 1978 and the proposal was finally approved by Government in July, 1980. This delay resulted in additional expenditure of Rs. 736 lakhs. In another case of purchase of L.R. Tankers while the outline specifications were given in August, 1981, the proposal was approved by SCI Board in November, 1982 and by Government in May, 1983. In this connection, the Committee are informed

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that SCI streamlined its internal procedure for ship acquisition in early 1987. This envisages a time-frame of 30 weeks beginning with insertion of advertisement for purchase of ships and ending with the submission of Project Report. In this connection, the Ministry also informed the Committee during evidence that the procedure for sanctioning ship acquisition proposals of SCI had recently been studied and certain suggestions in this regard are under consideration of Government. The Committee do feel that certain amount of time lag in finally sanctioning the Ship Acquisition Proposals by Government is in-built in the system because of approvals needed at various levels. But there appears to be no justification for long delay of three years as happened in the above-cited cases. Needless to say that the delay and long procedures involved in clearance of proposals have proved major hurdles in the acquisition of vessels resulting in the slippages in acquisition of additional tonnage both at public and private sectors despite the recession in the world shipping market.

While taking a serious view of the long delay involved in clearing the Ship Acquisition Proposals, the Committee urge that the Government should take an early decision with regard to streamlining the procedure which is stated to be under consideration at present and cut down the delay to the barest minimum.

6. 2.74 to 2.77

The Committee have observed that in February, 1977 Government had issued guidelines imposing a *pari-passu* obligation on Indian Shipping companies purchasing vessels from abroad to place orders on indigenous shipyards. The *pari-passu* obligation stipulates *inter alia* that if the Indian Shipping Company purchases a new ship from abroad it must place order for equivalent tonnage on Indian Shipyard or in the case of second-hand ship to the extent of the value of the ship acquired from abroad. However, this provision does not apply to specialised vessels or vessels of higher DWT than 75,000 DWT. The Ship-owners are also required to place an order on the Indian Shipyard within 6 months from the date of delivery of the purchased foreign vessel. In so far as off-shore supply vessels are concerned, the application of *pari-passu* obligation will be in the ratio of 1 : 4 i.e. one ship to be built in Indian Shipyard against acquisition of 4 ships from abroad.

Not surprisingly, neither the Director General, Shipping, who is responsible for administering the guidelines nor the Shipping Development Funds Committee which has been given the role on advising the Government on the proposal for acquisition of vessels from abroad has ensured the implementation of *pari-passu* obligation. As a result, the

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present outstanding *pari-passu* obligation in favour of Indian Shipyards is of the order of 21.70 lakhs DWT (10.56 lakhs on account of SCI and the balance on account of other Shipping Companies). This large un-met obligation has, therefore, led to a situation where indigenous shipyards have been starved of orders and have in turn incurred heavy losses. According to Ministry, the main reasons for the huge backlog of *pari-passu* obligation was the steep fall in international prices of ships due to global recession in shipping industry, enabling the country to exploit the purchase of ships from abroad.

In this connection, the CMD of SCI also stated in evidence that "*pari-passu* obligation can be met only if the shipyards are in a position to build ships. . . . *Pari-passu* obligation is rather un-realistic as it is not related to indigenous ship-building capacity." To supplement this, the Ministry also stated before the Committee that the *pari-passu* obligation in the ratio of 1 : 1 does not appear to be commensurate with actual ship-building capacity of Indian Shipyards.

While the Committee are inclined to agree that in view of the existing ship-building capacity of national shipyards it may not be possible to fulfil the obligation in the ratio of 1 : 1, the Committee cannot but stress that the Government must ensure that at least an order which can be executed within the country is not placed outside.

7. 2-78

As regards shipbuilding capacity of Indian Shipyards, the Chairman of Cochin Shipyard Ltd., during his evidence before the Committee stated that Cochin Shipyard was designed to build ships of the size of 75,000 DWT and at present it was executing an order placed by SCI for the construction of 3 tankers of 86,000 DWT each. He also stated that SCI has informed CSL that in future they would need big ships of 1,20,000 DWT. He, therefore, stated that it would not be possible for Indian Shipyards to build big ships of this magnitude. He also stated that tanker of 86,000 DWT under construction at present with CSL, has been specifically designed at the instance of SCI and after completion of the present order CSL will not be able to receive any other order from SCI as vessels of higher DWT than 75,000 DWT are outside the purview of *pari-passu* obligation. The Committee feel that in view of the huge losses suffered by Indian Shipyards and to stop the outgo of foreign exchange, the Government should advise SCI to avoid purchasing of big vessels of higher DWT from foreign shipyards especially when vessels of 86,000 DWT are reportedly suited to meet its requirement and can now be built by CSL. The Committee would also like the Government to fully ensure that SCI is not allowed to go in for 1,20,000 DWT vessels to circumvent *pari-passu* obligation as apprehended by Indian

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Shipyards. The Committee recommend that the Government should consider the feasibility of having some institutional arrangement in the form of a Standing Body which should thoroughly examine proposals for ship acquisition and satisfy itself whether the ships acquisition orders to be placed abroad cannot be executed by indigenous shipyards within a reasonable time. This arrangement, to a great extent, will act as deterrent and will indirectly force the Shipping Companies to place orders with Indian Shipyards and will also help in discharging the *pari-passu* obligation.

8. 2.79

The Committee are informed that in order to sort out the problems faced by Indian Ship-owners and also by the Indian Shipyards with regard to implementation of existing *pari-passu* obligation, the Government is reported to have reviewed the existing *pari-passu* policy. The policy review has revealed that *pari-passu* in the ratio of 1 : 1 is unrealistic and should be changed into 1 : 2. It has also been suggested that *pari-passu* obligation accruing earlier to 1-1-1984 should be waived. As a result of this review, re-structuring of the *pari-passu* obligation is reported to be under consideration of the Government. The Committee recommend that Government should take an early decision with regard to restructuring the *pari-passu* policy on a realistic basis so that it could be effectively implemented.

9. 2.80  
to  
2.83

A review of the ships acquired by SCI between 1973 and 1984 has revealed that in some cases cost escalation was allowed by SCI even though the contract was for a firm price. There were also technical defects in the vessels purchased from G.D.R., Romania and Yugoslavia, like cranes not lifting the designed weight, vessels suffering from operational problems and consuming excessive fuel or being structurally defective. Out of 90 ships purchased from abroad during 1973-74 to 1984-85, price escalation was allowed by SCI in as many as 16 ships i.e. 4 each from Romania and GDR and 8 from Yugoslavia. In this connection, SCI had also admitted in their written reply that :

"4 OBOs ordered from Yugoslavia developed structural defects and also had operational problems. Defects and problems were particularly severe with first two ships. Six Indik class cargo vessels and two VLCCs ordered with GDR and Yugoslavia respectively had problems with generators. Four Romanian ships had some problems with their cranes. Apart from these major problems there were also minor deficiencies in cargo gear and auxiliary machineries of some other ships acquired from European Countries."

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As regards enhancement of the price of ships contracted for fixed price, even the company had admitted that Shipyards had no right to ask for high price but they did ask and the matter was then considered at various levels in the Ministry of Shipping, Finance and Department of Economic Affairs and in over-all interest, though it was not good, it was finally decided to pay higher price and get the ships. With regard to unsatisfactory performance of 8 cranes fitted in 4 bulk carriers purchased from Romanian Shipyard, CMD of SCI also admitted in evidence that "obviously something was wrong in cranes which was not detected at the time of inspection... Within the short time the cranes were not able to lift the rated load."

Also in the case of 6 cargo vessels purchased from G.D.R. at a fixed price of Rs. 412.5 lakhs each, the shipyard demanded payment to the extent of Rs. 717.5 lakhs each for first 3 vessels and Rs. 781.5 each for the remaining 3 vessels on account of increase in cost. The price of the 4 ships yet to be delivered was then agreed by SCI at Rs. 501.19 lakhs per vessel involving an additional payment of Rs. 354.76 lakhs. Generator Engines fixed on the vessels encountered major break-downs resulting in frequent repairs and these generators had to be ultimately replaced at a cost of Rs. 2.28 crores. Even after incurring so much expenditure the vessels are reported to be suffering from major operational problems in respect of stability and high fuel consumption. However, no reference was made by the Company to the Ministry for their intervention and guidance in respect of these defective vessels purchased from G.D.R. as admitted by the Ministry in their written reply.

The Committee are not satisfied with the explanation given by the representatives of SCI in their oral evidence and also in the written information furnished before the Committee with regard to purchase of defective vessels from Romanian, G.D.R. and Yugoslavian Shipyards. At this stage the Committee can only express their unhappiness over these deals. However, the Committee are of the view that had the SCI ensured thorough inspection of these vessels by their officers before taking delivery, the Company would have been saved from incurring heavy expenditure on getting the defects rectified. The Committee recommend that the inspection procedures and the programme evaluation of the ships during warranty period should be thoroughly overhauled and streamlined to detect and pin-point deficiencies and defects at the time of take over or immediately thereafter.

merger with SCI in June, 1986. In September, 1987, the fleet strength came down to 134. The maximum fall of 26 ships was in the case of Liner vessels. In this connection, SCI informed the Committee during evidence that as it was incurring losses year after year, its large number of fleet was proving to be a drag on the financial viability of the Company and as such they took a deliberate decision to review the entire fleet taking into account the techno-economic aspects of each ship, change in the trade environment etc. As a result, SCI decided to shed two million tonnage during 7th Plan by getting rid of ships which were relatively fuel inefficient. As a result, SCI scrapped/sold as many as 80 ships from 1981-82 to 1986-87 i.e. 20 ships in 6th Plan and 60 ships in 7th Plan. Out of 60 ships scrapped/sold between 1985-86 to 1987-88 (upto November, 1987) as many as 23 ships had not completed their normal life of 20 years and 9 ships were still having a balance life of 6 to 10 years.

The Committee are also informed that according to the procedure being followed at present for the disposal of ships, the proposal is first considered by the Board of Directors of the Company and then approval of the Ministry is sought thereto. Apart from the Ministry's approval, the Director General of Shipping is also involved in this process. Therefore, after clearance at various levels, the Ship is disposed of. However, in view of very large number of ships disposed of during the last 4-5 years, the Committee have their own doubts that the present system of scrapping/disposal of ships is not fool-proof and leaves much scope for mal-practices and corruption. The Committee recommend that as the disposal/scrapping of ships involves crores of rupees and to obviate any scope for corruption etc., the Government should consider the feasibility of constituting a high powered committee to provide guidance and to resolve all problems connected with scrapping/disposal of ships. The recommendations of the so constituted Committee should be considered at the highest level in the Government and only thereafter SCI should be allowed to scrap/dispose of any ship.

11. 3.68  
to  
3.71

The Committee note that liner fleet of SCI at the time of its incorporation in 1961 consisted of 15 ships (1.06 lakhs GRT). The number of ships increased to 73 (7.62 lakhs GRT) as on 31-3-1985. However, in September, 1987 the fleet strength declined to 47 ships. As a result, the liner cargo tonnage now constitutes 17.4% of the total as against 76% at the time of its incorporation.

The operational results of the liner vessels have revealed that the losses suffered by liner service have tremendously increased from Rs. 370.21 lakhs in 1979-80 to Rs. 1653.00 lakhs in 1985-86. Some of the Liner Services like W.C. India/East Africa and ECI/East Africa (now combined),



E.C.I./Australia and W.C.I./Australia (amalgamated in October, 1987, India/USA/Atlantic) and India/USA (Pacific) have been continuously running into heavy losses during the period 1981-82 to 1986-87. The losses in India/UK/USA (combined), a New Service created by the company rose steeply from Rs. 233.27 lakhs in 1985-86 to an alarming figure of Rs. 1625.25 lakh in 1986-87.

According to SCI the main reasons for the losses are the breakdown of the conference system leading to more intensive and unhealthy competition resulting in fall in freight rates in several liner sectors. Furthermore, Indian ports are used as way ports by large foreign operators who fill up their ships on an incremental cost basis by dumping the shipper service at Indian ports. Whatever cargo they pick up at Indian ports is a bonus for them. On the other hand, SCI has to rely upon Indian ports to provide base cargo which is eroded on account of operation of large foreign operators.

The Committee have been informed that in order to bring down the losses SCI has restructured certain services like UK-Continent/USA Service India/Australia Service and India/East Africa Service. In addition, the Company has entered into a chartered arrangement with Continental Line to cover cargo from certain Latin American countries. The Committee desire that the operational results of all the services should be continuously monitored with a view to discontinue services which are commercially not viable and to promote only those services which have a chance of turning the corner. The Committee are of view that there is no point in operating a service which cannot be justified on commercial considerations.

12. 3.72  
to  
3.74

The Committee find that there is no scheme for cargo support for Indian vessels at Indian ports as is the practice followed in many countries in the world, including Sri Lanka and Bangladesh. The Committee, therefore, feel that in order to get the Indian Shipping enough cargo no less urgent is the need to ensure compulsory support to Indian ships through a legislation so that Indian Shipping Industry shall remain in business.

While supporting the scheme for cargo support for Indian vessels, the Secretary of the Ministry stated during evidence :

"We have been pressing for some arrangement for cargo support for Indian vessels for quite some time. There is a U.N. code which says that countries can have arrangements by which we can distribute the cargo in the proportion of 40 : 40 i.e. 40% for ships of exporting country and 40%

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for ships of the importing country and 20% for third country vessels. In fact, we went to the Cabinet sometime in January, 1986 with a proposal to initiate a legislation by which shippers will be compelled to carry a minimum of 40% in Indian vessels for the export trade. . . . We are asking for a share of 40% minimum."

In this connection, the Secretary of the Ministry of Surface Transport also informed the Committee that the Commerce Ministry has strongly opposed the idea of compulsory cargo support on the plea that "if we are compelling the exporters to export through Indian vessels, it may act as a damper on exports." The Committee desire that the Surface Transport Ministry and the Ministry of Commerce must sort out the differences on this account and come to the aid of Indian Shipping Industry without delay. The Committee recommend that the proposed legislation on cargo support should be enacted at the earliest. Not surprisingly, the Government is taking its own time to settle this matter. The Committee desire that till such time the issue is decided, Government should ensure that at least Public Sector carries its cargo by SCI or other Indian Shipping Vessels.

13. 3-75  
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3-76

The Committee have also noticed that as a result of out throat competition from foreign shippers, capacity utilisation of liner service of SCI in outward direction has steadily fallen from 77% in 1978-79 to 49% in 1985-86. It increased marginally to 51.70% in 1984-85 and again slumped to 48% in 1985-86. According to the company, the capacity utilisation of the liner service has now improved to 58.62% in 1986-87 by taking steps like scrapping/sale of large general cargo liner vessels; aggressive marketing strategy; emphasis on containerisation and close liaison with suppliers, agents and brokers.

The Committee are glad to note that to bring down the losses of liner service, SCI has taken steps like restructuring of certain routes including UK/USA Service, India/Australia Service, Indian East African Service and coverage of trade to certain Latin American countries. The Committee suggest that SCI/Government should also consider restructuring other remaining services and explore new areas of international trade to further improve the capacity utilisation of liner service in outward direction.

14. 3-77

The Committee have also observed that the percentage of high freighted cargo carried by SCI was only to the extent of 35 to 45% and low freighted cargo carried by SCI was in the range of 55 to 65%. It is all due to unfair competition through which foreign vessels secure a large proportion of high freighted cargo. To protect the interest of Indian

Shipping Industry in general and SCI in particular the Committee have already recommended in para 3.74 of this Report for providing compulsory cargo support to Indian vessels at Indian Ports by enactment of a legislation. Besides, the Committee would also suggest that SCI should adopt more vigorous and dynamic strategy to attract cargo by keeping an effective liaison with foreign brokers and other trading agents. This will go a long way in improving the capacity utilisation of its vessels.

15. 3.78  
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3.79

The Committee note that SCI chartered an Indian vessel for a period of six months, upto February, 1977 but the charter period was extended by another six months because the owner was not agreeable to take back the vessel. This resulted in a total loss of Rs. 6.02 lakhs, Rs. 5.09 lakhs for the first period and Rs. 0.93 lakh for the extended period. The need for chartering this vessel is reported to have arisen because one of the Company's own vessels which was to lift Bangladesh cargo, in addition to Calcutta cargo, lifted full cargo at Calcutta itself. In this connection, SCI, has informed the Committee that "buyers in Australia who were expecting Bangladesh Cargo became restive and threatened the SCI that if the SCI does not place a substitute vessel to lift this cargo they would approach a third flag, to place its vessels to lift the Bangladesh Cargo. It would have been detrimental to the interests of SCI not to recognise their commercial threat for berthing a vessel to give coverage to Bangladesh Cargo and allow non-conference lines to intrude into this trade against the SCI which had been all along the sole operator in this sector." The Committee are constrained to observe that for their acts of commission and omission SCI had to incur a loss in chartering a vessel for lifting cargo from Bangladesh even though the cargo lifted was insufficient for the voyage and hence unprofitable.

The Committee cannot help expressing their displeasure over this deal. The Committee feel that as per their commitment with Bangladesh, SCI, though not legally bound, yet had a moral obligation to lift the cargo from Bangladesh at the desired time. The Committee are of the view that SCI could have avoided this loss had it acted in a judicious manner and in accordance with prudent commercial practices.

16. 3.80  
to  
3.82

The Company acquired two Very Large Crude Carriers (VLCCs), Kanchanjunga and Koyali of 2.77 lakh DWT each from Yugoslavia in September, 1975 and February, 1976 respectively but both these vessels are now being used mainly as storage tankers. Due to frequent breakdowns, the Company had to instal four independent diesel generating sets at a cost of Rs. 95.82 lakhs in the first vessel in 1981-82 and Rs. 95.74 lakhs in the second vessel in 1982-83, respectively. The Company incurred heavy losses perpetually on these

ships and the total loss suffered by the Company on account of these ships during the years 1979-80 to 1983-84 was of the order of Rs. 33.61 crores. There was a marginal profit of Rs. 0.57 crore in 1984-85 but in 1985-86 the vessels again incurred a loss of Rs. 1.04 crores.

An examination of the operational results of these vessels carried out by Audit had revealed that in addition to the slump in the tanker market following acquisition of the VLCCs the other factors which contributed to their losses were :

- (a) the company had estimated that these vessels would be on off-hire for dry docking and repairs for a maximum period of 20 to 27 days each year in the first 4 years of operation and 30 days thereafter but the actual out-of-employment period ranged from 19 days to 155 days.
- (b) unusually high expenditure of Rs. 1111.42 lakhs till 1982-83 on account of accidents of these newly built vessels.
- (c) the size of VLCCs is an inhibiting factor in obtaining better rates while fixing them in the market as generally size of such tankers ranges from 2,00,000 to 2,50,000 DWT which is the most suitable size for the VLCCs.

The Committee are distressed to find that even when there was a considerable demand for VLCCs in the market, the two VLCCs (Kanchanjunga and Koyali) of SCI were unable to take advantage of the situation because of their larger dead weight and draft vis-a-vis other VLCCs and as a result they have been incurring heavy losses continuously. The Committee, therefore, strongly urge that SCI should consider ways and means to utilise these two VLCCs gainfully and make them commercially viable. If these cannot be usefully deployed then the company should consider the feasibility of disposing them of so as to save itself from further losses on account of these vessels.

17. 3.83  
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3.84

Article 37 of the Articles of Association of the Company stipulates that if any service operated by the company in pursuance of direction or instruction issued by the President of India, the company shall be reimbursed to the extent of the loss suffered for operation of that particular service provided the company has suffered an over-all loss during the relevant financial year in respect of the operation of its trade, route or service etc. In this connection, the Committee on Public Undertakings (1964-65) in its Third Report had also recommended that Commercial Organisations like

SCI should not be asked by Government to undertake any activity on non-commercial basis except by issuing a directive under Articles of the Corporations.

As back as in 1971-72, the Committee on Public Undertakings had desired SCI to popularise services to Andaman & Lakshadweep as these islands had great potential as tourist resorts and with the development of traffic there it would be possible for SCI to reduce losses in these sectors. The Committee are, however, distressed to find that there has been no appreciable increase in the number of passengers or the quantity of general cargo carried by SCI in these two sectors. In Andaman, the development of tourist traffic is also reported to have been hampered because of restrictions imposed by Andaman Administration on travelling by foreign tourists. As regards cargo movement, some of the Shipping Companies in the Private Sector are reported to be thriving at the cost of SCI as they carry only high freighted cargo leaving low freighted cargo for SCI. The Committee recommend that the Government in consultation with the Andaman Administration should take urgent steps to help SCI to get the maximum share of available cargo so that it does not suffer at the hands of private companies. The Committee also recommend that for this purpose, fresh instructions should be issued to all Government agencies requiring them to offer their cargo only to SCI.

18. 3.85

Although the Government has been re-imbursing losses both in respect of Mainland/Andaman and Mainland/Lakshadweep Services, no directive under Article 37 of the Articles of Association of the company has been issued by Government so far. The Committee would, therefore, like to reiterate the recommendation made by Committee on Public Undertakings in 1965 that "commercial organisations like SCI should not be asked to undertake any activity on non-commercial basis except by issuing a directive under Articles of Association."

19. 3.86

The Committee have noted that the services at Andaman and Lakshadweep are being run by SCI at the instance of Government on low tariff due to socio-political consideration, entailing huge losses which do not cover even the operating expenses of SCI. Therefore, the Committee recommend that, in order to help SCI to meet its operational expenses and to reach the break even level, the Government should consider the feasibility of increasing to some extent the passenger and freight tariff which are abnormally low at present.

20. 3.87

The Committee also find that till 1970 SCI was being re-imbursed full losses but thereafter Government decided to re-imburse only 80% of the losses and that too only in those years in which SCI incurred an over-all loss. In profit making years Government decided that SCI should absorb

those losses. In their written note furnished to the Committee the Ministry of Surface Transport have also recognised the need to re-imburse the entire losses suffered by SCI on running socio-political services without linking to the overall profit or loss position of the Corporation. In this connection, the Ministry of Surface Transport is also reported to have moved a proposal in January, 1988 to re-imburse 100% losses of SCI and Government's decision in this matter is expected shortly. The Committee hope that the Government would take appropriate decision in the matter soon and apprise the Committee in the matter.

21. 4.18  
&  
4.19

The Committee note that SCI operates container service with COMBI type vessels capable of handling both breakbulk and containerised cargo. The Company has a container fleet of 32 vessels with a total container capacity of 10,789 Twenty Ft Equivalent Units (TEUS). The SCI is also reported to have resorted to short term policy of chartering cellular vessels to meet its requirements.

While examining the aspect of containerisation, the Committee on Public Undertakings (1981-82) had *inter alia* commented that although SCI was operating container service on 6 liner routes with COMBI vessels it had not so far cellular container ships which are specifically suited for container traffic and the same should be acquired by SCI. The Committee are unhappy to point out that its recommendation has not been implemented even after a lapse of six years.

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The Committee are informed that the Company had submitted a proposal to Government in May, 1985 to acquire six such vessels from a West German Shipyard at a Cost of Rs. 28 crores each but it has not yet been sanctioned by Government. The proposal is reported to have been considered at various levels and by the time it was appraised and submitted to PIB for clearance on 1-5-1986, the cost of the ships shot up from Rs. 28 crores to Rs 40 crores each. Even after clearance of the proposal by PIB, the SCI was given three options by the Ministry i.e. to negotiate the rate with the West German Yard as the offer was old and might have undergone a change resulting in huge foreign exchange variations; to explore the rupee payment area; and to explore second hand market. Accordingly, after exploring various possibilities, SCI sent a proposal to the Ministry in September, 1987 for purchase of four, 3½ years old second hand container vessels at a cost of Rs. 19 crores each. The proposal has been cleared by the PIB and is awaiting Cabinet's approval. The Committee were informed during evidence that the ships are expected to join the SCI fleet in April, 1988 provided the proposal was cleared by the Cabinet.

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The Committee find that the SCI and the Ministry of Surface Transport together have taken inordinately long time of 6 years in finalising the proposal for purchase of vessels which is still pending before the Cabinet for approval. After analysing the facts placed before them, the Committee have come to the inescapable conclusion that the procedure currently being followed in acquiring the container vessels is quite cumbersome, long and inevitably results in avoidable delays which ultimately result in escalation of the prices of the ships. The Committee, therefore, recommend that the whole procedure should be thoroughly studied from all angles and streamlined with a view to ensure prompt clearance of the proposals.

23. 4-22

The Committee note that SCI had originally requested the Ministry for 6 new cellular container vessels and had also invited tenders. It was only on the direction of the Ministry that SCI had to explore the second-hand market. It is now being argued that the economic viability of second-hand container vessels is better than the new ships. According to the Ministry, by April, 1988, the second-hand container vessels will be about 3½ years old and would still be having 16½ years more as the normal operational life of such ships is 20 years. It was also stated that "the operational cost of the second-hand vessels is slightly more than the brand new vessels. What was identified for the purpose was about 3½ years old vessel. It serves well operationally." The Committee have no doubt in their mind that second-hand ships are no substitute for new ones. As the technology in the field of shipbuilding is fast improving and latest techniques are being developed to manufacture ships which are fuel-efficient, the argument of the Ministry in favour of second-hand ships is untenable. Moreover, there is no guarantee that the second hand ships will continue to work efficiently for 16½ years. It would be relevant to point out here that SCI had an unpleasant experience of the worthiness of old ships when it had to sell 23 ships (discussed elsewhere in this report) before they could complete their normal life of 20 years and 9 of them had still a balance life between 6-10 years. The Committee, therefore, desire that the whole matter should be re-examined in all its ramifications to decide about the economics of the proposal so that the relative suitability of the new and second hand vessels is determined to the best interests of the Company.

24. 4-23

The Committee have observed that the share of SCI in the total container traffic had increased from 16% in 1984 to 22% in 1986 but the container services on all the sectors have been continuously running into losses. Some of the services like WCI/Australia, India/USA (Pacific) and India/USA (Great Lakes) have been incurring losses since

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their introduction. Since more and more international shipping companies are switching over to container ships to attract world market, the SCI should also explore new avenues to attract more traffic to make its services viable and profitable. To achieve that end, the company should identify areas which are unprofitable and restructure its container services in those areas to contain rising losses. Vigorous efforts should also be made by SCI to popularise container traffic among shippers and have adequate number of inland container depots besides developing proper feeder transport facilities by rail/road etc.

25. 4-24  
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4-26

The SCI has entered into the field of Containerisation keeping in line with the world trend. But according to the Company, full benefits of containerisation have not been achieved by it due to lack of basic facilities for handling container traffic at Indian Ports. According to SCI the major drawbacks at the Indian ports are lack of basic equipment like forklifts, top lifters and gantry cranes for handling containers. These short-comings have resulted in poor output at Indian ports.

It has been brought to the notice of the Committee that Indian ports handle 6 to 12 containers per hour as compared to 25 to 30 containers being handled at international container terminals. Therefore, in order to provide adequate infrastructural support to handle the container traffic the following facilities are required to be created at Indian ports :

- (a) Container berths with gantries and back-up area served by Transtainers;
- (b) Container stockyards in the near vicinity of the container berths; and
- (c) Container freight stations with sufficient facilities/shed space, higher capacity forklifts for receiving and delivering of cargo besides stuffing, storage of empty and loaded containers.

The Committee recommend that Government should take urgent steps to modernise the infrastructure at major Indian Ports by providing the above mentioned and other facilities as are considered essential to increase all round productivity.

26. 5-18

Repairs and maintenance of its fleet constitutes one of the major items of expenditure of SCI. The Committee have been informed that depending upon the availability of dry docks, the Company gets its vessels repaired in Indian ports. Due to limitations of size of the home dry docks, the larger vessels are, however, dry docked abroad for repairs. It has been brought out by Audit that the SCI has not



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laid down any norms for maintenance expenditure as according to the Company the repair cost of each ship cannot be uniform because of diverse types of ships, their age group or class of ships. The Committee are not convinced with the explanation given by the Company. Since the Company has gained sufficient experience in operating these ships, it should not now be difficult for them to lay down the norms. The Committee, therefore, recommend that the norms for expenditure on repair of ships of various sizes and age groups should be prescribed forthwith and observed scrupulously.

27. 5-19

The Committee note that majority of the ships purchased by SCI during the years 1973-76 were from Yugoslavia and a few from Japan and Sweden. From the information made available to them, the Committee find that the repair expenditure incurred on Yugoslavian vessels was disproportionately high as compared to Japanese or Swedish ships of almost similar class and size. The Committee were informed that "because of the difficulty in procuring ships from Japan or West European countries, which were insisting on cash down payments, the Company had taken a conscious decision to acquire vessels from Yugoslavia which offered competitive prices and favourable terms, although the Company was aware that the quality of ships will in Japan or West European countries would be better than the ships built in Yugoslavia." SCI had also admitted during evidence that "the workmanship of ships built in Yugoslavia was generally poorer than the workmanship of ships built in Japan or West European countries." Since the normal life of ships is reported to be 20 years and the Yugoslavian ships were known for their poor workmanship, it is surprising that quality was sacrificed to low price and the relative profitability of the ships and the huge expenditure expected to be incurred on the maintenance of Yugoslavian ships were not taken into consideration by the SCI. The Committee have no doubt that higher maintenance cost on Yugoslavian ships would continue to affect the operational results of the Company for the balance life of these ships and, therefore, this important factor should have been given due weightage in the purchase decision.

28. 5-20  
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5-21

The Committee have been informed that whenever an Indian Shipowner wants to get his ship repaired abroad, he has to procure a "no objection" certificate from the Indian Shipyards before approaching the Director General (Shipping) for permission to dry dock the vessel in a foreign shipyard. The Committee find from the information furnished to them that during the years 1980-81 to 1984-85 the Company spent huge amounts ranging from Rs. 23 crores to Rs. 44 crores in getting its ships repaired abroad whereas

Indian Shipyards' share during the same period was between Rs. 17 crores to Rs. 29 crores. The reasons attributed by SCI for this big outflow of foreign exchange have been that dry docking facilities in India are inadequate, expensive and time taken to dry dock ships at Indian ports is more than the time taken abroad. The Committee are of the view that whatever the reasons may be, the country cannot afford such an enormous flight of scarce foreign exchange from the country especially when ships of 80,000 to 85,000 DWT can be dry docked in India and the company, according to its own admission, has only about 10 ships out of the total fleet strength of 134 ships, which fall within the large category of one lakh DWT or above size. The Committee have no doubt that Indian Shipyards have the requisite capability and expertise to repair ships in their docks. Also, the Committee fail to understand as to why 'no objection' certificate is issued by the Indian Shipyards for repair of ships of foreign yards, particularly when such facilities are available with them.

The Committee, however, recommend that Government should make all out efforts to remove the deficiencies, if any, in the Indian yards and augment the existing facilities of dry docking of ships in Indian ports with modern equipments to meet the requirements of the Shipping Companies which are engaged in modernising their fleet to compete in the world market.

29. 5.22

The Committee find that at present adequate facilities for repairing of vessels within the country are not available. Further, due to limitation of size of dry docks in India, the large sized vessels are dry docked abroad for repairs and service. Even the Secretary, Ministry of Surface Transport admitted in his evidence before the Committee that "facilities for carrying out repairs are not adequate. One big problem is that some of the very large ships cannot be accommodated in our existing dockyards. These ships perforce have to go out for repairs." While agreeing to the suggestion made by the Committee for the creation of sufficient facilities in our own shipyards to avoid the outgo of huge foreign exchange, the Secretary informed the Committee that in the Seventh Plan they had put up very comprehensive proposals for enhancement of repairs facilities and for that purpose they demanded allocation of Rs. 135 crores. But the outlay approved was only to the extent of Rs. 38.95 crores. As a result, they could not go in for the creation of new facilities. The Committee cannot but express their serious concern over not making available adequate resources in the Seventh Plan for the creation of adequate repairing facilities within the country. The Committee recommend that the Ministry should take up the matter

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once again with the Planning Commission for the purpose of getting additional funds for creating additional repairing facilities in our shipyards so that the country could be saved from foreign dependence in regard to ship repairs.

30. 5.28

The Committee have also been informed that bulk of the repairs work at Bombay and Calcutta was being carried out by the Government owned/controlled workshops and only minor jobs not requiring high value expertise were being carried out by privately owned firms but the quantum of repair work given to Government owned/controlled workshops and privately owned workshops at Calcutta during the years 1977-78 and 1985-86 has revealed that the repair work entrusted to Government owned/controlled workshops was 41% in 1977-78 which dropped to 21% in 1983-84 and just 16% in 1984-85. This implies that about 59% to 84% repair work had gone to the private workshops. According to the Company the factors responsible for this fall are, higher rates charged by public sector workshops, higher quantum of labour booked than required for the jobs and high overheads. The Committee do not approve of this large scale repair work being given by SCI to private workshops and Government Workshops share declining year after year. Even though Government policy is to give repair work to Government owned/controlled workshops but this policy is not being followed in all seriousness by SCI. Therefore, the Committee desire that Government should issue fresh instructions to SCI to follow the Government policy in this regard, strictly. The Committee also desire that the Government owned/controlled workshops should gear up their activities by devising a suitable strategy for improving their performance in the ship repair field with a view to be competitive with privately owned workshops.