

**PUBLIC ACCOUNTS COMMITTEE  
(1967-68)**

**FOURTH REPORT**

(FOURTH LOK SABHA)

[Action taken by Government on the Recommendations  
of the Committee contained in their 64th Report  
(Third Lok Sabha) regarding Purchase of Defective  
Tyres]



**LOK SABHA SECRETARIAT  
NEW DELHI**

*August, 1967*

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CORRIGENDA TO ~~FOURTH~~ REPORT OF P.A.C.  
(1967-68) - (Presented to Lok Sabha  
on 3th August, 1967)

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Page	Para	Line	For	Read
4	1.15	30-31	manufacturers	manufacturers
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20	1.75	1	Shri	M/s.
22	1.82	12	un-abiguous	un-ambiguous
23	1.85	7	opinion*	opinion
25	1.93	22	consignements	consignments
30	1.113	2-3	tyre (Cross Country type)	tyre.
160	1.33	2	their own	their
	(S.No.5)		commercial	
162-	1.62	3	the East	these
163	(S.No.11)		European	
164	1.69	1	apreciate	appreciate
	(S.No.14)			
167	1.119	21	tyres (Cross Country Type)	tyres
	(S.No.26)			
174-	2.10	9	tyres (Cross Country Type)	tyres
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**PUBLIC ACCOUNTS COMMITTEE**

**(1967-68)**

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**Shri N. N. Mallya—*Joint Secretary***

**Shri Avtar Singh Rikhy—*Deputy Secretary***

**Shri R. M. Bhargava—*Under Secretary.***

## INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Fourth Report on 'Action taken by Government on the recommendations of the Committee contained in their 64th Report (Third Lok Sabha) regarding Purchase of Defective Tyres'.

2. This case was considered by the Public Accounts Committee at their sitting held on the 22nd July, 1967. The Committee considered and finalised this Report at their sitting held on the 5th August, 1967. The minutes of these sittings have been maintained and these form part of the Report (Part II)\*.

3. For facility of reference the main recommendations/observations of the Committee have been printed in thick type in the body of the Report. A statement showing the summary of the main recommendations|observations of the Committee is appended to the Report (Appendix XI).

6. The Committee place on record their appreciation of the assistance rendered to them by the Comptroller & Auditor General of India in the examination of action taken by Government on the recommendations contained in the 64th Report of P. A. C. (Third Lok Sabha).

7. They would also like to express thanks to the officers of the Ministries of Commerce, Works, Housing & Supply (Department of Supply), Defence and Central Bureau of Investigation for the co-operation extended by them in giving information to the Committee.

NEW DELHI:  
5th August, 1967.

14th Shrawana, 1889 (S).

M. R. MASANI,  
Chairman,  
Public Accounts Committee.

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

## CHAPTER I

### (i) GENERAL

1.1. The 64th Report of the Public Accounts Committee (Third Lok Sabha) regarding 'Purchase of Defective Tyres' was presented to the Lok Sabha on 30th November, 1966.

1.2. In accordance with the recommendations made by the Public Accounts Committee in April, 1963, in their 12th Report (Third Lok Sabha) and reiterated in April, 1966, in their 52nd Report, Government should have furnished notes/statements pursuant to these recommendations within three months of the date of presentation of the Report to the House. In this particular case the action taken on the recommendations contained in the 64th Report of Public Accounts Committee (Third Lok Sabha) should have been intimated by February, 1967.

1.3. During the course of supplementaries on Starred Question Nos. 58 and 73 on 'Purchase of Tyres' which were answered by the Minister of Defence on 27th March, 1967, when a suggestion was made that the new Public Accounts Committee should go into the matter the Speaker observed:

"It is an important question. But one cannot elicit the whole information. I realise it is an important question and therefore, the Public Accounts Committee could naturally go into it and give more details about it."

1.4. Soon after the Public Accounts Committee was constituted, the Ministry of Defence and other Ministries were requested to furnish urgently statements showing action taken by Government on their 64th Report. The Ministry of Defence were also asked to furnish information on certain points arising out of the replies given to the afore-mentioned questions in the House.

1.5. On 18th April, 1967, Government constituted an 'Inter-Departmental Committee' with the following terms of reference:

- (a) To fix responsibilities for the various lapses revealed in this case on the part of the officers in all the three Ministries and suggest remedial measures;
- (b) To take steps to assess the losses suffered by the various offices—Defence, Transport Undertakings etc., due to the purchase of these defective tyres and secure adequate compensation from the firms; and

- (c) To suggest a reply to the various recommendations/observations of the Public Accounts Committee detailed in Appendix XIV to the Report."

1.6. The Ministry of Defence stated in a communication dated 26th April, 1967, to the Committee that the Report of the Inter-Departmental Committee would be submitted by the end of June, 1967. In the circumstances, the Public Accounts Committee agreed that the examination of the subject may be deferred till the receipt of the report of the Inter-Departmental Committee together with the Government's decision thereon. The matter was also raised in the House by way of Half-an-Hour discussion on 26th May, 1967.

1.7. The Inter-Departmental Committee submitted their report (Appendix I) to Government on 3rd July, 1967, and a copy was furnished to the Public Accounts Committee on the 5th July, 1967.

1.8. Notes/Statements showing action taken on the recommendations contained in the 64th Report of the Public Accounts Committee (Third Lok Sabha) regarding 'Purchase of Defective Tyres' received from Government have been appended to this Report (Appendix II).

1.9. The Committee regret to note that no reply was received from Government by the end of February, 1967, i.e. within three months of the date of the presentation of the 64th Report of the Public Accounts Committee (Third Lok Sabha). The Committee are unable to appreciate why Government waited till 18th April, 1967, to constitute an Inter-Departmental Committee to consider the various recommendations/observations made by the Public Accounts Committee in their 64th Report (Third Lok Sabha).

1.10. The Committee are also constrained to point out that Government did not take prompt notice of the recommendations of the Committee in as much as the Officer Commanding, Malad, against whom the Committee had passed strong strictures and recommended investigation, was allowed to retire prematurely from service on 16th December, 1966, i.e. two weeks after the presentation of the Report of the Committee on 30th November, 1966.

1.11. The Committee have dealt with this matter at greater length in paras 1.156 to 1.158 of this Report, but here they would like to emphasise that Government should take prompt and due notice of the recommendations made in their Reports so that any necessary investigation or inquiry or any remedial measures can be initiated without loss of time.

(ii) **MINISTRY OF COMMERCE/ STATE TRADING CORPORATION****Decision to Import Tyres**

1.12. Commenting upon the decision of the Ministry of Commerce to import tyres, the Public Accounts Committee (1966-67) had in their 64th Report observed *inter-alia*:

“Initially, the estimate of the Ministry of Commerce and Industry about the number of tyres required to meet the shortage and crush the black market in the country was far in excess of the actual needs. It seems that the expected results of the various action taken by the Ministry, such as increase by 20 per cent of the import quota of licences for the import of tyres; requests to the indigenous manufacturers to maximise production and issue of industrial licences for expansion of existing producing units of tyres and of setting up new units in various parts of the country, were not taken full cognizance of before arriving at the large figure of 2,20,000 tyres considered necessary for import during 1960 and 1961. Moreover, the Committee understand that an officer of the Development Wing of the Ministry of Commerce and Industry had suggested in a note dated 21st July, 1959, that the State Trading Corporation would find difficult to dispose of these tyres, as indigenous manufacturers were likely to step up their production as soon as they came to know about the imports.”  
(Para 5.1 (i) of 64th Report)

1.13. “The Committee feel that the assessment of the requirements of the imported tyres to attain the objective was wide of the mark, specially in view of the facts that (i) out of the total assessment of 2,20,000 sets of tyres, only 1,14,715 tyres actually had been imported; and (ii) out of these imported tyres, about 20,000 tyres had to be re-exported and despite all this, there was difficulty in the disposal of these tyres to such an extent that all sorts of concessions had to be given to the firms and assistance given to them in disposing of these tyres.”  
(Para 1.28 of 64th Report)

1.14. The Committee had concluded that; “the decision to import the tyres in such large numbers, costing such a heavy amount of foreign exchange, was rather hasty and not based on full examination of different aspects of the problem.”  
(Para 1.29 of 64th Report)

1.15. The Inter-Departmental Committee appointed by the Government have suggested the following reply in para I(i)—Annexure II of their Report which has been accepted by the Ministry of Commerce:

“After the decision was taken to import 1,00,000 giant tyres of different sizes on 20.7.1959, orders were placed from time to time

according to the ~~orders~~ received. A review was made in April, 1960, by which time the State Trading Corporation had made arrangements to import 38,765 tyres. It was estimated that there would be a shortage of giant tyres to the extent of 60,000 numbers during 1960. Therefore, it was decided to place further orders to meet the shortage during 1960 to the extent of a further 25,000 tyres. Against these, orders were placed to the extent of 59,861 tyres (including the 38,765 tyres referred to earlier) upto 31-8-1960. The position was further reviewed in December 1960, when, on the basis of the expected production of indigenous tyres, a shortage of 1,23,000 numbers was estimated for 1961. This deficiency was arrived at after taking into account all the favourable factors referred to in para 1.29 of the PAC's Report. The Ministry of Commerce and Industry was in fact in close touch with the production programmes of the indigenous tyre manufacturers and were receiving half-yearly returns of their production figures. In fact, against the estimated production of 10,84,000 giant tyres in 1961, the actual production amounted to only 9,89,470. Compared to the estimated requirements of 12,07,000 tyres for 1961, the estimated deficiency of 1,23,000 tyres erred on the safe side. It was, therefore, decided in December, 1960 to place orders to the extent of 1,20,000 tyres to meet the deficiency during 1961. No difficulty was experienced in the disposal of the 59,861 tyres ordered upto 31.8.1960 against the shortage during 1960. However, the difficulties that were experienced in the disposal of 73,680 numbers ordered subsequently against the requirement of 1961 probably were as follows:—

- (a) possible adverse propaganda carried out by the Indian manufacturers.
- (b) a feeling on the part of potential purchasers that the imported tyres may not be as good as indigenous tyres, reluctance on their part to go in for imported tyres and their preference to wait for sometime to purchase indigenous tyres when available."

"The linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not, therefore, justifiable."

1.16. The Committee note that, against the directive dated 20th July, 1959, by the Ministry of Commerce to the State Trading Corporation to import 1,00,000 giant tyres, the actual imports permitted were for 60,000 tyres

out of which 59,861 tyres were ordered upto 31st August, 1960, and that difficulties were not experienced in their disposal.

1.17. The Inter-Departmental Committee have conceded in their Report that difficulties were experienced in the disposal of 73,680 tyres which were allowed to be imported by the nominees of State Trading Corporation in 1961. It will be recalled that these 73,680 tyres were imported in terms of a specific directive issued by the Ministry of Commerce to the State Trading Corporation on 5th December, 1960. This letter of the Ministry was issued in pursuance of a note recorded by the then Minister of Industries on 14.10.60 to the following effect:

"In pursuance of the decision taken at the tyre meeting today the State Trading Corporation may be directed to arrange for the import of one lakh giant tyres (complete with tubes and flaps) from the rupee payment countries and on barter basis. The supply should be completed by the end of September, 1961 at the latest."

1.18. The directive issued by the Ministry of Commerce to the State Trading Corporation on the 5th December, 1960, for import of 1,20,000 tyres stated *inter-alia*:

"During 1961, the production of giant tyres would be approximately 10,84,000 numbers, an increase of 1,50,000 numbers over the 1960 production. The increased tempo of retreading activity would be maintained and a larger percentage of worn out tyres would be brought back into service after retreading. The existing capacity for the manufacture of tyres is being fully utilised and adequate additional capacity has already been licensed. In spite of these favourable factors, it is estimated that there would be a shortage of giant tyres in the country to the extent of 1,20,000 numbers during the calendar year 1961. As in the case of this year, it would be essential to make arrangement for the import of at least 1,20,000 numbers of giant tyres through the State Trading Corporation. Adequate provision has to be made for the import of tyres in our trade agreement with the East European countries. Since the shortage would be most acutely felt during summer months when the demand for tyres is at its height, it is necessary to make immediate arrangements for imports so that the imports commence reaching India by March, 1961. The bulk of the supply should reach India before the end of June 1961. The State Trading Corporation would arrange distribution of imported tyres through

the tyre manufacturers in accordance with the general arrangements arrived at in a meeting attended by representatives of the tyres companies, the State Trading Corporation, Ministry of Commerce and Industries and Development Wing and presided over by Minister of Industry on 14-10-1960."

1.19. During evidence, the representative of the Ministry of Commerce was asked how the Ministry had come to the conclusion that there would be a gap between the estimated requirements and estimated production to warrant the import of 1,20,000 giant tyres in 1961 by the State Trading Corporation. The representative of the Ministry stated that:

"For assessing the demand for 1961, the D.G.T.D., then known as Development Wing, had been asked to go into indigenous production, capacity installed and also the actual level of production which has been reached by the indigenous units. They had taken into account the requirements of existing vehicles, their replacement requirements, a small quantity which had to be kept in reserve, and after taking all this into account, they estimated the total demand of tyres as 12 lakhs and estimated the total production in the country as 10.84 lakhs. Thus they came to the conclusion that there was a gap of about 123,000 to be filled by imports. A detailed exercise had been made by the Development Wing taking into account not merely the capacity but also the level of production reached by the different units and they came to the conclusion that 1,20,000 units had to be imported to meet the demand."

1.20. The Committee then drew attention to the following note recorded by the Development Officer, Rubber and Chemicals, of the Development Wing on 21st July, 1959 which *inter-alia* stated:

"There is reason to believe that the supply position of giant tyres would become satisfactory soon due to the following reasons:

- (1) The current shortage of giant tyres is of a marginal nature and the increased indigenous production due to the implementation by M/s. Firestone of their substantial expansion scheme and going into production of M/s. Dunlop's factory at Ambattur would soon be more than adequate to meet the indigenous demand.
- (2) The peak period (April—June) for the demand of giant tyres is over and with the on-set of rains in the country the demand has very considerably decreased.
- (3) Arrangements have already been made to augment our indigenous production by imports Public Notice No. 48-

ITC(PN)/59, dated 18th May, 1959 with regard to the issue of supplementary licences refers.

- (4) Permission to import 4,800 giant tyres is being issued to M/s. CEAT Tyres of India Ltd., Bombay on the basis of their being able to obtain tyres from their parent company on a loan to be returned in kind within two years after their production in India is established."

"If the State Trading Corporation decides to import the tyres, difficulties might arise for disposing of the tyres and there is also the likelihood of the State Trading Corporation incurring losses due to the following reasons:

- (1) Even if the State Trading Corporation moves in the matter immediately, it would take at least 3 months for the imports to materialise and by then the indigenous production would be adequate to meet the internal demands.
- (2) The cost of imported tyres is generally higher than the price of the corresponding indigenous tyre.
- (3) There is a consumer preference for giant tyres manufactured in India (During 1956-57, when the tyre companies were permitted to import a large quantity of giant tyres, they experienced difficulty in selling the imported tyres due to the consumer preference for indigenous tyres which give better service as they are built to meet local conditions)."

1.21. The representative of the Ministry of Commerce stated:

"I must admit that when the Ministry made the assessment of the demand in 1959, they did not consult the Development Wing to make a complete assessment of demand and supply. In 1959 when the Ministry took the decision to allow imports upto 1,00,000 units it was more or less an *ad hoc* decision based upon the assessment which the Ministry could make, based upon again the complaints that had been received in the Ministry, but it was very important to mention on fact. When the Ministry decided to allow imports upto 1,00,000 units it was not the intention that 1,00,000 units should be imported. Each time the State Trading Corporation was asked to place an order for import in small lots of 4750 and like that and the Ministry went into the question of actual demand and allowed them to import only after it had been carefully gone into by the Ministry. Some time in the beginning of 1960, the Development Wing was asked to assess the total demand in the country. At that

time the Development Wing expressed the view that the number of units to be imported would be 60,000. When they said that, the State Trading Corporation had already imported 38,000 and the balance to be imported according to the assessment made by the Development Wing was about 22,000 units. Therefore, in 1960 the view of the Development Wing was that there was a gap of 60,000 to be covered; 38,000 had already been imported and the balance of 22,000 was to be imported. That is why the additional 20,000 units were imported. So in April 1960 the total demand was assessed at 60,000 and the imports had been made to that extent."

1.22. The attention of the representative of the Ministry of Commerce was drawn to this specific directive issued to the State Trading Corporation in December, 1960, "to make arrangement for the import of at least 1,20,000 nos. of giant tyres" and he was asked whether it would not be correct to say that the responsibility of the Ministry was very clear in as much as they gave the directive and approved its implementation throughout. The representative of the Ministry replied in the affirmative. Asked how this was compatible with the autonomous status of the State Trading Corporation, the Secretary, Ministry of Commerce, stated:—

1.23. "The State Trading Corporation is an autonomous body in regard to the trade which it carries out on its own commercial judgement. But when the State Trading Corporation is used by the Ministry as an instrument of its policy either for the promotion of exports or for bringing about a balance between supply and demand then the objectives for the State Trading Corporation's working are set by the Ministry. In this particular case what happened is, as the Joint Secretary has explained, after making an assessment of the gap and after taking the view that unless the imports are effected the users will suffer a great deal of difficulty and there would be a price rise, a judgment was made that, instead of permitting the imports through established importers, because it was only a temporary situation, and if one wished to influence the market *ad hoc* inside the country the best instrument for filling in the gap would be the State Trading Corporation. But because we could not be absolutely sure, we did convey the directive to them: our judgment is that there will be a demand of 1,00,000 units; please arrange its importation; but each time you place an order make a reference to the Ministry so as to give the Ministry an opportunity to take a second view of the development in the market situation."

1.24. Asked whether it would not have been more consistent with the autonomous status of the State Trading Corporation if attention of

the State Trading Corporation had been drawn to the shortage and they had been asked to arrange for import on the basis of their own commercial judgment, the Secretary of the Ministry of Commerce stated:

"If I may be permitted to say this would have been inconsistent with the Government's then policy and the present policy that the State Trading Corporation is a registered and private enterprise and it cannot be given preferential treatment against other enterprises. If importation is to be canalised through the State Trading Corporation only then a limited authority in relation to that field is given to the State Trading Corporation. We cannot transfer the responsibility for judgment to them."

1.25. The Committee desired to know how the Ministry of Commerce had directed that the import of giant tyres in 1961 should be 1,20,000 when, according to their own admission, the actual imports allowed in 1960 were only 58,000. The Committee further desired to know whether the Government had tried to find out the number of vehicles which were expected to be added to the existing fleet in 1961 which would warrant the import being doubled from 1960 to 1961. The representative of the Ministry promised to furnish a note indicating the basis for assessing the import requirements. The note received from the Ministry is reproduced as Appendix III.

1.26. The representative of the Ministry of Commerce was asked about measures taken or proposed to be taken by Government in the light of this experience, to ensure that they do not direct State Trading Corporation to import goods or commodities without making sure of the gap between the requirements and the estimated indigenous production. The Secretary, Ministry of Commerce, stated:

"We have learnt the lesson that the demand should be even more carefully estimated than it was estimated at that time."

1.27. Asked about improved procedures for the assessment of the demand and production, he amplified:

"The only institutional change which has been made is that the Directorate General of Technical Development which used to be within the administrative control of the then Ministry of Commerce and Industry is now independent of the Ministry of Commerce. I do not know whether it would have a bearing on more correct or less correct estimation of demand and production. I leave it to others to judge."

"The second factor, if I may add is that in certain cases where the trouble could be of a more persisting nature, now we have independent organisation like the National Council of Applied Economic Research. They have, in cases where references have been made to them, to estimate the demand as best as they can."

1.28. Asked whether it was a fact that the tyre manufacturers who, according to the Ministry's directive were originally to act as agents for distribution of imported tyres showed little enthusiasm for undertaking the distribution of imported tyres, the representative of the Ministry of Commerce stated:

"The Ministry was all the time very clear in its conviction that there was a gap of about 1,20,000 tyres to be covered. When the Ministry decided to allow imports of such large quantity they thought that it would be better to bring in the manufacturers also for this purpose. But the manufacturer's reluctance did not shake the Ministry from its conviction that the import was necessary to meet the demand. They might have had various other reasons for not wishing to take up this responsibility. The Ministry was convinced of the need for importation of these tyres and therefore asked the State Trading Corporation to do the same "

1.29. He added:

"What happened later on had not disproved the Ministry's original assessment about the demand and supply gap. There are occasional shortfalls in production. That could have been possible under any circumstances. I am only placing the facts that when the demand was assessed they had estimated indigenous production as 10.84 lakhs and it turned out to be only 9.89 lakhs. On that basis the gap was much wider than 1,20,000 "

1.30. The Committee asked as to what was the estimated and actual production of indigenous tyres of sizes 825x20 and 725x20 in 1960 and 1961 and what were the estimated requirements of tyres in these years. The Committee have been informed in a written note as under:—

"The production of giant tyres of all sizes during 1960 and 1961 was as follows:—

1960	.....	9,45,862 Nos.*
1961	.....	9,89,470 Nos.

Although the break up of these figures in different sizes and ply-rating of the tyres are not available, it may be stated that the bulk of the production was in sizes 7.50-20, 8.25-20 and

\* The Ministry of Commerce have now clarified that the actual production of tyres in 1960 was 9,45,862 and that the figure of 6,11,406 tyres indicated in the note of Department of Supply dated 3-9-1966 (page 74 of 66th Report of Public Accounts Committee) really pertained to the period January-August, 1960.

9.00-20. No estimates regarding the production of giant tyres for each size were also made.

1.31. The Development Wing did not specifically make estimates regarding the requirements of tyres in sizes of 8.25-20 and 7.50-20. However, extracts from a note prepared by an officer of the Directorate General, Technical Development, estimating the net requirements for import of giant size tyres in the year 1960 and 1961 are attached. (Appendix III)".

1.32. The Committee do not accept the suggestion of the Inter-Departmental Committee "that the linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not therefore justifiable." They feel that if the requirements had been correctly assessed the gap between the demand and the supply would have been found to be far narrower. In fact, it would have been found that there was no justification for the Ministry of Commerce to direct the State Trading Corporation to import giant tyres, to the tune of 1,20,000 in 1961.

1.33. It is not clear to the Committee why the State Trading Corporation were not asked to import tyres based on their own commercial judgment of the country's requirements. The Committee were given to understand in evidence by the representative of the Ministry of Commerce that the State Trading Corporation were allowed to import tyres in small lots of 4,750 or so. They find, however, that orders for the import of 40,000 tyres by M/s. Ramkrishan Kulwant Rai were allowed to be placed in February, 1961, while orders for the import of another 15,500 tyres were allowed to be placed by M. s. GISSCO during March, 1961. This does not indicate that orders for only a small lot of tyres were allowed to be placed each time and that the need for the import was also examined at each stage in detail by the Ministry.

1.34. It has already been mentioned by the Committee in their 64th Report (Para 1.30) that the State Trading Corporation in their letter dated 13th October, 1961, had told M/s. Ramkrishan Kulwant Rai "to defer further shipments till such time, as the existing stocks are liquidated", as the firm already had large stock of tyres on hand, but Shri Kulwant Rai, "however, assured our Divisional Manager that you have no difficulty in the sale of tyres and that the licence may be released." It is regrettable that even at that stage timely action was not taken to stop further shipment of tyres.

1.35. The Committee cannot but reiterate the observations made by them earlier in paras 1.28 to 1.30 and 5.1 of their 64th Report that the decision to import the tyres in such large numbers from 'rupee payment' countries was not taken after a thorough examination of all aspects of the problem. One of the contributory factors, as pointed out by the Inter-

Departmental Committee, was the feeling on the part of the potential purchasers that the imported tyres may not be as good as the indigenous tyres. The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the State Trading Corporation from 'rupee payment' countries or elsewhere are really necessary and that they are competitive both in price and quality.

1.36. As assured by the Secretary, Ministry of Commerce, in evidence, the Committee hope that the Ministry will be more careful while assessing the requirements of different commodities, their indigenous production and the need for import in future.

1.37. The Committee feel that the demand was grossly over-estimated with the result that a large number of tyres were imported which were not required and that this was, part from their defective quality, one of the reasons for the subsequent difficulty in the disposal of the tyres.

#### Profit Made by S. T. C.

1.38. The Committee in para 5.2 of their 64th Report had noted with regret the attitude as disclosed by the STC in their note submitted to the Committee wherein they have stated that on the entire tyre transaction, the STC earned profit without investing a single rupee. The Committee are not impressed with the fact that a huge profit was made by the STC as they feel that under the circumstances—scarcity conditions and the power and the patronage that STC enjoys, it was not difficult to earn such profits.

1.39. The earning of huge profit by STC under these circumstances is but a poor compensation for the damage which this transaction has caused.

1.40. The Committee desired the State Trading Corporation to "furnish a statement showing the break-up of the price charged from consumers by the S.T.C. distributors for different sizes of imported tyres? Information may be given distributor-wise, and if possible, the number of tyres sold by each distributor at the price indicated may be shown."

1.41. The reply received from the State Trading Corporation is reproduced below:—

"The sale price of the imported tyres were initially fixed at the same levels as the list prices of indigenous tyres in similar sizes. The list prices for different sizes at which the tyres were being sold up to 6th February, 1962 (when STC removed restriction on the prices so as to facilitate the sale of imported tyres) are given in Appendix IV. These list prices were uniformly applicable to the tyres of the same size and ply-rating imported from different countries."

1.42. "As regards the prices charged by the distributors after the removal of the restriction, it may be stated that they sold these tyres away at such prices as these could fetch not exceeding the list prices of indigenous tyres in corresponding sizes. This information in respect of numberless transactions that the various distributors may have entered into to dispose of their stocks will have to be collected specially and this cannot be accomplished within the short time that is available."

1.43. "It may be mentioned here that on the list prices indicated in Appendix IV the importing firms were permitted from time to time to offer discounts to Govt. Departments, large fleet owners, transport undertakings and to other actual users."

1.44. The State Trading Corporation have also furnished two statements showing the price of tyres, tubes and Slaps of sizes 7.50 x 20 and 8.25 x 20 imported by M. S. Ramkrishan Kulwant Rai from Hungary (Appendix IV).

1.45. The Committee note from these statements that there was a difference of about Rs. 100 in the landed price of a set of one imported tyre\*, tube and flap inferior in quality to the indigenous type etc. and the list prices which were permitted to be charged by the STC till 6th February, 1962. "It would have been better if the sale price fixed by the S.T.C., with a margin in their favour, had been fixed in consultation with Government so that it could have been considered whether it was wise to allow such a margin for a public sector undertaking without adequately allowing for the interest of the consumer." The Committee cannot help concluding that it was this lure of making easy profits at the expense of the consumer which tempted the STC and the private parties to continue to import tyres in such large numbers and to fail to disclose their lower specifications and defects to the users including defence. The Committee consider that a Governmental undertaking like the State Trading Corporation should pay greater attention to the interests of the consumers for whose benefit it has been set up.

*Quality of imported tyres.*

1.46. The Committee, in paras 2.36, 2.37, 3.30 and 5.1(2) of their 64th Report, had dealt with the question of the quality of imported tyres. They had observed *inter-alia*: "The State Trading Corporation had shown a lack of appreciation of the essential requirements of this case, such as ascertaining the quality, specifications etc. in the beginning before they allowed these imports of tyres." (Para 5.1(2) of 64th Report) "It is indeed surprising to note that the State Trading Corporation did not verify that the tyres imported were of the best quality and material. The Committee feel that there was a failure on the part of the State Trading Corporation to verify whether the obligations under the contract which did contain a clause about the quality of the tyres, had been fulfilled or not. The Committee consider this to be a serious lapse on the part of the State Trading Corporation".

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\*Sizes 750 x 20 and 825 x 2.

(para 2.36 of 64th Report). "The Committee do not also understand why the idea of having a quality control or quality check of the imported tyres which the State Trading Corporation had in 1959, was not pursued. In the absence of this quality control, the Committee find it rather difficult to assess the extent to which the quality of the tyres supplied was unsatisfactory due to the specifications given to the foreign suppliers being not as per requirements in the country and/or due to the actual supplies being below the specifications provided in the contract with the foreign suppliers." (Para 2.37 of 64th Report.

1.47. The Committee asked how the specifications for the import of tyres were drawn up by the State Trading Corporation and whether the approval of the Government was taken about these specifications. The State Trading Corporation have stated in a written note: "On receipt of the Government's directive dated 20.7.1959 for arranging imports of 1,00,000 sets of tyres, the State Trading Corporation invited offers from various East European countries for the different sizes of the tyres that were required. On receipt of offers from China and Czechoslovakia, technical data along with literature in respect of tyres available from these countries was forwarded by the State Trading Corporation to the Development Wing requesting them to examine the same from the point of view of dimensions, pressure, load etc. *vis-a-vis* the Indian tyres and send their views to the Corporation. The Development Wing, however, returned the literature stating that in so far as import and sale of consumer goods by the State Trading Corporation were concerned, the State Trading Corporation was to handle the matter without reference to the Development Wing. Keeping in view that the specifications were provided by Government owned companies who could not, without causing delays, be prevailed upon to modify the specifications, the State Trading Corporation adopted specifications given by them."

1.48. The Committee further asked whether these specifications varied for the same size from country to country and from time to time in respect of (a) weight load to be borne by tyres (b) weight of the tyres (c) number of plies (d) heavy duty structure (e) size of the rim and (f) tropicalisation.

1.49. The State Trading Corporation have stated in their reply: "The specifications of the tyres imported from different countries from time to time did vary for the similar size. A comparative statement giving information as to the specifications to the extent available of the tyres imported from various countries is attached (Appendix V)."

1.50. The Committee asked for the reasons for variation and how they compared with the specifications for corresponding tyres manufactured within the country.

1.51. The State Trading Corporation have stated in their reply: "The imported tyres were according to certain specifications adopted and manufactured in the East European Countries and were somewhat different from the specifications of the indigenous tyres. The imported tyres could not compare in specifications as well as performance strictly with those manufactured in the country on account of the fact that indigenous manufacturers take into account Indian road conditions, provide adequate safety margins. The tyres made in different countries were of different specifications. In East European Countries from where State Trading Corporation arranged the import, these tyres are used all over for the same purpose for which they were used in India after import. It may also be mentioned here that the weight of imported tyres in certain consignments might have been somewhat lower than what was initially stipulated, but the weight of tyres is not necessarily a measure of strength of the tyres and it is, under certain conditions, likely that a tyre of lighter weight may give a better performance as compared to a heavier tyre. A comparative statement showing the detailed specifications of the tyres imported from various countries *vis-a-vis* specifications of Indian tyres in similar sizes is attached herewith (Appendix V)."

1.52. The Committee find from the comparative statement of specifications of imported giant tyres as compared to indigenous tyres that the imported tyres were inferior in specifications *e.g.* thickness of tread, depth of tread, maximum load and pressure than the indigenous tyres.

1.53. Apart from these shortcomings in the specifications, the Committee find that there were several communications from M/s. Ram Krishan Kulwant Rai and GISSCO about the defects noticed in the quality of imported tyres as compared with the specifications laid down in the agreements. These shortcomings are discussed in the following paragraphs:

(i) *Weight of the tyres*

1.54. Messrs Ram Krishan Kulwant Rai in a letter dated 5.3.1962 to Messers Chemlimpex, Budapest, with a copy to the State Trading Corporation reported: "The weight of the bigger tyre (825X20) is only 33.80 kilograms as against 41 kilograms prescribed by the specification and weight of the smaller tyre (750X20) is 27.50 kilograms as against 29 kilograms prescribed."

(ii) *Number of Plies*

1.55 Messrs GISSCO complained in a letter dated 27.11.1961 to the Secretary, Ministry of Commerce and Industry that "In the 825—20 size.

tyres the marking in fact in several cases is that the tyres are only of 10 ply, though 12 ply tyres were required to be supplied. In some cases the ply markings are not existent. In still others, the marking of the 12 ply is crudely overstamped on the marking 10 ply so that both markings are visible."

Messrs Ram Krishan Kulwant Rai in their letter dated 5.3.1962 to Messrs Chemlimpex, Budapest, with an endorsement to the State Trading Corporation had stated *inter alia*:

"... Sometime after the sale had commenced complaints started pouring in and on looking into the matter we discovered that the tyres are not of 12 ply, nor are the small tyres of 10 ply."

#### (iii) Heavy Duty Structure

1.56. Messrs GISSCO in a letter dated 14.10.1961 to the State Trading Corporation stated *inter-alia* that "Moreover, the tyres which have been imported are not of the heavy duty structure. These have called for various adverse criticisms of the users and dealers."

#### (iv) Size of the Rim

1.51. Messrs GISSCO in a letter dated 13.11.1961 to Joint Secretary, Ministry of Commerce and Industry stated *inter-alia* "The size of the tyres is also smaller and the rim also is 5 instead of 6."

#### (v) Tropicalisation

1.58. Messrs GISSCO in a letter dated 27.11.1961 addressed to Joint Secretary, Ministry of Commerce & Industry pointed out *inter alia* "The tyres are not tropicalised though tyres meant to be used in the Indian conditions were required to be supplied".

1.59. Messrs Ram Krishan Kulwant Rai in a letter dated 5.3.1962 to Chemlimpex, Budapest, with a copy to State Trading Corporation had stated *inter alia* that "there is some defect in the composition of the rubber in the tyres also."

1.60. It would be pertinent to state here even the views of Messrs GISSCO and Ram Krishan Kulwant Rai regarding the quality of imported tyres.

"Since the percentage of tyre failures is so much, it is clear that the entire stock of tyres imported is of inferior quality."

(Extract from Messrs GISSCO's letter dated 13.11.1961 to the Joint Secretary, Ministry of Commerce and Industry with endorsement to State Trading Corporation).

"They (imported tyres) were entirely unsuitable for use in vehicles in this country."

(Extract from Messers Ram Krishan Kulwant Rai's letter dated 17.5. 1962 to State Trading Corporation).

1.61. The Committee understand that the Divisional Manager (Engineering) had recorded a note dated 4th January, 1961, regarding the inferior quality of the imported tyres. The note *inter-alia* stated: "The Hungarian and Polish tyres do not meet the requirements both with regard to load and inflation pressure compared to indigenous tyres. The specifications complied by both these countries fall short by 12 per cent and 15 per cent. On my request Deputy Divisional Manager (General) has ascertained from the All India Motor Union Congress, New Delhi, that there is 25 per cent margin of safety in the Indian tyres. Regarding that the Hungarian and Polish tyres also have the same safety margin we may agree to purchase them."

1.62. The Committee are unable to appreciate how the how the State Trading Corporation, realising fully that the known specifications of the tyres from East European countries were 12% to 15% short of Indian specifications considered themselves justified in placing orders for their purchase in such large numbers from these countries. Prudence required that the State Trading Corporation should have brought these short-comings specifically to the notice of the Government so that they could review, in the light thereof, their fiat for the import of tyres in such large numbers from the East European countries and consider whether it would not have been in the national interest to make the imports found necessary from other parts of the world. In any case, the Committee cannot see any justification for not importing the untried tyres in smaller lots to test the market and users reactions before spending the country's scarce resources in importing these inferior tyres in such large numbers.

1.63. The Committee agree with the observations of the Inter-Departmental Committee that "the State Trading Corporation took no steps whatsoever to have the quality and the specifications checked up with reference to the contracts made by them even after the receipt of the complaints from the importers themselves."

1.64. The Committee would like Government to fix responsibility for the failure to exercise any check on the imported tyres and to make sure that they were in accordance with the quality and specifications laid down in the agreement and for which money was being paid to a foreign party. They would also like Government to make sure that the firms have not obtained compensation from the foreign manufacturers on the ground of the lower quality of imported goods as compared with specifications,

without disclosing it to the State Trading Corporation. It seems that M/s. Ramkrishan Kulkarni had obtained compensation amounting to Rs. 6.19 lakhs from the foreign suppliers. In case they have obtained any such compensation, the Committee would like this aspect to be kept in view while framing claims for recovery against all the firms concerned.

*Failure of State Trading Corporation to inform users about lower specifications of imported tyres.*

1.65. As regards the responsibility of the State Trading Corporation to inform the users about the lower specifications of the imported tyres, the Committee find that the Divisional Manager (Eng. Div.) had recorded in a note as early as 2-9-1959 to the effect: "This means that we shall have to tell our prospective buyers the specifications, pressure etc. in different sizes and ply. We can do it now."

1.66. The Deputy Divisional Manager (Engineering Division) recorded the following note on the subject on 23-12-1960:

"There is a real danger in accepting the Hungarian, USSR and Polish tyres in as much as there may be premature failure of these tyres not on account of any manufacturing defect or careless usage, but, merely on account of the fact that operators may use the inflated pressure and maximum load recommended by indigenous manufacturers as we do not inform the operators that the manufacturers' recommendations for these tyres for lesser weight and lesser pressure. Besides, we would be charging the same price for Hungarian, Russian and Polish tyres as for the other Makes i.e. the list price of indigenously manufactured tyres."

1.67. The Inter-Departmental Committee have concluded in their report: "The State Trading Corporation were thus not only aware that the specifications i.e. maximum load carrying capacity and pressure of the imported tyres were lower but also of the consequences of not making these details known to the users. The prospective buyers were not informed about the maximum load carrying capacity or pressure for the various sizes offered for sale through the Indian firms. If, therefore, the State Trading Corporation had only carried out their own decision to inform the prospective buyers, all the difficulties which ensued later would have probably been avoided. We, therefore, recommend that the State Trading Corporation should fix responsibility for this lapse."

1.68. The Ministry of Commerce while accepting the recommendations of the Inter Departmental Committee have informed the Public Accounts:

**Committee:** "when the tyres were imported under the State Trading Corporation's arrangements it was intended to inform the prospective buyers about the specifications, pressure, etc., in different sizes and ply. Unfortunately; this was not done. The State Trading Corporation has been asked to take action for fixing responsibility on the officials responsible for the lapse pointed out by the Committee and send a report, on it to this Ministry."

1.69. The Committee cannot appreciate why the State Trading Corporation a public undertaking, knowing fully well the lower specifications of the imported tyres and their consequences to users chose to maintain complete silence about even such vital factors as maximum load carrying capacity and pressure of the imported tyres, which had a vital bearing on safety.

1.70. In particular, the Committee deprecate the attitude of the State Trading Corporation in not communicating vital information regarding specification, quality and performance expectations of the imported tyres to the Director General, Supplies & Disposals specially when it was known that these tyres were being procured for the use of Defence Forces.

1.71. The State Trading Corporation's attitude to the user seems unfortunately to be based on the Roman Legal Maxim—"caveat emptor" ('let the buyer beware!')

1.72. The Committee would like to be informed of the result of action initiated by the Ministry of Commerce for fixing responsibility on the officials responsible for this serious lapse.

#### **Appointment of Indian Agents by Foreign Suppliers**

1.73. In paras 2.18 to 2.24 of their 64th Report, the Public Accounts Committee had commented on the appointment of Indian firms as agents of foreign suppliers. The Committee had pointed out that "It is surprising that before contacting State Trading Corporation the firm M/s Ramkrishan Kulwant Rai had already entered into a contract with the Hungarian suppliers. This indicates that the firm had not only information about the Hungarian offer dated 14th December, 1960, but were also confident that this deal would be put through them."

(Para 2.22 of 64th Report)

1.74. The Inter-Departmental Committee have discussed at length the appointment of Indian agents by foreign suppliers in paras 2.3 to 2.3.7 of their Report. The Inter-Departmental Committee have concluded. "Even assuming that it was desirable to entrust this work to private parties on account of State Trading Corporation's inexperience in this

field, the method adopted in appointing agents does not appear to be sound. We consider that, before selecting their agents, it would have been appropriate for the State Trading Corporation to have invited public offers so that they would have encouraged some competition in the matter of margins which they ultimately gave to their agents. It might have also been possible for them to secure reliable and experienced dealers to handle this business. We are also not convinced that M/s. Ram Krishan Kulwant Rai's selection by the Hungarians as their agents, which was obviously made after the Hungarian Commercial Counsellor made an offer for the supply of tyres to India, would have been so made if public offers had been invited. It is possible that the Hungarian Commercial Counsellor would have appointed anybody selected by the S.T.C. as their agents and there was nothing special in the appointment of M/s. Ram Krishan Kulwant Rai by the Hungarians as their agents. This would equally apply to the recommendations made by the S.T.C. to the U.S.S.R. authorities for appointing M/s. Khemkas as their agents for the supply of tyres from the U.S.S.R. to India."

1.75. The Committee desired to know whether Shri Ram Kishan Kulwant Rai had approached the State Trading Corporation at any time earlier than 3rd January, 1961, in connection with the import of tyres from Hungary. The reply received from the State Trading Corporation is reproduced below:

"It has been learnt recently from the perusal of the records of the firm available with S.P.E. that they were in correspondence with the Hungarians as early as October, 1960 for the import of tyres. It is a fact that initially when in December, 1960, the Hungarian supplier had made an offer to the State Trading Corporation for the supply of giant tyres, they had not mentioned the name of any Indian firm as their agents. Alongwith letter dated 3rd January, 1961 received from M/s. Ram Krishan Kulwant Rai, the firm had sent a contract which they had entered into with the Hungarian suppliers for the supply of tyres. This contract was in the nature of an authorisation obtained by M/s. Ram Krishan Kulwant Rai to act as agents of M/s. Chemolimpex, Budapest for the supply of 15,000 sets of tyres in sizes 825-20-12 and 750-20-10. The Hungarian Trade Representation in India also wrote a letter dated 12th January, 1961 confirming the conclusion of the contract by the above firm with the Hungarian suppliers and also requested the State Trading Corporation to do the needful in the matter. The Hungarian Trade Representation sent another letter to the State Trading Corporation dated the 17th February, 1961 stating that they had received a cable intimation from M/s. Chemolimpex, Budapest that the Agency

**Agreement in favour of M/s. Ramkrishan Kulwant Rai covering entire territory of India and valid for the year 1961 had been air-mailed to them. The Hungarian Trade Representation further requested the State Trading Corporation in this letter to expedite the formalities for obtaining import licence so that any possible delay in commencing the shipment could be avoided.**

1.76. It would thus be appreciated from the foregoing that M/s. Ramkrishan Kulwant Rai had been corresponding with the State Trading Corporation for the import of giant tyres from Hungary since 3rd January, 1961 in their capacity as Indian agents of the foreign suppliers and in view of this position the State Trading Corporation utilised their services for the import and distribution of Hungarian tyres."

1.77. The Ministry of Commerce have intimated that Government have taken the following decision in pursuance of the recommendations of the Public Accounts Committee and the suggestions of the Inter-Departmental Committee.

"It is clear that greater care in selecting agents and more efficient procedure of selection are called for. State Trading Corporation has been asked to undertake an examination of the principles and practices which are followed with a view to evolving more efficient procedures for securing reliable and experienced dealers to handle similar business in future. It has been asked to submit a report to the Ministry as early as possible."

1.78. "As regards para 2.22 of the Public Accounts Committee's Report, it is admitted that if the State Trading Corporation had followed more efficient procedures, there would have been less room for suspicion."

1.79. The official representatives were asked whether it would not have been possible to secure more experienced parties to act as distributors for the imported tyres. The Chairman of the State Trading Corporation stated: "If we made positive approach to many people we could have got perhaps better parties than Ram Kishan Kulwant Rai." The Secretary, Ministry of Commerce, amplified: "The responsibility for selecting the agent for sale is that of the supplier country. Why they selected A.B.C. or D, it is for them to answer. The responsibility for accepting the suppliers' agent as distributor in India is that of the State Trading Corporation. What all this discussion has brought to light is that in this matter of selection of the agent for distribution, the State Trading Corporation should be more careful and should have examined what would be the best way of achieving the objective. In the case of a new trade where there is no old

established agent, where the supplier is making an offer and he is considering the appointment of an agent, it may be a very unsatisfactory procedure for the State Trading Corporation to follow that in such a case too the suppliers' nominee should be accepted as a matter of course. This is quite clear.

1.80. The Committee are glad that Government have realised that more efficient procedures for securing reliable and experienced dealers to handle import and distribution work on behalf of the State Trading Corporation are called for. The Committee need hardly stress that the State Trading Corporation being a public undertaking, should adopt procedures which would be above all suspicion. The Committee consider that as far as possible, the State Trading Corporation should invite public offers so as to get most experienced and reliable distributors at the least margin of profit for the import and distribution of their goods.

1.81. As regards the appointment of M/s. Ramkrishan Kulwant Rai as agents for the import of tyres from Hungary, the Committee do not desire to comment on it at this stage as it is understood that the matter is under scrutiny by the Central Bureau of Investigation.

#### **Financial Relationship between the State Trading Corporation and the Distributors**

1.82. In paras 2.27, 2.28, 2.29 and 5.1 (3) of their 64th Report, the Public Accounts Committee had commented on the financial relationship between the State Trading Corporation and the distributors. The Committee *inter-alia* pointed out that "before the agreement was concluded, State Trading Corporation had not taken care to see that the agreements with the firms were complete and the terms specific on the various aspects such as responsibility for the import; inspection of the stores at the time of import; conditions for packing; conditions for proper storage and about the warranty to be given by the firms to the actual users. They also failed to consult legal opinion before finalising the agreements to ensure that the clauses relating to the financial and legal responsibilities of State Trading Corporation *vis-a-vis* these firms were un-ambiguous and specific."

[Para 5.1(3) of 64th Report]

1.83. The Committee had also desired that "State Trading Corporation should get an authoritative legal opinion in consultation with Ministry of Law, clearly spelling out the financial responsibility of State Trading Corporation and their distributors in such cases."

(Para 2.29 of 64th Report)

1.84. The Ministry of Commerce, taking note of the recommendations of the Public Accounts Committee and the suggestions of the Inter-

Departmental Committee, have communicated that the following action has been taken by Government:

"It is admitted that the agreements were not drafted in a manner so as to spell out clearly the legal and financial responsibilities of the party. State Trading Corporation has been asked to take adequate legal advice in future in drafting agreements involving financial transactions and to streamline the procedures for legal scrutiny. In special cases, assistance of the Ministry of Law would be obtained by the State Trading Corporation through the Ministry of Commerce."

1.85. The Committee desired to know whether the State Trading Corporation have obtained any authoritative ruling on the relative financial responsibility of the State Trading Corporation *vis-a-vis* agents, particularly M.s. Ramkrishan Kulwant Rai and M.s. GISSCO. The Committee have been informed in a written note that as far as State Trading Corporation's agreement with M.s. Ramkrishan Kulwant Rai relating to import of tyres was concerned, legal opinion\* expressed by an eminent lawyer, was obtained. Regarding future contracts, State Trading Corporation would ensure that in all such transactions, adequate legal advice is obtained in drafting agreements involving financial implications so as to protect the State Trading Corporation against possible claims/losses. If necessary, in such cases a request would also be made to the Ministry of Law through the Ministry of Commerce to obtain their legal advice."

1.86. The Committee find that the Deputy Divisional Manager (Law), State Trading Corporation in his note dated 8th August, 1961, had suggested that it would be in the interest of the S.T.C. to get the opinion of eminent counsel, such as the Solicitor General or the Additional Solicitor General.

1.87. The Committee have been informed by Government that the advice of the Solicitor General or the Additional Solicitor General as suggested therein was not taken in the matter.

1.88. The Committee cannot help concluding that had advice of the Solicitor General/the Additional Solicitor General been taken in 1961, as suggested by the Deputy Divisional Manager (Law) of State Trading Corporation, the uncertainty about the legal and financial responsibility of the State Trading Corporation would have been dispelled. It would also have made the State Trading Corporation realise that it had no particular obligation ~~responsibility~~ to approach Governmental purchasing organisations to facilitate the disposal of imported tyres which were known to be below specifications. The Committee feel that even now the Ministry of

**Commerce should obtain the legal advice of the Solicitor General the Additional Solicitor General about the legal and financial liabilities of the S. T. C. vis-a-vis the private firms to set all doubts at rest.**

*Non-submission of monthly sales return by the Indian firms and payment of double commission to Messrs. Ramkrishan Kulwant Rai.*

1.89. The Public Accounts Committee in their 64th Report had observed:—

“Para 2.43 the Committee feel that M/s. Ramkrishan Kulwant Rai in fact got two commissions, viz., one from the Hungarian firm and the other from State Trading Corporation. The Committee wonder why the State Trading Corporation failed to tell the Hungarian firm when they approached with the offer to supply tyres that they had appointed M/s. Ramkrishan Kulwant Rai as their agents. The State Trading Corporation could then save one commission in which case payment of double commission would perhaps have been avoided.”

1.90. Para 2.47 “The Committee find from the correspondence that the firm M/s. Ramkrishan Kulwant Rai was being reminded since October, 1961, for the sales returns and remittances by the State Trading Corporation but to no avail. It appears to the Committee that this firm has been evading the matter on one plea or the other.”

1.91. Para 2.48 “The Committee regret to note that one of the conditions of the agreement entered into with these parties, viz., furnishing of monthly sales returns duly audited by a Chartered Accountant, was not observed by the two firms, viz., M/s. Ramkrishan Kulwant Rai and M/s. Consolidated Equipment (India) Pvt. Ltd. The Committee feel that firm action was called for on the part of the State Trading Corporation to obtain sales returns from these firms. The Committee would like to know of the action taken against these firms for breach of the contract as they did not furnish monthly sales returns.”

1.92. The Inter-Departmental Committee suggested the following action which has been accepted by Government:—

“No firm action was taken against Messrs. Ramkrishan Kulwant Rai and Messrs. Consolidated Equipment (India) Private Limited as the firms had been promising from time to time that they would be rendering their accounts for inspection. The accounts of Messrs. Consolidated Equipment (India) Private Limited had been inspected by the State Trading Corporation and it was found that they had suffered a loss on the entire transaction. The accounts of Messrs. Ramkrishan Kulwant Rai have also been inspected by the State Trading Corporation and it is found that this firm has also suffered a loss on the entire transaction of tyres.”

1.93. "Apart from an amount of Rs. 4,80,000 received as compensation from the foreign suppliers, *vide* item (a) of para 2.49 of the Public Accounts Committee's Report, M/s. Ramkrishan Kulwant Rai have also received two payments of Rs. 93,120, and Rs. 46,400 from the foreign suppliers. As regards agency commission, the firm did not produce original invoices of the foreign suppliers. They orally disclaimed having received any agency commission on import of tyres. On an inspection of their accounts, however, various amounts totalling to Rs. 10,10,000 were credited to "Commission Account" by transfer from the accounts of various parties. The firm explained that these amounts, although credited to "Commission Accounts", did not actually represent commission received from suppliers. They represented credit balance lying in the accounts of various parties which were not real and these amounts were disclosed by the firm as income and got assessed to income tax under the Income Tax Disclosure Scheme and also that it was only for squaring up their books that the credit balance in the accounts of the parties in question were transferred to "Commission Account". The firm, however, did not produce for inspection any papers in support of these amounts. Further amounts totalling to Rs. 45,652.84 were found credited to "Commission Account" in their books as commission received from Messrs ChemolimpeX, Budapest. The firm explained that this amount was received as commission relating to the consignments of chemicals which were imported by them against the value of 13,000 tyres re-exported. They did not produce for inspection the original bills of the foreign suppliers or any other papers from which it could be verified with any amount of certainty that the commission in question related to import of chemicals and not tyres. It appears that the position in this respect is not free from doubt and the oral statement of the firm should not have been accepted by the S.T.C. on its face value. It would have been advisable to obtain this information in writing from the firm as well as from the Hungarian Embassy before orders were placed so that the landed cost could have been reduced by the agency commission, if any, which the firm received. This lapse is regretted and State Trading Corporation would be more careful, in future, in such cases."

1.94. In the absence of the production of the original invoices of the foreign suppliers by the firm, the Committee feel that the correctness of the agency commission received from the foreign suppliers cannot be verified. The Committee desire that the original invoices of the foreign suppliers should be obtained from the firm and checked with a view to find out the correct amount of commission received by the firm M/s. Ramkrishan Kulwant Rai from the foreign suppliers. Such a check is all the more necessary as according to the contract, the landed cost was to be determined on the basis of the net c.i.f. price, *i.e.*, c.i.f. price after excluding agency commission, if any, paid to the firm by the foreign suppliers.

### **Compensation for Defective Tyres**

1.95. The Committee after mentioning the various complaints received from users in paragraphs 2.50, 3.63, 3.69 of their 64th Report had emphasised that adequate compensation for the defective tyres should be given to the users. They had also stated that "all the defective tyres might not have been reported to the authorities concerned as the public were perhaps not aware of the procedures in this case (para 3.69)." The Committee had concluded that "Government should take immediate steps to assess the loss suffered by the various users, viz., Ministry of Defence, Ministry of Transport, etc. due to the purchase of these defective tyres and to secure adequate compensation from the firm/State Trading Corporation."

(Para 5.4)

1.96. The Inter-Department Committee have indicated in their report that "an amount of Rs. 9,890/- had already been paid by the Consolidated Equipment (India) Private Limited by way of compensation to the buyers of defective tyres." As regards M/s. Ramkrishan Kulwant Rai, although two panel meetings for defective Hugarian tyres were held and compensation awarded, the firm had not paid any compensation to the buyers. This was inspite of the fact that M/s. Ramkrishan Kulwant Rai had received three amounts from the foreign suppliers as compensation i.e. Rs. 4,80,000, Rs. 93,120/- and Rs. 46,400/- Both the Director General Supplies & Disposals and the Director General, Ordnance Factories, have intimated the number of defective tyres to the State Trading Corporation for claiming compensation from M/s. Ramkrishan Kulwant Rai and M/s. GISSCO.

1.97. The Ministry of Commerce have stated in a written reply that "The State Trading Corporation has initiated discussions with M/s. Ram Krishan Kulwant Rai with a view to securing the payment of compensation from them against claims for defective tyres. A report on the result of the discussions will be submitted within a few weeks."

1.98. The Committee were informed during evidence by the Chairman, State Trading Corporation, that "We have again called them (M/s. Ram Krishan Kulwant Rai) and it seems that they would be prepared to respond to these recommendations made by the Inter-Ministerial Committee, viz., that all the claims are collected. They would sit across the table and come to some arrangement. But still they have not confirmed this in writing."

1.99. The Committee desired to know what measures had been taken by the State Trading Corporation to bring to the notice of the general users the procedure for claiming compensation for defective imported tyres. The Chairman, State Trading Corporation, stated during evidence, "We have not put out a general notice because normally all the users are used to this. We did not notify. In fact, we have received claims. A number of cases have been cleared and there may be still a few cases which may be outstanding." Secretary, Ministry of Commerce, however, conceded that "It

is quite clear that the State Trading Corporation has responsibility to the business associate, as also a responsibility to the user. And in this particular case. I would say retrospectively in exercise of their discretion, their responsibility to the business associate weighed more heavily than was the responsibility of the users. In fact, we would have expected from a public sector not to conform to the normal behaviour of the trade in this particular respect and the responsibility of the user should have weighed them a little more than the responsibility of the Associate." The Committee find from para 5.5 of the Inter-Departmental Committee Report that, so far information that for 802 tyres of the value of Rs. 2.32 lakhs are defective has been received by the S.T.C. from the Government indentors and replies from 379 Direct Demanding Officers are still awaited.

1.100. The Committee entirely agree with the views of the Secretary of the Ministry of Commerce that "for a public sector undertaking like the State Trading Corporation the responsibility to the user should have weighed with them a little more than the responsibility of the Associate." The Committee feel that the State Trading Corporation and the Ministry should take necessary action to bring to the notice of all the bulk purchasers, specially those whom they had approached earlier to purchase the imported tyres, the procedure for claiming compensation for defective tyres so that they may file their claims.

1.101. The Committee would also like to draw attention to the specific provision made in the agreement with M/s. Ram Krishan Kulwant Rai to the effect that "the failed tyres will be examined by a panel... and that the decision of the panel will be binding "and that "they shall give adequate compensation to the party concerned as per the decision of the panel."

1.102. The Committee, therefore, see no reason why State Trading Corporation and Government should not be able to ensure payment of proper compensation to the users who have suffered loss on account of the supply of defective tyres.

### (iii) DEPARTMENT OF SUPPLY

#### DIRECTOR GENERAL OF SUPPLIES AND DISPOSALS

##### Inspection of Tyres by the DGS&D Inspectors

1.103. Dealing with the inspection of tyres by the Inspectors of the DGS&D, the Public Accounts Committee in their 64th Report had observed as under:

"From the written note submitted jointly by the DGS&D and the State Trading Corporation, as well as from the notings read out at the sittings of the Committee, it appeared that the inspection of tyres by the office of the Directorate of Inspection DGS&D at Calcutta was only visual and it failed to bring out that these tyres were under prolonged storage. It is unfortunate that the

DGS&D issued their circular letters on 28-5-1962 to all Direct Demanding Officers, including the Defence Establishment, on the basis of such a report."

(Para 3-16)

1.104. "Inspection by the Director of Inspection of DGS&D was only visual and this was not adequate in the absence of various warranties from the suppliers."

[Para 5.1(9)]

1.105. The Inter-Departmental Committee have stated *inter-alia* in their Report:

"The Directorate of Inspection, DGS&D, Calcutta have failed to bring out the full history of the tyres, their condition and period of storage, in their inspection reports to Headquarters at New Delhi. They also omitted to check the weight of the tyres as given in the import documents. These lapses are being investigated further by the DGS&D with a view to taking suitable action. While issuing the circular letter of 28-5-1962 to all the Direct Demanding Officers, the DGS&D was guided by the fact that valuable foreign exchange had been spent in purchasing these tyres. The suitability of the tyres for use on 3-ton and 5-ton vehicles only, as reported in the Inspection Reports, should also have been indicated in the circular letter. This was, however, omitted and two dealing officials of the DGS&D were held responsible for this lapse. Suitable action is being taken against them."

1.106. The Committee would like to be informed of the action taken against the persons at fault as suggested by the Inter-Departmental Committee in due course.

*Checking up of the quality of tyres supplied by Messrs Ramkrishan Kulwant Rai by the DGS&D and possible collusion between the purchasing authorities, inspecting authorities and the firm.*

1.107. The Public Accounts Committee in their 64th Report and made *inter-alia* the following observations on the failure of the office of the DGS&D in checking up the quality of the tyres:

"Failure of the DGS&D to take the elementary precaution to ensure that the tyres supplied to the Defence indentors were according to specification and of proper quality."

[Para 5.7(8)]

1.108. "The Committee are alarmed at the way the Defence needs were procured in this case. Against the definite indent for CC type tyres, some indifferent quality was purchased, supplied, inspected and paid for. The Committee cannot discount the possibility of collusion between

the purchasing authorities, inspecting authorities and the firm. Since such actions are fraught with grave risk, the Committee cannot help but recommend a thorough enquiry into this aspect with a view to giving deterrent punishment to the guilty.”

(Para 3.59)

1.109. “In view of the fact that even the State Trading Corporation was not sure whether M/s. Ram Krishan Kulwant Rai had two types of tyres viz. ST type and track grip pattern type (CC type) in size 9-25-20-12, the Committee desire that the Ministry of Supply and Technical Development should examine in consultation with the State Trading Corporation whether the suppliers actually imported/supplied tyres of track grip pattern type or they supplied only ST pattern tyres and charged about Rs. 66,000 more i.e. the difference for 6000 tyres at the rate of Rs. 11 per tyre. The Committee would also like to be informed of the action taken in this case.”

(Para 3.60)

1.110. “Another aspect of the supply of tyres to the COD, Kandivili is that supplies of specifications other than those for which indents had been placed were made and DGS&D had been urging the depot to accept these things.”

(Para 4.33).

1.111. “The DGS&D had also gone out of their way in pressing the Defence indentors to accept stores of specifications for which they had not placed orders.”

[Para 5.1(11)]

1.112. The Inter-Departmental Committee have observed *inter-alia* in para 3.6 of their Report as under:

“We have examined the relevant files of the DGS&D and find that several incorrect and misleading statements are made by the Deputy Director (S&D) who was dealing with this case at all stages.....”

Listing some of the omissions on the part of this officer, the Inter-departmental Committee have further stated “We have also observed that the DGS&D had already entered into rate contract for ST tyres offered by Messrs. Ramkrishan Kulwant Rai at a price of Rs. 349/- per set of tyre, tube and flap. We have also been informed that Messrs. Ramkrishan Kulwant Rai imported tyres under two sizes, namely, 750x20—10 PR and 825x20—12 PR and there is no evidence to show that they imported tyre size 825-20-12 PR under the different types namely, ST and THR, although in fact they received some tyres which corresponded to ST pattern and some which corresponded to THR pattern. However, the landed cost of both these tyres was the same, namely, Rs. 210/- per set.

When, therefore, the DGS&D had themselves fixed Rs. 349/- per set for type, tube and flap, for ST pattern, there was no reason for them to fix a higher price, namely, Rs. 360 - for tyre alone of THR pattern. It is the various misleading statements made by DD(S&D) that let the DGS&D to fix the price at Rs. 360 - per tyre alone. The Public Accounts Committee have estimated the loss in this transaction at Rs. 11 per tyre (Rs. 360 - minus Rs. 349/- fixed for ST tyre). We find, however, that the price of Rs. 349 - was for a set of tyre, tube and flap, and if an allowance of at least Rs. 20/- is made for the flap and tube, the net price for tyre alone would not exceed Rs. 329 - per tyre. By paying Rs. 360/- per tyre alone for the THR pattern, the DGS&D made the Defence Ministry pay an additional Rs. 31 - per tyre instead of Rs. 11/- per tyre as mentioned in the Public Accounts Committee Report."

1.113. The Report adds, "Again the same Officer made a statement in the file on 1-6-1963 that the price fixed for Polish tyre (Cross Country type) was Rs. 360/- per tyre. He, however, made an enquiry from the State Trading Corporation on 7-6-1963 to verify whether the cif Indian port price of the Hungarian tyre offered by Messars. Ramkrishan Kulwant Rai was Rs. 210 - per set as claimed by the firm. If he had consulted the State Trading Corporation simultaneously regarding the cif Indian port price of the Polish tyre also he would have known that it was Rs. 228.24 per set i.e. Rs. 18.24 more per set. We have examined one tyre of each of these two categories and it was clear that the Polish tyre (Cross country type) was superior to the THR (Hungarian) tyre. On account of failure to examine this aspect by the DD(S&D), Government were forced to pay the same price for an inferior quality, the landed cost of which was also less. . . . It appears to us from the various notes recorded by this officer that he was unusually enthusiastic in finalising this deal and was more guided by a desire to liquidate the stocks of those imported tyres than to examine the offer according to its merits. This officer, who has retired, is already under disciplinary action for another charge i.e. non-inclusion of warranty clause in the rate contract entered into by the DGS&D. We recommend that additional charges for the lapses in this deal should also be framed and action against him proceeded with. In our opinion the loss caused to the Defence Ministry was almost entirely due to the misleading statements made by this officer. We understand, however, that the DGS&D has already initiated action against him."

1.114. "As regards the Public Accounts Committee's observations in paragraph 3:59 of their Report that they could not discount the possibility of collusion between the purchasing authority and the firm, the case has been reported by the DGS&D to the Special Police Establishment, who are now investigating into it."

1.115. As regards the Public Accounts Committee's query in para 3.60 of their Report whether the supplier actually imported/supplied tyres of ST tread pattern and THR Universal pattern or supplied only ST pattern tyres, the Inter-Departmental Committee has added: "This is nothing on the records of the State Trading Corporation to clarify this point. Both the DGS&D and the State Trading Corporation, however, had written to the firm who had stated that they had imported CORDATIC tyres from Hungary in the size 825 × 20-12 ply, both in ST tread pattern and THR/- Universal pattern, and this fact could easily be verified by the purchasers....."

1.116. The Committee asked during evidence whether the DGS&D had ascertained from the State Trading Corporation the landed cost of a set of tyres before fixing the contract rate. The DGS&D stated: "We do not seem to have asked the State Trading Corporation about this before fixing the rate contract". He added, "This store was imported much earlier. I do not think any cost was enquired from the State Trading Corporation..... We will do that in future." The Committee enquired how the DGS&D fixed the rate at Rs. 360 - per tyre without tube and flap when the rate contract for a tyre inclusive of tube and flap was Rs. 349/-. The DGS&D stated, "We have gone into this. The existence of THR tyres was not known until the firm Ram Krishan Kulwant Rai made an offer on the 3rd of April, 1963. What the Firm said then was that they had checked up their stocks and we had found that they had THR tyres and they gave us a break-up of cost in which they indicated that the CIF price per tyre not per set was Rs. 210/- and they added up other charges and the FOR price came to Rs. 395 - and they said that they were offering these tyres on Rs. 380/-. Later on they came and said that they would offer the same tyre for Rs. 360/-. The dealing Dy. Director examined this. Apparently, he equated the THR tyre with the Cross Country tyre and he said that this was the price fixed for the Polish Cross Country tyres and, therefore, it seemed reasonable. This is how he suggested that this price of Rs. 360/- should be accepted."

1.117. The Committee drew the attention of the witness to para 3.6 of the report of the Inter-Departmental Committee and pointed out that by paying Rs. 360/- per tyre alone for the THR pattern, the DGS&D made the Defence Ministry pay an additional Rs. 31 per tyre instead of an additional Rs. 11 per tyre as mentioned in the Report of the Public Accounts Committee and asked whether action would be taken to recover this excess payment of Rs. 1.83 lakhs (5904 tyres x Rs. 31). The DGS&D stated: "It is a legal matter and we are consulting our own advisers as to whether this recovery can be made." He further added..... "If at all possible, action will have to be taken through the State Trading Corporation."

1.118. When the Committee asked if the Department contemplated taking any action against those responsible for this carelessness, the DGS&D stated: "Charges are being framed against the concerned officers."

1.119. The Committee are alarmed to note the unusual ~~enthusiasm~~ shown by the Deputy Director, Supplies & ~~Disposal~~ in putting through the deal of the purchase of tyres by the Ministry of Defence from Messrs. Ramkrishan Kulwant Rai. The officer seemed to have made several incorrect and misleading statements. The Committee take a very serious view of the lapses on the part of this officer. They note from the report of the Inter-Departmental Committee that this officer has retired and that he was already under disciplinary action for another charge, i.e., non inclusion of a warranty clause in the rate contract entered into by the DGS&D. The Committee desire the Department of Supply to examine as to why action could not be taken against this officer when he was in service and how the unusual enthusiasm shown by him in this deal escaped the notice of the senior officers. The Committee were given to understand during evidence that charges were being framed against the officer concerned. They are, however, not sure whether the Department of Supply will be able to take adequate action against him as he has already retired from service. They would like to be informed of the action taken against this officer. The Committee also regret to note that, (i) as against the rate contract of Rs. 349/-per set which included a tyre, a tube and a flap, the DGS&D made the payment of Rs. 360/- for a tyre alone. (ii) The sale price fixed for Polish tyres was Rs. 360 per tyre, while the c.i.f. Indian port price for the same tyre was Rs. 228.24 per set. As against this, the Hungarian THR Type tyre per set (which was comparatively inferior) was also fixed at Rs. 360 per tyre, when the c.i.f. price, on M/s. Ramkrishan Kulwant Rai's own admission, was Rs. 210 per set. Thus, the Government was forced to pay the same price for inferior quality, the landed cost of which was also less by Rs. 18.24 per set.

The firm of M/s. Ramkrishan Kulwant Rai was thus overpaid to the extent of about Rs. 2.90 lakhs."

1.120. The Committee desire that suitable measures should be taken by Government in consultation with the Ministry of Law, if necessary, to recover this excess payment from the firm in question.

*Rate Contract entered into by the DGS&D.*

1.121. With regard to the entering into a rate contract by the DGS&D with these firms, the Public Accounts Committee in their 64th Report had observed as under:

"The Committee take a very serious view of this omission of the office of the DGS&D that they did not ask even for the specifications of the tyres for which they were entering into rate contract either from the State Trading Corporation or from the suppliers. That DGS&D went to the help of the State Trading

Corporation, the plea given in evidence, was no justification for not asking for the specifications of the tyres. It is a matter of regret that the State Trading Corporation also did not communicate this material information to DGS&D. In the absence of the information regarding specifications of these tyres and their comparison with the specifications of indigenous tyres, the Committee feel that the office of DGS&D entered into a rate contract on the basis of inadequate examination of the case."

(Para 3.49)

1.122. "With regard to the specifications of tyres, it has been contended in the written note submitted by the State Trading Corporation that the relevant papers received by DGS&D along with report of the Inspection Wing and other documents available with the firms would contain all relevant information with regard to the specifications, warranties, test certificates etc., with regard to the tyres. Therefore, before the rate contracts were entered into by the DGS&D with the importing firms, full information was available with them with regard to the specifications of the tyres. The DGS&D on the other hand have contended in their written note that the information with the State Trading Corporation regarding specifications was very material to them and should have been passed on to the DGS&D. They have also contended that copies of agreements concluded by the State Trading Corporation with the stockists which provided for details of specifications, certificates from the manufacturers that the tyres conformed to specifications and performance guarantee to be given to the actual users were not supplied to the DGS&D at any stage. The Committee were also informed in evidence that the DGS&D did not satisfy themselves that they were purchasing something different from the items included in the rate contract at the time of entering into the purchase of 7100 tyres for COD Kandivili. They seem to have accepted this offer of the firm at its face value without any examinations. The DGS&D did not themselves satisfy about the quality of these tyres. It was also stated in evidence that so far as the rate contract was concerned, DGS&D did not maintain liaison with the State Trading Corporation. In the opinion of the Committee these facts reveal that the procedure followed in the office of the DGS&D who had issued the rate contract for the supply of tyres was not only incorrect, but 'even dangerous' as admitted by the witness. The DGS&D cannot absolve themselves of the responsibility to ensure that the supplies made against the contract entered into by them are of the correct specification and of the quality proposed to be supplied.

(Para 3.64)

1.123. "The Committee also desire that learning from the ~~experience~~ of this case, the Ministry of Supply and Technical Development should take suitable measures to remove defects in the procedure followed in such cases in the office of the DGS&D."

(Para 3.65)

1.124. "The Committee regret to note the carefree attitude taken by the DGS&D in this matter. In their opinion, the DGS&D should have been more alert and careful in finding out more details about the tyres, especially when in the meeting of 30th July, 1962, which was attended by the DGS&D, it was decided not to purchase these tyres for forward areas."

(Para 4.25)

1.125. "The Committee regret to note that there was failure on the part of the D.G.S.&D. also with regard to the supply of these tyres etc. to the Defence indentors. The Committee are not convinced with the arguments advanced by the Secretary, Deptt. of Supply and Technical Development that perhaps the D.G.S.&D. felt that since it was a request received from a sister organisation and since foreign exchange had been spent, it was the duty of the D.G.S.&D. to help them. In the opinion of the Committee the decision taken at the meeting held in the room of the Minister of State for Defence in July, 1962, should have been enough warning to the D.G.S.&D. that a careful and detailed enquiry was needed with regard to the quality of tyres as the Defence Ministry felt that these tyres were not good for use in the forward areas. This, the D.G.S.&D. failed to do. The Committee feel that suitable enquiry should be made to find out the full facts of the case and fix responsibility thereon."

(Para 4.32)

1.126. The Inter-Departmental Committee suggested the following reply to the above recommendations of the Committee:—

"There were frequent discussions between the officers of the D.G.S.&D. and the STC before the rate contract was entered into by the D.G.S.&D. It is admitted that the D.G.S.&D. did not obtain any further information about the specifications and quality of these tyres beyond what was mentioned in the Inspection Report furnished by their Inspectors on 4th May, 1962. These Inspection Reports were obviously rendered in answer to specific queries and did not contain all the vital information which the D.G.S.&D. should have obtained before entering into a rate contract. As such, the observations of the PAC that the D.G.S.&D. did not follow proper procedure in entering into rate contract is correct. As a remedial measure, a circular letter dated 7th January, 1967 has been issued by the D.G.S.&D. to

all Purchase Officers and Sections at Headquarters and Regions that they should acquaint themselves fully with the specifications of the stores to be purchased; the specifications should be thoroughly examined and incorporated clearly in the contract. While placing supply orders against rate contracts or running contracts or orders against *ad hoc* indents, care should be taken to satisfy that the stores on order fully conform to the required specifications in all respects."

1.127. The Inter-Departmental Committee also observed in para 3.4.5 of their Report as under:—

"During our examination, we have also come across a copy of a letter of February, 1963 on the file of the Inspection Wing of the D.G.S.&D. addressed by the Inspectorate at Calcutta regarding the unsatisfactory storage conditions of tyres in the stocks of Messrs Ramkrishan Kulwant Rai. This letter stated that a sample tyre was tested at the laboratory of the National Rubber, Calcutta and in view of the test results of the National Rubber, Calcutta, the tyres were not found satisfactory. We find that no action was taken on this letter by the Purchase Wing of the D.G.S.&D., where the letter had been diarised but not put on the file. If this had not been suppressed, it is possible that the A T referred to in paragraph 3.6\* (P.A.C. 64th Report) would not have been placed and the rate contract with this firm for these tyres might also have been discontinued."

1.128. During evidence the Committee pointed out that Director General, Supplies & Disposals, recommended the rate contract and on that basis Army officers made purchases and as such, the Directorate General, Supplies & Disposals, was directly responsible for misleading the defence indentors. The Directorate General, Supplies & Disposals stated: "The Purchase Directorate of the Directorate General, Supplies & Disposals was certainly responsible for the defects of the rate contract."

1.129. It is strange to note that a copy of the letter of February, 1963, on the file of the Inspection Wing of Director General, Supplies & Disposals addressed by the Inspectorate at Calcutta regarding unsatisfactory storage conditions of tyres in the stocks of M/s. Ramkrishan Kulwant Rai was diarised in the office of the Director General, Supplies & Disposals but not put on the file. The Committee desire that this suppression of an important letter may be looked into with a view to fixing responsibility.

1.130. The Committee hope that the instructions issued by the Director General, Supplies & Disposals on 7th January, 1967, will be strictly observed and that cases of this type will not recur.

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\*Please see para 3.6 of the 64th Report of P.A.C. (Third Lok Sabha).

*Action taken against M/s. Ramkrishan Kulwant Rai for withholding from Director General, Supplies & Disposals information about the complaints of manufacturing defects in the tyres.*

1.131. The Public Accounts Committee in paras 3.73 and 3.77 of their 64th Report had observed as under:—

“The Committee regret to note that so far no action has been taken against the firm for withholding from Director General, Supplies & Disposals information about complaints of manufacturing defects in the tyres. The Committee feel that the Director General, Supplies & Disposals as well as the State Trading Corporation have been unduly generous with the particular firm.” (para 3.73).

1.132 “The Committee feel that the facts mentioned above indicate that these firms had some influence with the persons dealing with this transaction of tyres in the office of the Director General, Supplies and Disposals and State Trading Corporation.” (Para 3.77).

1.133 The Inter-Departmental Committee had suggested the following reply to the observations of the Public Accounts Committee:—

“The Ministry of Law had advised that so long as the Injunction of the High Court, Calcutta, operated no further action could be taken against the firm—Messrs Ramkrishan Kulwant Rai. The case has, however, been referred to the Special Police Establishment on 19.11.66. The report of the Special Police Establishment is awaited. It is not possible to state whether there was any collusion between the officers of the Director General, Supplies & Disposals and the firm till the results of the disciplinary proceedings against the officers concerned and Special Police Establishment’s investigations are known.”

1.134. The Committee asked the representative of the Special Police Establishment about the latest position of the case against M/s. Ramkrishan Kulwant Rai, which was referred to them on 19th November, 1966. The representative of the Special Police Establishment informed the Committee that a preliminary enquiry was made in this case in 1963 and a regular case was registered as late as 15th June, 1967. “After this case was registered on 15th June, on 19th June, i.e., last month, we seized the records from M/s. Ramkrishan Kulwant Rai and these records have been examined. Further enquiries are being held now.”

**1.135. After the injunction of the High Court is vacated the Committee would like to be informed of the action taken against this firm. As a result of the enquiry by the Special Police and the results of the disciplinary**

proceedings against the officers concerned, the Committee would like to know whether there was any collusion between the officers and this firm.

The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres.

*Raising of the Monetary Limit for placing of orders against Rate Contract from Rs. 2 lakhs to Rs. 10 lakhs by D.G.S.&D.*

1.136. The Public Accounts Committee had asked for a written reply on the raising of the monetary limit from Rs. 2 lakhs to Rs. 10 lakhs against rate contract in March, 1963, in this case. It was stated in a written reply "Initially the rate contract provided for a monetary limit of Rs. 2 lakhs upto which Direct Demanding Officers could place supply orders directly. In March, 1963, M/s. Ramkrishan Kulwant Rai made a request for raising this monetary limit up to Rs. 10 lakhs to facilitate defence indentors to place large orders. To enable the defence indentors to utilise their funds before the closing of the financial year i.e. 31st March, 1963, the request of the firm was accepted and monetary limit raised to Rs. 10 lakhs by an amendment letter issued on 12th March, 1963."

1.137. During evidence, the D.G.S.&D. informed the Committee, "We asked the previous incumbent how this happened. He said quite often indentors verbally asked D.G.S. & D., to raise the limit. He says that this might have happened in this particular case. The actual request on record was from the firm. But he understood that there was an urgent demand from Defence and that he would be helping defence indentors if he raised the limit." The Committee pointed out that there was no evidence on the file that the Defence indentors asked for this. The D.G.S. & D., stated "There is no evidence." Asked whether this revised limit was carried beyond 31st March, 1963, the D.G.S. & D., stated, "I think so." Asked as to why it was carried over when the whole purpose of raising the limit was to utilise the funds before the close of the financial year, the witness stated "I don't think specific consideration was given to this matter."

1.138. The Committee asked the Defence Secretary whether any such request was made by the Defence Ministry to the D.G.S. & D., regarding raising the limit from Rs. 2 lakhs to Rs. 10 lakhs because there were urgent purchases to be made. The Secretary, Ministry of Defence stated "There is nothing on record that we have asked for it."

1.139. The Committee find that it was primarily at the instance of the firm M/s. Ramkrishan Kulwant Rai that, the D.G.S. & D., sharply raised the ceiling for placing orders from Rs. 2 lakhs to Rs. 10 lakhs against rate contract on 12th March, 1963. In the absence of any request for this from the Ministry of Defence, the Committee feel, that raising of the monetary limit was calculated to favour the firm rather than defence indentors. Another ~~interesting~~ aspect of the case is that the revised

ceiling of Rs. 10 lakhs was allowed to remain operation even after 31st March, 1963.

#### (iv) MINISTRY OF DEFENCE

*Non-communication of orders of the Minister of State for Defence production that imported tyres should not be used in forward areas.*

1.140. The Committee in para 4.18 of their 64th Report had mentioned that a meeting was held in the room of the Minister of State for Defence on 30th July, 1962. The Committee had been informed that at that meeting it was decided that "it would not be advisable to procure tyres and tubes from the stocks available with the State Trading Corporation in so far as the requirements of forward areas are concerned. In regard to tyres and tubes required for other areas, there would be no objection to their procurement by the entry on the Border Road Organisation if the prices were satisfactorily settled by the D.G.S.&D., and the tyres and tubes conformed to the prescribed specifications."

1.141. The Committee had observed that "they were unable to appreciate the distinction sought to be made for the requirement of the forward areas and of the other areas in so far as these tyres are concerned. The Committee cannot help feeling that this distinction was made, perhaps, to accept these tyres, the quality of which was doubtful." (Para 4.20 of the 64th Report)

1.142. The Inter-departmental Committee in their Report have *inter-alia* observed: "In the absence of a record of discussions of the meeting, it is not possible to state at this stage with accuracy on what basis the distinction was made between the tyres required for forward areas and those for other areas. Apparently, the intention was that, as these tyres were imported for the first time and they were in storage for sometime, it would not be advisable to use them in forward areas and thereby take a possible risk. Discussions with many of the officers, who were present at the meeting, revealed that no indication was given at the meeting that the tyres were not lower specifications and that complaints had been received from the importers. No distinction is, however, being made, at present, between the tyres require for forward areas and those for other areas."

1.143. The Ministry of Defence have sent the following reply in pursuance of the recommendations of the Public Accounts Committee:

"As already explained to the Public Accounts Committee *vide* paragraphs 4.18 and 4.19 of Chapter IV of the report, it is not possible at this stage to state on what basis the distinction was made between the tyres required for forward areas and those for other areas. Apparently the intention at

that time was that no risk could be taken by using these tyres, which were being bought for the first time, in forward areas. At present no distinction is being made between tyres required for forward areas and those for other areas."

1.144. The Committee drew the attention of the Ministry of Defence to the supplementary questions asked on Starred Questions No. 58 and 73 on 27th March, 1967 in the Lok Sabha where it was pointed out by an hon. member that some instructions were issued by the Army Headquarters/ Ministry of Defence that the tyres purchased through the stockists of the S.T.C., should not be issued to the forward areas and that in spite of those instructions, some of the imported tyres were issued to the forward areas. The Committee desire to know in particular:

- "(i) whether any instructions were issued by the Ministry of Defence to Army Headquarters or by Army Headquarters to C.O.D. Kandivili (alad) etc. not to issue these tyres for use in the forward areas? If so, a copy of the instructions issued on the subject may please be furnished.
- (ii) whether there was any infringement of the above orders? If so, the number of cases where it took place, may kindly be stated.
- (iii) the number of tyres which were issued to the forward areas out of the tyres purchased through the stockists of S.T.C.
- (iv) whether any tyres issued to the forward areas out of this stock were withdrawn subsequently? If so, when were they withdrawn and what was their exact number?"

1.145. The Ministry of Defence have furnished the following reply:

- "(i) A decision was taken on 30th July, 1962 that it would not be advisable to procure the imported tyres to meet the requirements of forward areas. Army Headquarter's representatives were present at the meeting where this decision was taken. It was also communicated subsequently in writing to MGO on the 22nd July 1963 Appendix VI that in so far as the Defence Services were concerned, it had been decided that it would not be correct to use these tyres in forward areas as their quality was not up to the mark. Army Headquarters however, did not communicate this decision to the lower authorities.
- (ii) The circumstances under which the decision of the Defence Ministry not to issue imported tyres to forward areas was not communicated by the Army Headquarters to the lower formations have been investigated and necessary action has been taken in the matter. The position is explained in the statement prepared in implementation of an assurance, a copy of which is attached Appendix VII.

(iii) Approximately 4,000 imported tyres were issued to forward areas.

(iv) Yes. 2370 imported tyres were removed upto 31st December, 1966 from vehicles on account of their being EIR/BER and 120 imported tyres were removed or fitted on 4×2 three Ton vehicles instead of on 4×4 vehicles where they were originally fitted. Separate statistics are not available now as to how many were removed from forward areas and how many from other areas."

1.146. Referring to the above reply, the Committee desired to know whether Army Headquarters had taken any specific decision not to implement the directive of the Minister of State for Defence Production. The Ministry of Defence have state in a written note that "there is nothing on record to indicate that any specific decision was taken by the Army Headquarters not to implement the decision that the imported tyres should not be used in the forward areas. The circumstances in which the decision was not communicated by the Army Headquarters to the lower formations have already been explained in the statement prepared in the implementation of the assurance given to Parliament *vide* Appendix VII."

1.147. The Committee feel that, as pointed out by the earlier in para 4.20 of their Report, it is difficult to appreciate the distinction sought to be made for the requirements of the forward areas and other areas in so far as the use of imported tyres was concerned. They hope that Government will keep this aspect of the question in view while considering the purchase of goods for Defence purposes in future. The Committee note that approximately 4,000 imported tyres purchased by the Ministry of Defence were issued to the forward areas. They further note that, though the decision about making a distinction in the use of imported tyres between the forward areas and other areas was taken on 30th July, 1962, it was not communicated until the 22nd July, 1962, to the GO's Branch. They are not able to appreciate the delay on the part of the Ministry of Defence in communicating these orders of the Minister of State for Defence Production. As regards the non-implementation of the orders by the Army Headquarters, the Committee note that, according to Government, there was "nothing to justify the questioning the bonafides of the mistake in not communicating the decision of the Ministry. Army Headquarters have, therefore, been requested that in future instructions issued by this Ministry should be followed by corresponding instructions to lower formations and in case there are any difficulties in implementing those decisions they should be brought to the notice of the Ministry immediately."

*Delay in the communication of the orders of the Defence Minister dated 19th April, 1963.*

1.148. The Committee, in paras 4.45, 4.46 and 5.1(12) had commented on the delay in the communication of the specific orders of the Minister of Defence dated 19th April, 1963, to the effect that: "As the tyres are not of the quality and are not likely to be used in the forward areas, they should not be purchased at all for defence purposes."

1.149. The Committee had not accepted the argument put forward by Government during evidence that "as the file was taken away by the SPE from 29th April to 25th June, 1963" formal orders communicating the directive of the Minister of Defence could not be issued until 19th July, 1963.

1.150. The Ministry of Defence have intimated that the following action has been taken on the aforementioned recommendations of the Public Accounts Committee.—

"A further examination of the delay which has occurred in communicating the Defence Minister's orders of 19th April, 1963 has been made. One Under Secretary and one Section Officer have been held responsible for an avoidable delay. Disciplinary action is being taken against them. As a remedial measure, instructions have been issued on 19th September, 1966 that, when a decision is taken by Government necessitating the issue of orders, the orders should issue promptly. If the file is required for any other purposes, the issue of orders should not be delayed but the orders should issue forthwith and file released thereafter. A copy of the instructions is attached Appendix VIII".

1.151. In view of the action taken by Government the Committee do not desire to pursue the matter further. They cannot, however, too strongly emphasise that administrative procedures and machinery should be fully geared to convey, without delay, specific orders of the Ministers to all concerned for faithful implementation.

*Investigation into the conduct of C.O.D. Kandivili (Malad)*

1.152. The Public Accounts Committee in paras 4.9 to 4.12 of their 64th Report had dealt with the case of the purchase by the C.O.D. Kandivili (Malad) of 7,100 THR tyres, against the requirements of cross-country tyres from M/s. Ramkrishan Kulwant Rai through the D.G.S.&D. The representative of the Ministry of Defence had informed the Committee that "on 2nd September, 1966, while the file relating to this case was being looked into, it was noticed by the Defence Secretary that there was something which required investigation. The Defence Secretary immediately sent a note to Master General of Ordnance asking him to con-

duct an investigation as to how C.O.D., Kandivili (Malad), accepted tyres of different pattern from those which had been indented for." The Committee had desired that they "would like to know in due course the result of investigation proposed to be made in the case regarding acceptance of the tyres of specifications other than those indented for by C.O.D. Kandivili." (Para 4.12 of 64th Report)

1.153. The Committee also noted in para 4.45 of their 64th Report that "..... on 15th April, the Defence Secretary informed the Army Authorities that no tyres should be purchased from these two firms viz. M/s. Ramkrishan Kulwant Rai and M/s. GISSCO. On 15th April, 1963, the Army Headquarters had also sent a signal to C.O.D. Kandivili, prohibiting placing of further orders with these two firms viz. M/s. Ramkrishan Kulwant Rai and M/s. GISSCO. C.O.D., Kandivili failed to take immediate action to cancel the indent dated 9th February, 1963, against which the order was placed by D.G.S.&D. as late as 12th June, 1963. The Committee feel that this failure on the part of the C.O.D. Kandivili required looking into."

1.154. The Inter-Departmental Committee in their Report stated:

"The conduct of the Officer Commanding, Central Ordnance Depot, Kandivili, in the deal relating to the acceptance of THR pattern tyres in lieu of cross country pattern tyres as originally demanded by him has been examined in detail. The explanation offered by him subsequently for accepting these tyres was not considered satisfactory. Even though he had written to the DGS&D on 12-4-63 accepting these tyres without consulting the appropriate higher authorities yet, at least, on receipt of Army Headquarters signal dated 15-4-63 he should have cancelled his letter to the DGS&D and also reported to Army Headquarters. Further, he got the tyres examined by his own technical supervisors instead of TDE Inspectors before giving his acceptance to the DGS&D on 12-4-63. He was, therefore, held responsible and his pension has been reduced by one third as a penalty. His normal pension is Rs. 535/- per mensem and the reduced pension is Rs. 357/- p.m." (The Commuted value of one third of the pension is Rs. 30,096).

1.155 The Ministry of Defence have intimated that the following action has been taken by Government in pursuance of the recommendations of the Public Accounts Committee:

"The conduct of the Officer Commanding, Central Ordnance Depot, Kandivili, in the deal relating to the acceptance of THR pattern tyres as originally demanded by him has been examined

in detail. The defaults committed by him have been mentioned at para 4.3 on pages 56 to 58 of the Report of the Inter-Departmental Committee (Appendix I). The explanation offered by him for accepting these tyres was not considered satisfactory. Apart from the said defaults, he got the tyres examined by his own technical supervisors instead of TDE Inspectors before giving his acceptance to the DGS&D on 12-4-63. He was, therefore, held responsible and his pension has been reduced by one third as a penalty. His normal pension is Rs. 535/- per mensem and the reduced pension is Rs. 357/- per mensem."

*Premature retirement of C.O.D. Kundivill*

1.156. The Committee desired to have a note from the Ministry of Defence indicating *inter-alia* (a) when the Officer Commanding, Central Ordnance Depot, Kundivili (Malad) had first applied for premature retirement and the ground thereof; and (b) the reasons for acceding to his request and the date of issue of orders. The Ministry of Defence have stated in a written note that "Major. . . . O.C., Central Ordnance Depot, Malad, originally applied for premature retirement on 21st November, 1963. But, although recommended by Army Headquarters, the Defence Minister considered that the reasons given were not adequate to justify permission to retire prematurely. At that time, the reasons given by Major. . . . were:—

- (a) He had been given a low medical category due to his injuries sustained in a scooter accident and, therefore, had no chance of getting promotion and he was not likely to get a disability pension as his disability was not considered attributable to service;
- (b) His daughter was suffering from a heart disease and needed prolonged rest and care;
- (c) He had at that time a better chance of rehabilitation in civil life.

1.157. He renewed his request for premature retirement on 23rd January, 1965, on the ground that his posting out of Bombay would force him to maintain two establishments and prevent him from looking after his ailing daughter and seeking rehabilitation in civil employment and that, due to his low medical category, he was likely to be superseded. At that time, there was an embargo on retirement and the Defence Minister directed that the case may be reopened after the embargo was lifted. The case was revived in March, 1966, after the embargo had been lifted but, in view of certain enquiries that were pending against him involving three transactions of local purchase, his application for retirement was not pro-

ceeded with. The case was again revived in October, 1966, after the vigilance case against him had been closed in consultation with the Central Vigilance Commission. The case was examined in the Ministry with reference to the vigilance case and finally his premature retirement was agreed to on 1st December, 1966, and orders were issued on 16th December, 1966, by Army Headquarters. Unfortunately, the lapse on the part of this officer in the purchase of tyres was not noticed at that time, as the case was processed only between the Military Secretary's Branch of Army Headquarters and Ministry of Defence and the Director of Ordnance Services and the Adjutant General's Branch who were dealing with this case were not consulted. In order to rectify this defect, instructions have now been issued that in all cases of premature retirement, before putting up the case to the Chief of the Army Staff and the Ministry, the Military Secretary should obtain certificates both from AG's Branch in regard to the vigilance aspect and the Branch/Directorate in which the officer is serving during the last three years to ensure that the officer has not come to any adverse notice and no matter is pending against him which may give rise to disciplinary proceedings. If a decision, in any case, is delayed beyond three months, MS Branch should obtain fresh certificates before submitting the case to this Ministry".

1.158. The Committee are not convinced by the explanation advanced by the Ministry of Defence for not taking prompt notice of the specific recommendations made by the Public Accounts Committee in their 64th Report about the lapses on the part of the Officer Commanding COD Kandivili (Malad), in regard to the purchase of imported tyres. The Committee are unable to appreciate how the irregularity committed by this Officer in accepting 5,904 THR tyres in lieu of cross country tyres, in contravention of the instructions of Army Headquarters, was overlooked while processing his application for premature retirement, in spite of the instructions dated 2nd September, 1966, of the Defence Secretary that investigations should be made into the case and the observations made by the Public Accounts Committee on the conduct of this Officer in their 64th Report, presented to the House on 30th November, 1966. The Committee would like the responsibility for allowing this officer to retire prematurely on 16th December, 1966, to be fixed and deterrent action taken against those who are found responsible for this lapse.

#### **Purchase of Tyres Against Rate Contract**

1.159. The Committee understood from a representation made to them that the Commanding Officer, COD Malad had indulged in various irregularities in connection with the purchase of tyres against rate contract. The Ministry of Defence have furnished the following information about the

imported tyres purchased by COD Kandivili against the rate contract in 1962 and 1963 :—

Year	Name of the firm	A/T or S.O. No.	Designation	Qty.	Date of receipt in the Depot
1962	Nil.	Nil.	Nil.	Nil.	Nil.
1963	Ram Krishan Kulwant Rai.	SO No. KDD/SAD/Tyre Pneu 10 MT-14/11/63, RC dated 6 Feb. 63.	PR with one Tube and one Flap.	700	11-3-63
Do.	Do.	SO No. KDD/LV- 6/MT-14/SAD/14 63/RC dated 15 Mar. 63.	Tyres 825 x 20 ST 12 Ply LP TB with one Tube and Flap.	1425	15-4-63
Do.	M/s GISSCO	SO No. KDD/LV6/ MT-14/SAD/15/ 63/RC dated 18 Mar. 63.	Tyres 825 x 20 ST 12 Ply LP TB with one Tube and Flap.	150 260 40	27-5-63 31-7-63 21-8-63
				456	
Do.	Ram Krishan Kulwant Rai.	A/T No. SV3 81080- P/V 344 dated 12-6-63.	Tyres 825 x 20 12 Ply THR/ UNIV/TGP.	3600 1000 1148 103 53	4-7-63 10-7-63 13-7-63 23-7-63 19-8-63
				5904	

1.160. The Committee asked the Ministry of Defence whether Government had made "any exhaustive enquiry into the manner of placing of orders or inspection or payment made by COD Malad against the rate contract to M/s. Ram Krishan Kulwant Rai and M/s. GISSCO in 1963? If so, what irregularities have been noticed therein and what action has been taken against the party at fault?"

1.161. The Ministry of Defence have furnished the requisite information in a written note dated 27th July, 1967, which is reproduced in Appendix IX.

The Ministry of Defence have stated *inter alia* therein that the two supply orders of 15th March, 1963, and 18th March, 1963, were placed by COD Kandivili in pursuance of the approval of the Chief Superintendent Development TDE(V) Ahmednagar on 5th March, 1963 (Appendix X) in response to Officer Commanding, COD Kandivili's letter dated 30th January, 1963. The Ministry's note further states :—

"The question whether TDE (V) Ahmednagar erred in giving the clearance and issuing the letter (Appendix X) is a matter which is being enquired into. As a result of the clearance by

the TDE(V), the supply order for 2850 tyres was placed on M/s. Ram Krishan Kulwant Rai on 15th March, 1963 and for 850 tyres on M/s. GISSCO on 18th March, 1963."

"A further query has been whether any irregularity has been noticed on the part of the COD Malad in making payment for the tyres purchased against the rate contract. In this connection, it may be clarified that payment for tyres purchased against rate contract is made by the Pay & Accounts Officer, Ministry of Works, Housing and Supply, and not by COD Kandivili."

"It is understood that the SPE has registered a case against Shri Ram Krishan Kulwant Rai under Section 420 IPC. If any further irregularities committed in the transactions are brought to notice in the course of investigation in the light of the result of S.P.E. enquiry the position would be further reviewed."

1.162. It would be recalled that the Public Accounts Committee had mentioned in para 4.39 of their 64th Report that Army Headquarters had sent a signal on the 15th April, 1963 to COD Kandivili to the effect that:

"No further supply orders will be placed on M/s. Ram Krishan Kulwant Rai and General Industrial Stores Supplying Company without prior approval of this Headquarters."

1.163. The Committee note that as many as 1425 imported tyres (excluding 5904 THR tyres which have been commented upon in para 1.159 were received by COD Kandivili (Malad) on 15th April, 1963, and that he further accepted 1881 tyres after that date against the rate contract without obtaining the specific approval of the Army Headquarters. The Committee are not able to appreciate as to why Government have not chosen to take action against the concerned officer for non-compliance with their instructions.

1.164. The Committee need hardly stress that Government should take stern action against all those who are found responsible for any irregularities in connection with the purchase of tyres against the rate contract.

1.165. The Committee also hope that Government will take appropriate action if any further irregularities on the part of officers are brought to notice as a result of investigations into these transactions by the S.P.E.

**Inspection of Tyres by Defence Inspectors**

1.166. The Public Accounts Committee in para 3.95 of their 64th Report had observed *inter-alia*:—

“The Committee regret to note that after the receipt of the report on 2nd April, 1966, from the Director of Inspection, Vehicles, Ahmednagar, mentioning therein that an examination of defective tyres revealed that they were considerably lighter and weaker in design and recommended to be classified as PR-10 standard type instead of PR-12 track grip pattern, no action was taken against the Inspecting Officers of the Army and Inspecting Officer of the DGS&D for accepting tyres of inferior quality. The Committee are alarmed at the way the Defence needs were procured in this case. Against the definite indent for CC type tyres, some indifferent quality was purchased, supplied, inspected and paid for....”

1.167. The Ministry of Defence have indicated that the following action has been taken in pursuance of the above recommendation :

“Defence Inspectors carried out visual inspection prescribed under the existing procedure and with reference to the details contained in the Supply Order/A.T. and the details stencilled/embossed on the tyres when supply materialised against the orders placed by the Defence indentors. They however, did not raise a query with the DGS&D or the Officer Commanding, Central Ordnance Depot, Malad, for reconciliation of the correct pattern required under the A/T placed on 12th June, 1963, for 7,100 THR tyres because the tread pattern indicated in th A T was THR pattern. However, the catalogue number indicated in the A/T related to the Cross Country pattern and there is no separate catalogue number for the THR pattern. Further, their suspicion should have been aroused by the fact that the ply rating, was not embossed, as is the case with Indian tyres, but only stencilled. These aspects are being investigated further with a view to fixing responsibility on the officers concerned. There does not, however, appear to be any reason to suspect collusion between the Defence Inspectors on the one hand and the purchasers/suppliers on the other.”

1.168. During evidence, the Committee referred to the lapses on the part of the inspectors of the Defence Department and asked whether any action has been taken in regard to the lapses. The Secretary, Ministry of Defence stated :

“We are appointing a court of enquiry to go into the question. They (Inter Departmental Committee) have suggested that

these inspectors should have done something more than what the procedure required. This would be one of the points for the court of enquiry to go into."

**1.169. The Committee would like to be informed of the results of this enquiry and the action taken against the officers at fault.**

*Action on Other Recommendation by Government*

1.170. The Committee have commented on the action taken notes received from the Government on some of the important paras mentioned in their 64th Report. The Committee have no doubt that Government will take adequate action in respect of other recommendations which have already been accepted by them and which have, therefore, not been commented upon specifically in this report.

## CHAPTER II

### CONCLUSIONS

2.1. In their 64th Report, the Public Accounts Committee had made 55 recommendations/observations. The Ministries of Commerce, Works, Housing & Supply (Deptt. Supply) and Defence have accepted 48 of the recommendations.

#### *Import of Tyres*

2.2. In this re-examination of the case about the purchase of defective tyres, the Committee would like to highlight certain aspects of the case. In respect of the recommendations at S. Nos. 1, 2, 3, 4, 5, 11, 52(1), 52(4) and 52(5) regarding the assessment of requirements, the Ministry of Commerce have accepted the suggestion of the Inter-Departmental Committee that "Linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not, therefore, justifiable." The Committee regret they cannot accept the reply of the Ministry of Commerce and hold that, if the requirements had been correctly assessed, the gap between the demand and the supply would have been found to be far narrower. In fact, it may well have been found that there was no justification for the Ministry of Commerce to direct the S.T.C. to import giant tyres to the tune of 1,20,000 in 1961. The Committee, therefore, reiterate the observations made by them earlier in paras 1.28 to 1.31 and 5.1 of their 64th Report that the decision to import the tyres in such large numbers from 'rupee payment' countries was not taken after a thorough examination of all aspects of the problem.

2.3. It is not clear to the Committee why the State Trading Corporation, as an autonomous organisation, were not asked to import tyres based on their judgment of the country's requirements.

2.4. The Committee are unable to appreciate how the STC though aware that the specifications of the tyres from East European countries were 12 to 15 per cent. short of Indian specifications, considered themselves justified in placing orders for their purchase from these countries in such large numbers and why they should not have asked for a review, in the light of these shortcomings, of Government's fiat for the import of these tyres from these countries so that the possibility of making these imports in the national interest from other parts of the World could also be considered.

2.5. The Committee cannot help concluding that it was the lure of making easy profits which tempted the STC and the private parties to continue to import tyres in such large numbers and to fail to disclose the lower specifications and the facts to the users including defence. The Committee need hardly stress that a governmental undertaking like the STC should pay greater attention to the interests of the consumers for whose benefit it has professedly been set up.

2.6. The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the STC from "rupee payment" countries or elsewhere are really necessary and that they are competitive both in regard to price and quality.

#### *Quality of Imported Tyres*

2.7. The Committee find that the S.T.C. also failed to communicate to the prospective buyers that the imported tyres were 12% to 15% below the indigenous specifications.

2.8. The Committee deprecate in particular the attitude of the STC in not communicating vital information regarding specifications, quality and performance of the imported tyres to the DGS&D, specially when it was known these tyres were being procured for the use of the Defence Forces.

2.9. The STC on its Part also failed to have the quality and specifications checked with reference to the contracts even after the receipt of complaints from the importers themselves. The Ministry of Commerce have asked the STC to fix the responsibility for failure to inform the prospective buyers about the specifications, pressure etc. of imported tyres in different sizes and plies. The Committee desire that suitable action should also be taken against the officers in the STC who failed to check the quality and specification with reference to the contracts even after receipt of complaints regarding the defective quality of the tyres from the importers themselves.

#### *D.G.S.&D.*

2.10. The Committee are distressed to note that a Deputy Director in the office of the D.G.S. & D. made a number of incorrect and misleading statements and showed an unusual interest in pushing through the purchase of tyres by defence Indentors. It is also strange to note that when the landed cost of the ST & THR pattern tyres was the same viz. Rs. 210 per set (tyre, tube and flap) and the rate contract entered into by the DGS & D for a set of ST pattern (tyre, tube and flap) was Rs. 349, a payment of Rs. 360 was made for a THR tyre alone. Government was also forced to pay for THR tyres the price applicable to Polish tyres which was of a superior quality than THR type, and the landed cost of which was also higher by Rs. 18.24 per set. This gave a further benefit of at least

Rs. 18.24 per set to M/s. Ramkrishan Kulwant Rai. This resulted in a total excess payment of about Rs. 2.90 lakhs to the firm. The Committee take a serious view of this lapse and desire that responsibility should be fixed.

*Ministry of Defence*

2.11. Apart from the delay in communicating the orders dated 19th April, 1963, of the Defence Minister, there was a failure in the Ministry of Defence to communicate promptly the decision taken at the meeting held in the room of the Minister of State for Defence on 30th July, 1962, that it would not be advisable to procure tyres and tubes from the stocks available with the S.T.C. in so far as the requirements of the forward areas were concerned. This decision was communicated to the MGO's Branch on 22nd July, 1963, i.e., after nearly a year. This delay of about a year needs looking into as it might also have been a contributory factor to the issue of some of these tyres to the forward areas.

2.12 The Committee have also not been able to appreciate how the irregularity committed by the C.O.D., Kandivili (Malad) in accepting 5,904 THR tyres in lieu of cross country tyres in contravention of the instructions of Army Headquarters was over-looked while processing his application for pre-mature retirement and he was allowed to retire on 16th December, 1966 and that contrary to the instructions of the Defence Secretary that an investigation should be undertaken into the case and the observations made by the P.A.C. on the conduct of this officer in their 64th Report (presented to the House on the 30th November, 1966).

*The Firms*

2.13. As regards the firms, the Committee understand that the Central Bureau of Investigation is looking into the case against M/s Ramkrishan Kulwant Rai. After the injunction of the High Court is vacated, the Committee would also like to be informed of the action taken against the firm. The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres.

2.14. The Committee reiterate their observation contained in para 5.4 of their 64th Report that "Government should take immediate steps to assess the losses suffered by the various users, viz., Defence, Transport Undertakings, etc., due to the purchase of these defective tyre and to secure adequate compensation from firms/STC."

NEW DELHI;  
The 5th August, 1967.  

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Srivana 14, 1889 (Saka).

M. R. MASANI,  
Chairman,  
Public Accounts Committee.

## **APPENDIX I**

(Reference Para. 1.7 of the Report)

### **Report of the Inter-Departmental Committee on Purchase of Imported Tyres**

#### **CHAPTER I**

#### **INTRODUCTION**

1.1. Under the Ministry of Defence Office Memorandum No. 14(1)/67/D(O-1) dated the 18th April, 1967 (Annexure I), an Inter-Departmental Committee consisting of Shri G. L. Sheth, Additional Secretary, Ministry of Defence (as Chairman) and Sarvashri J. S. Lall, Director-General, Supplies and Disposals and G. C. L. Joneja, Commissioner, Civil Supplies, Ministry of Commerce, as members, was constituted to consider the various recommendations and observations of the Public Accounts Committee in their 64th Report (3rd Lok Sabha) relating to the purchase of tyres, Shri K. Rajagopalan, Deputy Secretary, Ministry of Defence, was appointed as Secretary to the Committee. The Committee's terms of reference were as follows:—

- (a) To fix responsibilities for the various lapses revealed in this case on the part of the officers in all the three Ministries and suggest remedial measures;
- (b) To take steps to assess the losses suffered by the various offices—Defence, Transport Undertakings etc., due to the purchase of these defective tyres and secure adequate compensation from the firms; and
- (c) To suggest a reply to the various recommendations/observations of the Public Accounts Committee detailed in Appendix XIV to the Report.

1.2. We discussed the various aspects of this case with the following officers:—

1. Lt. Gen. A. C. Iyappa, Master General of Ordnance.
2. Shri S. K. Mukherjee, Secretary, Border Roads Development Board.
3. Shri K. C. Jain, Deputy Secretary, Ministry of Defence.

4. Brig. M. S. Sandhu, BAOC HQ Western Command [formerly DDOS(MT), Army Headquarters].
5. Dr. A. S. Sharma, General Manager, Metals and Minerals Corporation [formerly Divisional Manager (Engg.) STC].
6. Shri G. K. Ahuja, Deputy Director General (Inspection), D.G.S. & D., New Delhi.
7. Shri M. M. Bose, Director of Inspection, D.G.S. & D., Calcutta.
8. Shri K. Ramachandaran, Director, Research and Development (Vehicles), Department of Defence Production.
9. Dr. A. Seetharamaiah, Senior Industrial Adviser (Chemicals), D.G.T.D., Ministry of Industrial Development.
10. Col. K. C. John, Deputy Director of Inspection (Vehicles), Department of Defence Production.
11. Lt. Col. M. S. V. Rao (who was incharge of CIV Wing, Bombay during June/July, 1963).
12. Shri A. B. Paul, Senior Scientific Officer (who was Officer-in-Charge, CIV Bombay during major portion of inspection).
13. Shri P. J. Thomas, Technical Supervisor, Grade II, CIV, Bombay.

We called on the Minister for Railways, Shri C. M. Poonacha (formerly Chairman, STC) and the Minister for Petroleum and Chemicals, Shri K. Raghuramaiah (formerly Minister for Defence Production) to seek clarifications on certain aspects of the case. We have examined the papers submitted to the Public Accounts Committee and the relevant files of the Ministries concerned on the subject.

We held 24 sittings and finalised our report on 3rd July, 1967.

1.3. Our findings and conclusions are contained in the subsequent Chapters.

1.4. We would like to place on record our appreciation of the competent manner in which Shri K. Rajagopalan, assisted us as Secretary of the Committee.

Shri Rajagopalan had to go through voluminous records to provide the desired background material, tabulate replies and the points made in oral discussions. He had to put in very hard work to enable us to finish the report by 3rd July, 1967. All this he had to do in addition to his normal duties as Deputy Secretary.

## CHAPTER II

### MINISTRY OF COMMERCE/STATE TRADING CORPORATION

#### 2.1. General

The Ministry of Commerce are concerned with the decision to import tyres and assessment of requirements and the State Trading Corporation with the arrangement for import and distribution and also assisting the firms in liquidating the stocks imported. In these transactions, the Public Accounts Committee have made the following recommendations/observations: (Serial Numbers of the recommendations/conclusions as given in Appendix XIV of their Report are also indicated in brackets):

- (i) Assessment of requirements was wide off the mark and was not based on full examination of different aspects of the problem. There has been delay also in importing these tyres. [Sl. Nos. 1, 2, 3, 4, 5, 11, 52 (1), 52(4), 52(5)].
- (ii) A thorough investigation should be made into the question of appointing Indian firms as agents of foreign suppliers. (Sl. Nos. 6, 7, 8, 9, 10 and 12).
- (iii) The financial relationship between the State Trading Corporation and the Distributors was not clear. The State Trading Corporation should get an authoritative legal opinion in consultation with the Ministry of Law. [Sl. Nos. 13, 14, 15 and 52(3)].
- (iv) Failure on the part of the State Trading Corporation to verify quality of tyres. [Sl. Nos. 16, 17 and 52(2)].
- (v) Non-submission of monthly Sales Returns by the Indian firms and payment of double commission to M/s. Ram Krishan Kulant Rai. (Sl. Nos. 21, 22 and 23).
- (vi) Non-checking of quality and weight of tyres with the Bill of Lading. (Sl. No. 28).
- (vii) Assistance rendered by State Trading Corporation to the importing firms to liquidate stocks. [Sl. Nos. 3, 38, 40, 48, 52(6) and 52(7)].
- (viii) Non-disclosure of vital information to the D.G.S. & D., Defence Ministry and the public. [Sl. Nos. 18 to 20, 25, 29, 35, 39, 49 and 52(6)].

We have examined these recommendations/observations and our conclusions are contained in subsequent paragraph.

## 2.2. Assessment of requirements of imported tyres

2.2.1. We have considered carefully the observations of the Public Accounts Committee made in paras 1.28 and 1.29 of their Report regarding assessment of requirements and the quantum of imports to be made to control effectively the black market in tyres which was then rampant. We have examined all the material available and also discussed with Dr. Seetharamaiah who was then Development Officer in the Development Wing of the Ministry of Commerce and Industry. We have also considered very carefully the various observations made by the Development Wing since April, 1959.

2.2.2. Early in 1959, the Development Wing were opposed to any imports of tyres at all on the ground *inter alia*, that the expanded capacity of various established factories and licenses issued to new units would result in increased production and cover the shortage of tyres in the country. However, the situation changed considerably towards the end of 1959/early 1960 when some of these expectations of increased production did not materialise. In fact some of the tyres factories which were expected to go into production in 1960 and some of the expansions which were approved and which were also likely to bear fruit by about this time only started to materialise in the latter part of 1961.

2.2.3. In January 1960, the D.G.T.D. estimated that there would be a shortage of giant tyres to the extent of 60,000 numbers during 1960 and the Development Officer recorded a note in April, 1960 recommending that the State Trading Corporation would be well advised to import a further 25,000 tyres. This recommendation was made after taking into account that the State Trading Corporation had by that time already made arrangements to import 38,765 tyres. The position was further reviewed in December, 1960 when, on the basis of the expected production of indigenous tyres, a shortage of 1,23,000 numbers was estimated for 1961. Against this shortage, the State Trading Corporation could place orders only for 91,300 numbers, out of which orders for 18,000 numbers were subsequently cancelled. It is pertinent to point out that no difficulty whatsoever was experienced in the disposal of the 38,765 tyres ordered upto April, 1960 and the further 21,096 which were ordered after April, 1960 and upto August, 1960 on the basis of the recommendation of the Development Officer against the requirements of 1960. Difficulties that were experienced in the disposal of the 73,680 numbers ordered subsequently against the requirement of 1961 are explained in paragraph 6.2.

2.2.4. On the quantity to be imported, we feel that the estimate of the gap which ultimately determined the quantity to be imported was substantially correct. We submit that the observations of the Public Accounts Committee in the last portion of paragraph 1.29 are not borne out by the facts as revealed in our examination. The Ministry of Commerce and Industry was in fact in close touch with the production programmes of the indigenous tyre manufacturers and was receiving half yearly returns of their production figures. In fact, against an estimated production of 10,84,000 giant tyres in 1961, the actual production amounted to only 9,89,470. Compared to the estimated requirements of 12,07,000 tyres for 1961, the estimated deficiency of 1,23,000 tyres erred on the safe side. We would further submit that the linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 does not appear to be justified.

2.2.5. As regards the observations of the Public Accounts Committee in the concluding sentence of para 5.1.(1) of their report, Dr. Seetharamaiah, who was the officer who recorded the note dated 21st July, 1959 as stated before us that he had never made any such suggestions nor would it have been a practicable proposition to adopt. We also agree with him that the whole purpose for which this import was decided upon would have been frustrated because of the long time that would have been taken in evaluating the tyres in this manner.

2.2.6. In para 5.1(5), of their Report, the Public Accounts Committee have observed that, despite receipt of complaints about quality by the State Trading Corporation since April, 1960, fresh orders for large quantities were placed between January/March, 1961. We have examined this matter and find that orders placed in January/March, 1961 related to import of tyres from Poland and Hungary only. Hungarian tyres were imported for the first time only in May, 1961 and the question of any complaint in regard to those tyres did not arise. In regard to Polish tyres, no complaint had been received prior to March, 1961.

2.2.7. With regard to the observations made by the Public Accounts Committee in para 2.2. of their Report, we would like to point out that, after the State Trading Corporation placed orders on 12th September, 1959 for 4,740 tyres, they continued to receive further demands as a result of a Press Note issued by them and further orders were placed by them on the basis of the demands which they received from time to time, until a general review was made in April, 1960 and December, 1960 by the Development Wing to which we have already referred to in para 2.2.3.

2.2.8. We have examined the Public Accounts Committee's observations in para 2.3. of their Report with reference to available records and find that they could only apply to one size, namely, 750X20. In regard to other sizes namely, 1000X20 and 1100X20, orders were placed only on the basis of demands received.

In regard to size 750X20, however, the State Trading Corporation changed its own decision and, in our opinion rightly, as they found by experience that the largest demand was for sizes 750X20 and 825X20. Therefore, when an assessment of shortage was made it was decided that it should be made up by import of only two sizes, namely, 750X20 and 825X20, which were the sizes most in demand.

### 2.2.9. Delay in the import of tyres

The Public Accounts Committee's observation in para 2.23 of their Report is apparently based on the statement contained in the last sentence of para 3 of the joint note prepared by DGS&D and STC and furnished to the P.A.C. (*vide* Annexure II, page 74, of their Report), which unfortunately does not correctly reflect the position. The relevant sentence of DGTD's letter dated 21st October 1960 containing the recommendation of the Development Wing quoted by the P.A.C. reads as follows:—

"Since the shortage would be most acutely felt during the summer months when the demand for tyres is at its height, it is necessary to make immediate arrangements for imports and that such imports *commence reaching India by March 1961. The bulk of the supplies should reach India before the end of June 1961.*"

It will be seen from Appendix I to the PAC's Report that, against 73,300 tyres ordered during the period from 31st January 61 to 15th 3rd March 61 against the sanction given for 1,20,000 tyres to be imported during 1961, supplies commenced in April 1961 and bulk of them was completed by July 1961. Only about 13,250 arrived/were shipped in November 1961. Therefore, the recommendation of the D.G.T.D. in this respect was by and large fulfilled. It is pertinent to point out that, even as late as June 1961, the Development Wing recommended that balance of quantity not covered by orders already placed be covered to meet the anticipated shortage in the country during 1961/1962. It cannot, therefore, be stated that the S.T.C. had violated the recommendation of the D.G.T.D. in this respect.

2.2.10. In paragraph 1.30 of their Report, the Public Accounts Committee have also pointed out that, although the STC told Messrs Ramkrishan Kulwant Raj on 13th October 1961, to defer further shipments till such time as the existing stocks were liquidated, yet, the firm was permitted to import the tyres and had to be given all sorts of concessions for disposing of the stocks. The State Trading Corporation have stated that, in view of the contracts already concluded by the firm with foreign suppliers and the firm commitments made, the firm came with a request that the Import Licence might be released to them. The firm had already opened a Letter of Credit for the entire quantity of 40,000 sets ordered on Hungary and it

was due to certain amendments which they could not carry out in time that the balance of tyres could not be shipped in time. The goods were awaiting shipment since 15th Sept., 1961. The firm, therefore, stated that it would not be possible for them to cancel the contract at that time. They also gave an assurance that there would be no difficulty in the sale of tyres. The Exchange Control copy of the Import Licence was accordingly handed over to the firm pointing out that the responsibility for sale of tyres was entirely of the firm's and in view of the recent difficulties that had been expressed, the firm was asked to re-consider the question of further imports. We are satisfied that in view of the contractual commitment entered into and the fact that the tyres were waiting shipment it would not have been justifiable to withhold the licence.

### 2.3. Appointment of Indian Agents by Foreign Suppliers

2.3.1 The Public Accounts Committee have observed in para 2.18 of their Report that a thorough investigation in to the appointment of Indian firms as agents of foreign suppliers was required. In para 2.20 they have further observed that it was an unhealthy practice on the part of a Government organisation to sponsor the cases of private firms for giving them an agency of a foreign firm. This was with reference to STC getting Messrs Khemka & Co. appointed as agents of suppliers in USSR on the ground that this would assure greater degree of control and supervision as Messrs Khemka & Co. were already the agents in India for tyre manufacturers in Czechoslovakia and China. They have also questioned the "mysterious" entry of Messrs Ram Krishan Kulwant Rai as agents of suppliers in Hungary. We have examined these observations.

2.3.2. Paragraphs 1 to 3 of Part III of Appendix II (pages 76 to 77) of the PAC's Report explain the reasons for the appointment of the various Indian agents by the foreign suppliers. The State Trading Corporation addressed letters on 29.7.59 to the various Trade Representations about the number of tyres and sizes they would be in a position to supply along with the c.i.f. prices and the earliest delivery dates. The question of import of tyres from China and Czechoslovakia was subsequently discussed by the STC officers with the Trade Representations of those countries on 25.8.59. At that time, the State Trading Corpn. informed the Trade Representations that it was intended to import the tyres and tubes by the STC direct and not through any agents. As the quotation given by them included 5 per cent on account of their agents commission, their quotations should be regarded as reduced by 5 per cent by virtue of direct purchase by the State Trading Corporation. On 1st September 1959, it appears from a note recorded on the file that, the Director and the Managing Director had decided that Khemkas were to be appointed as STC's Distributors as they were the agents of Czechoslovakia and China already. The Russian supplies should also be handled by them. At present, Khemkas were getting 5 per cent as agency commission. In order to cover their expenses for opening

of Letter of Credit, storing the goods in their godowns at different places, it would be necessary for the STC to give them some more margin. It would thus be the responsibility of the Khemkas to release tyres and tubes to the consumers against orders issued by the State Trading Corporation. No reasons are recorded on the file as to why the State Trading Corporation considered that, as originally contemplated, they should not import the tyres direct but only through agents. It will, however, be seen from paragraph 1 (c) of Part III (page 77) of Appendix II of the PAC's Report that the foreign suppliers in China had indicated in their letter to the State Trading Corporation that, irrespective of the fact whether the import was made direct by the State Trading Corporation or through their agents, the agents would be entitled to their normal agency commission. It was, therefore, felt that to the extent possible, the services of the agents should be utilised in the import and distribution of the tyres after providing suitable controls and checks so that malpractices may not be indulged in by the agents in the import and sale of the tyres. In the case of Czechoslovakia also, the Trade Representation had written to the State Trading Corporation that this firm was the agents of the suppliers and would be getting an agency commission from them. It has also been explained in reply to a Questionnaire that, the State Trading Corporation, a purely commercial and non-technical organisation, had come into existence only about three years earlier when it was called upon to arrange for this import of a perishable commodity not handled by it previously, in such emergent circumstances and from hitherto unknown sources of supply. A substantial investment running into crores of rupees was involved in these imports. In view of these factors, the State Trading Corporation did not import the tyres on their own account nor did they undertake their distribution departmentally as it was not organised for that purpose. The import, therefore, had to be arranged through the Indian agents of the foreign suppliers who directly placed orders on the suppliers made payments for the goods and negotiated original documents on receipt of shipments. Further, the Ministry of Commerce and Industry, while directing the State Trading Corporation to arrange imports of giant tyres from rupee payment countries, had particularly suggested that the import and distribution of the tyres should not be entrusted either to established importers or to the distributors of indigenous tyres as these parties had indulged in malpractices in the distribution of tyres imported/sold by them and, therefore, presumably there was a fear that, if the tyres imported by the State Trading Corporation fell into their hands, those might also not reach the actual users at the right prices. The foreign suppliers in the East European countries were also not happy in appointing such firms as their agents who had been handling the goods of West European origin and they felt that such parties might not be able to do justice in introducing their goods in the Indian markets in view of their past association with Western countries. On account of these limitations, it was difficult to insist upon previous experience in tyre trade on the importing firms and as such the Corporation considered it advisable to accept the agents nominated by the East European countries. Since Messrs

Khemakas were already the agents in India for China and Czechoslovakia, the State Trading Corporation entered into agreement with this firm as advised by Trade Representations of Czechoslovakia and China. It is, no doubt, true that the USSR suppliers had not nominated any agent and the STC themselves took the initiative in suggesting the name of Messrs Khemakas merely on the consideration that they had already been nominated by the Czechoslovakian and Chinese suppliers as their agents in India. It has been explained by State Trading Corporation that they would be able to arrange a coordinated distribution of tyres through this agent who had gained experience in this line rather than having to deal with a new party.

2.3.3. As regards the appointment of Messrs Ram Krishan Kulwant Rai and the delay in finalisation of the offer made by the Hungarian Commercial Counsellor after his visit to the STC's office on 14.12.60, the facts as explained to us are as follows.

2.3.4. On the 14th December 1960, the Commercial Counsellor of Hungary called on the State Trading Corporation. During discussions, he mentioned that Hungary would be in a position to offer 40,000 sets of tyres in 1961—30,000 sets in size 825-20-12 and 10,000 sets in size 750-20-10. As a result of these discussions, the State Trading Corporation sent a letter on 16th December, 1960 to the Hungarian Commercial Counsellor asking for the specifications and quotations of the tyres offered by Hungary. A letter dated the 20th Dec., '60 was received from the Hungarian Commercial Counsellor in the Corporation on the 23rd December, 1960 which, however, did not contain the specifications of the tyres. This was followed by another letter from the Hungarian Counsellor dated the 22nd December, 1960 received in the Corporation on the 24th December, 1960 giving the specifications of the tyres. Only at this stage, when the State Trading Corporation came to know the full details of the Hungarian offer, the specifications and prices could be examined. It may be mentioned here that it was for the first time that Hungarian tyres were offered for supply and this offer needed examination. The prices quoted by the Hungarians were considered to be on the higher side whereas the specifications were some at lower as compared to the indigenous standards. It may be added here that at the same time, another offer from Poland was under consideration of the State Trading Corporation with a view to obtaining a reduction from the Polish suppliers over the prices at which tyres from Poland were import costlier. After negotiations, the prices of the Polish tyres in sizes 825-20-12 and 750-20-10 were brought down from Rs. 228.24 and Rs. 187.50 to Rs. 210.00 and Rs. 172 respectively. This reduction in Polish tyres ultimately made the position of the State Trading Corporation stronger *vis-a-vis* the Hungarian suppliers to negotiate the prices with them.

2.3.5. From the foregoing, it would be seen that since 24th December 1960 when the specifications of the tyres were received from the Hunga-

rian Commercial Counsellor till 3rd January, 1961 when M/s. Ram Krishan Kulwant Rai approached the State Trading Corporation in the matter, the intervening period was being utilised for making a comparative study of the prices and specifications of the Hungarian tyres as these were offered for the first time. After having finalised the purchase of Polish tyres on 1.2.61, the Hungarians were also persuaded to bring down their prices from Rs. 250.00 to 210 and from Rs. 230.00 to Rs. 172.00 per set respectively for sizes 825-20-12 and 750-20-10 and orders were placed accordingly on 15.2.61. The above aspect was not unfortunately brought to the notice of the Public Accounts Committee when the evidence of the State Trading Corporation was recorded by them.

2.3.6. By the time the Hungarian offer was received through their Commercial Counsellor, it had become a widely known fact that the State Trading Corporation was arranging for the import of gaint tyres on a fairly large scale. It is, therefore, possible that Messrs Ram Krishan Kulwant Rai came to know from the press reports and market about the STC's interest in purchasing tyres and contacted the Hungarian suppliers in the matter. The contract which Messrs Ram Krishan Kulwant Rai had already entered into with the Hungarian suppliers was, more or less, in the nature of an authorisation obtained by the former to act as an agent of the latter rather than a firm contract for the supply of tyres by Hungary to India, as it would be seen that, whereas in this contract 10,000 sets of tyres in size 825-20-12 were offered @250.00 per set and 5,000 sets of tyres were offered in size 750-20-10(@ Rs. 230 per set; the prices in the above sizes were ultimately reduced to Rs. 210.00 per set and Rs. 172.00 per set respectively and the quantity in size 825-20-12 was increased from 10,000 sets to 30,000 sets and that in size 750-20-10 was increased from 5,000 sets to 10,000 sets.

2.3.7. We have considered very carefully the explanations now offered by the State Trading Corporation in regard to the appointment of Messrs Khemkas and Messrs Ram Krishan Kulwant Rai. We must point out, however, that the original intention of the State Trading Corporation appears to have been to handle this import directly themselves. However, a sudden change was made to appoint agents but no reasons have been recorded for this change in their policy. It is not, therefore, clear whether the same considerations which are now advanced weighed with them at that time. Even assuming that it was desirable to entrust this work to private parties on account of STC's inexperience in this field, the method adopted in appointing agents does not appear to be sound. We consider that, before selecting their agents, it would have been appropriate for the STC to have invited public offers so that they would have encouraged some competition in the matter of margins which they ultimately gave

to their agents. It might have also been possible for them to secure reliable and experienced dealers to handle this business. We are also not convinced that Messrs Ram Krishan Kulwant Rai's selection by the Hungarians as their agents, which was obviously made after the Hungarian Commercial Counsellor made an offer for the supply of tyres to India, would have been so made if public offers had been invited. It is possible that the Hungarian Commercial Counsellor would have appointed anybody selected by the S.T.C. as their agents and there was nothing special in the appointment of Messrs Ram Krishan Kulwant Rai by the Hungarians as their agents. This would equally apply to the recommendation made by the S.T.C. to the U.S.S.R. authorities for appointing Messrs Khemka as their agents for the supply of tyres from the U.S.S.R. to India.

#### **2.4. Financial Relationship between S.T.C. and the Distributors**

2.4.1. In paragraphs 2.27 to 2.29 of their Report, the Public Accounts Committee have made the following observations:—

- (i) There has been lack of care and attention in drafting the agreement with the agents of the foreign suppliers. The legal opinions obtained on different occasions give conflicting views.
- (ii) The Ministry of Law had not been specifically consulted. The State Trading Corporation should get an authoritative legal opinion in consultation with the Ministry of Law clearly spelling out the financial responsibility of the S.T.C. and their distributors in such cases.

2.4.2. The first agreement in regard to import and distribution of tyres was entered into by the State Trading Corporation with Messrs Khemka (Agencies) Private Limited, Bombay, on 12.9.59. The agreements entered into by the State Trading Corporation subsequently with this firm and with the other firms followed broadly this agreement. After deciding to import tyres from Czechoslovakia, China and U.S.S.R. through Messrs Khemka & Co., the S.T.C. considered on 10.9.59 that the simplest way would be to authorise the firm to enter into contracts with the manufacturers in foreign countries and to import all the available quantities in sizes 825-20 and 900-20 (both 10 and 12 ply) and to intimate to the State Trading Corporation the c.i.f. values, whereafter the STC would apply for import licences in the name of the State Trading Corporation with a letter of authority in favour of the firm. This arrangement, it was considered by the State Trading Corporation, would be covered by entering into a simple agreement with Messrs Khemka & Co. on the same lines as for machine tools and printing machinery with the minor alterations that

release of tyres and tubes would be made against STC's release orders. A draft agreement was prepared on this basis in consultation with the Financial Adviser of the State Trading Corporation and issued on 12.9.59 under the Managing Director's signature. The agreements were silent in regard to the legal and financial responsibility in case tyres imported could not be sold and also if any loss was incurred in these transactions, with the result that, when this question was raised by the firms, the Law Officers of the STC expressed different opinions on this point.

2.4.3. When the opinion of the Deputy Divisional Manager (Law) was sought for in August 1961 by the State Trading Corporation, that officer, after analysing all the factors, expressed an opinion on 16.8.61 that "therefore, from whatever angle we look at it, it seems to me that it would be difficult for us to avoid risk and responsibility in respect of the said tyres." (However, five years later on 12.9.66, the Law Officer of STC expressed a different view that, in his opinion, the agreements between the STC and the parties importing the goods under them were as between two equal contracting parties.) Subsequently, when the firms tried to throw the responsibility on the State Trading Corporation for sale of imported tyres when they found it difficult to sell them in the market, a reply was sent to the firms, after consulting the STC's Law Officer, refuting their claim that the STC were responsible for the sale of tyres. At the same time, they were permitted to sell the tyres at any price they liked and STC were also agreeable to waive their margins on these tyres. As regards a claim from Messrs Ram Krishan Kulwant Rai for the alleged losses they suffered on account of tyres, which according to them had deteriorated to such an extent that further sale at any reasonable price was practically impossible, the STC did not accept that position at all and stated that, should the firm make any such claim, they would be doing so at their own risk and cost.

2.4.4. Although, the STC replied to the firm on the lines indicated in para 2.6.3 above, yet, the STC apparently felt that they had a moral responsibility to assist the firm in disposing of their stocks and, therefore, made all efforts to assist them in liquidating the stocks either by re-export to their countries of manufacture or sale through DGS&D to Government Departments and to the Defence Services. All these embarrassments and difficulties would perhaps have been avoided, had the agreement been drafted in consultation with the Legal Experts and the financial and legal liabilities in regard to any possible losses arising out of this transaction spelt out in the agreements themselves. We would, therefore, suggest that the State Trading Corporation should ensure that in all such transactions adequate legal advice is obtained in drafting agreements involving financial implications to protect themselves against possible claims/losses.

2.4.5. In regard to consulting the Ministry of Law, the State Trading Corporation have stated that they had consulted the Department of Legal Affairs in the Ministry of Law in certain cases in the past for advice and guidance but STC were told that they should not seek the advice of the Ministry of Law on matters concerning their normal duties and functions. The same view was expressed by them in a Note No. 79(1)58-J dated 21st September, 1959 relevant extracts from which are reproduced below:

"6. Autonomous Corporate bodies, including Government Companies and Corporations, set up, owned or controlled by the Government of India, are not competent to seek and therefore should not seek the advice of the Ministry of Law on matters concerning their normal duties and functions. These bodies should make their own arrangements for their legal needs. If any matter is of great importance, it would be open to these bodies to take the opinion of senior counsel as is done by private corporations. The only matters on which the advice of the Ministry of Law may properly be obtained by the administrative Ministry would be matters which relate directly to functions of control, statutory or otherwise which Government may themselves have to exercise with respect of the work of such bodies".

The State Trading Corporation had, therefore, to make their own arrangements for seeking advice in drafting such agreements. As regards the observations of the Public Accounts Committee in para 2.29 of their Report, however, the STC have stated that they have noted these observations and that a request would be made to the Ministry of Law through the Ministry of Commerce to advise the STC in special cases of this nature.

## 2.5. Quality of Imported Tyres

2.5.1. In para 2.36 of their Report, the Public Accounts Committee have pointed out a serious lapse on the part of the State Trading Corporation in not verifying whether the obligations under the contract which contained a clause about the quality of the tyres had been fulfilled or not. In para 2.37 they have pointed out that they did not understand why the idea of having a quality control or quality check of imported tyres which STC had in 1959 was not pursued. In para 5.1(2) the PAC have further observed that the STC have shown lack of appreciation of the essential requirements of this case, such as, ascertaining the quality, specifications etc., in the beginning before they allowed these imports of tyres.

2.5.2. Paragraphs 2 and 3 of Part IV of Appendix II (pages 80-81) of the PAC's Report explain the action taken by the STC in verifying the quality of the imported tyres. On 18.8.59, the STC wrote to the Develop-

ment Wing of the Ministry of Commerce & Industry forwarding technical data in respect of tyres available from China and Czechoslovakia and requesting them to examine the literature and data from the point of view of dimensions, pressure, load, etc., *vis-a-vis* the Indian tyres and let the STC have the views of the Development Wing at an early date. On 27.8.59, a reply was sent by the Development Wing of the Ministry of Commerce and Industry to the STC stating that, in so far as the import and sales of the consumer goods by the STC were concerned, the STC was to handle the matter without reference to the Development Wing. On this letter, the Divisional Manager (Engg. Division) recorded as follows:

"This means that we shall have to tell our prospective buyers about the specifications, pressure etc. in different sizes and ply. We can do it now.

Director—has agreed.

JDM(S)

Sd - A. S. SHARMA  
2.9.59

Sd/- A. S. SHARMA  
2.9.59"

It is also relevant to reproduce an extract from a note recorded on 23.12.60 by the DDM(Engg):—

"There is a real danger in accepting the Hungarian, USSR and Polish tyres in as much as there may be premature failure of these tyres not on account of any manufacturing defect or careless usage, but, merely on account of the fact that operators may use the inflated pressure and maximum load recommended by indigenous manufacturers as we do not inform the woperators that the manufacturers' recommendations for these tyres are for lesser weight and lesser pressure. Besides, we would be charging the same price for Hungarian, Russian and Polish tyres as for the other Makes *i.e.* the list price of indigenously manufactured tyres."

The STC were thus not only aware that the specifications *i.e.* maximum load carrying capacity and pressure of the imported tyres were lower but also of the consequences of not making these details known to the users. The prospective buyers were not informed about the maximum load carrying capacity or pressure for the various sizes offered for sale through the Indian firms. If, therefore, the STC had only carried out their own decision to inform the prospective buyers, all the difficulties which ensued later would have probably been avoided. We, therefore, recommend that the STC should fix responsibility for this lapse.

2.5.3. On 30.11.59, the STC, *inter alia*, wrote to Messrs. Khemka & Co. Bombay, enquiring whether they received the test report on the samples of Chinese tyres submitted by them for test to the General Superintendence Co. On 9.12.59 the firm replied to the STC stating that they were in correspondence with the local office of General Superintendence Co. Ltd., but had not succeeded in securing anyone in Bombay who could satisfactorily carry out the test. They had written to their connections in the U.K. and on the continent and immediately they heard they would Air Mail the tyre for test purposes. A final reply was received from the firm on 16.1.60 enclosing a copy of the General Superintendence Co. Ltd., of 5th January, 1960, the gist of which is given in para 2 of Part IV of Appendix II referred to earlier. On this letter, the DM (Engg.) recorded a note on 16.1.60 as follows:

"The whole procedure seems to be complicated and cumbersome. What we really wanted was a report on performance, physical properties, like strength, wherein resistance etc., so that we can compare their qualities with the standard properties. *But we need not go into this at this stage.* I would like to have a word with you."

On 19.1.60, the Joint Divisional Manager (JDM) recorded a note as follows:

"Discussed with DM(SH). As the responsibility rests on the firm, we need not pursue the matter further."

The letter was then discussed by DDM(G) with JDM and filed as instructed. It is not clear from these notings for what precise reason it was decided not to pursue the matter further at that stage. Apparently, it was considered that the guarantee given by the firm was adequate and if, in the light of complaints received subsequently, it was noticed that the quality was not good then the matter could be pursued further. Please also see the concluding portion of para 2 and para 3 of Part IV of Appendix II of the PAC's Report.

2.5.4. Subsequently, when a decision was taken to import another 1,20,000 tyres during 1961, the question of quality of the tyres offered by the various countries was examined in detail. It was explained that, during 1959 and 1960, while the STC had checked the specifications of the tyres yet no offers were rejected merely on account of the fact that the tyres offered were lower in specifications to those manufactured indigenously. This was done on account of two reasons *i.e.*, Indian tyres were best in the Indian conditions and even the best imported tyres would be lower in specifications as they were not manufactured to suit the Indian roads/ climatic conditions; secondly, since, there was an acute shortage in the market and since imports had to be made immediately to meet the shortage, the STC had to accept whatever the foreign suppliers could offer so long

as the tyres were not inferior compared to the indigenous tyres. Since complaints had been received with regard to the performance of tyres imported from China and there were some complaints with regard to Czechoslovakian tyres also, the STC felt that for the year 1961 purchases, greater emphasis should be laid on specifications than they had done in the past. The main requirements were in the sizes 750X20—10 ply and 825X20—12 ply. The ply rating, maximum load and maximum inflated pressure, offered for delivery by Yugoslavia, Poland, Hungary, USSR and Czechoslovakia were compared with those of indigenous tyres and it was found that Czechoslovakian and Yugoslavian tyres met the Indian standards and, therefore, they could be accepted without difficulty. The STC were aware that in regard to tyres purchased by them earlier, the specifications were lower than those for corresponding Indian tyres. The DM(Engg.), however, asked Messrs Khemkas, when the question of importing tyres to meet requirements during 1961 was considered, to send cables to suppliers in Poland, and the USSR, requesting them to state whether they would be prepared to supply tyres conforming to specifications acceptable in India (the specifications being that of indigenous tyres with regard to ply rating, load and the pressure). The replies received from both these countries, however, indicated that they could not improve upon the specifications already submitted to STC through their agents. The Hungarian and Polish tyres did not meet the requirements both with regard to load and inflated pressure compared to indigenous tyres and the specifications offered by both these countries were assessed to fall short by 12 to 15 per cent. However, it was ascertained that there was 25 per cent margin of safety in Indian tyres regarding the specifications of load and pressure. Assuming that the Hungarian and Polish tyres also had the same safety margin it was recommended that the tyres from these two countries might be purchased. It was also pointed out that according to the Polish Commercial Counsellor's office, the Polish tyres offered were generally used in Poland and in other countries for 10 ton trucks and specifications indicated were standard specifications according to which tyres for 10 ton trucks were manufactured. As the Russian tyres fell much below the specifications of indigenous tyres, their purchase was not recommended.

2.5.5. The pros and cons of purchasing tyres from these countries was subsequently discussed in detail and it was decided to purchase the tyres offered by Yugoslavia and Czechoslovakia to the extent available and the balance from Poland and Hungary. An order placed on 1.2.61 for 20,000 sets of Yugoslavian tyres in the sizes 825X20, No. of ply 12 *plus* 2, was subsequently cancelled on 15.3.63 as Messrs Khemka & Co. their agents, did not return the agreement duly signed and the STC were interested in covering the requirements urgently. For the same reason orders placed on 3.2.61 for 4,000 sets of tyres in the size 825X20—12 ply from

Czechoslovakia were also cancelled on 14.3.61. In other words, the orders which were effectively placed were for Polish and Hungarian tyres only which, as stated earlier, were lower in specifications to indigenous tyres to the extent of 12 to 15%. At one stage, the STC also considered whether, because of the lower specifications, a lower price should not be charged for such tyres. However, after discussion with the Director and the Chairman, it was decided that the STC's selling price should continue to be the same as fixed for the indigenous tyres in spite of difference in specifications.

2.5.6. We find that the STC took no steps whatsoever to have the quality and the specifications checked up with reference to the contracts made by them even after the receipt of complaints from the importers themselves. In regard to the decision of the STC not to pursue the idea of having the quality control or quality check of imported tyres, we find that there were no scientific facilities available in the country for such quality check and the STC relied on the guarantees given by the suppliers. This is the normal practice adopted even in respect of indigenously manufactured tyres i.e. for prematurely failed tyres the Companies generally compensate the buyers. We, however, submit that the STC was not guilty of failure to ascertain the quality, specifications, etc., of these tyres before they took the decision to import these tyres. There is extensive noting on the files of the STC to show what the specifications of these tyres were and to what extent they were lower than the corresponding indigenous tyres. The decision to import these tyres was, therefore, taken with the full knowledge that the quality and specifications of these tyres were lower.

#### **2.6. Submission of sales return by the firm and commissions received by them**

2.6.1. In para 2.43 of their Report, the Public Accounts Committee observed that Messrs. Ram Krishan Kulwant Rai got two commissions, one from the Hungarian firm and the other from the STC. They, therefore, inquired why the STC failed to tell the Hungarian firm that STC had appointed Messrs. Ram Krishan Kulwant Rai as their agents which would have avoided the payment of double commission. The Committee have also inquired in para 2.48 of their Report whether action had been taken against the firms for breach of contract as they did not furnish monthly Sales Return. We have examined these observations.

2.6.2. The STC have stated that they did not pay any commission to any importing firm. All the firms were allowed a remuneration of 11½ per cent on the landed cost of the tyres which besides including their margin of profit was also to cover their expenses for financing imports, godown insurances and for meeting distributing and forwarding charges.

2.6.3. The STC have further stated that no firm action was taken against Messrs. Ram Krishan Kulwant Rai and Messrs. Consolidated

Equipment of India Private Ltd. as the firms had been promising, from time to time, that they would be rendering their accounts for inspection. The accounts of Messrs. Consolidated Equipment of India Private Ltd. had been inspected by the STC and it was found that they had suffered a loss on the entire transaction.

2.6.4. The STC's inspection party has recently concluded inspection of the accounts of Messrs. Ramkrishan Kulwant Rai. They have reported that the firm suffered loss on the entire transaction of tyres even after taking into account the amount of compensation of Rs. 4,80,000/- as well as two other amounts of Rs. 93,120 - and Rs. 46,400/- received by them as compensation from the foreign suppliers. As regards agency commission, the firm did not produce original invoices of the foreign suppliers. They orally disclaimed having received any agency commission on import of tyres. It was, however, seen at the time of inspection of the firm's books of account that various amounts totalling Rs. 10,10,000/- were credited to "Commission Account" by transfer from the accounts of various parties. It was explained that these amounts although credited to Commission Account, did not actually represent Commission received from suppliers. It was further explained that these amounts represented credit balance lying in the accounts of various parties which were not real and that these amounts were disclosed by them as income and got assessed to income tax under the income tax disclosure scheme and also that it was only for squaring up their books that the credit balance in the accounts of the parties in question were transferred to Commission Account. The firm, however, did not produce for inspection any papers in support of this statement. Further amounts totalling Rs. 45,652.84 were found credited to Commission Account in their books as Commission received from Messrs. Chemolimpex, Budapest. It was explained by the firm that this amount was received as commission relating to the consignments of chemicals which were imported by them against the value of 13,000 tyres re-exported. They did not produce for inspection the original bills of the foreign suppliers or any other papers from which it could be verified with any amount of certainty that the commission in question related to import of Chemicals and not tyres.

2.6.5. Whatever the firm may claim, it appears to us that the position in this respect is not free from doubt and oral statement should not have accepted by the S.T.C. on its face value. It would have been advisable if this information was obtained in writing from the firm as well as from the Hungarian Embassy before the S.T.C. placed orders on the firm so that the landed cost could have been reduced by the agency commission the firm received.

## **2.7. Non-checking of quantity and weight of Imported Tyres by S.T.C. with Bills of Lading**

2.7.1. According to Messrs. Ramkrishan Kulwant Rai's letter of 22.5.1962, weight of 825—20—12 tyres was prescribed as 41 kilograms but the tyres supplied by the Hungarian suppliers on the average was 33.80 kilograms only. It was explained by the witness on behalf of the S.T.C. during the Public Accounts Committee's sittings that the weight of the tyres was not checked with the bill of lading and that S.T.C. would be more careful in future and this kind of mistake would not be repeated. The Public Accounts Committee hoped *vide* para 3.3 of their Report that such mistakes would not be repeated in future.

2.7.2. Although no further examination of this point was necessary, we felt that it would be useful to find out whether the statement made by the firm was correct or not even at this late stage. As these tyres were purchased and issued many years ago, the Committee's efforts to locate a new unused tyre and got it weighed did not prove successful. However, at the instance of the Committee, the Director of Vehicles (Research and Development) had two partially used CORDATIC tyres available at the Vehicles Research and Development Establishment at Ahmednagar weighed. It was found that the weight in their present condition was 30 kilograms per tyre. The Director Vehicles (R&D)'s technical opinion is that their weight when new would not have exceed 35 Kgs. In other words the firm's contention in this respect appears to be justified.

## **2.8. Assistance rendered by the State Trading Corporation to the Importing Firms to Liquidate Stocks**

2.8.1. The PAC have observed that Messrs. Ramkrishan Kulwant Rai sought all sorts of concessions and assistance from the STC for disposing of their stocks of tyres (para 1.30). The interest and initiative taken by the STC in helping the stockists to dispose of their tyres to various Governmental agencies was not consistent with the knowledge that they had of the large number of complaints about the quality of these tyres. This attitude was particularly difficult to appreciate in STC's efforts to get Defence establishments to take these tyres [para 5.1(6)]. The Committee also did not appreciate the interest taken by STC in approaching the DGS&D for fixing up rate contracts in regard to the tyres with particular firms [5.1(7)]. The STC was unduly generous with Messrs. Ramkrishan Kulwant Rai (para 3.73). Messrs. Ramkrishan Kulwant Rai and General Industrial Stores Supplying Co. had some influence with the persons dealing with the transactions of tyres in the office of the STC (para 3.77). The PAC was unhappy to note the efforts made by officials of the STC in helping the firms in securing the contact (para 4.35). We have examined these observations.

2.8.2. The STC have intimated that, in regard to the steps taken in liquidating the stocks of imported tyres held by the various firms, they did

not do anything which may be construed outside the ordinary course of business. The tyres were imported in pursuance of a Government decision and the agreement which the STC entered into with the firms. While in the initial stages, the release price was controlled by the STC and there was no difficulty in disposal of all the imported tyres, yet, the situation changed towards the end of 1961 when, on account of easy availability of indigenous tyres and the adverse propaganda against the imported tyres which were comparatively somewhat of lower specifications *vis-a-vis* the indigenous tyres, the importing firms felt difficulty in disposing of the stock. As a result, the SCT had to give facilities to the firms in disposing of the stocks; firstly, the release was de-controlled and secondly, the firms were also permitted to sell the tyres at any price they could fetch, the STC foregoing their margin of profit.

2.8.3. Although the STC has claimed that there was no legal and financial liability devolving on the STC in this transaction, we are of the view that, at one stage, the STC were not quite clear whether the responsibility for any unsold stocks would not ultimately devolve on them. In fact, their Law Officer had also expressed this view in August 1961. Moreover, tyres and all rubber stocks deteriorate by long storage and there was legitimate anxiety on the part of the S.T.C. that these tyres should be sold away before they remained under storage for a long time. But, the principal motive in assisting the firm seems to have been a fear that the financial liability may ultimately fall upon the State Trading Corporation. This is further confirmed by the conversation we had with the Minister for Petroleum and Chemicals, Shri K. Raghuramaiah, who also seemed to have carried the same impression that the tyres were on STC's account and that the S.T.C. would stand to lose a lot of money if these tyres were not sold early.

## **2.9. Non-Disclosure of vital Information to the DGS&D, Defence and others**

2.9.1. The Public Accounts Committee have made the following observations:—

- (i) Although the STC came to know about the defects on 28-4-60 they took no action in the matter except to write to the firm asking them as to what procedure they propose to adopt for compensating the actual users and this was inexplicable (para 2.38).
- (ii) The defective quality of these tyres which had come to the notice of the STC was not brought to the notice of the DGS & D and the Defence Ministry. They took a strong view on the withholding of this vital information and desired that this failure

should be investigated and responsibility fixed for this lapse (paras 2.40, 2.57, 3.38, 3.39 and 3.40).

(iii) It was a matter of regret that the STC did not communicate the material information regarding specifications of tyres to the DGS&D (para 3.49).

(iv) STC should have brought the defects to the notice of the public also and then taken up the matter with the suppliers and secured adequate price reduction. (para 2.39).

We have examined these observations.

2.9.2. The STC have stated that the letter dated 28th April, 1960 from the Transporters Gazette Weekly complained about the quality of Chinese tyres only. The reports which had been subsequently received about the performance of the Chinese tyres were rather of conflicting nature. Purchasers like the Poona Cooperative Society who had found the quality of Chinese tyres satisfactory as a matter of fact, after having received the first lot of 400 tyres, had again asked for another 500 tyres. As no occasion had arisen earlier to settle claims arising out of premature failure of the tyres attributable to manufacturing defects by payment of suitable compensation, it was necessary for the STC to write to Messrs. Khenka when they came to know about complaints for evolving a procedure in this respect.

2.9.3. The State Trading Corporation have stated that out of 48,249 sets of tyres sold against STC's Release Orders during 1959-60 and earlier part of 1961, complaints regarding failure of tyres were received in respect of 1,047 tyres which comes to less than 2.2%. On examination of these 1,047 tyres by a panel, it was found that failures in respect of only 482 tyres could be attributed to manufacturing defects for which compensation was awarded to the buyers. Thus the failure percentage on account of manufacturing defects would work out to about 1 per cent which could by no means be considered excessive even as compared to the performance of indigenous tyres.

2.9.4. In their letter dated 27th November, 1961 to the Joint Secretary, Ministry of Commerce and Industry (Appendix IX, page 134 to 136 of the PAC's report), Messrs. General Industrial Stores Supply Co. Private Ltd., Calcutta, pointed out various defects in the tyres imported by them from Poland. They had further stated that the manufacturers *i.e.* Messrs. SKORIMPEX refuted all these complaints and had maintained that the tyres had been supplied strictly according to the specifications accepted by the State Trading Corporation. The Indian firm, therefore, requested that the matter might be taken up at Government level with the Government authorities in Poland. Earlier they had written to the Ministry of Commerce and Industry, with copies to the State Trading Corporation, that, on

account of these defects and consequent difficulties in selling the Polish tyres in India, the Polish Export Organisation should be asked to take back the entire stock of tyres and to pay compensation for all the tyres which had failed prematurely. Subsequently, representatives of the firm met the DM (Engg), Director, Managing Director and F.A. of the STC on 5-1-62 and intimated that the Polish authorities had not yet come to any satisfactory arrangement and promised to write to the STC further. Further letters were also received by the STC from the firm wherein the firm had stated that it was impossible to make the customers accept the supplies on the price fixed by the STC from time to time and as the specifications were lower than those of indigenous tyres, the tyres were a perishable commodity and had been received in the country as early as October 1960, the STC, in the role of a Government of India Undertaking, should persuade the various users to purchase these tyres and they should also be permitted to sell the tyres at any price they could fetch. The STC wrote to the Ministry of Commerce and Industry on 31.1.62 that the defective nature and poor performance of these tyres might be taken up with the foreign suppliers through the Indian Embassy in Poland with a view to obtaining a suitable reduction in the c.i.f. price of these tyres without which it would be impossible for the firm to sell the tyres in Indian market. Ministry of Commerce and Industry also took up the matter with the Embassy of India in Poland. The STC also released their control on the prices and permitted the firm to sell the tyres at any price, with effect from 7.2.62, at the same time pointing out that, the sale of tyres being the exclusive responsibility of the firm, any loss or profit on the sale of these tyres would be of the firm although the STC would forego its margin on such sales. Since the firm could not get any favourable response from their foreign suppliers and they also considered that the steps taken by the STC were not adequate enough to dispose of the huge stocks of tyres with them, they wrote a letter to the Minister for International Trade on 29.6.62 pointing out the various defects noticed in these tyres and suggesting that the Polish Government should be approached to take back the entire stock of a substantial portion of it; alternatively the firm should be offered substantial reduction in the price and also compensation for premature failures. The possibilities of re-export of these tyres to other countries should also be investigated. In the meantime in a similar case of Hungarian tyres (please see para 2.9.5), the importing firm had succeeded in negotiating re-export of a sizable number of tyres to Hungary. A letter was accordingly issued by the Minister for International Trade to the Polish Ambassador in India pointing out the difficulty in effecting sale of Polish tyres which were found to be much below the specifications. The various defects pointed out by the firm were also brought to the notice of the Polish Ambassador, who was requested to use his good offices to arrange for an amicable settlement of this case. The firm also continued their efforts with their foreign suppliers. Ultimately, as a result of negotiations held in Warszawa between the representatives of Messrs.

GISSCO and SKORIMPEX, final agreement was reached on 29.11.62 between the two parties according to which the foreign suppliers agreed to take back 8,000 tyres against which, however, 7,300 tyres were actually re-exported. (The firm were not in a position to bring the balance of 700 tyres from their other Branches to Calcutta before the ship left for Poland)

2.9.5. On the 5th March, 1962, Messrs. Ramkrishan Kulwant Rai wrote a letter to Messrs. Chemolimpex, Budapest, with a copy to the SIC, complaining that the weight of the Hungarian tyres supplied was less than that specified in the agreement, the tyres were not tropicalised, as specified in the agreement and also certified by the foreign suppliers, the performance of these tyres was poor and far from satisfactory and the certificate and guarantee given by the suppliers were incorrect. They accordingly suggested that either the tyres be taken back by them or agree to Messrs. Ramkrishan Kulwant Rai acting as their selling agents and to sell the material at whatever price it might be possible to off-load them in the market in India. No action was taken by the SIC on the copy of this letter received by them. It was submitted for information by the DM (ENGG) on 28th March, 1962 to the Director, who saw it on 29th March, 1962. Subsequently, a letter was addressed by Messrs. Ramkrishan Kulwant Rai on 17th May, 1962 (Appendix X, pages 137 to 140 of the PAC'S Report) to the SIC in which, *inter alia*, they again brought these defects to the notice of the SIC. They had earlier been writing to the SIC stating that the liability for sale of these tyres was that of the SIC. They further stated that a claim for all losses incurred by them was under preparation and would be presented in due course. They further requested the SIC to exert pressure on the Hungarian suppliers to behave in an honest manner. On 22nd May, 1962, the firm also wrote to the Minister for International Trade referring to the correspondence they had with Messrs. Chemolimpex as well as with the SIC in this connection making several suggestions and suggesting that the matter might be taken up with the Hungarian Government at Government level for obtaining a fair deal from Messrs. Chemolimpex. This letter was passed by the Minister for International Trade to the Chairman, SIC, with the remarks that "we should help as much as we can. We may discuss". These two letters appear to have been discussed by the Chairman, SIC, with the Minister for International Trade and on 4th June, 1962, the Chairman, SIC, wrote a letter to the Minister for International Trade enclosing a draft letter from the Minister for International Trade to the Hungarian Ambassador in India as well as a note on the subject. This note detailed all the complaints pointed out by the firm in their letters to the SIC as well as to the Minister for International Trade. No action appears to have been taken by the SIC to verify whether the defects as pointed out by the firm were borne out by facts. The draft letter was issued on 7th June,

1962, by the Minister for International Trade to the Hungarian Ambassador in India. This letter indicated that there was a difficulty in effecting the sales of imported Hungarian tyres due to the reason that they were very much below the contract specifications agreed upon at the time of placing the order and requesting the Hungarian Ambassador to use his good offices in arranging for an amicable settlement. A reply was received from the Hungarian Ambassador on 9th June, 1962 stating that the Indian party had already directly approached him and had received an invitation from Messrs. Chemolimpex to visit Budapest in order to discuss the matter personally and that Messrs. Kulwant Rai would avail himself of the invitation. The Hungarian Ambassador further stated that he had drawn the attention of the Hungarian Minister for Foreign Affairs to the matter and of the fact that the Minister for International Trade was also personally eager to achieve an amicable settlement. An agreement was subsequently entered into between Messrs. Ram Krishan Kulwant Rai and Messrs. Chemolimpex on 23rd June, 1962 according to which 13,000 tyres were to be re-exported to Hungary and Messrs. Ram Krishan Kulwant Rai were also to receive compensation of Rs. 4,80,000. The details as to how this quantity of 13,000 tyres was arrived at or compensation of Rs. 4,80,000 fixed are not indicated in the agreement.

2.9.6. As regards communicating details of specifications of the imported tyres to the DGS&D and the Ministry of Defence, the STC have stated that a view was taken in MMD's room on 30th July, 1962 that the imported tyres were not good enough for forward areas but for other purposes they might be purchased. Thus the specifications of the imported tyres as compared to the indigenous tyres were fully known to the DGS&D before he entered into a rate contract. "The mere fact that STC did not specifically communicate in writing what was obvious and common knowledge did not justify a conclusion that the STC deliberately withheld from the DGS&D and the Ministry of Defence or any other Government department the information it had about the quality of tyres." We could not agree with this line of argument. The specifications were known only to the STC. (Although it is true that the DGS&D inspectors were also aware of it, yet they did not intimate these details to the DGS&D Headquarters at New Delhi with the result that the latter were unaware of the specifications.) The STC's contention that all were aware of the lower specifications because of the decision taken in the room of Minister of State in the Ministry of Defence to use these tyres in non-forward areas, cannot also be substantiated. During the discussions with us, an erstwhile officer of the STC stated that DGS&D being a member of the Board of Directors of the STS, was aware of the specification details of these tyres because a note was circulated to the Members of the Board of Directors of the STC on 16th March, 1961, which, *inter alia*, indicated that the tyres offered by all East

European countries excepting Yugoslavia, were found to be below the specifications of the tyres made in India. That note also stated that it was considered expedient to place orders with such of the countries whose tyres came within about 15 per cent of the specifications of the Indian tyres. Along with that note a statement giving details of specifications of tyres from various sources was also attached. As a Member of the Board of Directors of the STC, the DGS&D might have been receiving several notes from the STC from time to time and it is not justifiable to expect that, nearly after 18 months, he should have been aware of this particular note while dealing with the question of rate contract in his capacity as DGS&D. We are, therefore, unable to accept this contention of the State Trading Corporation.

2.9.7. From what is explained above, it is clear that the STC did not themselves make any effort to verify the specific defects pointed out by the firms but had accepted the firm's reports and acted on them. Some of these defects were easily susceptible to verification. In paras 4 and 5 of Appendix VI (pages 126 and 127) of the PAC's Report, the STC have stated that they did not attach significance to the complaints received from the firms in a different context regarding the quality and performance of the tyres and, therefore, did not consider it necessary to bring these to the notice of the DGS&D. We are unable to accept this contention. We feel that compensations were paid by the foreign manufacturers to the Indian firms apparently because the former also accepted that at least some of the defects pointed out by the Indian firms were factually correct. Having accepted these defects as genuine and acted on the reports of the firms, the STC should have brought the defects which had come to the notice of the STC *specifically* to the notice of the DGS&D, Ministry of Defence and others. As regards specifications also, the fact that they were lower than those for corresponding indigenous tyres were very well known to the STC even before they placed the orders but was not brought to the notice of any one concerned. Had this been done, the Defence authorities and the DGS&D would have taken all the facts into consideration before deciding to purchase and put them on the rate contract.

2.9.8. Our conclusion, therefore, is that this vital information regarding defects and details about lower specifications were not brought to the notice of anybody by the STC. We regret to note that even at the meeting held in the room of Minister in the Ministry of Defence on 30th July, 1962, no reference was made to the serious complaints already made to the State Trading Corporation by the importers themselves about the quality of these tyres and on which complaints the State Trading Corporation had already taken up the matter with the foreign suppliers for re-export and compensation. On the other hand, an impression seems to have been given that these tyres were as good as indigenous tyres.

2.9.9. We have considered carefully the observations of the Public Accounts Committee in regard to the failure of the State Trading Corporation to bring the specifications and the defects to the notice of the general public. We regret to note that although there is a clear record on the file of the STC that the general public should be informed of the specifications of these tyres lest the users inflate them to the pressure recommended by the indigenous manufacturers resulting in premature failure, no such notice was given to the public. As regards the defects brought to the notice of the STC, they have explained that the percentage of defects and failures was small (not exceeding 2 per cent) which was not excessive compared to the performance of the indigenous tyres. Besides, the procedure for claiming compensation in respect of such premature failures was generally known to the users of tyres. This also seems to have been borne out by the fact that some complaints had been received by the STC and they had taken up the question of compensation with the agents. In fact, one firm has already paid compensation for defective tyres to some of the users, but another firm has refused to entertain any claims for compensation. In this connection, attention is also invited to Chapter V of this Report.

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## CHAPTER III

### DIRECTOR GENERAL OF SUPPLIES & DISPOSALS

3.1. The Director General of Supplies & Disposals is concerned with the issue of recommendatory letters to the direct demanding officers for purchasing imported tyres, entering into rate contract with stockists in India and placing A/Ts on them for supply of imported tyres to the indentors. The Public Accounts Committee have made the following recommendations/observations on these transactions. (The Serial Numbers of the recommendations/conclusions as given in Appendix XIV of the Report are also indicated in brackets)

- (i) The inspection of the tyres by the office of the Director of Inspection, DGS&D at Calcutta was only visual and it failed to bring out that these tyres were under prolonged storage. It was unfortunate that on the basis of such a report, DGS&D also issued the circular letter on 28th May, 1962, to all direct demanding officers. [Sl. Nos. 26 and 52(9)].
- (ii) Wilful suppression of important documents by persons dealing with this case in the DGS&D [Sl. Nos. 27 and 5-1(10)].
- (iii) Non-inclusion of the warranty clause in the rate contract. [Sl. Nos. 30, 39 and 52(10)].
- (iv) Failure to enquire from the State Trading Corporation or from the suppliers about the specifications of the tyres, for which the DGS&D were entering into rate contract. Suitable measures should be taken to remove defects in procedure followed in such cases. (Sl. Nos. 31, 35, 36, 44 and 46).
- (v) DGS&D did not themselves satisfy about the quality of tyres offered by Messrs Ram Krishan Kulwant Rai [Sl. Nos. 47, 52(8) and 52(11)]. Possibility of a collusion between the purchasing authorities, inspecting authorities and the firm: (Sl. No. 32): Whether Messrs Ram Krishan Kulwant Rai really imported both ST type and THR type tyres in size 825-20-12. (Sl. No. 33).
- (vi) Action against Messrs Ram Krishan Kulwant Rai for withholding from DGS&D information about complaints of manufacturing defects in the tyres. This firm has also apparently had some influence with the persons dealing with the transac-

tions of tyres in the office of the DGS&D. (Sl. Nos. 38 and 40).

(vii) Ministry should invariably keep written minutes of important meetings where decisions are taken. (Sl. No. 45).

We have examined these recommendations/observations and our conclusions are contained in subsequent paragraphs.

### 3.2. Inspection by DGS&D Inspectors

3.2.1. We have very carefully gone into the observations made by the P.A.C. in para 3.16 of their Report in regard to the inspection of tyres by the Directorate of Inspection, DGS&D, Calcutta and the subsequent issue of recommendatory letters to all direct demanding officers and entering into rate contract by the DGS&D.

3.2.2. It may be stated that, till to-date, there are no facilities within the country for carrying out detailed scientific inspection of tyres and tubes. The method of inspection prevalent both in Defence and the Inspectorate of the DGS&D is based on visual examination only. The inspectors examine the tyres for defects such as cuts, blisters, cracks etc. For the rest, they depend on the data furnished by the manufacturers and their warranties to protect the users from premature failure etc.

3.2.3. The inspection reports furnished by the Directorate of Inspection, Calcutta, under the DGS&D, were with reference to a specific request by the D.G.B.R. The D.G.B.R. had stated that they were examining the feasibility of purchasing these tyres and they desired that the DGS&D should inspect representative samples and advise regarding the expected life of the tyres having regard to the rough terrain in which the Border Roads vehicles ply. This letter was forwarded to the Director of Inspection, Calcutta, by the Deputy Director General (Inspection) with instructions to find out the full history of the tyres and to state what tests and inspection could be carried out on them. The question of inspection was also considered by the DGS&D and it was recognised that the Inspectorate did not have facilities to carry out a thorough test.

3.2.4. In the reports dated 4th May, 1962 received from the Directorate of Inspection, Calcutta, we find that these aspects were not directly referred to, nor was any further enquiry made from them by Headquarters. These reports, however, stated: "regarding the rated capacity, the tyres have been examined further with invoices and other records and in the light of the present standard of Indian tyres and tubes, size 750x20-10 PR and 825 x 20-12 PR, are suitable for 3-ton and 5-ton vehicles respectively." The invoices contained particulars of the specifications

of the tyres. We were informed, during our discussions, that the inspectors satisfied themselves about the storage conditions and had found that the tyres were individually wrapped in paper, stored in racks and protected from light and rain. Unfortunately, they omitted to include this information in their reports. These reports were forwarded to the Purchase Wing of DGS&D with the following covering notes of the DDG (Inspection):—

“There is no proper testing arrangement to ensure durability, life and quality of tyres. Not even the Government test-house can test these. Whatever report has been given is based on visual inspection and the import documents. If these tyres are to be purchased, this should be done on the warranty furnished by the suppliers”.

3.2.5. From the above, it will be apparent that—

- (a) there were no facilities for a thorough test of tyres and tubes in the country; and
- (b) the prevailing method was to test the tyres on the basis of purely visual inspection and to rely on warranties furnished by the manufacturing firms.

We feel that the only omissions for which the Inspectorate of the DGS&D can be held responsible are the following:—

- (i) failure to bring out the full history of the tyres, conditions and the period of storage; and
- (ii) omission to check weight of the tyres as given in the import documents.

We recommend that this matter should be investigated further by the DGS&D with a view to taking suitable action.

3.2.6. These reports were examined on the files of the DGS&D. It appears that a discussion was held between the D.G. with the Director, STC and a note was recorded on 23rd May, 1962 by the D.G. wherein it was stated as follows:—

“In view of the inspection report, we may issue a circular to all DDOs that they may purchase direct from the dealers specified by the STC at the rates not exceeding the rates indicated, subject to a ceiling of Rs. 20,000 per transaction. This will be a direct purchase and not through R/C. . . . . These tyres have cost us foreign exchange and we must assist in their full utilisation.”

Obviously, the DGS&D was guided by the fact that valuable foreign exchange had been spent in purchasing these tyres in agreeing to issue the circular referred to above. This circular was issued on 28th May, 1962. Two important aspects should have been mentioned in this circular letter namely, warranty furnished by the suppliers and the suitability of the tyres for use on 3-ton and 5-ton vehicles only. Although the former was brought out in the letter, we find that the latter, which was also an important information, was omitted. It appears that two dealing officials of the DGS&D were responsible. We recommend that DGS&D should fix responsibility for this serious lapse and take suitable action. As regards entering into rate contract with the firms on the basis of this report, please refer to para 3.4.

### 3.3. Wilful Suppression of Important Documents

3.3.1. We have examined the Public Accounts Committee's observations in paragraph 3.21 of their Report in regard to suppression of important documents. We have been informed that suitable departmental action has been initiated against the persons concerned.

### 3.4 Rate Contract entered into by the DGS&D

3.4.1. We have examined the observations made by the Public Accounts Committee in paras 3.49, 3.64, 3.65 and 4.25 of their Report in regard to entering into a rate contract by the D.G.S.&D. with the suppliers. We have studied the relevant records of the D.G.S.&D. but we are unable to pin-point specifically the reasons which weighed with the D.G.S. & D. in entering into this rate contract in September 1962. The reasons have unfortunately not been recorded in the file. From a study of the sequence of events, however, the following picture emerges.

3.4.2. Since the stockists found difficulties in the disposal of their stocks, they apparently approached the S.T.C. to assist them and even tried to make out a case that the financial liability for unsold stocks will be that of the S.T.C. The legal adviser of the S.T.C. was also not really sure at that time that the S.T.C. would not be liable. Under these circumstances, the S.T.C. were anxious to assist in the disposal of these stocks. They, therefore, approached various organisations including the Defence Ministry to purchase these tyres. The Defence Ministry informed them that they did not make any direct purchases and the S.T.C. should approach the D.G.S.&D. Efforts were simultaneously made to approach the D.G.S. & D. and, as a result of these efforts, the D.G.S. & D. had issued a recommendatory circular to all direct demanding officers on 28th May, 1962. Evidently, this was not considered enough by the S.T.C. and they continued their efforts to persuade the D.G.S. & D. to enter into a rate

contract as they apparently thought that this would be one of the best methods to assist the suppliers. Shri C. M. Poonacha, during our discussions with him, mentioned that the State Trading Corporation were anxious to sell the tyres to direct consumers to prevent stocks falling into the hands of private parties, who may make undue profits. It was primarily for this reason that the S.T.C. were anxious to have these tyres put on rate contract. Naturally, there was some reluctance in the D.G.S. & D. to put these tyres on the rate contract, because, even after receipt of the inspection reports dated 4th May, 1962, a note had been recorded on the D.G.S.&D's file—"I don't think we can make a definite recommendation regarding the quality of these tyres". Thereafter, a meeting was held in the room of the Minister in the Ministry of Defence on 30th July, 1962 where representatives of S.T.C., Army Headquarters, D.G.B.R., Defence Production, D.G.S. & D. and others were present. At this meeting a decision was taken that there would be no objection to purchase these tyres provided the D.G.S. & D. fixed suitable price and the specifications were according to those required by Defence. It was also decided that these tyres shall not be purchased for use in forward areas. It is few days after this meeting that a discussion was held between the representatives of the S.T.C. and D.G.S. & D. in the latter's office on 7th August, 1962 when a decision was taken to place these tyres on rate contract. A short record of this discussion is available on the S.T.C.'s file, where it has been stated "D.G.S. & D. very kindly agreed to enter into formal rate contract with the suppliers, in case they agree to reduce their margin of profit of 114 per cent on the landed cost of 50 per cent". The D.G.S. & D. also made a small note on 17th August, 1962 on the D.G.S.&D's file to the following effect:—

"The subject was subsequently discussed with the S.T.C. We have since decided to have rate contract for these imported tyres and have received proposals. This may be expedited."

3.4.3 From these notes, it is not possible to indicate what precisely weighed with the D.G.S. & D. in entering into rate contract apart from the desire to assist the S.T.C. in early disposal of the stocks which has caused the country valuable foreign exchange. It is, also possible that, after the discussions in the Defence Ministry, the fact that an important bulk consumer was prepared to take these tyres might have weighed with the D.G.S. & D. to put them on the rate contract. However, it appears that the D.G.S. & D. did not obtain any further information about the specifications and the quality of these tyres beyond what was mentioned in the inspection reports furnished by their Inspectors on 4th May, 1962. These inspection reports were obviously rendered in answer to specific queries and did not contain all the vital information which the D.G.S. & D. should have obtained before entering into the rate contract.

3.4.4. We are, therefore, of the view that the observations made by the Public Account Committee that the D.G.S. & D. did not follow proper procedure in entering into rate contract, is correct, but he has now taken remedial action. We, however, submit that the observation of the Public Accounts Committee that the D.G.S. & D. did not maintain liaison with the S.T.C. is not borne out by the facts of the case as given to us now. In fact, from a perusal of the records of the two organisations, it is clear that there were frequent discussions between the officers of the two organisations.

3.4.5. During our examination, we have also come across a copy of a letter of February, 1963 on the file of the Inspection Wing of the D.G.S. & D. addressed by the Inspectorate at Calcutta regarding the unsatisfactory storage conditions of tyres in the stocks of Messrs Ramkrishan Kulwant Rai. This letter stated that a sample tyre was tested at the laboratory of the National Rubber, Calcutta, and in view of the test results of the National Rubber, Calcutta, the tyres were not found satisfactory. We find that no action was taken on this letter by the Purchase Wing of the D.G.S. & D. where the letter had been diarised but not put on the file. If this had not been suppressed, it is possible that the A/T referred to in paragraph 3.6 would not have been placed and the rate contract with this firm for these tyres might also have been discontinued.

### **3.5. Non-inclusion of Warranty Clause in the Rate Contract**

In paragraph 3.46 of their Report, the Public Accounts Committee desired that the lapse on the part of the officer/officers concerned in not including the Warranty Clause in the Rate Contract issued by the D.G.S. & D. should be thoroughly investigated and responsibility fixed. The observations of the Committee in this respect were accepted by the D.G.S. & D. Responsibility for this lapse has been fixed on three officers—the Deputy Director (Supplies and Disposals), the Section Officer and the dealing Assistant and disciplinary action against them has already been initiated.

### **3.6. Failure to examine properly the quality of THR tyres offered by Messrs. Ramkrishan Kulwant Rai before an A/T was placed on 12th June, 1963.**

3.6.1. We have examined the observations of the Public Accounts Committee in paragraph 4.33 of their Report that supplies to specifications other than those for which indents had been placed were made. We have examined the relevant files of the D.G.S. & D. and find that several incorrect and misleading statements were made by the Deputy Director

(S. & D.), who was dealing with this case at all stages as indicated below:—

- (i) While recommending acceptance of ST pattern tyres in lieu of CC tyres on an earlier occasion, the D.G.S. & D. had endorsed copies of his letter to OC COD Malad, and Army Headquarters also seeking the latter's agreement. But both the officer Commanding, COD, Malad, and Army Headquarters did not accept ST pattern tyres in lieu of CC tyres. However, the D.G.S. & D. did not consult Army Headquarters when THR tyres were offered by Messrs. Ramkrishan Kulwant Rai in lieu of CC tyres demanded by Officer Commanding, COD, Malad. Had he done so, the deal would not have gone through. (Nor did the Officer Commanding COD, Malad, keep Army Headquarters in the picture about this deal for which the Officer Commanding, COD, Malad, had been held responsible and disciplinary action taken as explained in Chapter IV).
- (ii) In a note dated 3rd May, 1963, the same officer made a statement that these THR tyres were equivalent to Cross Country tyres. This statement is incorrect as THR tyres and Cross Country pattern tyres are two separate and distinct entities. The Committee had examined a sample each of these two patterns and this position was clear beyond doubt. The DD (S. & D.), therefore, did not care to verify the statement made by the firm that THR/Universal pattern tyre is identical to Track Grip of Dunlops which was a Cross Country tyre and accepted the firm's statement without any verification.
- (iii) Further, in a note recorded on 15th June, 1963, he stated that "the price fixed by S.T.C. for Standard pattern tyre of the same size was Rs. 380 whereas the firm have quoted the same price for THR/Universal Track Grip pattern tyres i.e. which are Cross Country type and should be costlier than usual standard pattern type". This statement was misleading because the price fixed for standard pattern tyre of the size was for *one set* of tyre, tube and flap whereas Messrs. Ramkrishan Kulwant Rai had quoted a price of Rs. 380 for a *tyre only*.

We have also observed that the D.G.S. & D. had already entered into rate contract for ST tyres offered by Messrs. Ramkrishan Kulwant Rai at a price of Rs. 349 per set of tyre, tube and flap. We have also been informed that Messrs. Ramkrishan

Kulwant Rai imported tyres under two sizes, namely, 750X20—10 PR and 825X20—12 PR and there is no evidence to show that they imported tyre size 825X20—12 PR under two different types, namely, ST and THR, although in fact they received some tyres which corresponded to ST pattern and some which corresponded to THR pattern. However, the landed cost of both these types was the same, namely, Rs. 210 per set. When, therefore, the D.G.S. & D. had themselves fixed Rs. 349 per set for tyre, tube and flap, for ST pattern there was no reason for them to fix a higher price, namely, Rs. 360 for tyre alone of THR pattern. It is the various misleading statements made by DD (S. & D.) that led the D.G.S. & D. to fix the price at Rs. 360 per tyre alone. The Public Accounts Committee have estimated the loss in this transaction at Rs. 11 per tyre (Rs. 360 minus Rs. 349 fixed for ST tyre). We find, however, that the price of Rs. 349 was for a set of tyre, tube and flap, and if an allowance of at least Rs. 20 is made for the flap and tube, the net price for tyre alone would not exceed Rs. 329 per tyre. By paying Rs. 360 per tyre alone for the THR pattern, the D.G.S. & D. made the Defence Ministry pay an additional Rs. 31 per tyre instead of Rs. 11 per tyre as mentioned in the Public Accounts Committee Report.

- (iv) Again, the same Officer made a statement in the file on 1st June 1963 that the price fixed for Polish tyre (Cross Country type) was Rs. 360 per tyre. He, however, made an enquiry from the State Trading Corporation on 7th June, 1963 to verify whether the cif. Indian port price of the Hungarian tyre offered by Messrs. Ramkrishan Kulwant Rai was Rs. 210 per set as claimed by the firm. If he had consulted the S.T.C. simultaneously regarding the cif. Indian port price of the Polish tyre also he would have known that it was Rs. 228.24 per set i.e. Rs. 18.24 more per set. We have examined one tyre of each of these two categories and it was clear that the Polish tyre (Cross Country type) was superior to the THR Hungarian tyre). On account of failure to examine this aspect by the DD(S. & D.), Government were forced to pay the same price for an inferior quality, the landed cost of which was also less.
- (v) The Officer Commanding, COL, Malad, had only stated in his letter of 12th April, 1963 that the offer of the firm "may be considered". The Officer Commanding, COD, Malad, had

not indicated in his letter that he had already inspected a sample of this tyre and found it satisfactory. The DD (S. & D.) should not, therefore, have construed this letter as a specific or definite recommendation that the tyres were acceptable to Officer Commanding, COD, Malad, in partial satisfaction of the demand for Cross Country tyres. He should have conducted an examination on his own before he recommended acceptance of these tyres on the basis of Officer Commanding COD, Malad's letter.

- (vi) Further in a note dated 16th May, 1963, the Director (S. & D.) suggested that before placing an order for the bulk quantity it may be necessary to get the tyres inspected either by D.I. Bombay, if DDG(S) agreed, or by the Defence Inspectorate. In reply, the DD(S. & D.) had stated in a note dated 30th May, 1963 *inter alia* as follows:—

“From a copy of the Inspection Note received it is seen that tyres from these imported stocks have been accepted by TDE(V) on 27th March, 1963.”

The Inspection Note referred to by him was, however, with reference to supply of ST pattern tyres. Further, the offer from the firm themselves for THR tyres came on 3rd April, 1963 i.e. after a week of the Inspection Note referred to by the DD(S. & D.). The DD (S. & D.) has, therefore, tried to give a misleading reply to the point raised by the Director (S. & D.).

It appears to us from the various notes recorded by this officer that he was unusually enthusiastic in finalising this deal and was more guided by a desire to liquidate the stocks of these imported tyres than to examine the offer according to its merits. This officer, who has retired, is already under disciplinary action for another charge i.e. non-inclusion of warranty clause in the rate contract entered into by the D.G.S. & D. We recommend that additional charges for the lapses in this deal should also be framed and action against him proceeded with. In our opinion the loss caused to the Defence Ministry was almost entirely due to the misleading statements made by this officer. We understand, however, that the D.G.S. & D. has already initiated action against him.

3.6.2. As regards the Public Accounts Committee's observations in paragraph 3.59 of their Report that they could not discount the possibility of collusion between the purchasing authority and the firm, the case has been reported by the D.G.S. & D. to the Special Police Establishment, who are now investigating into it.

3.6.3. As regards Public Accounts Committee's observations in para 3.60 of their Report, whether suppliers actually imported/supplied tyres of ST tread pattern and THR/Universal pattern or supplied only ST pattern tyres, there is nothing on the records of the State Trading Corporation to clarify this point. Both the D.G.S. & D. and the State Trading Corporation, however, had written to the firm who had stated that they had imported CORDATIC tyres from Hungary in the size 825X20—12 ply, both in ST tread pattern and THR/Universal pattern, and this fact could easily be verified by the purchasers. A sample each of these tyres purchased by COD under an A/T for THR tyres and under a supply order for ST pattern tyre was obtained for examination by us. We found that they were of different tread patterns, although it could not be stated that THR/Universal pattern tyre offered by the firm was equivalent to a Cross Country tyre required by the Army.

### **3.7. Action against Messrs, Ramkrishan Kulwant Rai and their influence with the D.G.S.&D.**

3.7.1. In paragraph 3.73 of their Report, the Public Accounts Committee regretted to note that no action had been taken against the firm for withholding from D.G.S. & D. the information about complaints of manufacturing defects in the tyres. They felt that the D.G.S. & D., *inter alia* had been unduly generous with this particular firm. We have been informed that the matter had been considered by the D.G.S. & D. in consultation with the Ministry of Law who had advised that, so long as the Injunction of the Calcutta High Court remained operative, no further action could be taken against the firm. The D.G.S. & D. has further stated that the case has been referred to the S.P.E. on 19th November, 1966 for investigation. The report of the S.P.E. is still awaited.

3.7.2. As regards the observations of the Public Accounts Committee in paragraphs 3.75 and 3.76 of their Report, we have been informed that, until the results of the disciplinary proceedings against some of the officers concerned and SPE's investigations are known, it is not possible to state if there was any collusion between the officers of the D.G.S. & D. and Messrs. Ramkrishan Kulwant Rai.

**CHAPTER IV**  
**MINISTRY OF DEFENCE**

**4.1. General**

4.1. The Public Accounts Committee have made the following recommendations/observations in so far as the Ministry of Defence are concerned. (For the sake of convenience, the serial numbers of the recommendations/conclusions as given in Appendix XIV of the Report are also indicated in brackets):—

- (i) A thorough inquiry into the possibility of a collusion between the purchasing authorities, inspecting authorities and the firm with a view to giving deterrent punishment to the guilty (Serial No. 32).
- (ii) An investigation in regard to acceptance of tyres of specifications other than those indented for by C.O.D. Kandivilli and to look into the failure on the part of C.O.D. Kandivilli in not taking immediate action to cancel the indent dated 9th February, 1963 against which an A/T was placed by D.G.S. & D. on 12th June, 1963 (Serial Nos. 41 and 50).
- (iii) Details of performance of the HUNGARIAN tyres purchased under the A/T to be intimated after collection by Army Headquarters (Serial No. 42).
- (iv) Distinction sought to be made for the requirements of the forward areas and of the other areas in so far as these imported tyres were concerned is not appreciated (Serial No. 43).
- (v) Ministries should invariably keep written minutes of important meetings where decisions are taken (Serial No. 45).
- (vi) Delay in the Ministry of Defence in communicating the orders of the Defence Minister dated 19th April, 1963 should be investigated and necessary action taken against delinquent officials apart from devising suitable remedial measures to avoid recurrence of such cases [Serial Nos. 50, 51 and 52 (12)].

We have gone into the relevant files on these points apart from obtaining some more information from the Ministry of Defence. We have also discussed the various points with some of the officers concerned. The

result of this examination and our findings are explained in the succeeding paragraphs.

#### 4.2. Inspection of tyres by Defence Inspectors

4.2.1. The Defence Inspectors are not consulted by the D.G.S. & D. before the latter enters into any rate contract for consumer items like tyres. Accordingly they were not consulted before the D.G.S. & D. entered into rate contract for supply of imported tyres with the firms. Nor were the Defence Inspectors consulted either by the D.G.S. & D. or OC, C.O.D., Malad, before the A/T was placed by the D.G.S. & D. on 12th June, 1963 for supply of 7,100 THR pattern tyres in lieu of cross country pattern tyres originally demanded by OC, C.O.D., Malad.

4.2.2. The Defence Inspectors carried out visual inspection prescribed under the then existing procedure (reproduced below) and with reference to the details contained in the supply order A/T and the details stencilled/embossed on the tyres, when the supply materialised against the orders placed by the indentors:—

- (i) Examine the tyre for manufacturer's name, code, size, ply, registered serial number and tread design.
- (ii) Examine the tyre for its flexibility, freedom from tackiness, pores, air pockets and bubbles.
- (iii) Examine the inner lining band ply, it should be unbroken.
- (iv) Examine the area about the lock up plies over the beading and the side walls. These should be unbroken and the cord ply not visible.
- (v) Brand the tyre with Acceptance Marking.
- (vi) Directoral tyres must bear the arrow marks showing direction of rotation or front and rear wheels.

Additional miscellaneous instructions provided 100 per cent visual inspection of tyre for defects such as cuts, cracks, blisters and bulging and similar external manufacturing defects.

4.2.3. We, however, observed the following lapses in the inspection carried out by the Defence Inspectors:—

- (i) The Inspectors did not try to co-relate whether the tyres offered were really 12 ply rating on the basis of the maximum load carrying capacity and pressure embossed on the **CORDATIC** (Hungarian) tyres especially as the ply rating was not embossed but only stencilled.

- (ii) In respect of the A/T for THR tyres placed on 12.6.1963, the A/T indicated, in addition to the brand size and ply rating, the Army catalogue number of the item. This particular catalogue No. indicated in the A/T related to cross country pattern tyres whereas the tyres tendered for inspection were of THR pattern. Although the pattern THR was also indicated in the AT, yet the inspectors should have raised a query with the DGS&D or the indenter (OC, COD, Malad) for reconciliation of the correct pattern required.

4.2.4. In regard to (i) above, we were informed that the Defence Inspectors were not conversant with the practice followed by the East European manufacturers. The Indian manufacturers only embossed the ply rating and they do not indicate the maximum load carrying capacity or pressure on the tyres. Therefore, the Defence Inspectors did not take notice of the details of maximum load carrying capacity and pressure embossed on the imported tyres and tried to verify whether they corresponded to 12 ply rated tyres. We were informed that the Defence Inspectors were at that time working under very heavy pressure, and therefore, they could not go into all the details embossed on the tyres except those which are normally examined by them in the case of indigenous tyres. However, subsequently they found that, according to the maximum load carrying capacity and the pressure indicated in the tyres, they could not be rated as 12 ply rated tyres according to Indian standards. As a remedial measure, however, they have amended the relevant clause of the Inspection procedure to specifically provide for such contingencies in future under which the Defence Inspectors had to co-relate the maximum load carrying capacity and pressure embossed on the tyre with the ply rating.

4.2.5. While we feel that we may ignore these lapses partly because of heavy pressure of work to which they were subjected to at the time and partly because of the confirmation we have now received from the manufacturers that 12 ply rating stencilling was done by them, we cannot but observe that the Inspectors' suspicions should have been aroused by the fact that the ply rating was not embossed as is the case with Indian tyres but only stencilled. The second lapse referred to above is serious and cannot be ignored. We recommend that these aspects should be investigated further and responsibility fixed on the officers concerned. However, there does not appear to be any reason to suspect collusion between the Defence Inspectors on the one hand and the purchaser/suppliers on the other.

#### **4.2 Responsibility for acceptance of the tyres in lieu of C. C. Tyres.**

4.3.1 In paragraph 4.12 of their report, the PAC desired to know the result of investigation proposed to be made in the case regarding acceptance of tyres of specifications other than those indented for by COD Kandivilli.

In paragraph 4.45 also, the Public Accounts Committee felt that the failure on the part of COD Kandivilli in not taking immediate action to cancel the indent dated 9.2.63 against which an order was placed by DGS&D on 12.6.63 as soon as Army HQ signal of 15.4.63 was received, required looking into.

4.3.2 We have examined the relevant records and find that the action of OC, COD, Malad in accepting THR tyres in lieu of CC tyres was not at all justified. We have also reason to believe that the various actions of OC, COD, Malad were not bonafide. He had no authority to accept THR tyres in lieu of CC tyres without the approval of Army Headquarters. Yet, when the supplier approached him he communicated his willingness to accept these tyres to DGS&D without endorsing a copy to Army HQrs. Had he endorsed a copy to Army HQrs., the latter might have immediately asked the DGS&D not to act on the letter of the Officer Commanding, Central Ordnance Depot. We find that in connection with this correspondence he had actually endorsed copy of an earlier letter to Army HQrs. His failure to endorse a copy of this important communication is, therefore, not free from suspicion. His conduct becomes all the more reprehensible when on 15th April, 1963 he received a signal from Army HQrs. not to place any further supply orders on Messrs Ram Krishan Kulwant Rai and General Industries Stores Co. Ltd. without reference to Army HQrs. Since the OC, COD, Malad had accepted THR tyres when he had no authority to do so only as late as 12th April, 1963 he could have well realised that DGS&D could not have entered into a firm contract by 15th April, 1963, when he received a signal from Army HQrs. It was, therefore, incumbent upon him to inform the DGS&D telegraphically that the latter should not take any action on his letter dated 12th April, 1963 until further advice. This is the minimum that he should have done and if he still felt that his action was right he could have approached Army HQrs. with a request that the action already taken by him may be approved. His subsequent explanation that what he was asked to do was not to place further supply orders did not require him to cancel any orders already placed is to say the least a technical plea to cover up his unauthorised action.

4.3.3 We have been informed by the Defence Ministry that they have taken adequate action to punish the officer. In fact they have applied a cut of 33 per cent. in his pension commuted value of which comes to about Rs. 30,096. We consider the action taken by the Ministry of Defence against this officer as adequate.

#### **4.4. Delay in communicating the orders dated 19.4.1963 of the Defence Minister that imported tyres should not be purchased for Defence**

4.4.1 In paragraphs 4.45, 4.46 and 5.1 (Item 12) of their Report, the Public Accounts Committee have pointed out that the specific orders of

the Minister of Defence dated 19.4.1963 were not immediately communicated to the indentors and to the DGS&D. They were not convinced with the reasons for not taking action, advanced in evidence during the sittings of Public Accounts Committee. They have observed that the file was available with the Ministry of Defence for 10 days and that action could have been taken during that period. As a result of this delay, the order for 7,100 tyres involving a sum of Rs. 25.56 lakhs was placed by the DGS&D on the 12th June, 1963. They took a serious view of this delay and desired that necessary action should be taken against the delinquent officers. They also desired that suitable remedial measures should be devised to avoid recurrence of such cases. The Department of Defence and the Department of Defence Production have examined these observations and have reported as follows:

4.4.2 Paragraphs 4.4 and 4.38 to 4.46 of the Report explain the reasons as to how the Defence Minister passed orders on 19.4.63 (reproduced in para 4.38 of the Report) and what further action was taken thereafter. As explained in para 4.39, at the instance of the Defence Secretary, a signal was issued by Army Headquarters on the 15th April, 1963 to Officer Commanding, Central Ordnance Depot, Malad, that no further supply orders should be placed on the two firms on the rate contract with the DGS&D without prior approval of Army Headquarters. At that time a complaint had been received, which was under investigation, and pending a final decision, the above action was taken.

4.4.3 As regards delay in communication of the Defence Minister's orders dated 19.4.1963, the delay occurred in two spells—one from 19.4.1963 to 29.4.1963 and the second from 25.6.63 to 19.7.1963. As a result of observations of the Public Accounts Committee, the delay has been further examined in detail by the Department of Defence Production. Explanations of the then Section Officer and the Under Secretary concerned have been obtained. During the first spell of delay, the file was sent down by the Defence Minister through the Defence Secretary, Minister for Defence Production, Joint Secretary (Coord), Secretary (Defence Production), Deputy Secretary(P), Deputy Secretary(Fys) and US (Prod) and the file reached the concerned Section *i.e.* D(Prod) on 29.4.1963. The delay which has occurred from 19.4.1963 to 29.4.1963 cannot therefore, be attributed to any particular individual and it was due to the procedure in sending files through various levels to the appropriate officer/Section concerned for taking necessary action. As a remedial measure, instructions were issued on 19.9.1966 that "when a decision is taken by Government necessitating the issue of orders, the orders should issue promptly. If the file is also required for any purpose the issue of orders should not be delayed but the orders should issue forthwith and the file released thereafter."

The file was received in Section D(Prod) on 29.4.63 and it was withdrawn on the very same day by the Staff Officer to the Defence Secretary for handing over to the Special Police Establishment. Since the file was in Section D(Prod) for a very short time, it was not physically possible to issue the instructions or take extracts immediately and take action thereon. In view of this reason, the Defence Production Department consider that no particular person could be held specifically responsible for this delay.

4.4.4 The second spell of delay was from 25.6.63 (when then file was returned to the D(Prod) by the S.O. to Defence Secretary) to 19.7.1963 (when necessary instructions to the DGOF were issued and the file released by the Department of Defence Production to the Ministry of Defence for further necessary action in so far as the Ministry of Defence were concerned. The circumstances leading to this delay from 25.6.63 to 19.7.63 have been examined in detail by the Department of Defence Production in the light of the explanations given by the then Section Officer/D(Prod) and US(Prod). The examination has shown that the delay was avoidable and they have, therefore, decided that these two officers should be warned in writing. The delay on the part of the Section Officer has been considered more serious and in his case, therefore, the warning is proposed to be noted in his Confidential Reports. It will, however, be noted that the order had been placed by the DGS&D on 12th June, 1963.

4.4.5 After issue of instructions to the DGOF, the file was received from the Department of Defence Production in the Ministry of Defence on 20.7.1963. In the meantime, extracts of relevant notes had been received from the Defence Secretary on 18.7.1963 by the Additional Secretary. These were passed down to Joint Secretary (Q), Deputy Secretary (Ordnance) and Under Secretary (O.I.) Under Secretary (O-I) put up a draft on 19.7.1963 and after approval by Joint Secretary (Q), the fair copies of the orders were issued on 22.7.63. On 31.7.1963, the MGO's Branch suggested that the decision may be communicated *inter alia* to the DGS&D also which was accordingly done on 5.8.63.

4.4.6. No further orders for the imported tyres were, however, placed by the Defence authorities after the issue of Army Headquarters signal dated 15.4.63, although on the basis of a letter issued by Officer Commanding, Central Ordnance Depot, Malad, on 12.4.63, the DGS&D placed an A/T on 12.6.63 for 7,100 imported tyres. This quantity of 7,100 tyres had, however, already been reduced to the extent possible by the DGS&D without financial effect, as early as 8th July 1963. The responsibility for this deal has also been fixed on the Officer Commanding, Central Ordnance Depot, Malad, *vide* para 4.3.

4.4.7. We have examined the above observations of both the Departments in the Ministry of Defence. After the orders were passed by the

Defence Minister, the file was shown to the Minister for Defence Production also. Thereafter the Defence Secretary sent a reply communicating the Defence Minister's orders to the Principal Private Secretary to the Prime Minister who had forwarded the complaint from Shri Kamalnayan Bajaj. Thereafter, the file was passed to Secy. (Defence Production) on 24.4.63. As explained in paragraph 4.4.3 above, the file reached the Section D(Prod) on 29.4.63 only. The file was, therefore, with the senior officers in the Department of Defence Production from 24.4.63 to 27.4.63. In view of this important decision of the Defence Minister action could have been taken to ensure that the orders were issued immediately instead of the file being merely passed down to the Section through the various levels. Fortunately the Defence Secretary had already on 15/4/63 given verbal instructions not to purchase these tyres and Army Headquarters had sent a signal to O.C., C.O.D., Malad, accordingly. We, however, agree that it was not physically possible to issue the instructions by Section D(Prod) within a few hours of its receipt in the Section and before it was withdrawn by the Defence Secretary's office for handing over to the S.P.E. The Deptt. of Defence Production have, however, concluded that the delay in the second spell referred to in para 4.4.4 above was serious and have held the Section Officer and the Under Secretary concerned responsible, the Section Officer's delay being considered more serious. We could not agree that the delay on the part of the Under Secretary was not so serious. We feel that in view of the important decision and the delay which had already occurred, the Under Secretary should have issued the draft already put up by the Section Officer and thereafter returned the file to the Section for keeping extracts. Both the Section Officer and the Under Secretary were equally responsible for the delay and to the same extent and the penalty proposed was not adequate. The Department of Defence Production may, therefore, reconsider the adequacy of penalt in the light of these observations.

#### **4.5. Distinction between requirements of forward areas and other areas**

4.5.1. In paragraph 4.20 of their Report, the Public Accounts Committee have stated that they were unable to appreciate the distinction sought to be made between the requirements of forward areas and of the other areas in so far as these tyres were concerned. The Committee could not help feeling that this distinction was made perhaps to accept these tyres, the quality of which was doubtful.

4.5.2. In the absence of recorded minutes of meeting held in the room of Minister for Ministry of Defence on 30th July, 1962, it is difficult to state at this stage with accuracy on what basis it was decided to make a distinction between the requirements of tyres for forward areas and those for other areas. The discussions and the decision taken in this meeting also formed the basis for the DGS&D to enter into a rate contract with the Indian firms as well as the Defence authorities going in

for these imported tyres. We, therefore, felt that we should gather as much information as possible about the details of discussions of this meeting by contracting as many of those who were present in the meeting as possible.

4.5.3. We met Shri C. M. Poonacha, Minister for Railways and Shri K. Raghuramaiah, Minister for Petroleum and Chemicals, under whose chairmanship this meeting was held and have also consulted several other persons who were present at this meeting. From these discussions we have gathered a firm impression that the main reason which prompted the decision to make a distinction between the requirements of forward areas and rear areas, was the fact that these tyres were under storage for some time and it would not be prudent to use these tyres in forward areas.

#### 4.6. Keeping the written Minutes of important meetings

In paragraph 4.26 of their Report, the Public Accounts Committee urged that the Ministries should invariably keep written minutes of important meetings where decisions are taken. Necessary instructions have been issued by the Ministry of Defence, Department of Supply and the DGS&D.

#### 4.7. Performance of Imported Tyres

4.7.1. In paragraph 4.13 of their Report, the Public Accounts Committee have stated that they would like to be informed about the details of the performance of these tyres after those were collected by the Army HQs. Ministry of Defence have since obtained details available so far from Army HQs and have reported as follows:

4.7.2. Against the A/T placed on 12th June, 1963 for 7,100 *THR* pattern tyres on Messrs Ramkrishan Kulwant Rai, the number of such tyres which were actually supplied is 5,904. Besides, 3,550 'CORDATIC' (HUNGARIAN) tyres of *Standard Tread* pattern were also purchased by the Army authorities under Rate Contract entered into by the DGS&D with that firm. In all, therefore, 9,454 'CORDATIC' (HUNGARIAN) tyres were purchased by the Defence Services. The performance of these tyres can best be judged with reference to mileage performed by the tyres which have been removed from the vehicles as beyond local repairs or beyond economic repairs in comparison with the similar performance of standard indigenous tyres. Statistics have since been obtained in this connection. During the period from 1st January, 1962 to 31st December, 1966 the total number of indigenous tyres which were removed as beyond local repairs/beyond economic repairs was 49,972. The total kilometrage performed by these tyres was 1,07,84,14,750. The average kilometrage per tyre performed by an indigenous tyre is, therefore, 21580. During the same period, a total of 1583 CORDATIC (HUNGARIAN) imported tyres were removed as BLR|BER. (Separate

statistics are not available for the THR (Standard Pattern tyres of this CORDATIC brand). The total kilometrage performed by these CORDATIC tyres is 3,28,22,101. The average kilometrage per tyre performed by these CORDATIC tyres is, therefore, 20,747. In other words, the performance of CORDATIC imported tyres is more or less the same as of an indigenous tyre.

4.7.3. As regards performance of STOMIL (POLISH) tyres purchased by the Defence authorities from Messrs General Industrial Stores Supplying Co, during the period of 5 years from 1st January, 1962 to 31st December, 1966, 787 such STOMIL tyres were removed as BLR/BER. The total kilometrage performed by these tyres is 1,34,29,023. The average kilometrage performed by these tyres is, therefore, 17,064. In other words, the performance of STOMIL (POLISH) imported tyre is about 85 per cent of an indigenous tyre.

4.7.4. We would like to observe that the performance has been judged only with reference to a small percentage of these imported tyres which have so far been removed as BLR/BER. In other words, a major portion of these tyres are still in use and if the performance of such tyres which are subsequently removed as BLR/BER is also taken into account, the average kilometrage per tyre performed by these imported tyres may go up. A general conclusion can, therefore, be drawn that, although the specifications of the imported tyres were not as good as indigenous tyres, yet the performance has been satisfactory.

## CHAPTER V

### 5. Compensation for Defective Tyres

5.1. In paragraph 2.50 of their Report, the Public Accounts Committee wished to know whether the State Trading Corporation had made any enquiries to find out whether the actual users had been compensated for defective tyres supplied by Messrs Ram Krishan Kulwant Rai and Messrs Consolidated Equipment (India) Private Ltd. In paragraph 3.69, they have stated that all the defective tyres might not have been reported to the authorities concerned as the public were not perhaps aware of the procedure in this case. In paragraph 5.4, they desired that Government should take immediate steps to assess the losses suffered by the various users due to the purchase of these defective tyres and to secure adequate compensation from the firms.

5.2. In regard to paragraph 2.50 of the PAC's Report, STC have intimated that, on an inspection of their accounts, the Consolidated Equipment (India) Private Limited had paid Rs. 9,890 by way of compensation to the buyers of defective tyres. In so far as Messrs Ram Krishan Kulwant Rai are concerned, panel meetings for defective tyres purchased under Release Orders issued by the STC were held on 7th April, 1962 and 13th August, 1962 and compensation, as necessary recommended. On 17th June, 1963 Messrs Ram Krishan Kulwant Rai again wrote to STC to arrange for a further panel meeting as 50 more defective tyres from the private as well as Government parties had been received by them. From the STC's papers available it is not clear whether a panel meeting was held or not. There is no mention in Appendix XI of the PAC's Report about these defective tyres supplied by Messrs Ram Krishan Kulwant Rai. The STC understood from the firm that the latter had paid compensation to the buyers of defective tyres. However, on an inspection of the accounts of this firm by the STC Inspectors, it transpired that the firm did not pay any amount to the actual users out of the compensation received by them from the foreign suppliers. The Inspection Report of the STC has also revealed that, apart from the amount of Rs. 4,80,000 received by the firm as compensation from the foreign suppliers, the firm also received two other amounts of Rs. 93,120 and Rs. 46,400 as compensation claims. The basis on which these amounts were paid are not known. We would, therefore, recommend that the STC should press Messrs Ram Krishan Kulwant Rai to pay compensation to the buyers as already decided by the panel.

5.3. As regards the observation of the Public Accounts Committee in para 3.69 of their Report, the STC have intimated that these tyres had been imported primarily for the use of big fleet owners, such as Road Transport Undertakings, Cooperative Societies and automobile manufacturers etc. These parties were, according to the STC, expected to know the normal trade practice in the matter of tyres prematurely failing without giving adequate mileage. Accordingly, it was not considered necessary by the STC to make a public announcement in regard to the procedure for awarding compensation for tyres which failed prematurely. However, whenever, complaints were brought to the notice of the STC, inspection of the tyres was arranged by the panel and suitable compensation awarded.

5.4. In regard to the particular complaint from the PEPSU Road Transport Corporation referred to in paragraph 3.63 of the PAC's Report, the question of constituting a panel in consultation with the firm for the inspection of alleged failed tyres was taken up. The firm (Messrs Ram Krishan Kulwant Rai), however, has since refused to accept any panel and the STC are now considering the further line of action under the terms and conditions of their agreement with this firm.

5.5. The DGS&D have stated that, on 24th May, 1966, they had asked all the direct demanding officers (approximately 560) to furnish a report on the quantity and value of tyres which had failed prematurely from the purchases made against the rate contract from the STC stockists. In response to this circular, replies were received from 181 direct demanding officers as per breakup below:—

20 DDOs reported various defects.

15 DDOs stated that though they had operated against the rate Contract, no tyres have been found defective.

146 DDOs stated that they did not operate against the rate contract.

No replies were received from 379 DDOs. The total number of tyres found defective and compensation claimed were reported to the STC on 1st September, 1966 for the tyres to be examined by the panel of judges appointed by the STC to award compensation. The break up of the defective tyres and their values reported to the STC, so far, is as under:—

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*Direct purchasers*

Number of indentors who reported for defects . . . . .	8
Quantity defective . . . . .	94 tyres and 16 tubes
Amount . . . . .	Rs. 30,009/-

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*der rate contract*

Number of indentors who reported for defects.	11
Quantity defective	395 tyres and 10 tubes
Value	Rs. 1,05,532/-
<i>Against Defence A,T</i>	
Number of indentor	1
Quantity defective	138
Value	Rs. 54,648/-
	(Actual loss @ Rs. 360/- for 138 tyres comes to Rs. 49,680 -
<i>Against DGBR A,T</i>	
No. of indentor	1
Quantity defective	175
Value	Rs. 42,350 -

5.6. The State Trading Corporation took up the matter with the firms to arrange panel meetings for inspection since such a provision existed in STC's agreement. After long negotiations and persuasion, Messrs General Industrial Stores Supplying Company agreed to a panel meeting and to award compensation as per the recommendations of the Panel. Necessary action is in hand. Messrs Ram Krishan Kulwant Rai have, however, not agreed for a panel meeting to award compensation at this late stage and further action *vis-a-vis* the terms and conditions of the STC's agreement with this firm is under consideration, *vide* para 5.4 above.

5.7. So far as purchases made by the Army are concerned, reports of premature failure in respect of 138 CORDATIC (HUNGARIAN) tyres were made to the DGS&D for obtaining compensation from the firm. The DGS&D had intimated that these complaints were also reported to the STC on 1st September, 1966, but the firm *i.e.* Messrs Ram Krishan Kulwant Rai had not agreed for a panel meeting to award compensation at this late stage and further action is being taken by the STC *vide* para 5.4 above.

5.8. Out of the 2,776 Polish tyres purchased by the DGOF under a supply order placed by him direct on Messrs General Industrial Stores Supplying Company, 50 tyres failed prematurely and the DGOF preferred acclaim on the firm. The claim was turned down by the Regional Manager, State Trading Corporation, Calcutta, who had inspected them. The Defence Production Deptt. are now taking up the matter with the State Trading Corporation authorities at Delhi. These tyres were obtained under a warranty clause. A further report of 65 more prematurely failed tyres has since been received and the matter is under investigation by the Department of Defence Production.

5.9. We have considered the position as reported above. As these tyres were purchased as early as 1962 and 1963, it would be difficult to pursue the claims for compensation if more delay is entailed. We, therefore, recommend that the State Trading Corporation should immediately

arrange for a meeting with the DGS&D, Defence Production Department and the firms concerned after getting all relevant details from the authorities concerned with a view to settle the compensation claims without any further delay.

## CHAPTER VI

### SUMMARY

6.1. We have covered the terms of reference (a)—(para 1.1) in Chapters II, III and IV and terms of reference (b) in Chapter V. As regards terms of reference (c), a draft reply on the basis of our conclusions is at Annexure II.

6.2. As a result of the detailed examination carried out by us, we have come to the conclusion that situation which existed at the time the import of the tyres was arranged demanded their imports in quantities decided by the Government and in sizes decided by the State Trading Corporation. The tyres were also imported by and large by the time required. However, despite shortage of giant size tyres in the country, due to possible adverse propaganda carried out by the Indian manufacturers and of a feeling that the imported tyres may not be as good as the indigenous tyres, there was reluctance to purchase these tyres though the price was cheaper. The potential purchasers rather preferred to wait for some time to purchase indigenous tyres when available with the result that the tyres imported could not be sold to the extent anticipated. The State Trading Corporation had, therefore, to render all possible assistance to the Indian importers in liquidating their stocks largely on account of the fear that financial responsibility might ultimately devolve on them though the intention and contention of the State Trading Corporation were that they had no legal or financial responsibility in this respect. No doubt there were some lapses in the State Trading Corporation, office of the DGS&D and Ministry of Defence and these have been dealt with in the previous chapters. However, experience gained by the use of imported tyres so far has revealed that their performance has not been inferior to those of indigenous tyres *vis-a-vis* the price paid. There has been no loss arising out of the purchases of these imported tyres suffered by the various users, except, that in some cases compensation has not yet been paid for the prematurely failed tyres and action is being pursued to process the claims further with the authorities concerned.

6.3. A summary of our main conclusions is as follows. (The relevant paragraph numbers of our report are also indicated in brackets.)

- (i) The assessment of requirements of imported tyres was made after taking all factors in to account including those indicated in paragraph 1.2.9 of the PAC's Report. The quantity decided to be imported was also substantially correct. The basis for importing the tyres in different sizes was made according to the

demands received and the popularity of the sizes from time to time. By and large, the tyres were imported by the time required. (Paragraphs 2.2.3, 2.2.4, 2.2.8 & 2.2.9.)

- (ii) The method adopted in appointing Indian agents does not appear to be sound. Before selecting them, it would have been appropriate if the State Trading Corporation had invited public offers so that they would have encouraged some competition in the matter of margins which they ultimately gave to their agents. (Paragraph 2.3.7.).
- (iii) The agreements with the firms had not been drafted in consultation with the legal experts. The STC should ensure that in all such transactions adequate legal advice is obtained in drafting agreements involving financial implications to protect themselves against possible claims losses. (Paragraph 2.4.4.).
- (iv) The STC should fix responsibility for not informing the prospective buyers about the specifications, pressure etc. in different sizes and ply as decided by themselves. (Paragraph 2.5.2.)
- (v) The STC did not bring to the notice of the DGS&D or Ministry of Defence or the public vital information regarding defects and details about lower specifications. It has not been possible to pinpoint responsibility on any particular officer for this lapse. (Paragraph 2.9.8.).
- (vi) The failure to bring out the full history of the tyres, the conditions and period of storage, and omission to check the weight of the tyres as given in the import documents by the DGS&D Inspectors at Calcutta should be investigated further with a view to taking suitable action. (Paragraph 3.2.4.).
- (vii) The observation made by the Public Accounts Committee that the DGS&D did not follow proper procedure in entering into rate contract is correct. Remedial action has, however, been taken by the DGS&D. (Paragraph 3.4.4.).
- (viii) Additional charges for the lapses on the part of the Deputy Director (S&D) in the deal relating to the placing of an A/T for THR tyres on 12.6.63 should also be framed and action against him proceeded with. (Paragraph 3.6.1.).
- (ix) The non-reconciliation of the Army catalogue number and the tread pattern given in the A/T for THR tyres placed by the DGS&D on 12.6.63 by the TDE(V) Inspectors should be investigated and responsibility fixed on the officer(s) concerned.

There does not appear to be any reason to suspect collusion between Defence Inspectors on the one hand and the purchaser; supplier on the other. (Paragraph 4.2.5.).

- (x) Action already taken by the Defence Ministry to reduce the pension of the Officer Commanding, Central Ordnance Depot, Malad by 33 per cent for the lapses on his part in the deal relating to the purchase of THR tyres is adequate. (Paragraph 4.3.3).
- (xi) Responsibility for the delay in communicating the orders of the Defence Minister dated 19.4.63 has been fixed on an Under Secretary and a Section Officer. The adequacy of penalty proposed should, however, be reconsidered. (Paragraph 4.4.6).
- (xii) The performance of imported tyres *vis-a-vis* the price paid has been satisfactory. (Paragraph 4.7. 4).
- (xiii) The State Trading Corporation should immediately arrange for a meeting with the DGS&D, Defence Production Department and the firms concerned, after getting all relevant details from the authorities concerned, with a view to settle the compensation claims for tyres which have failed prematurely. (Paragraph 5.9.).

(J. S. LALL)  
D.G.S & D  
(Member)  
3.7.1967

(G.L. SETH)  
Additional Secretary  
Ministry of Defence  
(Chairman)  
3.7.1967

(G.C.L. JONEJA)  
Commissioner for  
Civil Supplies,  
Ministry of Commerce  
(Member)  
3.7.1967

**Annexure I**

(Re. para 1.1)

**CONFIDENTIAL/IMMEDIATE**

No. 14(1)67/D(O-1)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 18th April, 1967

**OFFICE MEMORANDUM**

**SUBJECT:—Public Accounts Committee 1966-67—64th Report (3rd Lok Sabha) relating to the purchase of defective tyres—Setting up of an Inter-Departmental Committee to go into recommendations of.**

The Public Accounts Committee have submitted their 64th Report (3rd Lok Sabha) relating to the purchase of defective tyres. They have found serious lapses and shortcomings with this case and the procedure prevalent in the offices and lacuna in various matters. They have in all given 55 main recommendations/conclusions in their report which concern three Ministries—Ministry of Commerce, Ministry of Supply and Technical Development and Ministry of Defence. In order that a coordinated reply may be furnished by Government to these recommendations/observations, it has been decided to set up an Inter-Departmental Committee consisting of the following officers:

- (1) Shri G. L. Sheth, Addl. Secy., Min. of Defence—*Chairman.*
- (ii) Shri J. S. Lall, D.G.S. & D.
- (iii) Shri G. C. L. Joneja, Commissioner of Civil Supplies, Min. of Commerce.

Shri K. Rajagopalan, Deputy Secretary (O), Ministry of Defence, will act as Secretary to the Committee.

2. The Committee will investigate into the case in the light of the recommendations and observations of the Public Accounts Committee as they consider best and furnish a report as soon as possible with particular reference to the following aspects:

- (a) To fix responsibilities for the various lapses revealed in this case on the part of the officers in all the three Ministries and suggest remedial measures.

- (b) Take steps to assess the losses suffered by the various offices—  
Defence, Transport undertaking etc., due to the purchase of  
these defective tyres and secure adequate compensation from  
the firms; and
- (c) suggest a reply to the various recommendations, observations of  
the PAC detailed in Appendix XIV to the Report.

Sd.:- L. GOMES,

*Under Secretary to the Government of India.*

To

The Cabinet Secretary

The Secretary, Ministry of Commerce.

The Secretary, Department of Supply.

Copy to:

PS to D.M.

PS to MMD

S.O. to Defence Secretary.

Secretary (DP)

Addl Secretary (Shri G. L. Sheth).

Shri J. S. Lall, D.G.S.&D.

Shri G. C. L. Joneja, Commissioner of Civil Supplies, Ministry of  
Commerce.

JS(O)

JS(F&C)

JS(PS)

DS(O)

D(Budget).

## **Annexure II**

(Ref. para 6.1)

### **COMMENTS OF GOVERNMENT ON THE CONCLUSIONS/RECOMMENDATIONS OF THE PAC'S (1966-67) 64TH REPORT (3RD LOK SABHA) AS CONTAINED IN APPENDIX XIV THERETO.**

- I. Assessment of requirements, basis for importing tyres in different sizes and delay in importing tyres (Sl. Nos. 1, 2, 3, 4, 5, 11, 52(1), 52(4), 54(5) of Recommendation/conclusions as given in Appendix XIV of the Report).**

After the decision was taken to import 1,00,000 giant tyres of different sizes on 20-7-1959, orders were placed from time to time according to the demands received. A review was made in April 1960 by which time the STC had made arrangements to import 38,765 tyres. It was estimated that there would be a shortage of giant tyres to the extent of 60,000 numbers during 1960. Therefore, it was decided to place further orders to meet the shortage during 1960 to the extent of a further 25,000 tyres. Against these, orders were placed to the extent of 59,861 tyres (including the 38,765 tyres referred to earlier) upto 31-8-1960. The position was further reviewed in December 1960 when, on the basis of the expected production of indigenous tyres, a shortage of 1,23,000 numbers was estimated for 1961. This deficiency was arrived at after taking into account all the favourable factors referred to in para 1.29 of the PAC's Report. The Ministry of Commerce and Industry was in fact in close touch with the production programmes of the indigenous tyre manufacturers and were receiving half-yearly returns of their production figures. In fact, against the estimated production of 10,84,000 giant tyres in 1961, the actual production amounted to only 9,89,470. Compared to the estimated requirements of 12,07,000 tyres for 1961, the estimated deficiency of 1,23,000 tyres erred on the safe side. It was, therefore, decided in December 1960 to place orders to the extent of 1,20,000 tyres to meet the deficiency during 1961. No difficulty was experienced in the disposal of the 59,861 tyres ordered upto 31-8-1960 against the shortage during 1960. However, the difficulties that were experienced in the disposal of 73,680 numbers ordered subsequently against the requirement of 1961 probably were as follows :—

- (a) possible adverse propaganda carried out by the Indian manufacturers.

- (b) A feeling on the part of potential purchasers that the imported tyres may not be as good as indigenous tyres, reluctance on their part to go in for imported tyres and their preference to wait for some time to purchase indigenous tyres when available.

The linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not, therefore, justifiable.

(ii) No such suggestion as referred to in the concluding portion of para 5.1(1) of the PAC's Report appears to have been made by any officer of the Development Wing of the Ministry of Commerce and Industry. The whole purpose for which this import was decided would have been frustrated because of the long time that would have been taken in evaluating the tyres in this manner.

(iii) As regards para 5.1(5) of the PAC's Report, the complaints about the defects in the tyres since April, 1960, were about the performance of Chinese, USSR and Czechoslovakian tyres. The fresh deals which were entered into between January and March 1961 were for tyres imported from Hungary and Poland against which no complaints had been received by then. Also Hungarian tyres were imported for the first time only after May 1961 and their performance was, therefore, not known in the country. In regard to Polish tyres, no complaint had been received prior to March 1961.

(iv) As regards para 2.2 of the PAC's Report, after the State Trading Corporation placed orders on 12-9-1959 for 4,740 tyres, they continued to receive further demands as a result of a Press Note issued by them and further orders were, therefore, placed on the basis of demands which they received from time to time until general reviews were made in April 1960 and in December 1960, referred to earlier.

(v) As regards para 2.3 of the PAC's Report, their observations apply to one size only *i.e.* 750×20. In regard to other sizes, namely 1000×20 and 1100X20, orders were placed only in the basis of demands received. It was found by experience that the largest demand was for sizes 750×20 and 825×20. Therefore, when an assessment of shortage was made in December 1960, it was decided that it should be made up by import of only two sizes, *viz.* 750X20 and 825X20, which were the sizes most in demand.

(vi) As regards delay in importing tyres, the recommendation of the Development Wing was: "Since the shortage would be most actually felt during the summer months when the demand for tyres is at its height it is necessary to make arrangements for imports and that such imports

*commerce reaching India by March 1961. The bulk of the supply should reach India before June, 1961". As would be seen from Appendix I to the Report, this recommendation of the DGTD was substantially agreed to.*

(vii) As regards para 1.30 of the PAC's Report, the import licence was released to the firm in view of the contractual commitment already entered into by them with the foreign manufacturers and the fact that the tyres were awaiting shipment.

## II. *Appointment of Indian agents by foreign suppliers* (Sl. Nos. 6, 7, 8, 9, 10 and 12 of Appendix XIV of the PAC's Report).

(i) As explained to the Public Accounts Committee in the joint note dated 3rd September, 1966, submitted by the STC and the DGS&D, the firms who were already agents for the foreign suppliers in India were appointed as agents for the distribution of tyres imported under the STC's arrangements. In the light of the observations made by the PAC, it is now felt that, before selecting the agents, it would have been appropriate to have invited public offers so that competition could have been generated and the most favourable terms obtained. It might have also been generated to secure reliable and experienced dealers to handle this business.

(ii) As regards the delay in finalising the offer made by the Hungarian Commercial Counsellor, it is submitted that between 24th December, 1960, when the specifications of the tyres were received from the Hungarian Commercial Counsellor and 3rd January, 1961, when Messrs, Ram Krishan Kulwant Rai approached the STC in the matter, the intervening period was being utilised for making a comparative study of the prices and specifications of the Hungarian tyres as they were offered for the first time. During that period, another offer from Poland was under consideration with a view to obtaining a reduction in the prices quoted. It was for these reasons that no action was taken during the period from 24-12-60 to 3-1-61. The above aspect was unfortunately not brought to the notice of the Public Accounts Committee when the evidence of the STC was recorded by them.

(iii) As regards para 2.22 of the PAC's Report, it is submitted that had the STC invited public tenders, there would have been no room for any suspicion.

## III. *Financial relationship between the STC and the distributors* (Sl. Nos. 13, 14, 15 and 52(3) of Appendix XIV of the PAC's Report).

It is admitted that the agreements were not drafted correctly and the legal and financial responsibility not clearly spelt out in the agreements. In future, however, in all such transactions, adequate legal advice will be

obtained in drafting agreements involving financial implications to protect the STC against possible claims/losses.

The Ministry of Law had advised that the STC should not seek their advice on matters concerning the STC's normal duties and functions. Nevertheless, the observations of the PAC have been noted and a request would be made, in future, to the Ministry of Law through the Ministry of Commerce to advise the State Trading Corporation in special cases of this nature.

**IV. *Quality of imported tyres* (Sl. Nos. 16, 17, 28, 52(2) of Appendix XIV of the PAC's Report).**

When the tyres were imported under the STC's arrangements for the first time in September, 1959, it was intended to inform the prospective buyers about the specifications, pressure, etc., in different sizes and ply. Unfortunately, this was not done and action is being taken to fix responsibility for this lapse. The idea of having a quality control or quality check of imported tyres which the STC had in 1959 was not pursued because it was considered that the guarantee given by the firm was adequate. If in the light of complaints received subsequently, it was noticed that the quality was not good, then the matter could be pursued further. It may be pointed out, in this connection, that there are no scientific facilities available in this country for such quality check even to-date. The normal practice adopted even in respect of indigenously manufactured tyres which prematurely fail is to obtain compensation from the companies and this practice was adopted in the case of imported tyres also. When a decision was taken to import another 1,20,000 tyres during 1961, the question of quality of the tyres offered by various countries was examined in detail. The specifications offered by the foreign manufacturers were compared with those of indigenous tyres and it was found that, in the case of Hungarian and Polish tyres, they fell short by 12 to 15 per cent. The pros and cons of purchasing these imported tyres at the prices quoted and the shortage which prevailed in the country were examined in detail and it was ultimately decided that these tyres could be imported though the specifications were somewhat lower. It is regretted that no steps were taken to have the quality and specifications checked with reference to the contracts made even after receipt of complaints from the importers themselves. As already stated, *vide* para 3.29 of the PAC's Report, STC would be more careful, in future, and this kind of mistake would not be repeated.

**V. *Non-submission of monthly sales return by the Indian firms and payment of double commission & Messrs Ramkrishan Kulwant Rai* (Sl. Nos. 21, 22 and 23 of Appendix XIV of the PAC's Report).**

1. No firm action was taken against Messrs Ramkrishan Kulwant Rai and Messrs Consolidated Equipment (India) Private Limited as the firms had been promising from time to time that they would be rendering their

accounts for inspection. The accounts of Messrs Consolidated Equipment (India) Pvt. Ltd. had been inspected by the STC and it was found that they had suffered a loss on the entire transaction. The accounts of Messrs Ramkrishan Kulwant Rai have also been inspected by the STC and it is found that this firm has also suffered a loss on the entire transaction of tyres.

2. Apart from an amount of Rs. 4,80,000 received as compensation from the foreign supplies, *vide* item (a) of para 2.49 of the PAC's Report, Messrs Ramkrishan Kulwant Rai have also received two payments of Rs. 93,120 and 46,400 from the foreign suppliers. As regards agency commission, the firm did not produce original invoices of the foreign suppliers. They orally disclaimed having received any agency commission on import of tyres. On an inspection of their accounts, however, various amounts totalling to Rs. 10,10,000 were credited to "Commission Account" by transfer from the accounts of various parties. The firm explained that these amounts, although credited to "Commission Account", did not actually represent commission received from suppliers. They represented credit balance lying in the accounts of various parties which were not real and these amounts were disclosed by the firm as income and got assessed to income tax under the Income Tax Disclosure Scheme and also that it was only for squaring up their books that the credit balance in the accounts of the parties in question were transferred to "Commission Account". The firm, however, did not produce for inspection any papers in support of these amounts. Further amounts totalling to Rs. 45,652.84 were found credited to "Commission Account" in their books as commission received from Messrs Chemolimpex, Budapest. The firm explained that this amount was received as commission relating to the consignments of chemicals which were imported by them against the value of 13,000 tyres re-exported. They did not produce for inspection the original bills of the foreign suppliers or any other papers from which it could be verified with any amount of certainty that the commission in question related to import of chemicals and not tyres. It appears that the position in this respect is not free from doubt and the oral statement of the firm should not have been accepted on its face value. It would have been advisable to obtain this information in writing from the firm as well as from the Hungarian Embassy before orders were placed so that the landed cost could have been reduced by the agency commission, if any, which the firm received. This lapse is regretted and STC would be more careful in future, in such cases.

VI. *Compensation for defective tyres.* (Sl. Nos. 24,34, 37 and 55 of Appendix XIV of the PAC's Report).

(i) The tyres were imported primarily for use of big fleet owners such as Road Transport Undertakings, Cooperative Societies and automobile

manufacturers. These parties apparently knew the normal trade practice in the matter of tyres prematurely failing without giving adequate mileage. No public announcement in regard to the procedure for awarding compensation for tyres, which had failed prematurely, was, therefore, made. However, when complaints were brought to the notice of the STC inspection of tyres was arranged by a panel and suitable compensation awarded as already explained to the PAC.

(ii) On an inspection of their accounts, it was noticed that the Consolidated Equipment (India) Pvt. Ltd. had paid Rs. 9,890 by way of compensation to the buyers of defective tyres.

(iii) Although two panel meetings for defective Hungarian tyres purchased from Messrs Ramkrishan Kulwant Rai were held and compensation awarded, yet, on an inspection of their accounts, it was noticed that the firm had not paid any compensation to the buyers. They had received three amounts from the foreign suppliers as compensation i.e. Rs. 4,80,000, Rs. 93,120 and Rs. 46,400. The State Trading Corporation are pursuing these claims with the firm.

(iv) Both the DGS&D and the DGOF have intimated the number of defective tyres to the STC for claiming compensation from the two firms—M/s. Ramkrishan Kulwant Rai and M/s. General Industries Stores Supplying Co. The reports sent by DGS&D include the defective tyres reported by the Army authorities as purchases were made either under the rate contract entered into by the DGS&D or under an A/T placed by him. While Messrs GISSCO have agreed to have panel meetings to consider the defect reports, Messrs Ramkrishan Kulwant Rai have not agreed to the same. The STC are considering further action against Messrs Ramkrishan Kulwant Rai in accordance with the terms and conditions of the STC's agreement with them. The STC are also arranging immediately for a meeting with the DGS&D, Defence Production Department and the firms concerned, after obtaining all relevant actuals from the authorities concerned, with a view to settling the compensation claims without delay.

(v) In regard to the particular complaint from the Pepsu Road Transport Corporation, referred to in para 3.63 of the PAC's Report, the Pepsu Road Transport Corporation was one of the indentors indicated in the list forwarded by the DGS&D to the State Trading Corporation for claiming compensation for defective tyres. The Pepsu Road Transport Corporation had purchased 36 tyres from M/s. Ramkrishan Kulwant Rai. As explained earlier, this firm had not agreed to constitute a panel meeting to award compensation at this late stage. The STC are considering further action with the firm in accordance with the terms and conditions of the STC's agreement with them, *vide* (iv) above.

**VII. Assistance rendered by STC to the importing firms to liquidate stocks (Sl. Nos. 3, 38, 40, 48, 52(6) and 52(7) of Appendix XIV of the PAC's Report).**

As the tyres were imported by the firms at the instance of the STC, the STC had to give facilities to the firms in disposing of the stocks when the firms experienced difficulty in this respect towards the end 1961. In this matter they did not give any exceptional treatment to any party or organisation and it was for this reason that the release was decontrolled and the firms were also, at a subsequent date, permitted to sell the tyres at any price they could fetch, besides the STC forgoing their marginal profit. Despite these, due to several reasons, the firms were not able to dispose of their stocks although scarcity conditions prevailed even then. Tyres and all rubber stocks deteriorate by long storage and there was legitimate anxiety on the part of the STC that these tyres should be sold away before they remained under storage for a long time. There was also a fear that financial liability might ultimately fall upon the STC. The STC, therefore, assisted the firms in re-exporting the tyres to the countries of their manufacture as well as recommending them to the various Government departments.

**VIII. Non-disclosure of vital information to the DGS&D, the Defence Ministry and the public.**

(Sl. Nos. 18, 19, 20, 25, 29, 35, 39, 49 and 52(6) of Appendix XIV of the PAC's Report).

(i) The letter dated 28th April, 1960 from the Transporters Gazette Weekly complained about the quality of Chinese tyres only. The reports, which had been subsequently received about the performance of the Chinese tyres were of a rather conflicting nature. As no occasion had arisen earlier to settle claims arising out of premature failures of tyres attributable to manufacturing defects by payment of suitable compensation, it was necessary for the STC to write to Messrs Khemka & Co. when they came to know about the complaints for evolving a procedure in this respect.

(ii) The percentage of failure on account of manufacturing defects was excessive compare to performance of indigenous tyres and, therefore, it was not considered necessary to bring this specifically to the notice of users. No doubt certain specific defects were pointed out by the importing firms themselves to the STC. The fact that these tyres were of lower specifications than corresponding indigenous tyres was also known to the STC before they placed the orders. It is regretted that these were not brought specifically to the notice of the DGS&D and others by the STC authorities. It is, however, not possible to pin point responsibility for this lapse on any particular officer/officers of the STC.

***IX. Inspection of tyres by DGS&D inspectors***

(Sl. Nos. 26 and 52(9) of Appendix XIV of the PAC's Report)

The Directorate of Inspection, DGS&D, Calcutta, have failed to bring out the full history of the tyres, their condition and period of storage, in their inspection reports to Headquarters at New Delhi. They also omitted to check the weight of the tyres as given in the import documents. These lapses are being investigated further by the DGS&D with a view to taking suitable action. While issuing the circular letter of 28th May, 1962 to all the Direct Demanding Officers, the DGS&D was guided by the fact that valuable foreign exchange had been spent in purchasing these tyres. The suitability of the tyres for use on 3-ton and 5-ton vehicles only, as reported in the Inspection Reports, should also have been indicated in the circular letter. This was, however, omitted and two dealing officials of the DGS&D were held responsible for this lapse. Suitable action is being taken against them.

***X. Willful suppression of important documents by persons dealing with the case in the DGS&D.***

(Sl. Nos. 27, 5.1 (10) of Appendix XIV of the Report)

The dealing Assistant was held responsible for this lapse and the explanation which was called for was found unsatisfactory. A Charge Sheet for major penalty was issued on 11th April, 1967 for this lapse as well as for other lapses for which he was held responsible. An Inquiry Officer has also been appointed on 17th April, 1967. It is likely to take six months to go through all the formalities before the case is finalised.

***XI. Rate contract entered into by the DGS&D with the firms***

(Sl. Nos. 31, 35, 36, 44, and 46 of Appendix XIV of the PAC's Report).

There were frequent discussions between the officers of the DGS&D and the STC before the rate contract was entered into by the DGS&D. It is admitted that the DGS&D did not obtain any further information about the specifications and quality of these tyres beyond what was mentioned in the Inspection Report furnished by their Inspectors on 4th May, 1962. These Inspection Reports were obviously rendered in answer to specific queries and did not contain all the vital information which the DGS&D should have obtained before entering into a rate contract. As such, the observations of the PAC that the DGS&D did not follow proper procedure in entering into rate contract is correct. As a remedial measure, a circular letter dated 7th January, 1967 has been issued by the DGS&D to all Purchase Officers and Sections at Headquarters and Regions that they should acquaint themselves fully with the

specifications of the stores to be purchased; the specifications should be thoroughly examined and incorporated clearly in the contract. While placing supply orders against rate contracts or running contracts or orders against *ad hoc* indents, care should be taken to satisfy that the stores on order fully conform to the required specifications in all respects.

**XII. *Non-inclusion of Warranty clause in the rate contract***

(Sl. Nos. 30, 39, 52(10) of Appendix XIV of the PAC's Report)

Responsibility for this lapse has been fixed on one Deputy Director (S&D), one Section Officer and a dealing Assistant. They have been served with Charge Sheets and disciplinary action is proceeding against them under the prescribed rules. It will take some time to go through all the formalities and finalise the proceedings.

**XIII. *Checking up of quality of the tyres offered by M/s. Ramkrishan Kulwant Rai by the DGS&D and possible collusion between the purchasing authorities, inspecting authorities and the firm***

(Sl. Nos. 32, 33, 47, 52(8) and 52(11) of Appendix XIV of the PAC's Report)

(i) The Deputy Director (S&D) dealing with this case has been held responsible for not properly examining the case before placing an A/T on 12th June, 1963, for supply of 7,100 tyres in THR pattern to Officer Commanding, Central Ordnance Depot, Malad, on Messrs Ramkrishan Kulwant Rai. This officer has already been charge-sheeted for another lapse *i.e.* non-inclusion of warranty clause in the rate contract. Additional charges for lapses in this deal are being framed. The case has also been reported by the DGS&D to the Special Police Establishment who are investigating it.

(ii) It has been verified that Messrs Ramkrishan Kulwant Rai had imported THR pattern tyres against the A/T placed on them on 12th June, 1963 also. The Defence inspectors have certified that THR pattern tyres were supplied against the AT.

**XIV. *Action against M/s Ramkrishan Kulwant Rai for withholding from DGS&D information about the complaints of manufacturing defects in the tyres and their influence with the DGS&D.***

(Sl. Nos. 38 & 40 of Appendix XIV of the PAC's Report)

The Ministry of Law had advised that so long as the Injunction of the High Court, Calcutta, operated no further action could be taken against the firm—Messrs Ramkrishan Kulwant Rai. The case has, however, been referred to the Special Police Establishment on 19th November,

1966. The report of the SPE is awaited. It is not possible to state whether there was any collusion between the officers of the DGS&D and the firm till the results of the disciplinary proceedings against the officers concerned and SPE's investigations are known.

*XV. Ministries should invariably keep written minutes of the important meetings where decisions are taken*

(Sl. No. 45 of Appendix XIV of the PAC's Report.)

Necessary remedial instructions have been issued by the Ministry of Defence, Department of Supply and the DGS&D on 19th January, 1967, 18th April, 1967 and 7th January, 1967 respectively.

*XVI. Investigation in regard to the acceptance of tyres of specifications other than those indented for by the Officer Commanding, COD, Kandivli.*

(Sl. Nos. 32, 41 and 50 of Appendix XIV of the PAC's Report.)

(i) The conduct of the Officer Commanding, Central Ordnance Depot, Kandivli, in the deal relating to the acceptance of THR pattern tyres in lieu of cross country pattern tyres as originally demanded by him has been examined in detail. The explanation offered by him subsequently for accepting these tyres was not considered satisfactory. Even though he had written to the DGS&D on 12th April, 1963 accepting these tyres without consulting the appropriate higher authorities yet, at least, on receipt of Army Headquarters signal dated 15th April, 1963 he should have cancelled his letter to the DGS&D and also reported to Army Headquarters. Further, he got the tyres examined by his own technical supervisors instead of TDE Inspectors before giving his acceptance to the DGS&D on 12th April, 1963. He was, therefore, held responsible and his pension has been reduced by one third as a penalty. His normal pension is Rs. 535/- per mensem and the reduced pension is Rs. 357/- p.m.

(ii) The TDE(V) Inspectors did not raise a query with the DGS&D or the Officer Commanding, Central Ordnance Depot, Malad, for reconciliation of the correct pattern required because the catalogue number indicated in the A/T related to cross country pattern whereas the tread pattern indicated in the A/T was THR pattern. Further, their suspicion should have been aroused by the fact that the ply rating was not embossed, as is the case with Indian tyres, but only stencilled. These aspects are being investigated further with a view to fixing responsibility on the officers concerned. There does not, however, appear to be any reason to suspect collusion between the Defence Inspectors on the one hand and the purchasers/suppliers on the other.

**XVII. Details of performance of the Hungarian tyres.****(Sl. No. 42 of the Appendix XIV of the PAC's Report)**

The performance of these tyres can best be judged with reference to mileage performed by the tyres which have been removed from the vehicles as beyond local repairs/beyond economical repairs in comparison with the similar performance of standard indigenous tyres. According to the statistics obtained in this connection, for the period from 1st January 1962 to 31st December, 1966, the average kilometrage per tyre performed by the CORDATIC (HUNGARIAN) imported tyres during this period which were removed as PLR/BER is 20,747. The corresponding kilometrage performed by an indigenous tyre is 21,580. If the performance of such tyres which would be removed subsequently is also taken into account, the average kilometrage per tyre performed by CORDATIC (HUNGARIAN) tyre is likely to go up. In other words, the performance of CORDATIC (HUNGARIAN) tyres cannot be considered to be inferior to that of the corresponding indigenous tyre.

**XVIII. Distinction sought to be made between the requirements of forward areas and of other areas.****(Sl. No. 43 of the Appendix XIV of the PAC's Report)**

In the absence of a record of discussions of the meeting, it is not possible to state at this stage with accuracy on what basis a distinction was made between the tyres required for forward areas and those for other areas. Apparently, the intention was that, as these tyres were imported for the first time and they were in storage for some time, it would not be advisable to use them in forward areas and thereby take a possible risk. Discussions with many of the officers, who were present at the meeting, revealed that no indication was given at the meeting that the tyres were of lower specifications and that complaints had been received from the importers. No distinction is, however, being made, at present, between the tyres required for forward areas and those for other areas.

**XIX. Delay in the Ministry of Defence for communicating the orders of the Defence Minister dated 19th April, 1963.****(Sl. Nos. 50, 51 & 52 (12) of the Appendix XIV of the PAC's Report)**

A further examination of the delay which has occurred in communicating the Defence Minister's orders of 19th April, 1963 has been made. One Under Secretary and one Section Officer have been held responsible for an avoidable delay. Disciplinary action is being taken against them.

As a remedial measure, instructions have been issued on 19th September, 1966, that, when a decision is taken by Government necessitating the issue of orders, the orders should issue promptly. If the file is required for any other purposes, the issue of orders should not be delayed but the orders should issue forthwith and file released thereafter.

## **APPENDIX II**

**[Ref. Para 1.8 of the Report]**

Notes showing action taken by Government on the recommendations/  
observations contained in the 64th Report of P.A.C. (Third Lok Sabha)  
regarding purchase of Defective tyres.

No. 32(207)/66-ST  
GOVERNMENT OF INDIA  
MINISTRY OF COMMERCE

*New Delhi, the 19th July, 1967.*

OFFICE MEMORANDUM

**SUBJECT:—P.A.C.—64th Report (Third Lok Sabha) regarding purchase of defective tyres.**

Will the Lok Sabha Secretariat kindly refer to their Office Memorandum No. 2/1/29/67/PAC, dated the 14th April, 1967, on the above subject?

2. As the Lok Sabha Secretariat are aware, an Inter-Departmental Committee had been constituted with a senior officer of this Ministry as member, to prepare action-taken notes on the PAC's observations. It is understood that copies of the Report and their recommendations have already been forwarded to the Lok Sabha Secretariat by the Ministry of Defence. This Ministry accept the replies prepared by this Committee in regard to the portions with which this Ministry is concerned, subject to the following comments:—

1. *Appointment of Indian agents by foreign supplies.* (Sl. Nos. 6, 7, 8, 9, 10 and 12 of Appendix XIV of the PAC's Report).

It is clear that greater care in selecting agents and more efficient procedures of selection are called for. S.T.C. has been asked to undertake an examination of the principles and practices which are followed with a view to evolving more efficient procedures for securing reliable and experienced dealers to handle similar business in future. It has been asked to submit a report to the Ministry as early as possible.

As regards para 2.22 of the PAC's Report, it is admitted that if the STC had followed more efficient procedures, there would have been less room for suspicion.

2. *Financial relationship between the STC and the distributors* (Sl. Nos. 13, 14, 15, 52(3) of Appendix XIV of the PAC's Report).

It is admitted that the agreements were not drafted in a manner so as to spell out clearly the legal and financial responsibilities of the party. STC has been asked to take adequate legal advice in future in drafting agreements involving financial transactions and to streamline the procedures

for legal scrutiny. In special cases, assistance of the Ministry of Law would be obtained by the STC through the Ministry of Commerce.

3. *Quality of imported tyres.* (Sl. Nos. 16, 17, 28, 52(2) of Appendix XIV of the PAC's Report).

When the tyres were imported under the STC's arrangements it was intended to inform the prospective buyers about the specifications, pressure, etc., in different sizes and ply. Unfortunately this was not done. The STC has been asked to take action for fixing the responsibility on the officials responsible for the lapse pointed out by the Committee and send a report, on it to this Ministry.

4. *Compensation for defective tyres.* (Sl. Nos. 24, 34, 37 and 55 Appx. XIV of the PAC's Report).

STC has initiated discussions with M/s. Ramkrishan Kulwant Rai with a view to securing payment of compensation from them against claims for defective tyres. A report on the result of their discussions will be submitted in a few weeks.

A copy of this Memorandum is being sent to the Comptroller and Auditor General.

K. N. R. PILLAI,

*Under Secy., to the Government of India.*

To

The Lok Sabha Sectt.,  
*New Delhi.*

No. 32(20)/66-ST

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE

*New Delhi, the 21st July, 1967.*

OFFICE MEMORANDUM

**SUBJECT:—P.A.C.—64th Report (Third Lok Sabha) regarding purchase of defective tyres.**

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Will the Lok Sabha Secretariat kindly refer to this Ministry's Office Memorandum No. 32(20)/66-ST, dated the 19th July, 1967 on the above subject?

The undersigned is directed to inform the Lok Sabha Secretariat that the Office Memorandum has been issued with the approval of Secretary.

K. N. R. PILLAI,

*Under Secy., to the Government of India.*

To

The Lok Sabha Secretariat,  
*New Delhi.*

**No. 43(39)/65-PI**  
**GOVERNMENT OF INDIA**  
**MINISTRY OF WORKS, HOUSING AND SUPPLY**  
**(Department of Supply)**

*New Delhi, the 17th July, 1967.*

*1st August, 1967.*

**OFFICE MEMORANDUM**

**SUBJECT:—P.A.C.—Action on recommendations made in their 64th Report (III Lok Sabha) relating to purchase of defective tyres.**

The undersigned is directed to refer to D.O. letter No. 2/1/29/67/PAC dated the 10th July, 1967 from Shri Bhargava and to say that a high-level inter-departmental committee, on which the Ministries of Defence and Commerce and the Department of Supply were represented, was set up to examine in great detail the case of purchase of defective tyres mentioned in the 64th Report of the P.A.C. The inter-departmental committee has since submitted its report a copy of which has already been furnished to the Lok Sabha Secretariat by the Ministry of Defence. In this report, the committee has exhaustively dealt with the various recommendations contained in the 64th report. This Ministry generally accepts the findings of the committee. In respect of the lapses which have come to light, necessary action is being taken against the officials concerned. As regards the possibility of any collusion between the purchase authorities, the inspecting authorities and the firm, the matter has been entrusted to the C.B.I. for investigation. Where procedural lacunae have been noticed, remedial measures have been taken.

2. In respect of some of the recommendations, additional information is furnished below :—

(i) *Recommendation No. 26.*—In regard to the period of storage, it has since been ascertained that, at the time of inspection, the invoice date was well within one year from the initial inspection, and, therefore, the period was presumably not considered by the inspector to be prolonged storage and was accordingly not brought out in his report.

(ii) *Recommendation No. 32.*—In this case, the inspection of the tyres was the responsibility of the Defence inspectors.

(iii) *Recommendation Nos. 35 and 36.*—In regard to the procedure, necessary instructions have been issued to all the purchase officers *vide* Memo No. CSIB/45(i)/1/67 dated the 7th January, 1967 (copy enclosed).

(iv) *Recommendation No. 37.*—In the case of supplies to Government Departments against contract placed by the DGS&D, reports regarding defective tyres had been called for from all concerned and the reports so far received have been passed on to the S.T.C.

(v) *Recommendation No. 40.*—The question of the utilization of tyres imported by the S.T.C. against Government requirements had already been referred by the S.T.C. to the DGS&D on 30th January, 1962. The DGS&D circulated the availability of these tyres to Government Transport Undertakings in all States on the 12th March, 1962. On the 15th March, 1962, S.T.C. again approached the DGS&D with the request to circulate the list to all DDOs. This matter was discussed by the D.G. with the Director S.T.C. as per his note recorded on 23rd May, 1962 and a circular letter was thereupon issued to all DDOs on the 28th May, 1962. This circular letter was issued at the instance of the S.T.C. and in pursuance of the discussion at the meeting held on 23rd May, 1962 and not at the instance of M/s Ram Krishan Kulwant Rai. This circular would have been issued even if the letter dated the 21st May, 1962 from M/s Ram Krishan Kulwant Rai had not been received. The receipt of this letter from the firm at this particular time was a mere coincidence and not the justification for issuing the circular letter of the 28th May, 1962. It is to be noted that the DGS&D had already issued a circular on the 12th March, 1962 and, therefore, no new principle was involved in the issue of the circular of the 28th May, 1962.

The question of entering into rate contracts with stockists of imported tyres was decided in a meeting, when the D.G. and representatives of the S.T.C. and the Ministry of Finance were present. No record of this meeting seems to have been kept but the D.G. recorded the following note on the 17th August, 1962 on the relevant file :—

“The subject was subsequently discussed with S.T.C. We have since decided to have R/Cs for these imported tyres and have received proposals. These may be expedited.”

For the purpose of entering into a R/C, it is necessary to have an offer from the supplier. Without such an offer, the R/C cannot be legal as the contract consists of an offer from a supplier and its acceptance on behalf of the purchaser. In this case, the R/Cs could, therefore, have been issued only after the receipt of the letter from the firms concerned. It is not known at whose instance these firms sent these letters but it is to be presumed that they must have been advised by the S.T.C. to send in their offers to the DGS&D. It will, therefore, be seen that the R/Cs were entered into with these firms not because they had made those offers but because a decision had already been taken in consideration with the S.T.C. to enter into R/Cs with these firms and therefore, the receipt

of these letters from the firms was necessary for the purpose of concluding R/Cs.

(vi) *Recommendation No. 45.*—Necessary instructions have been issued *vide* DGS&D Memo No. CSIB/45(i)/I/67 dated the 7th January, 1967 and Ministry's letter No. 43(39)/65-PI dated the 18th April, 1967.

(vii) *Recommendation No. 46.*—In regard to the meeting held in the room of the Minister of State for Defence in July, 1962, the then D.G., who attended this meeting, has furnished the following comments :—

"As regards the meeting in the room of the Minister of State for Defence (Shri K. Raguramiah) in July, 1962, the minutes of the meeting should have been prepared by the S.T.C., as this meeting was convened at the instance of the then Chairman of the S.T.C., Shri C. M. Poonacha. As far as I could remember, the main point brought out during the meeting in July, 1962 was that these tyres being new the defence indentors were reluctant to experiment with them in forward areas, but no objection was raised to using them in non-forward areas where a very large number of defence vehicles were functioning. There was no hint at that time that the quality of the tyres was inferior to those of the indigenous manufacturers."

3. This issues with the approval of the Secretary of the Department of Supply.

Sd/-

S. S. PURI

*Director (Vigilance)*

To

The Lok Sabha Sectt.  
P.A.C. Branch (Atten: Shri A. S. Rikhye)  
New Delhi.

Copy to :—

1. A. G. CW&M, New Delhi.
2. DGS&D, New Delhi.

(S. S. Puri)

*Director (Vigilance)*.

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**

(Co-ordination Supplies Section IB)

NEW DELHI-1

Memo. No. CSIB/45(1)/1/67

Dated, the 7th January, 1967

**SUBJECT:—Public Accounts Committee—64th Report—Necessity for (i) proper scrutiny of specifications and (ii) keeping written records of meetings.**

The public Accounts Committee in their 64th Report have commented adversely on a case where a rate contract was placed without verifying the specification of the stores to be purchased against the said rate contract, a supply order was also placed subsequently without proper scrutiny as to whether the stores required by the indenter conformed to the stores ordered against the rate contract or not.

2. It is of utmost importance that the purchase officer should acquaint himself fully with the specifications of stores he is going to purchase. He should examine the specifications thoroughly and incorporate the same already in the contract. While placing supply orders against R/Cs or Rg./Cs or orders against *ad hoc* indents care should be taken to satisfy that the stores on order fully conformed to the required specifications in all respects.

3. The Committee have also emphasised in the report the need for keeping written records of meetings where decisions are taken. The committee have observed as under:—

“The Committee would urge that the Ministries should invariably keep written minutes of important meetings where decisions are taken.”

All concerned are requested to keep in the relevant files the written minutes of all meetings whether held with the representatives of the suppliers or with other Government Depts.

Sd/-

M. M. PAL

*Deputy Director (CS-II)*

All Purchase Officers and Sections at Headquarters and Regions.

Copy to Audit Cell—with 10 spare Copies.

No. 43(39)/65-PI

GOVERNMENT OF INDIA  
MINISTRY OF WORKS, HOUSING AND SUPPLY  
(Department of Supply)

*New Delhi, the 18th April, 1967.*

**OFFICE MEMORANDUM**

**SUBJECT :—***Necessity of keeping written records of meetings—Recommendation made by the Public Accounts Committee.*

The Public Accounts Committee have taken a serious view of the manner in which no written record was kept of the proceedings of an important meeting in which certain decisions were taken. The observation made by the Committee in this regard is reproduced below :—

“The Committee would also urge that the Ministries should invariably keep written minutes of important meetings where decisions are taken.”

2. All Officers of the Department, The Directorate General of Supplies & Disposals and India Supply Mission, London/Washington are requested to ensure that written minutes of meetings are kept invariably for future reference.

3. Director General (Supplies & Disposals) and Director General, India Supply Mission, London/Washington are requested to bring these instructions to the notice of all Officers in their Organisation.

Sd/-

I. D. KHANNA

*Deputy Secretary to the Government of India.*

## MINISTRY OF DEFENCE

### *Action taken on the recommendations of the Public Accounts Committee.*

#### RECOMMENDATION OF THE COMMITTEE

The Committee regret to note that after the receipt of the report on 2nd April, 1966, from the Director of Inspection, Vehicle, Ahmednagar, mentioning therein that an examination of defective tyres revealed that they were considerably lighter and weaker in design and recommended to be classified as PR-10 standard type instead of PR-12 track grip pattern, no action was taken against the Inspecting Officers of the Army and Inspecting Officer of the DGS&D for accepting tyres of inferior quality. The Committee are alarmed at the way the Defence needs were procured in this case. Against the definite indent for CC type tyres, some indifferent quality was purchased, supplied, inspected and paid for. The Committee cannot discount the possibility of a collusion between the purchasing authorities, inspecting authorities and the firm. Since such action are fraught with grave risk, the Committee cannot help but recommend a thorough enquiry into this aspect with a view to giving deterrent punishment to the quality.

[Sl. No. 32 (para. 3.5) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (3rd Lok Sabha) 1966-67].

#### ACTION TAKEN BY GOVERNMENT

Defence inspectors carried out visual inspection prescribed under the existing procedure and with reference to the details contained in the Supply Order/A.T. and the details stencilled/embossed on the tyres when supply materialised against the orders placed by the Defence indentors. They, however, did not raise a query with the DGS&D or the Officer Commanding, Central Ordnance Depot, Malad, for reconciliation of the correct pattern required under the A/T placed on 12th June, 1963 for 7,100 THR tyres because the tread pattern indicated in the A/T was THR pattern. However, the catalogue number indicated in the A/T related to the Cross Country pattern and there is no separate catalogue number for the THR pattern. Further, their suspicion should have been aroused by the fact that the ply rating was not embossed, as is the case with Indian tyres, but only stencilled. These aspects are being investigated further with a view to fixing responsibility on the officers concerned. There does not, however, appear to be any reason to suspect collusion between the Defence Inspectors on the one hand and the purchasers/suppliers on the other.

DADS has seen.

H. T. SADHWANI,

*Joint Secretary.*

15th July, 1967.

## MINISTRY OF DEFENCE

### *Action taken on the recommendations of the Public Accounts Committee*

#### RECOMMENDATION OF THE COMMITTEE

The Committee would like to know in due course the result of investigation proposed to be made in the case regarding acceptance of the tyres of specifications other than those indented for by COD Kandivili.

[Sl. No. 41 (Para. 4.12) of Appendix XIV to the 64th Report of the Public Accounts Committee (3rd Lok Sabha)—1966-67].

(ii) The Committee note that on 15th April, the Defence Secretary informed the Army authorities that no tyres should be purchased from these two firms viz., M/s. Ram Krishan Kulwant Rai and M/s. GISSCO. On 15th April, 1963 the Army authorities had also sent a signal to COD Kandivili, prohibiting placing of further orders with these two firms. It is a matter of regret that in spite of the orders, COD Kandivili failed to take immediate action to cancel the indent dated 9th February, 1963 against which the order was placed by DGS&D, as late as 12th June, 1963. The Committee feel that this failure on the part of the COD Kandivili required looking into.

[Sl. No. 50 (Para 4.45) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (3rd Lok Sabha)—1966-67].

#### ACTION TAKEN BY GOVERNMENT

The conduct of the Officer Commanding, Central Ordnance Depot, Kandivili, in the deal relating to the acceptance of THR pattern tyres in lieu of cross country pattern tyres as originally demanded by him has been examined in detail. The defaults committed by him have been mentioned at para. 4.3 on pages 56 to 58 of the Report of the Inter-Departmental Committee of which copies have been forwarded to the Lok Sabha Secretariat. The explanation offered by him for accepting these tyres was not considered satisfactory. Apart from the said defaults, he got the tyres examined by his own technical supervisors instead of TDE Inspectors before giving his acceptance to the DGS&D on 12th April, 1963. He was, therefore, held responsible and his pension has been reduced by one third as a penalty. His normal pension is Rs. 535/- per mensem and the reduced pension is Rs. 357/- per mensem.

DADS has seen.

H. T. SADHWANI,

*Joint Secretary*\_\_\_\_\_

15th July, 1967.

## MINISTRY OF DEFENCE

### *Action taken on the recommendations of the Public Accounts Committee*

#### RECOMMENDATION OF THE COMMITTEE

"They would also like to be informed about the details of the performance of these tyres after these are collected by the Army Headquarters."

[Sl. No. 42 (Para. 4.13) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (Third Lok Sabha)].

#### ACTION TAKEN BY GOVERNMENT

9,454 "cordatic" (Hungarian) imported tyres were purchased by the Defence Services—5,904 of THR pattern under an A/T placed by the DGS&D on 12th June, 1963 and 3,550 ST pattern tyres under the Rate Contract. The performance of the tyres can best be judged with reference to the mileage performed by the tyres which have been removed from the vehicles as beyond local repairs or beyond economic repairs. 1,583 of these tyres were removed as BLR/BER during the period from 1st January 1962 to 31st December, 1966. The average kilometrage per tyre performed by these tyres is 20,734. During the said period, a total of 49,972 indigenous tyres were also removed as beyond local repairs/beyond economic repairs. The average kilometrage per tyre performed by such indigenous tyres is 21,574.

Two statements (one up to 31st December, 1964 and the other for 1965 and 1966 showing the various makes of tyres (original and new) removed as BLR/BER within various kilometre ranges, percentage of failures and total kilometres done when removed, are attached.

#### 2. *Audit Observations*

Audit has not been able to verify the accuracy of the data given in the two statements as these have been compiled from large number of returns received by the Ministry of Defence from various units.

H. T. SADHWANI,

*Joint Secretary.*

15th July, 1967.

Statement showing the various make of Tyres (Original & New) Ranges, Dues/DL/BER in the various Kälometer Ranges, Percentage of Failure and Total Kälometers done when removed, 1961-64.

	FIRESTONE			DUNLOP			INDIA-SUPER			GOOD-YEAR			STOMIL			CORDATIC			OTHERS <sup>g</sup>			MISCELLANEOUS			
	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	No. of tyres removed	% to total	Total KMs done	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Up to 1949	248	2.7	222273	273	2.1	266151	170	3.7	201666	55	3.0	69819	1	0.2	810	6	1.0	4646	42	11.7	57397	75	2.2	84405	
2000 - 3999	375	4.0	1116514	578	4.6	1167929	323	7.0	959288	93	5.1	293184	7	1.3	22871	18	3.0	57355	56	15.6	162253	135	3.9	403149	
4000 - 5999	485	5.3	2492270	768	4.5	1848770	366	8.0	1815159	119	6.5	624326	7	1.3	37954	27	4.5	132065	48	13.4	243900	172	5.0	870214	
6000 - 7999	462	5.0	3236239	426	5.2	2994016	356	7.8	2517800	113	6.2	783137	28	5.4	195411	47	7.8	331763	66	18.4	456800	143	4.2	1010071	
8000 - 9999	481	5.2	4205404	415	5.1	3247195	365	7.9	3299901	125	6.8	1119570	35	6.7	322857	65	10.8	583978	26	7.2	234221	150	4.4	1352589	
10000 - 11999	548	5.9	6019226	435	5.3	4793944	303	6.6	3342456	159	8.7	1717139	57	10.9	634927	73	12.1	780449	23	6.4	253269	105	3.1	1179979	
12000 - 13999	547	5.9	7028089	469	5.8	6108739	359	7.8	4675772	132	7.2	1714142	84	16.1	1104627	57	9.4	710433	11	3.1	140222	73	2.1	961039	
14000 - 15999	531	5.7	7949280	355	4.4	5297747	241	5.2	3598865	122	6.6	1812440	82	15.7	1086989	42	7.0	658432	7	1.0	101268	84	2.4	1212209	
16000 - 17999	532	5.7	8947752	419	5.1	7119680	294	6.4	4982960	123	6.7	2096273	65	12.4	1050255	47	7.8	794644	20	5.6	347160	234	6.8	2008479	
18000 - 19999	453	4.9	8611619	435	5.3	8259000	226	5.0	4338857	96	5.2	299810	67	12.8	1269528	46	7.6	874296	9	2.5	169234	337	9.8	6249354	
20000 - 21999	445	4.8	9320149	508	4.8	8154559	228	5.0	4714653	108	5.8	2249936	47	9.0	984481	20	3.3	420346	6	1.7	124908	428	12.4	9009698	
22000 - 23999	525	5.6	12217839	466	6.0	11044900	228	5.0	5163373	68	3.7	1957211	20	3.8	457822	19	3.1	440898	10	2.8	239230	491	14.3	10883267	
24000 & above	3656	39.3	124281709	3390	41.8	114074171	1129	24.6	37928651	533	28.5	17955599	21	4.4	688784	137	22.6	4619577	35	9.7	1326332	1013	29.4	39917591	
Total	5296	100.0	295584273	8137	100.0	1274781781	4592	100.0	27120951	1836	100.0	32273476	523	100.0	7893286	604	100.0	10382245	359	100.0	3341424	3440	100.0	70933114	

Note - g Includes First Multi-grip  
 Good Rich  
 Seal Beating  
 General  
 Michelin  
 Frac  
 Dayton  
 Pennsylvania  
 Skorpion

h Includes: Coal  
 Incheck  
 Premier  
 MRE etc.

Statement showing the various Models of Type (Original & First) received at AIRPORT during FY 1994-95. Various kilometre ranges, percentage of failures and Total kilometre done when received.

KILOMETRE RANGES	PRESTONE		DUNLOP		INDIA		SUPER		HOKUPEAR		STONIC		CORDATIC		CENT		INCHECK		MAASTRIJHT		PREMIER		MUNDOLENSBOWS										
	No. of tires received	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done	No. of tires received	% to total	Total KM done							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34
0-100	15	15000	10	10000	6	6000	20	20000	5	5000	15	15000	10	10000	10	10000	10	10000	10	10000	10	10000	10	10000	10	10000	10	10000	10	10000	10	10000	
100-200	18	18000	12	12000	8	8000	25	25000	7	7000	18	18000	12	12000	12	12000	12	12000	12	12000	12	12000	12	12000	12	12000	12	12000	12	12000	12	12000	
200-300	22	22000	15	15000	10	10000	30	30000	9	9000	22	22000	15	15000	15	15000	15	15000	15	15000	15	15000	15	15000	15	15000	15	15000	15	15000	15	15000	
300-400	25	25000	18	18000	12	12000	35	35000	11	11000	25	25000	18	18000	18	18000	18	18000	18	18000	18	18000	18	18000	18	18000	18	18000	18	18000	18	18000	
400-500	28	28000	20	20000	14	14000	40	40000	13	13000	30	30000	20	20000	20	20000	20	20000	20	20000	20	20000	20	20000	20	20000	20	20000	20	20000	20	20000	
500-600	30	30000	22	22000	16	16000	45	45000	14	14000	35	35000	22	22000	22	22000	22	22000	22	22000	22	22000	22	22000	22	22000	22	22000	22	22000	22	22000	
600-700	32	32000	24	24000	18	18000	50	50000	15	15000	40	40000	24	24000	24	24000	24	24000	24	24000	24	24000	24	24000	24	24000	24	24000	24	24000	24	24000	
700-800	35	35000	26	26000	20	20000	55	55000	16	16000	45	45000	26	26000	26	26000	26	26000	26	26000	26	26000	26	26000	26	26000	26	26000	26	26000	26	26000	
800-900	38	38000	28	28000	22	22000	60	60000	17	17000	50	50000	28	28000	28	28000	28	28000	28	28000	28	28000	28	28000	28	28000	28	28000	28	28000	28	28000	
900-1000	40	40000	30	30000	24	24000	65	65000	18	18000	55	55000	30	30000	30	30000	30	30000	30	30000	30	30000	30	30000	30	30000	30	30000	30	30000	30	30000	
1000-1100	42	42000	32	32000	26	26000	70	70000	19	19000	60	60000	32	32000	32	32000	32	32000	32	32000	32	32000	32	32000	32	32000	32	32000	32	32000	32	32000	
1100-1200	45	45000	34	34000	28	28000	75	75000	20	20000	65	65000	34	34000	34	34000	34	34000	34	34000	34	34000	34	34000	34	34000	34	34000	34	34000	34	34000	
1200-1300	48	48000	36	36000	30	30000	80	80000	21	21000	70	70000	36	36000	36	36000	36	36000	36	36000	36	36000	36	36000	36	36000	36	36000	36	36000	36	36000	
1300-1400	50	50000	38	38000	32	32000	85	85000	22	22000	75	75000	38	38000	38	38000	38	38000	38	38000	38	38000	38	38000	38	38000	38	38000	38	38000	38	38000	
1400-1500	52	52000	40	40000	34	34000	90	90000	23	23000	80	80000	40	40000	40	40000	40	40000	40	40000	40	40000	40	40000	40	40000	40	40000	40	40000	40	40000	
1500-1600	55	55000	42	42000	36	36000	95	95000	24	24000	85	85000	42	42000	42	42000	42	42000	42	42000	42	42000	42	42000	42	42000	42	42000	42	42000	42	42000	
1600-1700	58	58000	44	44000	38	38000	100	100000	25	25000	90	90000	44	44000	44	44000	44	44000	44	44000	44	44000	44	44000	44	44000	44	44000	44	44000	44	44000	
1700-1800	60	60000	46	46000	40	40000	100	100000	26	26000	95	95000	46	46000	46	46000	46	46000	46	46000	46	46000	46	46000	46	46000	46	46000	46	46000	46	46000	
1800-1900	62	62000	48	48000	42	42000	100	100000	27	27000	100	100000	48	48000	48	48000	48	48000	48	48000	48	48000	48	48000	48	48000	48	48000	48	48000	48	48000	
1900-2000	65	65000	50	50000	44	44000	100	100000	28	28000	100	100000	50	50000	50	50000	50	50000	50	50000	50	50000	50	50000	50	50000	50	50000	50	50000	50	50000	
2000-2100	68	68000	52	52000	46	46000	100	100000	29	29000	100	100000	52	52000	52	52000	52	52000	52	52000	52	52000	52	52000	52	52000	52	52000	52	52000	52	52000	
2100-2200	70	70000	54	54000	48	48000	100	100000	30	30000	100	100000	54	54000	54	54000	54	54000	54	54000	54	54000	54	54000	54	54000	54	54000	54	54000	54	54000	
2200-2300	72	72000	56	56000	50	50000	100	100000	31	31000	100	100000	56	56000	56	56000	56	56000	56	56000	56	56000	56	56000	56	56000	56	56000	56	56000	56	56000	
2300-2400	75	75000	58	58000	52	52000	100	100000	32	32000	100	100000	58	58000	58	58000	58	58000	58	58000	58	58000	58	58000	58	58000	58	58000	58	58000	58	58000	
2400-2500	78	78000	60	60000	54	54000	100	100000	33	33000	100	100000	60	60000	60	60000	60	60000	60	60000	60	60000	60	60000	60	60000	60	60000	60	60000	60	60000	
2500-2600	80	80000	62	62000	56	56000	100	100000	34	34000	100	100000	62	62000	62	62000	62	62000	62	62000	62	62000	62	62000	62	62000	62	62000	62	62000	62	62000	
2600-2700	82	82000	64	64000	58	58000	100	100000	35	35000	100	100000	64	64000	64	64000	64	64000	64	64000	64	64000	64	64000	64	64000	64	64000	64	64000	64	64000	
2700-2800	85	85000	66	66000	60	60000	100	100000	36	36000	100	100000	66	66000	66	66000	66	66000	66	66000	66	66000	66	66000	66	66000	66	66000	66	66000	66	66000	
2800-2900	88	88000	68	68000	62	62000	100	100000	37	37000	100	100000	68	68000	68	68000	68	68000	68	68000	68	68000	68	68000	68	68000	68	68000	68	68000	68	68000	
2900-3000	90	90000	70	70000	64	64000	100	100000	38	38000	100	100000	70	70000	70	70000	70	70000	70	70000	70	70000	70	70000	70	70000	70	70000	70	70000	70	70000	
3000-3100	92	92000	72	72000	66	66000	100	100000	39	39000	100	100000	72	72000	72	72000	72	72000	72	72000	72	72000	72	72000	72	72000	72	72000	72	72000	72	72000	
3100-3200	95	95000	74	74000	68	68000	100	100000	40	40000	100	100000	74	74000	74	74000	74	74000	74	74000	74	74000	74	74000	74	74000	74	74000	74	74000	74	74000	
3200-3300	98	98000	76	76000	70	70000	100	100000	41	41000	100	100000	76	76000	76	76000	76	76000	76	76000	76	76000	76	76000	76	76000	76	76000	76	76000	76	76000	
3300-3400	100	100000	78	78000	72	72000	100	100000	42	42000	100	100000	78	78000	78	78000	78	78000	78	78000	78	78000	78	78000	78	78000	78	78000	78	78000	78	78000	
3400-3500	102	102000	80	80000	74	74000	100	100000	43	43000	100	100000	80	80000	80	80000	80	80000	80	80000	80	80000	80	80000	80	80000	80	80000	80	80000	80	80000	
3500-3600	105	105000	82	82000	76	76000	100	100000	44	44000	100	100																					

## MINISTRY OF DEFENCE

### *Action taken on the recommendations of the Public Accounts Committee*

#### RECOMMENDATION OF THE COMMITTEE

"The Committee are unable to appreciate the distinction sought to be made for the requirements of the forward areas and of the other areas in so far as these tyres are concerned. The Committee cannot help feeling that this distinction was made perhaps, to accept these tyres, the quality of which was doubtful."

[Sl. No. 43 (para. 4.20) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (Third Lok Sabha)].

#### ACTION TAKEN BY GOVERNMENT

As already explained to the Public Accounts Committee *vide* paragraphs 4.18 and 4.19 of Chapter IV of the Report, it is not possible at this stage to state on what basis the distinction was made between the tyres required for forward areas and those for other areas. Apparently the intention at that time was that no risk could be taken by using these tyres, which were being bought for the first time, in forward areas.

2. At present no distinction is being made between tyres required for forward areas and those for other areas.

3. AGCW&M has seen.

Sd/-  
L. S. LULLA,  
*Joint Secretary.*

22nd April, 1967.

[No. 14(16)/66/D(O.I.)]

## MINISTRY OF DEFENCE

*Action taken on the recommendations of the Public Accounts Committee*

### RECOMMENDATION OF THE COMMITTEE

"The Committee would also urge that the Ministries should invariably keep written minutes of important meetings where decisions are taken."

[Sl. No. 45 of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (3rd Lok Sabha)—1966-67].

### ACTION TAKEN BY GOVERNMENT

Instructions have been issued on 19th January, 1967 impressing upon all officers of the Ministry of Defence to ensure that written minutes of important meetings where decisions are taken are invariably kept. A copy of the instructions is enclosed.

DADS has seen.

Sd/-  
L. S. LULLA,  
*Joint Secretary.*

20th February, 1967.

[F. No. 14(10)/66/D(O.I).]

No. F. 10(1)/64/O&M

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

*New Delhi, the 19th January, 1967.*

O. & M. CIRCULAR NO. (1)

**SUBJECT:—***Record of minutes of important meetings.*

The Public Accounts Committee in their recommendation at serial No. 45 of their 64th Report (Third Lok Sabha) has observed as under:—

“The Committee would also urge that the Ministries should invariably keep written minutes of important meetings where decisions are taken.”

2. It is, therefore, impressed upon all officers to ensure that written minutes of important meetings where decisions are taken, should invariably be kept.

Sd/- H. T. SADHWANI,

*Joint Secretary (P&C)*

Tele: 35505

To

All Officers in the Ministry of Defence.

## MINISTRY OF DEFENCE

*Action taken on the recommendations of the Public Accounts Committee.*

### RECOMMENDATION OF THE COMMITTEE

The Committee regret to note that the specific order of the Minister of Defence dated 19th April, 1963 prohibiting the purchase of 7,100 tyres, were not immediately communicated to the indentors and to the DGS&D. The Committee are not convinced with the reasons for not taking action, advanced in evidence that the files in this case were taken away by the SPE from 29th April to 25th June 1963. The file was available with the Ministry of Defence for about 10 days and action could have been taken during that period.

(S. No. 50 (Para. 4.45) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (3rd Lok Sabha)—1966-67.

(ii) It is really unfortunate that as a result of the delay in communicating the orders dated 19th April, 1963 of the Defence Minister to all authorities including DGS&D in time, the order for 7,100 tyres involving a sum of Rs. 25.56 lakhs was placed by DGS&D on 12th June, 1963 on the firm—M/s. Ram Krishan Kulwant Rai. The Committee take a very serious view of the delay in the Ministry of Defence for not communicating these orders and desire that necessary action should be taken against the delinquent officials. They also desire suitable remedial measures should be devised to avoid the recurrence of such cases.

(Sl. No. 51 (Para. 4.46) of Appendix XIV to the 64th Report of the Public Accounts Committee (3rd Lok Sabha)—1966-67.

(iii) The Defence Ministry are also not entirely free from blame in this case, as there has been a serious failure in not communicating the orders of the Defence Minister to authorities concerned in time which could have prevented a purchase order of about Rs. 25 lakhs being placed on one firm.

(S. No. 52 (12) (Para 5.1) of Appendix XIV to the 64th Report of the Public Accounts Committee—1966-67).

### ACTION TAKEN BY GOVERNMENT

A further examination of the delay which has occurred in communicating the Defence Minister's orders of 19th April, 1963 has been made. One

under Secretary and one Section Officer have been held responsible for an avoidable delay. Disciplinary action is being taken against them. As a remedial measure, instructions have been issued on 19-9-66 that, when a decision is taken by Government necessitating the issue of orders, the orders should issue promptly. If the file is required for any other purposes, the issue of orders should not be delayed but the orders should issue forthwith and file released thereafter. A copy of the instructions is attached.

DADS has seen.

Sd/- H. T. SADHWANI,  
*Joint Secretary.*  
15th July, 1967.

**No. F. 25 (9)/66/O&M**  
**GOVERNMENT OF INDIA**  
**MINISTRY OF DEFENCE**

*New Delhi, the 19th September, 1966.*

*Office Order No. 45*

**SUBJECT:—***Issue of orders based on Government decisions.*

An instance has come to notice where issue of orders based on a Government decision was delayed as the file was sent to another Ministry in connection with another matter.

2. When a decision is taken by the Government necessitating the issue of orders, the orders should issue promptly. If the file is also required for any other purpose, the issue of orders should not be delayed but the orders should issue forthwith and the file released thereafter.

Sd/-H. T. SADHWANI,

*Joint Secretary.*

*All Officers and Sections*

Copy for information to PS to DM/MDP.

Copy to :—

Army Headquarters-DSD  
Naval Headquarter-Naval Secretary.  
Air Headquarters  
All Inter-Services Organisations.  
CAO(Coord).

MINISTRY OF DEFENCE

*Action taken on the recommendations of the Public Accounts Committee.*

RECOMMENDATION OF THE COMMITTEE

The Committee desire that responsibilities should be fixed for various lapses revealed in this case on the part of S.T.C., office of DGS&D, Ministry of Defence etc.

(Sl. No. 54 (para 5.3) of Appendix XIV to the Sixty-fourth Report of the Public Accounts Committee (3rd Lok Sabha)-1966-67).

ACTION TAKEN BY GOVERNMENT

So far as the Defence Ministry is concerned, responsibility has been fixed on the then O.C., C.O.D., Malad, an Under Secretary and a Section Officer in the Ministry of Defence, for certain lapses. Responsibility is also being fixed on the Officers concerned in the Director of Inspection (Vehicles) for certain lapses pointed out by the Inter-Departmental Committee.

DADS has seen.

H. T. SADHWANI,

*Joint Secretary.*

15th July, 1967.

### APPENDIX III

(Reference Paras. 1.25 and 1.31 of the Report)

#### MINISTRY OF COMMERCE

#### Annexure of Import Requirements

*List of points on which further information is desired by P.A.C. at their sitting held on 22nd July, 1967.*

Q. 1. What was the estimated and actual production of indigenous production of indigenous tyres of size 825-20 and 750-20 in 1960 and 1961.

A. 1. Automobile tyres and tubes are being manufactured in the country in a large number of sizes and ply-ratings. During 1960 and 1961 motor car tyres were produced in 25 sizes, motor cycle and scooter tyres in 7 sizes, giant tyres in 27 different sizes, tractor tyres in 12 sizes and earth-mover/excavator tyres in 10 sizes. Giant tyres were produced in the following sizes and ply-ratings:

Size	Ply-rating
9.00-13	6
7.00-15	6 & 8
8.25-15	14
6.00-16	6
6.50-16	6
7.00-16	6 & 8
7.50-16	8
9.00-16	10
9.25-16	8 & 10
10.50-16	12
7.00-17	8
6.00-20	8
6.50-20	8
7.00-20	10
7.50-20	10 & 12
8.25-20	10 & 12
9.00-20	10 & 12
10.00-20	12
10.50-20	12
11.00-20	12
12.20-20	16
14.00-20	18 & 29
9.00-22	10
10.00-22	12
10.00-24/42X9	14
11.00-24	12 & 14
10.00-20	6

In view of the very large number sizes and ply-ratings in which tyres have all along been manufactured, information has not been collected separately with regard to production in each one of the sizes and ply-ratings. Information with regard to production is being collected under general categories such as motor car tyres, motor cycle and scooter tyres, animal-drawn vehicle tyres, giant tyres (bus and truck tyres), tractor tyres, grader tyres, earth-mover/excavator tyres. The production of giant tyres of all sizes during 1960 and 1961 was as follows:

1960	..	9,45,862 Nos.
1961.	..	9,89,470 Nos.

Although the break-up of these figures in different sizes and ply-ratings of the tyres are not available, it may be stated that the bulk of the production were in sizes 7.50-20, 8.25-20 and 9.00-20. No estimates regarding the production of giant tyres for each size were also made.

Q. 2. Please also indicate the estimated requirements for these tyres in 1960 and 1961. The basis of estimated requirement may also please be indicated.

A. 2. Kindly see reply the Question 1 above. Development Wing did not specifically make estimates regarding the requirements of tyres in sizes of 8.25-20 and 7.50-20. However, extracts from a note prepared by Dr. Sitaramaiah of D.G.T.D. estimating the net requirements for import of giant size tyres in the year 1960 and 1961 are attached. (Annexure I).

Q. 3. Please furnish a copy of the note of Dr. Sitaramaiah, an officer of the Development Wing dated July/August, 1959, wherein he had suggested that the S.T.C. would find it difficult to dispose of the tyres as the indigenous manufacturers were likely to step up their production, etc.

A. 3. A copy of the note is attached (Annexure II).

[Ministry of Commerce D.O. No. 115-JS (PCA)/67, dated 26th July, 1967].

## Annexure I

### *Estimates of assessment of requirements of Giant Tyres.*

(Q) How was the shortage assessed at 25,000 only by April, 1960 when, as against one lakh tyres only, 38,000 were covered by April, 1960? (Para. 1.14).

(A) In January, 1960, the D.G.T.D. estimated that there would be a shortage of giant tyres to the extent of 60,000 Nos. during 1960. By the end of March, 1960, we were given to understand that arrangements had been made for the import of about 38,000 tyres. The gap to be covered was, therefore, about 22,000 tyres (60,000—38,000). The D.G.T.D. assessed this gap at 25,000 Nos. although arithmetically the gap was 22,000 tyres.

(Q) What are the details of the fuller examination made in December, 1960 for import of an additional 1,20,000 tyres? Were all the favourable factors referred to in para. 1.20 taken into account and if, so, why was there difficulty in sale despite low price? (Para. 1.17).

(A) The P.A.C. Sub-Committee had asked the Commerce Ministry to furnish information regarding the basis for the assessment of 1,20,000 tyres required for the year 1961. In that connection, a note was sent to P.A.C. A copy of the same is attached (Annexure III).

All the favourable factors referred to in para. 1.29 were taken into consideration. The increase by 20% of the basic quota of the established importers was expected to bring in only a limited quantity of tyres.

There is a considerable time-lag between issue of a licence under the Industries (Development and Regulation) Act to set up capacity for the production of tyres and the actual erection of the factory. Even after the plant and equipment are erected, it takes considerable time (of the order of 6 to 12 months and in some cases even longer periods) for the established capacity to be fully utilised. All these factors were taken into consideration while assessing the indigenous availability of giant types.

The difficulty in selling the imported tyres seems to be due to the general impression in the public mind that the imported tyres were of poor quality. Other contributory reasons could also be poor salesmanship and inadequate after-sales service.

(Q) How does the total assessment of 2,20,000 reconcile with the actual order placed for 1,24,445 and actual import of 1,14,750?

(A) The D.G.T.D. made two assessments relating to the shortage of giant tyres during 1960 and 1961 as follows:—

Shortage during 1960 . . . . .	60,000 tyres
Shortage during 1961 . . . . .	1,20,000 „
TOTAL . . . . .	<u>1,80,000 tyres</u>

The actual imports are stated to be 1,14,750. Therefore the difference is 65,250 tyres and this difference should be viewed against the background of consumption of giant tyres of the order of over two million tyres during 1960 and 1961, the break-up being as follows:—

(1) Production of giant tyres during 1960 . . . . .	945,862 Nos.
(2) Production of giant tyres during 1961 . . . . .	989,470 „
(3) Imports of giant tyres during 1960 and 1961 . . . . .	114,750 „
TOTAL . . . . .	<u>2,050,082 Nos.</u>

The difference of 65,250 tyres constitutes about 3.25 per cent. of the total consumption of tyres during the period under consideration. In other words, this would represent stocks equipment to 11.5 days' consumption.

Attention is invited to the following important factors:—

- (a) At a time when there is scarcity for tyres and the prices go up, there is a tendency on the part of the consumer to use the tyres for a period much longer than he would have done under normal circumstances.
- (b) The tyre companies, in their factory godowns, generally retained stocks of about 16,000 tyres during each month in 1961.
- (c) There are about 4,500 automobile tyres dealers all over the country. In addition to the normal stocks with them, they might have cornered certain quantity of additional tyres for pushing up prices. As soon as the dealers realised that the imports and the increased indigenous production would meet the country's total demands, they seem to have released the hoarded tyres for sale in the open market.

If the factors referred to in the previous paragraph are taken into consideration, it would be appreciated that it would be difficult to improve on an estimate which varies from the actuals by only 3.25 per cent.

## Annexure II

*Copy of U.O. Note No. RC/Imp/99(58), dated 21st July, 1959 from Shri A. Seetharamiah, Development Officer to Secretary, Ministry of Commerce and Industry.*

**SUBJECT:—Import of Giant Tyres by the State Trading Corporation.**

Shri B. B. Seksena, Director-in-Charge (P. & T.), State Trading Corporation of India Ltd., telephoned to me yesterday evening. He said that M(I) had asked the S.T.C. to import 100,000 giant tyres in order to combat the shortage of tyres and the consequently high prices which are being charged for them. Shri Seksena desired to know the sizes of the tyres as well as the quantity in each particular size.

2. I discussed this matter briefly with S.I.A. (Chemicals) this morning, when Shri Seksena was also present. I learnt from S.I.A. (Chemicals) that this matter was discussed in the Secretary's Tuesday meeting this morning. As desired, I am putting down some of the revelant points.

3. There is reason to believe that the supply position of giant tyres would become satisfactory soon due to the following reasons:

- (1) The current shortage of giant tyres is of a marginal nature and the increased indigenous production due to the implementation by M/s. Firestone of their substantial expansion scheme and going into production of M/s. Dunlop's factory at Ambattur would soon be more than adequate to meet the indigenous demand.
- (2) The peak period (April-June) for the demand of giant tyres is over and with the on-set of rains in the country the demand has very considerably decreased.
- (3) Arrangements have already been made to augment our indigenous production by imports. Public Notice No. 43-ITC (PN)/59, dated 18th May, 1959, with regard to the issue of supplementary licences refers.
- (4) Permission to import 4,800 giant tyres is being issued to M/s. CEAT Tyres of India, Ltd., Bombay on the basis of their being able to obtain tyres from their parent company on a loan to be returned in kind within two years after their production in India is established.

4. If the S.T.C. decides to import the tyres, difficulties might arise for disposing of the tyres and there is also the likelihood of the S.T.C. incurring losses due to the following reasons:

- (1) Even if the STC moves in the matter immediately, it would take at least 3 months for the imports to materialise and by then the indigenous production would be adequate to meet the the internal demands.
- (2) The cost of imported tyres is generally higher than the price of the corresponding indigenous tyre.
- (3) There is a consumer preference for giant tyres manufactured in India (During 1956-57, when the tyre companies were permitted to import a large quantity of giant tyres, they experienced difficulty in selling the imported tyres due to the consumer preference for indigenous tyres which give better service, as they are built to meet local conditions).

5. If, however, a decision is taken to import 100,000 giant tyres, the break-up would be as follows:

<i>Size</i>	<i>Ply</i>	<i>Quantity</i> (Nos.)
7·50-20 . . . . .	10	4,000
7·50-20 . . . . .	12	5,000
8·25-20 . . . . .	10	10,000
8·25-20 . . . . .	12	24,000
9·00-20 . . . . .	10	10,000
9·00-20 . . . . .	12	30,000
10·00-20 . . . . .	12	6,000
11·00-20 . . . . .	12	6,000
11·00-20 . . . . .	14	4,000
TOTAL . . . . .		100,000

6. The approximate c.i.f. value of 100,000 giant tyres would be about Rs. 3 crores.

### Annexure III

#### *Estimate of requirements of tyres during 1961*

Giant tyres are required for buses, trucks and jeeps. The demand for these tyres can be assessed under two heads, namely (i) Original equipment for fitment to new vehicles and (ii) requirements for replacement purposes for vehicles already on road. The over all demand can be arrived at by adding to these the Government purchases and the requirements of inventories and exports.

The demand for tyres and tubes for original equipment is related to the programme of Industrial Development envisaged for the Automobile Industry and is worked out at the rate of 7 sets for buses and trucks and five sets for jeeps. The original equipment demand was assessed at 2,45,000 Nos. as indicated below:

(i) Buses/trucks @ 7 tyres per vehicle	$30,000 \times 7 = 210,000$	Nos.
(ii) Jeeps @ 5 tyres per vehicle	$7,000 \times 5 = 35,000$	„
Total Original Equipment Demand	<u>245,000</u>	Nos.

Assessment of demand for replacement purposes is determined after taking into consideration the number of buses, trucks and jeeps on road at the beginning of the year and the net replacement rate of tyres. Ministry of Transport compiles data on vehicles registered in each of the States; information is thus available regarding the number of vehicles on the road. The number of vehicles on road by the end of the year is computed by taking into consideration the number of vehicles scrapped and the new vehicles added during the year. Certain norms regarding the average life per each category of vehicles have been adopted in consultation with different interests concerned. Starting from this base and on the basis of the production target for 1960 for each category of vehicles, the number of vehicles on the road at the beginning of 1961 had been arrived at. The number of trucks and buses on the road at the beginning of 1961 was about 169,500. The corresponding figure for jeeps was 13,800.

Replacement demand for tyres and tubes varies with each category of vehicles. In consultation with the different interest concerned, the D.G.T.D. had worked out certain replacements rates of each category of vehicles and these have been adopted with some minor modifications in the publication "Programmes of Industrial Development 1961-66" issued by

the Planning Commission. There had also been a trend towards increase in the retreading of tyres. This is a most welcome feature, as retreading would help in conserving national wealth by bringing back into service worn out tyres which would otherwise be discarded. While computing the number of new tyres required for replacement purposes, the extent of retreading also has been taken into consideration and the net replacement demand was placed at 8,82,000 Nos. of tyres, the details are shown below:—

Replacement for trucks/buses @ 6 per vehicle . . . . .	= 169,500 × 6	= 1,017,000 Nos.
Replacement for Jeeps @ 1.5 per vehicle . . . . .	= 13,800 × 1.5	= 20,007 „
Total apparent tyre replacement requirements . . . . .	= 1,017,000 + 20,700	= 1,037,700 „
Retread @ 15		155,700 „
Net Replacement requirements	= 1,027,700 — 155,700	= 882,000 „

In arriving at the overall requirements of tyres, Government purchases and requirements of exports had also been taken into consideration.

Thus, the total requirement worked out to 1,207,000 Nos. as detailed below:—

(a) Tyres required for original equipment . . . . .	245,000
(b) Tyres required for replacement purposes . . . . .	882,000
(c) Government purchases . . . . .	50,000
(d) Inventories . . . . .	30,000
(e) Exports . . . . .	(Negligible)
TOTAL . . . . .	<u>1,207,000 Nos.</u>

Estimated production of giant tyres in 1961 1,084,000 Nos.

Anticipated Deficit — 1,207,000 — 1,084,000 = 123,000 „

## APPENDIX IV

(Reference to Paras 1.41 & 1.44 of the Report)

**Statement showing the List of prices at which imported Tyres were sold till 6th February, 1962.**

Size & Ply	Price per set of one tyre, tube and flap, FOR destination by goods train
750—20—10 Ply	Rs. 398.48 np.
825—20—10 „	Rs. 450.23 np.
825—20—12 „	Rs. 509.20 np.
900—20—10 „	Rs. 509.20 np.
900—20—12 „	Rs. 577.45 np.
1000—20—12 „	Rs. 666.16 np.
1100—20—12 „	Rs. 769.67 np.
1100—20—14 „	Rs. 778.27 np.

*Statement Showing the Price of tyres, tubes and flaps of Size 750x20 as 825x20 imported by M/s. Ramkrishan Kulwant Rai from M/s. Chemolimpex Hungary*

SIZE 750x20x10

No.	Qty. of sets.	Price per set.	F.O.B. Price.	Freight	Insurance	c.i.f. Value	Custom duty.	Handling & Clearing charges & 1½% of c.i.f. Value	Landed cost	Remuneration of stockists @ 11½% of Landed cost	Total Cost	
1500	.	160.00	2,40,000.00	18,319.42	824.28	2,59,143.70	1,30,543.04	3,887.16	3,93,573.90	45,261.00	4,38,834.90	Cal.
1300	.	160.00	2,08,000.00	17,531.59	548.39	2,26,079.98	1,14,346.38	3,391.19	3,43,817.55	39,539.00	3,83,356.55	"
2000	.	160.00	3,20,000.00	31,929.93	837.65	3,52,767.58	1,99,033.46	5,291.52	5,57,092.56	64,065.65	6,21,158.21	"
1800	.	160.00	2,88,000.00	24,467.75	1019.27	3,13,487.02	1,57,506.02	4,702.30	4,75,695.32	54,704.95	5,30,400.27	Bom.
1000	.	160.00	1,60,000.00	13,324.07	431.76	1,73,755.83	87,305.00	2,606.34	2,63,667.17	30,321.72	2,93,988.89	"
500	.	160.00	80,000.00	8,549.33	215.88	88,765.21	44,248.74	1,331.47	1,34,345.42	15,449.71	1,49,795.13	"
1000	.	160.00	1,60,000.00	13,365.93	—	1,73,365.93	98,274.60	2,600.49	2,74,241.02	31,537.71	3,05,778.73	Mad.
750	.	160.00	1,20,000.00	10,040.55	—	1,30,040.55	66,994.86	1,950.61	1,98,986.02	22,883.39	2,21,869.41	"
9850	.	160.00	15,76,000.00	1,37,528.57	3,877.23	17,17,405.80	8,98,252.08	25,761.08	26,41,418.96	3,03,763.13	29,45,182.09	

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Amount retainable by the party for each set according to the terms of the agreement. } Rs. 29,45,182.09  
 9850 = Rs. 299/- approximately + Transport charges from Port Town to up-country town of supply.

SIZE 825x20x12

Qty.	Rate	F.O.B. Price	Freight	Insurance	C.I.F. Value	Handling and Clearing charges @ 1 1/2% on C.I.F. value.	Custom Duty	Landed cost.	Party's Remuneration @ 1 1/2% on landed cost.	Total
5000	180.00	9,00,000.00	80,780.52	..	9,80,780.52	14,711.71	4,95,403.04	14,90,895.27	1,71,452.95	16,62,348.22
4000	"	7,20,000.00	65,488.38	2,671.90	7,88,160.28	11,822.40	3,96,472.86	11,96,455.54	1,37,592.39	13,34,047.93
3000	"	5,40,000.00	59,274.24	1,596.78	6,00,871.02	9,013.06	3,02,687.73	9,12,571.81	1,04,945.76	10,17,517.57
4000	"	7,20,000.00	68,504.37	2,671.90	7,91,176.27	11,867.64	3,97,566.00	12,00,609.91	1,38,070.14	13,38,680.05
5000	"	9,00,000.00	80,430.46	2,649.83	9,83,080.29	14,746.20	4,93,998.00	14,92,824.49	1,71,559.81	16,63,384.30
250	"	45,000.00	4,449.00	121.44	49,570.44	743.55	25,249.90	75,563.89	8,689.85	84,253.74
3750	"	6,75,000.00	64,223.10	2,046.76	7,41,269.86	11,119.05	3,72,718.00	11,25,106.91	1,29,387.29	12,54,494.20
2000	"	3,60,000.00	32,137.41	1,335.95	3,93,473.36	5,902.09	2,21,118.10	6,20,493.55	71,356.77	6,91,850.32
3000	"	5,40,000.00	48,270.53	..	5,88,270.53	8,824.06	3,26,068.13	9,23,162.72	1,06,163.71	10,29,326.43
30000	180.00	54,00,000.00	5,03,558.01	13,094.56	59,16,652.57	88,749.76	30,31,281.76	90,36,684.09	10,39,218.67	1,00,75,902.76

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Retainable per set Approximately.  $\frac{\text{Rs. } 1,00,75,902.76}{30000} = \text{Rs. } 335/87$  + Transport charges from Port Town to up-country town of supply.

**APPENDIX V**

[Reference to Paras 1.49 & 1.51 of the Report]

*Comparative Statement of Specifications of Giant Tyres*

Specifications.	750-20-10					825-20-12				
	Hungary	Poland	Czech.	USSR	Indigenous	Hungary	Poland	Czech.	USSR	Indigenous
Weight . . . . .	29 Kg.	35.9 Kg.	34.4 Kg.	..	27.5 Kg.	41 Kg.	43.3 Kg.	39.4 Kg.	..	38 Kg.
Thickness of tread . . . . .	16.5 mm	16 mm	..	..	18.5 mm	18 mm	16 mm	..	..	18.5 mm
Depth of tread . . . . .	11.5 mm	10 mm	11 mm	..	12.7 mm	12.7 mm	10 mm	12mm	..	12.7 mm
Maximum load. . . . .	1200 Kg.	1150 Kg.	1350 Kg.	1000 Kg. (2200 lbs.)	1355 Kg. (2980lbs.)	1450 Kg.	1450 Kg.	1650 Kg.	1300 Kg. (2860 Lbs)	1640 Kg. (3600 lbs.)
Pressure . . . . .	71 lb.	64 lb.	73 lb.	50 lb.	75 lb.	71 lb.	71 lb.	80 lb.	63 lb.	80 lb.
Tropicalisation . . . . .	Tropic- alised	Tropic- alised	Tropic- alised	..	..	Tropic- alised	Tropic- alised	Tropic- alised	..	..

[S.T.C. letter No. STC/Eng./50A (PAC).dt. 27-7-67 refs.]

## **APPENDIX VI**

(Reference para No. 1.145(i) of the Report)

**SUBJECT.—***Procurement of Tyres & Tubes*

As the MGO Branch are aware, a certain number of Tyres and Tubes imported from HUNGARY by the State Trading Corporation are held by M/S RAMKRISHAN KULWANT RAI and General Industrial Stores Supplying Co. These Tyres, which have been approved by the DGS&D for sale under Rate Contracts are cheaper than those of indigenous manufacture. However, in so far as Defence Services are concerned, it has been decided that it would not be correct to use these Tyres in forward areas, as their quality is not upto the mark. These Tyres should not, therefore, be purchased for Defence purposes. Necessary instructions may be issued to all concerned.

SD/- S. S. KAKKAR,  
*Joint Secretary. (Q)*

**MGO**

Min. of Def. no No. 22(20)/63/2697/D(O-1) dated 22 Jul. 63.

**Copy to:—**

NAVAL HEADQUARTERS (Chief of Material)  
AIR HEADQUARTERS (Director of Equipments)  
E-in-C  
D.G.B.R.  
DG NOC  
D.M.L. & C.

## APPENDIX VII

(Reference para No. 1·145 (ii) of the Report)

1st Session, 1967 of the Lok Sabha

### MINISTRY OF DEFENCE

Date and Reference	Subject	Premise made	When and how fulfilled
1	2	3	4
	<i>Asking</i>	(a), (b) & (c)	Date of implementation.
<p>Unstarred Question No. 365 dated the 3rd April 1967 by Shri Madhu Limaye.</p>	<p>(a) whether it is a fact that the imported tyres (mentioned in the 64th Report of the Public Accounts Committee (3rd Lok Sabha) were sent to the Forward Areas in preference to the good quality Indian made tyres in stock at the depots;</p> <p>(b) if so, whether any enquiry has been ordered into these affairs; and</p> <p>(c) if so, the results of the enquiry?</p>	<p>The decision of the Defence Ministry not to issue these tyres to forward areas was, however, not communicated by the Army Headquarters to the depot authorities. The circumstances under which this was not done are being investigated.</p>	<p>The requisite information is as under :-</p> <p>1. The circumstances under which the decision of the Defence Ministry not to issue the imported tyres to forward areas was not communicated by Army Headquarters to the depot authorities have been investigated—Army Headquarters have explained that, at the time these tyres were procured and used, the units were raised quickly and rear area units moved forward at short notices. Supply of the indigenous types of tyre normally used was slow. Under such conditions where the use of items of similar type was concerned, no firm decision could be made that a particular type of item should be used strictly in rear areas and another similar type be used in forward areas. In an emergency it was not</p>

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always possible to insist upon the use of an item which conformed rigidly to laid down specifications, and it was considered better to have something with even restricted utility rather than nothing at all.

2. Even on the above basis, Government considers that Army Headquarters should have immediately come to Government for modification of the decision, and this was not done. There was thus an administrative lapse.
3. It has, however, been held that there is nothing to justify questioning the *bona fides* of the mistake in not communicating the decision of the Ministry. Army Headquarters have therefore been instructed that, in future, instructions issued by this Ministry should be followed up by corresponding instructions to lower formations and in case there are any difficulties in implementing those decisions, they should be brought to the notice of the Ministry immediately.

## APPENDIX VIII

(Reference para 1.150 of the Report)

No. F.25(9)/66, O&M

GOVERNMENT OF INDIA,

MINISTRY OF DEFENCE

New Delhi, the 19th Sept. 1966.

OFFICE ORDER NO. 45

SUBJECT:—*Issue of orders based on Government decisions.*

An instance has come to notice where issue of orders based on a Government decision was delayed as the file was sent to another Ministry in connection with another matter.

2. When a decision is taken by the Government necessitating the issue of orders, the orders should issue promptly. If the file is also required for any other purpose, the issue of orders should not be delayed but the orders should issue forthwith and the file released thereafter.

Sd/- H. T. SADHWANI,

*Joint Secretary (P&C).*

*All Officers and Sections . . . . .*

Copy for information to PS to DM/MDP.

Copy to:—

Army Headquarters—DSD

Naval Headquarters—Naval Secretary.

Air Headquarters

All Inter-Services Organisations.

CAO (Coord).

[*Ministry of Defence letter No. 14(12)/66 D(O.I.) dt. 17-7-67*]

## APPENDIX IX

(Reference Para 1.161 of the Report)

*Ministry of Defence note on enquiries made by Government into the manner of placing of orders or inspection on payment made by COD, Malad against the rate contracts to M S Ramkrishan Kulwant Rai and M/S GISSCO in 1963.*

The Inter Departmental Committee has gone into the question of the placing of the indent by the COD Kandivilli on the DGS&D in respect of 7100 tyres. They have pointed out the irregularities committed by the Commandant COD Kandivilli and the action taken against him (*vide* para 4.3 on pages 56 to 58 of the report). The Inter Departmental Committee has also gone into the irregularities noticed in respect of the inspection of the tyres *vide* para 4.2 of the report on pages 54 to 56.

The said Inter Departmental Committee has also gone into the question of the irregularities committed in making the rate contract *vide* paras 3.4 and 3.5 on pages 45 to 48 of their report. The three supply orders placed by COD Kandivilli on 6th February, 1963, 15th March, 1963 and 18th March, 1963 as mentioned in answer to Question 9 of Statement I of the replies already submitted were so placed in pursuance of the DGS&D rate contract on 5th September, 1962.

The first supply order of 6th February, 1963 for 700 tyres of size 750x20 10 PR was against the requirements of the COD Kandivilli for the same size and quantity and was within the competence of the Commandant.

The remaining two supply orders of 15th March, 1963 and 18th March, 1963 by the COD Kandivilli were placed in pursuance of the approval of the Chief Superintendent Development TDE Ahmednagar on 5th March 1963 *vide* Annexure XVIII already forwarded to the Lok Sabha Secretariat. This was in pursuance of the letter at Annexure XVII addressed by COD Kandivilli to Chief Superintendent Development TDE Ahmednagar on 30th January, 1963. The question whether TDE(V) Ahmednagar erred in giving the clearance and issuing the letter at Annexure XVIII is a matter which is being enquired into. As a result of the clearance by the TDE(V), the supply order for 2850 tyres was placed on M/S Ram Krishan Kulwant Rai on 15th March, 1963 and for 850 tyres on M/S GISSCO on 18th March, 1963.

A further query has been made whether any irregularity has been noticed on the part of the COD Malad in making payment for the tyres purchased against the rate contract. In this connection, it may be clarified that payment for tyres purchased against rate contract is made by the Pay & Accounts Officer, Ministry of Works, Housing and Supply, and not by COD Kandivilli.

It is understood that the SPE has registered a case against Shri Ram Krishan Kulwant Rai under Section 420 IPC. If any further irregularities committed in the transactions are brought to notice in the course of investigation in the light of the result of S.P.E. enquiry the position would be further reviewed.

(L. S. LULLA)

*Joint Secretary (Q).*

**APPENDIX X**

(Reference para No. 1.161 of the Report)

**TELEGRAM**

**ORDEP  
KANDIVLI**

**STATE MILITARY**

**Q. (.) REFERENCE YOUR TELEGRAM Q7465 OF TWENTY-FIFTH FEBRUARY (.) STORES ACCEPTABLE**

**HOURS FIFTH  
VEHICLEDEV**

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No. 00502 MR14 CONT 'S  
GOVERNMENT OF INDIA,  
MINISTRY OF DEFENCE (CGDP)  
Technical Development Estt.  
(Vehicles)  
AHMEDNAGAR (DECCAN)

5 March, 1963.

**TO**

The Officer Commanding  
COD KANDIVLI BOMBAY-67.

Post copy forwarded in confirmation.

In view of the reasons stated in your letter No. 1612 499 Prov. dt. 30-1-63, 825-20 ST 12 PR tyre is considered acceptable in place of 825-20 ST 10 PR.

Sd -Major EME  
For Chief Superintendent Development (VEHS)  
(S. BALASUBRAMANIAM. ASD).

## APPENDIX XI

### *Summary of Main Recommendations/observations of the Fourth Report of the Public Accounts Committee*

Sl. No.	Para No.	Ministry concerned	Conclusions Recommendations
1	2	3	4
1	1.9	<u>Commerce</u> <u>Deptt. of supply</u> <u>Defence</u>	<p>The Committee regret to note that no reply was received from Government by the end of February 1967, <i>i.e.</i> within three months of the date of the presentation of the 64th Report of the Public Accounts Committee (Third Lok Sabha). The Committee are unable to appreciate why Government waited till 18th April, 1967, to constitute an Inter-Departmental Committee to consider the various recommendations/observations made by the Public Accounts Committee in their 64th Report (Third Lok Sabha).</p>
2	1.10	Do	<p>The Committee are also constrained to point out that Government did not take prompt notice of the recommendations of the Committee in as much as the Officer Commanding, Malad, against whom the Committee had passed strong strictures and recommended investigation, was allowed to retire prematurely from service on 16th December, 1966, <i>i.e.</i> two weeks after the presentation of the Report of the Committee on 30th November, 1966.</p>
3	1.11	Do	<p>The Committee have dealt with this matter at greater length in para 1.156 to 1.158 of this Report, but here they would like to emphasise that Government should take prompt and due notice of the recommendations</p>

1	2	3	4
			made in their Reports so that any necessary investigation or inquiry or any remedial measures can be initiated without loss of time.
4	1.32	Commerce	The Committee do not accept the suggestion of the Inter-Departmental Committee "that the linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not therefore justifiable." They feel that if the requirements had been correctly assessed the gap between the demand and the supply would have been found to be far narrower. In fact, it would have been found that there was no justification for the Ministry of Commerce to direct the State Trading Corporation to import gaint tyres, to the tune of 1,20,000 in 1961.
5	1.33	Do.	It is not clear to the Committee why the State Trading Corporation were not asked to import tyres based on their own commercial judgment of the country's requirements. The Committee were given to understand in evidence by the representative of the Ministry of Commerce that the State Trading Corporation were allowed to import tyres in small lots of 4,750 or so. They find, however, that orders for the import of 40,000 tyres by M/s. Ramkrishan Kulwant Rai were allowed to be placed in February, 1961, while orders for the import of another 15,500 tyres were allowed to be placed by M/s. GISSCO during March, 1961. This does not indicate that orders for only a small lot of tyres were allowed to be placed each time and that the need for the import was also examined at each stage in detail by the Ministry.

- |   |      |     |  |
|---|------|-----|--|
| 6 | 1.34 | Do  | <p>It has already been mentioned by the Committee in their 64th Report (Para 1.30) that the State Trading Corporation in their letter dated 13th October, 1961, had told M/s. Ramkrishan Kulwant Rai "to defer further shipments till such time, as the existing stocks are liquidated", as the firm already had large stock of tyres on hand, but Shri Kulwant Rai, "however, assured our Divisional Manager that you have no difficulty in the sale of tyres and that the licence may be released." It is regrettable that even at that stage timely action was not taken to stop further shipment of tyres.</p>   |
| 7 | 1.35 | Do. | <p>The Committee cannot but reiterate the observations made by them earlier in paras 1.28 to 1.30, and 5.1 of their 64th Report that the decision to import the tyres in such large numbers from 'rupee payment' countries was not taken after a thorough examination of all aspects of the problem. One of the contributory factors, as pointed out by the Inter-Departmental Committee, was the feeling on the part of the potential purchasers that the imported tyres may not be as good as the indigenous tyres. The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the State Trading Corporation from 'rupee payment' countries or else where are really necessary and that they are competitive both in price and quality.</p> |
| 8 | 1.36 | Do. | <p>As assured by the Secretary, Ministry of Commerce, in evidence, the Committee hope that the Ministry will be more careful while assessing the requirements of different commodities, their indigenous production and the need for import in future.</p>   |
| 9 | 1.37 | Do. | <p>The Committee feel that the demand was grossly over-estimated with the result that a large number of tyres were imported which were not</p>   |
-

1	2	3	4
10	1.45	Commerce	<p>required and that this was apart from their defective quality, one of the reasons for the subsequent difficulty in the disposal of the tyres.</p> <p>The Committee note from these statements that there was a difference of about Rs. 100 in the landed price of a set of one imported tyre, tube and flap inferior in quality to the indigenous tyre etc. and the list prices which were permitted to be charged by the STC till 6th February, 1962. It would have been considered whether it was wise to allow such a particular margin favour, had been fixed in consultation with Government so that it could have been considered whether it was wise to allow such a particular margin for a public sector undertaking without adequately allowing for the interest of the consumer. The Committee cannot help concluding that it was this time of making easy profits at the expense of the consumer which tempted the STC and the private parties to continue to import tyres in such large numbers and to fail to disclose the lower specification and defects to the users including Defence. The Committee consider that a governmental undertaking like the State Trading Corporation should pay greater attention to the interests of the consumers for whose benefit it has professedly been set up.</p>
11	1 62	-do-	<p>The Committee are unable to appreciate how the State Trading Corporation, realising fully that the known specifications of the tyres from East European countries were 12% to 15% short of Indian specifications considered themselves justified in placing orders for their purchase in such large numbers from these countries. Prudence required that the State Trading Corporation should have brought these short-comings specifically to the</p>

notice of the Government so that they could review, in the light thereof, their fiat for the import of tyres in such large numbers from the East European countries and consider whether it would not have been in the national interest to make the imports found necessary from other parts of the world. In any case, the Committee cannot see any justification for not importing the untried tyres in smaller lots to test the market and users reactions before spending the country's scarce resources in importing these inferior tyres in such large numbers.

12            1. 63            -do-

The Committee agree with the observations of the Inter Department Committee that "the State Trading Corporation took no steps whatsoever to have the quality and the specifications checked up with reference to the contracts made by them even after the receipt of the complaints from the importers themselves."

13            1. 64            -do-

The Committee would like Government to fix responsibility for the failure to exercise any check on the imported tyres and to make sure that they were in accordance with the quality and specifications laid down in the agreement and for which money was being paid to a foreign party. They would also like Government to make sure that the firms have not obtained compensation from the foreign manufacturers on the ground of the lower quality of imported goods as compared with specifications, without disclosing it to the State Trading Corporation. It seems that M/s. Ramkrishan Kulwant Rai had obtained compensation amounting to Rs. 6.19 lakhs from the foreign suppliers. In case they have obtained any such compensation, the Committee would like this aspect to be kept in view while framing claims for recovery against all the firms concerned.

1	2	3	4
14	1.69	Commerce	The Committee cannot appreciate why the State Trading Corporation a public undertaking, knowing fully well the lower specifications of the imported tyres and their consequences to users chose to maintain complete silence about even vital factors as maximum load carrying capacity and pressure of the imported tyres, which had a vital bearing on safety.
15	1.70	-do-	In particular, the Committee deprecate the attitude of the State Trading Corporation in not communicating vital information regarding specification, quality and performance expectations of the imported tyres to the Director General, Supplies and Disposals specially when it was known that these tyres were being procured for the use of Defence Forces.
16	1.71	-do-	The State Trading Corporation's attitude to the user seems unfortunately to be based on the Roman Legal Maxim "caveat emptor" ('let the buyer beware').
17	1.72	-do-	The Committee would like to be informed of the result of action initiated by the Ministry of Commerce for fixing responsibility on the officials responsible for this serious lapse.
18	1.80	-do-	The Committee are glad that Government have realised that more efficient procedures for securing reliable and experienced dealers to handle import and distribution work on behalf of the State Trading Corporation are called for. The Committee need hardly stress that the State Trading Corporation being a public undertaking, should adopt procedures which would be above all suspicion. The Committee consider that as far as possible, the State Trading Corporation should invite public offers so as to get

most experienced and reliable distributors at the least margin of profit for the import and distribution of their goods.

19            I. 81            -do-

As regards the appointment of M/s. Ramkrishan Kulwant Rai as agents for the import of tyres from Hungary, the Committee do not desire to comment on it at this stage as it is understood that the matter is under scrutiny by the Central Bureau of Investigation.

20            I. 88            -do-

The Committee cannot help concluding that had advice of the Solicitor General/Additional Solicitor General been taken in 1961, as suggested by the Deputy Divisional Manager (Law) of State Trading Corporation, the uncertainty about the legal and financial responsibility of the State Trading Corporation would have been dispelled. It would also have made the State Trading Corporation realise that it had no particular obligation repeatedly to approach Governmental purchasing organisations to facilitate the disposal of imported tyres which were known to be below specification. The Committee feel that even now the Ministry of Commerce should obtain the legal advice of the Solicitor General/the Additional Solicitor General about the legal and final responsibilities of the S.T.C. vis-a-vis the private firms to set all doubts at rest.

21            I. 94            -do-

In the absence of the production of the original invoices of the foreign suppliers by the firm, the Committee feel that the correctness of the agency commission received from the foreign suppliers cannot be verified. The Committee desire that the original invoices of the foreign suppliers should be obtained from the firm and checked with a view to find out the correct amount of commission received by the firm M/s. Ramkrishan Kulwant Rai from the foreign suppliers. Such a check is all the more necessary as

according to the contract, the landed cost was to be determined on the basis of the net c.i.f. price, i.e., c.i.f. price after excluding agency commission, if any, paid to the firm by the foreign suppliers.

22            I . 100            Commerce

The Committee entirely agree with the views of the Secretary of the Ministry of Commerce that "for a public sector undertaking like the State Trading Corporation the responsibility to the user should have weighed with them a little more than the responsibility of the Associate." The Committee feel that the State Trading Corporation and the Ministry should take necessary action to bring to the notice of all the bulk purchasers, specially those whom they had approached earlier to purchase the imported tyres, the procedure for claiming compensation for defective tyres so that they may file their claims.

23            I . 101            -do-

The Committee would also like to draw attention to the specific provision made in the agreement with M/s. Ramkrishan Kulwant Rai to the effect that "the failed tyres will be examined by a panel . . . . and that the decision of the panel will be binding" and that "they shall give adequate compensation to the party concerned as per the decision of the panel."

24            I . 102            -do-

The Committee, therefore, see no reason why State Trading Corporation and Government should not be able to ensure payment of proper compensation to the users who have suffered loss on account of the supply of defective tyres.

25            1.106            Deptt. of Supply            The Committee would like to be informed of the action taken against the persons at fault as suggested by the Inter-Departmental Committee in due course.

26            1.119            -do-            The Committee are alarmed to note the unusual enthusiasm shown by the Deputy Director, Supplies and Disposals in putting through the deal of the purchase of tyres by the Ministry of Defence from Messrs. Ramkrishan Kulwant Rai. The officer seemed to have made several incorrect and misleading statements. The Committee take a very serious view of the lapses on the part of this officer. They note from the report of the Inter-Departmental Committee that this officer has retired and that he was already under disciplinary action for another charge, *i.e.*, non-inclusion of a warranty clause in the rate contract entered into by the DGS&D. The Committee desire the Department of Supply to examine as to why action could not be taken against this officer when he was in service and how the unusual enthusiasm shown by him in this deal escaped the notice of the senior officers. The Committee were given to understand during evidence that charges were being framed against the officer concerned. They are, however, not sure whether the Department of Supply will be able to take adequate action against him as he has already retired from service. They would like to be informed of the action taken against this officer. The Committee also regret to note that (i) as against the rate contract of Rs. 349 -per set which included a tyre, a tube and a flap, the DGS&D made the payment of Rs. 360/- for a tyre alone. (ii) The sale price fixed for Polish tyres (Cross Country Type) was Rs. 360 per tyre, while the c.i.f. Indian port price for the same tyre was Rs. 228.24 per set.

1	2	3	4
			<p>As against this, the Hungarian THR tyre per set (which was comparatively inferior) was also fixed at Rs. 360 per tyre, when the c.i.f. price, on M/s. Ramkrishan Kulwant Rai's own admission, was Rs. 210 per set. Thus, the Government was forced to pay the same price for inferior quality, the landed cost of which was also less by Rs. 18.24 per set.</p> <p>The firm of M/s. Ramkrishan Kulwant Rai was thus overpaid to the extent of about Rs. 2.90 lakhs.</p>
27	1.120	<u>Deptt. of Supply</u> Law	<p>The Committee desire that suitable measures should be taken by Government in consultation with the Ministry of Law, if necessary, to recover this excess payment from the firm in question.</p>
28	1.129	Deptt. of Supply	<p>It is strange to note that a copy of the letter of February, 1963, on the file of the Inspection Wing of Director General, Supplies &amp; Disposals addressed by the Inspectorate at Calcutta regarding unsatisfactory storage conditions of tyres in the stocks of M/s. Ramkrishan Kulwant Rai was diarised in the office of the Director General, Supplies and Disposals but not put on the file. The Committee desire that this suppression of an important letter may be looked into with a view to fixing responsibility.</p>
29	1.130	Deptt. of Supply	<p>The Committee hope that the instructions issued by the Director General, Supplies &amp; Disposals on 7th January, 1967, will be strictly observed and that cases of this type will not recur.</p>
30	1.135	<u>Deptt. of Supply</u> Home Affairs	<p>After the injunction of the High Court is vacated the Committee would like to be informed of the action taken against this firm. As a result of the enquiry by the Special Police and the results of the disciplinary proceed-</p>



As regards the non-implementation of the orders by the Army Headquarters, the Committee note that, according to Government, there was "nothing to justify the questioning the bonafides of the mistake in not communicating the decision of the Ministry—Army Headquarters have, therefore, been requested that in future instructions issued by this Ministry should be followed by corresponding instructions to lower formations and in case there are any difficulties in implementing those decisions they should be brought to the notice of the Ministry immediately."

33            1. 151            -do-

In view of the action taken by Government the Committee do not desire to pursue the matter further. They cannot, however, too strongly emphasise that administrative procedures and machinery should be fully geared to convey, without delay, specific orders of the Ministers to all concerned for faithful implementation.

34            1. 158            Defence

The Committee are not convinced by the explanation advanced by the Ministry of Defence for not taking prompt notice of the specific recommendations made by the Public Accounts Committee in their 64th Report about the lapses on the part of the Officer Commanding COD Kandivili (Malad), in regard to the purchase of imported tyres. The Committee are unable to appreciate how the irregularity committed by this Officer in accepting 5,904 THR tyres in lieu of cross country tyres, in contravention of the instructions of Army Headquarters, was overlooked while processing his application for premature retirement, in spite of the instructions dated 2nd September, 1966, of the Defence Secretary that investigations

should be made into the case and the observations made by the Public Accounts Committee on the conduct of this Officer in their 64th Report, presented to the House on 30th November, 1966. The Committee would like the responsibility for allowing this officer to retire prematurely on 16th December, 1966, to be fixed and deterrent action taken against those who are found responsible for this lapse.

35            I. 163            -do-

The Committee note that as many as 1425 imported tyres (excluding 5904 THR tyres which have been commented upon in para 1.159) were received by COD Kandivili (Malad) on 15th April, 1963, and that he further accepted 1881 tyres after that date against the rate contract without obtaining the specific approval of the Army Headquarters. The Committee are not able to appreciate as to why Government have not chosen to take action against the concerned officer for non-compliance with their instructions.

36            I. 164            -do-

The Committee need hardly stress that Government should take stern action against all those who are found responsible for any irregularities in connection with the purchase of tyres against the rate contract.

37            I. 165            -do-

The Committee also hope that Government will take appropriate action if any further irregularities on the part of officers are brought to notice, as a result of investigations into these transactions by the S.P.E.

38            I. 169            -do-

The Committee would like to be informed of the results of this enquiry and the action taken against the officers at fault.

1	2	3	4
39	2.1	<p style="text-align: center;"><u>Commerce</u> Deptt. of Supply Defence</p>	<p>In their 64th Report, the Public Accounts Committee had made 55 recommendations/observations. The Ministries of Commerce, Works, Housing &amp; Supply (Deptt. of Supply) and Defence have accepted 48 of the recommendations.</p>
40	2.2	Commerce	<p>In this re-examination of the case about the purchase of defective tyres, the Committee would like to highlight certain aspects of the case. In respect of the recommendations at Sl. Nos. 1, 2, 3, 4, 5, 11, 52(1), 52(4) and 52(5) regarding the assessment of requirements, the Ministry of Commerce have accepted the suggestion of the Inter-Departmental Committee that ".....Linking of the alleged over-estimation of the import requirements with the difficulties experienced subsequently in the disposal of tyres imported in 1961 is not, therefore, justifiable." The Committee regret they cannot accept the reply of the Ministry of Commerce and hold that, if the requirements had been correctly assessed, the gap between the demand and the supply would have been found to be far narrower. In fact, it may well have been found that there was no justification for the Ministry of Commerce to direct the S.T.C. to import giant tyres to the tune of 1,20,000 in 1961. The Committee, therefore, reiterate the observations made by them earlier in paras 1.28 to 1.31 and 5.1 of their 64th Report that the decision to import the tyres in such large numbers from 'rupee payment' countries was not taken after a thorough examination of all aspects of the problem.</p>

41. 2.3 -do- It is not clear to the Committee why the State Trading Corporation, as an autonomous organisation, were not asked to import tyres based on their judgment of the country's requirements.
- 42 2.4 -do- The Committee are unable to appreciate how the STC though aware that the specifications of the tyres from East European countries were 12 to 15 per cent short of Indian specifications, considered themselves justified in placing orders for their purchase from these countries in such large numbers and why they should not have asked for a review, in the light of these shortcomings, of Government's fiat for the import of these tyres from these countries so that the possibility of making these imports in the national interest from other parts of the world could also be considered.
- 43 2.5 -do- The Committee cannot help concluding that it was the lure of making easy profits which tempted the STC and the private parties to continue to import tyres in such large numbers and to fail to disclose the lower specifications and defects to the users including Defence. The Committee need hardly stress that a governmental undertaking like the STC should pay greater attention to the interests of the consumers for whose benefit it has professedly been set up.
- 44 2.6 -do- The Committee cannot too strongly emphasise the need for ensuring that imports arranged through the STC from 'rupee payment' countries or elsewhere are really necessary and that they are competitive both in regard to price and quality.
- 45 2.7 -do- The Committee find that the S.T.C. also failed to communicate to the prospective buyers that the imported tyres were 12% to 15% below the indigenous specifications.
-

1	2	3	4
46	2.8	-Do- Deptt. of Supply	The Committee deprecate in particular the attitude of the S.T.C. in not communicating vital information regarding specifications, quality and performance of the imported tyres to the D.G.S.&D., specially when it was known that these tyres were being procured for the use of the Defence Forces.
47	2.9	Commerce	The STC, on its part, also failed to have the quality and specifications checked with reference to the contracts even after the receipt of complaints from the importers themselves. The Ministry of Commerce have asked the STC to fix the responsibility for failure to inform the prospective buyers about the specifications, pressure etc. of imported tyres in different sizes and plies. The Committee desire that suitable action should also be taken against the officers in the STC who failed to check the quality and specifications with reference to the contracts even after receipt of complaints regarding the defective quality of the tyres from the importers themselves.
48	2.10	-Do- Deptt. of Supply	The Committee are distressed to note that a Deputy Director in the office of the DG&S made a number of incorrect and misleading statements and showed an unusual interest in pushing through the purchase of tyres by defence indentors. It is also strange to note that when the landed cost of the ST & THR pattern tyres was the same viz. Rs. 210/- per set (tyre, tube and flap) and the rate contract entered into by the DGS&D for a set of (tyres, tube and flap) was Rs. 349/-, a payment of Rs. 360 was made for a THR tyre alone. Government was also forced to pay for

THR tyres the price applicable to Polish tyres (Cross Country type) which was of a superior quality than THR type, and the landed cost of which was also higher by Rs. 18.24 per set. This gave a further benefit of at least Rs. 18.24 per set to M/s. Ramkrishan Kulwant Rai. This resulted in a total excess payment of about Rs. 2.90 lakhs to the firm. The Committee take a serious view of this lapse and desire that the responsibility should be fixed for the same.

49            2.11            Defence

Apart from the delay in communicating the orders dated 19th April, 1963, of the Defence Minister, there was a failure in the Ministry of Defence to communicate promptly the decision taken at the meeting held in the room of the Minister of State for Defence on 30th July, 1962, that it would not be advisable to procure tyres and tubes from the stocks available with the State Trading Corporation in so far as the requirements of the forward areas were concerned. This decision was communicated to the MGO's Branch on 22nd July, 1963, i.e., after nearly a year. This delay of about a year needs looking into as it might also have been a contributory fact to the issue of some of these tyres to the forward areas.

175

0            2.12            -Do-

The Committee have also not been able to appreciate how the irregularity committed by the C.O.D., Kandivilli (Malad) in accepting 5,904 THR tyres in lieu of cross country tyres in contravention of the instructions of Army Headquarters was over-looked while processing his application for premature retirement and he was allowed to retire on 16th December, 1966, and that contrary to the instructions of the Defence Secretary that an investigation should be undertaken into the case and the

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1	2	3	4
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observations made by the P.A.C. on the conduct of this officer in their 64th Report presented to the House on the 30th November, 1966.

51            2.13            Commerce  
Deptt. of Supply  
Home Affairs

As regards the firms, the Committee understand that the Central Bureau of Investigation is looking into the case against M/s Ram Krishan Kulwant Rai. After the injunction of the High Court is vacated, the Committee would also like to be informed of the action taken against the firm. The Committee would also like it to be ascertained whether there are any grounds for taking any action against any of the other firms involved in the import and supply of these tyres.

52            2.14            -do-

The Committee reiterate their observation contained in para 5.4 of their 64th Report that "Government should take immediate steps to assess the losses suffered by the various users, viz., Defence, Transport Undertakings, etc., due to the purchase of these defective tyres and to secure adequate compensation from the firms/STC."

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
18	W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.	44	29	Oxford Book & Stationery Company, Sciendia House, Connaught Place, New Delhi.	68
19	Firma K.L. Mukhopadhyay, 6/IA, Banchharam Akrur Lane, Calcutta-12.	82	30	People's Publishing House, Rani Jhansi Road, New Delhi.	76
<b>DELHI</b>					
20	Jain Book Agency, Connaught Place, New Delhi.	1	31	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
21	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	32	Hind Book House, 82, Janpath, New Delhi.	95
22	Atma Ram & Sons, - Kashmere Gate, Delhi-6.	9			
23	J.M. Jaina & Brothers, Mori Gate, Delhi.	11	33	Book Wall, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
24	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	<b>MANIPUR</b>		
25	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	34	Shri N. Chooba Singh, News Agent, Ram Lal Paul High School annexe Imphal.	77
26	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	<b>AGENTS IN FOREIGN COUNTRIES</b>		
27	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	35	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, London, W.C. 2.	
28	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66			

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