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**AVOIDABLE OR WASTEFUL
IMPORTS**

**MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

**PUBLIC ACCOUNTS
COMMITTEE
1994-95**

HUNDRED AND FIRST REPORT

TENTH LOK SABHA



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE
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(RAILWAY BOARD)



सत्यमेव जयते

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LOK SABHA SECRETARIAT
NEW DELHI

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CORRIGENDA TO HUNDRED & FIRST REPORT OF PUBLIC
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PART II*

Minutes of the sittings of Public Accounts Committee (1994-95) held on 28.11.1994, 14.12.1994, 22.12.1994 and 25.4.1995.

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

COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE
(1994-95)

Shri Bhagwan Shankar Rawat—*Chairman*

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee do present on their behalf this Hundred and first Report on Paragraph 3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993 (No. 10 of 1994), Union Government (Railways) relating to Avoidable or Wasteful Imports.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993, Union Government (Railways) was laid on the Table of the House on 10 May, 1994.

3. In this Report, the Committee have observed specific instances where Railways had made wasteful, unnecessary and costly imports involving a total amount of Rs. 35 crores. In addition, the Committee have also noticed certain cases where the management of the import contracts by Railway authorities was poor. The Committee have concluded that the facts of the cases highlighted in the Report clearly reveal certain glaring shortcomings/inadequacies/irregularities in the import of material and components by Railways resulting in avoidable expenditure of sizeable magnitude, The Committee's examination has also revealed that there were clear instances where the Railways had woefully failed in making timely and proper assessment of their requirements. There were also cases where the costly imported equipments could not be put to effective use for one reason or the other and the Railways had failed to enforce contractual obligations on defaulting suppliers. The Committee have accordingly, recommended that all the cases brought out in the Report should be thoroughly looked into with a view to streamlining the procedure and preventing avoidable and wasteful imports. The Committee have desired that action should also be taken against various officials found responsible for the various lapses/omissions.

4. The Public Accounts Committee examined the Audit Paragraph at their sittings held on 28 November, 14 December and 22 December, 1994. The Committee considered and finalised the Report at their sitting held on 25 April, 1994. Minutes of the sittings form Part-II of the Report*.

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

6. The Committee would also like to express their thanks to the Officers of the Ministry of Railways (Railway Board) and Department of Supply for the cooperation extended by them in giving information to the Committee.

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

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
25 April, 1995

5 Vaisakha, 1917 (S)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

REPORT

AVOIDABLE OR WASTEFUL IMPORTS

I. AUDIT PARAGRAPH

1. This Report is based on Audit paragraph 3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993 (No. 10 of 1994), Union Government (Railways) relating to 'Avoidable or Wasteful Imports' which is reproduced at Appendix-I to this Report. The Audit paragraph reveals certain cases of avoidable or wasteful imports by Railways involving a total amount Rs. 35 crores. The various aspects arising out of the examination of the specific cases contained in the Audit paragraph by the Committee are dealt with in the succeeding sections.

II. PROCEDURE ADOPTED BY RAILWAYS FOR PURCHASES FROM ABROAD

2. The procedure adopted by the Ministry of Railways as intimated by them in their note and which was applicable for the imports made during the relevant period is indicated below:

- (a) General Managers of Zonal Railways and Production Units were empowered to grant permission for invitation of tenders valued upto Rs. 10 lakhs on CIF basis and Railway Board's approval was needed for inviting tenders valued more than Rs. 10 lakhs.
- (b) For purchases made in Railway Board's Office, it has been the policy to call Global Tenders for all high value purchases (other than proprietary purchases). Global Tenders could be called by the concerned Executive Director after obtaining necessary clearance of the Finance (Loan & Funds) Directorate. The purpose of this clearance was to ensure availability of foreign exchange for the proposed import within the foreign exchange budget allocation made by the Ministry of Finance to the Ministry of Railways.

3. As regards the general procedure in vogue for evaluation of tenders; placement or order; and subsequent procurement of supplies, the Ministry of Railways have in their note, informed that the offers received in response to the tenders are examined by the Tender Committee comprising of Members from Stores, Finance and Technical Directorates with reference to the tender requirements, specification, delivery schedule, responsiveness of the Bid, reasonableness of the prices quoted by the lowest bidders etc. The Tender Committee has to make recommendations taking into account all aspect of tenders and their recommendations involve a review of the quantity tendered, the need for negotiations, if any and the

proposal for ordering. The recommendations of the Tender Committee for import require approval of the competent authority depending upon the value of purchase involved. In case of high value purchase made by Railway Board, the recommendations of the Tender Committee require approval of Minister for Railways. As per procedure applicable in 1989, the Ministry of Railways had the delegation of powers for releasing foreign exchange for individual purchases valued upto Rs. 50 lakhs and for higher value purchases the foreign exchange release had to be obtained from the Ministry of Finance after the purchase proposal was approved by the Minister for Railways. The acceptance of offer is issued to the successful bidder within the validity of the offer after obtaining the foreign exchange release and this is followed by a formal contract. Since delivery schedule quoted by the bidders is normally reckoned from the receipt of contract and Letter of Credit, the paying authority is advised soon after the placement of the contract to establish the Letter of Credit so that supplies may commence. Further, the import contracts are generally placed with inspection by Railway Advisor, Bonn for imports from the European Countries and with inspection by RITES (Rail India Technical and Economic Services Ltd.) for imports from other countries. In case of contracts placed on FOB basis, the shipping arrangements are made by the Ministry of Surface Transport through their forwarding Agents/Shipping Corporation of India.

4. In their another note, the Ministry of Railways have informed that they also resort to import of some items through the agency of DGS&D (Director General of Supplies and Disposals) based on the rules on the subject issued by DGS&D and Ministry of Railways from time to time. The procedure prescribed in this regard stipulates that the consuming department place necessary requisition for the item indicating the full details of the equipment, specification, approximate cost and other relevant details to help the procurement agency. The Controller of Stores (COS), on receipt of the above requisition processes the case for placement of an indent on DGS&D. The indent on DGS&D is to be made in the prescribed proforma of DGS&D filling up all relevant columns thereon and the indent is sent to the office of DGS&D for further processing, after pre-vetting by Railways Finance Department at the headquarters of the Railways. DGS&D, depending on the procedure of procurement at their end, floats tenders. However, the technical comments on the offers received by DGS&D are given for user views.

5. Indian Railways have been importing certain components and materials for their requirements through three procuring agencies viz., Railway Board, Zonal Railways/Production Units and DGS&D (Director General of Supplies and Disposals). An elaborate procedure is in existence in the Railways for purchase of goods by these agencies from abroad. This procedure involves, among other things, an examination by the Tender Committee of the tender requirements, specifications, delivery schedule,

responsiveness of the Bid, reasonableness of the price quoted by the lowest bidders etc. The Tender Committee has to make recommendations taking into account all aspect of tenders and their recommendations involve a review of the quantity tendered; the need for negotiations, if any; and the proposal for ordering. The recommendations of the Tender Committee for import require approval of the Competent Authority depending on the value of purchases involved. The Committee's examination of the specific cases brought out in Audit Paragraph has, however, revealed that there were instances where Railways made wasteful, unnecessary and costly imports involving a total amount of Rs. 35 crores. In addition, the Committee have also noticed certain cases where the management of the import contracts by Railway Authorities was poor. The various shortcomings and the disquieting features observed by the Committee during their examination of the subject are dealt with in the succeeding paragraphs.

III. EXTRA PAYMENT ON IMPORT OF WHEELSETS

[PARA 3.1(i)(a)]

A. Global Tender invited in 1989

6. It is seen from Audit paragraph that the Railways invited a global tender for wheelsets for use in wagon production during the year 1989-90. But bids were opened on 13 June, 1989 after the year had commenced. In November, 1989, Railways decided to order 8,800 wheelsets required for wagon production during 1989-90 and 6,500 wheelsets required for production during 1990-91. A Polish firm whose quotation was lowest could supply only 2,000 wheelsets during the remaining period of the year 1989-90 and 4,600 wheelsets during 1990-91. Railways accordingly, ordered 6,600 sets on Polish firm and 3,700 sets on a Romanian firm in November, 1989/January, 1990 and 5,000 sets on a Japanese firm in June, 1990.

According to Audit, for use in production in 1989-90, procurement action should have been taken 27 months in advance, i.e. by January, 1987 as per rules. The lowest tenderer (Polish firm) was in a position to supply 900 wheelsets a month in 1989-90, had they been ordered in time. Extra expenditure incurred by Railways by delayed placement of orders on Romanian and Japanese firms was Rs. 10.71 crores.

7. The Committee have been informed by Ministry of Railways that this Audit paragraph relates to the balancing import of 22.9 tonne wheelsets for meeting the wagon production requirements of 1989-90 and 1990-91.

8. In the light of the fact that wheelsets in the instant case were required for wagon production during 1989-90 but the first order for procurement of the same was placed only in November, 1989, the Committee desired to know as to why the Ministry of Railways had not initiated the process of procurement of wheelsets and placed the orders on the suppliers well in time so that enough time was given to them for

manufacturing and making available the wheelsets for the wagon production in 1989-90. In his reply, the representative of the Railway Board deposed during evidence:

“There is a cycle of 27 months in the case of imports. There was however, no need for 27 months when we started reviewing the requirements in the instant case because wheelsets were coming from Railways production unit and so a buffer stock for three months was being kept. We had buffer stock when the decision was being taken. When a situation arose that trouble was anticipated in Wheel and Axle Plant (WAP), then we closely watched it and took action only when we felt that imports had to be made.”

He also added:

“We had to increase the buffer stock seeing the need for imports. Initially we were keeping buffer stock for three months but we had to increase the buffer stock from three months to six months since need for imports had arisen. Subsequently, we had reversed it. In the review undertaken thereafter, we have brought the buffer stock requirements back to three months.”

9. However, the Ministry of Railways in their post-evidence note clarified that the prescribed time frame of 20-27 months is for procurement of loco spares through import which involves consolidation of requirement of different railways and is based on a circular issued by Mechanical Directorate in November, 1986. This circular is stated to be not applicable for items procured by Railway Board including 22.9 tonne wheelsets required for wagon production. According to the Ministry, the practice is to plan the various inputs required for wagon production as soon as the production plan is approved.

10. The Ministry of Railways also informed the Committee that the requirement of initiating procurement action for the wheelsets well in time was completely followed in the instant case. The Ministry also maintained that the initial computation of requirement of wheelsets indicated that the full quantity could be obtained indigenously and as such the question of import did not arise at that stage.

11. Explaining the methodology adopted by the Railway Board for assessing the requirements of wheelsets, the Ministry of Railways in a note stated that the annual requirement of wheelsets is assessed by adding production requirement based on the production programme of wagons, buffer stock and maintenance requirement of Zonal Railways. From this, existing stock and the supplies expected against outstanding orders are deducted to arrive at net shortfall for procurement. Import is made for the quantity that cannot be made available from indigenous sources.

12. According to the written information furnished by the Ministry of Railways, it is relevant to point out that the action for import is initiated

only after the need for balancing import is established beyond doubt and the requisite foreign exchange is also tied up. In the instant case the production plan for 1989-90 was decided in December, 1987 and the requirements of wheelsets for wagon production during 1989-90 were reviewed periodically initially on 22.2.1988 when it was felt that the entire requirement of 1989-90 could be met by WAP and that there would be no need for arranging imports. A re-assessment of the requirement of wheelsets was also made in July, 1988 when indications were given that the expected supply of the wheelsets during 1988-89 from WAP would be at lower level than what was envisaged earlier. However, in view of the foreign exchange constraints and considering the latest finalisation of wagon production plan for 1989-90, a further review was felt necessary. This review was conducted in February-March, 1989 which revealed that the shortfall of wheelsets for 1989-90 would be at the level of 7500 numbers.

13. According to the Ministry of Railways, it was in March, 1989 that the requirement of balancing import was established clearly. However, the following table based on the information furnished by the Ministry of Railways brings out the quantum of shortfall in the requirement of wheelsets upto 31.3.1990 and 31.3.1991 as worked out by them in their reviews undertaken in February, 1988; July, 1988; February-March, 1989; and June, 1989:

Date of review	Feb., 88	July, 88	Feb., March, 89	June, 89
Review period	1.1.88 to 31.3.90	1.4.88 to 31.3.90	1.2.89 to 31.3.90	1.3.89 to 31.3.91
Total requirement for the period	83,803	78,988 (78,982)	47402	84,129
Stock on the date of beginning of the review period	26,603	24,456	13,338	13,486
Expected supply (both from indigenous sources & imports)	41527	42,000	26,600	55,730
Balance to be ordered (shortfall)	15,673	12,526	7,464	14,913

It would be seen from the above table that the Ministry of Railways themselves had worked out the shortfall in the availability of wheelsets upto the period 31.3.90 as early as in February, 1988 and this fact was further reinforced by the subsequent review undertaken by them in July, 1988.

14. The Ministry of Railways informed the Committee that after the review conducted in March, 1989 had revealed the shortfall in availability of wheelsets for the year 1989-90, the Ministry floated a Global Tender No. GP-154 in April, 1989 after tying up the requisite foreign exchange arrangements.

15. On being enquired with whom did the Ministry of Railways tie up the requisite foreign exchange before floating the Tender GP-154, the Ministry in their note stated that the Global Tender was floated after obtaining clearance from Finance (Loan and Funds) Directorate of Railway Board and this meant reservation of foreign exchange for import out of the foreign exchange budget provided by the Ministry of Finance to the Ministry of Railways.

16. The tender No. GP-154 was invited for a quantity of 7500 wheelsets. This tender stipulated delivery requirements as "commencement of delivery in two months of placement of order/LC and completion in five months thereafter @ at least 1500 wheelsets per month." The tender GP-154 was opened on 13.6.1989 and a total of six offers were received. The prices (including the equivalent to Indian Rupees as per exchange rate of 13.6.1989) and delivery schedules offered by various firms are tabulated below:—

Name of the firm	FOB Price		Delivery Schedule
	In foreign Currency	In equivalent Indian Rupees as per exchange rate on the date of opening of tender	
1. M/s. Kolmex, Poland	US \$1150	19078.50	Commencing 2/3 months earliest October, 89 from date of receipt of proper LC at monthly rate of 800 wheelsets ready for inspection.
2. M/Mecano-export-import, Romania	US \$1588	26,346.00	Shipment starting from July, 1990 @ 500 pcs. per month.
3. M/s Sumitomo Corporation, Japan	Yen239,700	26,752.00	Cargo readiness for shipment will be commenced after 3 months from receipt of LC and completed after 5 months.
4. M/s Ascometal Valdu-nes, France	FF 11,900	28,848.00	Quoted for 3500 wheelsets only 1500 wheelsets in 2 months after opening of LC then @ 1000 wheelsets per months.
5. M/s. Lovere Sidermecanica, Italy	IL-2700,000	30,745.00	@ 1000 pcs. per month starting at 3 months from LC received.
6. M/s. Luck Goldstar, South Korea	US \$2107	34,956.00	Quoted for 1500 nos. only. Delivery @ 400 nos. per month after end of January, 90.

17. The Committee have also been informed by the Ministry that on the basis of recommendations made by the Tender Committee which are stated to have been approved on 11.7.1989 in the instant case, it was decided that negotiations be held with all the tenderers with a view to obtaining better delivery terms and reduction in prices. It was also decided that balancing requirements for 1990-91 wagon production be taken up for coverage against this tender instead of calling another tender in the near future. The total requirement of wheelsets was accordingly, revised to 12,500 wheelsets \pm 30% for production needs till 31.3.1991 and the same was advised to all tenderers for calling them for negotiations.

18. The negotiations with the tenderers are stated to have been held on 25.7.1989 and revised offers were submitted by firms on 31.7.1989. According to the Ministry, these negotiations resulted in three firms (*viz.* Mecano export-import, Lovere Sidermeccanica and Ascometal Valdunes) reducing their prices and some of the firm offering better delivery terms.

19. According to the information made available to the Committee, the requirements of wheelsets for wagon production upto March, 1991 were again reviewed in July, 1989 and it was assessed that 14000 wheelsets (8800 Nos. for 1989-90 and 5200 Nos. for 1990-91) were required to be imported. However, a decision was initially taken to order only 12,500 wheelsets with an option to increase the contract quantities upto 30% during the currency of the contract.

20. At that stage, the Ministry of Railways assessed that maximum 2000 wheelsets could become physically available in India from lowest tenderer Kolmex, Poland till March, 1990 on the basis of LC being opened in September, 1989 and the delivery terms offered by the firm. For meeting balance requirements of 6800 wheelsets for 1989-90, it was decided to order on two other sources *viz.*, Sumitomo Corporation, Japan and Ascometal Valdunes, France. The distribution of 12,500 wheelsets as approved by the Board/Minister of State for Railways in August, 1989 was as under:—

Firm	Quantity to be ordered for production requirements till 31.3.1991
1. Kolmex	5,700
2. Sumitomo	3,400
3. Ascometal Valdunes	3,400
Total	12,500

21. Thereafter, the Ministry of Railways approached the Ministry of Finance on 28.8.1989 for release of foreign exchange. The Ministry of Finance after considering the case in view of the foreign exchange crunch, advised the Ministry of Railways on 25.9.1989 that discussions be held with

the Polish firm with a view to reassessing the possibility of obtaining additional supplies from Poland so as to maximise the imports from RPA (Rupee Payment Agreement) sources. The discussions were held by the Railways with Polish Embassy officials on 27.9.1989. However, Kolmex/Poland regretted their inability to improve the rate of delivery originally offered by them. The Ministry of Railways again approached the Ministry of Finance on 11.10.1989 requesting them to at least agree for import of the part quantity from the Polish Firm pending a decision on the remaining quantity. At this stage, the Ministry of Finance released foreign exchange on 21.10.1989 for 5700 wheelsets to be ordered on the Polish supplier. The contract for supply of these wheelsets was awarded to Kolmex, Poland by the Ministry of Railways on 3.11.1989.

22. The Committee have also been informed that the Ministry of Finance while considering release of foreign exchange for import of wheelsets had also advised against placement of orders on non-RPA sources without prior concurrence. In view of this advice, the recommendations for ordering the balance requirements were reviewed. The Railway Board also considered in November, 1989 the need for increasing the total quantity of wheelsets to be imported on account of increase in the production plan of wagons for 1990-91 from 22,700 as planned earlier to 25,000 wagons. On this basis, the Railway Board decided ordering of 15,300 wheelsets as under:—

Name of the firm	Quantity of the wheelsets
Kolmex, Poland	6,600 nos.
Meccano export-import, Romania	3,700 nos.
Sumitomo, Japan	2,500 nos.
Ascometal Valdunes, France	2,500 nos.
Total	15,300 nos.

23. While the Ministry of Finance released the foreign exchange on 10.1.1990 for additional 900 wheelsets then decided to be ordered on Kolmex (Poland) and 3700 wheelsets to be ordered on Meccano export-import (Romania), they desired that a review be made for justifying the import of balance requirements of wheelsets from Japanese and French Firms. Accordingly, the Ministry of Railways made reviews in January, 1990. The reviews showed that the stock of wheelsets would remain negative in most of the period during 1990-91 if ordering of wheels was restricted to Polish and Romanian sources. The reviews also showed that ordering of 5,000 wheelsets on the Japanese and French firms would improve the position faster and from August, 1990 onwards smooth production of wagons could be expected. Approval of the Minister of Railways was sought for approaching the Ministry of Finance for releasing the foreign exchange for ordering 2500 wheelsets each on Japanese and

French firms in line with the decisions earlier taken by Board and the then Minister of State for Railways. This action was approved by the Minister for Railways in February, 1990.

24. The Ministry of Finance released the foreign exchange for only 2000 wheelsets on 2.3.1990 for ordering on the Japanese source and on being pursued further, additional foreign exchange for balance 3000 wheelsets from Japanese and French firms was released on 15th May, 1990.

25. After the release of foreign exchange for 3000 wheelsets, the Railways Board, however, re-evaluated the offers of the Japanese and French firms on 17.5.90 and found that the French offer had become considerably higher (by Rs. 7,556 per wheelset *vis-a-vis* the Japanese offer) on account of the exchange rates appreciation during the intervening period since the decision was last taken for ordering on the French firm. The Railway Board therefore, gave a counter offer to the French firm at the same price at which ordering on the Japanese firm was being considered but the same was not accepted by the French firm. Railway Board/MR accordingly, approved ordering of the additional quantity of 2,500 wheelsets earmarked for the French firm on Sumitomo Corporation, Japan in June, 1990.

26. At the instance of the Committee, the Ministry of Railways furnished the following information showing the date on which Railway Board actually placed the orders on various firms for supply of wheelsets; the quantities ordered and the price per wheelset paid by the Ministry.

Firm	Date of placement of order	Qty. ordered (exclusive of qty. variation clause)	Contract price
1. Kolmex, Poland	3.11.89	5700	Rs. 19078.50
	24.1.90	900	
		6600	
2. Meccano export-import, Romania	15.1.90	3700	Rs. 22103.00
3. Sumitomo Corporation, Japan	16.3.90	2000	Yen 239700
	31.5.90	500	
	12.6.90	2500	
		5,000	

27. In this context, it may be pointed out that Sumitomo Corporation, Japan had quoted an FOB price of Yen 239,700 per wheelset. The information furnished by the Ministry of Railways revealed that a conversion of this FOB price in Yen to Indian rupees as per exchange rate worked out to Rs. 26,752 at the time of opening of tenders on 13.6.1989 which increased to Rs. 28,724 on 31.7.1989 when revised offers were

received. However, the total FOB payments of Rs. 16.00 crores made to Sumitomo Corporation for supplies of 5000 wheelsets indicate that the FOB cost of each wheelset paid by Ministry of Railways to Sumitomo Corporation actually worked out to Rs. 32,000 as against the cost of Rs. 19,078.50 in case of Polish firm and Rs. 22,103.00 in case of Romanian supplier.

28. The Committee note that the Railways invited a global tender No. GP. 154 only in April, 1989 for import of 7500 numbers of 22.9 tonne B.G. wheelsets for their wagon production requirements during 1989-90. According to the Ministry of Railways, the requirement for initiating timely procurement action for the wheelsets was completely followed in the instant case and that the global tender was invited only after the requirements of balancing import was established clearly in February-March, 1989. The Ministry of Railways have also stated that the wagon production plan for 1989-90 was decided in December, 1987 and the requirements of wheelsets for wagon production during the year 1989-90 were reviewed periodically initially on 22.2.88 when it was felt that the entire requirement of 1989-90 could be met by Wheel and Axle Plant (WAP) and that there would be no need for arranging imports. A reassessment of the requirements of wheelsets was also made in July, 1988 when indications were given that the expected supply of the wheelsets during 1988-89 from WAP would be at a lower level than what was envisaged earlier. However, in view of the foreign exchange constraints and considering the latest finalisation of wagon production plan for 1989-90, a further review was felt necessary which was conducted in March, 1989 revealing the shortfall of wheelsets for 1989-90 at the level of 7500 numbers. The Committee do not find it as a convincing explanation for delay in initiating procurement action for import of wheelsets required for wagon production in 1989-90 in view of the fact that the quantum of shortfall in the requirements of wheelsets upto 31.3.90 was very well known to the Railway Board in February, 1988 when they had themselves computed the same at 15,673 numbers. Moreover, the subsequent review carried out by them in July, 1988 had also reinforced the fact of expected shortfall in the availability of wheelsets which at that time worked out to 12,526 numbers. Even after taking into account the factor of foreign exchange constraints in the country at that time, the Committee consider it shocking that the Railway Board at no stage took any action to make good the expected shortfall in availability of wheel sets for their requirements in 1989-90. Evidently, the Railway Board woke up only after the production year 1989-90 had commenced and there was no time left to further delay the procurement of wheel sets required during that year. Consequently, the Railway Board had to stipulate stricter delivery schedule for import of wheelsets and the price advantage offered by lowest bidder in the instant case could not be exploited in favour of Government due to capacity limitations of that bidder in meeting Indian Railway's requirements as the facts brought out in the following paragraphs would reveal.

29. The Committee note that the Tender GP-154 stipulated delivery requirements for 7500 wheelsets as "commencement of delivery in two months of placement of order/LC and completion in five months thereafter at the rate of atleast 1500 wheelsets per month". This tender was opened on 13.6.1989 and a total of six offers were received. An analysis of the offers received in response to this tender reveals that the two lowest offers were received from the firms located in Poland and Romania—the two countries having Rupee Payment Agreement (RPA) with India. However, that delivery schedule offered by these firms for the supply of wheelsets was not matching requirements of the Railways. The third lower offer was a firm in Japan which quoted in their currency of Yen but offered a delivery schedule which was meeting the delivery requirements of Railways. It is however, seen that there was substantial price difference among the three lower offers in equivalent Indian rupees as per exchange rate prevalent on the date of opening of the relevant tender. While the lowest offer of Polish firm was at Rs. 19,078.50 per wheelset, the second and third lower offers from Romanian and Japanese firms were Rs. 26,346 and Rs. 26,752 per wheelsets respectively.

Subsequently, the requirement of wheelsets for wagon production upto March, 1991 were also reviewed by Railways in July, 1989 and it was assessed that 14,000 wheelsets (8800 numbers for 1989-90 and 5200 numbers for 1990-91) were required to be imported. However, a decision was initially taken to restrict the order only to 12,500 wheelsets with an option to increase the quantity upto 30% during the currency of the contract. The Committee have further been informed that based on the recommendations made by the Tender Committee, it was decided by the Board that negotiations be held with all the six tenderers with a view to obtaining better delivery terms and reduction in prices and the total requirement of 12,500 wheelsets + 30% for production needs till 31.3.1991 be also advised to all the tenderers before calling them for negotiations. According to the Ministry of Railways these negotiations resulted in three firms from Romania, Italy and France reducing their prices and some of the firms offering better delivery terms. The Committee have been informed that the Ministry of Railways at that stage assessed that maximum 2000 wheelsets could become physically available in India from the lowest tenderer Kolmex, Poland till March, 1990 on the basis of delivery terms offered by them. For meeting balance requirement of 6,800 wheelsets for 1989-90, it was decided to order on two firms from Japan and France. Evidently, the stricter delivery terms stipulated in the tender deprived the Ministry at that stage of the lowest price advantage offered by the Polish firm and they had to take a decision to import from two other sources in Japan and France at a substantially higher rate. The Committee feel that had the Railways taken advance planning action in the case and floated tender earlier, the situation would have been different with relaxed delivery requirements.

30. To the utter dismay of the Committee, the Railway Board in November, 1989 further reviewed their requirements of wheelsets to be imported in the light of their decision to increase the production of wagons during the year 1990-91 and decided to increase ordering of import from 12,500 wheelsets to 15,300 wheelsets. This necessitated consideration of placing of order, among others, on the Japanese and French firms who had quoted a higher price and that too in their currency in addition to the orders placed for supply of 10,300 wheelsets on Polish (6600) and the Romanian (3700) firms. Although the Ministry of Finance while releasing foreign exchange at regular intervals seem to have tried to maximise the orders on RPA sources, the Ministry of Railways justified the proposals for import of balance requirements of wheelsets from Japanese and French sources on the ground that it would improve the position of availability of wheelsets and the smooth production of wagons could be expected from August, 1990. Eventually, the order was placed on the Japanese firm. From these facts, it abundantly clear that the Ministry of Railways failed to precisely estimate their requirements of wheelsets in advance and kept on increasing the quantity of wheelsets to be imported under tender GP-154 under one pretext or the other. The net result was that the additional quantities of wheelsets had to be imported at higher rates by paying precious foreign exchange while the country was experiencing serious foreign exchange crunch. The Committee consider it deplorable and they desire the Ministry of Railway to strengthen their planning processes so as to avoid recurrence of such cases.

31. The Committee note that three different orders for supply of 5,000 wheelsets were placed on Sumitomo Corporation between 16.3.1990 and 12.6.1990 at their quoted FOB price of Yen 239,700. However, the information made available to the Committee revealed that a conversion of this FOB price to Indian Rupees as per relevant exchange rate worked out to only Rs. 26,752 at the time of opening of tenders on 13.6.1989 which increased to Rs. 28,724 on 31.7.1989 when negotiated offers were received. What is more revealing is the fact that the total FOB payments of Rs. 16.00 crores made to the Sumitomo Corporation indicate that the FOB cost of each wheelset paid to this firm actually worked out to Rs. 32,000 as against the cost of Rs. 19,078.50 and Rs.22,103.00 paid to the Polish and Romanian suppliers respectively. The Committee consider it unfortunate that the delay in placement of order resulted in an extra expenditure of Rs.10.71 crores, as computed by Audit, on procurement of wheelsets.

32. The Committee trust that the Ministry of Railways would take suitable note of the lessons learnt from this experience in respect of evaluation of requirements and procurement of wheelsets and take suitable steps to streamline the procedure for assessment and procurement of stores in a more timely, systematic and cost-effective manner.

B. Global Tender invited in 1991 [Para 3.1 (i) (b)]

33. According to Audit paragraph, another global tender for purchase of 8400 wheelsets for broad gauge was opened on 4 October, 1991. The lowest offer at US \$ 900 per wheelset from a company in Romania was approved on 2 March, 1992 and a contract was placed on 2 July, 1992. Though Government of India had a non-convertible Rupee Trade Agreement with Romania, the company had not been asked to quote in rupees as the purchase was expected to be financed out of a foreign loan to be taken by Government. However, before the opening of the tender the company had conveyed to the Ministry of Railways on 2 October, 1991 their willingness to accept payment in Indian Rupees at the official exchange rate prevailing at the time of each shipment. This offer was not taken up. Later, the expected foreign loan did not materialise and Ministry of Railways asked the company to accept payment in non-convertible Indian Rupees. In June, 1992 company agreed to accept payment in Indian Rupees at the market rate of exchange ruling on the date of bill of lading and not at the official rate of exchange prevailing which was agreed to earlier. Acceptance of payment in Indian Rupees at the market rate of exchange resulted in extra expenditure of Rs. 3.60 crores to the Railways on the contract.

34. In their note furnished to the Committee, the Ministry of Railways stated that Tender GP-167 in the instant case was called for import of 12,000 numbers of 22.9 tonne wheelsets to bridge the shortfall in the indigenous availability of wheelsets for wagon production during 1992-93. This tender was opened on 4 October, 1991. At the time of floating this tender, loans were being negotiated with World Bank and Asian Development Bank. Both the loans were to have retro-active financing. In the World Bank loan, the provision expected for the total retro-active financing for all eligible tenders was US \$ 30 million and the expenditure incurred during 12 months' period prior to the signing of the loan was eligible for such retro-active financing. Considering the fact that there was a constraint of Free-Foreign Exchange and also the desirability of utilising the retro-active provision in the expected loan, tender GP-167 is stated to have been invited under conditions of World Bank funding.

35. In this context, it is relevant to point out that the Ministry of Railways have, in their note on the situation of foreign exchange in the country at the relevant time, stated that the Ministry of Railways were given an allotment of Rs. 284 crores of Free Foreign Exchange by the Ministry of Finance for the year 1991-92 out of which Railways had used Rs. 105.5 crores by the end of October, 1991 and the total utilisation during the year was only Rs. 202.50 crores. Thus there was adequate balance left against the Free Foreign Exchange allotment to finance urgent import requirements of the Railways. However, the import of wheelsets under reference was processed under the World Bank financing as Railways were under obligation to utilise 10% of the loan amount within 12 months before the date the loan was signed.

36. As the tender GP-167 was being processed under expected World Bank Loan, the Ministry prepared the bidding documents for purchase under International Competitive Bidding Procedure and obtained the World Bank's clearance to the same. According to the Ministry of Railways, the Bidding Documents had, in accordance with the World Bank Guidelines, the following stipulation regarding currency of prices:—

“The prices should be stated only in one currency and should be either in the currency of the manufacturer's country or in US dollars.”

37. The Committee have been informed that 12 offers were received in response to the tender GP-167 which was opened on 4.10.1991. The lowest offer was from Di Apollo, Romania at FOB price of US \$ 900 per wheelset. Di Apollo' offer against tender GP-167 dated 1.10.1991 was received under Indian Agent, Ovimpex International's letter dated 4.10.1991 and it contained a specific authorisation in favour of Ovimpex International to represent them against tender GP-167 and to quote and negotiate the offer on their behalf.

38. The Audit paragraph however, points out that before opening of the tender the Romanian Company had conveyed to the Ministry of Railways on 2 October, 1991 their willingness to accept payment in Indian Rupees at the official exchange rate prevailing at the time of each shipment but this offer was not taken up by Ministry of Railways. Explaining the position in this regard, the Ministry of Railways in their notes clarified that Di Apollo sent another letter dated 2.10.1991 which was forwarded by Roger Enterprises, New Delhi, a firm different from the one specifically authorised by the Romanian firm to represent them in regard to business against tender GP-167. According to the Ministry, Di Apollo's letter dated 2.10.1991 was not submitted in response to Global Tender GP-167 and it neither referred to the offer of 1.10.1991 separately submitted by them nor did it have any details of price and terms and conditions. The letter contained just a suggestion that Indian Railways should invite them for discussions to discuss and negotiate the scope and supply of the wheelsets and terms of the Barter arrangement. The firm through this letter is stated to have only expressed an intention to furnish an offer for barter arrangement which would have involved 100% payment in Indian Rupees at the exchange rate prevailing at the time of each shipment. This letter also did not make any reference to the Indo-Romanian Trade and Payment Agreement and did not conform to its stipulations as Barter arrangement is not incorporated in the Trade Agreement. The Ministry have, therefore, maintained that this letter was neither related to tender GP-167 nor to the Indo-Romanian Trade and Payment Agreement and hence did not deserve any consideration.

39. The Committee have further been informed that the tender was finalised for ordering 8400 wheelsets on Di Apollo, Romania as per their offer submitted against tender GP-167 and this was approved by the Minister for Railways on 2.3.1992. The Acceptance of offer was issued to

Di Apollo on 4.3.1992 incorporating the quoted price of US Dollar 900 per wheelset. Since such acceptance was to be issued in anticipation of the World Bank's clearance for award of the contract, the Ministry of Railways decided to release foreign exchange initially under free foreign exchange on the basis of requirements projected in the Free Foreign Exchange Budget to the Ministry of Finance. Since the World Bank loan had not materialized till then and there a possibility of procurement being made outside World Bank Financing, the Ministry of Railways made a reference to the Ministry of Finance [Department of Economic Affairs (DEA)] who advised on 6.5.1992 that in view of the Indo-Romanian Trade and Payments Agreement, all payments should be made in non-convertible Indian Rupees.

40. The Committee desired to know the follow-up action taken by the Ministry of Railways in pursuance of the aforesaid clarification given by the DEA. In their post-evidence note, the Ministry of Railways stated that after obtaining DEA's clearance, they followed up with the supplier with a view to persuading him to accept payment in non-convertible Indian Rupees. As a result of discussions and persuasions, Di Apollo agreed to accept the offer being considered under Indo-Romanian Trade and Payments Agreement provided that the payments are effected in Indian Rupees at the market Rate of Exchange prevailing on the dates of respective bills of lading. Di Apollo's proposal was considered further and accepted.

41. As regards the audit observations on extra expenditure incurred by Ministry of Railways in this case due to making of payments in Indian Rupees at the market rate of exchange, the Ministry of Railways sought to clarify in their post-evidence note that the "official" exchange rate as referred to in the Audit Para had no relevance at that time. In fact with effect from 1.3.1992 Liberalised Exchange Rate Management System had come into force and Railways were required to meet all their payment liabilities at market rate as per Ministry of Finance's O.M. dated 12.3.1992 and further clarifications vide Resolution dated 3.4.1992. Thus, the Railways decision to accept Di Apollo's proposal in June, 1992 for making payments in non-convertible Rupees as per market rate of exchange did not have any extra cost implications and the Ministry of Finance's requirement of making payments in non-convertible Indian Rupees was also satisfied.

42. The relevant extracts from the O.M. dated 12.3.1992 and Resolution dated 3.4.1992 referred to above, are reproduced at Appendix-II. A perusal of these instructions would reveal that these relate to the specific procedure to be followed by Government Departments for obtaining FE at the official rate from the authorised dealers for the import of goods. These instructions also stipulate that Departmental undertakings like Railways, Department of Telecommunications, Department of Posts, Doordarshan and All India Radio will meet all their payment liabilities at 'market rate'. However, these instructions nowhere stipulate that the payments for the

imports from RPA countries in non-convertible rupees would have to be made at market rate of exchange.

43. Incidentally, it may be pointed out that the Ministry of Railways decided in September, 1992 to drop the proposed loan from World Bank as the overall position at that time had changed in view of increased indigenous production of items required through loan, the impact of rupee devaluation, changed economic scenario and overall resources position. Yet another reason was that the Indian Railways could not agree to any time bound plan for disinvestment or to international competitive bidding for wagons as insisted by the World Bank.

44. The Ministry of Railways floated another global tender No. GP-167 in 1991 for import of 12,000 numbers of 22.9 tonne wheelsets to bridge the shortfall in the indigenous availability of wheelsets for wagon production during 1992-93. Anticipating utilisation of the provisions of retro-active financing available in the expected World Bank Loan then being negotiated, the Ministry of Railways invited this tender under the conditions of World Bank funding. In accordance with the World Bank guidelines, the tender conditions stipulated that the "prices should be stated only in one currency and should be either in the currency of the manufacturer's country or in US dollars". The lowest offer at FOB price of US dollars 900 per wheelset was received from a firm in Romania — a country with whom India was having Rupee Payment Agreement. This offer was accepted by the Ministry of Railways and the offer of acceptance was conveyed to the firm on 4.3.1992. The Ministry of Railways also, simultaneously, decided to release foreign exchange for the procurement initially under free foreign exchange (FFE) on the basis of their requirements projected in the FFE Budget to the Ministry of Finance. Since the World Bank Loan had not materialised by that time and there was a possibility of procurement of wheelsets being made outside World Bank financing, the Ministry of Railways made a reference to the Ministry of Finance (DEA) who advised on 6.5.1992 that all payments should be made in non-convertible Indian Rupees in view of Indo-Romanian Trade and Payment Agreement being in force. The Ministry of Railways, accordingly, took up the matter with Romanian firm which is stated to have agreed to accept the offer being considered under Indo-Romanian Trade and Payment Agreement provided that the payments were effected in Indian Rupees at the "market rate" of exchange prevailing on the dates of respective bills of lading. This proposal was accepted by the Ministry of Railways.

45. Explaining their position in respect of the extra expenditure of Rs. 3.60 crores as pointed out by Audit owing to the differences in market and official rates, the Ministry of Railways contended that the "official" exchange rate referred to in Audit paragraph had no relevance at that time as a Liberalised Exchange Rate Management System had come into force with effect from 1.3.1992 and that the Railways were required to meet all their payment liabilities at market rate in terms of Ministry of Finance

instructions dated 12.3.1992 and further clarifications dated 3.4.1992. The Ministry of Railways have as such maintained that their decision to make payment to the Romanian firm "in non-convertible Indian Rupees as per market rate of exchange did not have any extra cost implication and the Ministry of Finance's requirement of making payments in non-convertible Indian Rupees was also satisfied". The Committee are not at all inclined to accept this argument of the Ministry of Railways because they understand from a close scrutiny of the instructions dated 12.3.1992 and 3.4.1992 that these instructions laid down the procedure to be followed by various Government Departments/agencies for procuring the foreign exchange only in cases where payments for imports or otherwise were to be effected in foreign exchange and thus were not at all relevant in the instant case where payments were required to be made in non-convertible Indian Rupees. Obviously, the Ministry of Railways failed to appreciate the substance of the aforesaid instructions in its right perspective and rather than seeking advice of the Ministry of Finance on this issue they acted with the sole aim to push the contract through with the Romanian supplier. In view of the foregoing, the Committee feel convinced that the decision of the Ministry of Railways to make payments to the Romanian firm in Indian Rupees at the market rate of exchange involved increased cost implications and the only satisfaction that the Ministry of Railways could draw in this case is that such payments were made in non-convertible Indian Rupees. At this stage, the Committee can only express their distress over the manner in which negotiations with the Romanian firm were conducted by the Ministry of Railways to the detriment of Government funds.

IV. WASTEFUL IMPORT OF WHEELSETS [PARA 3.1 (ii)]

46. This Audit paragraph seeks to highlight that the Railways imported 2000 metre gauge wheelsets on 13 May, 1992 for wagon production in 1992-93. As Railways had decided to stop production of metre gauge wagons in July, 1992, the procurement of these 2000 wheelsets was avoidable and expenditure of Rs. 9.98 crores involving foreign exchange was infructuous. The wheelsets are not likely to be utilised in the future also.

47. According to the information made available to the Committee, the Railways assessed in December, 1990 that the net requirement of 14 tonne MG wheelsets for production during 1992-93 would be 7250 nos. Accordingly, global tender No. GP-169 was called and opened on 6.6.1991. After opening of the tender, certain reviews for assessment of requirements of 14 tonne wheelsets for MG production were also made the details of which are furnished below:

Month	Requirement of 14 tonne MG wheelsets as assessed
June, 1991	6000 nos.
August/September, 1991	4000 nos.
January, 1992	2000 nos.

48. In December, 1991, the Railways had also announced their uni-gauge policy and the action plan then contemplated included 27 gauge conversion projects.

49. Meanwhile, the acceptable offer against the global tender No. GP-169 was recommended by the Tender Committee for approval to the competent authority viz., Minister for Railways (MR) on 17.10.1991. The case was received back on 26.12.1991 for a review keeping in view the MR's directions vide note dated 24.12.1991. The action plan decided by MR envisaged among other things the following:

- (a) MG Rolling Stock procurement programme should be frozen and these resources utilised for uni-gauge programme; and
- (b) The details of implementation of the action plan be finalised at a meeting of GMs at Bangalore from 6th to 7th January, 1992.

The Action plan as enshrined in MR's note dated 24.12.1991 is stated to have been approved in the GM's meeting held at Bangalore on 6-7 January, 1992.

50. The Committee were also informed that on this basis, a review of the status of order for MG wagons was undertaken on 7.1.1992. In this, the status of ordering of inputs and the set back that would be caused in the production units and consequent disruptions etc. were considered and it was felt that time had to be given for the units to switch over from MG Production of BG Production. The aspect that inputs organised would result in idle inventory was also considered. After considering these aspects, the Member Traffic, Railway Board approved procurement of 3400 MGT wheelsets for 1992-93 and 800 wheelsets for 1993-94. The production for 1993-94 was restricted to only Samastipur Workshop as it was noted that this workshop may not be in a position to switch over to BG production before 1994-95.

In view of the uni-gauge policy already announced in December, 1991, the Committee desired to know as to how did the Railway Board justify in January, 1992 that import of 2000 wheelsets was inescapable. In their note furnished to the Committee, the Ministry of Railways stated that in December, 1991/January, 1992, full scope and extent of uni-gauge policy was not known.

51. A review of the requirement of 14 tonne wheelsets was again done on 4.2.1992 and the quantity assessed at 2000 nos. The file was remitted back to the MR with this appreciation and he accorded

approval on 10.3.1992 for procuring 2000 wheelsets of 14 tonnes. The Ministry admitted that the directive of the Minister dated 24.12.1991 to freeze the MG rolling stock thus stood modified to this extent.

52. The acceptance of offer for supply of 2000 MG wheelsets was issued to M/s. Kolmex, Poland on 13.3.1992. The formal contract was issued to them on 13.5.1992 and an irrevocable Letter of Credit was established by the Indian Bank with the Bank handlowys in favour of the Polish supplier on 19th May, 1992 which was valid for shipment till 20.9.1992 and for negotiations of documents till 5.10.1992.

53. It is, however, learnt from Audit that as per directions of Chairman, Railway Board (CRB) dated 5.5.1992, no new MG rolling stock was to be manufactured unless it was unavoidable. Consequent to CRB's directives the need for manufacture of MG stock was reviewed by the but considering that reduction in manufacture of MG goods stock already approved in January, 1992 would result in idling of Capacity in Railway Workshops (Golden Rock and Samstipur on Southern and North Eastern Railways) decided against any reduction and accordingly as per approved programme of January, 1992 imported 2000 nos. of wheelsets.

54. On being enquired as to when was Chairman, Railway Board's aforesaid directives reviewed by the Board, the Ministry of Railways stated in their post-evidence note that the above referred directives of CRB relate to his directions at the GM's conference held on 2-3 May, 1992 whereby the CRB had directed that there should be no need to manufacture any more MG stock in view of gauge conversion. A review of these directives was initiated on 5.5.1992 and it was decided by Board to restrict MG wagon production to 200 wagons.

55. The Committee were also informed by Audit that the Planning Directorate of the Board had suggested on 26.5.1992 that no MG wagons be manufactured. Despite this, the Board decided to manufacture 200 nos. of 14 tonne MG stock to avoid idling of workshop capacity. The Committee, accordingly, desired to know as to how far the decision of the Board to manufacture 200 MG wagons was justified in view of the uni-gauge conversion programme and the suggestion of the Planning Directorate. In their post-evidence note, the Ministry of Railways stated that the note of the Advisor Planning dated 26.5.1992 mentioned no additional requirement of MG Rolling Stock in the context of unigauge implementation programme. However, the wagon production programme for 1992-93 had been decided on 31.10.1990. Certain components were already in the pipeline and certain materials had also been ordered for procurement. According to the Ministry, the activities could not be stopped abruptly. Considering these factors and also the fact that 14 tonne axle load wagons were required to be manufactured for being deployed on Lunding-Badarpur section, which was not slated for gauge conversion in the programme, decision was taken to manufacture 200 nos. of MG wagons.

56. The Committee have also been informed that the entire quantity of 2000 wheelsets was manufactured by the supplier in May, 1992 and offered for inspection in first week of June, 1992. After inspection, this quantity was shipped to India on 17.9.1992. The Ministry also informed the Committee that the contract did not have and could not have any provision for cancellation in a situation when the wheelsets had been manufactured and offered for inspection well within the contractual delivery period.

57. As regards the present stock of 14 tonne MG wheelsets and its utilisation the Ministry of Railways stated in a note that the present stock of 14 tonne wheelsets is 2000 nos. Alternative use of these wheelsets for upgrading MG rolling stock for Lumding-Badarpur section was planned to enable a higher throughput. Further, the cost of procurement of matching equipment for retrofitment of wheelsets had been assessed while proposal was mooted for inclusion in Rolling Stock Programme (RSP).

58. Asked about the cost for inputs to tracks and the procurement of matching equipments for retrofitment of 14 tonne wheelsets proposed to be utilised, the Ministry of Railways in their subsequent note stated that strengthening of track is a separate process which is based on operational needs. However, the cost at current level of inputs for procurement of matching equipments for these 2000 wheelsets would be Rs. 4 crores.

59. In reply to another question, the Ministry of Railways also stated that the retrofitment of these 2000 wheelsets has been proposed in 1995-96 RSP and that these wheelsets would be utilised within two years once this RSP is approved by the Government.

60. In yet another case of import of wheelsets, the Railways invited in 1991 a global tender GP-169 for meeting their production requirements of 14 tonne MG wheelsets during 1992-93. This tender was opened on 6.6.1991 and the acceptable offer against this tender as recommended by the Tender Committee was forwarded to Minister for Railways in October, 1991 for his approval. Subsequently, the Railways had also announced their uni-gauge policy in December, 1991. The case relating to tender GP-169 was accordingly remitted back for a review in the light of Minister for Railways directions dated 24.12.1991 that "MG Rolling Stock programme should be frozen and these resources utilised for uni-gauge programme". The Committee are concerned to find that despite this clear-cut direction of the Minister for Railways, the then Member (Traffic) in Railway Board approved procurement of 3400 MG wheelsets for requirements during 1992-93 and 800 wheelsets in 1993-94 on the basis of a review undertaken on 7.1.1992. While this review is stated to have considered that time had to be given for the production units for switching over from MG to BG production and also taken into account the aspect that inputs organised would result in idle inventory, the Committee are surprised to note the plea of the Ministry of Railways raised in their defence that the full scope and extent of unigauge policy was not known to them in January, 1992. In the opinion of the Committee, this plea of ignorance holds no ground in the

light of the fact that the action plan under uni-gauge policy announced earlier in December, 1991 had clearly contemplated inclusion of 27 gauge conversion projects. Evidently, the facts enumerated above are a sad commentary on the functioning of such an important organisation as Railway Board insofar as they had completely known the implications of the uni-gauge policy in January, 1992 after having themselves worked out on the gauge conversion plants under that policy. The Committee therefore, conclude that the whole issue of assessment of requirement of MG wheelsets in the instant case was dealt with by the Railway Board in a rather strange and inexplicable manner in utter disregard to the realities of the situation.

61. The Committee have been informed that based on a review undertaken on 4.2.1992, the requirement of MG wheelsets was assessed at 2000 numbers. After obtaining the approval of the Minister for Railways, the acceptance of offer was issued to Polish supplier on 13.3.1992 and a formal contract for supply of 2000 MG wheelsets made on 13.5.1992. The supplier is stated to have manufactured the entire quantity in May, 1992 and after inspection shipped the same to India on 17.9.1992. However, Railways having decided to stop production of metre gauge wagons in July, 1992, the procurement of these wheelsets proved unnecessary and the entire expenditure of Rs. 9.98 crores involving foreign exchange was rendered infructuous. Although the Railways are stated to be proposing alternate use of these wheelsets by upgrading MG rolling stock for Lumding-Badarpur section which is not slated for gauge conversion, yet the facts remain that these wheelsets will remain unutilised for considerably longer period and that the cost of matching equipments for retrofitment of these wheelsets will be Rs. 4 crores. The Committee cannot but express their unhappiness at this heavy extra expenditure due to inaccurate conception in the Ministry of Railways' planning and requirements. They also desire the Ministry of Railways to do introspection with a view to streamlining their procurement of equipments strictly in accordance with their precise requirements.

V. AVOIDABLE IMPORT [PARA 3.1 (iii)]

62. The Audit Paragraph reveals that three cambering machines were imported by the Railways at a cost of Rs. 3.98 crores. One of the machine which was originally imported for Lilluah workshop costing Rs. 1.28 crores and the import for which was avoidable, later on transferred to Jhansi workshop where it has not been used so far. While the second machine had been commissioned in Jagadhri in February 1993, the third one was also remained to be commissioned. The cost of these two plants was 2.7 crores.

63. Explaining the need for import of these machines, the representative of the Railway Board informed the Committee during evidence:—

“From the time, the Railways came in this country, we have been having laminated springs and later on we shifted to coil springs. This type of the spring has been giving trouble and there was a continuous effort to improve its reliability in service. In late 70s

and early 80s, this issue was very very critical because at that point of time, most of our rolling stock had laminated springs. So it was decided in seminar held in April, 1985 that the reasons for the failure were to be looked into and remedial measures were also taken into account. The suggestion was that the manufacturing requirement or the manufacturing process needed improvement and for this purpose six workshops were identified. These were Jagadhri, Lilluah, Jhansi, Royapadu, Kota and Raipur..... This was followed by Chief Workshop Engineer's Conference in July, 1985 and these recommendations were considered..... Then, the Board took a view that instead of six workshops, we should first have this improvement in three workshops, namely, Jagadhri, Lilluah and Kota. This was the decision before entire set up was ordered, but most of these workshops had also been having equipment for improving the process. It is not one equipment, it is ten to twelve machines which form the workshop. So far as these workshops are concerned, only in the case of Jagadhri, there was no change in the location. There was shift from Lilluah and Kota workshops."

64. The Committee desired to know whether the decision to change the location where these machines were to be installed not resulted in delayed procurement of the machines. In his reply, the representative of the Railway Board stated during evidence:—

"There were two independent issues. One was to procure these three sets and another was the location, where they will go. So, really the decision to change the location has not come in the way or has not slowed down the procurement process. In fact, the decision was taken before the orders were placed and once the orders were placed, they completed the delivery of the machine at the correct places."

65. In reply to a question about procurement of these three machines, the Ministry of Railways in a note stated that the order for purchase of all the three plants was placed on 25.2.1988 and the machines arrived as under:—

Jhansi	— May, 89
Perambur	— September, 89
Jagadhri	— June, 89

As regards the cost of these machines, the Ministry of Railways stated that the cost of three laminated Spring manufacturing lines including all ancillary works is as under:—

Jagadhri Workshop	— Rs. 1.62 crores (Eye forming machines
Jhansi Workshop	— Rs. 2.83 crores and induction Meter
Perambur Workshop	— Rs. 2.98 crores not included)

Rs. 7.43 crores

66. When asked about the reasons for delay in commissioning of the plant at Jhansi workshop, the Ministry of Railways in a note stated:

“The plant was received at Jhansi workshop in May '89. Initially there was a thinking to move this plant to Rail Spring Karkhana, Sithouli for manufacture of parabolic springs but as that product was not taken up at Sithouli, Central Railway was given clearance in December '90 to instal and commission the plant at Jhansi workshop. The foundations were made ready in August '91. Since then the firm M/s. Sowars Ltd. was repeatedly chased to instal and commission the plant. After vigorous chasing, the firm started the work in April, 1993 and completed installation in January, 1994. During commissioning of the Plant, it was observed by the engineers of the firm that the furnaces were not generating enough heat, as such they suggested the use of Light Diesel Oil (LDO) as fuel. Some structural modifications were also required to ensure better protection of the machine before it is finally commissioned. These modifications have been carried out by the Railways.

Having put right the plant at Perambur, the firm's engineers are at present working at Jhansi workshop. The plant at Jhansi is expected to be put right very soon.”

67. As regards the reasons for delay in commissioning of the plant at Perambur, the Ministry of Railways in their note elaborated as follows:

“The plant at Carriage and Wagon Workshop, Perambur was received in September '89. The Plant consists of a group of 10 different machines out of which .7 were commissioned in January, 1991. Two furnaces and one cambering machine remained to be commissioned. The concerned firm, M/s. Sowars Ltd. were on the job of commissioning the machines but due to reasons such as defects in flame sensors, low supply voltage, etc., the machines could not give the desired camber and hardness during the first trial run in March, 1993. After certain repairs, trials were conducted in September, 1993 and March, 1994 but though the performance improved, the stipulated contract conditions could not be fulfilled. The local engineers of the firm then consulted their principals in U.K. and have finally put right the Plant as Perambur workshop in August '94.”

68. When asked about the present status of utilisation of these machines, the Ministry of Railways in a note informed that the plant at Jagadhri was first to be commissioned on 18.5.92 followed by Perambur which was put to effective use in August 94. Firm's engineers are at present working to commission the plant at Jhansi.

69. Elaborating on the point of delay in commissioning of the machines, the representative of Railway Board during evidence stated:

"From 1989 till today, there is an element of delay in that. These machines are not one machine. They are a line of 10 to 12 machines. The company which was installing these plants could only form one gang of engineers to instal this equipment. That is one reason for the delay. They do not have enough number of gangs to work on these three machines simultaneously. They took up one machine first. That was the Jagadhri plant. Then Perambur was also equipped."

He further added:

"..... we have asked for three gangs. So far only one line has been commissioned. The other two are on the verge of being commissioned. We have already penalized them for the delay in commissioning of this machine. We wish to penalize them for the balance also. There is a clause available for penalties in the contract."

70. The Committee find that the Railway Board decided to import three "Laminated Spring Line" plants with a view to improving the manufacturing process of laminated springs in three workshops located at Jagadhri, Kota and Lilluah. However, a decision was subsequently taken to change the location of these imported plants from Kota and Lilluah workshops to Perambur and Jhansi workshops. The order for import of these three plants was placed on 25.2.1988 and these machines arrived in May, June and September of 1989 at Jhansi, Jagadhri and Perambur respectively. The Committee, however, regret to note that after receipt of the plant at Jhansi in May, 1989, there was rethinking in the Railways to move the plant to Rail Spring Karkhana at Sithouli for manufacture of parabolic springs. Since that particular product was not taken up at Sithouli, the Railway Board gave clearance to Central Railway for installation of the plant at Jhansi only in December, 1990 i.e., after a lapse of more than 18 months after the plant had arrived in Jhansi. Although the foundations for the plant were made ready in August, 1991, the Committee are amazed to find that this machine is yet to be commissioned. To the utter dismay of the Committee, there were also considerable delays in commissioning of the other two plants. While the plant at Jagadhri was the first to be commissioned in May, 1992 i.e., approximately after three years of its arrival, the plant at Perambur could be put to effective use only in August, 1994 when a period of approximately five years had lapsed since the plant arrived at this workshop. Although the Railway Board are stated to have penalized the firm for the delay in commissioning of a machine, the Committee are in no doubt that the Railways failed to take concrete measures against the supplier or his agent with a view to avoiding delay in commissioning of these plants costing Rs. 7.43 crores. From the facts enumerated above, the Committee gain the impression that the Railways in this case have displayed not only wavering attitude in selection of

workshops even after the plants had arrived but also their inability to prevail upon the supplier to commission these three plants within a reasonable time frame. The Committee hope that the Railways would at least now earnestly take up the matter with the supplier to put the plant at Jhansi to effective use at the earliest. The Committee also trust that the penalties leviable in this case would be enforced against the supplier or his agent. The Committee would like to be apprised of the progress made in the matter.

VI. POOR IMPORT MANAGEMENT [PARA 3.1 (iv)]

71. According to Audit Paragraph, Chittaranjan Locomotive Works (CLW) contracted with an Indian company 'A' which was a subsidiary of a foreign company 'B' in August 1981 for supply of 131 tap changers which were to be imported from 'B' in Switzerland and fabricated, assembled and supplied to the CLW by 'A'. Imports were to be paid for by CLW to 'B' and CLW was to clear the import from the docks at Bombay and despatch it to 'A's works at Vadodara. 'A' was to report transit damages and losses to Insurance Company under advice to Railways. Four consignments of tap changers despatched in September 1983 were damaged and report to the Insurance Company was made by 'A' in December 1983. Railways having paid for the imports failed to lodge a claim for damages in time and claims became time barred. Reimport resulted in avoidable extra expenditure of Rs. 2.66 crores to Railways. 'A' stated that imports were made without his consent.

In two more contracts signed in April 1981 and April 1982 with the same firm 'A' for supply of air circuit breakers, alongwith imported spares, shortages and defects were found in imported spares valued at Rs. 78 lakhs and 'A' held that CLW had delayed clearing the consignments from the docks and the consignments lay unprotected during monsoon and water entered three cases of the consignment. CLW did not lodge claim with Insurance Company in time and claim became time barred.

72. The three contracts referred to in the Audit paragraph deals with import of two items viz., Tap Changers and Circuit Breakers which are discussed in the succeeding paragraphs under distinct heads.

A. Tap Changers

73. The Committee have been informed by the Ministry of Railways that contract No. 20117 dated 10.8.1981 was placed on M/s. HBB, Baroda for supply of 131 nos. of complete tap changers assembled from partly imported components from M/s. BBC Ltd., Switzerland and partly indigenous components manufactured by HBB's Baroda Works. As per the contract, the entire imported consignments were to be cleared by CLW at the port of entry i.e., Bombay and then handed over to HBB, Baroda for further fabrication and supply of the assembled Tap changers to CLW.

74. Keeping in view the fact that the Railways had become an intermediary between the foreign principal and its Indian subsidiary for supply of Tap changers in the instant case, the Committee desired to know whether it was a policy decision taken in the Railway Board. In his reply during evidence, the representative of the Railway Board stated:

“Sir, this was not a policy decision. In 1980-84, the country was having a very difficult position in foreign exchange. When we placed the order, the original supplier found it very difficult to get the foreign exchange and get the material. This was one reason why the railways took upon themselves to get the foreign exchange, import the material and supply it to the local subsidiary.”

75. In this context, the representative of the Ministry of Railways during evidence further elaborated as follows:

“There is one more point which I wanted to explain to you. We normally give budget to the Government about our foreign exchange requirement. Certain foreign exchange is permitted to us and certain foreign exchange is permitted to the private quota. When we release the foreign exchange to a party it will go against the general quota, there was some problem in getting the foreign exchange in this way.”

76. Explaining that the private parties were finding it very difficult to get clearance from customs from the port, the witness further added:

“Actually that is the reason why we took it over. Otherwise there was no need to take over.”

77. The Committee enquired in what way the Ministry considered it desirable to act as an intermediary rather than resorting to the method of import of components by the Indian subsidiary directly from their principal abroad and entrusting them the task of clearing components needed for the final product. In their post-evidence note, the Ministry of Railways stated that this course of action was accepted not because it was considered desirable by the Ministry but it became a necessity. Because of customs clearance and foreign exchange release problems, this course of action was forced upon. Once the foreign exchange position eased this type of action had been discontinued.

78. As regards the number of cases in the past where the Ministry or their agencies had agreed to become intermediary, the Ministry of Railways in their post-evidence note stated that “since import is done not only by CLW but by user Railways also, the details are not readily available and have to be collected from the system. This is being done and will be furnished in due course.”

79. On being asked about the dates on which Tap Changers arrived in Bombay and the dates on which these Tap Changers were handed over the M/s. HBB, the Ministry of Railways in a note stated that Clause 8.1.4 of

the contract stipulated despatch of imported components to contractor's works at Vadodara F.O.R. Railways Station from where M/s. HBB were to clear consignments and take to their works but as agreed to by M/s. HBB they were collecting these consignments from Depot of Central Railway at Bombay and transporting at their own cost through their transport under clear acknowledgement. There was no delay on the part of the Railways in despatch of the consignments. However, the information furnished by the Ministry of Railways in their reply reveals the following position about the actual dates on which the consignments arrived at Bombay and the dates on which the tap changers components were collected by M/s. HBB.

Name of the Ship	Date of arrival at Bombay	Date of collection by M/s. HBB
S.S. Konin	04.10.1982	05.01.1983
S.S. Issar Express	19.11.1982	02.02.1983
Vishwa Seva	23.05.1983	23.06.1983
Indian Goodwill	05.05.1983	06.09.1983
Darya Lok	06.07.1983	06.09.1983

It would be seen from the above that there was a delay varying from 1 month to 4 months in collection of consignments by M/s. HBB.

80. The Committee desired to know the circumstances under which M/s. HBB agreed to collect the consignments from Bombay itself and transport the same to Vadodara at their own cost despite a stipulation in the contract that the purchasers (Railways authorities) shall arrange to despatch the imported components at Baroda F.O.R. Baroda Railway Station where the contractor was required to clear the consignment and take them to their works. In their note, the Ministry of Railways stated that M/s. HBB had agreed to collect the consignment from Bombay itself since they found it more convenient with their own transport arrangements regularly operating between Bombay & Baroda. Since this saved cost of 4 handlings with attended problems (loading on the transport at Rly. Depot. & Unloading at Bombay Central, loading on train & Unloading at Baroda central), Railways found it advantageous and accepted their offer.

81. On being specifically enquired about the precise reasons for delay varying between one to four months in collection of the consignments by M/s. HBB from Depot of Central Railway at Bombay, the Ministry of Railways informed the Committee that the precise reasons cannot be verified at this distant date.

82. The information furnished to the Committee by the Ministry of Railways reveals that individual itemwise rates were not available in the

contract. However, the contract stipulated that the Supplier would provide the price of individual items for the purpose of Insurance claim, if necessary, at a later date. Railways were to take open Marine Insurance Cover for imported components upto Consignee's godown. In addition, M/s. HBB were to take a second insurance cover for the landed cost + 15% value to cover the period upto the stage of erection, commissioning and despatch. The Insurance premium chargeable for this purpose were reimbursable by the Railways.

83. According to the information made available by Ministry of Railways, the condition of packages was checked in each case when the delivery of the consignments was taken at Bombay Port and the claims for shortages detected were settled by Insurance Company in full. The condition of packing was also checked when the tap changers were loaded for despatch to Vadodara and no loss or damage was found even in the particular box which was stated to have been received by the transporter in broken condition. However, M/s. HBB reported damages/shortages to Insurance Company for survey much after these packages were received at their works at Baroda with delays ranging from more than one to six months.

84. Explaining the position with regard to delay in filing insurance claims, the representative of the Ministry of Railways during evidence stated:

"The contract says M/s. HBB will open the cases. They will collect the cases from Baroda Station, find loss and damages and then only the insurance claim will be made. As far as finding out the shortages, damages and making the insurance claim is concerned, it is that of M/s. HBB whether I transported it upto Baroda or they took it directly. The final Onus of finding out the shortages and damages and making the claims is that of M/s. HBB."

He further explained:

"Even though they (M/s. HBB) have a received the consignment, they took three months to open the consignment and used the material because in the process of manufacture, they already had the material. So they collected the consignment conveniently according to the production requirements. They have found everything. Every claim has been made. The only thing is it time barred....."

85. In this context, the information furnished by the Ministry of Railways in a note reveals that the CLW lodged and pursued claims with Insurance Company. Although there was delay in lodging the claim, yet none of these claims were rejected on this account. In fact, Insurance Companies settled the claims for Rs. 12.53 lakhs out of the total claims of Rs. 19.19 lakhs found out by Insurance Surveyor at HBB's works. The balance amount is stated to have been realised through Arbitrator's award.

86. In view of the fact that Insurance Surveyor had found out shortages/damages amounting to Rs. 19.19 lakhs at HBB works, the Committee desired to know the specific reasons for the Insurance Company paying only Rs. 12.53 lakhs in the instant case notwithstanding the fact that the balance amount was realised subsequently through Arbitrators award. In their post evidence note, the Ministry of Railways stated that no specific reasons were given by the Insurance Company for not settling the claim in full.

87. Replying to a query of the Committee as to who was responsible for the damages/shortages detected in this case, the Ministry of Railways in a note stated that the exact cause of damages/shortages could not be pinpointed even during survey. Surveyor's report only expressed possibility of short packing in respect of shortages. For the damaged components the Survey Report indicated possibility of Water seepages into some of the packages in which the damages occurred. M/s. BBC the overseas principals of M/s. HBB were considered responsible for both shortages/damages. The Surveyor's report, *interalia*, indicated possibility of non-compliance of packing condition. In another note, the Ministry of Railways also stated that M/s, HBB, Baroda were asked to take up the case of short packing with their Principals M/s. BBC who did not accept the responsibility. According to the Ministry, no penal action against the firm was practicable since this was a single source item.

88. On being enquired during evidence whether the Ministry of Railway took up the matter of short packing with the Principals abroad, the representative of the Railway Board deposed:

"Sir, I may submit that it was taken up with the principal. They said: We have done the job correctly and it is not our responsibility."

89. The Committee also enquired during evidence whether the Railway authorities took up the matter with Customs authorities for refund of Customs duty on account of shortages subsequently noticed in the consignments. In his reply, the representative of the Ministry of Railways stated:

"We have claimed refund but the Customs refused to give it."

90. The Committee also desired to know whether the Railways authorities took up the matter of damages noticed in this case with the overseas principals for their failure to meet the packing conditions as stipulated in the contract. In their reply, the Ministry of Railways in a post-evidence note stated that:

"Since the surveyors report only indicated possibility of non-compliance, it was not considered logical to make any claim with the Principals specially when the Insurance Company admitted the claim. However, the point of packing conditions which in the

opinion of the Surveyor, might have resulted in damages, was brought to the notice of overseas principals but they did not accept this point of view on the grounds that they had been using similar packing arrangements for last many years and such damages had not occurred in the past."

91. The Committee have also been informed by the Ministry of Railways that in order to cover the damages/shortages in respect of the components, CLW had to place two more contracts for various components of Tap Changers in July, 1984 and January, 1985 at a total cost of Rs. 80.92 lakhs. These contracts covered not only the shortages and damages against the relevant contract No. 20117 dated 10.8.1981 but also shortages of approximately Rs. 50,000 worth of components against earlier contract of August, 1980 placed on M/s. HBB for assembly of 72 Tap Changers.

92. In the light of the above, the Committee desired to know the total quantum of shortages detected from time to time in the various contracts entered into by Railways with M/s. BBC and HBB. The Ministry of Railways in their post evidence note stated that those details were not readily available and that the same were being collected and would be sent to the Committee in due course.

93. The information furnished to the Committee by the Ministry of Railways also reveals that while quoting for the requirements of Railways, M/s. BBC in 1984 had sharply increased the prices of various components on account of general inflation during the intervening period. Tender Committee who considered the tender for reimport of these components, had considered the rates high, hence conducted negotiations but M/s. BBC who did not given any substantial reduction except a token discount of five percent. In their post evidence note, the Ministry also informed that the percentage increase in prices of various components in 1984 over 1980 contract was estimated as 67.8% of which 11% accounted for the exchange rate variation.

94. The Committee's examination of this subject has also revealed that CLW had to import 20 complete tap changers directly from M/s. ABB since supply of fabricated tap changers from M/s. HBB, Baroda were delayed on account of shortages/damages of imported components. Explaining the position in this regard, the Ministry of Railways in a note stated that the entire supply of 131 nos. of fabricated tap changers was to be completed by M/s. HBB, Baroda by April, 1985 but actually this was completed in January, 1986. Because of this delay, 20 complete tap changers were directly imported to maintain the continuity of the production. The cost of these 20 tap changers was Rs. 1.17 crores and the import was in the nature of emergency procurement and cannot be treated as a direct loss as these got adjusted against subsequent requirement of tap changers.

95. The Committee have been informed that the contract for import of 20 complete tap changers directly from the foreign principal was placed on 30.12.1983.

96. The Committee enquired as to how the price of a complete tap changer imported directly from M/s. ABB compared with the price contracted in August, 1981 with M/s. HBB, Baroda for supply of fabricated tap changer. In their reply, the Ministry of Railways in a post-evidence note stated as under:

“The information regarding the price of complete Tap Changer directly imported from M/s. ABB and the price against contract dt. August 1981 furnished earlier was based on approximate rates of Customs Duty, details of Customs Duty actually paid not being available. These details are being collected and the price comparison, taking into account same, will be submitted subsequently.”

97. Keeping in view the fact, that the entire supply of 131 Nos. of fabricated tap changers was to be completed by M/s. HBB, Baroda by April, 1985, the Committee enquired as how the Ministry of Railways justified import of 20 complete tap changers directly from foreign principal much before the expiry of the contractual period. In their reply, the Ministry of Railways in a post-evidence note stated that since a number of damaged/short supplied parts had to be imported again and given to HBB to enable them to manufacture complete tap changers and re-import of parts materialised only in 1984-85, it was necessary to import complete tap changers in the meantime to maintain production of Electric Locomotives.

98. The Committee have been also informed by the Ministry of Railways that the delivery period for supply of fabricated tap-changers was extended by CLW as the delivery was linked with the supply of imported components by the Railways and delays had occurred on such supplies.

99. In reply to a question about the levy of liquidated damages recoverable from the supplier for delayed delivery, the Ministry of Railways in a note stated that M/s HBB were the single source for this critical item and imposition of liquidated damages charges would have been counter productive. Therefore, liquidated damages were waived vide Amendment No. 4 dated 30.11.1987. Subsequently, the Ministry of Railways in a post evidence note also clarified the position as follows:

“It may be pointed out that as per contractual obligations, it is the bonus of the Railway to supply the parts/components to HBB to enable them to manufacture and supply all the complete tap changers. Since full complement of parts could not be handed over to M/s. HBB, due to various shortages/damages, Railways had not fulfilled their part of obligation of the contract. This being the case, the question of levying liquidated damages was not considered advisable.”

100. The Committee have also been informed by the Ministry of Railways that CLW withheld an amount of approximately Rs. 57 lakhs from the Bills of M/s. HBB on account of non-availability of specific items in time. Consequently, M/s. HBB requested for appointment of an Arbitrator to settle the dispute. Railways while presenting their case raised counter claims to the extent of Rs. 2.66 crores as also following contractual violations:

- (i) Non-fulfilment of packing conditions as laid down in the contract resulting in heavy damages;
- (ii) Delay in final survey within the stipulated time thereby delaying lodging of claim on the Insurance Company; and
- (iii) Non-fulfilment of clause 9.1.2 of the contract for taking second Insurance Cover till the final delivery of fabricated tap changer.

101. The details of Rs. 2.66 crores claimed by CLW on HBB in respect of Tap Changer contract placed before the Arbitrator were as follows:

(a)	Direct loss suffered on account of re-imports (33.12-0.54 lakhs as CIF & 47.80 lakhs as Custom Duty).	Rs. 80,38,238.83
(b)	Interest charges @ 18% on the above amount for the duration May, 85 to Jan., 90	Rs. 68,72,694.00
(c)	Consequential loss suffered on account of Import of completely assembled Tap Changers	Rs. 1,17,000.00
		Rs. 2,66,10,932.83

102. The Ministry of Railways in a note also informed the Committee that after considering all aspects of the case, the sole Arbitrator awarded a claim for Rs. 6.69 lakhs in favour of Railways in respect of direct losses on account of the Tap Changers contract denying the claim for interest charges and consequential loss. The sole Arbitrator also awarded that Rs. 57 lakhs withheld from the various Bills of M/s. HBB be released, by CLW. The award was non-speaking in nature and was implemented by CLW with the order of General Manager, CLW. The Committee have also been informed that the opinion of Sr. Law Officer, Eastern Railway was obtained who did not find any ground to challenge the award and that the award was within CLW's competence hence reference to Board was not necessary.

103. The Committee were however, informed by audit that the Railway Board modified the General conditions of the contract in 1983 and inserted a clause for an intelligible award in case of claim of over Rs. 3 lakhs. The Committee accordingly, enquired whether the Arbitrator was not liable to give a speaking award in terms of a letter stated to have

been issued in this context. During his deposition before the Committee the representative of the Railway Board stated:

“A speaking award means an award which explains the reasons and as to how the conclusion was arrived at whereas a non speaking award is just an award. Unfortunately, in the Arbitration Act there is no provision for explaining the reasons. In case we have questions against an arbitrator for whatever award he has given, we have only three reasons available today, like his misconduct etc. If nothing of this nature is available, we cannot even question the arbitrator. So when we got an award which was not in our favour, we consulted our own law officers who advised that we cannot challenge the award and we have to be satisfied with whatever award is given.”

104. Subsequently, the Ministry of Railways in a post evidence note stated that the “Arbitrator is not bound to give a speaking Award in terms of 1983 directions as it does not have the backing of the Arbitration Law.”

105. In reply to another question, the Committee have been informed that the sole Arbitrator in the instant case was CEE/CLW.

B. Air Circuit Breakers

106. According to the information furnished by the Ministry of Railways, CLW placed two separate contracts dated 7.4.1981 and dated 19.4.1982 on M/s. HBB for supply of air Blast Circuit Breakers alongwith imported spares from M/s BBC Ltd., Switzerland. As per the contract, CLW was to clear the imported consignments at Bombay and handover the same to M/s. HBB, Baroda for assembly of Circuit Breakers with supply of indigenous components from the Baroda Works. One of the contracts was against OGL and the other against Specific Import Licence. As per Indian Custom Law, for clearance, components against both these contracts should have been shipped separately. However, M/s. BBC sent components of both these contracts in mixed up condition together and it took a long time that the Railways were able to obtain their clearance. According to the chronology of events furnished by the Ministry, the unloading of consignment in question was completed on 25.5.1982 and three intact boxes cleared and delivered to Central Railway on 30.8.1982 and the remaining one broken box was cleared and delivered on 14.10.1982. For the deficient items in the broken box, claim was lodged on Insurance Company for Rs. 0.78 lakhs for the deficiency and Rs. 0.48 lakhs for refund of customs duty. This claim was turned down being time barred.

107. The Committee were subsequently informed that a time period of 60 days from the date of landing was stipulated for lodging insurance claim. However, the claim was filed only in October, 1982.

108. On being enquired as to why the claim for damages/shortages noticed in the broken box at the Port of entry could not be filed within the stipulated period, the Ministry of Railways in a note stated that the claim

could not filed within the stipulated period due to delay in clearance by customs which was caused by non-availability of certain documents required for getting clearance.

109. As regards the refund of customs duty levied on the items found deficient at the port itself, the Ministry of Railways stated that the matter was taken up with the Customs Authorities but the same was not accepted.

110. It is also seen from the chronology of events furnished by the Ministry of Railways that all the four boxes were cleared and delivered to Central Railways by 14.10.1982 but M/s. HBB collected these cases by their own transporter on 5.1.1983 and the same were unloaded at their works at Baroda on 7.1.1983. According to the Ministry, as per the stipulations in the open cover of Insurance, the damages/shortages were to be reported to the Insurance Company after receipt of the consignments at HBB's works at Baroda within specified time of one month. In this case, the consignments was received by M/s. HBB on 7.1.1983 but the packages were opened and request for survey made on 14.2.1983. The details of damages/shortages were intimated by M/s. HBB to Central Railway on 21.5.1983 after which Central Railway lodged the claim in August, 1983.

111. On being asked about the organisation which was responsible for lodging claim with the Insurance Company in the instance case, the Ministry of Railways in a note clarified as follows:

"The claim was to be lodged with Insurance Company by the Railways on the basis of details of damages/shortages to be given by M/s. HBB to the Railways. In this case, M/s. HBB delayed the opening of the consignments and therefore, they are considered responsible for the delay. As advised by HBB delay in opening took place on account of labour problem at their works."

112. The Committee were also informed that the amount of claim lodged by Central Railway for these shortages/damages was Rs. 25,93,543.

113. The Ministry of Railways in a note also informed the Committee that the same contractual failures as indicated in the Tap Changers contract were repeated by HBB in these contracts also. CLW, accordingly, preferred claim of Rs. 78 lakhs (Direct loss on account of deficiencies amounting to Rs. 32.6 lakhs + loss of interest amounting to Rs. 45.4 lakhs) on M/s. HBB. The claim was considered by the Arbitrator who awarded Rs. 7.83 lakhs for direct loss to CLW and denied interest charges etc.

(C) Preventive Action

114. The Committee have also been informed by the Ministry of Railways in a note that because of the problems faced by them in respect of the contracts relating to Tap Changers and Air Blast Circuit Breakers, following action were taken to avoid the same in future:

- (i) All the subsequent contracts were placed on M/s. HBB/ABB

Baroda with the stipulation that the components required for use will be imported by them directly from their principals abroad with out involving Railways in the intermediate process, import and clearance of Components needed for the final product. This also was facilitated due to comparative easing of the curbs on import.

- (ii) In order to overcome the difficulties faced because of single source of supply, renewed efforts were made to develop more sources, due to which an additional source of Ganz Hungary for Tap Changers & GEC India for Circuit Breakers, have been developed, in addition to ABB, the successors of HBB.
- (iii) Time limit of lodging claim on Insurance Co. has been increased to 150/90 days with further provision for enhancement if necessary, by paying additional premium.

115. The Committee are surprised to find that the Railways decided to act as an intermediary between a Foreign Company and its Indian subsidiary in three different contracts signed in 1981 and 1982 for supply of fabricated tap changers and air circuit breakers. According to the arrangements made in this regard, imports were to be paid for by Chittaranjan Locomotive Works (CLW) who was also to clear the imports from the docks at Bombay and despatch it to the Indian subsidiary's works at Vadodara for fabrication of the components and supply of the same to Railways. According to Ministry of Railways, this course of action to act as an intermediary was forced upon them because of customs clearance and foreign exchange release problems being faced by the Indian subsidiary. Keeping in view the inability of the Ministry of Railways to furnish the information regarding number of cases in which Railways or their agencies had agreed to become intermediary and also their subsequent discontinuance of this practice, the Committee are inclined to conclude that the recourse to act as an intermediary in these three contracts was perhaps, one of the rare instances where the Railways had agreed to adopt this unique method aimed only at facilitating procurement of foreign exchange for the private party for the imports which were otherwise to be made by him for supply of specific components to Railways. In the light of the fact that both the tap changers and air circuit breakers had single source of supply at the relevant time, the Committee are in no doubt that this course of action by Railways to act as an intermediary was also guided by other considerations. They would, therefore, desire the Ministry of Railways to investigate the circumstances under which such an arrangement to act as an intermediary was worked out by CLW and whether the Railway Board was consulted in the matter. The Committee would like to be apprised of the complete details in this regard.

116. According to the terms of the contract, the Railways were to take open insurance cover for imported components upto consignee's godowns. In addition, the Indian subsidiary (M/s. HBB) were to take a second

insurance cover for the landed cost + 15% value to cover the period upto the stage of erection, commissioning and despatch. The Indian subsidiary was to report transit damages and losses to CLW who was to lodge claims with insurance company within the stipulated period. The Committee's examination has, however, revealed that there were delays in all the cases in reporting the damages/shortages by the Indian subsidiary. While none of the claims is stated to have been rejected on this account by the Insurance Company in the case of contract relating to tap changers, the claims for the deficient items in the case of air blast circuit breakers were turned down being time barred. The Committee have been informed that the insurance claims for shortages/damages could not be lodged by the Railways in time because M/s. HBB opened the consignments much after the packages were received by them and thus failed to report shortages/damages to Railways in time. M/s. HBB also failed to fulfil their requirements of the contract for taking second insurance cover till the final delivery of tap changers. Considering these facts, the Committee are of firm view that the Indian subsidiary would not have acted in such an irresponsible manner had the Railways asked them to arrange the imports themselves directly from their foreign principal as is generally done in cases of this nature.

117. The Committee have been informed that the exact cause of damages/shortages in the case of the tap changers could not be pin-pointed even during surveys. Surveyour's Report expressed possibility of both short packing in respect of shortages and non compliance of packing conditions by the foreign company. Although the Railways took up to the matter with the foreign supplier, they did not accept the responsibility. The Committee are concerned to note that the Railways considered it not "practicable" to take any action against the foreign supplier for the shortages noticed in the consignments evidently because these components had a single source of supply. The Committee also note that M/s. HBB failed to supply the fabricated tape changers to the Railways within the contractual period and the Railways had to import 20 complete tap changers directly from the Foreign supplier at a cost of Rs. 1.17 crores to maintain the continuity of the locomotive production. Surprisingly, the levy of the liquidated damages recoverable from the Indian Supplier for delayed delivery was also waived by the Ministry of Railways *vide* an amendment issued in November, 1987. In the opinion of the Committee, both these instances are a sad commentary on the project management by the Railways. They are of firm belief that necessary action against the foreign principal and its Indian subsidiary for their contractual violations under the penalty clauses in the relevant contracts should have been taken for otherwise it negates the very logic of insertion of such clauses.

118. The Committee have also been informed that CLW withheld an amount of Rs. 57 lakhs from the bills of M/s. HBB on account of non-availability of specific items in time. Consequently, the supplier requested for appointment of an arbitrator to settle the dispute. Accordingly, Chief

Electrical Engineer, CLW was appointed sole arbitrator in this case. The Railways while presenting their case before the arbitrator raised counter claims to the extent of Rs. 2.66 crores for tap changers and Rs. 78 lakhs for air circuit breakers. The Railways are also stated to have placed before the arbitrator the facts of certain contractual violations by the supplier. The Committee are, however, concerned to note that the sole arbitrator gave a "non-speaking award" in this case. While he directed CLW to release payment of Rs. 57 lakhs to the supplier, he awarded a claim for only Rs. 6.69 lakhs in favour of Railways in respect of direct losses on account of tap changers contract and Rs. 7.83 lakhs in the case of contract relating to air circuit breakers. The Committee have been informed by the Ministry of Railways that the arbitrator is not bound to give "speaking award" since no such provisions exists in the Arbitration Act. The Committee consider it a precarious situation where it is not obligatory for a sole arbitrator to give a "speaking award". At this stage, the Committee can only express their unhappiness over the fact that Railways having known the legal provisions appointed an arbitrator from their organisation and not preferred to appoint a retired judge or somebody from outside or from the panel maintained by Indian Council of Arbitration to arbitrate this matter.

VII. INCORRECT IMPORT [PARA 3.1(v)]

119. It is seen from Audit Paragraph that the Railways had made a mistake in buying a wrong size of a spare part for diesel Locomotives called 'Race Outers'. Instead of buying GM Pt. 7451293 the correct size, an order for 96 pieces of 'Race Outers' to GM Pt. No. 7451295 at the rate of US Dollar 414.28 each was placed for import in May, 1990. The items of different size were received in December, 1991. On being approached by the Railways, the firm refused to replace the items as it had supplied the items as per the Tender Enquiry and the contract. As a result, infructuous expenditure of Rs. 21.37 lakhs was incurred by Railways and non-availability of Race Outers affected repair schedule of Diesel Locomotives and their availability.

120. On being specifically asked whether the Railways had made any enquiry as to who was responsible for this lapse, the representative of the Railway Board during evidence stated:

".....There are two indentors for this (item). One is Mughalsarai and the other is Lucknow.... One indenter gave the correct part number and the other gave wrong part number. The part number is in seven digits and only the last digit was not correct. Instead of three it became five. Three was the correct number and the five was the wrong number. So, in writing these numbers he had quoted a wrong number...."

121. Elaborating further in this regard, another representative of the Railway Board during evidence stated:

“We have held two persons responsible; one is the Senior Foreman at Lucknow who had indicated a wrong part number and the other is a Senior Foreman (Diesel), Headquarters, Northern Railway who did not take care to check up as to which was right and which was wrong. He just adopted the wrong part number of Lucknow.”

122. The Committee specifically desired to know as to when was the enquiry in the instant case instituted and what punitive action has been taken against the two officials held responsible for the lapse. The Ministry of Railways in a post-evidence note stated as follows:

“The two officials who have been held responsible have been charge sheeted based on the initial investigation into the case and the disciplinary and appeal proceedings are under processing. Depending on the view taken by the competent authority on the disciplinary and appeal proceedings enquiry will be ordered if found necessary/others will be passed on the basis of evidence on record.”

123. Replying to a question on the role of supervisory officers in this case, the Ministry of Railways in their post-evidence note stated that the officers who are supervisory to the two officials who have been held responsible, are “expected to only carry out sample checks as a number of orders for procurement are issued and each order contains a large number of items.”

124. On being enquired whether the Ministry of Railways had made any efforts to get replacement of the outer races of wrong size from the supplier, the representative of the Railway Board deposed:

“We have tried our best to see whether the manufacturer can take it back.”

He further stated:

“Sir, we have not been able to either sell it back to the manufacturer or use it alternatively because this being the special item. But since this mistake has been detected, we are further tightening our procedure. Firstly, while preparing the order for these items we have now said that there will be double check at higher level depending upon the value. So the level of check has been raised by one step. Secondly, we have told the manufacturer that in case he finds that it is not a normal item that we will need, please alert us because he had to manufacture it specially. Apart from these two steps, we will make a third check when we received the invoice which is sent before the shipment. At this stage, we will again check as to whether the correct material is being sent or not.”

125. In reply to a specific question whether the non-availability of correct spare part held up the repair/maintenance of diesel locos, the Ministry of Railways in a note stated that no locomotive was specifically

held up on account of non-availability of this material as the fleet was kept going by cannibalisation from locomotives undergoing heavy schedules.

126. The Ministry of Railways are also stated to have placed an order in December, 1993 for procurement of 75 Nos. of outer races of correct specification out of which 24 Nos. were received in May/June 1994 and the balance in August, 94 at the FOB cost of US Dollar 204.98 each.

127. The Committee are perturbed to find that instead of buying the race outers of correct specification No. GM Pt. 7451293 required for diesel locomotives, the Railways placed an order for import of wrong sized part No. GM dt. 7451295 with the result that the entire expenditure of Rs. 21.37 lakhs incurred on this account became infructuous. The Committee have been informed that one of the two Railway units which indented for this part had indicated the last digit of the part number wrongly. However, the fact remains that the other authorities in Railways while placing the order for import of this item had not only failed to exercise due check to verify the correctness of the two different indents furnished by the railway units concerned but also negligently chose to place import order for incorrect spare part. The Committee take a very serious view of the indifference and negligence displayed in this case by the railway authorities at different levels.

128. What has disturbed the Committee more is the fact that despite receipt of the race outers of wrong specifications in December, 1991, the Railways have not so far been able to order enquiry against the two officials who have been held responsible and charge sheeted in the instant case. Keeping in view the importance of avoiding delay in the investigation of any loss of Government money due to negligence etc., the Committee recommend that enquiry in this case should be expeditiously finalised and suitable pecuniary liabilities enforced against the officials found responsible for this costly lapse.

129. The Committee also feel that a new dimension has been added to this case by the revelation made by the Ministry of Railways on the role of supervisory officers in this case who are stated to be "expected to only carry out sample checks as a number of orders for procurement are issued and each order contains a large number of items." The Committee are not inclined to agree with this submission of the Ministry and they are of firm view that such officers should be made to share their part of responsibility in the instant case. The Committee would like to be apprised of the precise steps taken in this regard.

VIII. WASTEFUL IMPORTS [PARA 3.1(vi)]

130. It is seen from Audit Paragraph that South Central Railway imported four Respirators at a cost of Rs. 20.10 lakhs on 2 September, 1990. But the consignment was cleared from the Airport only in February, 1991, after paying Rs. 50,000 as storage charges. The consignment was despatched by rail to Secunderabad in March, 1991 and April, 1991 and

suffered extensive damage in transit. Only two respirators could be commissioned resulting in loss of Rs. 10.5 lakhs. In their reply to Audit, the Railway Board stated in December, 1993 that there was failure of the DGS&D and the contractor to discharge their responsibilities in the matter of clearance from customs, handling and storage.

131. The Committee desired to know as to why did the Railways not import the four respirators directly and resorted to import of the equipment through DGS&D. In his deposition before the Committee, the Chairman, Railway Board stated:

“At that time, it was obligatory to import this medical equipment through the DGS&D.”

132. Clarifying further, the Ministry of Railways in a post-evidence note stated that DGS&D being a major purchase agency, their services were utilised for such sophisticated stores which required import.

133. In the light of the audit findings that the consignment of respirators was cleared from the Airport only in February, 1991 although the same had reached in India in September, 1990, the Committee desired to know the reasons for delay in the clearance of respirators from Airport. In their note, the Ministry of Railways stated that the Railways were not aware of the actual arrival of the consignment in time. There was a letter from DGS&D, New Delhi dated 21.9.90 (received on 24.9.90) stating that the consignment was despatched on 2.9.90 by Air. Assistant Director (Shipping), Bombay (the Port consignee) when contacted by Railways stated that the consignment and shipping documents were not received by him. He even intimated in writing *vide* his letter No. Bom./Genl./Misc. dated 20.5.1991 to the Railways that he did not receive the documents in the absence of which he could not clear the consignment whereas, in fact, the consignment was already cleared on 9.2.1991 itself i.e., three months earlier. The Ministry of Railways also stated that the clearing agents did not write to the appropriate authorities i.e., the ultimate consignee in Railways for connected documents. When one of the staff members from Railways Medical Department visited Bombay on 5.1.1991 in connection with the clearance of some other consignment, he was told that the clearing agents had written to the indentors (COS, SC Railway) for the connected documents on 12.9.90, 25.10.90 and 29.11.90. However, this contention was refuted by the indenter. The copies of these letters were not marked to any one of the ultimate consignees.

134. Giving their version on the aspect of delay in clearance of the consignment, the DGS&D in a note stated that in this case Air India, Bombay informed the Assistant Director (Shipping) on 7.9.1990 that the consignment had arrived by Air on 2.9.1990. Immediately on 7.9.1990 itself, AD (Shipping), Bombay asked clearing agent M/s. Nav Bharat Corporation, Bombay to arrange for clearance of consignment under intimation to COS, SC Railways who was also requested to forward

necessary documents to clearing agent. The clearing agent on 12.9.1990 also asked COS, SC Railways to forward various documents such as Bank release order, A/T copy, Foreign Exchange release order, catalogues and DGTD clearance. Details of shipment were also advised to Chief Medical Officer, SC Railway by DGS&D, New Delhi on 21.9.1990. AD (Shipping) who received some documents from foreign suppliers forwarded the same to clearing agents on 26.9.1990 with a copy to COS, SC Railway requesting clearing agent to expedite clearance. The clearing agent on 25.10.1990 and again on 29.11.1990 asked COS, SC Railway to send the documents which he had asked earlier *vide* his letter dated 12.9.1990. In the meantime, consignee's representative visited the office of the AD (Shipping) on 13.11.1990 for checking the position of some other case and casually enquired about this case without giving any reference number of the Office of AD (Shipping) in the absence of which AD (Shipping) could not definitely state whether the consignment was under clearance or not. On 21.1.1991 consignee's representative visited and handed over the required documents to clearing agent. Thereafter, the clearing process started and the consignment taken delivery from the warehouse on 6.2.1991 paying the warehousing charges as Rs. 50,400.

135. The Committee desired to know during evidence as to why the AD (Shipping), Bombay could not state the definite position of the clearance of consignment when the representative of the Railways enquired about the same on 13.11.1990. In his reply, the representative of the Ministry of Supply stated:

“On 13.11.1990, it appeared that there was a negligence on the part of our officer who was there. He should have taken more interest and tried to link up the papers which he did not do.”

He also stated:

“No action has been taken against the person who did not provide the information because when he was asked, he said that as per the Shipping Manual, the documents are to be linked up by giving air way bill. In the year 1990, he was dealing with a large number of cases. As the required documents were not given to him, he could not give a satisfactory information.”

136. Besides delay in the clearance of the consignment of respirators, the Audit paragraph also brings out that the consignment was despatched by rail to Secunderabad in March and April, 1991 and suffered extensive damages in transit. Clarifying this issue, the Ministry of Railways in their note *inter-alia* stated as follows:

“Assistant Director (Shipping), Bombay is responsible to ensure that the packing is proper before despatching the consignment to the ultimate consignee (s), In this case, the stores were despatched by train without adequate protection against damages in the transit.

This aspect should have been taken note of, especially when the consignment was not covered by transit insurance.

- (ii) In terms of clause 14 of the Purchase Order (PO), the contractor shall pack the stores securely to avoid any loss or damage in transit.
- (iii) Since as per the Clause 13, there are three ultimate consignees, the packing should have been made consignee-wise for proper identification and easy despatch whereas in this case, the stores were packed as one single lot."

137. The Ministry of Railways also stated that the clearing agents *vide* their letter dated 15.2.1991 addressed to AD (Shipping), Bombay had confirmed that the consignment was despatched from Bombay to Secunderabad in "as it is" condition without repacking into wooden cases as per the advice of Assistant Director (Shipping), Bombay.

138. Commenting on the aforesaid reply of the Ministry of Railways, the DGS&D in their note stated that it was correct that AD (Shipping) during his talk with Nav Bharat Corporation on 13.2.1991 had confirmed to the clearing agent that the packages received could be despatched "as it is" and need not be repacked in the wooden cases once again. According to this note of DGS&D, since the stores were despatched by passenger train under clear R/R (Railway Receipt), the damage should have only occurred in railway transit.

139. Replying to a question as to why was the consignment under reference despatched by train without packing in wooden cases, the DGS&D in a note stated:

"Repacking in wooden cases involved incurring of excess expenditure. In this judgement, AD (Shipping) advised clearing agent to despatch the consignment in their original packing. Railways *i.e.* transporter also had not objected to this kind of packing when they gave clear R/R."

140. Department of supply in their note have also stated that no specific instructions exist in the contract to the contractor asking him to separately pack the consignment consignee-wise.

141. In this context, it is also relevant to point out that the relevant para-27 of the Manual of General Instructions for Shipping and Clearance regarding distribution of the contents of the consignments, reads as under:

"Distribution of contents by opening the packages will not be undertaken by the Director of Supplies and Disposals at the ports. Where the consignments are received in the ports in bulk packages and where they are required to be distributed to various consignees, the Indentor/Importer/Consignee should receive the consignments at

one central place and arrange their distribution by themselves to various ultimate consignee."

141-A. As regards the issue relating to the failure in arranging transit insurance for the consignment, the Chairman, Railway Board during evidence stated:

"With regard to the insurance, the legal provision is that the indentor should have indicated as to what should be the terms and conditions. The contract rules also provide for something of that nature. Following all these, the controller of stores of South Central Railway did write to the official of DGS&D who was responsible for this clearance, that he should arrange for the necessary insurance cover and in that the names of various insurance companies were also given that any of these companies could be used for this. There was no response to this letter. As a result the Controller of Stores, South Central Railway assumed that having received this direction from the indentor the clearing authority or what we may call as the port consignee did take cognizance of it and would have provided the insurance cover and, therefore, the matter remained at that. Later on it was found that the insurance cover was not provided....That is the factual position. If that letter had been replied to by saying "Sorry, we will not be in a position to provide insurance cover, you make that arrangement", then certainly the Controller of Stores, South Central Railway could have taken action to provide insurance cover at that stage."

142. On being asked about the reaction of DGS&D to the above cited observations of the Chairman, Railway Board, the representative of the Department of Supply during evidence stated:

"As far as legal position is concerned, as per clause 19 (d) of the contract, insurance is to be provided by the indentor.

As far as factual position is concerned, in the shipping manual also which had been sent to all Departments which are dealing with this type of work, this provision had been mentioned there that DGS&D do not make insurance. On the 31st May, 1990, the indentor wrote to DGS&D, New Delhi asking insurance to be done by the DGS&D. This letter—it is a lapse on the part of our organisation—was not replied to which is factually correct."

143. As regards the coverage of insurance of stores despatched from the port of entry to the ultimate destination, the relevant extracts from Para 60 (iv) of Manual of General Instructions for Shipping and Clearance as made available by DGS&D are reproduced below:

"Sometimes, Indentors/Importers/Consignees instruct the Director of Supplies and Disposals at the port to despatch the stores duly insured from the port to the ultimate destination. Since the coverage of

insurance is the responsibility of the Indentor/Importers/Consignees, no insurance coverage will be undertaken by the port shipping officer of the Director General of Supplies and Disposals at the ports of entry and the Indentors/Importers/Consignees should themselves arrange insurance coverage with the concerned zonal unit of the General Insurance Corporation of India."

144. The Committee observed that the Railway Board should have known the conditions stipulated in the General Instructions for Shipping and Clearance and that they should have taken extra caution. Reacting to these observations of the Committee, the Chairman, Railway Board during evidence admitted:

"The conditions of contracts, the conditions of various Manual against which the other organisation will function should have been known to us and we should have taken extra precaution to see that certain things do not happen, as happened in this case. That is why we have withdrawn this from the DGS&D. We have thought that we will do our own. We have to strengthen our organisation so that we get the best service."

145. At the instance of the Committee, the representative of Department of Supply assured during evidence that they would examine the issue involved in this case and report to the Committee about the action proposed to be taken in the matter.

146. In their subsequent note to the Committee, the Department of Supply intimated the following position:

"the matter has been examined and the following shortcomings/ discrepancies were noticed:

- (i) There is no proper linking system of DGS&D A/Ts in the DS&D/AD (Shipping) office with the Shipping documents.
- (ii) There was failure on the part of AD (Supplies) to reply promptly to the letter dated 31-5-90 in A/T No. 420 (for Respirators) pointing out that DGS&D will not arrange the insurance and it is for the Indentor or Consignee to do it.
- (iii) In the case of A/T No. 420 (for Respirators) when the consignee's representatives approached the AD (Shipping) on 23 November and later on in May, 1991, his having stated that the consignment had not been received was a clear failure to link the documents available in the Shipping Section.

The following remedial measures/action are proposed to be taken by the Department:

- (i) Amend the Shipping Manual to provide for clear instructions in the A/T in regard to timely action for production of documents by AD (Shipping) as well as by the Consignee.

- (ii) Insurance of instructions to all concerned for proper maintenance of records.
- (iii) The copy of the A/T to Port Consignee should be despatched by the concerned Purchase Section under registered post with endorsement to confirm receipt within 10 days.
- (iv) For the failure on the part of AD (Supplies), caution will be issued to all officers to take prompt action to avoid recurrence of such instances.
- (v) It will be made abundantly clear to all the officers drafting contracts that insurance clause should be included only if it is insisted upon by the consignee. The purchase proposals and the A/T should make it abundantly clear that it is for the indenter/consignee to take all necessary action to arrange and process the case for insurance and DGS&D will not take any action in this regard as clearly provided in the Shipping Manual.
- (vi) The AD (Shipping), who failed to link the documents available in the Section and informed the Consignee that the consignment had not been received, will be warned to be careful in future."

147. The Committee desired to know whether any action had been taken to recover the loss of Rs. 10.5 lakhs due to damage to two respirators as pointed out by Audit. The Ministry of Railways in a note clarified the position as follows:

"The loss to the equipment on account of damages is not estimated to be Rs. 10.5 lakhs. It is approximately Rs. 5.45 lakhs *i.e.*, the cost of spare parts to be imported for their repair and commission. However, there is a dispute between DGS&D and the contractors accusing each other regarding their roles for the damages to the equipment. The liability and the recovery of the damages from DGS&D is not clearly known to Medical Department. Efforts are made to find out ways and means of recovering the loss from DGS&D/contractors."

148. In reply to a question about action taken to get the two damaged respirators repaired, the Ministry of Railways in a note stated that the repairs of the two damaged respirators require spare parts which are to be imported. Special sanction had been obtained from the competent authority for importing the spare parts and the purchase order for the spare parts would be issued shortly.

IX. UNUSED IMPORTED MEDICAL EQUIPMENT [PARA 3.1 (vii)]

A Northern Railway

149. The audit paragraph reveals that an X-Ray machine costing Rs. 19.08 lakhs was imported by Northern Railway for Hospital at Lucknow in May, 1986. There was mismatch between the voltage of the

machine and the local voltage. In March, 1988, the transformer developed fault and machine is lying unused.

150. The Committee desired to know whether the power requirement of the X-Ray machine was not considered at the time of placement of order for the machine. The Ministry of Railways in a note stated that most of the imported machines available in the country came in the same voltage range and it was not unusual to have a step down transformer attached to the machines. The Committee were also informed that the firm had made the suggestion for the transformer after the machine was procured and was in the process of installation at Lucknow. However, the transformer was not procured with the machine as similar functional step down transformers were available with the Railways. The Ministry also added that it was found during installation of the machine that the transformer made available initially was not in working order and accordingly, a fresh one was arranged and the machine was commissioned with that transformer duly installed by the company engineer. It resulted in delayed installation of machine but it did not affect the working of the same.

151. Clarifying further on this point, Chairman Railway Board, during evidence stated:

“...I agree that at the time of placing the order, this particular aspect of voltage should have been seen. It is an initial lapse. But this was overcome because after all the voltage stabilizer could be procured within the country and this machine which was received in May, 1986 was commissioned in 1987. It functioned for over a year. It carried on working and thereafter another in-built regulated transformer which is there within the machine failed. That is a lapse of the manufacturer that the supply was made with that type of in-built regulated transformer which could not sustain the use for more than a year. Thereafter our correspondence has been that this part of the machine must be replaced. We tried indigenously also to provide this in-built regulated transformer but the type of circuit required for this could not be procured here. So, we have asked the supplier M/s. Philips that they should give us the original circuit diagram, so that we can get it manufactured here...”

152. Replying to a question about the need for an exte transformer when the machine itself had a in-built tranformer, the representative of the Railway Board stated during evidence:

“...The supply voltage is 440 but the required voltage (of the machine) is only 380. The in-built regulated transformer was not able to take care of this disparity in voltage. That is what the suppliers told us. So, we arranged for a voltage stabilizer to match the voltage...”

153. When asked about the steps taken by the Railway authorities to pursue the matter with the supplier to put the X-Ray machine in working order after its transformer developed fault, the Ministry, *inter alia*, stated in their post-evidence note:

“Immediately after the machine went out of order in March, 1989, M/s Philips were consulted who on 10.3.89 declared that the transformer was out of order. On 4.5.89, they informed that the transformer was irreparable. The proforma invoice to import the inbuilt transformer was obtained from the firm on 29.5.89. During the process of importing the transformer, M/s Philips submitted another offer for some concessions on 5.11.90. The proposal was not found feasible.

As the cost of the part was too high, efforts were made if the same could be made indigenously by the firm but not found feasible. The firm was also requested for alternative suggestion. The tenders were finally floated after obtaining necessary specifications, Finance vetting, making provision for foreign exchange etc. and were to be opened on 7.9.92. M/s Philips did not submit the quotation in time and at proper place which further delayed the proceedings.

In the meantime, the principles of M/s Philips at Netherland were approached on 22.10.92 with subsequent reminders to take initiative to provide inbuilt transformer and advise their counterparts in India to take necessary steps for repair of transformer, if possible or for suitable action in this regard.

M/s Philips in India now informed that with installation of transformer, the machine may not be put into working condition on account of damage to other parts of the machine and thus it was thought fit to delay the procurement. At this stage, the Chief Engineer Electrical (PS) persuaded the engineers of M/s Philips to inspect the X-Ray plant with him and inspection was done on 8.10.93.

There were alternative proposals also from M/s Philips to renovate the machine at very high cost (NZG 180,000) but none was justified.

M/s Philips was persuaded to provide the circuit diagram thereafter and Railways decided to rebuild the regulated transformer of its own. Presently, the transformer has been constructed and the engineer of M/s Philips are on the job to install it.”

154. As regards the follow up action to be taken after installation and testing of in-built regulated transformer, the representative of the Railway Board informed the Committee during evidence:

“After the testing we will find out whether some more components are damaged. Thereafter, we can say whether we can continue to

use it (X-Ray Machine) or it needs replacement. They (supplier) will charge us for the cost of the damage because the original warranty period is over.”

155. In this context, it is pertinent to note that it was pointed out by M/s Philips on general check up of the X-Ray machine that there could be defects developed in X-Ray tube, image intensifier and high tension cable etc., due to the fact that machine remained idle for a long time.

156. In reply to a question as to how is the work of X-Ray Department being managed when the X-Ray machine in question had remained out of order from 1988 onwards, the Ministry of Railways in their note stated as follows:

“....The work of X-Ray Department is being managed locally with another plant. Due precautions are taken to avoid higher radiation and all efforts are made to see that the Railway staff do not suffer for want of the radiological investigations which otherwise could have been possible with the help of the machine under reference. This is being made possible by arranging the same in a planned way in Northern Railway. Central Hospital New Delhi, Government Medical College Hospital at Lucknow etc., depending upon the emergencies/exigencies in respect of the patients.”

(B) Central Railway

157. It is seen from audit paragraph that a mobile Image Intensifier System imported by Central Railway for Hospital in Byculla in 1985 at a cost of Rs. 19.93 lakhs is lying idle as it is defective.

Explaining the reasons for delay in repairs of this machine, the Ministry of Railways in their note stated as follows:

“For repairing of equipment namely, the tube and the control had to be imported through Letter of Credit for which administrative procedure has to be followed for release of foreign exchange and opening of Letter of Credit. First the tube was imported as asked by the firm initially and later on, on fixing the tube it was noticed by the firm that the control is also defective which was imported subsequently and again same administrative procedures were followed as in importing the tube initially. At that time the foreign exchange position was also very critical.

The Mobile Image Intensifier System put into working condition on 2.9.92 and same is working satisfactorily since that date.”

(C) South Central Railway

158. According to Audit Paragraph, two Image Intensifier machines imported at a cost of Rs. 16.22 lakhs in May, 1991 in the South Central Railway were damaged by rain because of improper storage in transit after customs clearance. The machines are lying unused. The Railway Board in

their reply to Audit in December, 1993 stated that the damages to the two Image Intensifier Units occurred due to non-compliance of contractual obligations by the suppliers and omissions on the part of Director General of Supplies and Disposals.

159. The Committee enquired about the omissions made by DGS&D in the instant case. The Chairman, Railway Board during evidence explained:

"These two machines were imported from Italy and they remained lying at the Port because the DGS&D unfortunately, failed to nominate AD (Shipping), Bombay as Port consignee in the purchase order and that led to the delay in having this consignment cleared and as a result these two machines were damaged because of water having seeped into the cases. The port would not take the custody of these cases inside the warehouse; they kept it outside and the damage to these machines took place because of these two factors."

160. According to the information made available to the Committee by the Department of Supply, port consignee was not specified in the formal contract issued on 18.2.91. In the amendment issued on 19.3.91 the name of AD (Shipping) was added as "consignee". Thereafter, another amendment was issued on 18.4.1991 indicating AD (Shipping), Bombay as "port consignee".

161. The Committee enquired as to why the department had to issue two amendments and at what level this lapse had occurred. In his reply, the representative of the Department of Supply during evidence stated:

"It was done at the level of Assistant Director. It is a glaring mistake."

162. According to the Ministry of Railways, although the amendment was issued on 18.4.1991, none of the ultimate consignee nor the COS, SC Railway had received the amended copy. On 20.5.1991 when a representative of SC Railways contacted AD (Shipping) for early clearance of the consignment, the AD (Shipping) Bombay had conveyed that he had not received any shipping documents until that time and that he could not initiate any action for clearance of the consignment since he was not indicated as port consignee in Purchase Order. The Railways accordingly, took up the matter with DGS&D, New Delhi on 25.5.91 and 31.5.91 and received a letter from them on 5.6.91 along with an amendment copy dated 18.4.91 duly indicating AD (Shipping) as Port consignee.

163. In the context of the delay in clearance of this consignment, the Chairman, Railway Board pointed out during evidence that while the Chief Hospital Superintendent had on 11.6.91 sent the other relevant documents required for clearance of the consignment, the AD (Ship-

ping), Bombay forwarded these documents to the clearing agent only on 3.7.91. In this context, he stated:

"This three weeks delay, perhaps, would be more crucial period which may have to be taken into consideration."

164. The Committee have further been informed by Ministry of Railways that even after submission of all the documents, clearance was further delayed as the customs authorities expressed their inability to identify different components and appreciate their different function inspite of detailed briefing by Technical Personnel of Medical Department. The customs authorities insisted that the catalogue be furnished additionally. The Medical Department requested the contractors by telex to make available the catalogue which was furnished on 19.7.91. According to Railways, this delay for want of catalogue could have been easily avoided if prompt assistance of the contractors was available to the consignee. Meanwhile, while the consignment was awaiting clearance from customs authorities there was heavy rain in and around Bombay. There was seepage of water not only into the packings but water was noticed also inside the electronic components of the equipment. The consignment which was cleared on 26.7.91 was kept in godowns of DGS&D from where it was brought to Railway Hospital Vijayawada by road on 29.8.91. One of the Radiographers accompanied the consignment from Bombay to Vijayawada to ensure that they did not suffer damages in transit.

165. On being enquired whether the consignments were not properly packed as per the relevant clause of the agreement, the Department of Supply in a note stated:

"The contract was on FOB basis. No complaint of any damage to the consignment have been made before clearing the consignment from Air India/Customs on 26.7.91 to substantiate the damages during transit of consignment from abroad.

Clearing Agent had, however, lodged an application on 21.8.91 to Air India asking for survey on 22.8.91 alleging that the consignment has been landed and/or founded in damaged condition. Air India, however, replied on 9.9.91 that the shipment was handed over to Cargo Complex on 14.5.91 apparently in good condition. It would, therefore, not be possible to substantiate the charge of improper packing on the part of foreign principals."

166. The Committee have also been informed by the Department of Supply that it was only on 19.1.93 that the Chief Medical Officer, South Central Railway in his letter indicated the defects noticed by them in the two Image Intensifiers received improper handling. The CMO, SC Railway also asked DGS&D on 1.3.93 to withhold the payment of agency commission and the security deposit of the Indian Agent since the equipments were received in damaged conditions and could not be installed by the Indian Agent.

167. Keeping in view the facts enumerated in the preceeding paragraph, the Committee enquired why such a long delay took place to advise the DGS&D to withhold the payment. In his reply, the representative of the Railway Board during evidence stated:

“When the machines came in our hospital, their Engineers wanted to instal the machines. It was opened by their local agent. It was found that the machine was drenched in water and the local engineer said that he will be able to instal the machine. When he tried to do that, one of the transformers got burnt out. Then he said the transformer needs rewinding and he took it to Delhi. After rewinding, it was brought again to the Hospital for installation. But at that time he found that this transformer is not working. All this took about one and half years. Then our CMO wrote to DGS&D saying that the machine is not installed and kindly withhold the payments.”

168. The Committee have also been informed by Department of Supply in a note that, the Indian Agent had informed that this contract was on FOB basis. Equipment was damaged after receipt in India when all packages were drenched with rainy water as they were left open at Bombay Customs and being rainy season lot of water had seeped inside the packages which not only corroded the paint but also damaged insulation of the transformer and the printed circuit boards: Since no insurance was made by the consignee inspite of the fact that he had reminded the consignee/indentor thrice to carry out the insurance—no claim could be lodged and charges for entire damages are to be borne either by the consignee or by the indentor. They, therefore, requested DGS&D to withdraw their instructions to Pay and Accounts Officer for withholding the payment.

169. The Committee have, however, been informed by the Ministry of Railways that the balance agency commission amounting to Rs. 1,68,038.22 is still payable to the Indian Agents and this payment has been withheld until the whole matter is resolved satisfactorily.

170. The Committee note that South Central Railway imported four respirators at a cost of Rs. 20.10 lakhs through the agency of DGS&D. The Committee are however, distressed to find that although the consignment of respirators had reached India in September, 1990, the same could be cleared only in February, 1991 after a delay of 5 months and on payment of Rs. 50,400 as warehousing charges. The examination of this case by the Committee revealed that the Railways were not made aware of the actual arrival of the consignment in time and they came to know of it only on 5.1.91 when one of representatives of the Railway Medical Department visited Bombay in connection with some other consignments. The Railways accordingly, handed over the required documents to clearing agent on 21.1.91 and the consignment was cleared on 6.2.91. During his deposition

before the Committee, the representative of the Department of Supply admitted that "there was a negligence on the part of our officer" when he did not try to link up papers on 13.11.90 when one of the railway officials enquired about the arrival of the consignment. The Department of Supply also admitted in their subsequent reply to the Committee that there is no proper linking system of DGS&D A/Ts with the Shipping documents in the officers of Director of Supplies and Disposal/Assistant Director (Shipping). The Committee view this absence of proper linking system in the agencies of Department of Supply with grave concern. They therefore, recommend that Department of Supply should take suitable administrative measures so as to avoid recurrence of such cases in future.

171. Another disturbing feature noticed in this case is that the consignment suffered extensive damages in transit with the result that two respirators could not be commissioned. The Railways have tried to put the blame on the Assistant Director Shipping, Bombay for his failure to provide adequate protection against damages when the consignment was despatched by train. The Committee find it difficult to accept this view since the stores were despatched by passenger train under clear R/R (Railway Receipt). On the other hand, the Committee hold Railways fully responsible for the loss incurred due to damages to the respirators mainly because they failed to meet their contractual obligation under clause 19(d) of the contract which clearly stipulated that the insurance was to be provided by the indenter viz., Controller of Stores, South Central Railway. In this context, the Committee have also been informed by the Railways during evidence that they had written to the DGS&D for arranging the necessary insurance cover and in the absence of any reply from them the Railways presumed that the insurance cover would have been provided. The Committee are not inclined to accept this plea of the Railways since Para 60(iv) of Manual of General Instructions for Shipping and Clearance specifically enjoins that "no insurance cover will be undertaken by the port shipping officer of the DGS&D at the ports of entry and the Indentors/Importers/Consignees should themselves arrange insurance coverage with the concerned zonal unit of the General Insurance Corporation of India." The Railways have also tried to put blame on the DGS&D on the ground that there were three ultimate consignees and the packing should have been made consignee-wise whereas the stores were packed in one single lot. The Committee do not find any force even in this argument in view of the provisions contained in Para 27 of the General Instructions for shipping and clearance which clearly specify that "Distribution of contents by opening the packages will not be undertaken by the Directors of Supplies and Disposals at the ports" and that where the consignments "are required to be distributed to various consignees, the Indentor/Importer/Consignee should receive the consignments at one central place and arrange their distribution by themselves to various ultimate consignees". From the facts brought out in this paragraph, the Committee are convinced that the South Central Railway authorities

concerned with this case displayed total lack of knowledge of the procedure required to be followed in the cases of imports through the agency of DGS&D and they cannot absolve themselves of the responsibility of loss incurred by Railways due to transit damages to the two imported respirators which could not be mitigated due to non-provisioning of insurance coverage.

172. What is still more distressing is the fact that Committee's further examination of the Audit paragraph has revealed yet another glaring case of similar nature involving both the DGS&D and the South Central Railway. In this case, two Image Intensifier machines were imported by the South Central Railway at a cost of Rs. 16.22 lakhs. The Committee are surprised to find that while these two machines had arrived in Bombay in May, 1991, the same could be cleared only on 26.7.91 due to three reasons. Firstly, the DGS&D made an omission to specify the "port consignee" in formal contract issued on 18.2.91. Curiously enough, this omission could be corrected only by issuance of two amendments on 19.3.91 and 18.4.91. However, none of the ultimate consignees nor the Controller of Stores, Central Railway is stated to have received the amended copy which could be finally procured by Railways only on 5.6.91. The second reason for delay in clearance is attributable to the time to three weeks taken by AD (Shipping) in forwarding the documents to the clearing agent on 3.7.91. Thirdly, the clearance was further delayed as the customs authorities insisted on furnishing of catalogue which was made available to them on 19.7.91. After examining the information made available in this regard, the Committee are of considered view that while the omission to specify the port consignee and the subsequent issuance of two amendments is a sad commentary on the working of the organisation of DGS&D, the time of three weeks taken by AD (Shipping) Bombay in just forwarding the documents to clearing agent speaks volumes about the need for restructuring the agencies of DGS&D. The Committee trust that the Department of Supply would look into the matter and initiate suitable steps to improve the efficiency and functioning of their agencies.

173. The Committee are constrained to point out that as in the case of import of respirators brought out earlier in this Report, the Railways once again failed to arrange requisite insurance cover despite the fact that the Indian Agent had reminded the consignee/indenter thrice to carry out the insurance. The net result was that no claim could be lodged for the extensive damages to both the machines. What is more deplorable is the fact that the Railway authorities waited for about one and a half years to get the machines installed. Obviously, no earnest efforts were made by the authorities concerned to impress upon the supplier or the Indian Agent to get the machine installed at the earliest with the result that a long delay took place in advising the DGS&D to withhold the payment in this case. The Committee therefore, desire that the entire issue of import of Respirators and Image Intensifiers by the South Central Railway may be

examined in depth with a view to pin-pointing individual responsibility for the procedural lapses that had occurred in these two cases. The Committee would like to be apprised of concrete action taken in the matter.

174. The Committee are also concerned to note that an imported X-ray machine costing Rs. 19.08 lakhs is lying unused since March 1988 after its transformer developed fault. Although the Ministry of Railways have sought to explain various steps taken by the Railways to get the machine repaired. The Committee's examination has revealed that none of these steps have resulted in tangible results. The Committee find themselves unable to appreciate the long unjustified delay in the instant case and they desire that immediate steps be taken to get the machine operational.

X. GENERAL

175. In the light of the cases pointed out in the Audit Paragraph under examination, the Committee desired to know the steps being contemplated by the Ministry of Railways with a view to streamlining the procedure and preventing avoidable and wasteful imports. In their post-evidence note, the Ministry of Railways have stated as under:

"...there were no shortcomings in the procedure followed for the imports referred to in paras 3.1(i) and 3.1(ii) of C&AG's Report and these imports were made correctly under the circumstances then prevailing. Hence no corrective steps are required for present. However, streamlining of the procedure is a continuing process and as and when any improvement is considered necessary, the procedure is then amended accordingly."

They further stated:

"Ministry of Railways has advised the Zonal Railways to observe utmost care to desist from importing the machines from abroad for which indigenous equivalents are available except where otherwise well developed after sale service network is available in the country.

Almost all imports, if necessary, are now being resorted to directly through Railways Store Department instead of through the agency of DGS&D."

176. The facts stated above clearly reveal certain glaring shortcomings/inadequacies/irregularities in the import of material and components by Railways resulting in avoidable expenditure of sizeable magnitude. There were clear instances where the Railways had woefully failed in making timely and proper assessment of their requirements. There were also cases where the costly imported equipments could not be put to effective use for one reason or the other and the Railways had failed to enforce contractual obligations on defaulting suppliers. The Ministry of Railways stated that they have advised the Zonal Railways in the matter so as to obviate such recurrences. The Committee cannot remain satisfied with this. They

recommend that all the cases brought out in this Report should be thoroughly looked into with a view to streamlining the procedure and preventing avoidable and wasteful imports. Action should also be taken against various officials found responsible for the various lapses/omissions.

NEW DELHI;
25 April, 1995

5 Vaisakha, 1917 (S)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

APPENDIX-I

(Vide Para 1 of the Report)

PARA 3.1 OF THE REPORT (NO-10 OF 1994) OF C&AG OF INDIA FOR THE YEAR ENDED 31 MARCH, 1993

Avoidable or wasteful imports

(i) *Extra payment on Import of Wheelsets:*

(a) Railways invited a global tender for wheelsets for use in wagon production during the year 1989-90. But bids were opened on 13 June, 1989 after the year had commenced. In November 1989, Railways decided to order 8,800 wheelsets required for wagon production during 1989-90 and 6,500 wheelsets required for production during 1990-91.

A Polish firm whose quotation was lowest could supply only 2,000 wheelsets during the remaining period of the year 1989-90 and 4,600 wheelsets during 1990-91. Railways accordingly ordered 6,600 sets on Polish firm and 3,700 sets on a Romanian firm in November 1989/January 1990 and 5,000 on a Japanese firm in June 1990.

For use in production in 1989-90, procurement action should have been taken 27 months in advance i.e. by January 1987 as per rules. The lowest tenderer (Polish firm) was in a position to supply 900 wheelsets a month in 1989-90, had they been ordered in time.

The extra expenditure incurred by Railways by delayed placement of orders on Romanian and Japanese firms was Rs. 10.71 crores.

Ministry of Railways stated (December 1993) that ordering on the Japanese and Romanian sources was desirable for meeting the wagon production requirement and avoiding hold up in wagon production. The reply was silent on how arrival of wheelsets in the latter half of 1990 could have helped wagon production in 1989-90, for which the procurement was needed.

3.1 Avoidable or
wasteful imports
(Contd.)

(b) Another global tender for purchase of 8,400 wheelsets for broad gauge was opened on 4 October, 1991. The lowest offer at US \$ 900 per wheelset from a company in Romania, was approved on 2 March, 1992 and a contract was placed on 2 July, 1992.

Though Government of India had a non-convertible Rupee Trade Agreement with Romania, the company had not been asked to quote in Rupees as the purchase was expected to be financed out of a foreign loan to be taken by Government of India. However, before the opening of the tender the company had conveyed to Ministry of Railways on 2 October, 1991 their willingness to accept payment in Indian Rupees at the official exchange rate of Indian Rupees to dollars prevailing at the time of each shipment. This offer was not taken up. Later the expected foreign loan did not materialise and Ministry of Railways asked the company to accept payment in non-convertible Indian Rupees. The Company did not agree on the plea that bids were invited in US dollars. Finally in June 1992, Company agreed to accept payment in Indian Rupees at the market rate of exchange ruling on the date of the bill of lading and not at the official rate of exchange prevailing which was agreed to earlier. Acceptance of payment in Indian Rupees at the market rate of exchange resulted in extra expenditure of Rs. 3.60 crores to the Railways on the contract.

Ministry of Railways stated (December 1993) that since the letter of the Romanian firm for trade in Rupees was received late their offer was not considered initially.

(ii) Wasteful import of wheelsets:

Railways imported 2000 metre gauge wheelsets on 13th May, 1992 at a cost of Rs. 9.98 crores for wagon production in 1992-93. The wheelsets were offered for inspection on 5th June, 1992, very much ahead of schedule. As Railway had decided to stop production of metre gauge wagons in July 1992, Railway

3.1 Avoidable or wasteful imports (Contd.)

decided to manufacture only 200 wagons in 1992-93. 800 wheelsets were received in February 1992 against an earlier order, and they were adequate for manufacture in 1992-93. Therefore, the procurement of 2000 metre gauge wheelsets in May 1992 was avoidable and expenditure of Rs. 9.98 crores involving foreign exchange was infructuous. The wheelsets are not likely to be utilised in the future also.

Ministry of Railways stated (December 1993) that there is a proposal for retrofitment of roller bearing wheelsets (meant for 14 tonne) on the 12 tonne MG wagon fleet running on Lumding-Badarpur section which is not likely to be converted to BG. The 2000 surplus wheelsets will be used up. But, the proposal for retrofitment is still to be considered by reference to cost implication and technological feasibility of such retrofitment. In the meanwhile, the 2000 wheelsets and 268 from earlier order are lying idle from October 1992.

(iii) Avoidable import:

Central Railway needed a 'Cambering Machine' for its Workshop at Jhansi at a cost of Rs. 2 lakhs. The Railway Board decided in July 1987, to divert a "Laminated Spring (Top Plate Manufacturing) Line" from Lilluah workshop of Eastern Railway to Jhansi workshop because facilities had been created in Jamalpur Workshop, making the procurement for Lilluah redundant. The diverted plant was an imported one costing Rs. 1.28 crores. The costly machine received in Jhansi Workshop in May 1989 has not been used so far (March 1993).

The cambering work in Jhansi is continuing to be done with old existing machinery. The diversion of an excess plant, unnecessarily imported for Lilluah, to Jhansi has not taken away from the fact that it continues to be an avoidable costly import. In fact three such costly plants were imported; the other two were for Jagadhri and Perambur. In Jagadhri, the plant was commissioned in February 1993, but the plant in Perambur is still to be commissioned. The cost of the two plants was Rs. 2.7 crores.

The Railway Board stated (December 1993) that the cambering machines were still to be commissioned at Perambur and Jhansi. The machine at

3.1 Avoidable or wasteful imports
(Contd.)

Jagadhri was proved in February 1993 and was being utilised for manufacture of top plates of springs which were vital parts.

(iv) Poor Import Management:

Chittaranjan Locomotive Works (CLW) contracted with an Indian company 'A' which was a subsidiary of a foreign company 'B' in August 1981 for supply of 131 tap changers which were to be imported from 'B' in Switzerland and fabricated, assembled and supplied to the CLW by 'A'. Imports were to be paid for by CLW to 'B' and CLW was to clear the import from the docks at Bombay and despatch it to 'A's works at Vadodara. 'A' was to report transit damages and losses to Insurance Company under advice to Railways.

Four consignments of tap changers despatched in September 1983 were damaged and report to the Insurance Company was made by 'A' in December 1983. Railways having paid for the imports failed to lodge a claim for damages in time and claims became time barred. Reimport resulted in avoidable extra expenditure of Rs. 2.66 crores to Railways. 'A' stated that imports were made without his consent.

In two more contracts signed in April 1981 and April 1982 with the same firm 'A' for supply of air circuit breakers, alongwith imported spares, shortages and defects were found in imported spares valued at Rs. 78 lakhs and 'A' held that CLW had delayed clearing the consignments from the docks and the consignments lay unprotected during monsoon and water entered three cases of the consignment. CLW did not lodge claim with Insurance Company in time and claim became time barred.

Railways went before an Arbitrator in September 1989 and Arbitrator gave an award for only Rs. 14.53 lakhs in May 1991 against the claim of Railways for Rs. 3.31 crores, and directed CLW to release payment of Rs. 57.00 lakhs to 'A' which had been withheld by CLW. As a result of poor contract implementation Railways lost Rs. 3.16 crores.

The Railway Board stated (December 1993) that the quasi-judicial non-speaking award of the Arbitrator did not point out specific areas where Railway failed to take action in time. However, the Board

3.1 Avoidable or
wasteful imports
(Contd.)

agreed that it needed to avoid the defect in its system for procurement whereby the Railway became an intermediary between a foreign principal and its Indian subsidiary. This would be kept in view while finalising future contracts. The actual loss was Rs. 19.92 lakhs on tap changers and Rs. 32.50 lakhs on Air Circuit Breakers. This did not take into account the cost of re-import of deficient items (Rs. 80.38 lakhs), interest charges (Rs. 68.72 lakhs) and cost of 20 tap changers (Rs. 117.00 lakhs) imported to maintain the continuity of production due to delay in supply by the contractor.

(v) *Incorrect import:*

Northern Railway needed a spare part for diesel locomotives called Race Outer. An order for 96 pieces of 'Race Outers to GM pt. No. 7451295' at the rate of U.S. Dollar 414.28 each was placed for import, in May 1990. But the items received in December 1991, were of different size and could not be used. The Railway approached the firm in June 1992 to replace the items. The firm, however, refused to replace the items as it had supplied the items as per the Tender Enquiry and the contract. Apparently the Railway had made mistake in buying a wrong size instead of buying GM pt. 7451293 the correct size. In the result infructuous expenditure of Rs. 21.37 lakhs was incurred by Railway and non-availability of Race Outers affected repair schedule of Diesel Locos and their availability.

The Ministry of Railways (Railway Board) stated (November 1993) that in addition to action being taken against errant staff efforts are being made to minimise the loss by getting replacement from the supplier.

(vi) *Wasteful imports:*

South Central Railway imported 4 Respirators at a cost of Rs. 20.10 lakhs on 2 September, 1990. But the consignment was cleared from the Airport only in February 1991, after paying Rs. 50,000 as storage charges. The consignment was despatched by rail to Secunderabad in March 1991 and April 1991 and suffered extensive damages in transit. Only 2 respirators could be commissioned resulting in loss of Rs. 10.5 lakhs.

3.1 Avoidable or
wasteful imports
(Contd.)

The Railway Board stated (December 1993) that there was failure of the DGS&D and the contractor to discharge their responsibilities in the matter of clearance from Customs, handling and storage. The reply was silent on responsibility of Railways.

(vii) Unused imported medical equipment:

An X-ray machine costing Rs. 19.08 lakhs was imported by Northern Railway for Hospital at Lucknow in May, 1986. There was mismatch between the voltage of the machine and the local voltage. In March, 1988 the transformer developed fault and machine is lying unused. A mobile Image Intensifier system imported by Central Railway for Hospital in Byculla in 1985 at a cost of Rs. 19.93 lakhs is lying idle as it is defective. Two Image Intensifier machines imported at a cost of Rs. 16.22 lakhs in May, 1991 in the South Central Railway were damaged by rain because of improper storage in transit after customs clearance. The machines are lying unused.

The Railway Board stated (December 1993) that X-ray machine was made functional on 2nd September, 1992 and was working satisfactorily in Central Railway. Delay in repair was due to delay involved in importing tube and control for the machine. In South Central Railway damages to two Image Intensifier Units occurred due to non-compliance of contractual obligations by the suppliers and omissions on the part of Director General of Supply and Disposals.

APPENDIX-II

(Vide Para 42 of the Report)

ANNEXURE-II

to Reply to Q. No. (i)

F. No. 4(2) FEB-1/92

Government of India

Ministry of Finance

Department of Economic Affairs

FEB Division

New Delhi, the 12th March, 1992.

OFFICE MEMORANDUM

Subject: Liberalised Exchange Rate Management System (LERMS)
Procedures for transactions relating to Foreign Exchange
Budget (FEB).

In pursuance of the Liberalised Exchange Rate Management System (LERMS) effective from 1st March, 1992, the following procedures relating to Foreign Exchange Budget transactions are to be followed with immediate effect.

2. Foreign Exchange at official rate can be obtained from the authorised dealers for the purposes specified in the Annexure (order of even No. dt. 11th March, 1992.)

3. The necessary certification by the concerned Financial Adviser/Internal Finance Wing may be provided to the Authorised dealers/Banks as appropriate to enable release of foreign exchange for the transaction.

4. All Foreign Exchange (FE) payments by the Ministries/Departments, PSUs and canalising agencies, other than specified above, will therefore be at the market rate. Thus market determined rate will be applicable to all FE payments on non-goods transactions including official travel, service payments, contributions/subscriptions to international organisations; consultancies etc. effected by the Ministries/Departments.

5. Where a purpose or institution is covered under the Foreign Exchange Budget discipline, release orders from competent authorities within the Government would be required irrespective whether these are covered by eligibility for foreign exchange at official or market determined exchange rate.

Sd/

(Dr. Y. Venugopal Reddy)
Joint Secretary (ECB)

To

All Financial Advisers of Central Administrative Ministries/Deptt.

Copy for information to All Heads of Divisions in the Ministry of Finance, Deptt. of Economic Affairs.

Copy also for information to Shri O.P. Sodhani, Controller, Reserve Bank of India, Bombay.

Sd/-

(S.C. Batra)

Under Secretary (FEB)

Annexure to O.M. of even No. dt. 12.3.92

F. No. 4(2) FEB-1/92

Government of India

Ministry of Finance

Department of Economic Affairs

FEB Division

New Delhi, the 11th March, 1992.

ORDER

Subject: Approval of purposes for sale of foreign exchange at official rate of exchange by Reserve Bank of India under section 40 of RBI Act, 1934 (2 of 1934)

In the light of section 40 of RBI Act, 1934 (2 of 1934) and the order of Government of India (No. SO-167-E dt. 20/2/1992) the following transactions are approved for purposes of selling foreign exchange by the RBI at official rate of exchange:

- a) For import, by Indian Oil Company, of Crude, Diesel, and Kerosene.
- b) For import, by MMTC, of fertilizers (items listed in para 2 of Appendix 5(b) of EXIM Policy).
- c) For discharge of financing arrangements like payments under Banker's Acceptance Facility and Suppliers' Credit in respect of items (a) and (b) above by IOC and MMTC respectively.
- d) For import of goods by Ministries and Departments of Government of India on a certification from the Financial Adviser/Internal Finance Wing of the Ministry concerned that the import of such goods are as per authorisations of the Foreign Exchange Budget (FEB) of the Department of Economic Affairs (DEA).

- e) For import of Life-saving Drugs and Equipments to be approved separately by DEA, Ministry of Finance.
- f) For meeting a part of foreign exchange requirements of Advance Licences, Special Imprest Licences, as per procedure to be notified by DEA.
- g) As a transitional arrangement, 40% of the value of imports under Advance Licences, Special Imprest Licences and Imports for Replenishment of Raw Materials for Gems and Jewellery exports till the new procedure as per (f) above is notified by DEA.

Sd/-

(Dr. Y. Venugopal Reddy)
Joint Secretary (ECB)

Controller,
Exchange Control Department
Reserve Bank of India
Bombay-400023

ANNEXURE-III
to Reply to Q. No. (i)

MINISTRY OF FINANCE
(Department of Economic Affairs)

RESOLUTION

New Delhi, the 3rd April, 1992

Subject: Release of foreign exchange by Government Departments—
Delegation of Powers, etc.

No. F. 4(4) FEB. 1/92—Ministry of Finance (Department of Economic Affairs Resolution No. 4(5) FEB. 1/90 dated 26-6-90 and the orders issued thereunder lay down the procedure for authorisation of foreign exchange for meeting payment liabilities on account of import of goods and services by Adm. Ministries/Departments and import of bulk commodities by the designated canalising agencies. The authorisation for Admn. Ministries/Departments provide for foreign exchange requirements of all departmental undertakings and the State Governments as well as a few specified Public Sector Undertakings which are within the purview of Foreign Exchange Budget allocations notified by Department of Economic Affairs every year.

2. In accordance with this procedure, administrative Ministries have full powers to approve contracts and release foreign exchange for all their payment requirements provided the requisite clearances/approvals from essentiality, administrative and technical angles are obtained and relevant provisions of financial and tendering procedures are complied with. Further, the total foreign exchange payments are to be restricted to the FEB ceiling notified by Department of Economic Affairs. The procedure also provides for the sub-allocation of the approved provision to the Public Sector Undertakings, referred to in the preceding paragraph.

3. The above procedure has been reviewed in the light of instructions vide OM, No. 4(2) FEB. 1/92 dated 12-3-1992 issued in pursuance of Liberalised Exchange Rate Management System (LERMS). According to these instructions, foreign exchange at the 'official rate' can be obtained from authorised dealers (ADs) by Ministries/Departments of the Government of India for the import of goods by submitting a certification of the Financial Adviser/Internal Finance Wing of the Ministry/Department concerned that the said imports are as per authorisation of the Foreign Exchange Budget of Department of Economic Affairs (DEA). It is hereby clarified that Ministries/Departments would have access to foreign exchange at 'official rate' only for import of goods required for departmental purposes and approved in the Foreign Exchange Budget. For import of

goods in excess of the FEB ceiling Ministries/Departments would have to avail of foreign exchange at the 'market rate'. All payments for non-goods transactions including official travel, service payments, contributions/subscriptions to international organisations, consultancies, etc. will have to be made by obtaining foreign exchange at 'market rate'. All Public Sector Undertakings including those mentioned in paragraph I above as well as departmental undertakings like Railways, Department of Telecommunications, Department of Posts, Doordarshan and All India Radio will meet all their payment liabilities at 'market rate'.

4. In the light of revised procedure as described above, it will no longer be necessary for Department of Economic Affairs to directly control and monitor such foreign exchange payments of administrative Ministries/Departments and PSUs as are made at 'market rate'. There would thus be no allocation of Foreign Exchange from the Foreign Exchange Budget for these payments. However, foreign exchange payments by Ministries/Departments even at 'market rate' would be subject to the standard financial procedure governing authorisation of rupee expenditure including internal finance clearance for incurring the expenditure in foreign exchange. Thus the Foreign Exchange Budget allocations of administrative Ministries, to be notified by Department of Economic Affairs, will henceforth provide only for payment liabilities for import of goods required for departmental use as well as similar requirement of the respective departments of State Governments which are within their sectoral charge.

5. Ministries/Departments of the Government of India may continue to exercise full powers to make foreign exchange payments for the import transactions covered under the FEB allocations to be notified by Department of Economic Affairs subject to the following conditions:

- (a) all requirements in regard to financial tendering and budgetary procedures are complied with;
- (b) the foreign exchange liability is met fully within the FEB ceiling notified by the Department of Economic Affairs;
- (c) the Financial Adviser/Internal Finance Wing will issue a certificate that the import of goods for which access to foreign exchange at 'official rate' is sought, is required for departmental use and the requisite provisions exists in the Foreign Exchange Budget as approved by Department of Economic Affairs.

6. For conversion of multiple currency bids from foreign bidders, the existing provisions contained in Department of Economic Affairs OM No. F. 4(5) FEB. 1/88 dated 28.12.1988 as modified from time to time will be followed for the purpose of award of contracts.

7. Foreign exchange transactions relating to bilateral/multilateral credits will not require approval of DEA provided the administrative financial and bidding procedures as per the normal rules and those prescribed under

relevant agreements are followed. Approvals of DEA would, however, be needed for any borrowing under commercial terms including suppliers' credit of more than one year duration.

8. For bulk commodities under the canalised list, Department of Economic Affairs will henceforth notify FEB allocations only for commitments for import of crude, diesel and kerosene by IOC and finished fertilizers by MMTC. The import commitments will be made by the canalised agencies against these allocations in consultation with concerned administrative Ministries. Deptt. of Economic Affairs may also consider authorising additional import of these commodities over and above the FEB allocation provide the payment thereof is made at 'market rate'. The import of other canalised commodities will be regulated by the concerned administrative Ministries and the canalising agencies. Payments for such imports will be made only on 'market rate' of exchange.

9. Department of Economic Affairs will issue suitable instructions in regard to reporting of foreign exchange payments at 'official rate' of exchange by the administrative Ministries/Departments and the canalising agencies referred to above.

Y. VENUGOPAL REDDY, Jt. Secy.

APPENDIX-III

Statement of Observations and Recommendations

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Observations and Recommendations
1	2	3	4
1.	5	Min. of Railways (Railway Board)	Indian Railways have been importing certain components and materials for their requirements through three procuring agencies viz., Railway Board, Zonal Railways/Production Units and DGS&D (Director General of Supplies and Disposals). An elaborate procedure is in existence in the Railways for purchase of goods by these agencies from abroad. This procedure involves, among other things, an examination by the Tender Committee of the tender requirements, specifications, delivery schedule, responsiveness of the Bid, reasonableness of the price quoted by the lowest Bidders etc. The Tender Committee has to make recommendations taking into account all aspects of tenders and their recommendations involve a review of the quantity tendered; the need for negotiations, if any; and the proposal for ordering. The recommendations of the Tender Committee for import require approval of the Competent Authority depending on the value of purchases involved. The Committee's examination of the specific cases brought out in Audit Paragraph has, however, revealed that there were instances where Railways made wasteful, unnecessary and costly imports involving a total amount of Rs. 35 crores. In addition, the Committee have also noticed certain cases where the management of the import contracts by Railway Authorities was poor. The various shortcomings and the disquieting features ob-

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			served by the Committee during their examination of the subject are dealt with in the succeeding Paragraphs.
2.	28	Min. of Railways (Railway Board)	<p>The Committee note that the Railways invited a global tender No. GP. 154 only in April, 1989 for import of 7500 numbers of 22.9 tonne B.G. wheel sets for their wagon production requirements during 1989-90. According to the Ministry of Railways the requirement for initiating timely procurement action for the wheel sets was completely followed in the instant case and that the global tender was invited only after the requirements of balancing import was established clearly in February-March, 1989. The Ministry of Railways have also stated that the wagon production plan for 1989-90 was decided in December, 1987 and the requirements of wheel sets for wagon production during the year 1989-90 were reviewed periodically initially on 22.2.88 when it was felt that the entire requirement of 1989-90 could be met by Wheel and Axle Plant (WAP) and that there would be no need for arranging imports. A reassessment of the requirements of wheel sets was also made in July, 1988 when indications were given that the expected supply of the wheel sets during 1988-89 from WAP would be at a lower level than what was envisaged earlier. However, in view of the foreign exchange constraints and considering the latest finalisation of wagon production plan for 1989-90, a further review was felt necessary which was conducted in March, 1989 revealing the shortfall of wheel sets for 1989-90 at the level of 7500 numbers. The Committee do not find it as a convincing explanation for delay in initiating procurement action for import of wheel sets required for wagon production in 1989-90 in view of the fact that the quantum of</p>

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shortfall in the requirements of wheel sets upto 31.3.90 was very well known to the Railway Board in February, 1988 when they had themselves computed the same at 15,673 numbers. Moreover, the subsequent review carried out by them in July, 1988 had also reinforced the fact of expected shortfall in the availability of wheel sets which at that time worked out to 12,526 numbers. Even after taking into account the factor of foreign exchange constraints in the country at that time, the Committee consider it shocking that the Railway Board at no stage took any action to make good the expected shortfall in availability of wheel sets for their requirements in 1989-90. Evidently, the Railway Board woke up only after the production year 1989-90 had commenced and there was no time left to further delay the procurement of wheel sets required during that year. Consequently, the Railway Board had to stipulate stricter delivery schedule for import of wheel sets and the price advantage offered by lowest bidder in the instant case could not be exploited in favour of Government due to capacity limitations of that bidder in meeting Indian Railways' requirements as the facts brought out in the following paragraphs would reveal.

3. 29 Min. of
Railways
(Railway
Board)

The Committee note that the Tender GP-154 stipulated delivery requirements for 7500 wheel sets as "commencement of delivery in two months of placement of order/LC and completion in five months thereafter at the rate of at least 1500 wheel sets per month." This tender was opened on 13.6.1989 and a total of six offers were received. An analysis of the offers received in response to this tender reveals that the two lowest offers were received from the firms located in Poland and Romania—the two countries having Rupee Payment Agreement (RPA) with India. However, the delivery schedule offered by these firms for the supply of wheel sets was not matching requirements of

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the Railways. The third lower offer was from a firm in Japan which quoted in their currency of Yen but offered a delivery schedule which was meeting the delivery requirements of Railways. It is however, seen that there was substantial price difference among the three lower offers in equivalent Indian rupees as per exchange rate prevalent on the date of opening of the relevant tender. While the lowest offer of Polish firm was at Rs. 19078.50 per wheelset, the second and third lower offers from Romanian and Japanese firms were Rs. 26346 and Rs. 26752 per wheelset respectively.

Subsequently, the requirement of wheelsets for wagon production upto March, 1991 were also reviewed by Railways in July, 1989 and it was assessed that 14,000 wheelsets (8800 numbers for 1989-90 and 5200 numbers for 1990-91) were required to be imported. However, a decision was initially taken to restrict the order only to 12,500 wheelsets with an option to increase the quantity upto 30% during the currency of the contract. The Committee have further been informed that based on the recommendations made by the Tender Committee, it was decided by the Board that negotiations be held with all the six tenderers with a view to obtaining better delivery terms and reduction in prices and the total requirement of 12,500 wheelsets \pm 30% for production needs till 31.3.1991 be also advised to all the tenderers before calling them for negotiations. According to the Ministry of Railways these negotiations resulted in three firms from Romania, Italy and France reducing their prices and some of the firms offering better delivery terms. The Committee have been informed that the Ministry of Railways at that stage assessed that maximum 2000 wheelsets could become physically available in India from the lowest tenderer Kolmex, Poland till March, 1990 on the basis of delivery terms offered by them. For meeting balance

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requirement of 6,800 wheelsets for 1989-90, it was decided to order on two firms from Japan and France. Evidently, the stricter delivery terms stipulated in the tender deprived the Ministry at that stage of the lowest price advantage offered by the Polish firm and they had to take a decision to import from two other sources in Japan and France at a substantially higher rate. The Committee feel that had the Railways taken advance planning action in the case and floated tender earlier, the situation would have been different with relaxed delivery requirements.

4. 30 Min. of
Railways
(Railway
Board)

To the utter dismay of the Committee, the Railway Board in November, 1989 further reviewed their requirements of wheelsets to be imported in the light of their decision to increase the production of wagons during the year 1990-91 and decided to increase ordering of import from 12,500 wheelsets to 15,300 wheelsets. This necessitated consideration of placing of order, among others, on the Japanese and French firms who had quoted a higher price and that too in their currency in addition to the orders placed for supply of 10300 wheelsets on Polish (6600) and the Romanian (3700) firms. Although the Ministry of Finance while releasing foreign exchange at regular intervals seem to have tried to maximise the orders on RPA sources, the Ministry of Railways justified the proposals for import of balance requirements of wheelsets from Japanese and French sources on the ground that it would improve the position of availability of wheelsets and the smooth production of wagons could be expected from August, 1990. Eventually, the order was placed on the Japanese firm. From these facts, it is abundantly clear that the Ministry of Railways failed to precisely estimate their requirements of wheelsets in advance and kept on increasing the quantity of wheelsets to be imported under tender GP-154 under one pretext or the other.

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			<p>The net result was that the additional quantities of wheelsets had to be imported at higher rates by paying precious foreign exchange while the country was experiencing serious foreign exchange crunch. The Committee consider it deplorable and they desire the Ministry of Railways to strengthen their planning processes so as to avoid recurrence of such cases.</p>
5.	31	<p>Min. of Railways (Railway Board)</p>	<p>The Committee note that three different orders for supply of 5,000 wheelsets were placed on Sumitomo Corporation between 16.3.1990 and 12-6-1990 at their quoted FBO price of Yen 239,700. However, the information made available to the Committee revealed that the conversion of this FBO price Indian Rupees as per relevant exchange rate worked out to only Rs. 26,752 at the time of opening of tenders on 13.6.1989 which increased to Rs. 28,724 on 31.7.1989 when negotiated offers were received. What is more revealing is the fact that the total FOB payments of Rs. 16.00 crores made to the Sumitomo Corporation indicate that the FOB cost of each wheelset paid to this firm actually worked out to Rs. 32,000 as against the cost of Rs. 19,078.50 and Rs. 22,103.00 paid to the Polish and Romanian suppliers respectively. The Committee consider it unfortunate that the delay in placement of order resulted in an extra expenditure of Rs. 10.71 crores, as computed by Audit, on procurement of wheelsets.</p>
6.	32	-do-	<p>The Committee trust that the Ministry of Railways would take suitable note of the lessons learnt from this experience in respect of evaluation of requirements and procurement of wheelsets and take suitable steps to streamline the procedure for assessment and procurement of store in a more timely, systematic and cost-effective manner.</p>
7.	44	-do-	<p>The Ministry of Railways floated another global tender No. GP-167 in 1991 for import of 12,000 numbers of 22.9 tonne wheelsets to bridge the shortfall in the indigenous availability.</p>

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of wheelsets for wagon production during 1992-93. Anticipating utilisation of the provisions of retro-active financing available in the expected World Bank Loan then being negotiated, the Ministry of Railways invited this tender under the conditions of World Bank guidelines. In accordance with the World Bank guidelines, the tender conditions stipulated that the "prices should be stated only in one currency and should be either in the currency of the manufacturer's country or in US dollars". The lowest offer at FOB price of US dollars 900 per wheelset was received from a firm in Romania—a country with whom India was having Rupee Payment Agreement. This offer was accepted by the Ministry of Railways and the offer of acceptance was conveyed to the firm on 4.3.1992. The Ministry of Railways also, simultaneously, decided to release foreign exchange for the procurement initially under free foreign exchange (FFE) on the basis of their requirements projected in the FFE Budget to the Ministry of Finance. Since the World Bank Loan had not materialised by that time and there was a possibility of procurement of wheelsets being made outside World Bank financing, the Ministry of Railways made a reference to the Ministry of Finance (DEA) who advised on 6.5.1992 that all payments should be made in non-convertible Indian Rupees in view of Indo-Romanian Trade and Payment Agreement being in force. The Ministry of Railways, accordingly, took up the matter with Romanian firm which is stated to have agreed to accept the offer being considered under Indo-Romanian Trade and Payment Agreement provided that the payments were effected in Indian Rupees at the "market rate" of exchange prevailing on the dates of respective bills of lading. This proposal was accepted by the Ministry of Railways.

8. 45

Min. of
Railways
(Railway
Board)

Explaining their position in respect of the extra expenditure of Rs. 3.60 crores as pointed out by Audit owing to the differences in market and official rates, the Ministry of Railways

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contended that the "official" exchange rate referred to in Audit paragraph had no relevance at that time as a Liberalised Exchange Rate Management System had come into force with effect from 1.3.1992 and that the Railways were required to meet all their payment liabilities at market rate in terms of Ministry of Finance instructions dated 12.3.1992 and further clarifications dated 3.4.1992. The Ministry of Railways have as such maintained that their decision to make payment to the Romanian firm "in non-convertible Indian Rupees as per market rate of exchange did not have any extra cost implication and the Ministry of Finance's requirement of making payments in non-convertible Indian Rupees was also satisfied". The Committee are not at all inclined to accept this argument of the Ministry of Railways because they understand from a close scrutiny of the instructions dated 12.3.1992 and 3.4.1992 that these instructions laid down the procedure to be followed by various Government Departments/agencies for procuring the foreign exchange only in cases where payments for imports or otherwise were to be effected in foreign exchange and thus were not at all relevant in the instant case where payments were required to be made in non-convertible Indian Rupees. Obviously, the Ministry of Railways failed to appreciate the substance of the aforesaid instructions in its right perspective and rather than seeking advice of the Ministry of Finance on this issue they acted with the sole aim to push the contract through with the Romanian supplier. In view of the foregoing, the Committee feel convinced that the decision of the Ministry of Railways to make payment to the Romanian firm in Indian Rupees at the market rate of exchange involved increased cost implications and the only satisfaction that the Ministry of Railways could draw in this case in that such payments were made in non-convertible Indian Rupees. At this stage, the Committee

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9.	60	Min. of Railways (Railway Board)	<p>can only express their distress over the manner in which negotiations with the Romanian firm were conducted by the Ministry of Railways to the detriment of Government funds.</p> <p>In yet another case of import of wheelsets, the Railways invited in 1991 a global tender GP-169 for meeting their production requirements of 14 tonne MG wheelsets during 1992-93. This tender was opened on 6.6.1991 and the acceptable offer against this tender as recommended by the Tender Committee was forwarded to Minister for Railways in October, 1991 for his approval. Subsequently, the Railways had also announced their uni-gauge policy in December, 1991. The case relating to tender GP-169 was accordingly remitted back for a review in the light of Minister for Railways directions dated 24.12.1991 that "MG Rolling Stock programme should be frozen and these resources utilised for uni-gauge programme". The Committee are concerned to find that despite this clear-cut direction of the Minister for Railways, the then Member (Traffic) in Railway Board approved procurement of 3400 MG wheelsets for requirements during 1992-93 and 800 wheelsets in 1993-94 on the basis of a review undertaken on 7.1.1992. While this review is stated to have considered that time had to be given for the production units for switching over from MG to BG production and also taken into account the aspect that inputs organised would result in idle inventory, the Committee are surprised to note the plea of the Ministry of Railways raised in their defence that the full scope and extent of uni-gauge policy was not known to them in January, 1992. In the opinion of the Committee, this plea of ignorance holds no ground in the light of the fact that the action plan under uni-gauge policy announced earlier in December, 1991 had clearly contemplated inclusion of 27 gauge conversion projects. Evidently, the facts enumerated</p>

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			<p>above are a sad commentary on the functioning of such an important organisation as Railway Board insofar as they had completely known the implications of the uni-gauge policy in January, 1992 after having themselves worked out on the gauge conversion plans under that policy. The Committee therefore, conclude that the whole issue of assessment of requirement of MG wheelsets in the instant case was dealt with by the Railway Board in a rather strange and inexplicable manner in utter disregard to the realities of the situation</p>
10.	61	Min. of Railways (Railway Board)	<p>The Committee have been informed that based on a review undertaken on 4.2.1992, the requirement of MG wheelsets was assessed at 2000 numbers. After obtaining the approval of the Minister for Railways, the acceptance of offer was issued to Polish supplier on 13.3.1992 and a formal contract for supply of 2000 MG wheelsets made on 13.5.1992. The supplier is stated to have manufactured the entire quantity in May, 1992 and after inspection shipped the same to India on 17.9.1992. However, Railways having decided to stop production of meter gauge wagons in July, 1992, the procurement of these wheelsets proved unnecessary and the entire expenditure of Rs. 9.98 crores involving foreign exchange was rendered infructuous. Although the Railways are stated to be proposing alternate use of these wheelsets by upgrading MG rolling stock for Lunding-Badarpur section which is not slated for gauge conversion, yet the facts remain that these wheelsets will remain unutilised for considerably longer period and that the cost of matching equipments for retrofitment of these wheelsets will be Rs. 4 crores. The Committee cannot but express their unhappiness at this heavy extra expenditure due to inaccurate conception in the Ministry of Railways' planning and requirements. They also desire the Ministry of Railways to do introspection with a view to streamlining their procure-</p>

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11. 70	Min. of Railways (Railway Board)	ment of equipments strictly in accordance with their precise requirements.	<p>The Committee find that the Railway Board decided to import three "Laminated Spring Line" plants with a view to improving the manufacturing process of laminated springs in three workshops located at Jagadhri, Kota and Lilluah. However, a decision was subsequently taken to change the location of these imported plants from Kota and Lilluah workshops to Perambur and Jhansi workshops. The order for import of these three plants was placed on 25.2.1988 and these machines arrived in May, June and September of 1989 at Jhansi, Jagadhri and Perambur respectively. The Committee, however, regret to note that after receipt of the plant at Jhansi in May, 1989, there was a rethinking in the Railways to move the plant to Rail Spring Karkhana at Sithouli for manufacture of parabolic springs. Since that particular product was not taken up at Sithouli, the Railway Board gave clearance to Central Railway for installation of the plant at Jhansi only in December, 1990 <i>i.e.</i> after a lapse of more than 18 months after the plant had arrived in Jhansi. Although the foundations for the plant were made ready in August, 1991, the Committee are amazed to find that this machine is yet to be commissioned. To the utter dismay of the Committee, there were also considerable delays in commissioning of the other two plants. While the plant at Jagadhri was the first to be commissioned in May, 1992 <i>i.e.</i>, approximately after three years of its arrival, the plant at Perambur could be put to effective use only in August, 1994 when a period of approximately five years had lapsed since the plant arrived at this workshop. Although the Railway Board are stated to have penalized the firm for the delay in commissioning of a machine, the Committee are in no doubt that the Railways failed to take concrete measures against the supplier or his</p>

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agent with a view to avoiding delay in commissioning of these plants costing Rs. 7.43 crores. From the facts enumerated above, the Committee gain the impression that the Railways in this case have displayed not only waivering attitude in selection of workshops even after the plants have arrived but also their inability to prevail upon the supplier to commission these three plants within a reasonable time frame. The Committee hope that the Railways would at least now earnestly take up the matter with the supplier to put the plant at Jhansi to effective use at the earliest. The Committee also trust that the penalties leviabale in this case would be enforced against the supplier or his agent. The Committee would like to be apprised of the progress made in the matter.

12. 115 Min. of
Railways
(Railway
Board)

The Committee are surprised to find that the Railways decided to act as an intermediary between a Foreign Company and its Indian subsidiary in three different contracts signed in 1981 and 1982 for supply of fabricated tap changers and air circuit breakers. According to the arrangements made in this regard, imports were to be paid for by Chittaranjan Locomotive Works (CLW) who was also to clear the imports from the docks at Bombay and despatch it to the Indian subsidiary's works at Vadodara for fabrication of the components and supply of the same to Railways. According to Ministry of Railways, this course of action to act as an intermediary was forced upon them because of customs clearance and foreign exchange release problems being faced by the Indian subsidiary. Keeping in view the inability of the Ministry of Railways to furnish the information regarding number of cases in which Railways or their agencies had agreed to become intermediary and also their subsequent discontinuance of this practice, the Committee are inclined to conclude that the recourse to act as an intermediary in these three contracts was perhaps, one of the

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rare instances where the Railways had agreed to adopt this unique method aimed only at facilitating procurement of foreign exchange for the private party for the imports which were otherwise to be made by him for supply of specific components to Railways. In the light of the fact that both the tap changers and air circuit breakers had single source of supply at the relevant time, the Committee are in no doubt that this course of action by Railways to act as an intermediary was also guided by other considerations. They would, therefore, desire the Ministry of Railways to investigate the circumstances under which such an arrangement to act as an intermediary was worked out by CLW and whether the Railway Board was consulted in the matter. The Committee would like to be apprised of the complete details in this regard.

13. 116 Min. of
Railways
(Railway
Board)

According to the terms of the Contract, the Railways were to take open insurance cover for imported components upto consignee's godowns. In addition, the Indian subsidiary (M/s HBB) were to take a second insurance cover for the landed cost + 15% value to cover the period upto the stage of erection, commissioning and despatch. The Indian subsidiary was to report transit damages and losses to CLW who was to lodge claims with insurance company within the stipulated period. The Committee's examination has, however, revealed that there were delays in all the cases in reporting the damages/shortages by the Indian subsidiary. While none of the claims is stated to have been rejected on this account by the Insurance Company in the case of contract relating to tap changers, the claims for the deficient items in the case of air blast circuit breakers were turned down being time barred. The Committee have been informed that the insurance claims for shortages/damages could not be lodged by the Railways in time because M/s HBB opened the

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			<p>consignments much after the packages were received by them and thus failed to report shortages/damages to Railways in time. M/s. HBB also failed to fulfil their requirements of the contract for taking second insurance cover till the final delivery of tap-changers. Considering these facts, the Committee are of firm view that the Indian subsidiary would not have acted in such an irresponsible manner had the Railways asked them to arrange the imports themselves directly from their foreign principal as is generally done in cases of this nature.</p>
14.	117	Min. of Railways (Railway Board)	<p>The Committee have been informed that the exact cause of damages/shortages in the case of the tap changers could not be pinpointed even during survcys. Surveyor's Report expressed possibility of both short packing in respect of shortages and non compliance of packing conditions by the foreign company. Although the Railways took up the matter with the foreign supplier, they did not accept the responsibility. The Committee are concerned to note that the Railways considered it not "practicable" to take any action against the foreign supplier for the shortages noticed in the consignments evidently because these components had a single source of supply. The Committee also note that M/s HBB failed to supply the fabricated tap changers to the Railways within the contractual period and the Railways had to import 20 complete tap changers directly from the Foreign supplier at a cost of Rs. 1.17 crores to maintain the continuity of the locomotive production. Surprisingly, the levy of the liquidated damages recoverable from the Indian Supplier for delayed delivery was also waived by the Ministry of Railways <i>vide</i> an amendment issued in November, 1987. In the opinion of the Committee, both these instances are a sad commentary on the project management by the Railways. They are of firm belief that necessary action against the foreign principal and its</p>

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			<p>Indian subsidiary for their contractual violations under the penalty clauses in the relevant contracts should have been taken for otherwise it negates the very logic of insertion of such clauses.</p>
15. 118	<p>Min. of Railways (Railway Board)</p>		<p>The Committee have also been informed that CLW withheld an amount of Rs. 57 lakhs from the bills of M/s HBB on account of non-availability of specific items in time. Consequently, the supplier requested for appointment of an arbitrator to settle the dispute. Accordingly, Chief Electrical Engineer, CLW was appointed sole arbitrator in this case. The Railways while presenting their case before the arbitrator raised counter claims to the extent of Rs. 2.66 crores for tap changers and Rs. 78 lakhs for air circuit breakers. The Railways are also stated to have placed before the arbitrator the facts of certain contractual violations by the supplier. The Committee, are however, concerned to note that the sole arbitrator gave a "non-speaking award" in this case. While he directed CLW to release payment of Rs. 57 lakhs to the supplier, he awarded a claim for only Rs. 6.69 lakhs in favour of Railways in respect of direct losses on account of tap changers contract and Rs. 7.83 lakhs in the case of contract relating to air circuit breakers. The Committee have been informed by the Ministry of Railways that the arbitrator is not bound to give "speaking award" since no such provisions exists in the Arbitration Act. The Committee consider it a precarious situation where it is not obligatory for a sole arbitrator to give a "speaking award." At this stage, the Committee can only express their unhappiness over the fact that Railways having known the legal provisions appointed an arbitrator from their organisation and not preferred to appoint a retired judge or somebody from outside or from the panel maintained by Indian Council of Arbitration to arbitrate this matter.</p>
16. 127	-do-		<p>The Committee are perturbed to find that instead of buying the race outers of correct specification No. GM Pt. 7451293 required for</p>

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diesel locomotives, the Railways placed an order for import of wrong sized part No. GM dt. 7451295 with the result that the entire expenditure of Rs. 21.37 lakhs incurred on this account became infructuous. The Committee have been informed that one of the two Railways units which indented for this part had indicated the last digit of the part number wrongly. However, the fact remains that the other authorities in Railways while placing the order for import of this item had not only failed to exercise due check to verify the correctness of the two different indents furnished by the railway units concerned but also negligently chose to place import order for incorrect spare part. The Committee take a very serious view of the indifference and negligence displayed in this case by the railway authorities at different levels.

17. 128 Mir. of
Railways
(Railway
Board)

What has disturbed the Committee more is the fact that despite receipt of the race outers of wrong specifications in December, 1991, the Railways have not so far been able to order enquiry against the two officials who have been held responsible and charge sheeted in the instant case. Keeping in view the importance of avoiding delay in the investigation of any loss of Government money due to negligence etc., the Committee recommend that enquiry in this case should be expeditiously finalised and suitable pecuniary liabilities enforced against the officials found responsible for this costly lapse.

18. 129 -do-

The Committee also feel that a new dimension has been added to this case by the revelation made by the Ministry of Railways on the role of supervisory officers in this case who are stated to be "expected to only carry out sample checks as a number of orders for procurement are issued and each order contains a large number of items." The Committee are not inclined to agree with this submission of the Ministry and they are of firm view that such officers should be made to share their part of

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19.	170	Min. of Commerce Deptt. of Supply	<p>responsibility in the instant case. The Committee would like to be apprised of the precise steps taken in this regard.</p> <p>The Committee note that South Central Railway imported four respirators at a cost of Rs. 20.10 lakhs through the agency of DGS&D. The Committee are however, distressed to find that although the consignment of respirators had reached India in September, 1990, the same could be cleared only in February, 1991 after a delay of 5 months and on payment of Rs. 50,400 as warehousing charges. The examination of this case by the Committee revealed that the Railways were not made aware of the actual arrival of the consignment in time and they came to know of it only on 5.1.1991 when one of the representative of the Railway Medical Department visited Bombay in connection with some other consignments. The Railways accordingly, handed over the required documents to clearing agent on 21.1.1991 and the consignment was cleared on 6.2.1991. During his deposition before the Committee, the representative of the Department of Supply admitted that "there was a negligence on the part of our officer" when he did not try to link up papers on 13.11.1990 when one of the railway officials enquired about the arrival of the consignment. The Department of Supply also admitted in their subsequent reply to the Committee that there is no proper linking system of DGS&D A/Ts with the Shipping documents in the offices of Director of Supplies and Disposal/ Assistant Director (Shipping). The Committee view this absence of proper linking system in the agencies of Department of Supply with grave concern. They therefore, recommend that Department of Supply should take suitable administrative measures so as to avoid recurrence of such cases in future.</p>
20.	171	Min. of Railways (Railway Board)	<p>Another disturbing feature noticed in this case is that the consignment suffered extensive damages in transit with the result that two respirators could not be commissioned. The</p>

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Railways have tried to put the blame on the Assistant Director Shipping, Bombay for his failure to provide adequate protection against damages when the consignment was despatched by train. The Committee find it difficult to accept this view since the stores were despatched by passenger train under clear R/R (Railway Receipt). On the other hand, the Committee hold Railways fully responsible for the loss incurred due to damages to the respirators mainly because they failed to meet their contractual obligation under clause 19(d) of the contract which clearly stipulated that the insurance was to be provided by the indenter viz., Controller of Stores, South Central Railway. In this context the Committee have also been informed by the Railways during evidence that they had written to the DGS&D for arranging the necessary insurance cover and in the absence of any reply from them the Railways presumed that the insurance cover would have been provided. The Committee are not inclined to accept this plea of the Railways, since Para 60(iv) of Manual of General Instructions for Shipping and Clearance specifically enjoins that "no insurance cover will be undertaken by the port shipping officer of the DGS&D at the ports of entry and the Indentors/Importers/Consignees should themselves arrange insurance coverage with the concerned zonal unit of the General Insurance Corporation of India." The Railways have also tried to put blame on the DGS&D on the ground that there were three ultimate consignees and the packing should have been made consignee-wise whereas the stores were packed in one single lot. The Committee do not find any force even in this argument in view of the provisions contained in Para 27 of the General Instructions of shipping and clearance which clearly specify that "Distribution and contents by opening the packages will not be undertaken by the Director of Supplies and Disposals at the ports" and that

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where the consignments "are required to be distributed to various consignees, the Indentor/Importer/Consignee should receive the consignments at one central place and arrange their distribution by themselves to various ultimate consignees". From the facts brought out in this paragraph, the Committee are convinced that the South Central Railway authorities concerned with this case displayed total lack of knowledge of the procedure required to be followed in the cases of imports through the agency of DGS&D and they cannot absolve themselves of the responsibility of loss incurred by Railways due to transit damages to the two imported respirators which could not be mitigated due to non provisioning of insurance coverage.

21. 172 Min. of
Commerce
(Deptt. of
Supply)

What is still more distressing is the fact that Committee's further examination of the Audit paragraph has revealed yet another glaring case of similar nature involving both the DGS&D and the South Central Railway. In this case, two Image Intensifier machines were imported by the South Central Railway at a cost of Rs. 16.22 lakhs. The Committee are surprised to find that while these two machines had arrived in Bombay in May, 1991, the same could be cleared only on 26.7.1991 due to three reasons. Firstly the DGS&D made an omission to specify the "port consignee" in formal contract issued on 18.2.1991. Curiously enough, this omission could be corrected only by issuance of two amendments on 19.3.1991 and 18.4.1991. However, none of the ultimate consignees nor the Controller of Stores, Central Railway is stated to have received the amended copy which could be finally procured by Railways only on 5.6.1991. The second reason for delay in clearance is attributable to the time of three weeks taken by AD (Shipping) in forwarding the documents to the clearing agent on 3.7.1991. Thirdly, the clearance was further

delayed as the customs authorities insisted on furnishing of catalogue which was made available to them on 19.7.1991. After examining the information made available in this regard, the Committee are of considered view that while the omission to specify the port consignee and the subsequent issuance of two amendments is a sad commentary on the working of the organisation of DGS&D, the time of three weeks taken by AD (Shipping) Bombay in just forwarding the documents to clearing agent speaks volumes about the need for restructuring the agencies of DGS&D. The Committee trust that the Department of Supply would look into the matter and initiate suitable steps to improve the efficiency and functioning of their agencies.

22. 173 Min. of
Railways
(Railway
Board)

The Committee are constrained to point out that as in the case of import of respirators brought out earlier in this Report, the Railways once again failed to arrange requisite insurance cover despite the fact that the Indian Agent had reminded the consignee/indenter thrice to carry out the insurance. The net result was that no claim could be lodged for the extensive damages to both the machines. What is more deplorable is the fact that the Railway authorities waited for about one and a half years to get the machines installed. Obviously, no earnest efforts were made by the authorities concerned to impress upon the supplier or the Indian Agent to get the machine installed at the earliest with the result that a long delay took place in advising the DGS&D to withhold the payment in this case. The Committee therefore, desire that the entire issue of import of Respirators and Image Intensifiers by the South Central Railway may be examined in depth with a view to pin-pointing individual responsibility for the procedural lapses that had occurred in these two cases. The Committee would like to be apprised of the concrete action taken in the matter.

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23. 174 Min. of Railways (Railway Board) The Committee are also concerned to note that an imported X-ray machine costing Rs. 19.08 lakhs is lying unused since March 1988 after its transformer developed fault. Although the Ministry of Railways have sought to explain various steps taken by the Railways to get the machine repaired, the Committee's examination has revealed that none of these steps have resulted in tangible results. The Committee find themselves unable to appreciate the long unjustified delay in the instant case and they desire that immediate steps be taken to get the machine operational.
24. 176 Min. of Commerce (Deptt. of Supply) The facts stated above clearly reveal certain glaring shortcomings/inadequacies/irregularities in the import of material and components by Railways resulting in avoidable expenditure of sizeable magnitude. There were clear instances where the Railways had woefully failed in making timely and proper assessment of their requirements. There were also cases where the costly imported equipments could not be put to effective use for one reason or the other and the Railways had failed to enforce contractual obligations on defaulting suppliers. The Ministry of Railways stated that they have advised the Zonal Railways in the matter so as to obviate such recurrences. The Committee cannot remain satisfied with this. They recommend that all the cases brought out in this Report should be thoroughly looked into with a view to streamlining the procedure and preventing avoidable and wasteful imports. Action should also be taken against various officials found responsible for the various lapses/omissions.
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2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).	13.	M/s. Madimala, Buys & Sells, 123, Bow Bazar Street, Calcutta-1.
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5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road, Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar, Old Double Storey, New Delhi-110 024. (T.No. 6412362 & 6412131).
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7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele Road Nalgaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India Corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
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