

IMPORT OF LIFE EXPIRED AMMUNITION

MINISTRY OF DEFENCE

PUBLIC ACCOUNTS
COMMITTEE
1994-95

NINETY-SECOND REPORT

TENTH LOK SABHA

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LOK SABHA SECRETARIAT
NEW DELHI

NINETY-SECOND REPORT
PUBLIC ACCOUNTS COMMITTEE
(1994-95)

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Presented to Lok Sabha on 31.3.1995
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LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE

(1994-95)

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INTRODUCTION

1. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Ninety-second Report on Paragraph 9 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993, No. 8 of 1994, Union Government— Defence Services (Army & Ordnance Factories) relating to Import of life expired ammunition.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993, No. 8 of 1994, Union Government— Defence Services (Army & Ordnance Factories) was laid on the Table of the House on 14.6.1994.

3. In this Report the Committee have noted that the Government of India concluded two contracts with a foreign supplier in September 1987 for procurement of 46,700 rounds of ammunition 'A'. Out of the total quantity contracted, 18900 rounds of ammunition amounting to Rs. 19.06 crores were received in a Central Ammunition Depot (CAD) between May and November 1990 in different consignments. On examination of the ammunition received by them, the Central Ammunition Depot found that the ammunition were of early 70s and mid-70s manufacture. Since it had completed the prescribed shelf life of 10 years, the CAD intimated the Army Headquarters and the Director General of Quality Assurance (DGQA) that it must be replaced by the supplier. On check proof of the ammunition, the DGQA had initially advised that the ammunition was overage and quality claim be raised on the supplier. Based on the dynamic proof and chemicals analysis/tests of each consignment. The DGQA subsequently informed the Director General of Ordnance Services (DGOS) that performance of the ammunition was satisfactory and a residual shelf life of three years could be assigned after which samples would be required to be re-tested. However, on a re-look in July 1991, the DGQA opined that ammunition manufactured between 1972-75 be re-tested after three years and the ammunition manufactured between 1976 and 1981 be re-tested after five years. From the foregoing it is evident that the quality of the supplies received had raised serious doubts about the life of the ammunition. The committee have been intrigued at the manner in which DGQA, the deciding authority on quality in defence expressed their differing views at rapid successions. In the opinion of the Committee the attitude of DGQA was to pull on somehow with the quality of supplies received. The Committee have been surprised over this, particularly in view of the outright rejection recommended by the CAD.

4. Based on the recommendation of the DGQA, a quality claim was raised on the supplier on 23 April, 1990 on the ground that the ammunition

supplied had outlived its storage life and the supplier were requested to replace the ammunition with the stores filled with explosive having stipulated full life and conforming to the quality requirements. However, the supplier rejected the Indian contention of ten years storage guarantee period stating that it was not in accordance with the contractual clauses. The Committee have been distressed to point out that since the stipulated shelf life of the ammunition was not explicitly mentioned in the contract, our quality claims based on genuine and justifiable considerations could not be properly defended. In the opinion of the Committee, since the Ministry were fully aware of the fact that the ammunition were to be supplied ex-stock, adequate caution ought to have been taken to ensure that the ammunition ex-import would conform to the specifications. The Committee have viewed the omissions on this score seriously and desired that the Defence authorities should taken necessary precautions in similar contracts in the future. They have also desired that the Ministry of Defence should further examine the question of pursuing the quality claims with the supplier.

5. The Committee have noted that the contract executed with the supplier for procurement of the ammunition did not contain any provision for pre-despatch inspection of the ammunition. The Committee are of the view that considering the critically of requirements and the impossibility of the delivery of this ammunition ex-manufacture, it was imperative that pre-despatch inspection was undertaken in order to ensure that the ammunition supplied conformed to the specifications. The Committee have considered it unfortunate that such a provision was not included in the relevant contract. They have recommended that in the light of the sad experience, in this case, all possible steps be taken by the Ministry in future to suitably incorporate provisions for pre-despatch inspection in the contracts with a view to adequately protecting the country's interests.

6. The Committee have further noted that the delegation which visited the supplier country for negotiating the contract had been provided with the brief which included that the ammunition items were proposed to be delivered ex-stock, those were from unused stock, their vintage should be ascertained, they should not be of pre 1985-86 vintage, guarantee should be obtained about service life and stipulated in the contract etc. However, all the points of the brief have not truly been reflected in the contract actually entered into with the supplier for the procurement of the ammunition. The Committee have desired that in the light of the experience in the present contract, the Ministry of Defence should look into this area of procurement and take necessary remedial steps for ensuring that all the requirements and specifications prescribed/identified are truly incorporated in the contracts in future.

7. The Committee have found that as per the provision review of 1.10.1986, as against a huge deficiency of 2,53,042 pieces, Government were able to sign contracts for 46,700 rounds of ammunition 'A' only. The

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Committee have been informed that the efforts to produce the ammunition indigenously also did not succeed. This resulted in the Director General of Ordnance Services (DGOS) imposing a 100% training restriction on the use of the ammunition in training so as to keep the ammunition as reserve since the stock levels had become critically low. Expressing their concern that the whole system of planning and provisioning of the ammunition had badly suffered and had an adverse impact on training the Committee hope that concerted efforts will be made by the Ministry of Defence to improve the stock so as to make adequate provisions for meeting both training commitments as also the operational requirements. The Committee have further recommended that all out efforts should be made by the Ministry to fructify the indigenous Project at the earliest so as to generate its trickling effects in improving the stock position and the overall requirements of the Army.

8. The Committee examined the Audit paragraph at their sitting held on 9.1.1995. The Committee considered and finalised the report at their sitting held on 23.3.1995. Minutes of the sittings form Part-II* of the Report.

9. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the report and have also been reproduced in a consolidated form in Appendix-II to the Report.

10. The Committee would like to express their thanks to the Officers of the Ministry of Defence for the co-operation extended to them in giving information to the Committee.

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

NEW DELHI;
27 March, 1995

6 Chaitra, 1917 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

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

REPORT

This Report is based on paragraph 9 of the Report of the C&AG of India, Union Government, Defence Services (Army and Ordnance Factories) for the year ended 31 March 1993 (No. 8 of 1994) on 'Import of Life Expired Ammunition' which is appended as APPENDIX-I

Introductory

2. The provision review (PR) of 1.10.1986, indicated deficiency of 2,53,042 pieces of ammunition for vehicle 'Z', among other varieties of ammunition. After negotiations, the Government of India concluded two contracts with a foreign supplier in September 1987 for procurement of 46,700 rounds of ammunition 'A'. The contracts were negotiated keeping in view the criticality of the item and various pertinent factors involving operational necessities. As per the contract the ammunition were to be supplied ex-stock. Out of the total quantity contracted, 18,900 rounds of ammunition amounting to Rs. 19.06 crores were received in a Central Ammunition Depot (CAD) between May and November 1990 in different consignments. On receipt of the ammunition, it was noticed by the CAD that the ammunition lots were manufactured between 1973 and 1979. As the normal shelf life of the ammunition was 10 years, the ammunition received in India was shelf life expired.

Inspection of the ammunition by Director General of Quality Assurance (DGQA)

3. It is seen from the Audit Paragraph that on check proof of the ammunition, the Quality Assurance Establishment (QAE) recommended in May 1991, rejection of the entire quantity of the ammunition. In May 1991, Director General of Ordnance Services (DGOS) intimated the CAD that the performance of the ammunition was satisfactory in dynamic proof and based on chemical analysis, a residual shelf life of three years could be assigned to the ammunition. However, on the request of DGOS, due to paucity of stores/inadequate reserves the Quality Assurance Establishment (QAE) had subsequently revised the shelf life of the ammunition imported. Accordingly, the lots of ammunition manufactured between 1973 and 1975 were to be retested after three years and the ammunition manufactured between 1976 and 1981 were to be retested after five years.

4. The Committee desired to know as to how an ammunition whose residual shelf life was estimated as only three years was declared serviceable and requiring retesting after three and five years. The Ministry of Defence in a note stated that from the records available, it was clear that the DGQA, had initially advised that the ammunition was overage and quality claim be raised on the supplier. The DGQA, however, did not say

that the ammunition was unserviceable. However, on a re-look in July 1991, the DGQA opined that ammunition manufactured between 1973—75 be re-tested after 3 years whereas ammunition manufactured between 1976—81 be re-tested after 5 years.

5. Clarifying further on this point, Secretary, Ministry of Defence, during evidence stated that the initial recommendation that the ammunition should be rejected was not made by DGQA. It was done by the Ammunition Depot staff on the basis of an inspection of the marking made on the cartridge case and on the warhead which showed that the ammunition were of early 70s and mid-70s manufacture. Because of the rule that ammunition at the end of ten years has to be discarded, they wrote to the Army Headquarters and to the DGQA that it was time barred ammunition and this must be replaced by the Suppliers. When the DGQA did the tests he confirmed that it was satisfactory. However, it had crossed in certain cases the normal ten year life which was taken as a standard for Indian ammunition.

6. Asked further about the basis on which DGQA had initially maintained that the ammunition was overage and subsequently revised its position that the same was serviceable requiring re-testing after three and five years, in a post-evidence note, the Ministry stated:

“As per DGQA procedure in vogue, for all consignments of ammunition received from abroad, the Central Ammunition Depots forward lot details and quantity of ammunition received, to DGQA. Based on the details received, the DGQA calls for representative samples for check proof and chemical tests the scrutiny of the lot details of the ammunition received, revealed that the ammunition was of old vintage. Therefore as a first step, a quality claim for each consignment was raised by DGQA so that it does not become time barred. Simultaneously, the samples were called for dynamic proof firing at Central Proof Establishment (CPE) and chemical analysis/tests at Controller of Quality Assurance (CQA). Based on the dynamic proof and chemical analysis/tests of each consignment, DGQA had informed the DGOS, that performance of the ammunition was satisfactory in dynamic proof and that based on chemical analysis residual shelf life of three years could be assigned after which samples would be required to be retested”.

7. The Ministry have however, in their note added that DGQA had not recommended rejection of the imported ammunition at any stage.

Quality claims

8. The Audit have pointed out that while recommending rejection of the entire quantity of the ammunition in May 1991, the Quality Assurance Establishment had advised DGOS to pursue the quality claim already raised by the Establishment. On being asked by the Committee about the follow-up action taken by DGOS in this direction, the Ministry of Defence in their note stated that based on the recommending of DGQA the quality claim

was raised on the supplier on 23 April 1990. However, in their response of July 1990, they intimated that the subject ammunition had been strictly inspected and found suitable for long storage and ultimate use in war and that similar ammunition with the same years of production were in use with their Army without any restriction on its use in war. They also offered to cancel the contract for remaining supplies in case the purchaser was not agreeable to their point of view. Considering the criticality of the requirements and the fact the ammunition was nevertheless serviceable, the supplier country was requested to complete the remaining supplies. The Ministry further stated that on 24.11.1994, the suppliers finally rejected the quality claims as being unjustified, despite the issue being taken up with them several times.

9. When asked about the precise claims made by the Ministry of Defence and the grounds on which they were rejected by the supplier, the Ministry stated:

"The quality claims were preferred on the suppliers on the ground that ammunition supplied had outlived its storage life. We had asked the supplier to replace the ammunition with the stores filled with explosive having stipulated full life and conforming to quality requirements. The defect was found in as received condition in the period of guaranteed service life and therefore, the replacement of the articles was to be at the expenses of the supplier.

To these the suppliers replied saying that the ammunition was offered from their Army stock. They rejected our contention of 10 years storage guarantee period saying that it was not in accordance with the contractual clauses. They also stated that:

- (i) All ammunition delivered under the contract were strictly inspected on corresponding design documentations and found suitable for long storage and combat use as it was stipulated by the contract.
- (ii) The limit of storage period of ammunition being 10 years in their country was not a factual statement because the similar ammunition with the same year of production was held by their Army and had not restrictions on its combat use or storage.

They further stated that in view of the impossibility of the delivery of this ammunition ex-manufacture, they had offered to sign additional agreement for cancelling the contract in regard to remaining supplies and specifically asked us to intimate whether the remaining supplies should be completed or not. In view of the fact that huge deficiencies existed and no other source of supply including indigenous options for this ammunition was in sight, Army Headquarters recommended to obtain the remaining supplies as well".

10. In view of the fact that the quality claims were finally rejected by the suppliers on 24 November, 1994, the Committee enquired about the measures subsequently contemplated by the Ministry to safeguard the country's interests. In reply, the Ministry stated that since the ammunition was proving serviceable, no action was being taken on the claims. In future contracts the Ministry are specifically including a provision that all ammunition should be from current manufacture. The Ministry further stated that they were making efforts and, in some cases, successfully, to include pre-inspection by our Quality Assurance inspectors in the country of origin.

11. *Pre-despatch inspection*

The contract executed with the suppliers for procurement ammunition 'A' did not contain any provision for pre-despatch inspection of the ammunition. In this connection, the Committee specifically desired to know the reasons for non-inclusion of this provision in the contract. It is seen from the replies furnished to the Committee by the Ministry that non-insertion of the clause for pre-despatch inspection of the ammunition was principally influenced by the country's high dependency on the supplier country in the matter of procurement of defence equipments including, ammunition, the single source of procurement of the items at that time, favourable prices, liberal credit facilities etc. offered by the supplier and the draft contracts were mostly given by the supplier who would not agree for major changes therein.

12. Replying to a related query the Secretary, Ministry of Defence during evidence stated:

"Till 1990, we had no specific clause in these contracts saying that the ammunition will have to be inspected by us before despatch or that they will have to be from the current manufacture."

13. The Committee asked whether insertion of such a clause in the contract would not have helped in safeguarding the country's interests. In a post-evidence note the Ministry *inter-alia* stated that the contract provided for supply of 'specification-certificate of Quality' to ensure that only ammunition which met the specification were supplied. Further, the ammunition was a single source procurement item and its production had been stopped by the supplier prior to the placement of orders. In view of the above, the Ministry stated that while hypothetically insertion of the clause would have been of some comfort, it would have been of no practical use.

14. In the absence of any provision for pre-despatch inspection in the contract and in view of the fact that the production of the ammunition in question had already been stopped by the supplier, the Committee enquired as to what caution/safeguard had been taken by the Ministry of Defence to ensure that the ammunition imported conformed to the stipulated standard i.e. normal shelf-life of ten years of the ammunition. In their post evidence note the Ministry explained:

"The delegation which visited supplier country had the following brief:

Some of the items marked with astrick in the offer (mainly ammunition items), have been proposed to be delivered ex-stock. We must ensure that these are from unused stock and their vintage should be ascertained. These should not be of pre 1985-86 vintage. Again, guarantee should be obtained about service life and stipulated in the contract."

15. The Ministry also stated that since the production of the ammunition was stopped by the supplier in 1981, it was not possible to comply with the above brief. In their note, the Ministry further stated:—

"However, being an exceptional case, where in the manufacturer was the only source of supply, and also in view of criticality of our requirements as well as the assurance from the supplier regarding ammunition being fit for combat use and storage, it must have weighed on the minds of the delegation to conclude this contract."

16. The Committee further enquired whether the Ministry were aware of the stipulated full life of the ammunition at the time of negotiating the contracts. Clarifying the position in this regard, the Ministry stated that since the ammunition was being supplied from the stocks already held by the supplier and was not from current manufacture, the Ministry of Defence were aware of the fact that a part of the prescribed shelf life would already have expired. However, the possibility of the life getting extended by almost 15 years (subsequently ascertained) was not at that point of time in the knowledge of the Ministry.

17. Asked why the stipulated full life was not explicitly included in the contract, the Ministry contended that it was due to the assurance given by the supplier that the ammunition was fit for combat use and storage.

Re-testing of the ammunition

18. In May 1991, the Director General of Quality Assurance (DGQA) while assigning a restricted shelf-life to the ammunition had opined that ammunition manufactured between 1973-75 be re-tested after 3 years and those manufactured between 1976-81 be re-tested after 5 years. In this connection, the Committee desired to know the results of such inspection/re-test carried out subsequently to ascertain the serviceability of the ammunition. In response Secretary, Ministry of Defence during evidence stated:

.....between 1988 and 1994 we have got it examined more than once and the DGQA after chemical analysis has confirmed to us that up to May, 1995 the 1971 to 1975 manufactured ammunition will continue to be good and the post 1975 ammunition will be due for re-inspection only by 1996. At that re-examination, they will do a detailed chemical analysis. Then, they will tell us how much longer it can be used."

19. The Committee further desired to know the maximum residual shelf-life that can possibly be salvaged from the imported ammunition after the stipulated period of 1995. The Ministry in their note stated:

"The maximum, residual life of the ammunition can not be indicated in general terms. As per the practice the ammunition will be proof tested and chemically analysed by DGQA to assess its serviceability. It is a standard practice that shelf life expired ammunition is periodically subjected to these tests at laid down intervals for assessing its serviceability. Once it is test proofed & found serviceable, ammunition will meet performance parameters for the extended life."

20. In this connection, during evidence the Secretary, Ministry of Defence informed the Committee that on 29 January, 1991 the supplier country furnished a copy of the relevant extract of the Manual which indicated that the shelf-life of the ammunition in question could be prolonged 15 years beyond the normal life of 10 years. The witness quoted the following extracts from the relevant Manual:

"Number one: the guarantee period is ten years. The ammunition will be in good order even after the guarantee period for five years. Then, after the expiry of the above period of 15 years, practice rounds are to be fired and laboratory tests conducted. These are the reasons for the prolongation of the storage period for another 10 to 15 years."

21. Asked whether the Ministry of Defence were satisfied with the above justification advanced by the supplier for determining the shelf life of the ammunition, the Ministry in a post-evidence note replied in affirmative. According to them, the ammunition had been found still serviceable and therefore, there is no reason to question the justification advanced by the supplier.

Utilisation of the ammunition

22. It is seen from the Audit Paragraph that the Director General of Quality Assurance had recommended utilisation of the imported ammunition within three years being of old vintage. The Committee therefore, desired to know whether the ammunition had served the intended purpose as its shelf life had already expired. The Ministry had in their note stated that the major uses of the ammunition are in war and training. This had served the intended purpose insofar as no ammunition has been down graded and it is still in use. Out of a total quantity of 18,900 rounds, only 2869 rounds (1973-75 manufacture) were to be used within 3 years i.e. by May 1993 whereas 10,750 rounds including pre-1975 manufacture have been issued for meeting minimum essential training requirements till date. Remaining quantity is serviceable. As such, the intended purpose has been served.

23. It is seen from the Audit Paragraph that in October, 1991 the DGOS imposed 100% training restriction on the use of the ammunition in training to keep as reserve. In view of the above the Committee specifically desired to know as to how training requirements are planned to be met. Explaining the position, the Ministry in their note stated that restriction on issue of training ammunition is imposed by General Staff Branch keeping in view the existing policy on stocking of ammunition and the actual stock holdings. 100% restriction on the ammunition had been placed since the stock levels had become critically low. However, despite 100% restriction, bulk releases of the ammunition are stated to have been made in the past to meet minimum essential requirements of the field formations/units.

24. During evidence the Secretary, Ministry of Defence conceded that there has been a shortage of the ammunition for the purpose of practice.

25. On being asked by the Committee as to what extent the proposed restriction would hamper the training levels of the field formations/units, in the post-evidence note the Ministry stated:

"A 100% restriction on the issue of ammunition for training only implies that the MGO Branch cannot make automatic issues of ammunition to the field units based on their projections, without reference to and the clearance of the General Staff. In order to ensure that the restriction imposed does not become counter productive with respect to the training of the field force and its operational readiness, minimum inescapable requirements of ammunition for training was released annually to the field force units and the training establishments."

26. As regards meeting the shortage in ammunition for training purposes, the Ministry stated that there is no separate type of ammunition for training in this class of ammunition. The training requirement is to be met by import/indigenous production when it materialises. The Committee asked whether the training had not been adversely affected on account of lower stocks. The Defence Secretary deposed in evidence:—

"...there has been a shortage.... they are not able to fire as many rounds as we would have liked them to fire.... There was a 100 per cent restriction imposed by the Army Headquarters in 1990 over firing of this ammunition. There was not enough stock for the purpose of practice."

27. Replying to a related query during evidence the Secretary, Ministry of Defence stated:

"Till we go in for indigenous production, we will have a problem of stock."

28. Since the imported ammunition have mostly been utilised for training purposes, the Committee enquired as to how the requirements for operational purpose in exigencies were proposed to be met. The Ministry

in a post-evidence note *inter-alia* stated that tender enquiries were floated and after receiving tender and their evaluation, a contract was concluded in March 1994. However, the supplies did not materialise and as such the contract was cancelled. Fresh tender floated in December 1994 for this purpose have been received and are being evaluated. Besides an indent for 1,10,000 rounds of ammunition was placed on Director General of Ordnance Factories (DGOS) in 1987 for indigenous development ammunition. However, indigenous development is likely to fructify only in the course of next one year or so.

29. According to the Ministry, during the intervening period the available ammunition which is serviceable till 1996 would be the mainstay. Around the period of expiry of the present shelf life the ammunition would be again tested in dynamic proof and chemically to ascertain the extent of further shelf life. In the meanwhile, based on the latest tenders, orders are expected to be placed for quantities. Hopefully in this same period, indigenous manufacture of this ammunition will also commence.

Indigenous Production of the Ammunition

30. The Committee enquired about the efforts made for the indigenous production of this variety of ammunition. The Defence Secretary, during evidence explained:

"We had started a project in the DRDO for the indigenous production of this, as early as in 1984. Unfortunately, we had some problems and so, we were not able to produce anything indigenously. We are hopeful that in another one years' time or so we hope to set up the production of ammunition."

31. The Committee desired to know the specific reasons for the inordinate delay in completion of the Project as well as the progress made in the indigenous production of the ammunition. In a post-evidence note the Ministry *inter-alia* stated that this project took off in slow manner since the priority allotted was for establishment of production of other varieties of ammunition. The Project suffered further delay since the time required for establishment of production of other ammunition was higher than anticipated. The development of ammunition 'A' picked up only by 1988 when all the production problems with other varieties of ammunition stood resolved. By 1991., substantial progress was achieved and a feasible design was evolved. Efforts were made to optimise this design in next two years. The user trial of the ammunition have started in November 1994 and these will be completed by June 1995. Production planning for soft core ammunition has already been taken up. In the meanwhile, trickle production could be started with the existing facilities as soon as the user trials are completed and go ahead received from users.

Stock of the Ammunition

32. The Committee were informed that as per the provision review of 1.10.1986, the deficiency was 2,53,042 pieces of ammunition and as against

this the Government was able to sign contracts only for about 46,700 rounds of the same. It was further stated that it was a single source procurement and there was no other alternative. The Ministry have in the replies stated that while rejecting the quality claims, the suppliers conveyed that this ammunition was not under current production and requested the Indian side to confirm the necessity of delivery of remaining quantities or otherwise cancel the contract in respect of the remaining quantities. However, in view of the criticality of requirements, the stock levels being dangerously low and the fact that the ammunition was not indigenised, it was confirmed that the balance quantity of the ammunition may also be delivered inspite of the fact that the ammunition was of old vintage.

33. Keeping in view the criticality of requirements the Committee wanted to know as to why advance planning was not resorted to for sufficient provisioning of the requirements and the stock level was allowed to be depleted. In reply the Defence Secretary deposed:

"There were two alternatives. One was buying more ammunition from the supplier and the second was to go in for indigenous production. Unfortunately, our efforts to produce indigenously, did not succeed in the R&D. So, there was no way, but to get it from the supplier".

34. Explaining the position further the Ministry have in their post-evidence note stated:

"Advance Planning in the form of Annual Provision Review (APR) for 'A' ammunition was undertaken every year and it also being undertaken now by the Army HQ every year. Based on the APR, procurement action was also initiated. However, the actual quantity to be procured is decided by the General Staff based on total financial resources available, comparative urgency in relation to other items and availability of ammunition from known sources".

35. Replying to a pointed query from the Committee regarding pre-planning, the Defence secretary, during evidence deposed:

".....along with the tank purchase, we did buy ammunition including the hard core ammunition. Every year, ammunition is issued for training. We did not make up the training usage each year and to that extent I entirely concede. Earlier, we had purchased that ammunition and when it was getting used up we decided to make a fresh contract".

Remedial action.

36. The import of old vintage ammunition from the same foreign supplier had been repeatedly figuring in the Reports of C&AG of India [(i) Para 19 of the Report of C&AG of India, Union Government, Defence Services Army & Ordnance Factories, No. 12 of 1990 on

'Import of ammunition of old vintage'. (ii) Para 9 of the Report of C&AG of India, Union Government, Defence Services—Army & Ordnance Factories, No. 8 of 1992 on 'Import of old vintage ammunition']. The nature of objections raised by Audit in these cases mainly pertained to lack of provision for pre-despatch inspection in the contracts thereby resulting in supply of ammunition either with short shelf life or shelf life expired. The contract concluded for procurement of ammunition 'A' from the same manufacturer in the instant case also bears identical deficiencies as was pointed out by Audit in earlier cases. The Committee desired to know the steps taken to obviate recurrence of such defective imports involving sizeable governmental expenditure and ensuring defence preparedness of the country, the Ministry in their post-evidence note stated that soon after 1990, they have been insisting on incorporating in the contract the year of manufacture and necessary details about the shelf-life, performance specifications etc. in cases of procurement of ammunition so as to avoid future complications. The Ministry also stated that in the light of the changes undergone in the supplier country, Ministry were able to generate competition for equipment and ammunition of their origin thereby securing a competitive price with contractual terms and conditions more fully protecting our interests.

37. Based on the provision review of 1.10.1986 which indicated huge deficiency of 2,53,042 pieces of ammunition 'A' for vehicle 'Z', among other varieties of ammunition, after negotiations, the Government of India concluded two contracts with a foreign supplier in September 1987 for procurement of 46,700 rounds of ammunition 'A'. The contracts were negotiated keeping in view the criticality of the item and various pertinent factors involving operational necessities. As per the contract, the ammunition were to be supplied ex-stock. Out of the total quantity contracted, 18900 rounds of ammunition amounting to Rs. 19.06 crores were received in a Central Ammunition Depot (CAD) between May and November 1990 in different consignments. The Audit paragraph and the Committee's further examination have revealed certain deficiencies in the contract, quality of supplies received in pursuance thereof and certain, other related aspects.

38. The Committee note that on examination of the ammunition received by them, the Central Ammunition Depot found that the ammunition were of early 70s and mid-70s manufacture. Since, it had completed the prescribed shelf life of 10 years, the CAD intimated the Army Headquarters and the Director General of Quality Assurance (DGQA) that it must be replaced by the supplier. On check proof of ammunition, the DGQA had initially advised that the ammunition was overage and quality claim be raised on the supplier. Based on the dynamic proof and chemical analysis/tests of each consignment, the DGQA subsequently informed the Director General of Ordnance Services (DGOS) that performance of the ammunition was satisfactory and a residual shelf life of three years could be assigned after

which samples would be required to be retested. However, on a re-look in July 1991, the DGQA opined that ammunition manufactured between 1973-75 be re-tested after three years and the ammunition manufactured between 1976 and 1981 be re-tested after five years. From the foregoing it is evident that the quality of the supplies received had raised serious doubts about the life of the ammunition. The Defence Secretary admitted in evidence that the ammunition had in certain cases crossed the normal life of ten years which is taken as a standard for Indian ammunition. The Committee are, however, intrigued at the manner in which DGQA, the deciding authority on quality in defence expressed their differing views at rapid successions. Clearly, their attitude was to pull on somehow with the quality of supplies received. The Committee are surprised over this, particularly in view of the outright rejection recommended by the CAD. The Committee would, therefore, like to be assured that the defence authorities have in no whatsoever manner compromised with the operational requirements, in the process.

39. While explaining the action taken in the wake of receipt of ammunition of old vintage, the Ministry of Defence stated that based on the recommendation of the DGQA, a quality claim was raised on the supplier on 23 April 1990 (in respect of ammunition received against the same contract earlier), on the ground that the ammunition supplied had outlived its storage life and the supplier were requested to replace the ammunition with the stores filled with explosive having stipulated full life and conforming to the quality requirements. Since, the defect was found in as received condition in the period of guaranteed service life, the replacement of the articles was to be at the expenses of the supplier. However, the supplier rejected the Indian contention of ten years storage guarantee period stating that it was not in accordance with the contractual clauses and also intimated the Ministry of Defence that storage period of ammunition being ten years in their country was not a factual statement because similar ammunition with the same year of production was held by their Army and without any restrictions on its combat use or storage. They further contended that all ammunition delivered under the contract were strictly inspected on corresponding design documentations and found suitable for long storage and combat use as it was stipulated by the contract. In fact, they had also offered to cancel the contract for remaining supplies in case the purchaser was not agreeable to their point of view which was not done considering the criticality of requirements. Eventually, on 24.11.1994, the supplier finally rejected the quality claims as being unjustified despite the issue being taken up with them several times. The Committee are distressed to point out that since the stipulated shelf life of the ammunition was not explicitly mentioned in the contract, our quality claims based on genuine and justifiable considerations could not be properly defended. In the opinion of the Committee, since the Ministry were fully aware of the fact that the ammunition were to be supplied ex-stock, adequate caution ought to have

been taken to ensure that the ammunition ex-import would conform to the specifications. The Committee view the omissions on this score seriously and desire that the defence authorities should take necessary precautions in similar contracts in the future. The Committee also desire that the Ministry of Defence should further examine the question of pursuing the quality claims with the supplier.

40. It is further disquieting to note that the contract executed with the supplier for procurement of ammunition did not contain any provision for pre-despatch inspection of the ammunition. The Committee were informed that non-insertion of the clause for pre-despatch inspection in the contract was *inter alia* influenced by single source of procurement of the item at that time, favourable prices, liberal credit facilities offered by the supplier etc. According to the Ministry, the contract provided for supply of 'specification-certificate of quality' to ensure that only ammunition which met the specification was supplied. They further contended that since the production of the ammunition had been stopped by the supplier in 1981 i.e. prior to placement of our orders, insertion of the clause for pre-despatch inspection would have been of no practical use. While the Committee agree that factors like prices, credit facilities etc. are relevant for the procurement decision, they are not convinced with the arguments adduced by the Ministry for their failure to incorporate a clause in the contract for inspection of the ammunition before despatch. The Committee are of the view that considering the criticality of requirements and the impossibility of the delivery of this ammunition ex-manufacture, it was imperative that re-despatch inspection was undertaken in order to ensure that the ammunition supplied conformed to the specifications. The Committee consider it unfortunate that such a provision was not included in the relevant contract. They recommend that in the light of the sad experience, in this case, all possible steps be taken by the Ministry in future to suitably incorporate provisions for pre-despatch inspection in the contracts with a view to adequately protecting the country's interests.

41. The Committee further note that the delegation which visited the supplier country for negotiating the contract had been provided with the brief which included that "the ammunition items were proposed to be delivered ex-stock, those were from unused stock, their vintage should be ascertained, they should not be of pre 1985-86 vintage, guarantee should be obtained about service life and stipulated in the contract etc. Evidently, all the points of the brief have not truly been reflected in the contract actually entered into with the supplier for the procurement of the ammunition. While admitting that the above brief could not be complied with, the Ministry of Defence stated that being an exceptional case involving a single source of supply, criticality of requirements as well as the assurance from the supplier that the ammunition was fit for combat use and storage, "must have weighed on the minds of the delegation to conclude the contract." The Committee desire that in the light of the experience in the

present contract, the Ministry of Defence should look into this area of procurement and take necessary remedial steps for ensuring that all the requirements and specifications prescribed/identified are truly incorporated in the contracts in future.

42. The Committee note that between 1988 and 1994 the ammunition had been examined more than once and the DGQA after chemical analysis has confirmed that upto May, 1995 the 1971 to 1975 manufactured ammunition will continue to be good and the post-1975 ammunition will be due for re-inspection only by 1996. At that re-examination the DGQA will carry out a detailed chemical analysis and confirm how much longer it can be used. The Ministry further intimated the Committee that based on some information furnished by the supplier, there is a possibility of prolonging the shelf life of the ammunition 15 years beyond the normal life of 10 years. The Committee would like to be apprised of the latest position in respect of the serviceability of the ammunition.

43. The Committee find that as per the provision review of 1.10.1986, as against a huge deficiency of 2,53,042 pieces, Government were able to sign contracts for 46,700 rounds of ammunition 'A' only. The Committee were informed that the efforts to produce the ammunition indigenously also did not succeed. This resulted in the Director General of Ordnance Services (DGOS) imposing a 100% training restriction on the use of the ammunition in training so as to keep the ammunition as reserve since the stock levels had become critically low. Evidently, the whole system of planning and provisioning of the ammunition had badly suffered and had an adverse impact on training which is a matter of concern to the Committee. During evidence, the Defence Secretary admitted that there had been a shortage of the ammunition for the purpose of practice. The Committee have however been assured that apart from the indigenous efforts made, fresh tenders had also been floated in December 1994 for procurement of the ammunition. The Committee trust that concerted efforts will be made by the Ministry of Defence to improve the stock so as to make adequate provisions for meeting both training commitments as also the operational requirements. The Committee would like to be informed of the precise progress made in improving the stock of the ammunition.

44. As regards the indigenous efforts made, the Committee have been informed that Government started a Project in the Defence Research and Development Organisation (DRDO) for production of this ammunition as early as in 1984. However, the production could not materialise till date. Explaining the reasons for the inordinate delay in this regard, the Ministry stated that this Project took off in a slow manner since the priority allotted was for establishment of production of other varieties of ammunition. The Ministry were, however, hopeful that in another years' time or so the production of the ammunition will materialise. The Committee recommend that all out efforts should be made by the Ministry to fructify the indigenous Project at the earliest so as to generate its trickling effects in improving the

stock position and the overall requirements of the Army. The Committee may be apprised of the progress made in this regard.

45. The foregoing paragraphs reveal certain deficiencies in the procurement of ammunition 'A'. Pertinently, cases of import of old vintage ammunition from the same foreign supplier had figured in some of the earlier Reports of the C&AG, Defence Services as well. Significantly, the nature of the main Audit objection in those cases also related to lack of provision for pre-despatch inspection in the contracts resulting thereby in supply of ammunition either with short shelf life or shelf life expired. While assuring the Committee that remedial steps have since been taken by them, The Ministry of Defence have stated that, after 1990 they have been insisting on incorporating in the contract the year of manufacture and necessary details about the shelf life, performance specifications etc. in cases of procurement of ammunition so as to avoid future complications. The Committee believe that having learnt from the experience, the Government will take all the necessary remedial and preventive steps to abviate the chances of recurrence of such defective imports involving sizeable governmental expenditure with a view to ensuring defence preparedness of the country.

NEW DELHI;
27 March, 1995

6 Chaitra, 1917(S)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

APPENDIX I

Paragraph 9 of the Report of the C&AG of India for the year ended 31 March, 1993, No. 8 of 1994, Union Govt. Defence Services (Army & Ordnance Factories) relating to Import of life expired ammunition

Mention was made in Paragraph 9 of the Report of the Comptroller and Auditor General of India, Union Government, Defence Services—Army and Ordnance Factories (No. 8 of 1992) about import of old vintage ammunition with short shelf life as the contract for its imports concluded in September, 1987 did not stipulate any minimum residual shelf life for the ammunition to be supplied 'ex-stock'.

Based on two contracts concluded in September 1987, with the same foreign supplier, 18900 rounds of ammunition 'A' (cost: Rs. 19.06 crores) were received in a Central Ammunition Depot (CAD) between May and November 1990. It was noticed by the CAD that the ammunition lots were manufactured between 1973 and 1979. As the normal shelf life of the ammunition was 10 years, the ammunition received in India was shelf life expired.

On check proof of the ammunition, the Quality Assurance Establishment (QAE) recommended in May 1991, rejection of the entire quantity and advised the Directorate General of Ordnance Services (DGOS) to pursue quality claim already raised by that Establishment. In the meantime, DGOS intimated (February 1991) the CAD that the item had been recommended by Director General of Quality Assurance (DGQA) for early utilisation within three years being of old vintage and as its quality claim had not been accepted by the supplier. In view of the restriction in the usage of the ammunition in training to the extent of 75 per cent, DGOS directed CAD to consider the ammunition for issue to the user units in such a manner that they were expended by 1992-93. Accordingly, 15215 rounds of ammunition were issued during 1990-92 to various ammunition depots/units/formations leaving a balance quantity of 3685 (value: Rs. 3.72 crores) which was still held by CAD as of December, 1993.

In May 1991, DGOS informed CAD that the performance of the ammunition was satisfactory in dynamic proof and based on chemical analysis, a residual shelf life of three years could be assigned to the ammunition. However, due to paucity of stores/inadequate reserves,

DGOS approached the DGA in August 1991 to review their sentence to 'servicable to be re-tested after three years'. QAE accordingly revised the shelf life of the ammunition' as under:—

- | | |
|---|-----------------------------------|
| (a) For lots manufactured between 1973-75 | To be re-tested after three years |
| (b) For lots manufactured between 1976-81 | To be re-tested after five years |

In October 1991, DGOS imposed 100 per cent training restriction on the use of the ammunition in training to keep as reserve.

While accepting the facts as correct, Ministry of Defence stated in December 1993 that:

- the contracts were negotiated/concluded keeping in view the criticality of the item and various pertinent factors involving operational necessities;
- the foreign supplier had informed the Ministry that the ammunition lots of the same manufacturing period were in use in the Army of that country and as such they did not agree with the technical view of DGQA.

The Ministry, however, did not elaborate as to whether the said ammunition whose shelf life had already expired before its receipt and which had been rejected by the QAE and recommended by DGQA for early utilisation, would serve the intended purpose in future operations.

The case reveals that:

- (i) 18900 rounds of ammunition imported at a cost of Rs. 19.06 crores were received in 1990 with shelf life already expired.
- (ii) Due to expiry of shelf life, the users were compelled to utilise the ammunition within a limited period to avoid deterioration.
- (iii) A quantity of 3685 rounds valued at Rs. 3.72 crores were still (December 1993) held in stock.

APPENDIX II

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/ Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1	37	Min. of Defence	Based on the provision review of 1.10.1986 which indicated huge deficiency of 2,53,042 pieces of ammunition 'A' for vehicle 'Z', among other varieties of ammunition, after negotiations, the Government of India concluded two contracts with a foreign supplier in September 1987 for procurement of 46,700 rounds of ammunition 'A'. The contracts were negotiated keeping in view the criticality of the item and various pertinent factors involving operational necessities. As per the contract, the ammunition were to be supplied ex-stock. Out of the total quantity contracted, 18,900 rounds of ammunition amounting to Rs. 19.06 crores were received in a Central Ammunition Depot (CAD) between May and November 1990 in different consignments. The Audit paragraph and the Committee's further examination have revealed certain deficiencies in the contract, quality of supplies received in pursuance thereof and certain other related aspects.
2	38	-do-	The Committee note that on examination of the ammunition received by them. The Central Ammunition Depot found that the ammunition were of early 70s and mid-70s manufacture. Since it had completed the prescribed shelf life of 10 years, the CAD intimated the Army Headquarters and the Director General of Quality Assurance (DGQA) that it must be replaced by the supplier. On check proof of the ammunition, the DGQA had initially advised that the ammunition was overage and quality

1	2	3	4
			<p>claim be raised on the supplier. Based on the dynamic proof and chemical analysis/tests of each consignment, the DGQA subsequently informed the Director General of Ordnance Services (DGOS) that performance of the ammunition was satisfactory and a residual shelf life of three years could be assigned after which samples would be required to be retested. However, on a re-look in July 1991, the DGQA opined that ammunition manufactured between 1973-75 be re-tested after three years and the ammunition manufactured between 1976 and 1981 be re-tested after five years. From the foregoing it is evident that the quality of the supplies received had raised serious doubts about the life of the ammunition. The Defence Secretary admitted in evidence that the ammunition had in certain cases crossed the normal life of ten years which is taken as a standard for Indian ammunition. The Committee are, however, intrigued at the manner in which DGQA, the deciding authority on quality in defence expressed their differing views at rapid successions. Clearly, their attitude was to pull on somehow with the quality of supplies received. The Committee are surprised over this, particularly in view of the outright rejection recommended by the CAD. The Committee would, therefore, like to be assured that the defence authorities have in no whatsoever manner compromised with the operational requirements, in the process.</p>
3	39	Min. of Defence	<p>While explaining the action taken in the wake of receipt of ammunition of old vintage, the Ministry of Defence stated that based on the recommendation of the DGQA, a quality claim was raised on the supplier on 23 April, 1990 (in respect of ammunition received against the same contract earlier), on the ground that the ammunition supplied had outlived its storage life and the supplier were requested to replace the ammunition with the stores filled</p>

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with explosive having stipulated full life and conforming to the quality requirements. Since the defect was found in as received condition in the period of guaranteed service life, the replacement of the articles was to be at the expenses of the supplier. However, the supplier rejected the Indian contention of ten years storage guarantee period stating that it was not in accordance with the contractual clauses and also intimated the Ministry of Defence that storage period of ammunition being ten years in their country was not a factual statement because similar ammunition with the same year of production was held by their Army and without any restrictions on its combat use or storage. They further contended that all ammunition delivered under the contract were strictly inspected on corresponding design documentations and found suitable for long storage and combat use as it was stipulated by the contract. In fact, they had also offered to cancel the contract for remaining supplies in case the purchaser was not agreeable to their point of view which was not done considering the criticality of requirements. Eventually, on 24.11.1994, the supplier finally rejected the quality claims as being unjustified despite the issue being taken up with them several times. The Committee are distressed to point out that since the stipulated shelf life of the ammunition was not explicitly mentioned in the contract, our quality claims based on genuine and justifiable considerations could not be properly defended. In the opinion of the Committee, since the Ministry were fully aware of the fact that the ammunition were to be supplied ex-stock, adequate caution ought to have been taken to ensure that the ammunition ex-import would conform to the specifications. The Committee view the omissions on this score seriously and desire that the Defence authorities should take necessary precautions in similar contracts in the future. The Committee also desire that the Ministry of Defence should further examine the question of pursuing the quality claims with the supplier.

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4	40	Ministry of Defence	<p>It is further disquieting to note that the contract executed with the supplier for procurement of the ammunition did not contain any provision for pre-despatch inspection of the ammunition. The Committee were informed that non-insertion of the clause for pre-despatch inspection in the contract was <i>inter alia</i> influenced by single source of procurement of the item at that time, favourable prices, liberal credit facilities offered by the supplier etc. According to the Ministry, the contract provided for supply of 'specification-certificate of quality' to ensure that only ammunition which met the specification was supplied. They further contended that since the production of the ammunition had been stopped by the supplier in 1981 i.e. prior to placement of our orders, insertion of the clause for pre-despatch inspection would have been of no practical use. While the Committee agree that factors like prices, credit facilities etc. are relevant for the procurement decision, they are not convinced with the arguments adduced by the Ministry for their failure to incorporate a clause in the contract for inspection of the ammunition before despatch. The Committee are of the view that considering the criticality of requirements and the impossibility of the delivery of this ammunition ex-manufacture, it was imperative that pre-despatch inspection was undertaken in order to ensure that the ammunition supplied conformed to the specifications. The Committee consider it unfortunate that such a provision was not included in the relevant contract. They recommend that in the light of the sad experience, in this case, all possible steps be taken by the Ministry in future to suitably incorporate provision for pre-despatch inspection in the contracts with a view to adequately protecting the country's interests.</p>
5	41	-do-	<p>The Committee further note that the delegation which visited the supplier country for negotiating the contract had been provided with the brief which included that "the ammunition</p>

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			<p>items were proposed to be delivered ex-stock, those were from unused stock, their vintage should be ascertained, they should not be of pre 1985-86 vintage, guarantee should be obtained about service life and stipulated in the contract etc. Evidently, all the points of the brief have not truly been reflected in the contract actually entered into with the supplier for the procurement of the ammunition. While admitting that the above brief could not be complied with, the Ministry of Defence stated that being an exceptional case involving a single source of supply, criticality of requirements as well as the assurance from the supplier that the ammunition was fit for combat use and storage, "must have weighed on the minds of the delegation to conclude the contract." The Committee desire that in the light of the experience in the present contract, the Ministry of Defence should look into this area of procurement and take necessary remedial steps for ensuring that all the requirements and specifications prescribed/identified are truly incorporated in the contracts in future.</p>
6	42	Min. of Defence	<p>The Committee note that between 1988 and 1994 the ammunition had been examined more than once and the DGQA after chemical analysis has confirmed that upto May, 1995 the 1971 to 1975 manufactured ammunition will continue to be good and the post-1975 ammunition will be due for re-inspection only by 1996. At that re-examination the DGQA will carry out a detailed chemical analysis and confirm how much longer it can be used. The Ministry further intimated the Committee that based on some information furnished by the supplier, there is a possibility of prolonging the shelf life of the ammunition 15 years beyond the normal life of 10 years. The Committee would like to be apprised of the latest position in respect of the serviceability of the ammunition.</p>

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7	43	Ministry of Defence	<p>The Committee find that as per the provision review of 1.10.1986, as against a huge deficiency of 2,53,042 pieces, Government were able to sign contracts for 46,700 rounds of ammunition 'A' only. The Committee were informed that the efforts to produce the ammunition indigenously also did not succeed. This resulted in the Director General of Ordnance Services (DGOS) imposing a 100% training restriction on the use of the ammunition in training so as to keep the ammunition as reserve since the stock levels had become critically low. Evidently, the whole system of planning and provisioning of the ammunition had badly suffered and had an adverse impact on training which is a matter of concern to the Committee. During evidence, the Defence Secretary admitted that there had been a shortage of the ammunition for the purpose of practice. The Committee have however been assured that apart from the indigenous efforts made, fresh tenders had also been floated in December 1994 for procurement of the ammunition. The Committee trust that concerted efforts will be made by the Ministry of Defence to improve the stock so as to make adequate provisions for meeting both training commitments as also the operational requirements. The Committee would like to be informed of the precise progress made in improving the stock of the ammunition.</p>
8	44	-do-	<p>As regards the indigenous efforts made, the Committee have been informed that Government started a Project in the Defence Research and Development Organisation (DRDO) for production of this ammunition as early as in 1984. However, the production could not materialise till date. Explaining the reasons for the inordinate delay in this regard, the Ministry stated that this Project took off in a slow manner since the priority allotted was for establishment of production of other varieties of ammunition. The Ministry were, however, hopeful that in another years' time or</p>

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9	45	Ministry of Defence	<p>so the production of the ammunition will materialise. The Committee recommend that all out efforts should be made by the Ministry to fructify the indigenous Project at the earliest so as to generate its trickling effects in improving the stock position and the overall requirements of the Army. The Committee may be apprised of the progress made in this regard.</p> <p>The foregoing paragraphs reveal certain deficiencies in the procurement of ammunition 'A'. Pertinently, cases of import of old vintage ammunition from the same foreign supplier had figured in some of the earlier Reports of the C&AG, Defence Services as well. Significantly, the nature of the main Audit objection in those cases also related to lack of provision for pre-despatch inspection in the contracts resulting thereby in supply of ammunition either with short shelf life or shelf life expired. While assuring the Committee that remedial steps have since been taken by them, the Ministry of Defence have stated that, after 1990 they have been insisting on incorporating in the contract the year of manufacture and necessary details about the shelf life, performance specifications etc. in cases of procurement of ammunition so as to avoid future complications. The Committee believe that having learnt from the experience, the Government will take all the necessary remedial and preventive steps to obviate the chances of recurrence of such defective imports involving sizeable governmental expenditure with a view to ensuring defence preparedness of the country.</p>