

PUBLIC ACCOUNTS COMMITTEE
(1976-77)

(FIFTH LOK SABHA)

TWO HUNDRED AND THIRTY-FIRST REPORT

PROCUREMENT OF OIL

MINISTRY OF DEFENCE

[Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services)]



LOK SABHA SECRETARIAT
NEW DELHI

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PART* II

Minutes of sittings of the Public Accounts Committee held on
21-12-1974 (FN)
18-10-1976 (AN)

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PUBLIC ACCOUNTS COMMITTEE
(1976-77)

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Shri H. G. Paranjpe—*Chief Financial Committee Officer.*

Shri N. Sunder Rajan—*Officer on Special Duty.*

INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Two Hundred and Thirty-first Report of the Public Accounts Committee (Fifth Lok Sabha) on Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1972-73—Union Government (Defence Services), relating to Procurement of Oil.

2. The Report of the Comptroller and Auditor General of India for the year 1972-73—Union Government (Defence Services) was laid on the Table of the House on 25 April, 1974. The Public Accounts Committee (1974-75) examined paragraph 11 relating to Procurement of oil on 21 December, 1974. Written information in regard to the paragraph was also obtained from the Ministry of Defence and other Ministries/Departments concerned.

3. The Public Accounts Committee (1976-77) considered and finalised this Report at their sitting held on 18 October, 1976. Minutes* of the sittings of the Committee from Part II of the Report.

4. A consolidated statement containing the conclusion/recommendations of the Committee is appended to the Report (Appendix). For facility of reference these have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the commendable work done by the Chairman and Members of the Public Accounts Committee of 1974-75 in taking evidence and obtaining information for the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in the examination of the subject by the Comptroller and Auditor General of India.

7. The Committee would also like to express their thanks to the officers of the Ministry of Defence, Department of Defence Production, Department of Supply and Ministry of Law for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
October 27, 1976

Kartika 5, 1898 (Saka)

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

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

PROCUREMENT OF OIL

Audit paragraph

1.1. Mineral Oil Hydraulic Buffer is used as the hydraulic medium in recoil system of gun mountings. It is also used as a hydraulic medium in some other equipment and as a lubricant for high speed spindles, etc.

1.2. In April 1968, Army Headquarters placed a demand on the Director General, Supplies and Disposals, for 1.62 lakh litres of mineral oil. A contract was executed by the latter with a firm in January 1969 for import and supply of the oil (cost: Rs. 4.86 lakhs) by June, 1969 (extended subsequently to July 1970). In May 1969, a further demand of 3.57 lakh litres was placed by Army Headquarters on the Director General, Supplies and Disposals, who concluded in February, 1970 another contract with the same firm (cost: Rs. 11.07 lakhs) for import and supply by May 1971. The contracts provided for supply of imported oil in 25-litre drums with screw caps according to the specification laid down by the Defence Research Laboratory (Materials) which, *inter alia*, prescribed the requirements and methods of testing the oil. The oil was to contain stearic acid (0.05 to 0.10 per cent) and calcium petroleum sulphonate (0.10 to 0.15 per cent) as corrosion inhibitor. Advance sample was to be tested by the Chief Inspector (Materials) before bulk supplies commenced.

1.3. Samples from the bulk supplies against the first contract were found to conform to specification except that the ash content was 0.02 per cent as against 0.01 per cent (maximum) specified. This was considered minor. The specification included two tests *viz.*, aniline point test and change in aniline point after extraction with sulphuric acid. These tests were specified with a view to limit the aromatic content for safety of rubber components in buffer systems. In respect of these samples the aniline point test was found to be satisfactory. The test for change in aniline point after extraction with sulphuric acid could not, however, be done as acid of required strength was not available in stock. This test was dispensed with on the ground that results of aniline point test were satisfactory.

1.4. In August 1969, the Director General, Supplies and Disposals, informed the Chief Inspector (Materials) that the contractor was offering 50 mm press caps for sealing and capping of drums instead of screw type caps. As per inspection schedule, crackling test of

Sample from each drum of oil was to be done to find out whether it contained impurities and water. The press caps were not suitable, as it was not possible to close the drums tightly again with the press caps after these had been removed for drawing samples. However, because of urgent requirement the Chief Inspector (Materials) recommended acceptance of drums with press caps provided the supplier agreed to replace the oil if results of crackling test were not satisfactory. The firm agreed (April 1970|May 1970) to take back the oil which would fail in crackling test. In June 1970, it was decided to accept supplies against the first contract in drums with press caps with price reduction of one per cent (Rs. 4,856). The firm supplied 1.58 lakh litres of oil to an ordnance depot in July 1970 against this contract. Because of difficulties in drawing the samples from the drums fitted with press caps, the required crackling test of sample from each drum was not conducted.

1.5. It was decided (June 1970) that supplies against the contract of February 1970 were to be made in drums with screw type caps as provided in the agreement. Samples from bulk supplies against this contract were found to conform to specification except that the ash content was 0.02 per cent to 0.03 per cent against 0.01 per cent (maximum) specified and change in aniline point after extraction sulphuric acid was 7.0° C against 5.5° C (maximum) specified; these were, however, considered minor. Out of 5 drums subjected to test, slight haze was noticed in one drum after 2 weeks; this was attributed to presence of additive in the oil. This defect was considered not significant. Though the oil in 100 drums only (out of the consignment of 15,521 drums) had been subjected to crackling test by the local representative of inspection authority and was found crackle-free, the Chief Inspector (Material) recommended in April 1971 acceptance of the oil without further crackling test in view of urgency of requirement. During April 1971 and May 1971, 3.57 lakh litres were supplied by the firm to the ordnance depot against this contract.

1.6. In May 1971, a defect report about gun recoil systems filled with this oil (supplied against the first contract) was raised by one of the units. The defects mentioned were:

- (a) running out of recoil systems filled with this oil was incomplete;
- (b) oil could not be filtered through a muslin cloth or 100 mesh sieve as required; and
- (c) the brass components of recoil systems were tarnished within a fortnight.

In June 1971, an ordnance factory found jelly like sediments in the oil (supplied against the first contract) which clogged the paper element of oil filter. The factory sent a sample to Defence Research laboratory (Materials) for analysis and report. The tests in the laboratory disclosed lot of gel formation in the oil, and as such it was declared unsuitable for use as buffer oil. The samples from supplies against the second contract were also tested by this laboratory and found to have similar defects. Consequently, the existing stocks of the oil supplied by the firm were frozen.

1.7. The Director General, Supplies and Disposals, brought the defects to the notice of the firm on 16th October 1971 and asked it to rectify the defects or agree to have the rectification done by the Defence Inspector concerned at the firm's cost. As the firm's reply was not received within a fortnight as asked for by the Director General, Supplies and Disposals, and, in view of the emergency then prevailing, the Army Headquarters decided on 1st November, 1971 to have the oil rectified by the Defence Research Laboratory (Materials) and advised the Director General, Supplies and Disposals, to suspend payments to the firm (Rs. 1.06 lakhs held as security deposit and 5 per cent balance amount due on supplies made). The firm wrote to the Director General, Supplies and Disposals, on 9th November 1971 disowning any responsibility for the defects on the ground that it had submitted advance samples to the Chief Inspector (Materials). The firm was, however, willing, as a gesture of goodwill and without prejudice to its rights under the terms of the contract, to bear the cost of rectification to the extent of Rs. 5,000 only for the entire quantity of oil supplied against both the contracts.

1.8. The Defence Research Laboratory (Materials) remarked (January 1972) that the inspector approved acceptance of the oil in the belief that the composition as stipulated in the relevant specification had been strictly adhered to. According to that Laboratory, the specification permitted the use of calcium petroleum sulphonate as corrosion inhibitor and not 'aluminium compound' presence of which came to light at a later stage.

1.9. Out of 4.51 lakh litres of oil available for rectification (the balance quantity having been issued to users and not returned by them to the depot), 4.37 lakh litres were rectified and made usable at a cost of Rs. 3.17 lakhs. The balance of 0.14 lakh litres (cost: Rs. 0.42 lakh) was not usable due to gel formation and contamination.

1.10. The Ministry of Defence intimated (January 1974) that it was for the first time the defect of gel formation in the oil was encountered and that the tests prescribed in the specification for the

supplies were not designed to detect this defect. The Ministry also stated that "suitable remedial action has been taken to detect such defects in future supplies."

1.11. The Ministry of Supply intimated (January 1974) that the question of recovery from the firm of the cost of rectification of 4.37 lakh litres and also the cost of 0.14 lakh litres which are not usable was under consideration of the Ministry of Law in consultation with the indenter. The liability of the supplier in regard to the quantity of oil not returned by the ultimate users was also stated to be under examination (January 1974).

[Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services)].

1.12. The Committee learnt from Audit that the two contracts for the supply of 1.62 lakh litres (January 1969) and 3.57 lakh litres (February 1970) of buffer oil had been concluded with the firm Valvoline (India) Private Ltd., Calcutta. In a note furnished, at the Committee's instance, indicating the basis on which the firm was selected, the Department of Defence Production stated:

"An advertised tender enquiry was issued by the DGS&D against the indent for 1,62,000 litres of Oil Mineral Hydraulic Buffer placed by MGO. Quotations were received from three firms viz., M/s. Valvoline, M/s. International Trading Corporation and M/s. Sikri and Grover, Bombay. M/s. Sikri and Grover had quoted Rs. 2720 per kilo litre, whereas the next offer was quoted by M/s. Valvoline at Rs. 2998 per kilo litre. Both the firms required import licence but the foreign exchange component of M/s. Valvoline (Rs. 2,45,000) was less than that of Sikri and Grover (Rs. 2,65,680). The offer was referred to the indenter (DOS Army Hqrs., New Delhi) who had allocated foreign exchange of Rs. 2,45,000 only (vide letter dated 20-12-1968). Since the rate of M/s. Valvoline was about 10 per cent higher than that of M/s. Sikri and Grover, the indenter suggested that M/s. Valvoline might be asked to reduce it to the extent possible. M/s. Valvoline were contacted by the DGS&D but the firm declined to reduce their quotation. Ultimately, it was decided to place the contract with M/s. Valvoline in accordance with the foreign exchange allocated by the indenter.

An advertised tender enquiry was issued against the two indents for 1,04,000 litres and 2,53,000 litres (total: 3,57,000 litres), placed by the MGO. In response three offers were received, viz., from M|s. Valvoline, M|s. Castrol, Bombay and M|s. Jamuna Das Bool Chand, Ambala Cantt. M|s. Valvoline and M|s. Castrol quoted the same rate of Rs. 3100 per kilo litre, whereas M|s. Jamuna Das Bool Chand quoted Rs. 8,000 per kilo litre. The offers of M|s. Valvoline and M|s. Castrol were referred to CIM, Kanpur and DOS Army Headquarters, New Delhi. CIM, Kanpur confirmed the suitability of the offer of M|s. Valvoline whereas in respect of the offer of M|s. Castrol, CIM remarked that the ash contents were slightly higher. Keeping all factors and freight elements into consideration and noting that M|s. Valvoline was already holding an order, the contract was placed with the firm."

1.13. Since the offer of Valvoline (India) Private Ltd. in response to the first tender (Rs. 2998 per kilo litre) was higher than that of Sikri and Grover (Rs. 2720 per kilo litre) and the former had also declined to reduce their quotation on negotiation, the Committee desired to know the circumstances in which this offer had been accepted. A representative of the Department of Supply stated in evidence:

"There were three offers in response to our tender enquiry which was specially sent to 26 known suppliers. Three parties quoted. These were Sikri and Grover, Valvoline (India) Private Ltd. and International Trading Corporation. Their quotations were Rs. 2720, Rs. 2998 and Rs. 9500 per kilo litre respectively.

As regards the foreign exchange component, that of Messrs Valvoline was about 20,000 rupees less than that of Sikri and Grover. Although the rupee price was higher in the case of Valvoline, the foreign exchange demanded by them was Rs. 2.45 lakhs as against Rs. 2.65 lakhs demanded by Sikri and Grover. More than that, Sikri and Grover made a demand for reimbursement of what they called non-recoverable duties. In their tender, they said that they should be reimbursed not merely recoverable duties under law, but even duties which are not recoverable under law. What happened was that this firm had made a similar demand in an earlier case, which was under examination at that time in consultation with Law and Finance. They raised it in this case also.

The indenter was asked to give his comments on the two quotations of Messrs. Sikri and Grover and Messrs. Valvoline. The quotation of Messrs. International Trading Corporation was very high. It was also pointed out to the indenter that if he wanted the material very urgently, the case of Messrs Sikri and Grover might take a little time, because the legal point, whether we should accept the condition to reimburse the non-recoverable duties had to be settled. The indenter said that his requirement was very urgent, but as there was a price difference, we should try to get the price reduced. An attempt was made, but we did not succeed. The order was then placed."

Asked whether all the conditions prescribed in the tender for the testing of samples, etc. were accepted by the firm, the witness replied:

"Yes; they raised no objection to the specifications which included the test."

1.14. The Committee desired to know whether the firm had agreed to supply the oil by a stipulated delivery date. The witness stated:

"Advance sample was to be given by them. It was to be submitted before the commencement of the bulk supply and the delivery was to be completed within 18-19 weeks from the date of the import licence."

The Committee, however, learnt from Audit that according to the contract concluded with the firm in January 1969, the supplies were to be made by June 1969, which was subsequently extended to July 1970. Since the requirements of the oil were stated to be urgent, the Committee desired to know the circumstances in which the extension of the delivery period by a year was agreed to by the Department. In a note furnished to the Committee in this regard, the Department of Defence Production stated:

"Reply received from Director General, Supplies and Disposals is reproduced below:

The firm in its tender had offered a delivery period of 18/19 weeks from the date of receipt of import licence and accordingly the contract also provided the delivery period of 18/19 weeks from the date of receipt of import licence, which was issued on 14th May, 1969 and accordingly the delivery period was refixed as 10th September, 1969. The firm in its letter No. F. 28 dated

October 27, 1969 advised us that 'the stores are now on water' and expected to reach at Calcutta Port on or about 15 November 1969. For that purpose they wanted extension in delivery period upto 30th December, 1969 and accordingly the delivery period was extended upto 30th December, 1969 with reservation of rights and price denial clauses. The firm further advised vide their letter No. F. 28 dated December 24, 1969 that the steamer carrying the supplies reached at Calcutta Port long ago but due to Port Commissioner's labour trouble only 3,500 drums have been delivered to them and as soon as the balance is delivered to them they would intimate the same to us. It is further noticed that advance sample was submitted to Chief Inspector of Materials, Kanpur on 12th January 1970 and Inspection Report was released on 20th March, 1970. The stores were received in containers with press cap instead of screw cap and accordingly the firm offered 1 per cent price reduction due to change in packing. The acceptance of the offer took some time and the amendment accepting 1 per cent price reduction was issued on 15th June, 1970, and accordingly to enable the firm to despatch the stores after the packing issue was sorted out the delivery period was extended upto 31st July, 1970. Going to another source would have meant further delay and expenditure of additional foreign exchange."

1.15. The Committee enquired into the details of the principals of the firm Valvoline (India) Pvt. Ltd. In a note, the Department of Defence Production replied:

"M/s. . . Valvoline was a registered supplier. In the two tenders mentioned above they had not indicated any particulars of their principals. In the first tender, the firm mentioned the country of origin as USA/Europe, whereas, in the second tender, the country of origin was mentioned as UK|USA. Accordingly, import recommendation certificates were also issued to the firm on the same lines."

In reply to another question regarding the partners of the firm, the representative of the Department of Supply informed the Committee that M/s. Rajinder Prasad Moodi, Reghunath Prasad Moodi and Sajan Kumar Moodi were the persons concerned with the firm.

1.16. Asked whether the Department had not considered it necessary to find out details of the principals from whom the oil was to be procured, so as to ascertain their reliability, standing, etc.; the witness replied:

"At that time we did not. We have got it done now."

He added:

"Enquiries were made from 26 known Indian suppliers. Only three quoted. One quoted very high price. When we have a limited thing, we put questions but we do not get any answer."

On the Committee pointing out in this connection that the Indian suppliers must have had some information in this regard, the witness replied:

"They do not disclose it."

Asked whether before concluding contracts with a firm, its reliability was not enquired into, the witness replied:

"DGS&D registers their name and there is a section who deals with it and these tender enquiries were addressed to registered persons."

He stated further:

"They were registered in 1965 for the first time as stockists of lubricants, oils and greases for three years. They applied for renewal in 1969."

Another representative of the Department of Supply stated in this connection:

"When a firm applies for registration, we call for Articles of Association and Memorandum. We send inspectors to the firm's premises in order to ascertain their capacity as well as their financial position."

In reply to another question on when the firm first came into existence, the witness replied:

"It came in existence in 1964 (11th February, 1964). Articles of Association are there."

1.17. As regards the principals of the firm, the representative of the Department of Supply stated:

"Their principals or foreign suppliers are M/s. Petroleum Wholesale Limited, London. This information we have been able to get by sending telex message. Their address unfortunately is not with us. I shall find it out further."

1.18. The Committee desired to know what action the Department would take if a firm refused to disclose details of its foreign suppliers. The witness replied:

"It all depends upon the circumstances and situation."

Asked what could be the possible motive for a firm refusing to disclose these details, the witness replied:

"Oil companies are very secretive."

When the Committee pointed out that vital supplies such as buffer oil for guns should be procured only from suppliers of some standing, the witness stated:

"There were only two offers with us. One was tied up with legal difficulty."

In reply to another question whether the firm had been asked to furnish details of its foreign principals and it had then refused, the representative of the Department of Supply stated:

"We did not ask."

1.19. The Committee enquired whether the Department had had any dealings with the British firm and whether they were in the picture at all. The representative of the Department of Supply replied in the negative and stated:

"They were nowhere in the picture. When this point was mentioned in the Audit Report and also when it came up for discussion, we sent a series of telex messages to ISM, London and the only information I have been able to get was the name of the principal, Petroleum Wholesale Ltd., London."

Asked whether the Department had, therefore, no opinion about the British firm, the witness replied:

"That is correct."

He added that the supplier had only indicated the source of supply of the oil as from USA/UK. The Committee, therefore, desired to know whether the Department was satisfied with this information. The witness stated:

"DGS&D was satisfied."

1.20. The Committee desired to know the name and designation of the officer in the Directorate who had handled this purchase. The representative of the Department of Supply informed the Committee that the case was decided at the level of one Mr. Karve, Deputy Director General, who had since then retired.

1.21. In a note furnished subsequently in this regard, the Department of Defence Production informed the Committee that according to the Director General, Supplies and Disposals, the Director General, India Supply Mission, London had obtained a report on the foreign suppliers of the oil (Petroleum Wholesale Limited), through Dun & Bradstreet, London and that according to this report, the company was started in 1964 and was located at Northwest House, 174, Marylebone Road, London, N.W. 1 and the Directors of the company were (i) T.A. Simmonds, (ii) R.W.N. McFadyen, (iii) S. H. Oliver, (iv) S. Pollack, (v) A. C. Porton and (vi) N. O. Coke. Further details furnished by Dun & Bradstreet are indicated below:

"History

Limited Company incorporated on 21st April, 1964 as Anglo Oil Refineries Ltd., name changed to Raven Oil Co. Ltd. on 25th March, 1966 and again to style at heading on 2nd September, 1968. Simmonds appointed February 1964. is Manager of trade relations and of British Oil Trading Co. Ltd. The Company is stated to be owned by Castrol Ltd., incorporated 1918, nominal capital £ 10 million. They are at Castrol House, Marylebone Road, London, N.W.1. That company was acquired by Burmah Oil Co. Ltd. in 1966. Burmah Oil Co. Ltd. incorporated 1882, authorised capital £ 130 million, is a public company with substantial holdings in oil production etc. Capital: Nominal capital: £ 100 in £ 1 shares, 2 issued for cash.

Operation:

Principal function of the company is to act as wholesale outlet for Burmah Oil Trading Ltd., disposing of U.K. surplus of lubricating and special oils and in this connection

a substantial export trade is maintained. Offices of high value are maintained at heading address. They are formerly in Jormyn Street, London, S.W.1.

Payments and Conclusions

Engagements are met in a regular manner and the company is deemed trustworthy for its normal engagements.

Bankers:

Barclays Bank Ltd., 2/4 Wood Street, Swindon, SN. 14AA."

1.22. The Department of Defence Production also informed the Committee that the Director General, India Supply Mission, London, had also intimated that the company had dealings with the Supply Mission and had supplied steel drums against their contract to a Central Ordnance Depot, who happened to be the consignee for buffer oils also and that the Supply Mission|Central Ordnance Depot were being asked by the DGS&D to intimate the state of supplies.

1.23. According to the specifications prescribed by the Defence Research Laboratory (Materials) for 'Mineral Oil Hydraulic Buffer', the ash content was not to exceed 0.01 per cent (maximum) and the change in aniline point after extraction with sulphuric acid was not to exceed 5.5° C (maximum). The oil was further to contain stearic acid (0.05 to 0.10 per cent) and calcium petroleum sulphonate (0.10 to 0.15 per cent) as corrosion inhibitor. The oil was to be supplied in 25-litre drums with screw caps and bulk supplies were to commence after testing of advance sample by the Chief Inspector (Materials). The Committee were informtd by Audit that the advance sample against the first contract (1.62 lakh litres; cost Rs. 4.86 lakhs) was submitted by the firm [Valvoline (India) Private Ltd.] on 3 Septembtr 1969 to the Chief Inspector of Materials (the Inspection Authority under the A/T), who had sent the following report, on 25 September 1969, to the Inspector, Inspectorate of General Stores, Calcutta (the Inspection Officer under the A'T):

"The advance sample of the subject store received against the above quoted reference has been tested to the above particulars. The sample conforms to the above specification except that change in Aniline Point, after extraction with Sulphuric Acid of the sample is 7.0° C against 5.5° C (maximum) specified.

The above defect is considered minor, and the sample is acceptable under minor deviation. However, this deviation

from the specification requirement may be brought to the notice of the supplier for rectification of their product when supplied. The sample has been expended in tests."

1.24. The Committee desired to know when the advance sample against the second contract (3.57 lakh litres; cost Rs. 11.07 lakhs) was submitted by the firm to the Chief Inspector of Materials and the results of examination of this sample. In a note, the Department of Defence Production informed the Committee that the advance sample in this case was submitted on 29 May 1970 and that it conformed to the stipulated specification [No. IND/SL/4510(b)] in all respects, except that the ash content was 0.02 per cent to 0.03 per cent against the maximum of 0.01 per cent and that the change in aniline point after extraction with sulphuric acid was 7.6° C maximum against 5.5° C maximum specified.

1.25. Since the Chief Inspector of Materials had considered the defect in regard to the change in aniline point as minor, the Committee asked whether it was accepted by the Army authorities with that deviation. The Secretary, Department of Defence Production replied in the affirmative. Asked whether the deviations from specification noticed in the advance sample were brought to the notice of the DGS&D and the suppliers or whether the Inspectorate of General Stores had assumed that it was not necessary to rectify this defect, the representative of the Department of Supply replied:

"A copy of inspection report of the advance sample was sent to the firm."

He added:

"A copy was sent by the Defence people themselves."

The Committee, thereupon, desired to know the purpose of the observations of the Chief Inspector of Materials, in his report dated 25 September 1969, that the "deviation from the specification requirement may be brought to the notice of the supplier for rectification of their product" and asked who was required to bring the defect to the supplier's notice. The Director General, Inspection, replied in evidence:

"The firm was informed of the defects in the supply and they were asked that in the bulk supply they should improve the performance so that these defects do not occur."

He added:

“It was brought to the notice of the supplier by the Inspection Organisation.”

Clarifying the position, the Secretary, Department of Defence Production stated:

“The recommendation in the Test Report was presumably for internal use.”

The Director General, Inspection stated further:

“The letter was addressed by our Chief Inspector who carried out the laboratory test, to the Inspector at Calcutta who was the Sampling Officer. A copy of this letter was sent to the DGS&D and to the Supplier and in that letter it was mentioned that the Inspector should bring this matter of deviations to the notice of the firm and that the supplier should be asked to rectify the defects in their bulk supplies before the same was made.”

1.26. The Committee asked whether the Director General of Supplies and Disposals had taken any action in this regard and whether the supplier had responded to the communication. The representative of the Department of Supply replied in evidence:

“We have got on our file the correspondence. The reply from the firm was dated the 5th December, 1969. The letter was addressed to the Chief Inspector of Materials (Defence). He has said that ‘the defects pointed out by you which were considered minor were duly referred to the supplier’. The supplier has given the following report:

‘We note that the type sample conforms fully to specification except for change in Aniline Point. This seems rather strange because the base oil is checked by our refinery and guaranteed to comply with maximum change of 5.5° C, and furthermore our blending plant checked again and found 5.4° C. The test method is of course known to your authorities but we wonder whether they have used the prescribed 98 per cent strength Sulphuric Acid. Any deviation could of course be responsible for the anomaly.

Please rest assured that we shall continue to supply product of the quality shipped and we are looking forward to hearing from you about the results of your investigations into the alleged discrepancy in change of Aniline Point after extraction with sulphuric acid'."

1.27. In view of the supplier's reply, the Committee desired to know the test in regard to the change in aniline point was conducted in the prescribed manner. The Director General, Inspection stated:

"It was done according to the specification which required that we should use 98 per cent sulphuric acid."

Asked whether this fact had been communicated to the supplier, the witness replied:

"In the meantime the bulk supplies came."

1.28. The Committee desired to know whether the deviations/defects noticed in the advance sample relating to the second contract had also been brought to the notice of the supplier for rectification before commencement of bulk supplies. In a note, the Department of Defence Production informed the Committee as follows:

"Chief Inspector of Materials in his advance sample report to Inspectorate of General Stores, Calcutta (Lub/C/349/70 dated 24th June, 1970) remarked: 'This deviation from the specification may be brought to the notice of the supplier for rectification of their product when supplied'. Copies of this report were endorsed to Director of Ordnance Services, Director General of Supplies and Disposals and the firm."

1.29. As pointed out in the Audit paragraph, the ash content in the advance sample submitted against the first contract was 0.02 per cent, while in the sample submitted against the second contract it was 0.02 to 0.03 per cent, as against the 0.01 per cent (maximum) specified. The Committee desired to know whether the variation in ash content was really minor and whether this did not indicate the necessity for more tests. In a note, the Department of Defence Production stated:

"The Oil Mineral Hydraulic Buffer comprises uninhibited buffer oil as base oil which is doped with a corrosion inhibitor, calcium petroleum sulphonate. The permissible limit of ash content for uninhibited oil is 0.01 per cent

maximum. With the addition of an ash giving corrosion inhibitor Calcium Petroleum Sulphonate, the ash content is bound to increase. Therefore, an ash content of more than 0.01 per cent in inhibited oil would be expected. Defence Research Laboratory (Materials) Kanpur who had originally developed the store and drawn up the specification for it has revised the ash content limit to 0.03 per cent maximum.

It may also be pointed out that in the case of previous supplies of inhibited oil during the period 1968—70 from Castrol, Bombay and Sikri-Grover, Bombay to the extent of approximately 2 lakh litres, similar relaxation in ash content was given. These supplies gave satisfactory service in use.

In view of the position explained above, the relaxation in ash content was really minor and there was no necessity to carry out any further tests."

1.30. As regards the second contract, the Department of Defence Production informed the Committee as follows:

"The minor relaxations allowed during the inspection stages in the second contract and the reasons thereof are indicated deviationwise as below:

- (a) Ash content was 0.02 to 0.03 per cent in lieu of 0.01 per cent maximum specified.
- (b) Change in aniline point after extraction with Sulphuric Acid was 7.0° C against 5.5° C maximum specified.

On the basis of information available, this degree of departure did not indicate the need for any further tests.

- (c) Presence of slight haze in bottom settling sample from one of the drums.

Two types of sampling are done at Chief Inspectorate of Materials from the original sealed containers sent as bulk samples by Inspectorate of General Stores, Calcutta, top samples and bottom settling samples. Top samples were found conforming to specification in all respects, except slight deviation in respect of ash and change in aniline point which have been explained above. In bottom settling samples from one of the drums, slight haze was noticed on standing after 2 weeks. The haze dissolved in the oil to a clear solution

on thorough shaking. Also during use in recuperator etc. the oil was expected to remain in stirred condition due to frequent working of the system. Hence this was not considered to be significant. Moreover, occurrence of slight haze in the oil due to additives especially stearic acid is known to take place.

Further, the detection of slight haze was not considered of any consequence as it was also observed in the case of previous supplies to the extent of over 2 lakh litres made by M/s. Castrol, Bombay and Sikri and Grover, Bombay during the period 1968—70. In fact, no supplier was able to supply the inhibited oil without haze since its adoption. Hence there was no need for any further test."

1.31. While the increase in ash content had been considered minor in these two cases by the Chief Inspector of Materials, he had, however, remarked in regard to the offer made earlier by Castrol, Bombay in response to the second advertised tender enquiry for 3.57 lakh litres, that 'the ash contents were slightly higher, (vide paragraph 1.12). The Committee, therefore, enquired why the offer of Castrol had been rejected on the ground of higher ash content. The Chief Inspector (Materials) replied in evidence:

"On that ground we did not reject it. The DGS&D might have done it."

The representative of the Department of Supply stated, in this context, as follows:

"There is a letter which came from the Senior Scientific Officer Grade 1 for Chief Inspector dated 14th October, 1969. It says:

'Offer is acceptable however an advance sample (2.5 litre) be substituted for test and approval before commencing bulk supply of A T if placed on the firm. Offer of pack 25-litre trade quality 25 Gauge M.S. drums fitted with screw caps are acceptable if otherwise found suitable for the purpose by Inspecting Officer.

Offer of M's. Castrol (Oil M.H. Buffer):

We have noted the remarks of the firm about ash content. They have referred to their supply against A/T No. 101/54/098/4.5.67/PAOB/1475 dated 28th December, 1967 in which the ash contents were found slightly higher

than specified and the tendency of additives settling towards the bottom of the drums, as such we could like to test an advance sample 2.5 litre if A/T is placed on them before commencing bulk supply.

In view of their additives tendency to settle on the bottom, we cannot agree to only half per cent of the consignment being bottom sampled for crackle test. The firm may be persuaded to agree at least 5 per cent of the drums being sampled for this examination.'

As far as M/s. Valvoline is concerned, they say that offer is acceptable, etc. They also say that they cannot agree to bottom sample only to the extent of 1/2 per cent; they say that bottom sample must be at least 5 per cent."

Asked whether Valvoline (India) had stated anything in this regard, the witness replied in the negative. The Committee, therefore, posed the question whether this did not imply that the firm had been treated rather leniently. The witness replied:

"M s. Castrol seems to have mentioned that 1/2 per cent of the drums being sampled for this examination. M/s. Valvoline did not put forward any such condition. He said, 'You can do it according to the specification'. Therefore, there was no difficulty in saying this."

He added:

"In the tender, M's. Castrol has particularly said, 'Our product will meet the specification except that we cannot guarantee them'. On the other hand, the other gentleman did not say this thing."

Asked whether this should not have made the Department infer that the firm was too sure of its business, the witness replied:

"That is a matter of inferences. I do not know really."

He, however, added:

"It is possible to derive such an inference."

When the Committee pointed out, in this connection, that the same people who had rejected the tender of Castrol on the ground that the ash content in the sample was high, had considered the variation of no material importance while accepting, with deviations, the sup-

ply of Valvoline (India), the Secretary Department of Defence Production stated:

“We did not reject it. We only made a recommendation to the DGS&D.”

The representative of the Department of Supply stated in this context:

“They have mentioned in this letter that ‘the firm may be persuaded to agree to at least 5 per cent of the drums being sampled for this examination’. Now, that reference was to the firm. They wrote back in the beginning of September regarding M.s. Castrol. It was written by the Chief Inspector. It says:

‘In view of their additives tendency to settle on the bottom. we cannot agree to only half per cent of the consignment being bottom sampled for crackle test. The firm may be persuaded to agree at least 5 per cent of the drums being sampled for this examination’.

So, all these factors were taken into account before it was considered unsuitable.”

1.32. The Committee learnt from Audit that the bulk supplies against the first contract were for a quantity of 1,61,989 litres supplied in 7043 drums of 23 litres capacity each and that out of these only 8 drums were received by the Chief Inspector of Materials who had selected 4 drums at random for drawing out samples for carrying out tests. The Committee desired to know whether any percentage had been fixed for collecting samples against bulk supplies for carrying out the prescribed tests. In a note, the Department of Defence Production stated:

“The samples as received consisted of 8 drums as originally sealed (each designated as a sample unit), drawn at random from the consignment of 7043. This is in accordance with the Departmental Sampling Inspection Plan for General Chemical Stores—Inspection Instruction No. SL/18.

Out of this, 4 drums were selected at random and individually subjected to detailed testing as per the relevant specification. The test results from these 4 drums were essentially similar and, therefore, it was not considered necessary to test the remaining 4 drums.

In inspection based on sample testing, if such consistency in test results from sample unit is found, it is not usual to proceed with tests on further sample unit. This is consistent with the sampling inspection practice."

1.33. The Audit paragraph points out that in respect of the samples from the bulk supplies received against the first contract, while the aniline point test was found to be satisfactory, the test for change in aniline point after extraction with sulphuric acid could not, however, be done as acid of the requisite strength was not available in stock. This test was, therefore, dispensed with on the ground that the results of the aniline point test were satisfactory. In a note furnished, at the Committee's instance, explaining the reasons for not obtaining sulphuric acid of the requisite strength for the 'change in aniline point test', the Department of Defence Production stated:

"Concentrated Sulphuric Acid was required for carrying out the 'change in Aniline Point Test' on the Buffer Oil. The stock of the acid had exhausted just before the bulk sample was received and normal procurement action was in process. Since, 'Aniline Point Test' carried out on the sample was satisfactory, it was not considered essential to procure concentrated sulphuric acid on the emergent basis for carrying out the 'Change in Aniline Point Test'. Further, **the indenter** was expressing an extreme urgency of the material."

1.34. Clarifying the position during evidence, the Director General, Inspection, stated:

"**The change in aniline point** was not carried out but the **aniline point itself** was carried out."

Asked whether this meant that the prescribed test was not necessary, the witness replied:

"At that time we did not have the sulphuric acid that was necessary for doing this test. We required sulphuric acid with a strength of 98 per cent."

When the Committee pointed out that this, therefore, implied that the Inspection authorities could not maintain that the test was unnecessary since it was prescribed, the Secretary, Department of Defence Production stated:

"This could be verified by reference to the experts. The point is like this. The aniline point test is really to detect the

presence of aromatic content which attacks the rubber components in buffer systems. In so far as the presence of aromatic content is concerned, both these samples—advance and the bulk samples—which had to be conducted at 85 deg. minimum passed the first test. I believe, the Inspectorate took the view that this is the crucial test for the checking of aromatic content and this was absolutely essential. Since the major test, at 85 deg. minimum was passed by both the samples, they thought that absence of the second test, the test for change in aniline point, would not be so serious.”

On the Committee observing, in this connection, that no other explanation appeared plausible except that though the test was necessary, it was dispensed with because the supplies were required early, the witness replied in the affirmative.

1.35. Asked whether the test was carried out on the samples from the bulk supplies against the second contract, the Director General, Inspection replied:

“It was done in regard to the second contract supplies. The additional tests were carried and the results were the same. Something akin to the advance sample.”

The Secretary, Department of Defence, Production added:

“In the second supply, the advance sample and the bulk supply showed changes in aniline point, slightly more than what was permissible.”

On the Committee pointing out that it had actually become worse, the witness replied:

“Some degree of deviation was there.”

The Director General, Inspection added:

“It was slightly higher than the specifications, but lower than the advance sample.”

1.36. On the Committee pointing out that sulphuric acid was a commodity that was freely available, the Secretary, Department of Defence Production stated:

“I do admit this. It seems there was no stock in the laboratory at that time.”

Asked whether it could not have been acquired, the witness replied:

“Yes, Sir. Perhaps they did not do this test, as it was not considered necessary,”

Since the advance sample had failed in the 'Change in aniline point test', the Committee desired to know whether it was not all the more necessary to conduct this test on samples drawn from the bulk supplies. The witness stated that this was not done in the case of one bulk supply and the reason given for this was that sulphuric acid of the appropriate strength was not available.

1.37. The Committee desired to know who was responsible to make sure that the bulk supply was tested. The Chief Inspector of Materials stated in evidence:

"Actually Mr..... was in charge of the testing laboratory and he has retired since."

On being asked who was responsible for this particular project at the relevant time, the witness informed the Committee that Mr..... was responsible for this project and that he was at present serving in the Inspectorate of General Stores, Calcutta. To another question as to the authority under which the exemption from the test was granted, the witness replied:

"As the head of the Establishment, I could have possibly looked into the omission of this particular test. I did not and to that extent I am guilty in this."

Asked whether any exemption was granted that the bulk supply could be accepted without testing for change in aniline point, the witness replied:

"No deviation was granted. In fact, our outgoing test reports are signed by the group officer. But this particular test report was signed by myself because of the deviations in regard to the drums. If the drums were not there, then the report would have been signed at a lower level but as conditional acceptance was involved in the test report, this particular test report was signed by me."

The Committee desired to know the authority under which the test was waived. The witness replied:

"I have authority to sign deviations."

To another question whether the witness had informed the other end that the bulk supply had been passed without testing, he stated that a report had been made to the Inspectorate of General Stores, Calcutta.

1.38. The Audit paragraph also points out that though the oil was to be subject to a crackling test to determine whether the oil contained moisture and other impurities, this test was not conducted in respect of the samples drawn from the bulk supplies against the first contract, on account of difficulties in drawing samples from the drums fitted with press caps. Similarly, though the supplies in respect of the second contract had been made in drums with screw caps, as provided for in the agreement, the oil in 100 drums alone out of the consignment of 15,521 drums had been subjected to this test. Explaining, in a note furnished at the Committee's instance, the circumstances in which the Department had agreed to accept the oil supplied in drums with press caps, particularly in the context of the difficulties involved in drawing samples from such drums, the Department of Defence Production stated:

“After placement of the first A/T, the firm approached Director General of Supplies & Disposals for acceptance of 50 mm press caps drums in lieu of screw cap drums. While the matter was under examination by the Inspection authorities in consultation with the users, the firm informed Inspectorate of General Stores, Calcutta that they had already imported the stores in press cap drums. Since the drums with press caps cannot be resealed after they have been opened once, it was not possible to conduct the crackling test at the time of acceptance of the stores. However, as the requirement was extremely urgent, it was decided to accept the supplies of drums with press caps provided the supplier agreed to replace the oil if it subsequently failed in crackling test. This was agreed to by the firm and they also accepted a price reduction of 1 per cent. Thus it was ensured that if at the time the issues were made to the units the oil was found suspect, the supplier would be bound to replace such oil, free of charge.

It may be clarified that the crackling test is intended to detect only moisture and no other impurity.”

A representative of the Directorate General of Ordnance Factories stated, in this connection during evidence, as follows:

“There were pressed caps drums. Once we remove them it could not be liquid tight and that the firm gave a guarantee of their responsibility in this regard if the oil was proved bad later on. The samples were tested. Crackling test was done in these samples also.”

Asked, in this connection, whether the terms of the original contract had stipulated drums with screw caps or press caps, the Director General, Inspection, replied in evidence:

“It was for screw caps. The supplies came from foreign countries in these drums, notwithstanding the terms of the contract.”

In reply to another question whether this deviation was not noticed in the advance samples, the witness stated:

“The advance sample was not for the caps. That was only for the materials.”

He added:

“It came in a smaller container only, for sampling the oil and not for the container.”

Asked whether the difficulties in drawing samples from the drums with press caps had been brought to the notice of the firm, the witness replied:

“Yes, Sir. The firm was in the discussions at that time, so also the DGS&D, and the user who was taking this material for use was in great need of the supplies. Therefore, in the discussion, it was held that the material should be accepted even in the present containers because they had come to India in that form.”

1.39. Since the supplies against the first contract made in drums with press caps had been accepted with a price reduction of one per cent, the Committee desired to know the basis on which this reduction was arrived at. In a note, the Department of Defence Production stated:

“Reply from Director General, Supplies & Disposals is reproduced below:

One per cent price reduction was accepted on the basis of decision arrived at in a meeting held in the room of Officiating Director of Ordnance Services on 4th June, 1970. This was also done on the basis of having accepted 1 per cent. price reduction against their earlier order for Oil OM—15 (Case No. 4345 dated 10-7-69). The above decision was also taken in view of the fact that the stores

had already arrived at and were urgently required by Defence. The reduction offered was considered reasonable."

1.40. The Committee desired to know why the crackling test was waived, in April 1971, in respect of 15,421 drums (out of a total of 15,521 drums) received against the second contract, although it had been decided, in June 1970, that supplies against this contract were to be made in drums with screw caps with a view to carrying out the crackling test. In a note, the Department stated:

"The oil was required urgently and already the shipment was delayed, conducting cent per cent crackling test on all the 15,521 drums would have involved considerable time and further delayed supplies to the user."

1.41. Asked how important was the liquid tightness of the drums, the Director of Inspection General Stores, replied:

"The main requirement in regard to this cap is that it must be capable of withstanding the transit. Once the drum is received, it has to withstand so many transshipments. Unless the cap is liquidtight, quite a lot of the contents will be spilt."

He added:

"You may have seen the 'Postman' tins that are coming these days. There is a press-cap there; if you take it out and then put it back, you would not get it in a liquidtight form."

To another question whether necessary precautions were taken to safeguard against the attack of intense humidity that exists on board a ship, the witness replied:

"The drums, through the caps would absorb moisture to a certain extent; but we did not really consider it significant to any extent."

1.42. Yet another major defect noticed subsequently in the oil supplied by the firm was the formation of jelly-like sediments in the oil which clogged the paper element of the oil filter and as a result of this gel formation, the oil was declared unsuitable for use as buffer oil. Since defects in the gun recoil systems filled with this

oil had been reported, in June 1971, by one of the ordnance factories, the Committee desired to know whether the other units to whom the oil had been supplied had found it satisfactory. The Director General Inspection stated in evidence:

“When the oil will start gelling, depends on the temperature in storage. Naturally in some places, it will be stored at a higher temperature than at other places. And in places, where it is stored in higher temperature and there is excursion in temperature, the gelling phenomenon will start earlier.”

Asked whether the gel formation was noticed later at other places also where the oil had been supplied, the witness replied in the affirmative. In reply to another question in regard to the action taken in this regard, the witness stated:

“All the people who had this gelled oil, were asked to send that the COD near.....and that was rectified.”

1.43. The Committee desired to know whether the defect had been brought to the firm's notice and, if so, the explanation offered by the firm in regard to this phenomenon. The witness replied that the firm was informed of the defect and added:

“The supplier said, ‘You have accepted the thing. I am not responsible for it now’.”

The Secretary, Department of Defence Production informed the Committee in this connection that the matter was also taken up with the Director General, Supplies and Disposals.

1.44 On an enquiry by the Committee of the legal position in this regard, the Master General of Ordnance replied:

“If the stores after due inspection have been taken and accepted as in this case, normally it is not possible to reject the stores on any defect found later on. In law, there is, however, a remedy that even after inspection, if it is found that there has been some break of the conditions or warranty, in that case, the supplier is responsible to make good the damage or pay compensation equivalent to remedying the defects found.”

A representative of the Law Ministry added:

“So far as the claim of the Government is concerned, firstly we have to establish in this case that oil is sub-standard.

It is necessary to prove that according to specification prescribed under the contract, oil did not conform to that. Here it is not known—under what conditions, temperature, etc. it was stored.

So far as General Warranty Clause is concerned, under Section 59 of the Sale of Goods Act we can say that this is for a particular purpose and performance and this having failed, an implied warranty can be gathered. As such the said firm can be held liable for the loss, we had to sustain to make it usable again."

Asked whether there was any warranty in this case, the witness replied:

"There was no express warranty. However, under law, there is a provision wherein a break of any condition can be treated as a breach of warranty. That is to say, if there has been a breach of any condition of any term of the contract, but it has not been possible to specify within a reasonable time, then it can be treated as a breach of warranty and to that effect, an advice was given by the Ministry of Law to DGS & D."

1.45. The Committee asked whether as a result of the experience gained in this particular case, the Department intended to prescribe this as an express condition in future so that the suppliers would be liable in respect of defects detected after acceptance of the stores. The Director General, Inspection replied:

"We have been getting this oil of similar specifications for nearly 30-40 years and it has not given us any chance of complaint till this. This was the first time, that we experienced this difficulty. We all live and learn. We have put in this warranty clause thereafter and included it in the specifications."

To another question whether the Director General, Supplies and Disposals had also taken similar steps to include a warranty clause in respect of other supplies handled by him, the representative of the Department of supply replied:

"Wherever the indenter asks for this kind of warranty, we do demand from the supplier that it should be given, but we are coming up against endless objections. The suppliers who are few in number very often resist this and

say that they just cannot give the warranty. That sort of conversation has been going on for a time."

Asked why this could not be insisted upon as one of the conditions of acceptance, the witness replied:

"That is just what I am saying. We are now trying to introduce the warranty clause in our contracts. After all, a contract has to be mutually accepted, it cannot be one-sided. When we try that, the objection from the other side is that there is no such thing as shelf life for this oil or for any oil. I am speaking of oils generally. They say they cannot give us the warranty. I was speaking only from personal experience."

The Committee desired to know in this connection when the defect in this case developed. The Director General, Inspection stated:

"It is used for a longer time than the time it took the defect to develop. It developed the defect within a year. Normally we use it for four years and more."

When the Committee pointed out that the question of shelf life was not, therefore, involved in this case, the representative of the Department of Supply stated:

"I was not justifying this firm's action. This is what the tenderers now say, and the argument begins."

1.46. The Audit paragraph points out that according to the Defence Research Laboratory (Materials) which had tested the oil after the gelling came to notice, had observed that the specification for the oil permitted the use of calcium petroleum sulphate as corrosion inhibitor and not aluminium compound, the presence of which came to light at a later stage. The Committee, therefore, desired to know when the presence of the aluminium compound had come to notice and why it had not been detected when tests were conducted by the Directorate of Inspection. In a note furnished to the Committee in this regard, the Department of Defence Production stated:

"In June 1971.....found jelly like sediments in the oil and sent a sample to Defence Research Laboratory (Materials) Kanpur for analysis and report. The laboratory evaluation disclosed gel formation in the oil. Samples ex-stock Central Ordnance Depot....pertaining to the 1st contract were also analysed by Defence Research Laboratory (Materials) and found gel. Samples ex-stock Central

Ordnance Depot...from supply made against the 2nd contract were also tested by the above laboratory and found to have similar defects. During this period the presence of the aluminium compound came to light after chemical analysis of the incinerated matter of the insoluble gel."

To another question whether the corrosion inhibitor used in the oil was mixed locally or had been mixed in the imported supplies itself, the Department replied:

"The corrosion inhibitor, Calcium Petroleum Sulphonate used in inhibited buffer oil is now made in India. As far as we are aware it was not being made in India when the oil was imported against the two A/Ts in question. The oil was imported supplied ready-mixed with the additives."

In this connection, the Committee were informed, during evidence by the Secretary, Department of Defence Production as follows:

"We found that the gelling was due to an aluminium compound. It was obviously put in by a person who had actually supplied the oil."

1.47 Asked why a test for the detection of the presence of jelly-forming substances had not been included in the specifications, a representative of the Directorate General of Ordnance Factories replied:

"In the inhibited oil, two additives are there, viz. stearic acid and the calcium petroleum sulphonate. An impure substance may have come in from either of them. It was not indicated in the specification then, that it should be tested."

He added:

"This phenomenon was a very peculiar one—I mean the one which was noticed at that time...That test was not prescribed because this phenomenon was for the first time revealed with these additives in action."

The Committee desired to know who had formulated the terms of the various tests prescribed for buffer oil. The witness stated:

"We will have to go a little deep into this matter. Initially, it was an uninhibited oil; and it was a specification of

U.K. A draft specification was given by the DRL (M) for inhibited oil and it was the Chief Inspector (Materials) who had sealed the specification."

He added that the specification was sealed on 26 April 1965.

1.48 The Committee desired to know what would happen if the breach of a gun did not close properly on account of impurities in the lubricants. The Master General of Ordnance stated:

"You cannot fire the gun."

Asked what would be the rate of fire in such a situation, the witness replied:

"There would be no rate of fire."

1.49 Since it had been stated by the Department of Defence Production that the aluminium compound had been obviously put in by the supplier, the Committee desired to know whether this would not imply that it was a successful act of sabotage. The Secretary, Department of Defence Production stated:

"It can be so; or it could just have been done to derive a benefit out of the inhibiting factor."

Asked why no secret enquiry had been instituted in this regard the witness replied:

"The possibility of a sabotage did not strike us."

1.50. To a question whether the Army had ever earlier heard of such a problem with the buffer oil, the Master General of Ordnance replied:

"No, Sir. This is the first time I am hearing about it."

To another question whether as a result of using the defective oil, there had been any damage to men and materials, the witness replied:

"No, Sir. We were fortunate in this case in the sense that this was found out when it was only being taken to use. I can only say that we had received 5.134 lakh litres of this oil and the rectified amount was 4,50,173 litres and the quantity which we could not withdraw from the units was 62,687 litres only. I have not had any reports

upto date of any of the equipments being damaged. However, I cannot say for the future because it is very possible that this particular oil may have got into an odd system or so, but upto date we have not received any reports of any damage in the equipments in use at the present moment. It is also possible that the amount of oil that we could not get back from the units was used only for topping up of the systems."

1.51 The Defence Research Laboratory (Materials) had also remarked (January 1972) that the inspector had approved the acceptance of the oil in the belief that the composition as stipulated in the relevant specification had been strictly adhered to. The Committee enquired whether this was not indicative of laxity on the inspector's part. In a note, the Department of Defence Production replied:

"It is universal Inspection practice that the stores when offered for inspection are subjected only to the tests laid down in the relevant specification to assess their quality *vis-a-vis* the specification requirements. The supplies of oil mineral hydraulic buffer in question were accordingly subjected to the tests specified in the relevant specification IND|HL|4510(b) and they were accepted in the absence of any major discrepancy in the quality of the oil from that specified. At the supply stage no specific test for gelling was prescribed. In view of the position explained above, it is considered that there was no laxity on the part of the inspector."

1.52 Since the Audit paragraph pointed out that the Ministry had stated that "suitable remedial action has been taken to detect such defects in future supplies," the Committee enquired into the remedial measures taken in this regard. In a note, the Department replied:

"Oil Mineral Hydraulic Buffer conforming fully in all respects to specification No. IND|HL|4510(b) did not show any tendency to gel either at the laboratory development stage or in the consignments supplied against earlier A|Ts over a period of three years. As such, necessity for a test for gelling was not felt at that time.

On the basis of the technical information available, it cannot be said that relaxation given in inspection has led to this situation.

The following remedial measures have been taken to guard against such defects in future supplies:

- (a) 'Gel tendency test' to detect tendencies towards gel formation has been included in the Specification.
- (b) A keeping property clause for storage stability has been included in the specification. This would ensure that if there is any change in oil from specified particulars including gelling within twelve months, the supplies will be replaced free by the contractor.
- (c) Brass corrosion test has been included in the specification."

1.53 In view of the fact that the defective oil had been allowed to be sued after rectification, the Committee desired to know whether the rectified would be as good as the original. The Master General of Ordnance stated in evidence:

"I cannot really say unless I have been assured by a scientist and DRL(M) after they have carried out all the tests. However, we will certainly take measures to ensure that whenever we use this particular oil, we have it checked up."

The Chief Controller of Research & Development added:

"It would be suitable as uninhibited oil, and we have recommended that after use of every one year, the gun should be stripped and analysed for any faults, then only they should continue to use it. There is a restriction in the use."

Asked whether the guns would be stripped by the units themselves, the Master General of Ordnance replied:

"The stripping is done by the E.M.E, not by the unit."

Asked how often the guns were normally stripped for maintenance purposes, the witness replied:

"We do this normally once in four years."

On the Committee pointing out that since the guns in which the defective oil had been used had to be stripped annually, considerable additional expenditure would be involved thereon, the witness stated:

"But not for every equipment. The orders that I have issued for this thing is that equipments which have been fail-

ed with this oil will definitely be marked as such in their gun history sheets."

Asked why such a risk should have been taken, the witness replied:

"Because of the simple fact that I have five lakh litres on my hands, and I have to use it."

1.54. The Committee desired to know the total value of the supplies and whether all the payments due to the firm had been made. The representative of the Department of Supply stated:

"About Rs. 15 lakhs was the total value. They got 95 per cent payment as provided in the contract on the supplies being accepted."

To another question whether any action had been taken against the firm for its default, the witness replied:

"They have been de-registered."

He added:

"About recovery, we have got about Rs. 89,000 in hand which is due to them."

As regards the recovery in regard to the defective oil supplied by the firm, the witness informed the Committee that a suit was being filed against the firm and added:

"The cost of rectification was worked out by the Defence Ministry and communicated to the DGS&D in December 1973 and from then the process started."

Asked whether the law of limitation would not apply in this case, the Master General of Ordnance replied:

"After this has been decided that we can recover the amount and it is permissible in law it has been advised that a suit can be filed and steps have been taken to file the suit. Limitation is thirty years for the Government supply."

1.55. In a note, furnished at the Committee's instance, indicating the present position in regard to the recoveries proposed to be effected from the firm, the Department of Defence Production stated:

"A demand notice was issued to M/s. Valvoline on 23-7-1974 for payment of the expenditure incurred on rectification of the defective oil (4,50,713 litres) + transit loss + cost

of unserviceable oil, amounting to Rs. 3,62,865.16. The firm declined to pay the amount. Thereafter, references were made to ascertain their financial position and after obtaining the Balance Sheet of the firm from the Registrar of Companies, Calcutta, the Deputy Legal Adviser, Ministry of Law and Justice has been addressed on 21-11-1974 to file a suit in the court for recovery of the Government dues."

Subsequently, the Department informed the Committee as follows:

"The Ministry of Law and Justice had forwarded the documents to Shri S. S. Chadha, the then Government Counsel for filing a claim in the court of law but subsequently he has been appointed as Judge of Delhi High Court and as such the papers were returned to Ministry of Law. Now the papers have been forwarded to another Government Counsel. In the meantime, certain discrepancies have been noticed which are being examined."

In reply to another question whether any decision had been taken in regard to the quantity of oil not returned by the users for rectification, the Department stated:

"The quantity not returned by the users had already been utilised and paid for. The question of recovery of cost of rectification of this quantity does not arise."

1.56. The Committee desired to know whether the firm, Valvoline (India) Pvt. Ltd. had supplied buffer oil against any other contract and, if so, whether the supplies conformed to specifications. In a note, the Department of Defence Production stated:

"The firm did not supply any inhibited oil mineral hydraulic buffer prior to the two A/Ts in question but later they supplied it against other DGS&D A/Ts. The position A/T-wise is as follows:

Sl. No.	A/T. No. and Date	Quantity supplied in litres	Remarks
1	05 dt. 16-1-70	615	The consignment was reported not acceptable by Chief Inspector of Materials.
2	107/54/719/19-2-70/PAOC/119 dated 7-8-70.	29315	This consignment was initially accepted at bulk supply stage. How-

Sl. No.	A/T. No. and Date	Quantity supplied in litres	Remarks
			ever, following detecting of gel formation in control/check samples, the consignment was rejected.
3	107/54/219/23-6-70/PAOC/161 dated 29-9-70.	70315	This consignment was initially accepted at bulk stage. However, following detection of gel formation in control/check samples, the consignment was rejected.
4	107/54/513/5-10-70/PAOC/229 dated 19-1-71.	15900	This consignment was rejected at the bulk supply stage itself due to gel formation observed in the bulk supply samples."

1.57. Asked whether the country was still depending on foreign sources in respect of buffer oil used in guns, the Director General, Inspection, replied in evidence:

"The base oil that we use has got very stringent requirements, that it should not solidify upto or down to 40 degrees Celsius, and such oils are not made in India. They are imported still."

To another question whether there was no possibility of manufacturing the oil indigenously, the witness replied:

"At present we have gone to the Indian Oil Corporation, Sikri & Grover, Nagpal Ambadi, Power Oils Refinery and Savita Chemicals who are the only people who deal with this, and they have all regretted that they cannot give oil from indigenous material to these specifications."

The Committee desired to know how vital was this particular oil. The witness stated:

"It is very vital."

When the Committee asked, in this context, whether any attempts had been made to persuade Indian Oil Corporation to develop this oil and, if so, whether any progress had been made in this regard, the witness replied in the affirmative and added:

"We have been in constant dialogue with them for many years. They have not supplied any oil from indigenous

stock. We are now thinking of a little relaxation, and we are in dialogue with them for this purpose. That is, instead of all oils going down to—40 degrees celsius, we will take some of them which can be used in the plains, and the rest of it we will get to the old specification, so that it can be used in the mountain regions where the temperature goes down to sub-zero. So, we are hoping that for our major use we will be able to get indigenous oils.”

The Chief Controller, Research & Development stated further in this connection as follows:

“We are well aware of this problem. In fact, our laboratory at Kanpur is doing research in oils. They have now developed two grades of oil, one which can last when the temperature is +6 C degrees and above and another upto —30 degrees. These have undergone technical trials for one year, but the Army Headquarters are not satisfied. So, action is in hand to develop this oil and, once it satisfies them, it will be produced in India itself. In addition to this, we have also been recovering oils by a process of removing the jellification. As you would have seen in the Report, this oil has been treated differently and put to use again even though there has been a certain amount of loss.”

1.58. The Committee desired to know whether any attempts had been made to ascertain whether the oil used in the shock absorber of a car could be utilised as buffer oil for guns. The Director General, Inspection stated:

“We used also the shock absorber oil, but that will not be suitable for the purpose because in the guns we have got to have a controlled rate at which the guns recoil and recuperate. For this we need to have small parts pores which vary in size during the movement and recoil of the gun, and these fine controls will not be possible with the oil used in the shock absorber.”

Asked whether this had been determined with reference to actual trials, a representative of the Department replied:

“The shock absorber oil cannot be used because of its higher viscosity. Secondly, the aromatic content that we want must be less than about 20 per cent, otherwise the rubber

glands in the shock absorber recoil system will be affected.”

To another question whether this problem could not be overcome by treating the shock absorber oil chemically, the witness replied:

“No. That will be costly.”

In a note furnished subsequently in this regard, the Department of Defence Production stated:

“Oils used for shock absorbers are based on glycols or similar alcohols or their derivatives and are different chemically from buffer oils which are based on mineral oils as the major ingredients. Chemical treatment of the former to obtain something similar to the latter is, therefore, not possible.”

1.59. The facts brought out in the Audit paragraph and the evidence tendered before the Committee add up to a situation which causes much concern. Serious lapses have been found in the procurement and acceptance of supplies of Mineral Oil Hydraulic Buffer (Which is used as a hydraulic medium in the recoil system of gun mountings), as a result of which the specifications of a vital defence item seem to have been compromised. Some intriguing issues, referred to below, emerge out of the Committee's examination of this case.

1.60. In response to the tender enquiry issued by the Director General, Supplies & Disposals, against the first indent, placed in April 1968, by the Army Headquarters, for the supply of 1.62 lakh litres of the oil (cost: Rs. 4.86 lakhs) the lowest quotation of Rs. 2,720 per kilo litre had been received from Sikri and Grover and the second lowest quotation of Rs. 2,998 per kilo litre from Valvoline (India) Private Ltd. It had, however, been decided, in consultation with the indenter, to place orders on the latter firm, in spite of the fact that its quotation was not the lowest, for the following reasons:

- (a) While both the firms required import licence, the foreign exchange component of the quotation received from Valvoline (India) Private Ltd. was Rs. 2.45 lakhs as against Rs. 2.66 lakhs in the case of the quotation of Sikri and Grover.
- (b) The lowest tenderer (Sikri and Grover) had also demanded reimbursement of what were described as non-

recoverable duties, in addition to the duties recoverable under law, and the legal validity of this claim was already under examination at the relevant time, in consultation with the Law Ministry, with reference to a similar demand made by the firm in an earlier case. However, in view of the fact that the resolution of this dispute 'might take a little time' and the indenter's requirement was also 'very urgent' orders had been placed, in January 1969, on Valvoline (India) Private Ltd. after an unsuccessful bid to obtain a price reduction.

1.61. In this context, the Committee consider it significant that the foreign exchange allocated for the purchase by the Director of Ordnance Services, Army Headquarters, and intimated by him, in December 1968, to the Director General, Supplies & Disposals, also amounted to Rs. 2.45 lakhs, so as to correspond, strangely enough, to the requirements indicated by Valvoline (India) Private Ltd. In the light of the subsequent course of events, the Committee would very much like to know the basis on which the indenter had worked out the foreign exchange requirements for this purchase. Since the question of reimbursement of the non-recoverable duties had been, admittedly, raised by the lowest tenderer on an earlier occasion itself, the Committee would also like to be apprised, in some detail, of the facts of that case and the reasons for delay in arriving at a decision in this regard.

1.62 This apart, the Committee were amazed to be told that while placing orders on Valvoline (India) Private Ltd. for a vital defence requirement, no attempts were made by the Directorate General, Supplies and Disposals, to ascertain details of the principals of the firm, so as to determine their reliability, standing etc. The firm had merely indicated the source of supply of the oil as USA/UK, and the Committee are concerned to find that it was only after the defects in the oil supplied had been high lighted in the Audit Report that efforts were made by the Department of Supply to obtain some information in this regard. Again, it required a further probe, at the Committee's instance before more details about the principals could be forthcoming. Since the firm had not, admittedly, supplied this oil earlier, it was incumbent on the Directorate-General, Supplies and Disposals, to have verified in detail the credentials of the firm as well as those of its principals. It is deplorable that this elementary precaution had not been taken even in respect of procurement of a vital defence item. The Committee take a serious view of this omission and desire fixation of responsibility therefor.

1.63. The Committee have been informed, in this connection, that 'oil companies are very secretive' and that their Indian agents do not normally disclose details of their principals. This, in the Committee's view, is an entirely impermissible situation which needs to be remedied without loss of time. They would, therefore, urge Government to shed all complacency in this regard and insist upon the disclosure by the Indian agents of the details of their principals in all cases and especially in the case of defence supplies, for the country must ensure that vital supplies such as buffer oil for guns are procured only from suppliers of known reliability. Besides, as has been earlier recommended by the Committee, in paragraphs 1.60 and 1.61 of their 160th Report (Fifth Lok Sabha), Government should, as far as possible, deal directly with the foreign suppliers and eliminate their superfluous middlemen in the form of Indian agents, particularly in respect of purchases where no after-sales services are involved.

1.64. The manner in which the second contract for the supply of 3.57 lakh litres of the oil (cost: Rs. 11.07 lakhs) was concluded, in February 1970, with the same firm [Valvoline (India) Private Ltd.] is more intriguing. The Committee find that in response to the tender enquiry issued in this case, two firms—Valvoline (India) Private Ltd. and Castrol—had quoted the same rate of Rs. 3,100 per kilo litre. On the offers being referred to the indenter and the Chief Inspector of Materials, the latter, while confirming the suitability of Valvoline's offer, had, however, remarked that the ash contents in Castrol's offer were 'slightly higher' and that the additives also had a tendency to settle towards the bottom of the drums. The Chief Inspector had also added that in view of this tendency, only 12 per cent of the consignment being bottom sampled for crackle test could not be agreed upon and that the firm might be persuaded to agree to at least 5 per cent of the drums being sampled for this examination. Taking these factors as well as the freight element into consideration and in view of the fact that Valvoline (India) Private Ltd. was also already holding an order, a decision appears to have been taken by the Director-General, Supplies and Disposals, to place the second contract also with the same firm.

1.65. The Committee find that while the Chief Inspector of Materials had held that the ash content was 'slightly higher' in the case of Castrol, similar variations in ash content in the supplies made by Valvoline (India) Private Ltd. had been considered by him to be of no material importance and treated them as a 'minor'

deviation from the specifications. What is even more significant is that the specifications relating to ash content had, in fact, been relaxed in respect of the previous supplies of inhibited oil made by Castrol and Sikri and Grover during 1968—70, and this had been cited as one of the reasons for accepting, with deviations from the stipulated specifications, the supplies made later by Valvoline (India) Private Ltd. It is also not clear whether, on the basis of the communication received from the Chief Inspector of Materials, Castrol had been approached to agree to the sampling of 5 per cent of the drums and had refused to accept the condition. In these circumstances, the Committee have grave doubts in regard to the bona fides of accepting Valvoline's offer in preference to that of Castrol who had also, admittedly, made similar supplies earlier. The conclusion that undue favours have been shown to Valvoline (India) Private Ltd. is, therefore, fairly inescapable.

1.66. Apart from these shortcomings in the initial processing and acceptance of tenders for the supplies, the Committee are gravely concerned to find considerable laxity on the part of the Defence Inspection Organisation in carrying out the prescribed tests in respect of the bulk supplies of the oil, resulting in relaxations in the specifications of a vital item in a manner which can only be termed indiscriminate. For instance, the specification for Mineral Oil Hydraulic Buffer, prescribed by the Defence Research Laboratory (Materials), included two tests to detect the presence of aromatic compounds in the oil which attack the rubber components in buffer systems. viz. aniline point test and change in aniline point test after extraction with sulphuric acid of 98 per cent strength. The advance sample received from the firm against the first contract had been subjected to both these tests when it had been found that the change in aniline point of the sample, after extraction with sulphuric acid, was 7°C as against 5.5°C (maximum) specified. Though this variation was by no means small, the defect had been considered to be 'minor' and, it had been decided to accept the sample with this 'minor deviation' and to bring this deviation from the specification requirement to the notice of the suppliers for rectification before commencement of bulk supplies. On this being taken up with the suppliers, they maintained that the oil had been checked again in their blending plant when the change in aniline point had been found to be only 5.4 C, and pointed out that the anomaly could have arisen if sulphuric acid of 68 per cent strength had not been used in the test. However, before the suppliers could be informed that the test in regard to change in aniline point

had, in fact, been conducted with acid of prescribed strength, the bulk supplies of the oil had already been made.

1.67. Surprisingly, even when it was known to the Inspection Organisation that the advance sample had failed in the change in aniline point test, and the findings in this regard had also been disputed by the suppliers, this test, though admittedly necessary, was dispensed with in respect of the bulk supplies made against the first contract on the ground that the results of the aniline point test were satisfactory and because acid of the requisite strength was not available in stock. In spite of the fact that concentrated sulphuric acid is a commodity that is available freely enough, it had not been considered necessary to procure acid on an emergent basis for carrying out the test, since the Inspectorate had apparently taken the view that the aniline point test was the 'crucial' test for checking the aromatic content of the oil and, therefore, the absence of the second test would not be serious. The Committee are unable to appreciate the strange logic of this argument and are of the view that since the advance sample had failed in the change in aniline point test, the test ought to have been necessarily conducted on samples drawn from the bulk supplies, in order to make sure that the supplies conformed, in all respects, to the specifications. That this was not done is to be deprecated. What is perhaps even worse is that the omission of this particular test had not even been looked into by the Chief Inspector of Materials when he chose to sign the test report.

1.68. The oil was also to be subjected to a crackling test to determine the presence of moisture and other impurities. The test was, however, not conducted in respect of the supplies made against the first contract, on account of difficulties experienced in drawing samples from the drums fitted with press caps. Though the contract provided for the supply of the oil in 25-litre drums with screw-caps to retain their liquid tightness after the drawal of the samples and resealing, the actual supplies did not conform to this specification. Despite the fact that this was a major deviation and impurities, if undetected could hamper the efficient performance of the guns, the Committee find that as the requirement of the indenter was stated to be 'extremely urgent', it had been decided to accept the supplies in drums with press caps in lieu of screw caps, after the firm had agreed to a price reduction of a meagre 1 per cent (Rs. 4,856) and to replace the oil if it subsequently failed in the crackling test. This stipulation for the replacement of the oil, however, proved to be entirely superfluous and ineffective in view of the fact that the crackling test was never conducted by the department, on the ground of urgency of requirement.

1.69. Again, though the supplies in respect of the second contract had been made in drums with screw caps, as provided for in the agreement, oil in 100 drums alone out of the consignment of 15,521 drums had been subjected to the crackling test, on the ground that the shipment already having been delayed, conducting cent per cent crackling test on all the 15,521 drums would have involved considerable time and further delayed urgently required supplies to the user. It would, therefore, appear that the stipulated delivery period had not been adhered to by the firm in respect of this contract. The Committee would very much like to know the reasons for extending the delivery period and the steps, if any, taken by the Department of Supplies at the stages to see that deliveries were expedited, particularly in the context of the earlier experience with the firm.

1.70. Yet another major defect noticed much later (June 1971) in the oil supplied by Valvoline (India) Private Ltd. was the formation of jelly-like sediments in the oil, resulting in the malfunctioning of the recoil systems of guns filled with the oil in one of the units to which it had been supplied. Similar gel formation was also noticed later at other places where the oil had been supplied. On samples of the oil being tested by the Defence Research Laboratory (Materials), the presence of an aluminium compound instead of Calcium petroleum sulphonate as corrosion inhibitor, had come to light. As such, the oil was declared unsuitable for use as buffer oil for guns and the existing stocks of oil supplied by the firm had to be frozen. Unfortunately, no test for the detection of the presence of jelly-forming substances had been included in the specifications since such gel formation had not been encountered earlier. Since this oil is, admittedly, 'very vital' for the guns and any foreign substance or impurity in the lubricant could work havoc in an emergency and incapacitate the guns, the Committee feel earnestly that adequate tests ought to have been prescribed, ab initio, to safeguard against possible sabotage by unscrupulous elements resorting to the use of unauthorised or below-specification compounds as corrosion inhibitor. The Committee note that certain remedial measures aimed at detecting such defects in future supplies have now been taken and expect that these will be scrupulously observed.

1.71. It is fortunate that the defect had been noticed before the bulk of the oil was actually utilised and a major quantity could thus be withdrawn from the units before any serious damage was done. It does not require much imagination to see what a perilous situation these defective supplies could have landed the country's armed forces in, particularly when the country was faced by a grave

threat also on its eastern frontiers. Viewing the matter in retrospect, the Committee are positive that it was extremely unwise to have relaxed the specification and inspection procedures in regard to a vital defence item and that mala fides, though not proven, cannot be ruled out. The possibility of corrupt practices having crept in, even where detriment to the fighting efficiency of our troops was involved, is a matter of grave import. The approach of the Inspection Organisation has been inefficient and even thoughtless. Since serious suspicion of malpractices and even sabotage has arisen in this case, the Committee would urge Government to conduct a thorough probe into the deals with Valvoline (India) Private Ltd. and ascertain that no mala fides were in fact involved. In case of a finding adverse to any officials, stringent action should be taken against the delinquents.

1.72. The Committee have also been informed that the oil supplied by Valvoline (India) Private Ltd. against four other orders, placed on the firm between January 1970 and January 1971, for a total quantity of 1,16,145 litres, had been rejected following the detection of similar gel formation and that the firm has been de-registered by the Directorate General, Supplies and Disposals. In view of the firm's most unsatisfactory performance in a key sector affecting the country's security, the Committee desire that Government should consider the banning of business dealings with the firm and its associates. In future, purchases of all petroleum products, including lubricants and buffer oils, should be made through the public sector only.

1.73. The Committee find that the principals of Valvoline (India) Private Ltd.—Petroleum Wholesale Ltd., London—had also dealt with the India Supply Mission, London, and had supplied steel drums against their contract to a Central Ordnance Depot, who also happened to be the consignee in respect of buffer oil. While the Committee would very much like to know whether these supplies were found satisfactory, they feel that it would be worthwhile to review all other purchases made through Petroleum Wholesale Ltd., London, with a view to ascertaining whether there were similar or other serious defects and lapses in supply. In case it is found that the principals had defaulted in other cases also, appropriate action should be taken against them. The Committee would like to be informed of the action taken on this recommendation as well as on those contained in the preceding paragraph within three months of the presentation of the Report.

1.74. This case also emphasises the need for tightening the procedures for the inspection and acceptance of operational stores and the Committee desire that a review for the purpose should be undertaken immediately. It should also be impressed upon the inspection staff that the specifications and tests prescribed for vital defence supplies should be strictly enforced and the standards scrupulously adhered to.

1.75. The Committee note that out of the quantity of 5.15 lakh litres of oil supplied by the firm against the two contracts (cost: Rs. 15.93 lakhs) a quantity of 4.37 lakh litres has been rectified by the Defence Research Laboratory (Materials) and a demand notice issued to Valvoline (India) Private Ltd. for payment of Rs. 3.63 lakhs, representing the cost of rectification, cost of unserviceable oil and transit losses (for 4.51 lakh litres). Apart from these readily ascertainable losses arising out of this transaction, the invisible loss in terms of time and effort would work out to much more, in view of the fact that the rectified oils has been certified suitable for use, with certain restrictions, only uninhibited oil. The guns in which this oil has been used will also have to be stripped annually, instead of once in four years, and inspected for faults, defects, etc. The Committee have, however, been informed that the supplies having been accepted after due inspection the firm had disowned any responsibility for the defects noticed subsequently, and that a suit was being filed in the court for the recovery of Government dues. Considerable time has elapsed since then and the Committee would like to know the progress, if any, in this regard so far.

1.76. Yet another glaring omission in this case is the non-provision of a warranty clause in the contracts entered into with Valvoline (India) Private Ltd., as a result of which Government has been placed in the embarrassing position of having to enter into protracted litigation in a court of law. It is surprising that the Defence authorities and the Directorate General of Supplies and Disposals did not take this normal precaution, especially because no detailed tests had been specified to detect tendencies towards gel formation, and it would not have, therefore, been possible to determine by the then existing inspection procedures whether the oil would deteriorate or develop defects. Now that a warranty clause has been included in the specifications, as a result of the experience gained in this case, the Committee trust that it would be enforced strictly in cases of default.

1.77. In paragraph 1.26 of their 125th Report (Fifth Lok Sabha), the Committee had commented on another instance of non-provision of warranty clause in the contracts for the procurement of assault boats, as a result of which no action could be taken against the firm when defects came to light subsequently. Since this sort of omission appears to be fairly widespread, the Committee would urge Government to review comprehensively the specifications of other vital defence stores and equipment, and include suitable warranty clauses in all these cases and also enforce them strictly whenever defaults occur.

1.78. It is also a matter for concern that the specification in respect of 'inhibited' buffer oil appears, on the evidence, to have been formulated without an adequate examination of all the relevant aspects, as a result of which no tests had been prescribed for detecting the presence of impurities in the additives to the oil as well as tendencies towards gel formation. This, the Committee feel, was a vital omission, the reasons for which have not been satisfactorily explained. Prima facie, however, it appears that the British specification for 'uninhibited' buffer oil had been somewhat mechanically applied, in 1965, to the 'inhibited' oil. While the Committee would like a more detailed clarification in this regard, they must also emphasise that the greatest care should be taken in finalising the specifications of vital and important defence items, so that omissions as have been noticed in the present case are guarded against. The comprehensive review of specifications of other defence stores suggested in the preceding paragraph should also ensure that the specifications are suitably revised, wherever necessary, to provide for all such contingencies and for corresponding tests.

1.79. The Committee feel that the sorry state of affairs reflected in these two transactions could have been avoided had adequate advance action been taken for the procurement of the oil. Since the plea of urgency, which paradoxically is a cover for many relaxations and deviations, has been put forth by the Ministry of Defence on more than one occasion to justify virtually distress purchases, the Committee desire that the existing procedures for the ordering and procurement of stores and the issue of sanctions therefor should be thoroughly reviewed and streamlined so as to obviate the need for such unhappy 'emergency' and 'distress' purchases. Since time is the essence of the matter in relation to Defence requirements, Government should evolve a suitable machinery to ensure the rapid procurement of high priority operational items. The Committee would like to be kept informed of the steps taken in this regard.

1.80. The Committee note that as stringent requirements have been prescribed in respect of the buffer oil used in guns, it has not been possible so far to manufacture this oil indigenously to the exacting specifications and that the country is, therefore, still dependent on foreign sources of supplies. The Committee have also been informed that action is already on hand to develop this oil indigenously to slightly relaxed specifications, which can be used in the plains, and that the major requirements of the Armed Forces would then be met by the indigenously produced oil. They wish success to these endeavours and trust they are pursued earnestly and efficiently.

NEW DELHI

October 27, 1976.

Kartika 5, 1898 (S).

H. N. MUKERJEE,

Chairman,

Public Accounts Committee.

APPENDIX

APPENDIX

Conclusions; Recommendations

Sl. No.	Para No. of the Report	Ministry/Department concerned	Conclusion/Recommendation
1	2	3	4
1.	1.59	Dept. of Defence Production/Department of Supply.	The facts brought out in the Audit paragraph and the evidence tendered before the Committee add up to a situation which causes much concern. Serious lapses have been found in the procurement and acceptance of supplies of Mineral Oil Hydraulic Buffer (which is used as a hydraulic medium in the recoil system of gun mountings, as a result of which the specifications of a vital defence item seem to have been compromised. Some intriguing issues, referred to below, emerge out of the Committees examination of this case.
2.	1.60	-do-	In response to the tender enquiry issued by the Director General, Supplies & Disposals, against the first indent, placed in April 1968, by the Army Headquarters, for the supply of 1.62 lakh litres of the oil (cost: Rs. 4.86 lakhs the lowest quotation of Rs. 2,720 per kilo litre had been received from Sikri and Grover and the second lowest quotation of Rs. 2,998 per kilo litre from Valvoline (India) Private

Ltd. It had, however, been decided, in consultation with the indenter, to place orders on the latter firm, in spite of the fact that its quotation was not the lowest, for the following reasons:

(a) While both the firms required import licence, the foreign exchange component of the quotation received from Valvoline (India) Private Ltd., was Rs. 2.45 lakhs as against Rs. 2.66 lakhs in the case of the quotation of Sikri and Grover.

(b) The lowest tenderer (Sikri and Grover) had also demanded reimbursement of what were described as non-recoverable duties in addition to the duties recoverable under law, and the legal validity of this claim was already under examination at the relevant time, in consultation with the Law Ministry, with reference to a similar demand made by the firm in an earlier case. However, in view of the fact that the resolution of this dispute 'might take a little time' and the indenter's requirement was also 'very urgent', orders had been placed, in January, 1969, on Valvoline (India) Private Ltd., after an unsuccessful bid to obtain a price reduction.

3. 1.61

Department of Defence
Production/Department
of Supply.

In this context, the Committee consider it significant that the foreign exchange allocated for the purchase by the Director of Ord-

nance Services, Army Headquarters, and intimidated by him, in December 1968, to the Director General, Supplies & Disposals, also amounted to Rs. 2.45 lakhs, so as to correspond, strangely enough, to the requirements indicated by Valvoline (India) Private Ltd. In the light of the subsequent course of events, the Committee would very much like to know the basis on which the indenter had worked out the foreign exchange requirements for this purchase. Since the question of reimbursement of the non recoverable duties had been, admittedly raised by the lowest tenderer on an earlier occasion itself, the Committee would also like to be apprised, in some detail, of the facts of that case and the reasons for delay in arriving at a decision in this regard.

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This apart, the Committee were amazed to be told that while placing orders on Valvoline (India) Private Ltd., for a vital defence requirement, no attempts were made by the Directorate General, Supplies and Disposals, to ascertain details of the principals of the firm, so as to determine their reliability, standing etc. The firm had merely indicated the source of supply of the oil as USA/UK and the Committee are concerned to find that it was only after the defects in the oil supplied had been highlighted in the Audit Report that efforts were made by the Department of Supply to obtain some information in this regard. Again, it required a further probe, at the Committee's instance, before more details about the principals could be forthcoming. Since the firm had not, admittedly, supplied this oil earlier, it was incumbent on the Director-General, Supplies and

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5.	1.63	Dept. of Defence Production/Depart- ment of Supply.	<p>Disposals, to have verified in detail the credentials of the firm as well as those of its principals. It is deplorable that this elementary precaution had not been taken even in respect of procurement of a vital defence item. The Committee take a serious view of this omission and desire fixation of responsibility therefor.</p> <p>The Committee have been informed, in this connection, that 'oil companies are very secretive' and that their Indian agents do not formally disclose details of their principals. This, in the Committee's view, is an entirely impermissible situation which needs to be remedied without loss of time. They would, therefore, urge Government to shed all complacency in this regard and insist upon the disclosure by the Indian agents of the details of their principals in all cases and especially in the case of defence supplies, for the country must ensure that vital supplies such as buffer oil for guns are procured only from suppliers of known reliability. Besides, as has been earlier recommended by the Committee, in paragraphs 1.60 and 1.61 of their 160th Report (Fifth Lok Sabha), Government should, as far as possible, deal directly with the foreign suppliers and eliminate their superfluous middlemen in the form of Indian agents, particularly in respect of purchases where no after-sales services are involved.</p>
6.	1.64	-do-	<p>The manner in which the second contract for the supply of 3.57 lakh litres of the oil (cost: Rs. 11.07 lakhs) was concluded, in</p>

February, 1970, with the same firm [Valvoline (India) Private Ltd.] is more intriguing. The Committee find that in response to the tender enquiry issued in this case, two firms—Valvoline (India) Private Ltd., and Castrol—had quoted the same rate of Rs. 3,100 per kilo litre. On the offers being referred to the indenter and the Chief Inspector of Materials, the latter, while confirming the suitability of Valvoline's offer, had, however, remarked that the ash contents in Castrol's offer were 'slightly higher' and that the additives also had a tendency to settle towards the bottom of the drums. The Chief Inspector had also added that in view of this tendency, only $\frac{1}{2}$ per cent of the consignment being bottom sampled for crackle test could not be agreed upon and that the firm might be persuaded to agree to at least 5 per cent of the drums being sampled for this examination. Taking these factors as well as the freight element into consideration and in view of the fact that Valvoline (India) Private Ltd., was also already holding an order, a decision appears to have been taken by the Director-General, Supplies and Disposals, to place the second contract also with the same firm.

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The Committee find that while the Chief Inspector of Materials had held that the ash content was 'slightly higher' in the case of Castrol, similar variations in ash content in the supplies made by Valvoline (India) Private Ltd., had been considered by him to be of no material importance and treated them as a 'minor' deviation from the specifications. What is even more significant is that the specifications relating to ash content had, in fact, been relaxed in respect of the previous supplies of inhibited oil made by Castrol

and Sikri and Grover during 1968—70, and this had been cited as one of the reasons for accepting, with deviations from the stipulated specifications, the supplies made later by Valvoline (India) Private Ltd. It is also not clear whether, on the basis of the communication received from the Chief Inspector of Materials, Castrol had been approached to agree to the sampling of 5 per cent of the drums and had refused to accept the condition. In these circumstances, the Committee have grave doubts in regard to the *bona fides* of accepting Valvoline's offer in preference to that of Castrol who had also, admittedly, made similar supplies earlier. The conclusion that undue favours have been shown to Valvoline (India) Private Ltd. is, therefore, fairly inescapable.

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Dept. of Defence
Production/Department
of Supply.

Apart from these shortcomings in the initial processing and acceptance of tenders for the supplies, the Committee are gravely concerned to find considerable laxity on the part of the Defence Inspection Organisation in carrying out the prescribed tests in respect of the bulk supplies of the oil, resulting in relaxations in the specifications of a vital item in a manner which can only be termed indiscriminate. For instance, the specification for Mineral Oil Hydraulic Buffer, prescribed by the Defence Research Laboratory (Materials), included two tests to detect the presence of aromatic compounds in the oil which attack the rubber components in buffer systems, *viz.* aniline point test and change in aniline point test after

extraction with sulphuric acid of 98 per cent strength. The advance sample received from the firm against the first contract had been subjected to both these tests when it had been found that the change in aniline point of the sample, after extraction with sulphuric acid, was 7°C as against 5.5°C (maximum) specified. Though this variation was by no means small, the defect had been considered to be 'minor' and, it had been decided to accept the sample with this 'minor deviation' and to bring this deviation from the specification requirement to the notice of the suppliers for rectification before commencement of bulk supplies. On this being taken up with the suppliers, they maintained that the oil had been checked again in their blending plant when the change in aniline point had been found to be only 5.4°C, and pointed out that the anomaly could have arisen if sulphuric acid of 98 per cent strength had not been used in the test. However, before the suppliers could be informed that the test in regard to change in aniline point had, in fact, been conducted with acid of prescribed strength, the bulk supplies of the oil had already been made.

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9. 1.67

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Surprisingly, even when it was known to the Inspection Organisation that the advance sample had failed in the change in aniline point test, and the findings in this regard had also been disputed by the suppliers, this test, though admittedly necessary, was dispensed with in respect of the bulk supplies made against the first contract on the ground that the results of the aniline point test were satisfactory and because acid of the requisite strength

was not available in stock. In spite of the fact that concentrated sulphuric acid is a commodity that is available freely enough, it had not been considered necessary to procure acid on an emergent basis for carrying out the test, since the Inspectorate had apparently taken the view that the aniline point test was the 'crucial' test for checking the aromatic content of the oil and, therefore, the absence of the second test 'would not be serious'. The Committee are unable to appreciate the strange logic of this argument and are of the view that since the advance sample had failed in the change in aniline point test, the test ought to have been necessarily conducted on samples drawn from the bulk supplies, in order to make sure that the supplies conformed, in all respects, to the specifications. That this was not done is to be deprecated. What is perhaps even worse is that the omission of this particular test had not even been looked into by the Chief Inspector of Materials when he chose to sign the test report.

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10. 1.68

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The oil was also to be subjected to a crackling test to determine the presence of moisture and other impurities. The test was, however, not conducted in respect of the supplies made against the first contract, on account of difficulties experienced in drawing samples from the drums, fitted with press caps. Though the contract provided for the supply of the oil in 25-litre drums with screw-caps to retain their liquid tightness after the drawal

of the samples and resealing, the actual supplies did not conform to this specification. Despite the fact that this was a major deviation and impurities, if undetected, could hamper the efficient performance of the guns, the Committee find that as the requirement of the indenter was stated to be 'extremely urgent', it had been decided to accept the supplies in drums with press caps in lieu of screw caps, after the firm had agreed to a price reduction of a meagre 1 per cent (Rs. 4,856) and to replace the oil if it subsequently failed in the crackling test. This stipulation for the replacement of the oil, however, proved to be entirely superfluous and ineffective in view of the fact that the crackling test was never conducted by the department, on the ground of urgency of requirement.

11. 1.69

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Again though the supplies in respect of the second contract had been made in drums with screw caps, as provided for in the agreement, oil in 100 drums alone out of the consignment of 15,521 drums had been subjected to the crackling test, on the ground that the shipment already having been delayed, conducting cent per cent crackling test on all the 15,521 drums would have involved considerable time and further delayed urgently required supplies to the user. It would, therefore, appear that the stipulated delivery period had not been adhered to by the firm in respect of this contract. The Committee would very much like to know the reasons for extending the delivery period and the steps, if any, taken by the Department of Supply at all stages to see that deliveries were expedited, particularly in context of the earlier experience with the firm.

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12. 1.70

Department of Defence
Production

Yet another major defect noticed much later (June 1971) in the oil supplied by Valvoline (India) Private Ltd. was the formation of jelly-like sediments in the oil, resulting in the malfunctioning of the recoil systems of guns filled with the oil in one of the units to which it had been supplied. Similar gel formation was also noticed later at other places where the oil had been supplied. On samples of the oil being tested by the Defence Research Laboratory (Materials), the presence of an aluminium compound instead of Calcium petroleum sulphonate as corrosion inhibitor, had come to light. As such, the oil was declared unsuitable for use as buffer oil for guns and the existing stocks of oil supplied by the firm had to be frozen. Unfortunately, no test for the detection of the presence of jelly-forming substances had been included in the specifications since such gel formation had not been encountered earlier. Since this oil is, admittedly, 'very vital' for the guns and any foreign substance or impurity in the lubricant could work havoc in an emergency and incapacitate the guns, the Committee feel earnestly that adequate tests ought to have been prescribed, *ab initio*, to safeguard against possible sabotage by unscrupulous elements resorting to the use of unauthorised or below-specification compounds as corrosion inhibitor. The Committee note that certain remedial measures aimed at detecting such defects in future supplies have now been taken and expect that these will be scrupulously observed.

13. 1.71

Deptt. of Defence
Production Depart-
ment of Supply.

It is fortunate that the defect had been noticed before the bulk of the oil was actually utilised and a major quantity could thus be withdrawn from the units before any serious damage was done. It does not require much imagination to see what a perilous situation these defective supplies could have landed the country's armed forces in, particularly when the country was faced by a grave threat also on its eastern frontiers. Viewing the matter in retrospect, the Committee are positive that it was extremely unwise to have relaxed the specifications and inspection procedures in regard to a vital defence item and that *mala fides*, though not proven, cannot be ruled out. The possibility of corrupt practices having crept in, even where detriment to the fighting efficiency of our troops was involved, is a matter of grave import. The approach of the Inspection Organisation has been inefficient and even-thoughtless. Since serious suspicion of malpractices and even sabotage has arisen in this case, the Committee would urge Government to conduct a thorough probe into the deals with Valvoline (India) Private Ltd. and ascertain that no *mala fides* were in fact involved. In case of a finding adverse to any officials, stringent action should be taken against the delinquents.

14. 1.72

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The Committee have also been informed that the oil supplied by Valvoline (India) Private Ltd. against four other orders, placed on the firm between January 1970 and January 1971, for a total quantity of 1,16,145 litres, had been rejected following the detection of similar gel formation and that the firm has been de-registered by the Directorate General, Supplies and Disposals. In view of the firm's most unsatisfactory performance in a key sector affecting the

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country's security, the Committee desire that Government should consider the banning of business dealings with the firm and its associates. In future, purchases of all petroleum products, including lubricants and buffer oils, should be made through the public sector only.

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1.73

Deptt. of Defence
Production/Department
of Supply.

The Committee find that the principals of Valvoline (India) Private Ltd.—Petroleum Wholesale Ltd., London—had also dealt with the India Supply Mission, London, and had supplied steel drums against their contract to a Central Ordnance Depot, who also happened to be the consignee in respect of buffer oil. While the Committee would very much like to know whether these supplies were found satisfactory, they feel that it would be worthwhile to review all other purchases made through Petroleum Wholesale Ltd., London with a view to ascertaining whether there were similar or other serious defects and lapses in supply. In case it is found that the principals had defaulted in other cases also, appropriate action should be taken against them. The Committee would like to be informed of the action taken on this recommendation as well on those contained in the preceding paragraph within three months of presentation of the Report.

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16.

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This case also emphasises the need for tightening the procedures for the inspection and acceptance of operational stores and

the Committee desire that a review for the purpose should be undertaken immediately. It should also be impressed upon the inspection staff that the specification and tests prescribed for vital defence supplies should be strictly enforced and the standards scrupulously adhered to.

17. 1.75

Deptt. of Defence
Production Department
of Supply
Min. of Law.

The Committee note that out of the quantity of 5.15 lakh litres of oil supplied by the firm against the two contracts (cost: Rs. 15.93 lakhs) a quantity of 4.37 lakh litres has been rectified by the Defence Research Laboratory (Materials) and a demand notice issued to Valvoline (India) Private Ltd. for payment of Rs. 3.63 lakhs, representing the cost of rectification, cost of unserviceable oil and transit losses (for 4.51 lakh litres). Apart from these readily ascertainable losses arising out of this transaction, the invisible loss in terms of time and effort would work out to much more, in view of the fact that the rectified oil has been certified suitable for use, with certain restrictions, only as uninhibited oil. The guns in which this oil has been used will also have to be stripped annually, instead of once in four years, and inspected for faults, defects, etc. The Committee have, however, been informed that the supplies having been accepted after due inspection, the firm had disowned any responsibility for the defects noticed subsequently, and that a suit was being filed in the court for the recovery of Government dues. Considerable time has elapsed since then and the Committee would like to know the progress, if any, in this regard so far.

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18.	1. 76	Department of Defence Production/Department of Supply.	<p>Yet another glaring omission in this case is the non-provision of a warranty clause in the contracts entered into with Valvoline (India) Private Ltd., as a result of which Government has been placed in the embarrassing position of having to enter into protracted litigation in a court of law. It is surprising that the Defence authorities and the Directorate General of Supplies and Disposals did not take this normal precaution, especially because no detailed tests had been specified to detect tendencies towards gel formation and it would not have, therefore, been possible to determine by the then existing inspection procedures whether the oil would deteriorate or develop defects. Now that a warranty clause has been included in the specifications, as a result of the experience gained in this case, the Committee trust that it would be enforced strictly in cases of default.</p>
19.	1. 77	Ministry of Defence Department of Defence Production.	<p>In paragraph 1.26 of their 125th Report (Fifth Lok Sabha), the Committee had commented on another instance of non-provision of warranty clause in the contracts for the procurement of assault boats, as a result of which no action could be taken against the firm when defects came to light subsequently. Since this sort of omission appears to be fairly widespread, the Committee would urge Government to review comprehensively the specifications of other vital defence stores and equipment and include suitable warranty clauses in all these cases and also enforce them strictly whenever defaults occur.</p>

20. I.78

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It is also a matter for concern that the specification in respect of 'inhibited' buffer oil appears, on the evidence, to have been formulated without an adequate examination of all the relevant aspects, as a result of which no tests had been prescribed for detecting the presence of impurities in the additives to the oil as well as tendencies towards gel formation. This, the Committee feel, was a vital omission, the reasons for which have not been satisfactorily explained. *Prima facie*, however, it appears that the British specification for 'uninhibited' buffer oil had been somewhat mechanically applied, in 1965, to the 'inhibited' oil. While the Committee would like a more detailed clarification in this regard, they must also emphasise that the greatest care should be taken in finalising the specifications of vital and important defence items, so that omissions as have been noticed in the present case are guarded against. The comprehensive review of specifications of other defence stores suggested in the preceding paragraph should also ensure that the specifications are suitably revised, wherever necessary, to provide for all such contingencies and for corresponding tests.

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21. I.79

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The Committee feel that the sorry state of affairs reflected in these two transactions could have been avoided had adequate advance action been taken for the procurement of the oil. Since the plea of urgency, which paradoxically is a cover for many relaxations and deviations, has been put forth by the Ministry of Defence on more than one occasion to justify vitually distress purchases, the Committee desire that the existing procedures for the

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ordering and procurement of stores and the issue of sanctions therefor should be thoroughly reviewed and streamlined so as to obviate the need for such unhappy 'emergency' and 'distress' purchases. Since time is the essence of the matter in relation to Defence requirements. Government should evolve a suitable machinery to ensure the rapid procurement of high priority operational items. The Committee would like to be kept informed of the steps taken in this regard.

22. 1.80

Ministry of Defence/
Department of Defence
Production.

The Committee note that as stringent requirements have been prescribed in respect of the buffer oil used in guns, it has not been possible so far to manufacture this oil indigenously to the exacting specifications and that the country is, therefore, still dependent on foreign sources of supplies. The Committee have also been informed that action is already on hand to develop this oil indigenously to slightly relaxed specifications, which can be used in the plains, and that the major requirements of the Armed Forces would then be met by the indigenously produced oil. They wish success to these endeavours and trust they are pursued earnestly and efficiently.

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