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THIRTY-NINTH REPORT PUBLIC ACCOUNTS COMMITTEE (1992-93)

(TENTH LOK SABHA)

PROCUREMENT AND UTILISATION OF
TRACK MATERIALS

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

*[Action Taken on 165th Report of the
Public Accounts Committee (8th Lok Sabha)]*



*Presented to Lok Sabha on 21 December, 1992
Laid in Rajya Sabha on 21 December, 1992.*

LOK SABHA SECRETARIAT
NEW DELHI

December, 1992/Agrahayana, 1914 (S)

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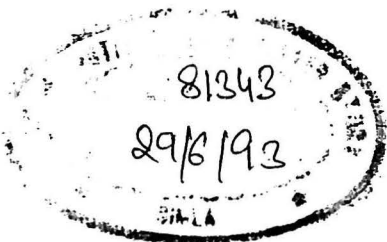
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INTRODUCTION

1. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Thirty-Ninth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 165th Report (Eighth Lok Sabha) on Procurement and Utilisation of Track Materials.

2. In their earlier Report the Committee had recommended that the inconsistencies and irregularities committed in the two cases of rail imports relating to (i) import of 20,000 tonnes of wear-resistant rails without settlement of elongation limit and (ii) purchase of 10,000 tonnes after rejecting an unsolicited offer resulting in avoidable extra expenditure of Rs. 83.38 lakhs should be investigated by an Independent Committee, responsibilities fixed and appropriate action taken under intimation to the Committee. In pursuance of the Committee's said recommendation, the Ministry of Railways (Railway Board) had set up an Independent Committee which submitted their Report on 8.7.1991. In the first case, the Independent Committee has observed that there was no loss of Rs. 18 lakhs due to non-acceptance of the lower priced offer of the firm but the Railway Board failed to give the complete picture to the Public Accounts Committee. Regarding the second case the Independent Committee has observed that extra expenditure of Rs. 65.38 lakhs seems to be the result of a judgement going 'wrong'. In this Report, the Committee have deprecated the lack of concern on the part of the Railways for their financial interests.

3. The Independent Committee's examination has, however, established a number of serious mistakes in processing both the supply orders. The Independent Committee has felt that more than the mistakes or irregularities committed while dealing with these two tender cases, it is the lack of proper study and attention given, first to the audit objection and subsequently to the points raised by the Public Accounts Committee, that added to the inconsistencies and consequent suspicion. According to the Independent Committee, adequate attention to the Audit objection at the initial stage itself could have clarified many of the points. Further, the Committee have observed that factually incorrect information has been furnished to the Public Accounts Committee. The Public Accounts Committee have taken a very serious view of all the acts of omission and commission of the Ministry of Railways which according to them abundantly establish the utmost apathy and lack of seriousness on the part of the Ministry to clarify audit objections or even scrutinise information furnished. The Committee have been even more disturbed to note that though the recommendations of the Independent Committee have been

accepted by the Ministry of Railways, no concrete action has been taken so far in pursuance thereof. They have recommended that the entire gamut of activities involved in such supply orders should be thoroughly examined in the light of observations and recommendations of the Independent Committee and comprehensive remedial steps should be taken immediately with a view to eliminating such recurrences in future.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 19 November, 1992. Minutes of the sitting form Part II of the Report.

5. For facility of reference and convenience, the 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 II to this Report.

6. 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;

December 2, 1992

Agrahayana 11, 1914 (S)

ATAL BIHARI VAJPAYEE

*Chairman,
Public Accounts Committee*

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their Hundred and Sixty-Fifth Report (Eighth Lok Sabha) on paragraph 3.1 of Report No. 3 of the Comptroller and Auditor General of India for the year ended 31 March 1987, Union Government (Railways) on Procurement and Utilisation of Track Materials.

2. The Hundred and Sixty-Fifth Report which was presented to Lok Sabha on 26 April, 1989 contained 14 recommendations/observations. Action taken notes on all these recommendations/observations have been received from the Ministry of Railways. The Action taken notes have been broadly categorised as follows:—

- (i) Recommendations and Observations which have been accepted by Government:
Sl. Nos. 1, 3, 4, 5, 6, 7, 8, 10 & 11.
- (ii) Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from the Government:
Sl. Nos. 2, 9, 12 & 13.
- (iii) Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration:
Sl. No. 14.
- (iv) Recommendations and Observations in respect of which Government have furnished interim replies.

—Nil—

3. In the succeeding paragraphs the Committee deal with the action taken by Government on some of the recommendations.

Investigation of the issues involved in the two supply orders

(Sl. No. 14—Para 83) -

4. The brief facts of the two supply orders under consideration as brought in the audit paragraph are as follows:—

- (i) The Ministry of Railways placed in April, 1979 an order for import of 10,000 tonnes of wear resistant (WR) 60 kg. rails. The life of this variety of rails is over five times that of indigenous rails. The import

was mainly for use in the difficult Kottavalasa-Kirandul Ghat Section of South Eastern Railway (5500 tonnes) and track renewal in the heavily worked Grand Chord Section of Eastern Railway (2700 tonnes). An additional supply of 10,000 tonnes at the same rate was ordered in June 1979 on the ground that there was increasing trend in the price of rails in the world market. The total supply of 20,000 tonnes was received by June 1980—one half at Calcutta and another half at Bombay. A review of the contract by Audit had revealed that the supplier had offered in February 1979 a reduction of Rs. 90.50 per tonne if elongation of 9 per cent (minimum) against 11.5 per cent (minimum) prescribed in the specification was acceptable. This was not accepted. In November 1979, however, the Railway Board relaxed the specification accepting elongation of 9 per cent (minimum) as a result of representation from the firm. But no reduction in prices attributable to this relaxation was sought. On this being raised by Audit, the Railway Board stated in December 1987 that the chemical composition of rails for which rebate was offered was inferior to the one for which orders were placed. This, however, did not clarify why a rebate was not pressed for lowering of specifications. Based on the offer given by the firm, this failure to seek a rebate led to extra expenditure of the order of Rs. 18 lakhs.

- (ii) An order was placed in September 1983 for supply of 10,000 tonnes of 52 Kg. rails on a firm 'B' of South Korea at an FOB price of \$350 per tonne. Though the delivery period was extended upto 30 April, 1984, it supplied only 556.5 tonnes by July 1984 when the order was cancelled at the risk and cost of the firm. In the meantime, the Railway Board, after calling for global tenders, placed in February 1984 an order on firm 'C', also of South Korea, for supply of 25000 tonnes of same type of rails at a lower FOB price of \$310/311 per tonne. The firm 'C' offered in August 1984 to supply additional quantity up to 10,000 tonnes without change in prices or conditions of supply. Instead of accepting this offer, particularly in the context of cancellation of orders on firm 'B' at its risk and cost, the Board decided to float fresh short notice tenders for 9,500 tonnes in December 1984. The lowest tender received from a French firm in April 1985 for supply at FOB price of \$ 326 was accepted and supplies received between December 1985 and May 1986. This led, apart from delay of over one year in the receipt of rails, to an extra expenditure of Rs. 65.38 lakhs computed with reference to the offer for additional supply given by firm 'C'.

The Railway Board stated in December 1987 that prices in international market depended on demand and supply and order book position of steel plants, but did not clarify why the economic option of ordering the additional quantity on firm 'C' was not exercised.

5. Emphasising the need for investigation into the several issues in respect of the two supply orders, the Committee in paragraph 83 of their 165th Report had recommended as follows:—

“The Committee feel that there are several issues in respect of the two supply orders which need investigation. These are listed below:

I. Contract with 9% Elongation

- (1) Though unsolicited offer from existing suppliers for additional quantities cannot be accepted beyond 15% as contended in the purchase made in 1984 from a South Korean firm, an unsolicited offer for 10,000 tonnes was however accepted in June 1979 despite non-finalisation of admissible limit of elongation.
- (2) Additional orders for 10,000 tonnes in June 1979 was placed even before the issue relating to extent of elongation was settled because Government's acceptance with 11.5% elongation must have been conveyed in April 1979 itself.
- (3) As the supplier did not apparently raise objection to elongation clause till after June 1979, (for over two months), the subsequent stand that his offer was with 9% elongation is a clear modification calling for appropriate action.
- (4) It is not clear whether the RDSO demanded 11.5% elongation after ensuring the availability of technology therefor and whether, this technology is now available and if so, since when.
- (5) If any other tenderer had responded to Railway's requirement of 11.5% elongation why no action was taken to cancel the order due to absence of proper understanding of contract and to place order with the one willing to supply with 11.5% elongation?
- (6) For fully killed quality, there is need for minimum of 0.3% silicon as deposed by Member (Engineering) before the Committee. As the alternative chemical composition offered by the tenderer provided for maximum of 0.9% silicon what is the basis for Railway's present stand that rails would not have minimum quantity of silicon? Even if doubt existed due to non-mention of minimum quantity, why was the party not asked to state whether the rails would have the minimum quantity of silicon as recommended by the RDSO?
- (7) What were the specific considerations under which RDSO's recommendations for acceptance of tenderer's alternative with maximum of 0.9% silicon but subject to provision of minimum of 0.3% silicon not even examined and referred to the party?
- (8) In the circumstances, has not avoidable expenditure of Rs. 18 lakhs been incurred and if so, what are the steps taken to fix responsibility.

II. Rejection of unsolicited offer

- (1) Since an unsolicited offer for 10000 tonnes of rails had been accepted in June 1979 (despite variation in quality of rail), why was it not accepted in this case?
- (2) What were the results of trade enquiries on market trend as ascertained at the relevant time?
- (3) When the French firm had not quoted any rate but had only expressed willingness to offer without quoting any rates, on what basis the Railways stated that an unsolicited second lower offer had been received.
- (4) On what basis did the Railways inform the Committee that the offers of French and Spanish firms were marginally cheaper, whereas no specific offer was received from French firm and the calculations made by Railways have indicated that the offer of Spanish firm was costlier?

In the circumstances, the Committee recommend that the inconsistencies and irregularities committed in the two cases resulting in avoidable extra expenditure of Rs. 83.38 lakhs may be investigated by an Independent Committee, responsibilities fixed and appropriate action taken under intimation to the Committee".

6. In their action taken note, the Ministry of Railways (Railway Board) stated as follows:

"In pursuance of the observation of the Public Accounts Committee, Ministry of Railways (Railway Board) set up an Independent Committee for the investigation of the inconsistencies and irregularities in the two cases of rail imports relating to (i) import of 20,000 tonnes of wear-resistant rails without settlement of elongation limit and (ii) purchase of 10,000 tonnes after rejecting an unsolicited offer. The Independent Committee comprised of:

- | | |
|---|----------|
| 1. Shri C. Parasuraman,
Redt. Executive Director
(Contracts) NTPC | Chairman |
| 2. Dr. S.N. Chakravarty,
Director (M&C)
RDSO | Member |
| 3. Shri C.L. Chadda,
Rctd. FA & CAO,
Western Railway | Member |

The Committee submitted the report to Ministry of Railways on 8.7.1991.

2. The Committee investigated all the issues listed in para 83.1 and 83.2 of 165th Report of P.A.C. in respect of two supply orders.

3. The Independent Committee investigated the inconsistencies and irregularities committed in the two cases and Chapter IV of the Report deals with Summary & Recommendations of the factual position and findings of the Committee. In connection with "Contract with 9% elongation" the Committee in para 4.2.1 (ix) (page 48) have observed that there was no loss (of Rs. 18 lakhs) due to non-acceptance of the lower priced offer of the firm but the Railway Board failed to give the complete picture to the Public Accounts Committee. Regarding the second case of "Rejection of Unsolicited offer" the Committee in para 4.2.2 (vi) (page 50) have observed that extra expenditure of Rs. 65.38 lakhs seems to be the result of a judgement going "Wrong". The Committee has further observed that if instead of spending considerable time in inviting tenders, negotiations had been held with all the intending suppliers, there was a possibility of getting better rates. The Committee has further observed "That there does not appear to be any case of malafide" [para 2.5 (iv) page 28]. The Committee also observed that in this case position furnished to Public Accounts Committee was not factually correct. The Committee could not identify at which level this error of commission had occurred [para 4.2.2 (vii) page 50]. Replies to the various observations of the P.A.C. are contained in Chapter III from pages 34 to 45.
4. The recommendations of the Committee are contained in para 4.3 of Chapter IV (pages 50 to 53). The Committee has not fixed any responsibility and the recommendations are of preventive nature to avoid recurrence of such mistakes in future.
5. Ministry of Railways have accepted the report of the Independent Committee and steps are being taken to implement its recommendations on the Railways".
7. The replies given by the Independent Committee to the recommendations of the Public Accounts Committee contained in para 83 of their Report are reproduced in Appendix I to this Report.
8. Summing up their findings relating to the two orders under consideration, the Independent Committee has observed as follows in their report:—
 - (i) There is no doubt that there were serious mistakes especially in the case dealing with the award to M/s. Ferrostaal, W. Germany, like mistake in the preparation of specifications by the RDSO, mistake in the evaluation of tenders in the Railway Board's office, creating avoidable complications at a later stage. The Committee, however, feels that more than the mistakes or irregularities committed while dealing with these two tender cases, it is the lack of proper study and attention given, first to the audit objection and subsequently to the points raised by the PAC, that added to the inconsistencies and consequent suspicion. For example, if the letter dated 7/9/79 from M/s. Roger Enterprises expressing their principal's inability to comply with certain stipulations before their lower-price could be

accepted had been linked or the fact that lower elongation was given by the firm in the original tender itself, and the circumstances under which the Administration had to accept this lower elongation indicated, most of the doubts in this case would not have arisen. Similarly, in the second case dealing with non-acceptance of the unsolicited offer of M/s. Samsung of South Korea, if proper care had been taken in preparing replies to the questionnaire issued by the PAC the serious error of commission stating that a lower French offer had been received (which was not the case) could have been avoided. The Committee also noted that no reply was given by the Railway Board to the Audit objection relating to award of contract to M/s. Ferrostaal, even though considerable information had been collected from the concerned Railways. An adequate attention to the audit objection at the initial stage itself could have clarified many of the points. The Committee is sure that the Ministry of Railways will give careful consideration to these aspects and issue appropriate instructions in this regard.

- (ii) Considering that there have been certain weaknesses in the preparation of tender documents, processing of tenders, management of contracts during their operation the Committee considers that, apart from such action as the Railway Board may like to take in this regard, it will be very necessary that officials dealing with purchases in the Track (Procurement) Directorate should be given special indepth training in contract management. This is all the more important because the Track (P) Directorate deals with very high value contracts, both indigenous and import, and the benefit of such training, would be very much worth the cost involved in such training.
- (iii) Procurement of engineering works, equipment services (as also various combinations of these) for government and the public sector units, with their attendant characteristics of transparency & objectivity imposed by the compulsions of public accountability, has since the fifties, been generally accepted to be a separate "profession" specially in the context of effective project management. More than one prominent public sector units has been operating for over ten years with this profession allotted the status of a department ranking equal to engineering, finance, human resources etc. Abroad, this kind of organisation is the rule, in the large projects oriented organisations. The World Bank and sister international multi-lateral financing agencies support this concept which in fact has been spearheaded by them.
- (iv) Given the currently explosive rates of change in technologies—a trend that will certainly with ever increasing acceleration—what is even more important in the Committee view, than the strategies and tactics of tendering dealt with in Chapter II, is quick upgrading of

the professional expertise nearer to the levels attained elsewhere in this country and abroad. Without immediate action on this front the Indian Railways will find it difficult to be able to take on the challenges of the future where uncertainties proliferate—in technology, in differentials of international competitiveness, in rates of exchange and trading patterns.

The level of this professional expertise in procurement as perceived by the Committee during examination of these cases leaves room for a great deal of improvement. It is in this context that the Committee recommends specific training to all official in the Track (P) section either at the Railway Staff College or elsewhere away from their station of posting. The course duration would need to be, indicatively, not less than 7 days.

9. The Independent Committee has made the following recommendations after investigating the issues involved in both the orders:

- (i) Evaluation of tenders, preparation of briefing notes, technical notes needs to be done with greater care and attention.
- (ii) RDSO may like to evolve a system to ensure that specifications are prepared carefully and checked at appropriate level before finalisation, so as to obviate complications during the execution of the contract.
- (iii) When calling for technical comments from RDSO or other authorities, a copy each of the tenders should invariably be sent to them to enable them to have a proper appreciation of the details of the offers made by the various tenderers.
- (iv) Railway Board may consider co-opting technical members from RDSO in first set of tenders only, when based on a new technology for which performance specifications have been formulated by RDSO.
- (v) The Tender Committee members should read carefully the offer of at least the bidder recommended for award. Instructions, if already issued in this regard, need to be reiterated. If no such instructions exist, the need to do so may be considered.
- (vi) Railway Board may consider association of RDSO in certain specified committees and working groups of the UIC and its wing called Office for Research of Experiments (ORE). It is understood that such a proposal made by RDSO to Railway Board in 1971 was turned down. RDSO/Railway Board may like to examine this issue afresh.
- (vii) Railway Board may have a system of market intelligence and maintain a data bank about the trend of prices in the international market for rails and if that is not very feasible—at least of steel. For this purpose it may, among others, maintain liaison with MMTC

which is the canalising agency for import of steel and subscribe to such periodicals like International Metal Bulletin etc., as may be considered useful.

- (viii) A system of a pre-bid conferences and/or of pre-qualification of tenderers or (b) Two part bidding procedure should be introduced in cases of tenders involving new technology.
- (ix) Dilatory and fragmented attention to communications from audit at various stages like review notes, draft paras etc., need to be avoided. Timely and careful study at the base level with qualitative contribution at higher levels, should reduce considerably items which get included in the C&AG's report and consequently in cases reported to the Public Accounts Committee.
- (x) Required information about the past performance of the firm, about their plant & equipment, their quality assurance programme etc. should be obtained from each tenderer as a part of his bid. The existing formats for tender documents need to be modified/amplified, wherever required, to cover this aspect. The questionnaire/proforma to elicit information should aim at making sure that their capacity to execute the job extends to the areas of (a) manufacturing knowledge & practice, (b) design know how, (c) management & quality organisation, (d) financial strength and above all, (e) proven performance.
- (xi) To obviate the possibility of failure in case the contract is awarded to a new untried firm, it is recommended that in case the lowest acceptable tenderer happens to be an 'untried', firm, a system of post-qualification of such bidder should be introduced whereby a complete assessment of his technical & financial capability is made by inspection of the firm's manufacturing unit, office etc. before the tender is awarded to him. This can be done by visit of a multi-disciplinary team or by using the services of Railway advisors, abroad.
- (xii) Where, however, an on-the-spot assessment of the untried tenderer on whom award is proposed—cannot be done owing to any reason, orders on such untried parties should be restricted to a certain percentage (say 20%) of the total quantity required.

10. In their earlier Report the Committee had recommended that the inconsistencies and irregularities committed in the two cases of rail imports relating to (i) import of 20,000 tonnes of wear-resistant rails without settlement of elongation limit and (ii) purchase of 10,000 tonnes after rejecting an unsolicited offer resulting in avoidable extra expenditure of Rs.83.38 lakhs should be investigated by an Independent Committee, responsibilities fixed and appropriate action taken under intimation to the Committee. In pursuance of the Committee's said recommendation, the Ministry of Railways (Railway Board) had set up an Independent

Committee which submitted their Report on 8.7.1991. In the first case, the Independent Committee has observed that there was no loss of Rs.18 lakhs due to non-acceptance of the lower priced offer of the firm but the Railway Board failed to give the complete picture to the Public Accounts Committee. Regarding the second case the Independent Committee has observed that extra expenditure of Rs.65.38 lakhs seems to be the result of a judgement going 'wrong'. According to that Committee there does not appear to be any case of malafide. The Independent Committee has further observed that if instead of spending considerable time in inviting tenders, negotiations had been held with all the intending suppliers, there was a possibility of getting a better rate. The Committee deprecate the lack of concern on the part of the Railways for their financial interests.

11. The Independent Committee's examination has, however, established a number of serious mistakes in processing both the supply orders. With regard to the first order, the Independent Committee has observed that there were mistakes in the preparation of specifications by the RDSO and evaluation of tenders in the Railway Board's office, which created avoidable complications at a later stage. The Independent Committee has also noted that no reply was given by the Railway Board to the audit objections in the first order though considerable information had been collected from the concerned Railways. Similarly in the second case, the Independent Committee has observed that if proper care had been taken in preparing replies to the questionnaire issued by the Public Accounts Committee the serious error of commission stating that a lower French offer had been received (which was not the case) could have been avoided. It has, however, not been possible for the Independent Committee to identify the stage at which the error of commission crept in. This is because neither any notings nor any draft reply which could indicate the different stages at which the proposed reply was prepared/modified is available in the files of the Railway Board. All that is available in the Railway Board's file is the final reply to the questionnaire issued by the PAC. The Independent Committee has felt that more than the mistakes or irregularities committed while dealing with these two tender cases, it is the lack of proper study and attention given first to the audit objections and subsequently to the points raised by the Public Accounts Committee, that added to the inconsistencies and consequent suspicion. According to the Independent Committee, an adequate attention to the audit objection at the initial stage itself could have clarified many of the points. Further, the Committee have observed that factually incorrect information has been furnished to the Public Accounts Committee.

12. The Committee take a very serious view of all these acts of omission and commission by the Ministry of Railways which abundantly establish the utmost apathy and lack of seriousness on the part of the Ministry to clarify audit objections and what is worse not even scrutinise and ensure that only factual information is sent to the Public Accounts Committee.

The Committee cannot but strongly condemn such an irresponsible and casual approach on the part of the Railways. All the more disturbing is the fact that though the recommendations of the Independent Committee have been accepted by the Ministry of Railways no concrete action has been taken so far in pursuance thereof. The Committee recommend that the entire gamut of activities involved in such supply orders should be thoroughly examined in the light of observations and recommendations of the Independent Committee and comprehensive remedial steps should be taken immediately with a view to eliminating such recurrences in future. The Committee would like to be apprised of the concrete action taken within a period of three months.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN NOTED OR ACCEPTED BY GOVERNMENT

Recommendation

The operations of the Railways are totally dependent on the availability of sound and well maintained tracks throughout the country, so that the tracks are not a contributory factor for accidents even to the slightest extent and the Railways are in a position to give efficient and safe service to the public. Viewed in this context, the Committee consider it imperative that track renewal programmes ought to be given the top priority in the operations of the Railways. The Committee are, however, dismayed to be informed by the Chairman, Railway Board that due to lack of high priority for track renewal programmes, arrears increased. The arrears in track renewal which stood at 13048 Kms. in March 1980 increased to 20306 Kms. in March 1985 (26 per cent of total track). Though the tempo of track renewal in Seventh Plan has been increased considerably, the Committee are concerned to note that a backlog of track renewal to the extent of 12000 Kms at the end of Seventh Plan would still remain to be overtaken in Eighth Plan. The Committee deeply regret the failure of the Railways to ensure timely renewal of tracks, which has adverse effects on the smooth operation of the Railways. The Committee strongly recommend that a review of plan priorities be done and the track renewal given its due priority so that under no circumstances, arrears in track renewals are allowed to accumulate.

The Committee note from the statement of funds provided and funds spent in each year since 1980-81, that consistently the actual expenditure in every year other than 1986-87 has exceeded the provisions and the overall excess was to the extent of 27 per cent in 6th Plan period and 12 per cent so far in the 7th Plan period. The Committee wonder whether the excess expenditure was consciously incurred by the various Zonal Railways in their anxiety to ensure renewal of tracks not provided for by the Railway Board in the annual plan in the interest of safety or the excess was due to level of expenditure far more than the anticipated for the track length planned and approved by Railway Board for renewal. In either case, the Committee depreciate the lack of proper financial planning and recommend that the causes for consistent excesses may be investigated and results intimated to the Committee.

[S.No.1(para 12) of Appendix III to 165th Report of PAC(1988-89) VIII
Lok Sabha]

Action taken by Government

In the VIII Plan Document submitted by the Railways to the Planning Commission, it has been proposed to wipe out the arrears of track renewals of 12000 KM. as also fresh accruals of 11500 KM. by carrying out an aggregate of 23,500 KM. of renewals during the Plan period, i.e., on an average 4700 KM. per annum. Provision of funds to meet these targets has been requested.

The Committee's recommendation regarding review of plan priorities with regard to track renewals is noted.

The track renewals sanctioned and included in the Railway's annual works programmes are in two parts, viz., the works in progress and new works. The annual target fixed for carrying out the renewals is decided at the beginning of the year on the basis of the outlay provided for the track renewals in the budget. This target is able to cover only a part of the works included in the sanctioned works programme. During the period under consideration, only those track lengths which were duly sanctioned for renewals were renewed and the excess expenditure was mainly on account of sharp escalation in the price of track materials. In some cases, physical targets set out of the sanctioned works of track renewals were exceeded by the Zonal Railways mainly for ensuring safety. Although the Zonal Railways requested for additional funds in such cases, they could not be made available due to the constraints of funds.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.'s) O.M. No. 89-BC-PAC/VIII/165 dated 15.12.1989]

Recommendation

The Committee are dismayed to find that despite the available capacity for production of 5 lakh tonnes per annum of BG rails with BSP, Railways failed to give firm commitments of requirements of rails for the 7th Plan Period as a result of which the BSP could not take appropriate investment decision, failed to accept demands upto the capacity and as a consequence, Railways resorted to import for which there would have been no justification but for the failure of the Railways themselves. Since the funds for the track renewal are met out of Plan allocation, the Committee are at a loss to understand how and why the Railways were unable to know the extent of funds available during the Sixth Plan in advance and to make the commitment necessary for the investment plan. The Committee conclude that the planning process at the Ministry level needs toning up in this regard. The Committee recommend that the circumstances due to which the Railways could not give firm commitment on a plan programme may be fully investigated, the loopholes in planning identified and steps taken to plug them intimated to the Committee.

[S.No. 3 (Para 21) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

The firm requirement of rails for any Plan period could be given only after finalisation of the Plan documents. The Plan documents are generally finalised about 4 to 6 months before commencement of the Plan period and therefore the firm figures are available just 6 months before its commencement. In case of 7th Plan requirements, these figures were accordingly advised.

The forecast of requirement of rails for 8th and 9th Plan periods has been conveyed to SAIL and Ministry of Steel on 1.6.89. The Plan documents for the 8th Plan are under approval. Firm requirement of rails will be advised to SAIL/Ministry of Steel after 8th Plan documents are approved.

All possible endeavours would be made by the Railways to ensure proper planning of rails and timely action to advise all concerned of the requirements.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.'s) O.M. No. 89-BC-PAC/VIII/165 dated 28.3.1990]

Recommendation

While on the one hand, BSP has stated that it could not reach its capacity due to absence of firm commitments the Committee are unhappy to note that BSP failed to supply rails even upto the extent of orders accepted by them, the shortfall during a period of 8 years being to the extent of 1.85 lakh tonnes. The Committee desire that the failure to supply even the committed quantity by the BSP should be taken up at the Ministry level to ensure that such undesirable situations do not recur.

[S.No. 4 (para 22) of Appendix III to 165th Report of PAC (1988-89) VIII Lok Sabha]

Action taken by Government

The observation of the Committee has been noted and is being brought to the notice of the Public Sector Undertaking supplier. The shortfall in supply under reference was mainly as a result of steel shortage. In 1988-89 Bhilai Steel Plant supplied 3.92 lakh tonnes of rails against the commitment of 3.5 lakh tonnes.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.'s) O.M. No. 89-BC-PAC/VIII/165 dated 6.11.1990]

Recommendation

It is disquieting for the Committee to note that both IISCO and TISCO, the two companies that were supplying MG rails, were allowed to go out of production resulting in complete dependence on import for meeting requirements of MG rails. Though the Ministries of Steel and Railways had decided in September, 1982 that under no circumstances the production of MG rails in TISCO will be allowed to close, no effective steps were taken to implement this decision. The Committee strongly deprecate the inaction on the part of the Railways and Ministry of Steel on allowing indigenous production on MG rails to totally cease and opening the door for imports resulting in drainage of huge foreign exchange. The Committee desire that the alternative indigenous source since identified will be utilised for procurement of MG rails and if necessary other indigenous sources created and import of MG rails stopped by taken necessary steps under a time bound programme which may be drawn up within six months and intimated to the Committee.

[S. No. 5 (para 31) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

TISCO and IISCO stopped production and supply of Rails in 1981 and April 1979 respectively and in March '79 IISCO actually produced 803 tonnes of MG rails. Despite the fact that Government had provided for a condition in the endorsement to the Industrial Licence for the additional capacity, specifying that TISCO will not scrap the Rail Mill, etc., without the prior permission of Government, the decision to stop production towards the end of 1981 was taken by TISCO on their own. The stoppage was due to obsolescence of their Rail Mills which required replacement/modernisation with heavy capital investment. Railways were kept informed of the proposed stoppage of production well in advance. TISCO had even asked for an undertaking from Railways for reimbursement of remunerative prices before any investment was made. Such an undertaking, however, was not given by Railways. IISCO production became totally unremunerative because of heavy rejections (above 50%) by the Railways. Continuing supply from IISCO would have added to the losses of the plan or very heavy new capital investment. IISCO has indicated that a fresh investment of Rs. 20 to 25 crores would be required to modernise the processing facility for rolling of rails suitable for Indian Railways, yet no programme for modernising the processing facilities has been undertaken so far (April 1990).

Ms. Ispat Profiles Indian Ltd., Pune has been found fit for manufacture of 90R and 75R (MG) rails. An order for supply of 10,000 tonnage of 75R rails has already been placed and the firm is yet to commence the supplies. Placement of order for 90R rails is still under consideration. It is considered that Ms. Ispat Profiles would be able to meet Indian Railway's

requirement of MG rails and there would not be any necessity to import MG rails in future. The last orders for import of MG rails were placed on 31.10.1987.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC/PAC/VIII/165 dated 13.9.1990]

Updated action taken note furnished by the Ministry of Railways on para 31

TISCO and IISCO stopped production and supply of Rails in 1981 and April 1979 respectively and in March' 79 IISCO actually produced 803 tonnes of MG rails. Despite the fact that Government had provided for a condition in the endorsement to the Industrial Licence for the additional capacity, specifying that TISCO will not scrap the Rail Mill, etc., without the prior permission of Government, the decision to stop production towards the end of 1981 was taken by TISCO on their own. The stoppage was due to obsolescence of their Rail Mills which required replacement/modernisation with heavy capital investment. Railways were kept informed of the proposed stoppage of production well in advance. TISCO had even asked for an undertaking from Railways for reimbursement of remunerative prices before any investment was made. Such an undertaking, however, was not given by Railways. IISCO production became totally unremunerative because of heavy rejections (above 50%) by the Railways. Continuing supply from IISCO would have added to the losses of the plant or very heavy new capital investment. IISCO had indicated that a fresh investment of Rs. 20 to 25 crores would be required to modernise the processing facility for rolling of rails suitable for Indian Railways, yet no programme for modernising the processing facilities has been undertaken so far (April 1990).

With these sources for MG rails drying up, the Railways imported the required quantity from time to time upto 1987-88. The demand for new MG rails has been shrinking partly due to conversion of lines to BG and partly due to improved availability of released serviceable rails from BG. Since 1988 there have been no imports of MG rails. M/s. Ispat Steel, who are in the process of setting up their plant near Pune, showed interest in developing capacity for production of MG rails. Against their trial orders of 10,000 MT each for 75R and 90R rails, supplies are yet to be received by Railways. However, the supplies of new rails from the new source coupled with serviceable released for BG, will fully meet the future requirements. No imports of MG rails is envisaged.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC/PAC/VIII/165 dated 27.2.1992]

Recommendation

The Committee are deeply concerned to note that despite availability of capacity for production of 26 metres long rail with BSP, no efforts have been made over the years to ensure production of long rails for indigenous consumption. The Committee do not consider the reasons adduced for non-production of 26 metre rails as insurmountable and recommend that both the Ministries seriously consider and make an effort to solve the issue so that in the interest of overall economy, the manufacture of 26 metre long rails is started within a short time.

[S. No. 6(para 36) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

Rail & Structural mill at Bhilai was installed to produce only 13 metres long rails. However, to match the pressing export needs, modifications were made in-house for production of limited quantity of longrails. Now that the Indian Railways have indicated firmly their requirement of 26 metre rails, modernisation is being planned which will enable production of 180,000 tonnes of 26 metre long rails. The Project is due to be completed by 1990-91 and the modernisation is stated to be in progress.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165
dated 13.9.1990]

SC-4(12)/89-D.II
Government of India
Ministry of Steel
Steel Control Wing
DESK II

New Delhi, dated 7.5.92

OFFICE MEMORANDUM

SUBJECT: *165th Report of Public Accounts Committee relating to procurement and utilisation of track materials.*

The undersigned is directed to refer to Lok Sabha Sectt.'s OM No. 29/3/6/88/PAC dated 17.2.92 addressed to Railway Board on the above mentioned subject and to state that the position in respect of item no 36 regarding the supply of 26 metres rails to Indian Railways by SAIL is as follows.

Bhilai Steel Plant has developed capability of producing 26 meters rails and had also rolled a trial lot. However, these rails could not be despatched since the types of wagons required and the modalities of transportation has not yet been finalised by the Railways. SAIL has

taken up the matter with the Railway Board, RDSO and South Eastern Railways Bilaspur Division.

(M.C. Luther)
Desk Officer

Shri K.C. Shekhar
Under Secretary
Lok Sabha Sectt.
Parliament House
New Delhi.

Recommendation

44. While the Committee take note of the fact that the extent of production of concrete sleepers has been increasing over the years, they cannot help pointing out that the progress is rather slow as compared to capacity created and is substantially falling short of the requirement. According to Audit, the capacity of the established plants was 21 lakh sleepers since 1981-82 whereas annual production had reached a level of hardly 14.52 lakhs sleepers even 4 years later. Considering the substantial economies expected in the use of concrete sleepers, the Committee recommend that reasons for lower utilisation of the capacity created may be investigated and steps taken to improve extent of utilisation with a view to ensuring supply to the Railways. The Committee also recommend that if necessary, more such units may be established.

[S. No. 7 (para 44) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

Noted. Instructions have been issued to all Zonal Railways to nominate one Sr. Administrative Grade Officer to closely monitor the production and utilisation of concrete sleepers from various units and to render necessary assistance to the industry wherever required. With the constant monitoring, the results have shown substantial improvement. As against the target of production of 25 lakh nos. of concrete sleepers during 1988-89, the actual production has touched 30.3 lakh nos. The target in the current year (89-90) has been placed at 32 lakh nos. which is also expected to be achieved fully.

With a view to stepping up the production further, following further units are being set up in addition to the number of units mentioned in para 42 of the 165th Report of PAC 1988-89 (8th Lok Sabha):—

BG	—	8
MG	—	4
<hr/>		
Total	—	12

With the establishment of these 12 new units, a total of 74 nos. of concrete sleeper factories (both for BG & MG) would be available to enable the target of 50 lakh per annum for BG and 7 lakhs per annum for MG to be achieved within next 2-3 years. The existing established units are being encouraged to step up their production to the extent feasible and orders covering the production capacity upto 5 years for each unit are being placed subject to demand in the respective areas to enable the firms to plan the production on a long term basis.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165
Pt, 'D' dated 9.4.1990]

**Updated action taken note furnished by the Ministry of Railways on
Para 44**

The production during 1989-90 and 1990-91 has been around 35.3 and 39.5 lakh concrete sleepers respectively. The target for production of concrete sleepers for 1991-92 has been placed at 43.8 lakh Nos. for BG concrete sleepers and the same is likely to be achieved fully.

The steps taken by Ministry of Railways have shown very encouraging results and the production of concrete sleepers has increased substantially over the last 5 years from a level of 14.5 lakhs during 1985-86 to more than 43 lakhs during the current year, a three-fold increase.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165 dated
27.2.1992]

Recommendation

The Committee do agree that a certain amount of balance stock at the end of a year is unavoidable to meet needs of following 2-3 months, emergency requirements etc. However, the Committee are concerned to note that accumulations are quite heavy in certain Railways atleast, as will be clear from the following particulars:—

	Quantity received during 84-85 to 1986-87 (In terms of Track KMs)	Quantity laid in track
Eastern Railway	640	503
Northern Railway	620	525
South-Eastern Railway	354	241
Western Railway	418	298

The Committee recommend that a review of the accumulation of stock may be made and the progress of utilisation may be monitored by the Railway Board to ensure optimum and timely utilisation of the stock.

[S.No. 8 (para 47) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

Zonal Railways have been advised (vide Board's letter No. 87/TK-II/22/17/30 dated 23.11.89) to review the production and utilisation of concrete sleepers with a view to taking necessary steps to ensure effective use thereof so that the accumulation of the stock is kept to the bare minimum.

In order that there is no slippage in this regard by the Railway Administrations, it has been decided to conduct a quarterly review at the Railway Board's level on the basis of the periodical reports from the Zonal Railways.

This has been seen by Audit.

[Ministry of Railways (Railway Board)'s O.M. No. 89-BC-PAC/VIII/165
dated 26.12.1989]

Recommendation

The Committee do not agree with the stand of the Ministry that the cost of production of departmental units are comparable with the price of indigenous producers for the simple obvious reason that Railways do not pay either excise duty or sales tax whereas private parties have to pay both. As these two elements are to be excluded for comparison and not included as contended by the Railways the price of a sleeper supplied by a private manufacturer would work out to Rs. 424 per sleeper as against Rs. 477 per sleeper for Railways production. The Committee recommend that the cost of departmental production should be minimised by optimising production and reducing overheads.

[S. No. 10 (para 57) of Appendix III to 165th report of PAC(1988-89)
VIII Lok Sabha]

Action taken by Government

Noted. Instructions have been issued to Northern Railway for stepping up the production at the departmental unit at Allahabad to bring down the overheads to the extent feasible. Northern Railway has also been advised to carry out regular reviews to keep down the cost of production in the departmental unit at Allahabad vis-a-vis private sector and to make constant efforts to bring down the cost of production. The progress will be monitored by Railway Board.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.)'s O.M. No. 89-BC-PAC/VIII/165
dated 9.4.1990]

Recommendation

The Committee are surprised to note that there was substantial cost escalation in establishment of the Allahabad unit from the estimated Rs. 1.28 crores to Rs. 4.13 crores, a more than three fold increase. Despite the substantial investment with imported technology, it is unfortunate that its level of performance is poor though the indigenous technology adopted in private units, and the Khalispur unit of Railways have been performing far better. The Committee are strongly of the view that no proper evaluation of the technology offered by the foreign collaborators was made nor was a proper cost estimate prepared inspite of the enormous inhouse facility for both in the Railways. The Committee feel that these failures were the result of casual and perfunctory attitude of the Ministry even to matters of vital interest to the Railways themselves. The Committee desire that appropriate lessons may be learnt from this case and recommend that adequate evaluation of indigenous technology may be done before resorting to import of technology and when such import is considered essential proper evaluation of both the technology and cost be made so that such poor results are averted in future.

[S. No. 11 (para 65) of Appendix III to 165th report of PAC(1988-89) VIII
Lok Sabha]

Action taken by Government

Noted. Necessary instructions have been reiterated to all concerned for strict compliance so that proper evaluation of both the technology and cost is made before resorting to import of technology in such cases in future.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.)'s O.M. No. 89-BC-PAC/VIII/165
dated 9.4.1990]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF REPLIES RECEIVED FROM GOVERNMENT

Recommendation

From the statement of expenditure on track renewals, the Committee note that the average cost of renewal has shown a steady increase, the rate of increase being as high as 19 per cent in 1985-86 and another 15 per cent in 1987-88. The Committee cannot resist the impression that cost of renewals has increased far in excess of normal rises in cost indices reasons for which are not apparent. The Committee recommend that the contributory causes for the spiralling of cost of renewal may be investigated and the result intimated. The Committee also recommend that a review of the estimated cost of renewal for the 8th Plan may be conducted as it is felt that the average rate of Rs. 23.09 lakhs per Km. for the 8th Plan is too high as compared to the rate of Rs. 17.25 lakh per Km. in 1987-88.

[S. No. 2 (para 13) of Appendix III to 165th Report of PAC (1988-89) VIII Lok Sabha]

Action taken by Government

The break up of the cost of track renewals indicates that about 80% of the cost of the track renewals (primary) consists of cost of new P. Way materials. It is further seen that the cost of P. Way materials has been rising at a galloping pace with an average annual increase in the cost of vital P. Way materials such as rails, sleepers etc. ranging from 11.5% to 16% in the case of indigenous materials and 26% to 34% in the case of imported rails. Thus, on the basis of average escalation in the cost of P. Way materials, the minimum increase in the cost of renewals would, on an average, range from 10% to 15% per annum. A statement showing the escalation in the cost of P. Way materials w.e.f. the year 1985-86 is enclosed.

It will thus be seen that the average escalation in the cost of indigenous P. Way materials ranged between 11.5% to 16% whereas that for imported P. Way materials ranged between 26 to 34%. Railways have been trying to persuade Bhilai Steel Plant to maximise their rail production so that need for imports is reduced to a bare minimum. Similarly, M/s. Ispat Profiles Ltd., a private sector firm is also expected to supply 0.75 lakhs tonnes of rails per annum. Only

such quantity/quality of rails not available indigenously would be imported.

While the Railways have been striving hard to see that the cost of renewals is kept under check, they have no control on the escalation in the cost of vital P. Way materials such as rails, sleepers, fish plates etc. which account for the major portion of the cost of track renewals. With the increase in the cost of these vital materials, the cost of track renewals is bound to go up. As regards the cost of renewals during the VIII Plan, a review has been made after taking into accounts the quantum of primary and secondary renewals separately for BG and MG on the various Zonal Railways and considering the likely prices of P. Way materials as on 1.4.90. This review indicates that the approximate net average cost of the renewals would be Rs. 24.50 lakhs per Km. The detailed break up of net cost for primary and secondary renewals for Broad Gauge and Metre Gauge is approximately as under:—

(Net cost in lacs of Rs. per KM)

Type of renewals	Broad Gauge	Metre Gauge
1. Primary	29.35	19.13
2. Secondary	17.85	12.75

This has seen by Audit.

[Ministry of Railways (Rly. Bd.)'s O.M. No. 89-BC-PAC/VIII/165
dated 15.12.1989]

RAILWAY WISE TRACK RENEWALS 1990-91 PRIMARY RENEWALS

	BG			MG		
	CTR	Cost	Unit cost	CTR	Cost	Unit cost
CR	350	11692	33.40			
ER	440	15866	36.05			
NR	332	11400	34.33	63	1398	22.19
NE	23	672	29.21	173	3920	22.65
NF	37	1157	31.27	36	894	24.83
SR	135	4108	30.42	110	2471	22.46
SC	150	5109	34.06	67	1861	27.77
SE	523	17930	34.28	—	—	—
W	170	6667	39.21	193	3905	20.23
TOTAL	2160	74601	34.53	642	14449	22.50

PROGRAMME OF RENEWALS DURING THE VIII PLAN

Primary	KMs	Cost/Km		
BG	2850	34.53 lakh	—	984 Crores
MG	1000	22.5 lakh	—	225 Crores
		(A)		1209 Crores
Secondary				
BG	375	21.00 lakhs	—	79.00 Crores
MG	475	15.00 lakhs	—	71.00 Crores
		(B)		150.00 Crores
		(A) + (B)	—	1359 Crores
Total kms. 4700/yr say 1360 Crores				
For the entire plan of 5 years				
4700 × 5		=		1360 × 5
Total i.e., 23500 kms		=		6800 Crores
Less 15%		=		(-) 1020 Crores
		=		5780 Crores
* Average cost per km of track renewal		=		Rs. 24.5 lakhs

Recommendation

Whereas the extant instructions of RDSO prohibit manual handling of the concrete sleepers for laying and Member (Engg.) has supported the stand, the Railway Board have claimed in their written note to the Committee that discontinuing the use of sleeper layers and directly laying the new sleepers as track panels is in the course of technological progression. As, however, to assemble track panels with concrete sleepers at assembly depots also the sleeper layers will have to be used and concrete sleepers should not be manually handled, the Committee are not convinced of this reason for under-utilisation of the sleeper layer. The Committee hence recommends that the existing instructions in this regard may be reviewed and appropriate fresh directions given.

[S.No. 9 (para 53) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by Government

As recommended by the Committee the matter has been reviewed.

It was originally envisaged to use the 'sleeper layer' and portal cranes for the assembly of concrete sleeper track panels in the base depot. However, after gaining some experience in the use of portal cranes and sleeper layer, a method of assembly of track panels, using only portal cranes, was developed. It is clarified that sleeper layer alone cannot be used for the assembly of panels. The portal cranes have to be necessarily used along with the sleeper layer for the placement of sleepers from wagons on to the sleeper layer for spreading and assembly of panels. The new method of relaying with only portal cranes was more convenient and was also equally efficient in eliminating the manual handling of concrete sleepers. Consequently, therefore, the use of sleeper layer-portal crane combination was discontinued.

Most of the vital components of the sleeper layer were common to portal cranes. These included the engine, wheels, solenoids, hydraulic cylinders, limit switches, hydraulic hoses, etc. These components have been usefully consumed for the maintenance and overhauling of the portal cranes during their service life, which is now practically over.

In view of the foregoing, it will be appreciated that there is no need to issue any fresh instructions in this matter.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165 dated 29.11.1989]

Recommendation

The rate of production at the Allahabad unit has been less than 60 per cent of its installed capacity and the percentage of the rejection was as high as 7.53 percent in 1987. In 1988, instead of coming down it rose to 9.63% (upto June). The Committee recommend that a review of the causes for poor performance of Allahabad unit may be conducted by Railway Board and appropriate measure to improve its performance taken.

[S. No. 12 (para 66) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by the Government

Noted. Necessary directives have been issued to R.D.S.O. and Northern Railway to further investigate the causes for lower rate of production at Allahabad unit and suggest remedial measures to improve performance. A quarterly review will be conducted by RDSO and Northern Railway so that constant watch may be kept on this aspect. The quarterly reviews would be monitored by Railway Board till the performance improves.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165
dated 9.4.1990]

Recommendation

The Committee are equally concerned to note that the rates of rejection in departmental units are very high as compared to private units. The Committee recommend that causes for high rejection may be investigated by RDSO and appropriate remedial measures taken to improve their performance.

[S. No. 13 (para 67) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by the Government

Noted. Instructions have been issued to RDSO to investigate into the causes of higher rejections at the departmental units and suggest remedial measures to improve performance. The same will be monitored by the Railway Board every quarter till necessary improvements are achieved.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd)'s O.M. No. 89-BC-PAC/VIII/165
dated 9.4.1990]

Updated action taken note furnished by the Ministry of Railways on paras 66 & 67

Same position as furnished in the action taken notes. The progress is being reviewed by Northern Railway, RDSO and Board regularly.

[Ministry of Railways (Rly. Board) O.M. No. 89-BC-PAC/VIII/165
dated 27.2.1992]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee feel that there are several issues in respect of the two supply orders which need for investigation. These are listed below:

I. Contract with 9% elongation

- (1) Though unsolicited offer from existing suppliers for additional quantities cannot be accepted beyond 15% as contended in the purchase made in 1984 from a South Korean firm, an unsolicited offer for 10,000 tonnes was however accepted in June 1979 despite non-finalisation of admissible limit of elongation.
- (2) Additional orders for 10,000 tonnes in June 1979 was placed even before the issue relating to extent of elongation was settled because Government's acceptance with 11.5% elongation must have been conveyed in April 1979 itself.
- (3) As the supplier did not apparently raise objection to elongation clause till after June 1979, (for over two months), the subsequent stand that his offer was with 9% elongation is a clear modification calling for appropriate action.
- (4) It is not clear whether the RDSO demanded 11.5% elongation after ensuring the availability of technology therefor and whether, this technology is now available and if so, since when.
- (5) If any other tenderer had responded to Railway's requirement of 11.5% elongation why no action was taken to cancel the order due to absence of proper understanding of contract and to place order with the one willing to supply with 11.5% elongation?
- (6) For fully killed quality, there is need for minimum of 0.3% silicon as deposed by Member (Engineering) before the Committee. As the alternative chemical composition offered by the tenderer provided for maximum of 0.9% silicon what is the basis for Railways' present stand that rails would not have minimum quantity of silicon? Even if doubt existed due to non-mention of minimum quantity, why was the party not asked to state whether the rails would have the minimum quantity of silicon as recommended by the RDSO?

- (7) What were the specific considerations under which RDSO's recommendations for acceptance of tenderer's alternative with maximum of 0.9% silicon but subject to provision of minimum of 0.3% silicon not even examined and referred to the party?
- (8) In the circumstances, has not avoidable expenditure of Rs. 18 lakhs been incurred and if so, what are the steps taken to fix responsibility.

2. Rejection of unsolicited offer

- (1) Since an unsolicited offer for 10000 tonnes of rails had been accepted in June 1979 (despite variation in quality of rail), why was it not accepted in this case?
- (2) What were the results of trade enquiries on market trend as ascertained at the relevant time?
- (3) When the French firm had not quoted any rate but had only expressed willingness to offer without quoting any rates, on what basis the Railway stated that an unsolicited second lower offer had been received.
- (4) On what basis did the Railways inform the Committee that the offers of French and Spanish firms were marginally cheaper, whereas no specific offer was received from French firm and the calculations made by Railways have indicated that the offer of Spanish firm was costlier?

In the circumstances, the Committee recommend that the inconsistencies and irregularities committed in the two cases resulting in avoidable extra expenditure of Rs. 83.38 lakhs may be investigated by an independent Committee, responsibilities fixed and appropriate action taken under intimation to the Committee.

[S. No. 14 (para 83) of Appendix III to 165th Report of PAC (1988-89)
VIII Lok Sabha]

Action taken by the Government

In pursuance of the observation of the Public Accounts Committee, Ministry of Railways (Railway Board) set up an Independent Committee for the investigation of the inconsistencies and irregularities in the two cases of rail imports relating to (i) import of 20,000 tonnes of wear-resistant rails without settlement of elongation limit, and (ii) purchase of 10,000 tonnes after rejecting an unsolicited offer. The Independent Committee comprised of :-

- | | |
|---|----------|
| 1. Shri C. Parasuraman,
Retd. Executive Director (contracts)
NTPC | Chairman |
| 2. Dr. S.N. Chakravarty,
Director (M&C)
RDSO | Member |

3. Shri C.L. Chadda,
Retd. FA & CAO,
Western Railway

Member

The Committee submitted the report to Ministry of Railways on 8.7.91.

2. The Committee investigated all the issues listed in para 83.1 and 83.2 of 165th Report of P.A.C. in respect of two supply orders.

3. The Independent Committee investigated the inconsistencies and irregularities committed in the two cases and Chapter IV of the report deals with Summary & Recommendations of the factual position and findings of the Committee. In connection with "Contract with 9% elongation" the Committee in para 4.2.1 (ix) (page 48) have observed that there was no loss (of Rs. 18 lakhs) due to non-acceptance of the lower priced offer of the firm but the Railway Board failed to give the complete picture to the Public Accounts Committee. Regarding the second case of "Rejection of Unsolicited offer" the Committee in para 4.2.2 (vi) (page 50) have observed that extra expenditure of Rs. 65 lakhs seems to be the result of a judgement going "Wrong". The Committee has further observed that if instead of spending considerable time in inviting tenders, negotiations had been held with all the intending suppliers, there was a possibility of getting better rates. The Committee has further observed "that there does not appear to be any case of malafide" [para 2.5 (iv) (page 28)]. The Committee also observed that in this case position furnished to Public Accounts Committee was not factually correct. The Committee could not identify at which level this error of commission had occurred [para 4.2.2 (vii) (page 50)]. Replies to the various observations of the P.A.C. are contained in Chapter III from pages 34 to 45.

4. The recommendations of the Committee are contained in para 4.3 of Chapter IV (pages 50 to 53). The Committee has not fixed any responsibility and the recommendations are of preventive nature to avoid recurrence of such mistakes in future.

5. Ministry of Railways have accepted the report of the Independent Committee and steps are being taken to implement its recommendations on the Railways.

This has been seen by Audit.

[Ministry of Railways (Rly. Bd.)'s O.M. No. 89-BC-PAC/VIII/165
dated -11-1991]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

-NIL-

NEW DELHI;

December 2, 1992

Agrahayana 11, 1914 (S)

ATAL BIHARI VAJPAYEE,

Chairman,

Public Accounts Committee.

APPENDIX I

REPLIES GIVEN BY THE INDEPENDENT COMMITTEE TO THE RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE

Contract with 9% Elongation

POINT	REPLY
Though unsolicited offer from existing suppliers for additional quantities cannot be accepted beyond 15% as contended in the purchase made in 1984 from a South Korean firm, an unsolicited offer for 10,000 tonnes was, however, accepted in June, 1979 despite non-finalisation of admissible limit of elongation	(i) Orders for additional quantities can be placed by the purchaser on the supplier during the execution of the contract, if there is a provision for an 'option' clause in the relevant contract. In the case of contract covered by IDA/IBRD credits (tender documents in such case where the estimated value of purchase exceed US \$ 1 million require the prior approval of these authorities), an 'Option' clause is normally included empowering the purchaser to vary the quantity mentioned in the Schedule of Requirements by $\pm 15\%$ at any stage from the time of placement of contract till its complete execution. In the said case of an unsolicited offer from a South Korean firm, namely M/s. Samsung & Company, there was no 'Option' clause in their contract and therefore, the quantity indicated in the contract could not be increased unilaterally by the purchaser. Moreover, since this was a risk tender and the original tender on the basis of which contract was ultimately awarded to M/s. Hyundai, of South Korea who subsequently failed—was an Open (global) tender, normally open tenders should have been invited in this case. However, there can be exceptions to this normal rule.

Accordingly the Committee considers that there should be no objection to increasing the quantities (even when there is no 'Option' clause in the contract but the supplier is prepared to supply the require additional quantity as was the position in this case), provided the Administration is satisfied that this is in the overall interests of the Railways. This is more so in the case of contracts entered into by the Railway Board, which is highest authority and has all the powers of the Ministry of Railways. In fact, the unsolicited offer of

M/s. Samsung was considered and (with the approval of Member Engineering and Financial Commissioner) recommended for acceptance.

However, before a decision on this could be taken by the accepting authority, other unsolicited offers including an offer from M/s. Samsung to reconsider and negotiate rates, came complicating the whole matter. It was against this background that the competent authority decided to invite short-notice limited tenders.

(ii) As regards acceptance of the **Unsolicited offer of** additional 10,000 tonnes in the earlier case of 1979, it may be stated that the Administration did not relise that the firm was asking for a deviation from the specifications laid down in the tender documents regarding elongation. This is because when accepting the original tender itself and the supplementary order was with the same conditions as in the original order the Administration,

2. Additional order for 10,000 tonnes in June, 1979 was placed even before the issue relating to the extent of elongation was settled because Govt's acceptance with 11.5% elongation must have been conveyed in April, 1979 itself.

due to a wrong appreciation of the offer, had not noticed that the firm was quoting with a deviation from the tender documents regarding elongation. It was only when a formal order for 20,000 tonne covering the quantity of 10,000 tonnes each of the original and subsequent offer, was placed in August, 1979, incorporating all terms and conditions including those relating to specifications (which did not indicate any deviation from the original tender documents which showed elongation of 11.5%) that the firm protested stating that they had in their tender indicated a lower elongation than that as per specification, that in Administration realised the implications. And after due consideration, the Administration finally accepted the deviation regarding elongation as offered by the firm.

2. Due to a wrong appreciation of the firm's offer the Railway Administration had presumed that the firm was offering elongation of 11.5%, minimum as per Railway's specifications and therefore was not aware while placing the supplementary order—or for that matter when placing the original order—that there was any issue relating to elongation needing to be settled. Since this point was not brought out by the Railway Administration while issuing the original acceptance letter in May '79 or when placing the supplementary order in June, 1979, the firm also could not (and did not) raise this issue at that stage.

POINT

REPLY

3. As the supplier did not apparently raise objection to elongation clause till June, 1979 (for near two months), the subsequent stand that his offer was with 9% elongation is a clear modification calling for appropriate action.

4. It is not clear whether the RDSO demanded 11.5% elongation after ensuring the availability of technology therefor and whether, this technology is now available and if so, since when.

3. As the original acceptance letter for 10,000 tonnes placed in May, 1979 as also the subsequent supplementary order for another 10,000 tonnes placed in June, 1979, did not mention anything about deviation in regard to elongation, the firm presumed that the elongation of 9% minimum, as indicated by them in the original tender, was accepted by the Administration.

4. No. The import of these special wear-resistant rails was being made for the first time by the Indian Railways. RDSO had made a study of the literature bringing out the practices followed in various Railway systems having similar conditions i.e. steeply graded and curved sections and carrying heavy traffic. However, while transposing the figures of elongation from the article in Railway Gazette International August, 1973, dealing with Gott hard route in Switzerland, the figures of mean was mistakenly taken as minimum. As per this article, the mean elongation of rails used in this section between 1968 and 1972 was between 11.5% to 12.5%. However while formulating the specification the minimum elongation was taken as 11.5%.

There was no standard specification for 60 Mg. 110 UTS Rails laid down by the International Union of Railways in 1979 when this tender was finalised. This 110 UTS grade was however included in the UIC code 860, 8th Edition, 1.7.1986 of the International Union of Railways. As seen from

table at page 19 of this publication for grade 110-which is equivalent to 110 UTS-the elongation provided is 9%. In other words even as per the technology now available for rails of similar chemical composition (like Cr.-Mn, or Cr.-V as imported in 1979) minimum elongation of 11.5% is not prescribed or possible in actual practice.

However, Cr-Mn and Cr.-V rails are not being preferred now because presence of chromium or Vanadium lowers the "fracture toughness", thus showing a tendency towards crack formation. Accordingly as per the technology as it has evolved during the last decade. Rails are being made by using a plain carbon steel (having similar composition as on 80 UTS rails i.e. without chromium or vanadium) and heating the head by induction gas heating and quenching by air/water mixture. These rails with UTS of 110kg/mm^2 have an elongation between 10% to 18% (the so called head-hardened rails). However, given the scatter of values feasible with current technology, a minimum, for specification purposes, of 10% is a practical figure.

5. If any other tenderer had responded to Railway's requirement of 11.5% elongation, when no action was taken to cancel the order due to absence of proper understanding of the contract and to place order with one willing to supply with 11.5% elongation?

5. No other tenderer had offered an elongation of 11.5% minimum. Hence the question of cancelling of the order on M/s. Ferrostal and placing the order on another firm did not arise.

6. For fully killed quality, there is need for minimum of 0.3% silicon as deposed by Member (Engineering) before the Committee. As the alternative chemical composition offered by the tenderer provided for maximum of 0.9% silicon what is the basis for Railways' present stand that rails would not have minimum quantity of silicon? Even if doubt existed due to nonmention of minimum quantity, why was the party not asked to state whether the rails would have the minimum quantity of silicon as recommended by the RDSO?

7. What were the specific considerations under which RDSO's recommendation for acceptance of tenderer's alternative with maximum of 0.9% silicon but subject to provision of 0.3% silicon not even examined and referred to the party?

6. After a joint-note dated 6-9-79 by Director, Civil Engineering Railway Board and director, Civil (Standards) ROSO, the matter was discussed by Director Civil Engineering with the firm (though no formal letter was issued to the firm seeking clarification/confirmation to the points brought out in the joint-note of 6-9-79) and the firm i.e. M/s. Roger Enterprise Private Ltd., New Delhi vide their letter No. RPL/ALP/R-5 dt. 7-9-79 addressed to Director, Civil Engineering, Railway Board, referred to the discussion they had with him (Director Civil Engineering) on 6th September, 1979 with regard to their offer with the alternative chemical composition, and advised in this letter that their principals have informed that they cannot assure that it will be fully killed steel & ii) regarding silicon, their principals have informed that whereas they would guarantee the maximum of 0.9% silicon, they cannot guarantee the minimum 0.2% silicon.

Unfortunately, this letter from the firm remained unlinked through out in all the replies to the PAC, giving an impression that no action was taken on the joint note, thus leading to a loss of Rs. 18 lakhs, due to non-acceptance of the lower-priced offer.

7. This has already been covered in reply to point 6 above.

POINT	REPLY
8. In the circumstances, has not avoidable expenditure of Rs. 18 lakhs been incurred and if so, what are the steps taken to fix responsibility.	8. No. In view of the clarifications given above, it will be seen that there was no avoidable expenditure of Rs. 18 lakhs requiring fixing of any responsibility.

Rejection of Unsolicited Offer

1. Since an unsolicited offer for 10,000 tonnes of rails had been accepted in June, 1979 (despite variation in quantity of rail), why was it not accepted in this case?

PAC's observation

2. What were the results of trade inquiries on market trend as ascertained at the relevant time?

3. When the French firm had not quoted any rate but had only expressed willingness to offer without quoting any rates, on what basis the Railway stated that an unsolicited second lower offer had been received?

1. This has already been covered in detail in reply to Point No. 1 above, of the first case relating to "Contract with 9% clogation".

Reply

2. As far as can be seen from the files of the Railway Board, no trade inquiries were made at the relevant time in 1984 to ascertain the trend of market prices. The decision to invite limited tenders was taken on the basis of offers including an offer of lower rates than that of M/s Sansung from M/s. Ensidesa of Spain-received from the various intending suppliers.

3. As pointed out by the Public Accounts Committee, the reply given by the Railway Board was not factually correct. It has not been possible for the Committee to identify the stage at which the error of commission crept in. This is because neither any notings nor any draft reply which could indicate the different stages at which the proposed reply was prepared/modified is available in the files of the Railway Board.

All that is available in the Railway Board's file is the final reply to the questionnaire issued by the P.A.C.

POINT

REPLY

4. On what basis did the Railways inform the Committee that the offers of the French and Spanish firms were marginally cheaper, whereas no specific offer was received from French firm and the calculations made by Railways have indicated that the offer of the Spanish firm was costlier?

4. As regards the French offer, the position has been explained against item No. 3 above. As regards the Spanish offer, it is true that the original FOB rate quoted by the Spanish firm worked out to be costlier than the rate of M/s. Samsung, when considered on CIF basis i.e. after taking into consideration freight, insurance etc. In this connection, reference is also invited to Para 81 of the Report of the PAC reproducing the minute recorded in the Railway Board file on 26.9.84 (NP 50 & 51 of file No. Track/21/82/080/7/5023 However, subsequently on 12.10.84 M/s Ensidesa quoted a firm freight rate-which was much lower than the freight prevailing at that time-making their offer marginally cheaper (on CIF Indian Port basis) than the South Korean offer. To be specific, the rate as per the contract entered into with M/s Samsung by the Railway Board in Feb. 1984, was \$ 346/\$347 per tonne CIFM Modal & Calcutta respectively. They had offered in August 1984 to supply a further quantity upto 10,000 tonnes at the same rate i.e. the rates as per their contract of Feb. 1984. M/s Usha Marketing (P) Ltd., New Delhi the local representative of M/s. Ensidesa, Spain, advised vide their letter dated 20.9.84 that their principals have offered on FOB rate of \$ 315 per tonne, Stowed Aviles. The freight rate from Spain to Calcutta at that time, as calculated by the Railway Board, was \$ 42 per tonne, thus

POINT

REPLY

making their CIF rate equal to \$ 30 per tonne, whereas the CIF rate of M/s. Samsung was \$ 346/347 per tonne. Subsequently, however M/s Usha, vide their letter dated 12th October 1984 advised that their principals had confirmed a firm freight to Bombay at \$ 29.75 per tonne, making their CIF offer at \$ 344.75 per tonne. This, as can be seen was marginally lower than the CIF rate of \$ 346/347 quoted by M/s. than the CIF rate of \$ 346/347 quoted by M/s. Samsung.

APPENDIX II

CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry concerned	conclusion/Recommendation
1	2	3	4
1	10	Ministry of Railways (Rly. Board)	<p>In their earlier Report the Committee had recommended that the inconsistencies and irregularities committed in the two cases of rail imports relating to (i) import of 20,000 tonnes of wear-resistant rails without settlement of elongation limit and (ii) purchase of 10,000 tonnes after rejecting an unsolicited offer resulting in avoidable extra expenditure of Rs. 83.38 lakhs should be investigated by an Independent Committee, responsibilities fixed and appropriate action taken under intimation to the Committee. In pursuance of the Committee's said recommendation, the Ministry of Railways (Railway Board) had set up an Independent Committee which submitted their Report on 8.7.1991. In the first case, the Independent Committee has observed that there was no loss of Rs. 18 lakhs due to non-acceptance of the lower priced offer of the firm but the Railway Board failed to give the complete picture to the Public Accounts Committee. Regarding the second case the Independent Committee has observed that extra expenditure of Rs. 65.38 lakhs seems to be the result of a judgement going 'wrong'. According to that Committee there does not appear to be any case of malafide. The Independent Committee has further observed that if instead of spending considerable time in inviting tenders, negotiations had been held with all the intending suppliers, there was a possibility of getting a better rate. The Committee deprecate the lack of concern on the part of the Railways for their financial interests.</p>

1	2	3	4
2	11	Ministry of Railways (Rly. Board)	<p>The Independent Committee's examination has, however, established a number of serious mistakes in processing both the supply orders. With regard to the first order, the Independent Committee has observed that there were mistakes in the preparation of specifications by the RDSO and evaluation of tenders in the Railway Board's office, which created avoidable complications at a later stage. The Independent Committee has also noted that no reply was given by the Railway Board to the audit objections in the first order though considerable information had been collected from the concerned Railways. Similarly in the second case, the Independent Committee has observed that if proper care had been taken in preparing replies to the questionnaire issued by the Public Accounts Committee the serious error of commission stating that a lower French offer had been received (which was not the case) could have been avoided. It has, however, not been possible for the Independent Committee to identify the stage at which the error of commission crept in. This is because neither any notings nor any draft reply which could indicate the different stages at which the proposed reply was prepared/modified is available in the files of the Railway Board. All that is available in the Railway Board's file is the final reply to the questionnaire issued by the PAC. The Independent Committee has felt that more than the mistakes or irregularities committed while dealing with these two tender cases, it is the lack of proper study and attention given, first to the audit objections and subsequently to the points raised by the Public Accounts Committee, that added to the inconsistencies and consequent suspicion. According to the Independent Committee, an adequate attention to the audit objection at the initial stage itself could have clarified many of the points. Further, the Committee have observed that factually incorrect information has been furnished to the Public Accounts Committee.</p>

1	2	3	4
3	12	-do-	<p>The Committee take a very serious view of all these acts of omission and commission by the Ministry of Railways which abundantly establish the utmost apathy and lack of seriousness on the part of the Ministry to clarify audit objections and what is worse not even scrutinise and ensure that only factual information is sent to the Public Accounts Committee. The Committee cannot but strongly condemn such an irresponsible and casual approach on the part of the Railways. All the more disturbing is the fact that though the recommendations of the Independent Committee have been accepted by the Ministry of Railways no concrete action has been taken so far in pursuance thereof. The Committee recommend that the entire gamut of activities involved in such supply orders should be thoroughly examined in the light of observations and recommendations of the Independent Committee and comprehensive remedial steps should be taken immediately with a view to eliminating such recurrences in future. The Committee would like to be apprised of the concrete action taken within a period of three months.</p>

PART II

MINUTES OF THE 14TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 19 NOVEMBER, 1992

The Committee sat from 1030 hrs. to 1230 hrs. on 19 November, 1992.

PRESENT
CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS
Lok Sabha

2. Shri Girdhari Lal Bhargava
3. Shri Nirmal Kanti Chatterjee
4. Shri Vilas Muttemwar
5. Shri R. Surender Reddy
6. Shri K. V. Thangka Balu
7. Prof. (Dr.) Sripal Singh Yadav

Rajya Sabha

8. Shri Viren J. Shah

SECRETARIAT

1. Smt. Ganga Murthy—Deputy Secretary
2. Shri K.C. Shekhar—Under Secretary

REPRESENTATIVES OF AUDIT

1. Shri P.K. Sarkar—Dy. C&AG
2. Shri D.S. Iyer—Addl. Dy. C&AG
3. Shri A.K. Banerjee—Pr. Director (Reports-Central)
4. Shri K. Muthukumar

—Pr. Director of Audit Economic & Service Ministries

2. xxx xxx xxx xxx

3. The Committee then considered the following draft Action Taken Reports:—

(i) xxx xxx xxx

(ii) xxx xxx xxx

(iii) Procurement and Utilisation of Track Materials [Action taken on
165th Report of the PAC (8th Lok Sabha)]

(iv) xxx xxx xxx

4. The Committee adopted the draft Action Taken Reports at (ii) and (iii) above with certain modifications as shown in Annexures I* and II respectively. The Committee adopted the draft reports at Serial Nos. (i) and (iv) above without any amendment.

5. The Committee authorised the Chairman to finalise the draft Action Taken Reports in the light of the suggestions made by some Members and other verbal and consequential changes arising out of factual verification by audit and present the same to Parliament.

The Committee then adjourned.

*Not appended

ANNEXURE II

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC
ACCOUNTS COMMITTEE IN THE DRAFT REPORT ON ACTION
TAKEN ON THEIR 165TH REPORT (8TH LOK SABHA) RELATING
TO PROCUREMENT AND UTILISATION OF TRACK MATERIALS

Page	Para	Line	Amendments/Modifications
15	11	12	The succeeding portion of the existing paragraph starting with the words 'The Committee take a very serious view' to be made an independent paragraph No.12.

