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**STANDING COMMITTEE  
ON DEFENCE  
(2006-07)**

**FOURTEENTH LOK SABHA**

**MINISTRY OF DEFENCE**

*[Action Taken by the Government on the Recommendations contained in  
the Seventh Report of the Committee (Fourteenth Lok Sabha) on  
'Defence Ordinance Factories']*

**TWENTIETH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

*July, 2007/Asadha, 1929 (Saka)*

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(2006-2007)

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[Action Taken by the Government on the Recommendations contained in the  
Seventh Report of the Committee (Fourteenth Lok Sabha) on 'Defence Ordnance  
Factories']

*Presented to Lok Sabha on 16.08.07.*

*Laid in Rajya Sabha on 16.08.07.*



LOK SABHA SECRETARIAT

NEW DELHI

July 2007, Asadha 1929 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE  
ON DEFENCE (2006-07)

Shri Balasaheb Vikhe Patil — *Chairman*

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(iv)

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5. Smt. Jyochnamayi Sinha — *Under Secretary*
6. Smt. Indu Kaushal — *Executive Assistant*

## PREFACE

I, the Chairman, Standing Committee on Defence (2006-07) having been authorized by the Committee to submit the Report on their behalf, present this Twentieth Report on Action Taken by the Government on the recommendations contained in the Seventh Report of the Committee (Fourteenth Lok Sabha) on 'Defence Ordnance Factories'.

2. The Seventh Report was presented to/laid in Lok Sabha/Rajya Sabha on 12 December 2005. The Government furnished replies indicating action taken on the recommendations contained in the Report on 'Defence Ordnance Factories'. The Committee took oral evidence of the representatives of Ministry of Defence on 12 February, 2007 and heard the view point of Trade Union Leaders of Ordnance Factories and Defence Public Sector Undertakings on 6 June, 2007 to have clarifications on certain issues arising out of the action taken replies. The Draft Action Taken Report was considered and adopted by the Committee at their sitting held on 12 June, 2007.

3. An analysis of action taken by the Government on recommendations contained in the Twentieth Report of the Standing Committee on Defence (Fourteenth Lok Sabha) is given in Appendix.

4. For facility of reference and convenience, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;  
11 July, 2007  

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20 Asadha, 1929 (Saka)

BALASAHEB VIKHE PATIL,  
Chairman,  
Standing Committee on Defence.

## CHAPTER I

### REPORT

The Report of the Standing Committee on Defence deals with action taken by the Government on the recommendations/observations contained in their Seventh Report (Fourteenth Lok Sabha) on 'Defence Ordnance Factories' which was presented and laid in both the Houses of Parliament on 12.12.2005.

2. In the Seventh Report (Fourteenth Lok Sabha), the Committee had made 29 observations/recommendations on the following subjects :

| Sl.No. | Para No.      | Subject   |
|--------|---------------|---|
| 1.     | 1.7           | Restructuring of Ordnance Factories                     |
| 2.     | 2.5 to 2.7    | Organisational Structure of Ordnance Factory Board      |
| 3.     | 3.6 & 3.7     | Autonomy/Freedom to Ordnance Factories                  |
| 4.     | 4.4           | Share of Ordnance Factories in total Defence Production |
| 5.     | 5.7 & 5.8     | Capacity utilisation of Ordnance Factories              |
| 6.     | 6.12 to 6.16  | Modernisation Programme of Ordnance Factories           |
| 7.     | 7.8 to 7.10   | Quality control mechanism in Ordnance Factories         |
| 8.     | 8.8 & 8.9     | Pricing system of Ordnance Factories                    |
| 9.     | 9.7 & 9.8     | R&D activities in Ordnance Factories                    |
| 10.    | 10.9 to 10.11 | Export market of the Defence products                   |
| 11.    | 11.7          | Outsourcing of private sector                           |
| 12.    | 12.6 & 12.7   | Delay in execution of orders                            |
| 13.    | 13.6 & 13.7   | Fire incidents in Ordnance Factories                    |



3. Action Taken Replies have been received from the Government in respect of all the recommendations/observations contained in the Report. The Committee have examined the Action Taken Replies received from the Ministry and the same have been categorized as follows:

- (i) Recommendations/observations which have been accepted by the Government:

Para Nos 2.6, 2.7, 4.4, 6.13, 7.8 to 7.10, 8.9, 9.8, 10.11, 12.6, 12.7, 13.6 and 13.7

- (ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government replies.

NIL

- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:

Para Nos. 1.7, 2.5, 3.6, 3.7, 5.7, 5.8, 6.12, 6.14, 6.15, 6.16, 8.8, 9.7 and 11.7

- (iv) Recommendations/observations in respect of which final replies of the Government are still awaited.

Para Nos. 10.9 and 10.10

**4. The Committee trust that utmost importance will be given to the implementation of the recommendations accepted by the Government. In cases, where it is not possible for any reason to implement the recommendations in letter and spirit, the matter should be reported to the Committee with reasons for non-implementation. The Committee desire that action taken notes on the recommendations/observations contained in Chapter –I and final replies to the recommendations contained in Chapter – V of the Report be furnished to the Committee within six months of the presentation of the Report.**

5. The Committee will now deal with the action taken by the Government on some of their recommendations contained in Chapter – I of this Report.

#### **Restructuring of Ordnance Factories**

##### **Recommendation (Para No. 1.7)**

6. The Committee had noted that 39 Ordnance Factories were divided into 5 operating divisions based on the main products /

technologies employed. 40th Ordnance Factory had been established at Nalanda for production of Bimodular Charges. The Committee felt that it was essential that Ordnance Factories, which were producing same kind of products, should be merged / integrated into one in order to synergise their resources and R&D and ensure optimal use of available manpower and infrastructure. For the purpose the Committee had strongly desired that a Task Force of experts be constituted by the Government to go into the details of restructuring / merging of existing Defence Ordnance Factories. The Committee had also desired that no new Ordnance Factory should come up and during the process of restructuring/merging of Ordnance Factories, labour's interest must be protected by the Government.

7. The Ministry in their action taken reply, have stated:

"The issue of re-structuring of Ordnance Factories is under consideration of MoD. An Expert Committee under the Chairmanship of Shri Vijay Kelkar has examined the issue and submitted its report, which is being examined in MoD.

In the present structure of Ordnance Factories:

- (a) Manufacture in more than one Ordnance Factory in some cases has been planned as a strategy to maintain the supply chain to Defence Forces even if production in one unit is interrupted due to disturbances/sabotage/enemy strikes.
- (b) Process and storage safety regulations in handling explosives do not allow consolidation of production activities.
- (c) Demand in excess of installed capacity of a product in the dedicated factory necessitates production in other factories.
- (d) OFB has constituted a committee to examine and rationalise workload between Metallurgical Group of Factories, considering the core technologies and futuristic product range."

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

8. When asked about the present status of the examination of Dr. Vijay Kelkar Committee's recommendation, the Ministry of Defence in their written replies stated that :

"The recommendation made in Kelkar Committee Report (Part-II) suggested major changes in the functioning of Ordnance Factories,

DGQA and DPSUs. The implementation of the recommendations of the committee would necessitate large-scale changes in the functioning, basic organization structure, mandate and status of the organization. The report was circulated to all the stakeholders for obtaining their views. On receipt of the view of all the stakeholders, a meeting was held on 18th September, 2006, under Chairmanship of Hon'ble RM with representatives of federations of Ordnance Factories, wherein Hon'ble RM has stated that Government has decided not to corporatise Ordnance Factories. It has been decided by the Government that present position would continue for some time."

9. During oral evidence the representatives of the Ministry of Defence also stated :

"This subject has been examined in the Ministry and after consultation with everybody and with the approval of the Raksha Mantri, it has been decided that in view of the prevailing circumstances, it is not advisable to do anything drastically with the structure of the Ordnance Factory Board."

#### **Comments of the Committee**

10. The Committee note that the Government have examined the recommendations of Kelkar Committee Report to restructure the Ordnance Factories and decided that in view of the prevailing circumstances, it would not be advisable to go for a drastic restructuring of Ordnance Factory Board and the present position would continue for sometime. The Committee would like to know the details of the prevailing circumstances which are making it difficult to restructure the Ordnance Factories. The Committee are unhappy to learn that after lapse of 5 to 6 years, the Government have not come out with a prescribed time frame by which they will initiate some action in this regard. Therefore, the Committee strongly reiterates their view that for a better future of Ordnance Factories and for optimum use of available manpower infrastructure and R&D, the Ministry must initiate the work of restructuring of Ordnance Factories gradually, in a time-bound manner, wherever it is possible. The Committee would like to be apprised of the progress made by the Government in this regard.

#### **Organisational Structure of Ordnance Factory Board**

##### **Recommendation (Para No. 2.5)**

11. The Committee had noted that Ordnance Factory Board (OFB) was constituted in 1979 in order to ensure cohesiveness and coordinated

approach in the working of Ordnance Factories. It comprises, besides Director-General, nine members, five heading each of the five operating divisions of Ordnance Factories and four responsible for staff functions viz. Personnel, finance, planning and management, project and engineering and technical services. The Committee had felt that in view of the rapid technological advancement taking place the world over in defence sector and the export potential of the defence equipment, there was a need to redefine the role of OFB to enable it to keep pace with the changing requirements and also to tap the vast export market. There was also a need to restructure OFB by including therein experts with proven records in marketing and international trade, who might give an export orientation to the indigenously manufactured defence products and make effective strategy for their export in the niche market. The Committee, had therefore, recommended that a high level Committee should be constituted to go into the functions and organisational structure of OFB and give its recommendations on restructuring of OFB to make it a more professional and dynamic body responsive to the present day needs.

12. The Ministry in their action taken reply, have stated :

“MoD had already constituted a High Level Committee under the Chairmanship of Dr. Vijay Kelkar to examine the changes required to facilitate Ordnance Factories to assume the role of designer and integrator for product development and production. The committee has submitted the report, which is being examined in MoD.”

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

13. When asked about the present status of the examination of Dr. Vijay Kelkar Committee's recommendation, the Ministry of Defence in their written replies stated that :

“The recommendation made in Kelkar Committee Report (Part-II) suggested major changes in the functioning of Ordnance Factories, DGQA and DPSUs. The implementation of the recommendations of the committee would necessitate large-scale changes in the functioning, basic organization structure, mandate and status of the organization. The report was circulated to all the stakeholders for obtaining their views. On receipt of the view of all the stakeholders, a meeting was held on 18th September, 2006, under Chairmanship of Hon'ble RM with representatives of federations of Ordnance Factories, wherein Hon'ble RM has stated that Government has decided not to corporatise Ordnance Factories. It has been decided by the Government that present position would continue for some time.”

### Comments of the Committee

14. The Committee are unhappy to note that the Government have not accepted the recommendation of Kelkar Committee. The Committee further note that the Government at this moment are not inclined to Corporatise Ordnance Factories as it involves large scale changes in the functioning, basic organisation structure, mandate and status of the organisation. The Committee note that major portion of the products manufactured by the Ordnance Factories is supplied to the Armed Forces. Several machineries and plants of Ordnance Factories are quite old and as a result they are unable to produce state-of-the-art technologies to meet the requirement of armed forces to meet the challenges of modern day's technological warfare. Therefore there is a high level of dissatisfaction of armed forces in terms of quality, delivery schedule and warranty of the product. The Committee strongly feel that with this background, it would be very difficult for the Ordnance Factory Board to meet the requirement of their primary consumer i.e. the armed forces and compete in the world market in a qualitative manner which witnesses rapid technological advancement. Therefore, the Committee, in addition to endorsing the views of Kelkar Committee for bringing changes in the structure and functioning of Ordnance Factories, also reiterate their earlier recommendation for giving full autonomy to Ordnance Factory Board for undertaking R&D and by including experts with proven records in marketing and international trade who may give a better export orientation to the indigenously manufactured defence products by diversifying their products range and producing high-end weapon system. The Committee strongly feel that by doing so, the bureaucratic control over the functioning of Ordnance Factories will be minimised and the management from top to bottom will be fastened and accountability at each levels will be ensured.

#### Autonomy/Freedom to Ordnance Factories

##### Recommendation (Para No. 3.6 and 3.7)

15. The Committee had noted that with the creation of Ordnance Factory Board (OFB), Ordnance Factories had been given some autonomy and flexibility in their functioning and management. Still, the Committee felt that greater autonomy was required to be given to the Management of OFB. Keeping in view the wide range of changes taking place the world over and requirement of specialisation in the complex defence field, the Committee had desired that the Government must change its policy and give greater autonomy to the Ordnance

Factories in the field of vendor development, in-house R&D activities, product improvement and making financial and commercial decisions on the lines of Public Sector Undertakings. This would enable them to enter into MoU with Indian and foreign companies for co-development and co-production of items, giving enormous scope for diversification of their product profile and attracting huge markets.

The Committee felt that more functional and financial autonomy to Ordnance Factories would help in ensuring desired results, fixing greater accountability and maintaining better financial management. The Committee, therefore, held the view that gradually, the Ordnance Factories might be converted into PSUs so that they might have access to finances from the market, etc. At the same time, care should be taken by the government to ensure that this arrangement of financial access would not lead to any reduction in the budgetary allocation to the Ordnance Factories and OFB.

16. The Ministry in their, action taken reply, have stated :

“MoD has transferred the responsibility of vendor development to ordnance factories. OFB has also been authorised to conduct in-house R&D for product improvement and development of new products. The accounting system followed by the ordnance factories is being reoriented towards a commercial accounting format. This change will enable the ordnance factories to perform financial management functions more effectively.

Ordnance Factory Board enjoys considerable autonomy in day-to-day functioning. However, the autonomy in taking financial decisions gets restricted as ordnance factories function as Government department within the purview of general financial regulations.

MoD had constituted a Committee under the Chairmanship of Dr. Vijay Kelkar, to examine the change required to facilitate ordnance factories to build consortium of industries around them for product development and production. The Committee has submitted its report and has recommended Corporation of OFB. The recommendations of the Committee are being examined in MoD.”

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

17. On the query of the Committee regarding the specific area where the Ordnance Factory Board need more autonomy for taking

decision in regard to financial and commercial matter and entering into MOU with Indian and Foreign Companies for co-development and co-production of items and giving enormous scope for diversification of their products profile, the Ministry have stated :

“Orders for enhanced delegation of financial powers have already been issued. Full powers have been delegated to OFB for procurement of input materials and R&D Projects (within budgetary provisions), for facilitating diversification of OFB’s product profile. The procedure for Commercial Accounting of Ordnance Factories has also been finalised and will be implemented on approval of competent authority.

Further, proposal for enhancing delegation of administrative powers to OFB is under examination of MOD, OFB also enjoys complete freedom with regard to price fixation for civil trade/export and marketing activities of its products.”

18. During the oral evidence, Dr. Vijay L. Kelkar submitted the following written information on necessity for enhancing autonomy and delegated power to Ordnance Factories :

“The Committee is of the view that there is a case for enhancing autonomy and delegating powers to these organizations enabling them to form Joint Ventures, set up co-production or even create consortiums which may be needed for developing and manufacturing sophisticated equipment. This would require unshackling these units (Ordnance Factories) from the existing set-up as department of the Ministry and put them in a structure that would, to start with, give them basic operational and financial autonomy and also makes them accountable and responsible for their operations and performance.”

He further suggested:

“Ordnance Factories should be corporatized into a single corporation under leadership of a competitive management. This corporation should be accorded the status of Nav Ratna”.

#### **Comments of the Committee**

**19. The Committee are not satisfied with the replies furnished by the Ministry of Defence, as they are contradictory to each other. At the one hand the Ministry of Defence have stated that Ordnance Factory enjoys considerable autonomy in day to day functioning and**



the accounting system followed by them is being reoriented towards commercial accounting, on the other hand they have stated that the autonomy in taking financial decisions is restricted because they function as a government department within the purview of General Financial Regulations.

The Committee are further concerned to note that the Government is not inclined to implement the recommendations of Dr. Vijay Kelkar Committee's Report titled "Towards revitalizing Defence Public Sector Undertakings and Ordnance Factories", since its implementation requires large-scale changes in the functioning, base organisation structure, mandate and status of the organisation. The Kelkar Committee in their report had observed that the structure of Ordnance Factories is unusual with limited decision taking power related to operations of production and almost negligible powers in all other functions. Ordnance Factories have limited role only in producing what has been nominated. These production units do not have a world class defence production capability to undertake R&D activities, raw material selection, vendor development, quality control and assurance, raising financial resources, marketing and sales capabilities etc. Consequently, the Armed Forces do not have high level of satisfaction in terms of product quality, delivery schedule, warranty and consistent supply of product upgrade to meet their requirements. Therefore, in the existing set-up it is impossible for these production units to play the desired role of designer and integrators. The current structure not only lacks cost effectiveness but also is strategically misplaced to sustain country's defence preparedness in the long run.

20. The Committee endorse the recommendations given by the Kelkar Committee and strongly recommend that the Government should change their mindset and corporatise Ordnance Factories and give full autonomy to these production units and the Ordnance Factory Board to manage their operations in the areas like R&D, raw material selection, vendor development, quality control, financial accounting on commercial line etc. directly under the management of Ordnance Factories. These measures will not only strengthen Ordnance Factories but also make them accountable for their operation and bring competitiveness and in the long run to make them integral part of indigenous world-class defence production base. The Committee however desire that pending decision on Kelkar Committee's recommendations, immediate steps should be taken to ensure the implementation of enhanced delegated financial powers and finalisation of procedure for commercial accounting of Ordnance Factories on corporate line.



## Capacity Utilization of Ordnance Factories

### Recommendation (Para No. 5.7)

21. The Committee had noted that creation /utilisation of production capacity was exclusively driven by the requirements projected by the Defence Forces and the remaining surplus capacity was utilised for meeting the requirements of the non-defence sector. The Committee also noted that some idle capacity was maintained by the Ordnance Factories to take care of the surge in demands of the Defence Forces in an emergent war situation.

The Committee had viewed that the idle capacity should be utilized fully for catering to the International export market; and in case any emergent situation arises, the entire capacity could be fully utilized to meet the requirements of the Defence Forces. This would help in ensuring increased productivity, optimum resource and capacity utilization and better quality of the products, thereby making them more competitive. In this connection, the Committee had also stressed that the Ordnance Factories should concentrate on specialized and high-end defence products.

22. The Ministry in their action taken reply, have stated :

“Product range of Ordnance Factories largely caters to the requirements of conventional warfare. These armaments are available the world over and are manufactured by many companies. The scope of exports is further limited, because of restriction on export of products being made with imported technology. Scope of export also gets limited due to the policy/of negative list of countries where defence exports are not permitted. OFB aims to develop high end products, having potential for supply to both internal and overseas market, through co-development and co-production route. Concurrently, constant endeavour is made to maximise utilisation of installed capacity by increasing supply to non-defence sector.”

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

23. On a specific question about the efforts made by Ordnance Factories to develop high-end products for domestic use and export, the Ministry in their written reply submitted:

“To enable OFB, to develop and create adequate infrastructure for Research and Development activities for products up-grade on

existing products and new product developments, MOD has issued orders, giving full financial powers to OFB, within the Budget provisions in this regard in December 2006. OFB is promoting in-house Research & Development activities through R&D Centres, created in some of the factories, to facilitate development of design of various tools and gauges for establishment of new products as well as up-gradation activities of existing products in Ordnance Factories. OFB has also been asked to formulate appropriate R&D policy. R&D activities in Ordnance Factories will be a major thrust area for future."

#### Comments of the Committee

24. The Committee observe from the replies of Ministry of Defence that the product range of Ordnance Factories largely cater to the requirements of conventional warfare. The scope of exports of these conventional equipment/weapon system is limited because of restriction on export of products and overwhelming production of these products world wide. The aim of Ordnance Factory Board is to develop high-end products to meet the internal and overseas market and is not commensurate with the initiatives taken by the Ministry of Defence/Ordnance Factory Board. Ordnance Factory Board has been given financial powers within the budgetary provision and not full financial autonomy to raise money from the market and Ordnance Factories are still considered as the government department. Ordnance Factory Board is promoting in-house R&D activities through R&D centers in some of the factories only and not in all the factories. Ordnance Factory Board has been asked to formulate R&D policy on which action is yet to start. The Committee strongly feel that with this limited and slow pace of initiative, the Ordnance Factory Board cannot achieve its objective to play the desired role of designer and integrator and promote self reliance in defence production to meet the requirements of Armed Forces and export of high-end technology. Therefore, the Committee recommend that Ordnance Factory Board must formulate appropriate R&D Policy to give real thrust to R&D activities and the Ministry of Defence should provide full financial autonomy to them to raise funds from open market and utilize the amount for their upgradation and modernization to promote indigenisation and achieve self reliance in defence production and reduce foreign dependence. Therefore, the Committee strongly feel that this is high time to restructure Ordnance Factories gradually to meet the requirement of modern defence world.

## Capacity utilisation of Ordnance Factories

### Recommendation (Para No . 5.8)

25. The Committee had expressed concerned about the delay in production of Arjun Tanks and hope that the obstacles coming in the way of final production of Arjun Tank would be taken care of by the Defence Ordnance Factory in coordination with the DRDO and the shortcomings would be corrected expeditiously so that the supply of required number of Tanks could be provided to the user as envisaged.

26. The Ministry in their action taken reply, have stated:

“Main Battle Tank Arjun is under limited series production at Heavy Vehicle Factory, Avadi. Certain teething problems are being faced in the initial stages. Technical expertise of DRDO, as designer, is needed to resolve the problems. Keeping this in view, representatives of DRDO are deputed at HVF, Avadi. Further, interaction with Combat Vehicle Research & Development Establishment/DRDO, covering the areas of process guidance, technical clarification, quality assurance, defect investigation and remedial measure incorporation, is held regularly.

Production of MBT Arjun is also monitored regularly by a working committee constituted with the representative of User, producer and designer to steer productionisation. Steering Committee with Secretary (DP) as Chairman, SA to RM as co-chairman and representatives from User, DRDO and OFB as members also monitors the production of the tank.”

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

27. When asked about the Army's opinion about the present status of Arjun Tank, the representatives of Army Headquarters during evidence stated :

“As per my information till now, we are supposed to receive a total of 15 tanks, as part of the limited series of production. Out of these till now five have been handed over to the Army. Balance ten are still to be handed over to us.

As far as these five tanks are concerned, these required certain amount of modification. We want to have a total of 15 tanks. The balance ten are not with us. The moment, they come, we would put them through trials. After the trials only, we will be able to give a comprehensive report.”

### Comments of the Committee

28. The Committee are deeply concerned to note that even after a lapse of considerable period, the Main Battle Tank Arjun is under limited series of production at Heavy Vehicle Factory, Avadi. Five Arjun Tanks have been handed over to Army and these tanks still require certain amount of modifications and the Army will give a comprehensive report after receiving and putting all the 15 tanks into trials. Therefore, the Committee desire that the Ministry of Defence should give a serious re-look into the entire matter as how to comply with Army's requirement in a time-bound manner and ensure the supply of remaining ten tanks to the Army so that the trials can begin. The Ministry may apprise the Committee about the schedule of the commercial production of Arjun Tank so as to meet the requirement of Army.

### Modernization Programme of Ordnance Factories

#### Recommendation (Para No . 6.12)

29. The Committee had noted that there was a constant need for upgradation and modernisation of Ordnance Factories in order to enable them to meet the Defence Forces' demands for high quality ammunition and reliable products keeping pace with the latest technology. In this connection, a capital investment of Rs. 3297 crore was planned during the 10th Plan against Rs. 1062 crore invested during the 9th Plan. The planned amount includes Rs. 1804 crore for modernisation and Rs. 1493 crore for new facilities. The Committee were, however, surprised to note that during the first three years of the 10th Plan i.e. from 2002 to 2005 the actual investment made was only Rs. 847 crore as per the annual requirement projected by OFB. The Committee would like that the full amount for modernisation was utilised during the remaining period of the 10th Plan.

30. The Ministry in their action taken reply, have stated :

"The Capital investment of Rs. 3297 crores includes investment of Rs. 531 crores propellant/explosive. The Nalanda project had been put on hold and an expert committee had been constituted by MoD to conduct a detailed review of the OF Nalanda project. The expert committee has submitted the report, which is being examined in MoD. Investment for creation of additional facilities for manufactures of propellant/explosives is being reviewed in the light of change in product mix and reluctance of overseas plant & machinery manufactures to provide technology. OFB expects to achieve the investment of Rs. 1348 crores on modernisation during X Plan period."

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

### Comments of the Committee

31. The Committee note that the Nalanda Project had been put on hold and expert Committee had been constituted by Ministry of Defence to review the Nalanda Project in detail. The expert Committee's report is being examined by the Ministry of Defence. The Committee are concerned to note that due to this long gestation period of review and examination, the amount allocated for modernisation/upgradation was not utilized as a result thereof, the upgradation and modernisation programme of Ordnance Factories to produce high-end technologies to meet the present day's requirement of the armed forces had to put on hold.

The Committee are not inclined to accept the replies of Ministry of Defence as the Committee have not been informed when the expert Committee was set up, the terms and conditions of the Committee, when the Committee submitted its report to Government, since when the report is being examined by the Ministry of Defence and when the examination will be completed by the Ministry of Defence and final decision is likely to be taken.

Therefore, the Committee desire all the above information and the Ministry of Defence should expedite the process of examination/consideration of the expert Committee's recommendation to modernize all the Ordnance Factories to produce high-end technologies and meet the requirements of Armed Forces in a time bound manner and ensure full utilisation of allocated funds. The Committee may be apprised of the progress made thereon.

### Replacement of ageing machineries

#### Recommendation (Para No. 6.14)

32. The Committee, during their recent study visit to the High Explosive Factory and Ammunition Factory at Khadki, Pune had observed that several machineries and plant are quite old in High Explosive Factory, Khadki and need immediate replacement for security of the plant and to improve efficiency and meet the production targets. The Committee, had therefore, recommended that the Ministry should strive to replace the ageing machineries and equipment in a time-bound manner with state-of-the-art technology.

The Committee would like the procedures for purchase of plants & machinery by the Ordnance Factories to be simplified. The Ordnance Factory Board should be given full powers to procure plant & machinery subject to budget provision and availability of funds.

33. The Ministry in their action taken reply, have stated :

“Views of Standing Committee are noted for action. The issue related to further delegation of financial powers to OFB for procurement of plant and machinery is being examined in MoD.”

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34. On a specific question about the efforts being made by the Ministry of Defence for replacing the ageing machineries and equipment in a time-bound manner with state-of-the-art technology, the Ministry furnished the following information:

“During 9th Plan period, an amount of Rs. 1062 crores has been invested for modernization of plant and machinery of Ordnance Factories. Investment during 10th Plan period is likely to exceed Rs. 1348 crores in this regard. For 11th Plan period, a year-wise plan of replacement of ageing machinery and equipments has also been made as per the following table which will be closely monitored for implementation:

| (Rs. in crore) |         |         |         |         |       |
|----------------|---------|---------|---------|---------|-------|
| 2007-08        | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Total |
| 367            | 574     | 608     | 496     | 329     | 2374  |

35. Regarding the present status of examination of the issue of delegation of financial powers to Ordnance Factory Board for procurement of plant and machinery, the Ministry stated :

“For procurement of plant and machinery, orders for enhanced delegation of financial powers to OFB have already been issued. OFB has been given powers to procure required P&M up to Rs. 50 crores in each case through competitive biddings and Rs. 3 crores in single tender and proprietary item category.”

#### Comments of the Committee

36. The Committee note that Ordnance Factory Board has been given the financial powers to procure required plant and machinery up to Rs. 50 crore in case through competitive bidding and Rs. 3 crore in single tender and proprietary item category. The Committee feel that this amount is not sufficient to replace the ageing machineries and for the modernisation of the plants. Therefore, the

Committee reiterate their earlier recommendation that Ordnance Factory Board should be given full power to procure plant and machinery subject to budgetary provision and availability of funds.

37. The Committee further note that the investment during 10th plan period for modernisation of plant and machinery is likely to be Rs. 1348 crore which is far below the original plan target of Rs. 1804 crore. For 11th plan, a year-wise plan of replacement of ageing machinery and equipments has been made. The Committee hope that modernisation of plant and machinery of Ordnance Factories would be completed in a time bound manner. The Committee would like to be apprised of the progress made in this regard viz. total amount required to modernise each ordnance factory and the time period required by Ministry of Defence to replace the ageing machines.

#### **Perspective Plan**

##### **Recommendation (Para No . 6.15)**

38. The Committee had stressed that restructuring of the production system of Ordnance Factories was the need of the hour. The Armed Forces should prepare a Long Term Integrated Perspective Plan (LTIPP) as already recommended by this Committee, projecting clearly their present and future requirements so that the Ordnance Factories might also draw up their modernisation plan accordingly. The modernisation plan of the Ordnance Factories should address not only the issue of increase in productivity but also matters relating to the range and quality of products to meet the new requirements. The Committee had recommended that to minimise imports, users should be fully involved in the preparation of vision document. In this connection, Government should immediately appoint an expert group on the perspective plan which should submit its report within six months from the date of presentation of this report

39. The Ministry in their action taken reply, have stated :

“Armed forces share the medium term perspective plan covering a period of 5 years for capital acquisition with OFB.”

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

##### **Comments of the Committee**

40. The Committee note that Armed Forces share the medium term perspective plan covering a period of five years for capital



acquisition with Ordnance Factory Board. The Committee are not satisfied with the replies furnished by the Ministry of Defence. The Committee feel that along with the medium term perspective plan, the Armed Forces should also share the Long Term Integrated Perspective Plan (LTIPP) with the Ordnance Factory Board enabling it to draw its long term modernization and production plan. The Ordnance Factory Board should address the production of high-end technologies on the basis of rapid scientific and technological advancement. In this regard, the Committee reiterate that the users should be fully involved in preparation of the vision document by Ordnance Factory Board in order to ensure its success.

#### **Modernisation Programme of Ordnance Factories**

##### **Recommendation (Para No. 6.16)**

41. The Committee had noted that entry of private sector in defence production, especially in non-combat items has posed new challenges before Ordnance Factories. The Ordnance Factories which had complete monopoly over production of defence equipment and items would now have to be more competitive and cost effective in order to maintain their dominant position. They would have to undertake modernisation programme in a broader way. If necessary for the purpose, the government might also allow them to raise financial resources from the market. In this context, the Committee had also desired the government to examine the feasibility of shutting down ageing and non-revivable Ordnance Factories/Plants. The labour working in these factories might be absorbed in other Ordnance Factories or Voluntary Retirement Scheme (VRS) offer might be given to them.

42. The Ministry in their action taken reply, have stated :

“Modernisation of infrastructure, matching with requirement projected by Defence Forces is being done continuously. OFB is a government department, under the aegis of Department of Defence Production. Therefore, the Board do not have the mandate to access the market for finance under the present structure. All the ordnance factories are being given importance by the OFB for modernisation. Workload is distributed judiciously and new products are introduced in the factories to ensure that the capacity is gainfully utilized.”

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43. When asked about the initiatives taken by the Ministry of Defence to restructure Ordnance Factory Board to access the market for finance, the Ministry of Defence in their written replies stated :

“Ordnance Factories organisation is a Government Department and is not a separate legal entity. Therefore, Ordnance Factory Board can not access funds from the market. The funds required by Ordnance Factories are being provided from the Budget of the Government. As far as initiatives for restructuring of Ordnance Factory Board are concerned, the recommendation made in Kelkar Committee Report (Part-II) suggested major changes in the functioning of Ordnance Factories, DGQA and DPSUs. The implementation of the recommendations of the committee would necessitate large-scale changes in the functioning, basic organization structure, mandate and status of the organization. The report was circulated to all the stakeholders for obtaining their views. On receipt of the view of all the stakeholders, a meeting was held on 18th September, 2006, under Chairmanship of Hon’ble RM with representatives of federations of Ordnance Factories, wherein Hon’ble RM has stated that Government has decided not to corporatise Ordnance Factories. It has been decided by the Government that present position would continue for some time.”

#### **Comments of the Committee**

44. The Committee note that the Ordnance Factories Board do not have the mandate to access the market for raising finance under the present structure. The funds required by Ordnance Factories for modernization are being provided from the Ministry of Defence’s budget. So far as restructuring of Ordnance Factory is concerned, it seems that presently the Ministry of Defence are not inclined to do it. The Committee are perturbed to note that the Ministry of Defence are content with the existing position of Ordnance Factories and do not have strategy to improve the performance of Ordnance Factories in order to make them able to face the new challenges of competitiveness and cost-effectiveness of their products. Therefore, the Committee strongly recommend that the Ministry of Defence should reconsider the matter and restructure Ordnance Factories gradually and allow Ordnance Factory Board to raise funds from market for their modernisation and upgradation and also make them accountable and responsible for their operations and performance. For this purpose the Ministry of Defence may change the character of the Ordnance Factories on the corporate line slowly which is not privatization. In this way, Ordnance Factories will be self-financing production units.

## **Pricing System of Ordnance Factories**

### **Recommendation (Para No. 8.8)**

45. The Committee had noted that the Ordnance Factory Board had taken certain initiatives to exercise effective control over increase in the prices of Defence products. The Committee felt that the productivity and scale of production were the crucial issues which needed to be stressed upon to contain the sharp increase in prices. The Committee, had therefore, recommended that the Ministry should strive to achieve economy of scale in Defence Production in the wake of envisaged competition from the Private Sector. Towards this end, modernisation of the existing plants & machineries and replacement of the old equipment in the factories were required to be taken up on priority. These steps would enable Ordnance Factories to participate in global tenders in a competitive manner.

The Committee understood that Ordnance Factories were providing defence products to armed forces on cost-to-cost basis. The Committee also understood that Ordnance Factories did not have sufficient funds for modernisation of the plants and machineries. The Committee, had therefore, desired that on sale of products to armed forces Ordnance Factories should be allowed to have a fixed percentage of profit which might be used for modernisation / upgradation of these factories.

46. The Ministry in their action taken reply, have stated:

“The present policy does not permit ordnance factories to retain surpluses generated out of supplies to customers. Change in pricing policy by building in a fixed percentage of profit in sale price would require change in procedures.”

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47. Regarding the change in pricing policy by building in affixed percentage of profit in sale price would require change in procedure, the Ministry has stated :

“In this regard, it is stated that till the Ordnance Factory Board remain a Government Department, it has to function on ‘No profit no loss’ basis, as far as supply to Defence Forces are concerned. For non-defence supplies, a suitable margin of profit is added. It is expected that the pricing system will be streamlined, when the proposal on professional accounting in OFB is implemented.”

48. On the query of the Committee whether the Balance Sheet in Ordnance Factories is made in the line of corporate sector, the Ministry furnished the following :

“As the Ordnance Factory Board is a Government Department, the balance sheet of OFB is being prepared as per Government procedures for accounting. The process of preparation of balance sheet in the line of corporate sector i.e. as per commercial sector i.e. as per commercial accounting procedure, is now finalised and will be implemented on approval of competent authority.”

#### **Comments of the Committee**

49. The Committee express their unhappiness over the vague and unconvincing replies received from the Ministry. The Committee would like to know the details of the procedures which are required to be changed and why these can not be changed even on the recommendations of the Parliamentary Committee. The Committee observe that the replies of Ministry of Defence do not give any indication pertaining to the concrete and positive steps taken or to be undertaken by the Ministry in order to change the present pricing policy in the line of corporate sector i.e. as per commercial accounting procedure. Therefore, the Committee, strongly recommend that the Ministry of Defence should approve the proposal for preparation of balance sheet in the line of corporate sector at the earliest without loss of time, so that Ordnance Factories can earn a fixed percentage of profit from the sale of products to Armed Forces, which in turn may be used for their modernisation upgradation.

#### **R & D Activities in Ordnance Factories**

##### **Recommendation (Para No. 9.7)**

50. The Committee had noted that the Ordnance Factories were giving thrust to in-house R&D efforts in order to develop new products. The Committee were, however, constrained to note that the investment made on R&D during the last five years had been negligible, with the result that no major project or upgradation activities could be undertaken out of the allocated funds. Most of the projects being undertaken by Ordnance Factories were through acquisition of technology from DRDO or by import and there had been very little achievement in developing new products through in-house R&D. The Committee had desired that Ordnance Factories should change their role from technology recipients to technology producers through more emphasis on in-house R&D.

51. The Ministry in their action taken reply, have stated :

“Ordnance Factories being a production organisation do not have infrastructure for conducting ab-initio research. They depend on developing new products and upgrades in synergy with technology providers. To enable Ordnance Factories to build infrastructure for in-house R&D, following proposals are being examined in MoD:

- Enhanced delegation of financial power to OFB for R&D
- Allowing OFB for training (including overseas training) of personnel in key technology areas.
- Sufficient freedom for appointment of consultant, as expert assistance in R&D projects.
- Setting up a proof range for evaluation of products.”

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52. On a specific question about the efforts made to develop adequate infrastructure for conducting ab-initio research and the allocation and expenditure to be made thereon, the Ministry have furnished the following information:

“Indian Ordnance Factories are traditionally production agencies and do not have mandate to conduct ab-initio Research. Basic Research & Development responsibility for production of Defence products rests with DRDO. However, to enable OFB, to develop and create adequate infrastructure for Research and Development activities for products up-grade on existing products and new products developments, MOD has issued orders, giving full financial powers to OFB, within the Budget provisions in this regard in December 2006. OFB has been asked to formulate appropriate R&D policy, which specifies allocation of expenditure in the areas of process and product improvement, cost reduction and product development etc.”

53. Regarding the present status to enable Ordnance Factories to build infrastructure for in-house R&D, the Ministry have furnished the following information:

“To build required infrastructure for carrying out product and process improvement and development of new products, OFB have been delegated with full powers, within the Budget provisions. Besides, full powers are also delegated for procurement of required

inputs/raw materials and components for such activities. For procurement of Machinery & Equipments, powers have been delegated upto Rs. 50 crores in each case and Rs. 3 crores in each case for single tender and proprietary items. OFB has also been delegated the financial powers to engage the consultants/specialists of their choice up to Rs. 2 crores per annum for sanctioned project and Rs. 1 crore per annum in other cases.”

#### **Comments of the Committee**

54. The Committee are concerned to note that the Ordnance Factory Board, which controls and manages the functioning of 39 Ordnance Factories at present do not have infrastructure to undertake basic research in their respective fields. The Committee are further given to understand that DRDO has taken R&D responsibility of the Ordnance Factory Board for development of Defence products. The Committee note that the Ministry of Defence has issued orders to enable Ordnance Factory Board to develop its own infrastructure for R&D activities for products development.

In view of the foregoing, the Committee strongly recommend that immediate steps should be taken by the Ministry of Defence to provide sufficient physical and financial autonomy to Ordnance Factory Board to create its own infrastructure base so that it could undertake various R&D projects. Accordingly, the matching budgetary allocation should be provided to Ordnance Factories by the Ministry of Defence in this regard. The Committee are of strong view that DRDO should not be only the controlling authority of products development and R&D projects of Ordnance Factory Board, but should rather assume the role of a facilitator to Ordnance Factory Board in this regard. The Committee further recommend that the Ministry should allocate a separate budgetary provision for the Ordnance Factory Board specifically meant for undertaking R&D activities. The Committee would also like to be apprised of the progress made by the Ordnance Factory Board in formulation of its R&D policy.

#### **R&D activities in Ordnance Factories**

##### **Recommendation (Para No. 9.8)**

55. The Committee were constrained to note that in the era of Nuclear, Biological and Chemical warfare, our Defence Forces were still bound to depend on conventional weapons which need constant upgradation. The Committee had viewed it very seriously and

recommend that the Ministry should intensify efforts to provide sufficient funds and logistic support to the Ordnance Factories to undertake mini and major projects in collaboration with DRDO, Defence PSUs and foreign partners and also continue with the technological upgradation of the conventional weapons so as to meet the ever-growing challenges of the modern warfare. The Committee had also desired the Ministry to explore the possibility to involve private sector in some of the select R&D projects being taken up by DRDO / user services.

56. The Ministry in their action taken reply, have stated :

“Views of the committee are noted. MoD is committed to provide full support to Ordnance Factories for taking up projects in collaboration with DRDO, DPSUs and private sector industries.”

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#### **Comments of the Committee**

57. The Committee note that the Ministry of Defence are committed to provide full support to Ordnance Factories for taking up projects in collaboration with DRDO, DPSUs and private sector industries. The Committee strongly feel that in this regard the Ministry of Defence should supplement the efforts with adequate budgetary provision and logistic support to the Ordnance Factories to fulfil the above objectives.

#### **Export Market of the Defence Products**

##### **Recommendation (Para No. 10.9 & 10.10)**

58. The Committee had noted that since the commencement of organised export in 1989, value of export has been minimal over the last five years. Export orders had generally been from the neighbouring countries. The Committee had noted that as of now OFB's export market was largely of conventional items where a large number of players were making it tough and competitive for Indian products to make their presence felt. The Committee had also noted that the export market of OFB products also suffers due to their non-compatibility with NATO specifications. Despite continuous efforts of OFB to give wide publicity to boost exports, physical increase in quantum of export was insignificant. At present, no board or institution had been created within the OFB supervision to promote exports of defence products.

The Committee, had therefore, recommended that the Indian Ordnance Factories should strive to diversify their product range to grab the customer base in non-conventional arms segment of export market. Keeping in view the requirements of NATO compatible items in international market, the specifications of more and more indigenous items should be planned to cater to the export market, in addition to the Indian requirements. The OFB should also take earnest initiatives to create an Export Promotion Board under their supervision and entrust it with the task to explore optimal possibility of export and to suggest ways and means to boost the export of Ordnance Factories' products, create infrastructure necessary for export market and help in achieving the aim of Indian Ordnance Factories to establish themselves as a brand leader in the world market. As recommended in earlier paragraphs, the Committee had desired that Ordnance Factory Board should have experts from international trade and marketing fields also who can play an effective role in preparing strategy to tap the vast export market for armaments / ammunitions and other defence products.

59. The Ministry in their action taken reply, have stated :

"The need for setting up an institution for marketing of products of OFB at the global level has been felt by OFB. A proposal for setting up Ordnance Factories Marketing Corporation has been forwarded by OFB, which is being examined by the MoD. This organisation can employ the services of specialists from international trade and marketing fields."

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#### **Comments of the Committee**

60. The Committee note that Ordnance Factory Board has forwarded a proposal for setting up Ordnance Factories Marketing Corporation which is under examination of Ministry of Defence. The Committee would like to know when the proposal was sent by Ordnance Factory Board and how much time is likely to be taken by Ministry of Defence to examine the proposal. The Committee desire that the Ministry of Defence should expedite the matter for setting up an institution for marketing of products of Ordnance Factory Boards at the global level and apprise the Committee about the progress made in this regard. The Committee, however, would like to reiterate earlier recommendation that NATO compatible items should also be produced for exports, wherever the factories have the capacity.



## Outsourcing to Private Sector

### Recommendation (Para No. 11.7)

61. The Committee had noted that Defence Production Industry has come a long way from being reserved entirely for the public sector and was moving towards greater participation from the private sector. The Committee were happy to note that keeping in view the capabilities of private sector, the work of the value of Rs. 2500 crore per annum was being outsourced to them. The Committee, had desired that Ordnance Factories should strive to outsource more work in those areas where there is sufficient capability of private sector and retain production of only high-end items. The Committee at the same time had stressed that Ordnance Factories during the process of outsourcing must ensure strict adherence to the stringent quality standard of the outsourced products.

62. The Ministry in their action taken reply, have stated :

“Views of the Committee are noted for implementation.”

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63. During the oral evidence before the Committee, the representatives of Trade Unions Forum on implementation of Kelkar Committee Report and encouragement of private sector in Defence Production, R&D, they submitted the following for consideration :-

“The composition of Kelkar Committee itself is questionable as it did not include the major stake holder i.e. the employees. The report is totally flawed in its approach when instead of reducing import through strengthening the existing public sector defence industry, it has embarked upon a policy of giving maximum space to private sector in Defence. It has given undue stress on export of arm which is not a sphere where country like India would try to project itself like USA or Israel.

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It deprives DPSUs and OFB of a level playing field with private industries. OFB and DPSUs are captive industries of defence services. Unless they reach optimal capacity utilisation, technological upgradation and necessary autonomy, the question of so called competition with private sector does not arise.”



64. On being asked by the Committee regarding capacity utilisation and Order Book position and outsourcing of work to private sector by the Ordnance Factories, the representative of Trade Unions/Forum stated as under:

“It is that in spite of the fact that the PSUs or the Ordnance Factories have the capabilities, they are not being utilized as in the case of Hindustan Aeronautics Limited. I am not quoting from my figures. It is a figure from the C&AG. Where the capacity is there, even that capacity is being outsourced and tomorrow the RURs will be placed position.

..... The recommendation that you had made in the seventh report that in all ordnance factories you must have an assessment of their capacity, the technology and their upgradation. That is not being done. What is being done is that instead of doing that, their capacity is being under-utilised and you are giving orders to the private sector. That is my point.”

He further stated :

“.....We have no quarrel about quality and time. These are the factors for any unit to develop. Lastly, we would sum up with the request that please see that the existing orders and existing capacity is totally utilized before passing it to anyone else. Please put pressure on the Government on this issue.”

#### **Comments of the Committee**

65. The Committee had recommended that Ordnance Factories should strive to outsource more work in those areas where there is sufficient capability of private sector and retain production of only high-end items. The Committee, however, note that in some cases of outsourcing the work to private sector, Ordnance Factories have in house capacity to manufacture these products and due to this outsourcing, their manpower is sitting idle and optimal capacity is being under-utilised, which has caused some anxiety in the mind of the workers.

66. The Committee, therefore, desire that Ordnance Factories at the first instance must ensure to produce quality products to meet the requirement of armed forces and ensure optimum utilisation of their existing capacity and thereafter explore the possibility of outsourcing work to the Private Sector where they have sufficient capability as well as consider Joint Ventures with them. The

Ordnance Factories should retain production of only high-end products. At the same time, the factories should ensure the quality of their products and introduce accountability for the success and failure of their products. At the same time, the Committee wish to stress upon that Ordnance Factories must ensure timely supply of their products to the Armed Forces, because delay in this matter will hamper their preparedness, which the country cannot afford at any cost. The Ordnance Factories must repair and upgrade their products supplied to the users in the warranty/guarantee period. The Committee again reiterate that Ordnance Factories during the process of outsourcing, must ensure strict adherence to the stringent quality standards of the outsourced work. The Committee would like to be apprised about the action taken by the Government in this regard.

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT**

#### **Recommendation (Para No. 2.6)**

The Committee note that in the extended Board there are four more members who represent the Army, Defence Research & Development Organisation, DGQA and Ministry of Defence. The Committee desire that there should be a three-tier system with clear delegation of powers for better performance at Apex, Middle and Floor levels with interface between the Ordnance Factories, users and DRDO.

#### **Reply of the Government**

Special Board with representation from Army, DRDO, DGQA and MoD provides an interface between the factories, Users and DRDO at the apex level. Armament Development Monitoring Committee (ADMC) is a structured institution between OFB and DRDO to monitor armament projects at the middle level. Working groups are constituted by ADMC for floor level coordination between DRDO and factories. User interaction meetings are also held to get regular feedback from the Users.

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#### **Recommendation (Para No . 2.7)**

The Committee also note that the Special Board Members meet only twice a year. The Committee recommend that the number of sittings be increased in order to ensure better interface between DRDO, OFB and users. The Committee also recommend that the performance of the Ordnance Factories should be periodically/annually reviewed by the OFB.

#### **Reply of the Government**

Views of the Committee are noted. The performance of Ordnance Factories is periodically reviewed by OFB and discussed in the meetings of Special Board.

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When asked to furnish the details of the sittings of the special members, the Ministry of Defence in their written replies stated :

“In view of the recommendation of the Committee, the numbers of sittings of Special Board Members have been increased from two times per annum to four times per annum. During the current year, meetings have been held in June, August and October 2006 and February 2007.”

When asked about the frequency of the periodic review of Ordnance Factory Board, the Ministry of Defence in their written replies stated:

“Performance of Ordnance Factories is being reviewed at three levels. Major performance parameters are reviewed on monthly basis in Ordnance Factory Board’s monthly meetings. The Members of Operating Divisions are also reviewing the performance of Ordnance Factories coming under their purview on a quarterly basis. Chairman (OFB) on his level also review the performance twice in a year.

In above reviews, the physical achievement of production/issue targets concerning all indenters, are being analysed. Factory-wise major bottlenecks in production are being discussed, so as to find a joint solution to resolve it. Issues concerning coordination between the factories and help required from OFB are also addressed in above review meetings.

The major findings in all above reviews are the difficulties in production, planning, consequent to delays in getting production targets and covering indents. Such constraints/difficulties are being resolved through regular interaction with major customer by holding early Target Fixation Meetings and close reviews/monitoring of placement of indents.”

#### **Recommendation (Para No . 4.4)**

The Committee desire that Ordnance Factories should speed up efforts to produce new items to match the changing requirements of the Defence Forces so that imports are reduced and Ordnance Factories’ share in supplies to Defence Forces increases. The Committee further recommend that besides fulfilling the requirements of Defence Forces, Ordnance Factories should strive to give market orientation to their products so that various other organisations in non-defence sector also approach them to buy their products as per prevailing market price.

### Reply of the Government

Views of the committee are noted. OFB has been asked to increase the issues to Ministry of Home Affairs and develop products specific to the requirements of Paramilitary of State Police Forces to further the share of supplies to non-defence sector.

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### Recommendation (Para No . 6.13)

Many Ordnance Factories, which were set up before Independence are still using old technology and are in dire need of massive infusion of funds for modernisation. The Committee would like to be apprised of the detailed modernisation plan alongwith projected fund requirements of OFB in respect of each Ordnance Factory and the level of technology being presently used by it.

### Reply of the Government

The details of the investment made in the IX and X Plan so far and proposed to be made in the remaining 2 years of Plan in the ordnance factories set up before independence are indicated below:

#### Pre-World War-I

| Sl.No. | Factory | Investment |                               |                              |        | Major areas of investment<br>for modernisation                                       |
|--------|---------|------------|-------------------------------|------------------------------|--------|--|
|        |         | IXth Plan  | Xth Plan                      |                              |        |  |
|        |         |            | 02-03 to<br>04-05<br>(actual) | 05-06 &<br>06-07<br>(actual) | Total  |  |
| 1      | 2       | 3          | 4                             | 5                            | 6      | 7  |
| 1.     | MSF     | 51.71      | 157.74                        | 60.75                        | 218.49 | VDLF & ESR for steel,<br>Radial Forgoing for barrels,<br>2-Hi/4-Hi Rolling Mill etc. |
| 2.     | GCF     | 14.60      | 34.36                         | 32.00                        | 66.36  | CNC Technology   |
| 3.     | GSF     | 52.28      | 39.53                         | 19.50                        | 59.03  | CNC Technology   |
| 4.     | RFI     | 40.30      | 40                            | 19.32                        | 59.32  | CNC Technology & Cold<br>Swaging for barrels   |

| 1                            | 2      | 3      | 4     | 5     | 6      | 7   |
|------------------------------|--------|--------|-------|-------|--------|---|
| 5.                           | AFK    | 37.58  | 27.95 | 25.53 | 53.48  | Multi-station Transfer Press,<br>Multi-station auto loading<br>& assy. of SAA                       |
| 6.                           | CFA    | 6.92   | 3.98  | 13.62 | 17.60  | SAC Plant   |
| 7.                           | OEFC   | 15.13  | 9.63  | 8.82  | 18.45  | CNC M/cs & H.S. Sewing<br>M/c   |
| 8.                           | OCFS   | 9.31   | 8.76  | 4.64  | 13.40  | Computerised Jersey/socks<br>knitting M/s   |
| <b>Pre-World War-II</b>      |        |        |       |       |        |   |
| 1.                           | OFC    | 54.74  | 58.20 | 71.12 | 129.32 | CNC technology for<br>Ammunition, Ammunition<br>and Ordnance  |
| 2.                           | OFK    | 37.68  | 33.73 | 27.99 | 61.72  | CNC Technology for<br>Ammunition Hardware,<br>Semi-auto Progressive Press,<br>Initiator Composition |
| 3.                           | HEF    | 3.36   | 4.09  | 3.93  | 8.02   | Upkeep of Chemical process<br>plant   |
| 4.                           | OF Kat | 16.09  | 6.56  | 1.79  | 8.35   | Upgradation of production<br>facilities from 30mm CC  |
| 5.                           | OFA    | 17.71  | 10.67 | 10.72 | 21.39  | Auto high production<br>facilities from 130mm CC  |
| 6.                           | OFM    | 14.38  | 21.18 | 5.00  | 26.18  | CNC technology for<br>manufacture of Aerial Bomb  |
| 7.                           | OPF    | 5.47   | 5.40  | 3.36  | 8.76   | Line assy manufacturing   |
| 8.                           | OF Dun | 7.95   | 5.15  | 8.81  | 13.96  | Vacuum coating plant, CNC<br>machining facilitator  |
| <b>Other Major Factories</b> |        |        |       |       |        |   |
| 1.                           | OFAJ   | 105.88 | 85.98 | 21.02 | 107.00 | 155MM ERFB Shell, 130mm<br>Shell, 125mm SCCC Fuzes  |
| 2.                           | VFJ    | 50.10  | 26.17 | 35.66 | 61.83  | Stallion Mk-3 LPTA  |
| 3.                           | SAF    | 48.37  | 15.66 | 10.97 | 26.63  | 5.56mm INSAS LMG, 5.56<br>mm INSAS rifle  |

| 1   | 2    | 3     | 4     | 5    | 6     | 7                                       |
|-----|------|-------|-------|------|-------|---|
| 4.  | OFT  | 36.63 | 28.55 | 9.05 | 38.05 | 5.56 mm INSAS Rifle                     |
| 5.  | OFDC | 16.06 | 12.54 | 1.75 | 14.29 | Stabiliser & Fins for 125 mm Ammunition |
| 6.  | FGK  | 7.01  | 8.43  | 6.00 | 14.43 | 155mm Ordnance, 0.32" Revolver          |
| 7.  | MPF  | 9.39  | 12.84 | 2.89 | 15.73 | Machine Tools                           |
| 8.  | HAPP | 8.08  | 1.68  | 3.22 | 4.90  | 125mm FSAPDS                            |
| 9.  | OFBH | 8.07  | 4.42  | 9.49 | 13.91 | Box H2A/H5A, Carrier 6A/7A              |
| 10. | OCFC | 6.70  | 17.05 | 7.01 | 24.15 | Production of Cables                    |

Upgradation of technology comparable with contemporary industries is attempted during above modernisation.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

#### **Recommendation (Para Nos. 7.8 & 7.9)**

The Committee note that quality upgradation and cost-effectiveness of the defence products are imperative to keep the Ordnance Factories vigilant, agile and responsive to the needs and concerns of Defence Forces. The Committee endorse the view of the Ministry that cost reduction of products may be a successful proposition only when modernisation efforts aim at more productivity. However, the Committee find that while the Ministry have taken quite a few initiatives for quality upgradation and cost reduction, export of the products, which is directly linked to the two factors, is negligible.

The Committee feel that to achieve the goals of modernisation, concerted efforts need to be made with a clear mandate. Production of items should be undertaken side by side with quality upgradation and cost-effectiveness so as to attract global vendors.

#### **Reply of the Government**

OFB has been able to hold the average weighted priced index for the year 2005-06 at the level of 2000-01 for supply to Army by taking various measures including modernisation. The effect of economic

measures does not have much influence in export due to limitation of product range as mentioned in reply to **Para 5.7.**

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

Regarding the various measures taken by the Ministry/OFB for modernization of the Ordnance Factories, the Ministry furnished the following :

“Modernization of infrastructure and required Plant & Machinery, matching with requirement projected by Defence Forces is a continuous process in Ordnance Factories, MOD fully supports modernization plans of OFB. Full Budget is allocated/sanctioned as per requirement projected by OFB. More financial powers to OFB, for acquiring new plant, machinery and equipments, have been delegated recently. Under the enhanced delegations, OFB have been empowered to procure plant and machinery worth Rs. 50 crores in each case, in competitive bidding cases and Rs. 3 crores in cases of single tender and proprietary item.

In last three years, many manual and mechanical machines have been replaced with Computerized Numerical Control (CNC) machines. Some of the high value modernization projects in ordnance factories include, Radial Forging Plant, CNC Centre for new Pinaka System, Rifling Centre, Cold Rolling Mill and Multi Axis Turning Centre etc. In 11th Plan also, major modernization schemes have been planned in the areas of Auto Fertage, Forging, Machining of Ammunition hardware and Tank barrels, Extrusion, and Rifle Manufacture.

Modernization proposals forwarded by the Production units in this regards are given due importance, considering their areas of core competencies, in fund allocation by OFB.”

#### **Recommendation (Para No . 7.10)**

The Committee are concerned that only 20 per cent items produced by these Factories are self-certified. These items are mainly clothing and general store items. The Committee desire that self-certification by Ordnance Factories should be encouraged and these Factories be given powers for self-certification of arms, ammunitions, explosives and other combat products in a phased manner.



### Reply of the Government

Ordnance Factories are supplying some of the clothing items to Defence Forces on self-certification basis. The issue of supply of some more products under self-certification is being examined by the User and DGQA.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

The Ministry of Defence have furnished a note on the items being examined for self-certification as under :

“As far as supplies to civil trade and Para Military Forces of MHA are concerned, many ammunition, weapon and clothing items are being supplied under self-certification. The value of such items in last three years is given as under :

|     | 2003-04 | 2004-05 | 2005-06 |
|-----|---------|---------|---------|
| CT  | 228.61  | 213.72  | 296.34  |
| MHA | 61.41   | 92.17   | 140.64  |

Further, value of Rs. 66.93 crores have also been exported to various countries under self-certification. As far as Army is concerned, 14 items of OEF Group of factories are being issued under self-certification so far. All garment items are issued to Navy under self-certification. For Air Force, all garment items are issued under joint inspection. The total value of items, issued to Defence Forces under self-certification in last three years is approx Rs. 320 crores.”

### Recommendation (Para No. 8.9)

The Committee note that international prices of arms and ammunition required by the Armed Forces are on much higher side as compared to the prices of Ordnance Factories. The Ministry should carry out import substitution of arms and ammunition by placing orders on Ordnance Factories. This will help in indigenisation of the items and utilisation of full capacity of the Ordnance Factories.

### Reply of the Government

Views of the Committee are noted. OFB will be asked to establish/develop more import substitute products for supply to Defence Forces.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

**Recommendation (Para No. 9.8)**

The Committee are constrained to note that in the era of Nuclear, Biological and Chemical warfare, our Defence Forces are still bound to depend on conventional weapons which need constant upgradation. The Committee view it very seriously and recommend that the Ministry should intensify efforts to provide sufficient funds and logistic support to the Ordnance Factories to undertake mini and major projects in collaboration with DRDO, Defence PSUs and foreign partners and also continue with the technological upgradation of the conventional weapons so as to meet the ever-growing challenges of the modern warfare. The Committee also desire the Ministry to explore the possibility to involve private sector in some of the select R&D projects being taken up by DRDO / user services.

**Reply of the Government**

Views of the committee are noted. MoD is committed to provide full support to Ordnance Factories for taking up projects in collaboration with DRDO, DPSUs and private sector industries.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

**Comments of the Committee**

(Please see para 57 of Chapter I)

**Recommendation (Para No. 10.11)**

In view of the competitive prices of the ammunition of the Ordnance Factories as mentioned in the earlier paras, the Committee feel that these factories should look out for export market.

**Reply of the Government**

Views of the Committee are noted for implementation.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

**Recommendation (Para Nos. 12.6 & 12.7)**

The Committee note that out of the demands for 2055 items, target was fixed for 1988 items and actual manufacturing took place for 1247 items during the period 1999-2000 to 2003-2004 which resulted in the

production of a number of items behind schedule. Further, the Committee note with concern that there has been a shortfall in supply of 77 items out of 331 items planned for supply during 2004-2005. The data shows that Ordnance Factories have failed to adhere to the targets fixed for all the demands placed by the indentors.

The Committee desire that a detailed analysis be made for every delay in execution of orders and responsibility / accountability be fixed accordingly. Necessary steps should also be taken to ensure timely production of items as per the targets fixed.

The Committee further note that one of the reasons for delay in execution of orders is the late finalisation of annual targets by the Ministry. It only shows lack of planning and coordination among the various concerned departments. The Committee recommend that advance planning should be done by all concerned in this regard so that annual targets are finalized well in time.

#### **Reply of the Government**

Supply of items against target is reviewed regularly at unit level apart from OFB HQrs. Further review is also carried out at MoD and during interactive meetings with indentors. The reasons for shortfall in supply of the above 77 items were due to:

- |  |           |
|--|-----------|
| (a) Delay in placement of indent         | - 7 Nos.  |
| (b) Design problem                       | - 17 Nos. |
| (c) Embargo by indentors                 | - 2 Nos.  |
| (d) Items under development              | - 3 Nos.  |
| (e) Delay/difficulties in proof          | - 10 Nos. |
| (f) Non-availability of inputs ex-import | - 8 Nos.  |
| (g) Non-availability of inputs ex-trade  | - 30 Nos. |

The views of the Committee are noted for compliance. However, in the last two years the target fixation meeting were held 5-6 months in advance, which helped OFB to get sufficient, lead time for achievement of its production targets.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

On a specific question about the improvements made in minimizing delay in execution of orders after conducting the review meetings, the Ministry furnished the following :

“During various production review meetings, the major reasons for delay in supply of some of the equipments are found to be the delays in procurement of required input materials and non-availability of targets and covering indents in time. However, for minimizing the delay in procurement of various input materials, enhanced financial powers of OFB have been delegated. OFB have been given full powers for procurement of all required input materials through competitive bidding and Rs. 3 crores for single tender and proprietary items. As far as timely availability of targets and covering indents are concerned, with the mutual discussions with various customers, Target Fixation Meetings are being held much in advance, to facilitate better production planning.”

#### **Recommendation (Para Nos. 13.6 & 13.7)**

The Committee are concerned to note that fire incident is a frequent phenomenon taking place almost every year. During the last year itself, four such incidents occurred, but surprisingly, no reason or cause could be ascertained by the Board of Enquiry constituted for the purpose. The Committee are unable to understand how the remedial measures can be taken without first knowing the definite cause of fire. Therefore, the logic of remedial measures, as enunciated by the Board, to be taken to strike the most possible cause of fire is outrightly refuted by the Committee. The Committee feel that in the era of advanced Science and Technology, Ordnance Factories should not function on indefinite conclusions.

Therefore, the Committee strongly recommend that the Ministry should explore all scientific ways and means to obviate such incidents in future. The Ordnance Factory Board should create a watchful team for every Ordnance Factory particularly Ammunition and High Explosive Factories to keep tight vigil on every possible cause of fire and take suitable preventive steps.

#### **Reply of the Government**

Equipment, accessories and surroundings at the site of fire get damaged and consequently evidences are lost. Board of Enquiry constituted with the experts, list out probable causes of fire and suggests remedial measures to avoid recurrence. These measures are studied and implemented to avoid recurrence. The application/fitment

of gadgets may not help in determining the cause of fire as the gadget itself are likely to be destroyed in fire. However, views of the Committee are noted for adopting modern methods of determining causes of such incidents, including help of outside specialists.

All the Ordnance Factories have a separate Safety manned by qualified Safety Officers as per provision of Factories Act to keep a tight vigil on possible cause of fire and to take remedial measures, apart from imparting training to employees on safety matters. A detailed safety procedure in terms of general safety directives/standing instructions and system of safety audit exists for handling/storage of ammunitions and explosives. However, the views of the committee are noted for further improvement in safety system in Ordnance Factories.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

When asked about the modern methods adopted the determining the causes of fire incidents including help of outside specialists, the Ministry of Defence in their written reply stated as under:

“In Ordnance Factories, the fire accidents are investigated by a Board of Enquiry appointed by Sr. GM/GM with an officer from outside expert organisation i.e. Controllorate of Quality Assurance (Military Explosives), as Chairman of the Enquiry Committee. Investigation starts from identification of probable causes and arrives to the most probable cause by process of elimination, as fire leaves tell-tale footprint for the expert to read. The basis of identification of fire origin and cause is dependent mainly on practical knowledge and expertise, which is being provided by the outside specialists of Military Explosives.

Modern methods' being adopted prevention of fire in Ordnance Factories includes Automatic fire detection and drenching systems in more fire prone buildings, use of modern fire tenders, fire fighting equipments and stringent and regular safety drills and safety Audits.

Whenever new chemical plants are procured, OFB is going for modern and state of the art plants, where human deployment is minimal and a number of electronic controls are in-built to ensure safety.”

**CHAPTER III**  
**RECOMMENDATIONS/OBSERVATIONS WHICH THE**  
**COMMITTEE DO NOT DESIRE TO PURSUE IN**  
**VIEW OF GOVERNMENT REPLIES**

**-NIL-**

## **CHAPTER IV**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE**

#### **Recommendation (Para No. 1.7)**

The Committee note that 39 Ordnance Factories are divided into 5 operating divisions based on the main products / technologies employed. 40th Ordnance Factory has been established at Nalanda for production of Bimodular Charges. The Committee feel that it is essential that Ordnance Factories, which are producing same kind of products, should be merged / integrated into one in order to synergise their resources and R&D and ensure optimal use of available manpower and infrastructure. For the purpose the Committee strongly desire that a Task Force of experts be constituted by the Government to go into the details of restructuring / merging of existing Defence Ordnance Factories. The Committee also desire that no new Ordnance Factory should come up and during the process of restructuring/merging of Ordnance Factories labours' interest must be protected by the Government.

#### **Reply of the Government**

The issue of re-structuring of Ordnance Factories is under consideration of MoD. An Expert Committee under the Chairmanship of Shri Vijay Kelkar has examined the issue and submitted its report, which is being examined in MoD.

In the present structure of Ordnance Factories:

- (a) Manufacture in more than one Ordnance Factory in some cases has been planned as a strategy to maintain the supply chain to Defence Forces even if production in one unit is interrupted due to disturbances/sabotage/enemy strikes.
- (b) Process and storage safety regulations in handling explosives do not allow consolidation of production activities.
- (c) Demand in excess of installed capacity of a product in the dedicated factory necessitates production in other factories.

- (d) OFB has constituted a committee to examine and rationalise workload between Metallurgical Group of Factories, considering the core technologies and futuristic product range.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

### **Comments of the Committee**

(Please see para 10 of Chapter I)

### **Recommendation (Para No. 2.5)**

The Committee note that Ordnance Factory Board (OFB) was constituted in 1979 in order to ensure cohesiveness and coordinated approach in the working of Ordnance Factories. It comprises, besides Director-General, nine members, five heading each of the five operating divisions of Ordnance Factories and four responsible for staff functions viz. Personnel, finance, planning and management, project and engineering and technical services. The Committee feel that in view of the rapid technological advancement taking place the world over in defence sector and the export potential of the defence equipment, there is a need to redefine the role of OFB to enable it to keep pace with the changing requirements and also to tap the vast export market. There is also a need to restructure OFB by including therein experts with proven records in marketing and international trade, who may give an export orientation to the indigenously manufactured defence products and make effective strategy for their export in the niche market. The Committee, therefore, recommend that a high level Committee should be constituted to go into the functions and organisational structure of OFB and give its recommendations on restructuring of OFB to make it a more professional and dynamic body responsive to the present day needs.

### **Reply of the Government**

MoD had already constituted a High Level Committee under the Chairmanship of Dr. Vijay Kelkar to examine the changes required to facilitate Ordnance Factories to assume the role of designer and integrator for product development and production. The committee has submitted the report, which is being examined in MoD.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]



### **Comments of the Committee**

(Please see para 14 of Chapter I)

#### **Recommendation (Para Nos. 3.6 and 3.7)**

The Committee note that with the creation of Ordnance Factory Board (OFB), Ordnance Factories have been given some autonomy and flexibility in their functioning and management. Still, the Committee feel that greater autonomy is required to be given to the Management of OFB. Keeping in view the wide range of changes taking place the world over and requirement of specialisation in the complex defence field, the Committee desire that the Government must change its policy and give greater autonomy to the Ordnance Factories in the field of vendor development, in-house R&D activities, product improvement and making financial and commercial decisions on the lines of Public Sector Undertakings. This will enable them to enter into MoU with Indian and foreign companies for co-development and co-production of items, giving enormous scope for diversification of their product profile and attracting huge markets.

The Committee feel that more functional and financial autonomy to Ordnance Factories will help in ensuring desired results, fixing greater accountability and maintaining better financial management. The Committee, therefore, hold the view that gradually, the Ordnance Factories may be converted into PSUs so that they may have access to finances from the market, etc. At the same time, care should be taken by the government to ensure that this arrangement of financial access does not lead to any reduction in the budgetary allocation to the Ordnance Factories and OFB.

#### **Reply of the Government**

MoD has transferred the responsibility of vendor development to ordnance factories. OFB has also been authorised to conduct in-house R&D for product improvement and development of new products. The accounting system followed by the ordnance factories is being reoriented towards a commercial accounting format. This change will enable the ordnance factories to perform financial management functions more effectively.

Ordnance Factory Board enjoys considerable autonomy in day-to-day functioning. However, the autonomy in taking financial decisions gets restricted as ordnance factories function as Government department within the purview of general financial regulations.

MoD had constituted a Committee under the Chairmanship of Dr. Vijay Kelkar, to examine the change required to facilitate ordnance factories to build consortium of industries around them for product development and production. The Committee has submitted its report and has recommended Corporation of OFB. The recommendations of the Committee are being examined in MoD.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

### **Comments of the Committee**

(Please see para 19 & 20 of Chapter I)

### **Recommendation (Para No . 5.7)**

The Committee note that creation /utilisation of production capacity is exclusively driven by the requirements projected by the Defence Forces and the remaining surplus capacity is utilised for meeting the requirements of the non-defence sector. The Committee also note that some idle capacity is maintained by the Ordnance Factories to take care of the surge in demands of the Defence Forces in an emergent war situation.

The Committee are of the view that the idle capacity should be utilized fully for catering to the International export market; and in case any emergent situation arises, the entire capacity can be fully utilized to meet the requirements of the Defence Forces. This will help in ensuring increased productivity, optimum resource and capacity utilization and better quality of the products, thereby making them more competitive. In this connection, the Committee also stress that the Ordnance Factories should concentrate on specialized and high-end defence products.

### **Reply of the Government**

Product range of Ordnance Factories largely caters to the requirements of conventional warfare. These armaments are available the world over and are manufactured by many companies. The scope of exports is further limited, because of restriction on export of products being made with imported technology. Scope of export also gets limited due to the policy/of negative list of countries where defence exports are not permitted. OFB aims to develop high end products, having potential for supply to both internal and overseas market, through co-

development and co-development and co-production route. Concurrently, constant endeavour is made to maximise utilisation of installed capacity by increasing supply to non-defence sector.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

#### **Comments of the Committee**

(Please see para 24 of Chapter I)

#### **Recommendation (Para No . 5.8)**

The Committee are concerned about the delay in production of Arjun Tanks and hope that the obstacles coming in the way of final production of Arjun Tank would be taken care of by the Defence Ordnance Factory in coordination with the DRDO and the shortcomings would be corrected expeditiously so that the supply of required number of Tanks could be provided to the user as envisaged.

#### **Reply of the Government**

Main Battle Tank Arjun is under limited series production at Heavy Vehicle Factory, Avadi. Certain teething problems are being faced in the initial stages. Technical expertise of DRDO, as designer, is needed to resolve the problems. Keeping this in view, representatives of DRDO are deputed at HVE, Avadi. Further, interaction with Combat Vehicle Research & Development Establishment/DRDO, covering the areas of process guidance, technical clarification, quality assurance, defect investigation and remedial measure incorporation, is held regularly.

Production of MBT Arjun is also monitored regularly by a working committee constituted with the representative of User, producer and designer to steer productionisation. Steering Committee with Secretary (DP) as Chairman, SA to RM as co-chairman and representatives from User, DRDO and OFB as members also monitors the production of the tank.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

#### **Comments of the Committee**

(Please see para 28 of Chapter I)

**Recommendation (Para No . 6.12)**

The Committee note that there is a constant need for upgradation and modernisation of Ordnance Factories in order to enable them to meet the Defence Forces' demands for high quality ammunition and reliable products keeping pace with the latest technology. In this connection, a capital investment of Rs. 3297 crore was planned during the 10th Plan against Rs. 1062 crore invested during the 9th Plan. The planned amount includes Rs. 1804 crore for modernisation and Rs. 1493 crore for new facilities. The Committee are, however, surprised to note that during the first three years of the 10th Plan i.e. from 2002 to 2005 the actual investment made is only Rs. 847 crore as per the annual requirement projected by OFB. The Committee would like that the full amount for modernisation is utilised during the remaining period of the 10th Plan.

**Reply of the Government**

The Capital investment of Rs. 3297 crores includes investment of Rs. 531 crores propellant/explosive. The Nalanda project had been put on hold and an expert committee had been constituted by MoD to conduct a detailed review of the OF Nalanda project. The expert committee has submitted the report, which is being examined in MoD. Investment for creation of additional facilities for manufactures of propellant/explosives is being reviewed in the light of change in product mix and reluctance of overseas plant & machinery manufactures to provide technology. OFB expects to achieve the investment of Rs. 1348 crores on modernisation during X Plan period.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

**Comments of the Committee**

(Please see para 31 of Chapter I)

**Recommendation (Para No . 6.14)**

The Committee, during their recent study visit to the High Explosive Factory and Ammunition Factory at Khadki, Pune observed that several machineries and plant are quite old in High Explosive Factory, Khadki and need immediate replacement for security of the plant and to improve efficiency and meet the production targets. The Committee, therefore, recommend that the Ministry should strive to replace the ageing machineries and equipment in a time-bound manner with state-of-the-art technology.

The Committee would like the procedures for purchase of plants & machinery by the Ordnance Factories to be simplified. The Ordnance Factory Board should be given full powers to procure plant & machinery subject to budget provision and availability of funds.

#### **Reply of the Government**

Views of Standing Committee are noted for action. The issue related to further delegation of financial powers to OFB for procurement of plant and machinery is being examined in MoD.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

#### **Comments of the Committee**

(Please see para 36 & 37 of Chapter I)

#### **Recommendation (Para No . 6.15)**

The Committee stress that restructuring of the production system of Ordnance Factories is the need of the hour. The Armed Forces should prepare a Long Term Integrated Perspective Plan (LTIPP) as already recommended by this Committee, projecting clearly their present and future requirements so that the Ordnance Factories may also draw up their modernisation plan accordingly. The modernisation plan of the Ordnance Factories should address not only the issue of increase in productivity but also matters relating to the range and quality of products to meet the new requirements. The Committee recommend that to minimise imports, users should be fully involved in the preparation of vision document. In this connection, Government should immediately appoint an expert group on the perspective plan which should submit its report within six months from the date of presentation of this report.

#### **Reply of the Government**

Armed forces share the medium term perspective plan covering a period of 5 years for capital acquisition with OFB.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

#### **Comments of the Committee**

(Please see para 40 of Chapter I)

### **Recommendation (Para No. 6.16)**

The Committee note that entry of private sector in defence production, especially in non-combat items has posed new challenges before Ordnance Factories. The Ordnance Factories which had complete monopoly over production of defence equipment and items will now have to be more competitive and cost effective in order to maintain their dominant position. They will have to undertake modernisation programme in a broader way. If necessary for the purpose, the government may also allow them to raise financial resources from the market. In this context, the Committee also desire the government to examine the feasibility of shutting down ageing and non-revivable Ordnance Factories/Plants. The labour working in these factories may be absorbed in other Ordnance Factories or Voluntary Retirement Scheme (VRS) offer may be given to them.

### **Reply of the Government**

Modernisation of infrastructure, matching with requirement projected by Defence Forces is being done continuously. OFB is a government department, under the aegis of Department of Defence Production. Therefore, the Board do not have the mandate to access the market for finance under the present structure. All the ordnance factories are being given importance by the OFB for modernisation. Workload is distributed judiciously and new products are introduced in the factories to ensure that the capacity is gainfully utilized.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

### **Comments of the Committee**

(Please see para 44 of Chapter I)

### **Recommendation (Para No. 8.8)**

The Committee note that the Ordnance Factory Board has taken certain initiatives to exercise effective control over increase in the prices of Defence products. The Committee feel that the productivity and scale of production are the crucial issues which need to be stressed upon to contain the sharp increase in prices. The Committee, therefore, recommend that the Ministry should strive to achieve economy of scale in Defence Production in the wake of envisaged competition from the Private Sector. Towards this end, modernisation of the existing plants & machineries and replacement of the old equipment in the

factories are required to be taken up on priority. These steps will enable Ordnance Factories to participate in global tenders in a competitive manner.

The Committee understand that Ordnance Factories are providing defence products to armed forces on cost-to-cost basis. The Committee also understand that Ordnance Factories do not have sufficient funds for modernisation of the plants and machineries. The Committee, therefore, desire that on sale of products to armed forces Ordnance Factories should be allowed to have a fixed percentage of profit which may be used for modernisation / upgradation of these factories.

### **Reply of the Government**

The present policy does not permit ordnance factories to retain surpluses generated out of supplies to customers. Change in pricing policy by building in a fixed percentage of profit in sale price would require change in procedures.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

Regarding the change in pricing policy by building in affixed percentage of profit in sale price would require change in procedure, the Ministry has stated :

“In this regard, it is stated that till the Ordnance Factory Board remain a Government Department, it has to function on ‘No profit no loss’ basis, as far as supply to Defence Forces are concerned. For non-defence supplies, a suitable margin of profit is added. It is expected that the pricing system will be streamlined, when the proposal on professional accounting in OFB is implemented.”

In regard to Balance Sheet in Ordnance Factories is made in the line of corporate sector, if so, details thereof, if not reasons thereon, the Ministry furnished :

“As the Ordnance Factory Board is a Government Department, the balance sheet of OFB is being prepared as per Government procedures for accounting. The process of preparation of balance sheet in the line of corporate sector i.e. as per commercial sector i.e. as per commercial accounting procedure, is now finalised and will be implemented on approval of competent authority.”

### **Comments of the Committee**

(Please see para 49 of Chapter I)

## **R & D Activities in Ordnance Factories**

### **Recommendation (Para No. 9.7)**

The Committee note that the Ordnance Factories are giving thrust to in-house R&D efforts in order to develop new products. The Committee are, however, constrained to note that the investment made on R&D during the last five years has been negligible, with the result that no major project or upgradation activities could be undertaken out of the allocated funds. Most of the projects being undertaken by Ordnance Factories are through acquisition of technology from DRDO or by import and there has been very little achievement in developing new products through in-house R&D. The Committee desire that Ordnance Factories should change their role from technology recipients to technology producers through more emphasis on in-house R&D.

### **Reply of the Government**

Ordnance Factories being a production organisation do not have infrastructure for conducting ab-initio research. They depend on developing new products and upgrades in synergy with technology providers. To enable Ordnance Factories to build infrastructure for in-house R&D, following proposals are being examined in MoD:

- Enhanced delegation of financial power to OFB for R&D
- Allowing OFB for training (including overseas training) of personnel in key technology areas.
- Sufficient freedom for appointment of consultant, as expert assistance in R&D projects.
- Setting up a proof range for evaluation of products.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

On a specific question about the efforts have been made to develop adequate infrastructure for conducting ab-initio research and the allocation and expenditure to be made thereon. The Ministry have furnished the following :

“Indian Ordnance Factories are traditionally production agencies and do not have mandate to conduct ab-initio Research. Basic Research & Development responsibility for production of Defence products rests with DRDO. However, to enable OFB, to develop and create adequate infrastructure for Research and Development



activities for products up-grade on existing products and new products developments, MOD has issued orders, giving full financial powers to OFB, within the Budget provisions in this regard in December 2006. OFB has been asked to formulate appropriate R&D policy, which specifies allocation of expenditure in the areas of process and product improvement, cost reduction and product development etc.”

Regarding the present status to enable Ordnance Factories to build infrastructure for in-house R&D, the Ministry have furnished the following :

“To build required infrastructure for carrying out product and process improvement and development of new products, OFB have been delegated with full powers, within the Budget provisions. Besides, full powers are also delegated for procurement of required inputs/raw materials and components for such activities. For procurement of Machinery & Equipments, powers have been delegated upto Rs. 50 crores in each case and Rs. 3 crores in each case for single tender and proprietary items. OFB has also been delegated the financial powers to engage the consultants/specialists of their choice up to Rs. 2 crores per annum for sanctioned project and Rs. 1 crore per annum in other cases.”

#### **Comments of the Committee**

(Please see para 54 of Chapter I)

#### **Outsourcing to Private Sector**

##### **Recommendation (Para No. 11.7)**

The Committee note that Defence Production Industry has come a long way from being reserved entirely for the public sector and is moving towards greater participation from the private sector. The Committee are happy to note that keeping in view the capabilities of private sector, the work of the value of Rs. 2500 crore per annum is being outsourced to them. The Committee, desire that Ordnance Factories should strive to outsource more work in those areas where there is sufficient capability of private sector and retain production of only high-end items. The Committee at the same time stress that Ordnance Factories during the process of outsourcing must ensure strict adherence to the stringent quality standard of the outsourced products.

### Reply of the Government

Views of the Committee are noted for implementation.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

During the oral evidence before the Committee, the representatives of Trade Unions Forum on implementation of Kelkar Committee Report and encouragement of private sector in Defence Production, R&D, they submitted the following for consideration :-

“The composition of Kelkar Committee itself is questionable as it did not include the major stake holder i.e. the employees. The report is totally flawed in its approach when instead of reducing import through strengthening the existing public sector defence industry, it has embarked upon a policy of giving maximum space to private sector in Defence. It has given undue stress on export of arm which is not a sphere where country like India would try to project itself like USA or Israel.

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Kelkar Committee report unabashedly pleads for entry of private sector at every level, not as a supplementary player, but as a major player, creating “Raksha Utpadan Ratna” in private sector, with public fund assured to private sector in the name of R&D for earning profit through defence exports that too with tax concession.

It deprives DPSUs and OFB of a level playing field with private industries. OFB and DPSUs are captive industries of defence services. Unless they reach optimal capacity utilisation, technological upgradation and necessary autonomy, the question of so called competition with private sector does not arise.

Private sector, would be mostly in collaboration with foreign firms under the cover of Indian private sector. Defence MNCs would be given a straight forward entry in the most strategic area of the country. This will jeopardise country’s security. With spectre of terrorism looming large, a free access to private sector both Indian and foreign in arms and ammunition manufacturing would be a serious security hazards for the country.”

On being asked by the Committee regarding capacity utilisation and Order Book position and outsourcing of work to private sector by

the Ordnance Factories, the representative of Trade Unions/Forum stated as under:

“It is that in spite of the fact that the PSUs or the Ordnance Factories have the capabilities, they are not being utilized as in the case of Hindustan Aeronautics Limited. I am not quoting from my figures. It is a figure from the C&AG. Where the capacity is there, even that capacity is being outsourced and tomorrow the RURs will be placed position.

..... The recommendation that you had made in the seventh report that in all ordnance factories you must have an assessment of their capacity, the technology and their upgradation. That is not being done. What is being done is that instead of doing that, their capacity is being under-utilised and you are giving orders to the private sector. That is my point.”

He further stated :

“.....We have no quarrel about quality and time. These are the factors for any unit to develop. Lastly, we would sum up with the request that please see that the existing orders and existing capacity is totally utilized before passing it to anyone else. Please put pressure on the Government on this issue.”

#### **Comments of the Committee**

(Please see para 65 & 66 of Chapter I)

## **CHAPTER V**

### **RECOMMENDATIONS/OBSERVATIONS IN REPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED**

#### **Recommendation (Para No. 10.9 & 10.10)**

The Committee note that since the commencement of organised export in 1989, value of export has been minimal over the last five years. Export orders have generally been from the neighbouring countries. The Committee note that as of now OFB's export market is largely of conventional items where a large number of players are making it tough and competitive for Indian products to make their presence felt. The Committee also note that the export market of OFB products also suffers due to their non-compatibility with NATO specifications. Despite continuous efforts of OFB to give wide publicity to boost up exports, physical increase in quantum of export is insignificant. At present, no board or institution has been created within the OFB supervision to promote exports of defence products.

The Committee, therefore, recommend that the Indian Ordnance Factories should strive to diversify their product range to grab the customer base in non-conventional arms segment of export market. Keeping in view the requirements of NATO compatible items in international market, the specifications of more and more indigenous items should be planned to cater to the export market, in addition to the Indian requirements. The OFB should also take earnest initiatives to create an Export Promotion Board under their supervision and entrust it with the task to explore optimal possibility of export and to suggest ways and means to boost the export of Ordnance Factories' products, create infrastructure necessary for export market and help in achieving the aim of Indian Ordnance Factories to establish themselves as a brand leader in the world market. As recommended in earlier paragraphs, the Committee desire that Ordnance Factory Board should have experts from international trade and marketing fields also who can play an effective role in preparing strategy to tap the vast export market for armaments / ammunitions and other defence products.

#### **Reply of the Government**

The need for setting up an institution for marketing of products of OFB at the global level has been felt by OFB. A proposal for setting

up Ordnance Factories Marketing Corporation has been forwarded by OFB, which is being examined by the MoD. This organisation can employ the services of specialists from international trade and marketing fields.

[Ministry of Defence OM No. H-11013/30/2005/D(Parl)  
dated 23.03.2006]

### **Comments of the Committee**

(Please see para 60 of Chapter I)

NEW DELHI;  
11 July, 2007  
20 Asadha, 1929 (Saka)

BALASAHEB VIKHE PATIL,  
*Chairman,*  
*Standing Committee on Defence.*

MINUTES OF TWENTIETH SITTING OF THE STANDING  
COMMITTEE ON DEFENCE (2006-2007)

The Committee sat on Monday, the 12th February 2007 from 1100 to 1430 hrs. in 'Main' Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – *Chairman*

MEMBERS

*Lok Sabha*

2. Shri S. Bangarappa
3. Shri Santosh Kumar Gangwar
4. Dr. K.S. Manoj
5. Shri Asaduddin Owaisi
6. Shri Adhalrao Shivaji Patil
7. Shri Mahadeorao Shiwankar
8. Shri Rajesh Verma

*Rajya Sabha*

9. Dr. Farooq Abdullah
10. Shri Abu Asim Azmi
11. Shri R.K. Dhawan
12. Smt. N.P. Durga
13. Shri K.B. Shanappa

SECRETARIAT

1. Shri P.K. Bhandari — *Joint Secretary*
2. Shri Gopal Singh — *Director*

WITNESSES

**REPRESENTATIVES OF MINISTRY OF DEFENCE**

1. Shri Shekhar Dutt - Defence Secretary
2. Shri K.P. Singh - Secretary (DP)

3. Dr. M. Natarajan - SA to RM
4. Shri S. Banerjee - DG (ACQ)
5. Shri V.K. Mishra - Secretary (Def. Fin.)
6. Dr. (Mrs.) Rekha Bhargava - Special Secretary (B)
7. Shri P.K. Rastogi - Addl Secy. (B)
8. Dr. W. Selvamurthy - CCR&D (LS&HR)
9. Shri Gautam Chatterjee - JS (O/N)
10. Shri Binoy Kumar - JS (E)
11. Shri Harcharanjit Singh - Secy (BRDB) / JS (ESW)
12. Shri S.N. Mishra - Addl FA(M)
13. Shri Alok Perti - JS (SY)
14. Dr. (Mrs.) Kiran Chadha - JS (X)
15. Shri T. Ramachandru - JS (S)
16. Shri Ranjan Chatterjee - JS (HAL)
17. Shri Mohd. Haleem Khan - Addl FA (H)
18. Smt. Anuradha Mitra - Addl FA (AM)
19. Shri Amit Cowshish - Addl FA (A)
20. Shri S. Ghosh - Chairman/OFB
21. Shri V. Somasudaram - JS (OF)
22. Shri B. Saha - Secy, OFB
23. Shri Sharad Ghodke - OSD (P)
24. Shri Ashok K. Baweja - Chairman, HAL
25. Shri V.R.S. Natarajan - CMD, BEML
26. Shri M. Narayana Rao - CMD, MIDHANI
27. Shri VVR Sastry - CMD (BEL)
28. Rear Adm (Retd.) A.K. Handa - CMD, GSL
29. Rear Adm T.S. Ganeshan - CMD, GRSE
30. Vice Admn S.K.K. Krishnan - CMD, MDL
31. Maj. Gen (Retd.) R. Gossain - CMD, BDL
32. Shri PRK Hara Gopal - Dir (Fin.), BEL
33. Shri SK Mehta - Dir (R&D), BEL
34. Shri Devjit Ghosh - LO. MIDHANI
35. Commdt. Sunil Mane Sinde - CM, GSL
36. Shri Yogesh Sharma - Regional CM, MDL

|                                   |                       |
|-----------------------------------|-----------------------|
| 37. Commander Hardev Inder        | - IN (Retd.), Addl GM |
| 38. Lt. Gen. HS Lidder            | - CISC                |
| 39. Lt. Gen. Deepak Kapoor        | - VCOAS               |
| 40. V. Adml. Nirmal Verma         | - VCNS                |
| 41. Air Mshl AK Nagalia           | - DCAS                |
| 42. Lt. Gen. SS Dhillon           | - MGO                 |
| 43. Lt. Gen. Thomas Mathew        | - AG                  |
| 44. Air Mshl VR Iyer              | - AOP                 |
| 45. Vice Adml Sunil K. Damle      | - COP                 |
| 46. Surg Vice Adml VK Singh       | - DGAFMS              |
| 47. Lt. Gen. LP Sadhotra          | - DGMS (Army)         |
| 48. Air Marshal HK Maini          | - DGMS (Air)          |
| 49. Surg Vice Adml Yogendra Singh | - DGMS (Navy)         |
| 50. Maj. Gen. Suresh Chandra      | - Addl DGAFMS         |
| 51. Maj. Gen. J. Jayram           | - Addl DGAFMS (MR)    |
| 52. Maj. Gen. R.K. Kalra          | - MD-ECHS             |
| 53. Maj. Gen. A.K. Mehra          | - ADG WE              |
| 54. AVM N. Vijaya Kumar           | - ACAS (FP)           |
| 55. R. Adml. R.K. Dhowan          | - ACNS(P&P)           |
| 56. Brig. Kunwar Karni Singh      | - Dy. DGAFMS (P&T)    |
| 57. Brig. Satish Malik            | - Dy. MD-ECHS         |
| 58. Col. A.K. Verma               | - Dir MS (H)          |
| 59. Col. Pawan Kapoor             | - Dir AFMS (P)        |
| 60. Col. G. Ghosh                 | - Dir. ECHS           |
| 61. Lt. Col. SI Subhani           | - CRD Cell            |
| 62. Capt. Abhishek Saxena         | - SO to VCOAS         |
| 63. Shri S. Ahuja                 | - INAS, DGONA         |

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Defence to the sitting of the Committee and drew their attention to Direction 58 of Directions by the Speaker, Lok Sabha.

3. The Committee then took evidence of the representatives of Ministry of Defence on Action Taken Replies furnished by the Ministry of Defence on Seventh Report on 'Defence Ordnance Factories'.



4.      \*\*                          \*\*                          \*\*                          \*\*

5.      \*\*                          \*\*                          \*\*                          \*\*

6. The Committee thereafter sought clarifications on the Action Taken Replies to the observations/recommendations contained in the Seventh Report on 'Defence Ordnance Factories' to which the representatives of the Ministry of Defence answered one by one.

*The witnesses then withdrew*

7. The verbatim record of the proceedings was kept.

8.                   \*\*                   \*\*                   \*\*                   \*\*

9. The Committee then authorised the Hon'ble Chairman to finalise the report and present the same to the Parliament.

*The Committee then adjourned.*

\*\*Not related to the subject.

MINUTES OF THIRTY-THIRD SITTING OF THE STANDING  
COMMITTEE ON DEFENCE (2006-2007)

The Committee sat on Wednesday, the 06th June 2007 from 1100 to 1215 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Santosh Kumar Gangwar
3. Shri C. Kuppusami
4. Dr. K.S. Manoj
5. Dr. H. T. Sangliana
6. Shri Rajesh Verma

*Rajya Sabha*

7. Shri Abu Asim Azmi
8. Shri R.K. Dhawan
9. Shri K.B. Shanappa
10. Smt. Viplove Thakur

SECRETARIAT

- |                       |   |                            |
|-----------------------|---|----------------------------|
| 1. Shri P.K. Bhandari | - | <i>Joint Secretary</i>     |
| 2. Shri Gopal Singh   | - | <i>Director</i>            |
| 3. Shri D.R. Shekhar  | - | <i>Deputy Secretary-II</i> |
| 4. Smt. J.M. Sinha    | - | <i>Under Secretary</i>     |

WITNESSES

**LIST OF NON-OFFICIALS**

1. Shri Dipankar Mukherjee, Ex-M.P., Convenor, Trade Union Forum for Self-reliance in Defence, New Delhi

2. Shri A.D. Nagpal, Secretary, HMS, New Delhi
3. Shri S.N. Pathak, President, AIDF, New Delhi
4. Shri C. Srikumar, General Secretary, AIDF, New Delhi
5. Shri Saila Bhattacharya, General Secretary, AIDF, New Delhi
6. Shri D. Ananthapadmnabha, Coordinator, JAF, Bangalore
7. Shri S. Prasanna Kumar, Convenor, JAF, Bangalore
8. Shri Sukumaran Pillai, General Secretary, BEL Worker's Union
9. Shri Laxman Gauda, Working President, BEWUF
10. Shri S.R. Viswanath, President, HAEA, Bangalore
11. Shri Jagdish, President, BEML Employees Association, Mysore
12. Shri R. Sadanandan, General Secretary, BEL Head Office Staff Association, Bangalore
13. Shri V. Prabhakar, President, Bharat Electronics Employees Union, Hyderabad
14. Shri Rudresh, General Secretary, BEML Staff Association, Bangalore
15. Shri J. Ramesh, Joint Secretary, BEMEA, KGF
16. Shri M. Shrinivasa Reddy, Treasurer, BEMEA, Bangalore
17. Shri C. Narayan Swamy, Organising Secretary, HAEA, Bangalore
18. Shri C.V. Krishnappa, Joint Secretary, BEWUF, Bangalore
19. Shri Gurudayal Singh, Vice President, INDWF (INTUC), Dehradun

2. At the outset, Hon'ble Chairman welcomed the representatives of various Trade Unions/Employees Unions of Defence Public Sector Undertakings to the sitting of the Committee to render oral evidence/suggestions on the subjects ordnance factories and Defence Public Sector undertakings and drew their attention to Direction 58 of Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting of the Committee.

3. The representatives of Trade Union Forum for self-reliance in Defence mentioned the following points before the Committee :

- (i) The moto of the Trade Union is to ensure self-reliance.
- (ii) In the name of creating Rakha Utpadana Ratna, the Government should not outsource to Private Sector.
- (iii) Under-utilisation of the capacity in Ordnance Factories/ Defence Public Sector Undertakings.

- (iv) There must be full capacity utilisation, technological upgradation and improvement in-house production before going for outsourcing the work to private sector. They did not express reservation on entering into joint venture with the private sector/foreign company for upgradation of technology etc.
- (v) There must be an assessment of internal production capabilities and upgradation and also give autonomy to these institutions.
- (vi) They sighted many cases where low technology orders were given to private firms but they had failed to produce the quality items as per the requirement.

*The witnesses then withdrew*

4. The verbatim record of the proceedings was kept.

*The Committee then adjourned.*

MINUTES OF THIRTY-FOURTH SITTING OF THE STANDING  
COMMITTEE ON DEFENCE (2006-2007)

The Committee sat on Tuesday, the 12th June 2007 from 1500 to 1600 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Santosh Kumar Gangwar
3. Dr. K.S. Manoj
4. Shri Asaduddin Owaisi
5. Shri Rajendrasinh Ghans mhyamsinh Rana (Raju Rana)
6. Dr. H. T. Sangliana

*Lok Sabha*

7. Shri Jai Prakash Aggarwal
8. Shri Abu Asim Azmi
9. Smt. N.P. Durga
10. Shri K.B. Shanappa
11. Shri Arun Shourie
12. Smt. Viplove Thakur

SECRETARIAT

- |                       |   |                             |
|-----------------------|---|-----------------------------|
| 1. Shri S.K. Sharma   | - | <i>Additional Secretary</i> |
| 2. Shri P.K. Bhandari | - | <i>Joint Secretary</i>      |
| 3. Shri Gopal Singh   | - | <i>Director</i>             |
| 4. Shri D.R. Shekhar  | - | <i>Deputy Secretary-II</i>  |
| 5. Smt. J.M. Sinha    | - | <i>Under Secretary</i>      |

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee. The Committee then took up for consideration

the draft Action Taken Report on the recommendations/observations contained in the Seventh Report of the Committee (14th Lok Sabha) on 'Defence Ordnance Factories'. The Committee after deliberation adopted the draft Action Taken Report with some additions/modifications.

3. The Committee then authorised the Hon'ble Chairman to finalise the report and present the same to both the Houses of Parliament.

*The Committee then adjourned.*

## APPENDIX

### ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE 7TH REPORT OF THE STANDING COMMITTEE ON DEFENCE (FOURTEENTH LOK SABHA) ON 'DEFENCE ORDNANCE FACTORIES'

|       |   | Percentage<br>of Total |
|-------|---|------------------------|
| (i)   | Total number of recommendations   | 29                     |
| (ii)  | Recommendations/Observations which have been accepted by the Government:<br>(Para Nos 2.6, 2.7, 4.4, 6.13, 7.8 to 7.10, 8.9, 9.8, 10.11, 12.6, 12.7, 13.6 and 13.7)                                       | 14      48%            |
| (iii) | Recommendations/Observations which the Committee do not desire to pursue in view of Government replies<br><br>NIL   | —      —               |
| (iv)  | Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:<br>(Para No. 1.7, 2.5, 3.6, 3.7, 5.7, 5.8, 6.12, 6.14, 6.15, 6.16, 8.8, 9.7 and 11.7) | 13      45%            |
| (v)   | Recommendations/Observations in respect of which final replies of Government are still awaited:<br>(Para Nos. 10.9 and 10.10)   | 2      7%              |