TWENTY-SIXTH REPORT
COMMITTEE ON PUBLIC UNDERTAKINGS
(1986-87)

(EIGHTH LOK SABHA)

COCHIN SHIPYARD LIMITED

MINISTRY OF SURFACE TRANSPORT

Presented to Lok Sabha on 24-4-1987

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LOK SABHA SECRETARIAT
NEW DELHI

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(1986-87)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present the Twenty-Sixth Report on Cochin Shipyard Limited.

2. The Committee's examination of the working of the Company was mainly based on the Report of the Comptroller and Auditor General of India, 1984, Union Government, (Commercial) Part V.

3. The Committee took evidence of the representatives of Cochin Shipyard Limited on 1, 2 and 3 September, 1986 and also of the representatives of the Ministry of Surface Transport on 12 and 13 January, 1987.

4. The Committee considered and adopted the Report at their sitting held on 15 April, 1987.

5. The Committee wish to express their thanks to the Ministry of Surface Transport and Cochin Shipyard Limited for placing before them the material and information they wanted in connection with examination of the Company. They also wish to thank in particular the representatives of the Ministry of Surface Transport and the Undertaking who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation of the assistance rendered by the Comptroller and Auditor General of India.

NEW DELHI;
April 21, 1987
Vaisakha 1, 1909 (*Saka*)

K. RAMAMURTHY
Chairman
Committee on Public Undertakings

CHAPTER I

Background

The Cochin Shipyard was established with Japanese assistance by the Government of India. The other shipyards in the country which belong to the Government of India were all acquired by the Government at a certain point of time. But this was the only Shipyard created by the Government of India as a fresh investment with the Japanese collaboration. The Cochin Shipyard Limited was incorported on 29 March, 1972 as a fully owned central Government company and it took over the assets and liabilities of the Cochin Shipyard Project.

Objectives and Corporate Plan

1.2 The Government of India asked all Public sector undertakings in November, 1970 and in May, 1979 to formulate their financial and economic objectives/obligations early. The Cochin Shipyard Ltd. has not formulated its objectives so far. However, a draft Corporate plan of the Company was submitted to the Government of India in August, 1978. The Government of India wrote to Cochin Shipyard Ltd. in November, 1979 that "The Ministry of Finance (Bureau of Public Enterprises) were of the opinion that it would be useful to discuss the Corporate Plan of Cochin Shipyard when the Yard is fully commissioned. Till that time it might not be possible to take a view as to the corporate capabilities strength of various shops, competence developed to achieve certain targets etc." The Corporate Plan has not been reappraised (March, 1986) though the Shipyard had been fully commissioned by 1981-82.

1.3 The Committee enquired how, in the absence of clearly defined objectives, was it possible for the Ministry to evaluate the performance of the Company. In a note, the Ministry have stated:

> "The performance of the Company is evaluated by the Ministry based on the projects and rated capacity of the shipyard for shipbuilding given in the revised Projects Report by MHI. However, the constraints faced by the Company are also kept in view while evaluating the performance of the Company."

1.4 During evidence the Committee pointed out that even though all the public sector undertakings had been asked by BPE in 1970 and again in 1979 to formulate a statement of their objectives and obligations, the Cochin Shipyard had not done so. The Committee also pointed out that in the peculiar situation in which the Shipyard was placed right from the beginning, it was all the more necessary to have a clear cut direction in regard to the course the Cochin Shipyard was required to follow. To a question why the Ministry of Surface Transport failed to impress upon the Company the need to prepare a memorandum of objectives, the Secretary of the Ministry replied during evidence as under :—

> "One can roughly say that 1981 is the completion day. Thereafter, the Ministry was really confronted with situation where orders were not forthcoming. Whetever objectives one may lay down a long term objective planning would not have been possible in the recessionary situation. That is why, it has not been laid down. But we have laid down the short term objectives. In 1985, the shipyard had practically no work in their hands. The orders for tankers have since been placed with them. With this fluid situation of instability an unlikelihood of getting orders because of the conditions in the shipping industry, laying down certain corporate objectives would not have got any results."

1.5 On being pointed out that in view of the situation obtaining the world over, it was necessary to at least frame short-term objectives for proper direction of the shipyard, the witness stated:

> "Your concerns are very genuine. But we are confronted with a situation which represents a changing scenario as to the short-term objectives.
>
> .....Government has to consider what should be done. The Secretaries Committee had also considered these matters. We are now going to the Cabinet. The situation which emerges after studying the situation in the entire world is that shipyards would not, in the foreseeable future, be capable of running on profit. If profit is the only motive, Government can as well close them down. We are going to the Cabinet on this issue, to seek directions, because it was considered that for strategic and economic reasons we had to keep these shipyards running i.e. for the country's own technological advancement in this field, so that in times of emergency or otherwise, and for strategical considerations, we would have our own capability to build ships. On that we are going to the Cabinet, for this very purpose. After this is cleared, we intended to lay down the objectives. These objectives have to be cleared, because certain guidelines had been given

viz. that the public sector units must be profitable, competitive etc. All these have not only been examined by us. but also by the Secretaries Committee. There is a collective thinking that in view of the shipping scenario existing in the world, the capability for running them on profit is just not there."

1.6 On an enquiry why the Corporate Plan of the Company has not been reappraised, the Ministry of Surface Transport has stated in a note as under :—

"Reappraisal of the Corporate Plan of the Comapany has been delayed for various reasons namely, delay in completion of the Project itself and the apprehension that the rated shipbuilding capacity fixed for the Yard, namely 150000 DWT, may not be attainable and may have to be reassessed and refixed on a realistic basis without which long term projections may not serve any useful purpose since objectives/obligations laid down may not be attainable. Steps have been taken to assess the position in detail to enable the formulation of the Corporate Plan.

Even though reappraisal of the Corporate Plan of the Company has not been completed, the company operates on the basis of long term and short term plans in respect of shiprepair, shipbuilding and diversification activities."

1.7 In another note, the Ministry have stated:

"While short term plan of Cochin Shipyard has been drawn in past/is regularly being drawn the long term plan has been confined, to shipyard achieving its rated capacity of two ships of 75,000 DWT each, by 10th year of production and on building 11 ships as per Revised Project Report. It may be mentioned as a result of world-wide shipping recession, long term planning for the types of ships required by shipping companies has also not been feasible. While CSL was proceeding with the plan for construction of 67,000 DWT vessels, SCI cancelled the letter of intent because of unviability in operating the Bulk Carrier of that size. This led to shipyard facing production gap as they had to depend upon finalisation of SCI's fresh acquisition programme of 86,000 DWT tankers. In such fluctuating shipping scenario, the formulation of long term corporate plan becomes all the more difficult.

However, to have long term planning, matter has been taken up with Naval H.Q. as well to link their production requirement with the available ships building capacity in the indigenous Yards including CSL.

In the field of shiprepairs, the corporate plan is being followed based on the Project Report of IHI, Japan.For better utilisation of their Repairs Dock, Government has already mooted the proposal for extension of Quay on completion of which it well fetch more revenue on account of increased shiprepair."

1.8 The Cochin Shipyard Ltd. was incorporated on 29th March, 1972 as a fully owned Central Government Company. Unlike other shipyards in the public sector, which were all acquired by Government at certain point of time, Cochin Shipyard was the only project of its kind created as a result of fresh investment made by the Government, with Japanese collaboration. The project was commenced in 1972 with an estimated cost of Rs. 40 crores and was to be completed within 5 years. The project was delayed and finally completed in 1980-81 at total cost of Rs. 130 crores. The ship building commenced in 1976 and the first ship was completed and handed over in 1981.

1.9 Even after more than a decade of its existence, it has not been possible for the Government to formulate the financial and economic objectives of the undertaking. A corporate plan drafted by the undertaking sometime in 1978 has yet to be reappraised and finalised even though the shipyard had been fully commissioned by 1981-82. In these circumstances no wonder the shipyard had been drifting without any long term plans or objectives. The level of production in the shipyard has been far too low. It has been struggling to make one ship a year against the projected capacity of two ships of 75000 DWT per annum. The total annual value of its production has been stagnating around Rs. 30 crores during the past 3 years whereas the capital investment was of the order of Rs. 130 crores. As on 31st March, 1986, the shipyard has accumulated a loss of Rs. 54.98 crores according to its latest annual report. The future is equally uncertain as unfortunately there is no long term planning for ship-building industry at the national level. The Committee feel that in the peculiar situation in which the Shipyard was placed right from the beginning, it was all the more necessary that the objectives and aims of the undertaking should have been clearly defined and approved by the Ministry for proper direction and growth of the Shipyard.

1.10 It has been stated that in the context of the shipping scenario existing in the world, a reassessment of the role of the Shipyards in the country was being made at the level of Secretaries Committee and the Cabinet. The Committee desire that this exercise should be completed without any further loss of time and the micro objectives of the Cochin Shipyard may be set out in unambiguous and clear terms as envisaged in the guidelines issued by BPE in November, 1970 and again in May, 1979. The Committee would like to be apprised of the action taken in this behalf at an early date.

1.11 The Committee find that a draft Corporate Plan of the Shipyard submitted to Government in August, 1978 has not yet been approved. The main reason given for the delay in reappraising of the Corporate Plan is that the shipbuilding capacity of the Shipyard has to be reassessed and refixed on a realistic basis, without which long term projections may not serve any useful purpose. Steps are reportedly being taken to assess the position in detail to enable formulation of the Corporate Plan. The Committee cannot but emphasise that in the larger interest of the Shipyard, where uncertainties regarding orders seem to have totally disrupted the planning process, the finalisation of the Corporate Plan should not be delayed any further. The Committee feel that specific approval of the Corporate Plan of the Shipyard by the Government was necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Shipyard should take.

CHAPTER II

ORDER BOOK POSITION

2.1 The installed capacity of CSL according to RPR is two ships a year in terms of Panamax bulk carriers of 75000 DWT. This capacity was to be achieved within ten years (from 1975). It has been stated by Audit that CSL could not achieve the rated capacity of 2 ships of 75,000 DWT each per year in a period of 10 years, considering the commencement of shipbuilding in 1976-77.

2.2 The table below compares the build-up of capacity as per RPR with the actual production since 1976-77 :

Year	Installed capacity (DWT)	Production envisaged in RPR (DWT)	Actual production (DWT)	Percentage of (2)	4 to (3)
(1)	(2)	(3)	(4)	(5)	(6)
1976-77 . .	...	18,750	9,500	...	50.66
1977-78 . .	...	26,250	10,400	...	39.61
1978-79 . .	...	36,625	10,400	...	28.40
1979-80 . .	...	42,000	23,300	...	55.47
1980-81 . .	150,000	53,000	36,574	24.38	69.00
1981-82 . .	150,000	65,000	53,056	35.37	81.62
1982-83 . .	150,000	77,000	51,057	34.04	66.31
1983-84 . .	150,000	92,000	35,662	22.77	38.76
1984-85 . .	150,000	105,000	39,510	39 01	55.72
1985-86 . .	150,000	120,000	46,114	30.74	38.42

2.3 It will be seen that actual production in the shipyard was much less than the RPR targets. CSL constructed and delivered only one ship during the 5 years from 1976-77 to 1981-82 against the RPR target of 3 ships of 75,000 DWT by 1981-82. In terms of number of ships, CSL had handed over till date 3 ships and two are under construction. The average capacity utilisation of CSL vis-a-vis installed capacity for the 9 years period i.e. from 1976 when production started and upto 1984-85 was only about 30 per cent.

2.4 Not only was the capacity utilisation much below the RPR targets, there were heavy delays in contruction of vessels. The first ship (001) was delivered to SCI on 24-7-1981 as against the scheduled date of 30-6-1978. The second ship which should have been delivered in June, 1979

(revised to April, 1982) was delivered only in October, 1983. According to CSL, the cycle time for construction of the vessels so far built by Cochin Shipyard were as follows :—

Ship	Cycle Time
001	65 months
002	45 "
003	47 "
004	45 "
005	31 "(expected)

2.5 Referring to the longer cycle time involved in the construction of ships at CSL, the CMD stated in evidence :

> "We were not growing at that rate and cycle which we envisaged. Time was much longer than what was projected in RPR. In 1981-82, we did only one vessel."

2.6 On enquiry about the factors which were within the control of the shipyard but persisted and resulted in shortfall in production and longer cycle time, the Chairman & Managing Director of Cochin Shipyard stated during evidence :

> "About ship-building capacity, the Japanese have specified that we should be able to make two ships of 75,000 tonne DWT capacity. There are two operations basically in ship-building, viz. hull and then the outfit that we have on it. This would require that the hull has to be made in six months' time, and the outfit also in six months, so that in a year, two outfits and two hulls will be made i.e. two ships a year.
>
> We have been analysing as to why we are not able to do this. Basically, the Japanese report has envisaged certain pre-conditions, which are specified in the detailed project report itself. The Japanese have very clearly specified in their report that we will be adopting the same type of construction which they do in their country."
>
> This requires that at the design stage itself, the designer has to make the entire plan for the whole operation as well as the machinery, pipeline etc. which go into it. Also, for making this unit, it is not only necessary to have steel plates, but also all the equipment which go inside, the pipes and electrical and other items which go inside. They have to be put.
>
> When the Japanese gave the report, they assumed that we would go in for their system of manufacture, their method of making the blocks for the ships and also that we would adopt every detail followed by them in their country."

2.7 In regard to productivity and output in the shipyard, the CMD admitted during evidence :

"As far as productivity and output of the shipyard itself is concerned our productivity is not very good. A few years back, we had a lot of human problems in the shape of labour agitations, strikes and things like that. Now, we have been able to settle down and people are working well and our productivity is good. Unfortunately, when this is the position, we find that we are in a poor position with reference to the Order books. Once our order book position improves, we are hoping that we will have no problems, our productivity will be good and we will be able to do well both financially and physically."

2.8 It has been stated by Audit that CSL could not achieve the rated capacity of 2 ships of 75,000 DWT each per year in a period of 10 years, considering the commencement of shipbuilding in 1976-77. As CSL does not consider it possible to achieve this production with existing facilities, the Ministry has reportedly been considering a proposal to derate the installed capacity to a realistic level. On enquiry about the basis on which the Company had come to the conclusion that the RPR assumption of producing 2 ships of 75,000 DWT was unrealistic, the Ministry of Surface Transport informed the Committee in a written note as under :

"Based on the performance of the yard during the last ten years, it was essential to have detailed analysis of reasons for the reduced capacity utilisation of the yard, which ultimately has affected the financial position of the yard because of increased cost of production vis-a-vis price fixed for the vessel. In view of sustained shortfall in the envisaged capacity utilisation over the years, CSL carried out an extensive review in 1981-82 of their production system with the help of M/s. MHI Japan who were their original consultant for the Cochin Shipyard Project. Separately Government of India appointed Rear Admiral N.P. Datta, as one man Committee, to examine the lacuna, if any, in the existing production system and to suggest remedial measures in 1982-83.

Both these reviews/report confirmed that unless substantial investment in term of infrastructure and equipment to rectify the imbalances in the facilities of the yard, alongwith the deployment of larger man hours p.a. could be introduced, realisation of ultimate objective of producing two ships of 75,000 DWT each (84,000 GRT) may not be possible to be achieved in the foreseeable future. This assessment was based on the level of production achieved by the year in the past and the best that they can improve even after the imbalances on the facilities are rectified. Besides, this aspect also came up for detailed consideration in the working group on the shipbuilding and

ship repair industry for the 7th Five Year Plan (1985—90). The working group held the view that while all necessary measures may be taken by the yard to improve the overall productivity of the yard, it is necessary to have a smaller expert group to go into the various reasons of shortfall and, if necessary, reassess the installed capacity as well as production target of the yard in the light of present day situation. It was in this background, a suggestion has been made to have reassessment by a group of 3 technical experts of the technically achievable rated capacity of the yard with the facilities that they have and the level of technology that they can acquire in the near future."

2.9 Asked whether the Ministry had taken any decision on the proposal to derate the installed capacity of CSL and examined the implications of the decision to derate the installed capacity of the Company, the Ministry in a written reply stated as under :—

"So far while no decision has been taken in the proposal of derating the rated capacity of the yard, the proposal of this Ministry on the normative cost of construction has been referred by the Ministry of Finance to Bureau of Industrial Costs and Prices for a detailed study of cost of construction of ships in Indian Public Sector Shipyards. BICP Report is awaited.

If the rated installed capacity of the yard is reassessed, it would provide a more realistic base for evaluating the performance of the yard."

2.10 When enquired about the steps taken by the Ministry to ensure optimum utilisation of capacity of the yard, the Ministry of Surface Transport has enumerated the steps as under :—

"(i) As an immediate measure orders for 3 tankers of 86,000 DWT have been placed by SCI on CSL.

(ii) CSL has concluded design collaboration agreement with IHI, Japan for procurement of design for 86,000 DWT tanker.

(iii) CSL has also concluded production consultancy agreement with IHI Japan, so as to get the technology for advanced out-fitting and adopt unitised method of construction, which will help them to reduce the cycle time of construction of ship.

(iv) To help shipyard to rectify the imbalances in their facilities 7th Plan provides for funds for CSL's project of rectification of imbalances—CSL has already mooted the proposal in this respect.

(v) Besides, to provide a more realistic pricing formula, BICP is already undertaking a cost study of the construction of ships in indigenous shipyards."

2.11 The Cochin Shipyard has now received orders for construction of 3 Nos. of 86,000 DWT oil tankers from Shipping Corporation of India. The contract was signed on 30th March, 1986. As the finalisation of Collaboration agreement in design work, collection of drawings and technical data and other materials take some time and with the outfitting of ship 005 expected to be completed in February, 1987 the various facilities in shipyard would be substantially under utilised till work on the new 86,000 DWT oil tankers is taken up.

2.12 As regards the action taken to reduce the cycle time in the manufacture of tankers, the CMD stated during evidence :—

> "With the Japanese collaboration for the tankers, we are expecting very steep decrease in the cycle time and we hope to do better. We have done five vessels and the fifth vessel was on the drawing board about three or four years back, when we have the Japanese consultancy. The Japanese gave us certain recommendations regarding reduction in cycle time and we had implemented them in the fifth vessle since the other four vessels had already been either constructed or in the advanced stage of finalisation. With the implementation of the Japanese suggestions, we find that there is very large amount of reduction in cycle time, as far as the fifth ship is concerned and we hope that we will be able to do very well in the fifth ship and there will be substantial improvement in Ship building with this new collaboration."

2.13 Asked about the present position of orders, the Chairman and Managing Director, CSL stated during evidence :—

> "On the ship building side we had a lot of difficulty during the last one year. We had an order for 3 Nos. 67,000 DWT bulk carriers from SCI and a Letter of Intent for 3 tankers of SCI. The 6th ship was due to be delivered to Messrs Chowgule and they cancelled the order saying that the price which had been fixed by the Government was unworkable for them. We proceeded with the engineering, we got it from SRS Norway and when we pressed SCI to convert their LC into a regular contract, they came up saying that the market for the bulk carriers was very poor, and they did not want them. We took up the matter with the Ministry and finally they placed order for 3 tankers of 86,000 DWT and that will keep us busy till 1990. Our steel processing unit was idle for the last one year. We will be able to use them now. We have now started production. The orders that we get from the ship owners based on the international parity price are at a very low price and the profitability is very poor."

2.14 When asked about the projections after the completion of the three tankers by 1988-89, the C&MD stated during evidence :—

"We find that by 1988-89 when we complete the steel work, probably we will not have further ships to work upon or in 1988-89 we might have to have further orders. So, we have brought this to the notice of the Ministry. They say it will be reviewed after some time.

These ships are being built for the Shipping Corporation of India as they have placed the orders. They have further requirements for ships in the Eighth Plan. Our request was to take up with the Shipping Corporation so that they may place more orders with us so that there can be continuity of work beyond 1988-89."

2.15 When the Committee enquired about the fields in which CSL has explored the possibilities of getting orders, the C&MD stated during evidence :

"We have been quoting for a large number of tenders for the last one year for the various vessels as also for similar structures. The first thing that we tried was structures that are required by ONGC. ONGC earlier had a policy of negotiating prices and giving orders to various Government of India undertakings. Our Mazagon Dock, Bombay and Hindustan Shipyard Limited, Visakhapatnam have got some orders from ONGC at negotiating prices. But now the ONGC has revised their policy and for the last two or three years, they have been going in for global tenders and on the basis of those tenders, they have been placing the orders. Globally, our prices are comparable to the European prices but we find that our prices and European prices are almost double that of the Korean and Japanese prices. So, we have not been able to get even one order from ONGC. But we have been successful in getting many orders for small vessels which are required by various Government agencies as well as private agencies within the country. There are still more tenders which are yet to be finalised. In the meantime, we have tried to cater to many of the Government of India undertakings who have a regular requirement of certain number of components for their production. We got some orders from the Bharat Earth Movers Limited for counterweights and we are also trying to get a contract from BHEL for some orders on a regular basis. If we diversify in those areas where the prices are free, we may be able to do better financially and there will always be certain amount of income coming from those sources."

2.16 When the Committee enquired whether the Ministry has examined the feasibility of construction of vessels for inland water transport by CSL, the Secretary of the Ministry stated :

"There was, first of all, a proposal for acquisition of inland water vessel which was considered in the Sixth plan. The order for

that was already placed in the Sixth Plan for the supply by the indigenous Shipyard and nothing from outside the indigenous Shipyard. Only recently the Cabinet has cleared for further acquisition of 63 vessels and now they will be going in for tender. They all will be placed with the indigenous shipyard on a tender basis and there would be about 8 public sector shipyards. But I would like to say that the vessels which are for the inland waters are of two types. One is called tugs and the other is called barges. The barges are meant for shallow waters. Now, in regard to barges, I personally wonder whether this shipyard engaged in construction of large ocean going vessels is so much interested to build these because it will cost them much more. There was an enquiry from some foreign country and we were trying to persuade them to build some of them because we got some from another shipyard and we found that the cost would be too high. So, I would again go into this question because sometimes sitting idle is good. Sometimes being idle is much cheaper than doing something."

2.17 When asked about his views for improving the order book position of the Company, the C&MD, CSL stated:

"Originally the Cochin Shipyard was intended to manufacture large-sized ships. At that time large-sized ships were very popular. Even when I went to Japan, I had seen that the Japanese had created a very large number of docks in Japan for manufacture of large-sized ships and today all of them are idle. So, having been pushed in a position like that, we require some amount of support from the Government with regard to orders. Speaking of productivity, improvement, cost, production and all that will be valid only when we have work to be done continuously. If we are going to have no order book position which we have faced twice, we cannot be expected to perform to the optimum level. So, we have to have a continuous order book position. On the other hand, it is almost impossible to get order book position because there is nobody in the country who is willing to give orders. Even abroad also nobody is willing to go in for large-sized ships. We find that all the shipyards of the world are trying the same thing. Everywhere there is competition. ONGC have got nearly 3,500 crores worth of equipment to buy. In India we do not have the engineering capability to handle all these equipments worth Rs. 3,500 crores. We have definitely to go in for foreign collaboration, but if we go in for foreign collaboration they ask for a very high prices. So, if ONGC can retain their prerogative to place an order on the foreign collaborator and take an Indian

partner, it will be a great service to the country because even though we do not have an engineering capability, today if you look at the equipment, either platform or rigs or any such thing, you will find that we definitely have the manufacturing competence in the Indian industries. We can take a substantial portion of work and do it. Let them get the advantage of lean price in the international market, but if we get a sub-contract, the industry can be kept busy in the country."

2.18 With respect to lack of orders for Cochin Shipyard the Secretary, Surface Transport stated.

"Because of the high prices, there is a reluctance to place orders with the shipyards. Secondly, with the recessionary situation in the world, there is a dry up of placing orders with them. Unless, they have orders, they cannot build ships and if they cannot build ships, they may not produce anything. So, this international situation has a direct relevance to the Cochin Shipyard."

2.19 Asked whether any systematised policy has been evolved for procuring orders for Cochin Shipyard, the Secretary of the Ministry stated :

"You have put a good question, but the present state of shipping industry is such that anybody who attempts a systematisation will face lot of problems. One is the competition which is there in the ship building industry, and the fact that one has to run in the international trade in an international atmosphere, and international competition with the freight rates falling. His first objective will be to keep the ship as best as it is possible so that he can really make some profit. On the other hand, our shipyards constituted as they are and the subsidies and the costs being what they are, are facing a lot of problems. Therefore, we have to balance between the two, having regard to the totality of the factors that if the Shipyards have no business available to them, and they have to be idle, it is better to give them some business. We have consistently taken a stand that they should get some more business and that is why we have made it a point from time to time to review the costing pattern. In some cases we are able to do it, in some cases we are unable to do it."

2.20 The Committee enquired whether any strategy had been worked out to find adequate work for CSL and other Indian Shipyards. In a written note, the Committee were informed:

"The poor order Book position of CSL has come to the notice of the Ministry. It is with a view to improve the order Book position that action was taken by the Ministry for SCI to place order for 3 tankers of 86,000 DWT on CSL.

Even in the case of HSL, SCI has since placed order for four Bulk Carriers of 42,750 DWT.

Action has also been taken for placement of order for 2 of A&N vessels on HSL. The shipyard is also having dialogue with Navy to get order from them.

Efforts are also being made to secure orders from non-competitive sectors like Navy, Coast Guard for indigenous shipyards."

2.21 The Committee desired to know about the allocation made for the purpose of new ships/ship construction during the Seventh Plan and the commitments made against this allocation. The Ministry informed the Committee in a written note as under:—

"A provision of Rs. 673 crores has been made during the 7th Plan period under the scheme "Loans to SDFC". This provision is barel sufficient to meet the committed requirements for ships already acquired during the 6th Plan period or earlier and for the requirement of funds for three ship acquisition projects of the SCI which are in the pipeline. These three projects of the SCI are at different stages of consideration of the Government. These include the acqusition of six Container Cellular Vessels, six Edible Oil Carriers and four Phosphoric Acid Carriers. There is thus, no financial allocation available for the purchase of new ships of the private sector during the 7th Plan. Planning Commission has accepted the fact that the financial resources are not adequate to achieve the physical target of 7.5 million GRT operative tonnage at the end of the 7th Five Year Plan, after replacing approximately 2.5 million GRT, which is obsolete and due for scrapping. Planning Commission had suggested recourse to extra budgetary resources for acquisition of ships. The fact that the funds were not available for new acquisition has been one of the considerations for the decision of the Government to wind up SDFC and set up a new financial institution so that the funds required for acquisition of ships would come out of the resources available with the banking sector instead of from the Government budget.

Against the above provision of Rs. 673 crores, funds to the extent of Rs. 150 crores have already been spent during the year 1985-86 and during the year 1986-87 another Rs. 145 crores, are expected to be spent as per the revised budget estimates. During the year 1987-88 funds to the extent of Rs. 110 crores for the above purpose, as agreed to by the Planning Commission, are expected to be made available."

2.22 The Committee enquired whether any long term integrated plan for acquisition of ships and their construction in the indigenous shipyards has been drawn up and approved, the projections for the net addition to the

Indian shipping during the next 5 years and what is the share allotted to the indigenous shipyards. In their reply, the Ministry have stated:

> "The plan for acquisition of ships during the 7th Plan period is guided by the target of 7.5 million GRT net operative tonnage at the end of 7th Five Year Plan, as fixed by the Planning Commission. The net operative tonnage at the end of the 6th Five Year Plan was 6.36 million GRT. Taking into consideration an estimated scrapping of 2.5 million GRT during the period of 7th Plan, to achieve the above target, a net addition of 3.64 million GRT (2.5+1.14) would have to be made during this plan period. The proposals from private and public sector shipping companies for acquisition of tonnage are cleared on the basis of
>
> (i) Replacement of old tonnage,
>
> (ii) Addition of specialised tonnage required for national trade and
>
> (iii) Maintaining the ratio of tonnage as 65:35 between public and private sector.
>
> Beyond the above considerations there is no other long term integrated plan for acquisition of ships. Taking the capacity of the indigenous shipyards into account, it has been roughly estimated that 0.5 to 0.8 million GRT would be constructed in the Indian Shipyards and the balance tonnage would have to be acquired from abroad."

Financing of Shipping Business

2.23 From 1951—58 Government was giving loans on *ad hoc* basis to the Shipping Companies for acquiring ships. The Shipping Development Fund Committee was set up in 1959 for administering this loan scheme. The SDFC credit extended upto 95% of the cost of acquiring a ship repayable in 16 years at low interest rate of 4.5%. Later from 1971 the interest was raised to 6.75% for Indian built ships and 7.5% in case of foreign built ships. In addition, the SDFC has also extended the guarantees and counter guarantees to Indian Shippers for contracting foreign loans for acquiring ships. Thus over 90% of the tonnage acquired by Indian Shippers since Independence was with the SDFC assistance. The yearly subsidy of Indian Shipping Companies by way of low interest rate charged by SDFC has been estimated at Rs. 82 crores according to 1982 estimates. The terms of SDFC loans stipulate that every second ship acquired by the recipient of SDFC assistance should be from Indian Shipyards.

2.24 On an enquiry why this principal of *pari passu* is not being adhered to, the Secretary of the Ministry informed the Committee that 'the position is that *pari passu* obligation starts after a shipping company has acquired 50,000 tonnes DWT. Upto 50,000 tonnes DWT no *pari passu* obligation lies. After that it is 1:1. The Government has continuously tried to enforce this *pari passu* obligation but the other factors come into the way'.

2.25 The Committee pointed out that there should not be any problem because even if a private organisation acquires a ship the SDFC contribute to the extent of 95%. To this the witness stated:

"Everytime a proposal comes from them, we try to look at it that he has *pari passu* obligations. But from 1980 onwards, because of the shipping recession situation, exceptions have been made by Government.

Since 1985, we had hardly financed any ship from SDFC. Not one ship has been financed because most of the shipping companies are in default and therefore, it has been a consistent policy not to do so."

2.26 On an enquiry whether it is a fact that even though the Government extended financial assistance to shipping companies on extremely liberal terms, the indigenous shipping industry has not adequately benefited from the policy, the Ministry stated in a written reply as under:

"The indigenous shipping industry has also benefited from the policy of the Government to extend the financial assistance to shipping companies on extremely liberal terms, as it is because of this policy that it has been possible for the Government to force the ship owners to place orders for their ships on indigenous shipyards, even when the cost of the indigenously built ships was comparatively much higher. However, the scheme of direct loans from SDFC to the shipyard never came into being, after it was thought of about two years back, because of the impending decision of the Government to wind up SDFC."

2.27 On enquiry about the orders placed by the Shipping Corporation of India on foreign yards vis-a-vis indigenous yards and the steps taken to ensure that indigenous capacity was utilised before SCI placed orders on foreign yards, the Ministry of Surface Transport stated in a written reply as under:

"The position of the orders placed by the SCI on foreign shipyards is indicated below:—

S. No.	Type of Vessel	Date of order	No. of vessels	Country on which ordered
1.	M.R. Tankers	31-3-80	2	Japan
2.	LR-1 Tankers	30-4-83	11	Korea
3.	Product Tankers	10-6-83	4	Korea
4.	Supply Vessels	26-6-83	10	Singapore
5.	Bulk Carriers	31-12-83	12	Korea

In addition, SCI has placed orders for 4 bulk carriers of 42750 DWT on HSL and 3 tankers of 86000 DWT on CSL recently.

These are in addition to three orders of 27000 DWT Bulk Carriers placed by MLL (now SCI) on HSL, in 1982.

Before permitting SCI to acquire any ships from abroad, the possibility of acquiring the same from indigenous shipyards is fully examined by the Government in this Ministry, by the PIB and finally by the CCEA. Following considerations have usually been noticed when SCI was permitted to place orders on foreign shipyards :

(a) The indigenous capacity was fully engaged with the orders already placed on the shipyards.

(b) The vessels were of a specialised nature the type of which were not constructed by the indigenous shipyard earlier.

(c) The orders for specialised vessels were one time orders and not likely to be repeated over a long period because of which acquiring foreign technology for constructing those ships was not considered necessary/economical.

(d) Ships to be procured were either in replacement or needed urgently which the indigenous shipyards could not have constructed within the time frame necessary for the purpose.

Apart from the above considerations, the consideration that the cost of the Indian built ships was substantially higher than the prices of the ships available in the international market also came in the way of willing fulfilment of the *pari passu* obligation outstanding on private sector Shipping Companies."

2.28 A list of outstanding *Pari Passu* obligations on SCI furnished by the Ministry is as follows:

Sr. No.	Project	No. of Units	DWT
1.	Yugoslav Cargo	2	30578
2.	Polish Cargo	6	97758
3.	Japanese MR Tankers	2	82249
4.	Korean LRI Tankers	11	679831
5.	Korean Product Tankers	4	163522
6.	Supply Vessels	10	14258
7.	Korean Bulk Carrers (Out of 12 ordered)	7	311500
	Total	42	1379686

Orders placed with Indian yards against above obligations.

1.	HSL Cargo	3	50400
2.	HSL Bulk Carriers	4	171000
3.	CSL Tankers	3	255600
		10	477000

The *Peri Passu* obligations outstanding against the major eight private sector shipping Companies are as under:

Sr. No.	Name of the Company	Balance in DWT
1.	Scindia Steam NVA Co. Ltd.	48,288
2.	Great Eastern Shipping Co.	29,610+82194 (3 Tanks=27398)
3.	India Steamship Company	1,08,260
4.	Surrendra Oversea Ltd.	1,73,000
5.	Sagar Shipping Co. Ltd.	54,595
6.	Ratnakar Shipping Co. Ltd.	65,9000+7.25 Million in value.
7.	South India Shipping Corpn. Ltd..	1,49,200
	Tolani Shipping Co. Ltd.	46,993 Plus US Dollars 2.25 Million in value.
8.	Essar Bulk Carriers Ltd.	41533

The *Pari Passu* obligation of OSV by various private sector Indian Shipping Companies is as under:—

Name of the Co.	No. of OSV Acquired from Abroad	*Pari Passu* Obligation
1. Garware Shipping Co.	5	1 Vessel
2. Great Eastern Shipping Company	4	1 Vessel
3. Essar Shipping Ltd.		1 Vessel

2.29 The Committee noted that orders were placed on foreign yards even when indigenous shipyards had the capability, know-how and technology to build them. In that context, the Committee desired to know whether it was not possible to have a coordination between the Shipyards and the Shipping Corporation of India to see that there was a total integrated view for effective functioning of all of them. To this, the Secretary of the Ministry stated during evidence:—

> "It is true that some orders have been placed abroad also by the Shipping Corporation of India. They were basically in respect of some ships the Shipping Corporation of India had earned some *pari passu* obligation and because of that it was available to them..... Since I have joined this Ministry in July, 1985 I had been very particular that our Indian Shipyards should get orders. It was on that kind of pressing that we have placed these orders for the ships with

the Hindustan Shipyard and CSL and certain other orders are in the pipeline. I may mention that some time when shipping companies are procuring one or two ships of specialised nature, careful examination is done regarding the desirability of building such vessels in Indian Shipyards as transfer of technology for building one or two vessels only does not become cost effective. For example, for specialised ships like the ones which deal with chemicals or oil products demands are very few. Trying to build such specialised vessels in Indian yards for which demands are only for a few may not work out a successful venture. However, these matters are under constant examination and whenever feasible, suitable orders are being placed on the Indian yards keeping in view the order book position. As of now efforts are on to place orders for passenger vessels for Andaman & Nicobar Administration on Hindustan Shipyard.....We are also exploring the possibility of Defence also placing some orders with our Shipyards so that they can be kept engaged....they are also in fairly advanced stage of consideration."

2.30 In reply to a question, how is the dynamism reflected in the total policy, the witness stated:

"The policy *pari passu* is there. So far as public sector and SCI are concerned, they will have to buy from the Indian shipyards. The only thing is more effective implementation of the policy. I do hope that anybody should rationally look at this situation. Myself would be placing orders abroad in regard to certain ships which I find they would not be able to build".

Diversification

2.31 CSL has stated that the recession in shipping industry the world over is having an adverse impact on shipbuilding and ship repair. It is, therefore, prudent to diversify into other products which are not subject to recessionary influences. It has also been stated that the appropriate line of diversification for Cochin Shipyard, considering the various facilities already available in the yard, will be small marine craft building and manufacture of items required by ONGC for off-shore exploration and production of oil.

2.32 As regards the diversification plan, the Cochin Shipyard have stated in a note:—

"Since the cost of construction of ocean going ships built in CSL is considerably higher than the international price some operating deficit is unavoidable on shipbuilding activity. It is, therefore, necessary to take up some other allied activities which would generate reasonable operating surplus. There is vast scope for the expansion of Fishing Industry, Inland Water Transport and Coastal Traffic.

Prices of the vessels required by the above industries are not linked to international parity price. CSL can take up construction of these vessels in competition with other India Shipyards and improve its availability.

Navy and coast guard are acquiring large number of vessels construction of which can be taken by CSL on competitive basis.

Now major portion of the plant and equipment required by ONGC is being imported. It is desirable in the long term national interest that the Foreign contractors are required to have a fixed percentage of the fabrication work executived by Indian companies. In that case CSL will be in a position to contribute substantially in this area."

2.33 Asked if an assessment been had made about the areas of diversification by the Cochin Shipyard, the Chairman & Managing Director, CSL stated during evidence :—

"We realise that we have to do a systematic study to find out the areas where we have to diversify. We have recently got some two-three engineers specifically meant to go around and find out. We are trying to analyse where we can enter into."

2.34 Elaborating further in the matter, the witness stated :

"We are trying to make efforts to go for diversification and when we look at diversification, we have to take the existing facilities that are available with us and see what are all the things that we can do with these facilities. If we try to make very small components which are available in the market, we are unable to compete with the manufacturers who are there already; we find that we are unable to compete for very small components because of the high capital and high infrastructure that we have got, We are trying now to diversify mostly into the specifialised facilities that we have got. Using the facilities available with us whatever products can be manufactured, we try to manufacture; there, we should be able to get a good price and we should be able to do well. We have made some offer for some installation in Bombay, we are quoting for marine structures, we are supplying some vessels, fishing trawlers, etc. We are trying to do all this extra-work purely by ourselves and we are not thinking of collaboration for any of these things. But it is a fact that, whenvever we are diversifying and going into a new product, there is a certain amount of time that it takes. By the time you pitch on a new product, collect more details about the market, about the design and other things, it takes two to three years.....But it definitely takes about two to three years before we can stabilise diversification and go into a new

product. For each one of these things, we do not have to go for collaboration. We also have enough Naval Architects who can design vessels, who can select some equipment and made some vessles, which will perform well. We have supplied a tug to the Port Trust, Cochin, and this tug was totally designed by our own people; it is performing very well and people are very much satisfied with that."

2.35 The Committee desired to know the details of the plans for diversification and the coordinated efforts made in this regard by the Ministry for different shipyards. In this regard, the Secretary, Ministry of Surface Transport stated during evidence :—

"Diversification is a very important aspect when the Shipping is in recession. And your concern really encourages us to feel that we are in the right direction. Korean Shipyards have gone in for diversification in almost all sectors like automobiles, electrical, heavy industries, boilder making, electronics, computers. Probably they have gone all over. Well, that would have been the most ideal sort of situation. But with the constraint of resources we may not be able as yet to go into it. But we have been constantly trying to diversify. In the HSL we have gone in for diversification of three types. One is the speciaslised vessels which are required for ONGC. Second is the bunk houses which the ONGC require in large scale and other contractors and field formations require. That is an area where they have become more competitive and they have been executing fairly large number of orders. Similarly, in HSL we have by now constructed two platforms for offshore drilling and we have so diversified into making drill ships. But unfortunately, this was on a projection given by the Petroleum Ministry. Lately, we are not getting orders from the ONGC because they have also started rethinking in terms of the budgetary constraints that they have got and they are now increasingly depending upon chartering the ships rather than acquiring them. The entrire policy changes are occuring. But in the area of platforms, I have been promised further two platforms and after a lot of dialogue with the Petroleum Ministry, we have got one memorandum of understanding just about a couple of days ago. But the platform is an area which we personally feel should not now go outside. Having developed the capabilities ourselves, it should all be manufactured here.

As regards the drill ships, the first such ship has been built. This is one area where diversification has been attempted. Another area of diversification which we are exploring is the contracts with the Defence Ministry. These discussions are in a fairly advanced stage and we hopefully hope to get something for both the shipyards.

The Cochin Shipyard has also been trying with the idea of fishing trawlers. My own feeling is that fishing trawlers, which is a very very small area compared to the bigger capabilities for which they are equipped, may tide over some losses but would not be very economic to be built in the Shipyard."

2.36 On being asked to spell out the details of the proposals, if any, submitted by the Company for diversification, the Ministry of Surface Transport stated in a written note as under :—

"While no specific detailed proposal has been submitted by the shipyard for diversification which needs Ministry's specific approval for any investment, the suggestion made by the yard for going in for diversification has been as follows :—

(i) In view of the substantial requirement of off-shore structures like well head platforms, accommodation modules for process platforms etc. shipyard had requested the Ministry to take up the matter with ONGC, Ministry of Petroleum for placing order on them.

(ii) Shipyard also requested the Ministry to take up the matter with the D/Defence Production as well as with NHQ for placing order for vessels required by Coast Guard and Navy."

2.37 As regards the action taken by the Ministry on the above suggestion, it has been stated :—

"In the case of various requirements of ONGC, we have been taking up the matter with M/Petroleum in the Empowered Committee meeting on Oil Field Equipment that wherever indigenous facility has already been created that must be utilised fully then only ONGC should place orders on foreign yards. This was specifically mentioned by us in the light of the facility created for off-shore well platform at Lova Garden, HSL, where after first two platfomrs HSL was not getting orders of the ONGC because of ONGC's stand that indigenous yards should compete with foreign yards in their price and delivery schedules. In this background, it has been held that any investment in CSL for diversification for off-shore structures may not be proper unless placement and continuity of orders could be assured. CSL has not yet got any letter of intent from ONGC for any of these off-shore structures.

As regards taking up the matter with the D/Defence Production, and Naval Headquarters this Ministry had two years ago taken up the matter with Defence Production for Coast Guard Vessels but Deptt. of Defence Production had taken the stand that the Defence

Sector Shipyards themselves need adequate orders to keep their order book position full. Hence at that stage, they were not ready to place any orders on non-Defence Sector Shipyards.

On a recent request of CSL, the matter was again taken up with NHQ and they have favourably responded."

2.38 Asked whether the Company had submitted any blue-print of the plan for diversification in the areas of small marine craft building and manufacture of items for ONGC for off-shore exploration and production of oil, the Ministry informed the Committee in a written reply that no blue print of the plan for diversification in the areas of small marine craft building and manufacturing of items for ONGC had been submitted by the shipyard. They had, however, informed the Ministry that they had been quoting against the tender enquiries of ONGC, Central Inland Water and Transport Corporation and Andaman and Nicobar Administration.

2.39 A provision of Rs. 2 crores is stated to have been made for diversification into off-shore activity by CSL during the Seventh Five Year Plan.

2.40 On an enquiry whether the provision of Rs. 2 crores would be adequate for diversification during the Seventh Plan, the Committee were informed in a written reply :

"In view of overall constraints against the projection of Rs. 405 crores made by the Ministry for the 7th Five Year Plan Scheme only Rs. 130 crores has been agreed to for the shipbuilding & ship-repair sector. In the light of limited resources, emphasis has been on the completion of existing schemes and optimum utilisation of existing facilities. Out of Rs. 130 crores, Rs. 45 crores have been kept for CSL's various projects.

Since there is no specific proposal for diversifications, Rs. 2 crores provided for diversification may not be utilised for the diversification schemes."

2.41 On an enquiry whether the Ministry of Surface Transport had ever considered the proposal to find enough work for the Indian shipyards in the areas such as inland transport, coastal shipping and ports which are under their administrative control, the Ministry stated in a note as under :—

"Public Sector Shipyards viz. CSL & HSL engaged in the construction of large ocean going vessels can have optimum utilisation of their facilities only in the construction of large ocean going vessels. Best efforts are made that the orders for large vessels are placed on HSL & CSL by the Shipping Companies. It is against this background, SCI has been persuaded to place orders of three 86000 DWT tankers on CSL and four 42750 DWT Bulk Carriers on HSL.

As far as placement of order for inland water transport, coastal shipping and ports are concerned, Public Sector Shipyards under the administrative control of this Ministry have to compete with the other Public Sector/Private Sector Shipyards, both in terms of price and delivery.

All efforts are, however, being made that medium size Public Sector Shipyards viz. H D.P.E. secure orders for inland water transport, coastal shipping and ports etc."

Fishing Trawlers

2.42 It has been reported that Government have decided to import the entire 7th Plan requirement of 500 deep sea fishing tarawlers even though Indian Shipyards have the potential to manufacture those trawlers and were suffering from acute under-utilisation of capacities due to paudcity of orders. Cochin Shipyard is stated to have teken a licence for constructing 8 Fishing Trawlers annually in response to the existing demand for trawlers. The C&MD informed the Committee during evidence that Government should provide funds and start clearing the applications of the people who apply to get the trawlers.

2.43 The Committee noted that as against the requirement of 500 Deep Sea Fishing Trawlers during the Seventh Five Year Plan, CSL has got licence for constructing 8 fishing trawlers annually. Some funds have to be allotted to them and also clearance from the Ministry of Agriculture. On being asked about the efforts made by the Ministry of Surface Transport to help CSL in this regard, the witness informed the Committee during evidence :—

"So far as Fishing Trawlers are concerned, there were two contradictory objectives which were being processed—

That fishing should be developed so that effort can be increased and the concerned Ministries were spear-heading—that it will take time and that we should be allowed to import the Trawlers so that the Trawlers could come in.

On the other hand our contention is that this Ministry wants that the indigenous capacity should be fully utilised and no trawler should be allowed to be imported. The requirement that was projected by the Ministry was 500 Trawlers. Ultimately, because of the strong views of this Ministry the decision was taken by the Government at the Cabinet level that after exhausting all indigenous capacity for trawlers, the orders will be placed afterwards. From that point of view that had been satisfactory. But even about trawlers, there is another aspect of it which was also the *pari-passu* obligation."

2.44 In reply to a question whether CSL had approached the Ministry to take up the matter with the Ministry of Agriculture for placing orders for trawlers on them, the Ministry informed the Committee in a written note as under :—

"CSL had applied to shipbuilding & ship repairs wing of the Ministry for registration of the yard for the construction of Fishing Trawlers. They have been duly registered for the construction of 8 number of fishing trawlers per annum.

However, it has been made clear to CSL that for procurement of order they will have to keep their prices competitive with other Public/ Private Sector Yards. Since the Trawler owners are private operators the shipyard can secure order only by being competitive in their price and delivery. They will, themselves, have to find the prospective buyer who in turn will apply for loan to the Fishing Trawler Acquisition Committee in the Ministry of Agriculture."

2.45 The installed capacity of the Cochin Shipyard according to the Revised Project Report is two ships a year in terms of Panamax bulk carriers of 75,000 DWT. The actual production in the Shipyard was much less than the RPR targets. The Shipyard constructed and delivered only one ship during the five years from 1976-77 to 1981-82 against the RPR target of 3 ships of 75,000 DWT by 1981-82. The average capacity utilisation of CSL vis-a-vis installed capacity for the 9 years period i.e. from 1976, when the production started and upto 1984-85, was only about 30 per cent. Not Only was the capacity utilisation much below the targets, there were heavy delays in the construction of ships and the cycle time involved was much longer than originally envisaged. According to the Ministry detailed analysis of the reasons for the reduced capacity utilisation and larger construction cycle times in the yard had revealed that there was need to rectify some imbalances in the facilities available in the yard for which substantial investment in terms of infrastructure and equipment was required. However, a Working Group on the Shipbuilding and Shiprepair Industry for the 7th Plan held the view that while all necessary measures may be taken by the yard to improve the over-all productivity of the yard, it was necessary to have a smaller expert group to go into the various reasons of shortfall and if necessary, reassess the installed capacity as well as production target of the yard in the light of the present day situation. The Committee desire that small task force consisting of technical experts may be set up without any further loss of time for making a reassessment of the capabilities and weaknesses of the yard.

2.46 Since Shipbuilding is predominantly an assembling industry where in shipyards have to depend substantially on the bought-out items and raw materials from the open market, a great deal of advance planning for design and production of each ship is called for. The optimum utilisation of shipbuilding

capacity, therefore, pre-supposes a reasonable amount of order book position covering at least 4 to 5 years total production capacity. In Cochin Shipyard, however, the uncertainties regarding orders have disrupted the working of the shipyard from time to time. Upto May, 1981, the shipyard had secured orders for construction of 6 ships of 75,000 DWT. The sixth ship was to be delivered in 1985 but because of the longer cycle time involved in the construction of ships, the yard could build five ships and before the construction of the sixth ship could be taken up, the order for the ship placed by a private shipping company was cancelled. The Shipping Corporation of India had also placed orders for three 67000 DWT bulk carriers in 1984 through a letter of intent. This order was also subsequently cancelled in October, 1984. This left the shipyard without any work beyond the 5th ship which was expected to be completed in February, 1987. It was only on 30 March, 1986 that a new contract for the construction of three 86,000 DWT oil tankers for Shipping Corporation of India was signed. This order for 3 tankers is likely to keep the shipyard busy till 1988-89, when again the shipyard will be forced with a situation of no work unless some further orders are received. In such an atmosphere of uncertainty regarding orders, cancellation of orders already received and total dependence on imported inputs such as ship designs and raw materials, it is no doubt impossible for the shipyard to function normally in a planned manner.

2.47 In this context the role played by the Ministry of Surface Transport assumes greater importance. The Committee find that even though the Government had an extremely liberal policy for financing the purchase of ships in the form of SDRC loans, there was no long term integrated plan for the acquisition and building of ships in the country. The Committee have been informed that a provision of Rs. 673 crores has been made during the 7th Plan period but this provision is barely sufficient to meet the committed requirement for ships already acquired during the 6th Plan period. There is thus no financial allocation available for the purchase of any new ships during 7th Plan. In regard to long term integrated plan for acquisition of ships and their construction in the indigenous shipyards the Committee have been informed that apart from maintaining the ratio of tonnage of 65 :'35 between public and private sector, there was no other long term integrated plan for acquisition of ships. The Committee find it difficult to appreciate how in the absence of any long term plan and without any financial provision having been made for the shipping industry during the 7th Plan, the Ministry can render any assistance to the shipyards in the form of orders for construction of new ships.

2.48 What is all the more disquieting is the fact that there is no meaningful coordination between different wings of the Government in regard to planning for acquisition of ships or development of maritime facilities in the country. At present there are at least three Ministries who are involved in the Development of maritime facilities. These are the Ministries of Surface Transport,

Defence and Agriculture. While much has been said about the recessionary situation in the shipping world and its impact on the indigenous shipyards, there is no evidence of any coordinated efforts having been made to secure orders for the shipyards who were suffering from acute underutilisation of capacities due to paucity of orders. The Committee are of the view that whatever be the conditions in the international market, the indigenous shipyards in which huge investments have been made, should not be allowed to suffer because of lack of orders. They have to be kept busy and to that end it will be helpful to have a Central authority to register the capacities and categorise the shipyards and then distribute the construction of vessels according to their respective capacities, keeping in view the orders already in hand. Such an authority could be the first step towards a coordinated development of maritime facilities, including the ancillaries. In addition the proposed Central authority should be entrusted with the task of processing steel requirements of yards and arranging for other necessary inputs.

2.49 So far as Cochin Shipyard is concerned, it has currently orders for the construction of 3 tankers of 86,000 DWT for Shipping Corporation of India. This is likely to keep the shipyard busy till 1988-89. The Committee recommend that in order to ensure continuity of work beyond 1988-89, the possibilities of securing further orders from Shipping Corporation of India for their further requirements of ships during 8th Plan may be explored on a priority basis.

2.50 Originally the Cochin Shipyard was intended to manufacture large sized ships. However, with the change in the international scenario, nobody is willing to go in for large sized ships. Inevitably, therefore, the Shipyard has to look around for alternatives. It has been brought to the notice of the Committee that ONGC have got nearly Rs. 3500 crores worth of equipment to buy. These equipments cannot be manufactured by Indian Shipyards without going in for foreign collaborations, which may ask for very high prices. Under the circumstances the best that can be done is that ONGC can retain their prerogative to place orders on foreign collaborators, who can be made to take Indian Shipyards as partners through a stipulation in the collaboration agreement to that effect. This will ensure some work for the Indian Shipyards in the form of sub-contracts and help the shipyards in avoiding idleness. Similarly, the Ministry of Agriculture has plans for the acquisition of 500 trawlers for fishing industry during the 7th Plan. These trawlers can very well be manufactured in the indigenous shipyards who are suffering for dearth of orders. Another area in which the Cochin Shipyard can venture on competitive basis is the requirement of vessels by Navy and Coast Guards. The Committee desire that a systematic study may be undertaken to find out the areas in which Cochin Shipyard can diversify. After these areas have been identified, the Ministry of Surface Transport should coordinate with the other concerned Ministries and secure firm orders for execution by the Cochin Shipyard.

2.51 It is disconcerting to note that at present there is no specific proposal for diversification of activities of Cochin Shipyard and it is apprehended that an amount of Rs. 2 crores provided for diversification schemes during the 7th Plan may not be utilised. This is indicative of the absence of any long term and perspective planning for the optimal utilisation of the facilities created at huge cost.

2.52 The Committee find that a Shipping Development Fund Committee was set up in 1959 for administering a loan scheme, under which shipping companies both in public and private sectors could get loans on very easy terms for purchase of ships. The SDFC extended credit upto 95% of the cost of acquiring a ship repayable in 16 years at a low interest rate of 4-1/2 per cent. Later on from 1971 the interest rate was raised to 6.75% for Indian built and 7.5% in case of foreign ships. Although the terms of the SDFC loans stipulate that every second ship acquired by a recipient of SDFC assistance should be from Indian shipyard., this *pari passu* obligation has not been honoured scrupulously in the past by the ship owners. Nor has SDFC insisted on the ship owners for the fulfilment of their *pari passu* obligations. From the information made available to the Committee it is seen that against 42 ships of 13,79,686 DWT acquired by the Shipping Corporation of India from foreign countries, it placed orders for only 10 ships of 4,77,000 DWT on Indian Yards under *pari passu* obligations. Similarly, there is a large *pari passu* obligation outstanding against private sector shipping companies. If only the *pari passu* obligation clause had been enforced on all shipowners, there would have been no dearth of orders for all the shipyards in the country, who have only a limited capability. Further the failure to enforce *pari passu* obligation has resulted in indirect subsidisation of the foreign shipyards at the cost of the indigenous shipyards. The Committee cannot but express their displeasure at the failure of the authorities to safeguard their own interest. The Committee recommend that Government should review the entire situation and take appropriate measures urgently under intimation to the Committee.

CHAPTER III

PRICING POLICY

3.1 Under the existing pricing policy, the prices of ships built in Indian yards are determined by the Government of India in accordance with a pricing formula based on International Parity Price. Under the pricing policy, the DG Shipping will obtain valuation for similar ships from different countries, the average of which will constitute the International Parity Price. Based on the International Parity Price, the DG Shipping recommends the price to be paid for an Indian built vessel which includes an additional 10% for import substitution. In addition, the Government gives a 20% subsidy on the International Parity Price. In the context of the present world wide recession facing the shipping industry, the valuations obtained are generally far below the cost of construction. Therefore, the International Parity Price based on which the price of the ship is fixed is unrealistic and is far below the actual cost of construction.

3.2 Out of 5 Panamax type Bulk Carriers, orders for which were placed on CSL, the Company has so far constructed and delivered three ships (001 to 003) Ship No. 004 was expected to be delivered in June, 1986 while 005 was launched in February, 1986. As a result of the existing pricing policy CSL has suffered heavy losses on ships 001 to 003 as would be seen from the following figures:

(Rs. in crores)

Ship No.	Actual Cost	Selling Price including Subsidy and Escalation Charges	Loss
001 . . .	Rs. 34.67	Rs. 23.05	Rs. 11.62
002 . . .	Rs. 34.24	Rs. 25.08	Rs. 9.16
003 . . .	Rs. 35.48 (upto 31-1-1985)	Rs. 27.42	Rs. 8.06

3.3 One of the main reasons for the losses has been attributed by the Ministry to the unremunerative prices fixed by Government for the ships under the pricing policy based on the International Parity Price.

3.4 When the Committee enquired about the subsidy being given by Government to the Shipyards, the Secretary of the Ministry stated during evidence :—

"While shipping company pays IPP plus 10 per cent, Government is giving 20 per cent subsidy only on the IPP price. We went to the

Finance Ministry for a normative cost fourmula. We wanted that a certain production level efficiency should be built in, standard fixed and on that basis the price of a ship should be decided and on that price differential between international price and the actual cost should be given subsidy which will fluctuate. Now the Finance Ministry in its wisdom referred it to the BICP; and that is how this problem is arising."

3.5 When asked about the present position in the matter, the witness stated:

"The first reaction, of course, was to save the shipping lines in the sense that their loans were being rescheduled and some moratorium was being given. That was in 1978-79. Then in 1981-82, another moratorium was given. But alongwith this, the Shipyards problems were also being looked at from that angle and the first step that was taken was that after about two three years' discussion, in 1981 the IPP formula was slightly modified. That was the consequence. Even at that time, when the formula of 1981 was revised the Ministry's view was that it will not be a satisfactory situation. But between not accepting and accepting we did accept that formula with slight improvement. I may add that even at that time it was recognised in Government orders that the above formula was proposed to be reviewed after the Sixth Five Year Plan period. So, we again started a dialogue with the Finance Ministry in 1983. In 1984, after evolving this normative cost formula, we forwarded it to the Finance Ministry for consideration. This remained with them for a considerable amount of time and it was only after a series of meetings with the Finance Ministry that in May, 1985 it was referred to the Bureau of Industrial Costs and Prices for making a study. The present position is that the BICP had earlier promised to us that they would be giving a report on this by 31 December, 1986 but the report has not yet come. We are awaiting that report so that on the basis of it we could go to the Government and get a decision arrived at."

3.6 While the price for ships 001, 002 and 003 were fixed in accordance with the above principle, the price of Rs. 32.527 crores fixed for ship 004 on the above basis was not accepted by the buyer and a provisional price of Rs. 22.50 crores was fixed for purpose of regulating stage payments. For ship No. 005 (contract in November 1980) a provisional price of Rs. 27.00 crores was fixed.

3.7 When asked about his views in this regard, the CMD stated during evidence :—

"We have been working on a pricing policy which has got no relation to the cost at which we are able to make. We have already

requested our Ministry to revise the pricing policy, especially in a situation where the whole shipping is in a recession. We would like the present pricing policy to be revised."

3.8 On enquiry about the pricing policy during the Seventh Plan, the C&MD stated in evidence:—

"We have represented to the Ministry saying that the prices in the international market had come down very low and the prices which were ruling in the international market were prices which were dumped prices made by the foreign countries in India and we have been pleading with the Government that we will not be able to manufacture ships to these dumped prices and the Government should realistically give a price on which normally we should be able to manufacture the ships."

3.9 Subsequently in a written note, CSL informed the Committee as under :—

"In order to make the shipyards viable it is necessary that the pricing policy for ships should be based on the actual cost of construction of the vessel plus a reasonable margin. In order that wasteful expenditure is curtailed, suitable norms realting to attainable capacity of the yard, material consumption, labour utilisation and time frame for construction can be evolved. Thus a normative cost based on the above parameters should form the basis for price fixation. In addition to the cost of construction the yard should be given reasonable margin to ensure sustained growth of the yard. Under the existing pricing policy we are finding that the prices fixed for the ships do not even cover the material cost. The far-eastern countires like Japan and Korea have been offering very low prices for ships probably on account of the fact that they get materials and components from their own sister concerns at much cheaper prices as also due to low inventory, low transportation costs, etc. as most of the items are available on demand from nearby suppliers. They also get substantial subsidy from their respective Governments. We have already represented to the Government for revision of the present pricing policy on a normative cost basis and this is now under the consideration of the Bureau of Industrial Costs and Prices."

3.10 As regards revision of pricing formula, the Secretary, Ministry of Surface Transport informed the Committee during evidence :—

"For revision in the formula for determining the prices, we have referred the matter to the Finance Ministry and they have referred it to the BICP. The present formula known as IPP; (International Parity Price) needs revision. As per the present formula, we obtain

from the international valuers, prices for the same type of ship manufactured in Far East, in the European yards, in the Eastern Block yards etc. and then average that price. In this way, we determine the price of the Indian ship. This formula has not been found suitable in our case as the prices are not based on the actual cost, but these are subsidised prices. Therefore, we want a more rational pricing formula."

3.11 On enquiry whether the Ministry does not think that the present pricing policy is very unfavourable to the shipyard and needs immediate revision to check further losses to the shipyard, the Ministry of Surface Transport stated a written note as under :—

"This Ministry has already felt that the existing pricing policy is neither suiting the indigenous shipyards, nor the shipping company. As per existing pricing formula.

(a) The Govt. will pay to the Shipyards a direct subsidy of 20% the international parity price.

(b) The shipowners will pay to the shipyards 10% over and above the international parity price towards partial cost of import substitution.

(c) The Shipowners will also pay escalation charges in respect of the following:

(i) Statutory rise in prices of controlled and regulated items such as steel;

(ii) Variation in customs duties in respect of imported items; and

(iii) Increase in wages, if any, due to wage awards/bilateral agreements;

Subject to an overall escalation of 7% of the international price.

Since the price of the ship as per existing pricing formula is determined based on international parity price, the continued world-wide, shipping recession has adversely affected the international parity price. Each maritime nation, in some form or the other , gives shipbuilding subsidy to the yard, hence the price quoted by the yard does not reflect their cost of construction.

As such linking of price of the ocean going ships being constructed in indigenous public sector yards, with the international parity price, and not their cost of construction, is not proper, particularly when statistics have revealed that IPP is continuously falling.

In order to link the price of ship with the normative cost of construction with 80% of capacity utilisation, a proposal was mooted by this Ministry which has since been referred to BICP for a detailed cost study, BICP report is still awaited."

3.12 The Committee were informed during evidence that according to the latest estimate the price of a tanker is about Rs. 69 crores whereas the international price may be Rs. 35 crores. SCI is stated to have projected an anticipated price of Rs. 37 crores per tanker. As this price is not acceptable to the Company, CSL was directed by the Cabinet Secretary in a meeting held with him to give their proposals with the possible reductions. CSL is stated to have given a proposal to the Ministry.

3.13 When asked about the details of the proposal given by CSL and the decision taken in fixing the price of the tanker, the Ministry stated in a written reply:

"CSL has informed about the type with specification of the tanker, they will be constructing for SCI. In the meanwhile DG(S) has obtained the valuations from the International valuers the prevailing price of the vessel and furnished the details to the Ministry for fixing of IPP for the vessel.

With a view to analyse performance of the undertaking who have been consistently incurring losses, Cabinet Secretariat had desired the Ministry of Surface Transport to prepare a note on the ten years performance of Cochin Shipyard Limited. When this paper was discussed, the then CMD explained the difficulties of the yard in achieving the rated capacity and how the price fixed by Government under the existing pricing formula has adversely affected the shipyard. The emphasis was that the input cost of ships constructed in indigenous shipyards is very high, which ultimately adds to the higher cost of the vessel, whereas the price fixed by Government is linked to the International Parity Price of the vessel which does not reflect the cost of construction as to our knowledge, foreign Governments are also paying subsidy to their own shipyards. Since Cabinet Secretary desired shipyard to make available their firm offer in terms of price and the delivery schedule, shipyard quoted a price of Rs. 69 crores for the 86000 DWT vessel, for delivery in 20 months. Shipyard also mentioned that they would like to have following support measure to achieve the above objectives:

1. Production Consultancy with IHI.
2. Material Package
3. Interest holiday upto 31-3-87.

4. Restructuring of the capital base of the Company on 1:3 debt equity ratio.
5. Moratorium on repayment of loan upto 31-3-87.
6. Declaring Shipbuilding Industry as deemed export.
7. Decanalising import of Shipbuilding Steel.
8. Bulk allocation of Foreign Exchange.
9. Exemption from taxes and duties.
10. Provision of soft loans to Finance working capital.

Since the cost study of construction of ocean going ships in indigenous Public Sector Shipyards has already been entrusted to BICP, presently efforts are to fix the International Parity Price of the tanker based on the existing pricing formula. In accordance with the existing pricing formula, DG(S) has obtained and furnished the details as obtained from the international reputed shipbuilding valuers. These valuations are under further processing in the Government."

3.14 On an equiry whether the cost of production could be reduced, the C&MD informed the Committee during evidence:

"The prices in the market are very very low. It amounts to their matrial cost only. If prices in the market are of material cost, whatever we may reduce, the cost will not match the present ruling price in the market."

3.15 On being specifically asked whether any efforts had been made by the Ministry to reduce the cost of production so as to be more competitive in the international market, a representative of the Ministry stated during evidence.:

"Our input cost is more. The raw material itself is going to be around Rs. 42 crores. Then we have to take into other aspects such as labour and other overhead costs."

Stage Payments

3.16 Audit has pointed out that stage payments due for shipbuilding from SDFC upto 95% and balance from the owners in terms of tripartite agreement were not being received in time. This lead to difficulties in managing working capital for the company. The interest on delayed settlement of stage payments were also not being received from the owners. The delay in receipt of stage payments was due to non-furnishing of securities by the owners to SDFC as per conditions of financing.

3.17 The amount of stage payments due as on 31-3-1985 was Rs. 2157.30 lakhs. As on 31-3-1986, the payments due for ship 004 was 95% against which only 85% at provisional price of Rs. 22.50 crores has been received. In respect

of ship 005, 85% has been completed (upto launching) for which stage payment upto 70% (upto installation of main engine) at provisional price of Rs. 27 crores has been recieved.

3.18 On being enquired whether the Company has examined the means expedite the stage payments or getting finance from other sources to meet the working capital requirements, CSL stated in a written note:-

"Yes. The company has been constantly in touch with the shipowners for expediting the stage payments. When we encounter delay, we approach Government/SDFC. On certain occasions, SDFC withhold payments due to the shipowners with a view to putting pressure on the ship owners to make payments to CSL. Sometimes they even release SDFC share and recover owner's share from the future payment due to the owners from SDFC. Government have also released ways and means loans against the stage payments due from owners of ship 004 in respect of differential price. We are also availing cash credit facility from State Bank to the extent of Rs. 13 crores."

3.19 When asked if there was any improvement in obtaining the state payments for ships 004 and 005, the CSL stated in a written reply:

Ship 004 *being built for M/s Chowqules Steamships Limited:*

(1) There is no improvement in obtaining stage payment for ship 004 The owners have not released stage payment of Rs. 2.25 crores due for basin trial which was carried out in February, 1986.

(2) Rs. 9.53 crores is due from the owners against outstanding stage payment in respect of price difference between the provisional price of Rs. 22.50 crores, and actual price of Rs. 32.527 crores. 95% of the price have already become due. The total amount outstanding in respect of ship 004 is Rs. 11.78 crores.

Ship 005 *being build for M/s Surrendra Overseas Limited:—*

The owners have released all payment based on the provisional price of Rs. 27 crores for the stages already completed. The price has been finally at Rs. 32.527 crores. 85% of this price difference is also due from the owners (Rs. 4.7 crores). Inspite of our reminders the owners have not taken any step for arranging this payment.

3.20 In their Annual Report for the year 1985-86, CSL has stated:

"As in the previous year the Company could not pay interest to GOI on the loans or repay the instalments thereof. The defaulted interest amounts to Rs. 30.43 crores and the defaulted instalments Rs. 25.44 crores.

The ways and means position of the Company continued to be critical during the first three quarters of the year and the Company had to take further ways and means of advance of Rs.3 crores from the GOI during this period. The critical situation was largely due to non-payment/delayed payment of dues by ship owners. The total amount due on this account in respect of ships 004 and 005 as at the close of the year was Rs. 20.52 crores.

In addition, M/s Ratnakar Shipping Company owed the Company a sum of Rs. 1.26 crores towards final settlement of price of ship 002."

3.21 The Committee find that in accordance with the existing pricing formula announced by the Government in February, 1981, the prices of Indian built ships are determined on the basis of a notional figure known as International Parity Price. As per the pricing formula the shipyards are paid a direct subsidy of 20% of the International Parity Price by the Government and the shipowners also pay to the shipyards 10% over and above the IPP towards partial cost of import substitution. Such a pricing policy, even though it gives a 30 percent price advantage to the Indian built ships, has no rational relationship with the cost of construction in a shipyard. It is seen that as a result of the existing pricing policy Cochin Shipyard has incurred huge losses on ships 001 to 003 which have actually been delivered. For these three ships the total loss i.e. the difference between the actual cost and the selling price including subsidy and escalation charges works out to a staggering amount of Rs. 28.84 crores. It is also relevant to note that according to the estimates prepared by the Cochin Shipyard, the cost of a tanker to be fabricated for the Shipping Corporation of India works out to about Rs. 69 crores. However, the Shipping Corporation of India has projected an anticipated price of only Rs. 37 crores per tanker on the basis of the existing IPP formula. Obviously, therefore, the pricing policy being adopted at present is in the opinion of the Committee unrealistic *vis-a-vis* the cost of construction and needs to be modified urgently.

3.22 The Committee are not happy to note that even though the experience of the working of the pricing formula had clearly shown that the formula was causing hardship to both the shipyards as well as shipping companies a review of the formula with a view to evolving measures for reducing the genuine hardships of the shipyards has not been completed with any sense of urgency. Even though the matter has been debated at different forums yet no decision has been arrived at so far. In fact instead of taking any decision a reference has reportedly been made to Bareau of Industrial Costs and Prices in May, 1985 for determining the normative cost of construction of ships. BICP has yet to complete its study and give its report and even after the report of BICP is received, the Mnistries concerned will take their own time to come to some conclusion. The Commitee

cannot but express their displeasure at the duly long time taken in revising pricing formula, which was clearly unjust and unrealistic. The committee desire that no further time should be lost in arriving at a decision on the subject, under intimation to the Committee.

3.23 The Committee are in agreement with the view that in order to make the shipyards viable it is necessary that the pricing policy of shipyards should be based on the actual cost of construction of the vessel plus a reasonable margin. Furthermore in the light of prolonged shipping recession and the falling prices of ships in foreign yards, when the shipping companies are keen to place orders on foreign yards, it is absolutely essential that indigenous shipyards are afforded enhanced subsidies and other suitable assistance to make them commercially vaiable.

3.24 Another question related to the pricing policy is the delay in stage payments being received by the Cochin Shipyard. As on 31-3-1985 the stage payments due but outstanding amounted to Rs. 2157.30 lakhs. The total amount due on this account in respect of ships 004 and 005 as at the close of the year 1985-86 was Rs. 20.52 crores. The Committee desire that unseemly disputes regarding the price fixed for the ships according to IPP formula and delays in stage payments by the private ship owners should be dealt with firmly by Government. It needs to be pointed out that even though the privateship owners have to make payments only out of the loans given by SDFC, they have a vested interest in delaying as much as possible the availing of loans because in the process they are able to transfer a good part of the interest burden on the shipyard. The Committee desire that this aspect should be carefully taken note of and dealt with appropriately.

CHAPTER —IV

SHIPYARD CONSTRUCTION

4.1 According to the contract signed between Government of India and M/s. MHI on 13th August, 1970, the collaborator's KOBE Shipyard (MKS) were appointed as consultants for preparation of designs, drawings and specifications and consultancy during shipyard construction. The contract became operative from 1st October, 1970. The contract with MHI covered a period of five years from 1-10-1970 which could be extended by mutual agreement for not more than one year. The period of the contract was later on extended till 31st March, 1976.

4.2. Although the collaboration agreement for the construction of shipyard had been entered into with MHI of Japan, the Company signed an agreement on 20th May, 1973 with the British firm M/s. Scott Lithgow Ltd., under which the latter was to give technical assitance in ship building. This agreement was originally for a period of five years i.e. upto 15th August, 1978. But the consultancy agreement was later on extended upto 30th June, 1981. The total payments made to SLL was Rs. 2.04 crores as against Rs. 3.41 crores asked for by MHI.

4.3 The Ministry informed Audit in February, 1985 that the comparative merits of the two offers considered and the offer of SLL was accepted for the following factors:

- The offer of MHI was Rs. 3.41 crores and that of SLL was Rs. 1.97 crores.
- The Government was keen on constructing a vessel which would give optimum utilisation of the shipyard capacity.
- The design offered by SLL was for 75,000 DWT and SCI had placed orders on SLL for two ships.
- The prospect of repeat orders of 61,000 DWT recommended by MHI was not too high and that by acquiring the design for 75,000 DWT, there would be repeat orders and that the cost of know-how could be spread over a large number of ships.
- If there was no repeat order for the first ship design, there would be a necessity to go into the market for getting the designs of a second ship; this would not be the case if the design of 75,000 DWT was obtained and that they would get enough time to look for new designs or develop their own.
- Language may not be a problem in training and consultancy.

4.4 The Committee enquired about the reasons for entering into a consultancy agreement with SLL instead of with MHI for ship-building. The Chairman & Managing Director of Cochin Shipyard Limited stated during evidence ;

"When the Japanese gave the report, they assumed that we would go in for their system of manufacture, their method of making the blocks for the ships and also that we would adopt every detail followed by them in their country."

Explaining further, the witness stated:

"We went to the U.K. in respect of ship-building for our own reasons viz. the charges made by U.K. for giving collaboration were less and also the type of ship which U.K. was offering was more in demand in the market. When we discussed things with Japan, it was for 66,000 tonne DWT vessels. But subsequently 75,000 tonne DWT bulk carrier vessels were more popular. We felt since some ships could be bought from U.K. we could send people there and train them there."

4.5 In this connection, the witness further stated:

"Unfortunately, we have not been able to perform according to the projections of ship building given by our Consultants. We hap a deviation in the ship-building in that the project was envisaged by the Japanese but we went in for U.K. collaboration. The dig building technology was different. We had, therefore, a setback in our performance i ship building."

4.6 The Committee desired to know whether Japan was not in position to give technical know-how for 75,000 tonne DWT. In reply the C&MD, CSL stated during evidence:-

"There was an offer from Japan at that time, and our thinking was that they would have definitely supplied the design and method of construction for 75,000. There it no doubt about it."

4.7 Asked why CSL changed their mind and went in for U.K. technology knowing fully well that the time taken for the construction of a ship in U.K. was double than that of Japan, the C&MD informed the Committee that the offer of Japanese firm was much more costlier. As regards difference in the cost, it was stated that "the Japanese offer was costing Rs. 3.40 crores and the U.K. offer was costing Rs. 1.97 crores".

4.8 The Committee pointed out that with Japanese Consultants the Shipyard had been built with certain facilities to have ships of a particular nature. However, when the consultancy for ship-building was changed to British

there was a mis-match between the facilities available and the technology coming forth from British as a result of which there was poor performance and delay in construction of the ships. In this context the representative of the Ministry stated as under:-

> "The two consultancies basically differ. One is for the construction of a shipyard and the other is for building a ship. These two expertise need not be combined together. Designing of a ship has a direct link with the production technology and since we have to buy a design on a global tender on competitive basis wes cannot change-over. Therefore, entirely on facility consideration only the construction consultancy was of the Japanese nature and the first design we procured on the competitive basis was the British design. There are two kinds of designs-conceptual design and production design. Since Conceptual designs are procured from abroad from specialist organisations, modification of production design to suit the specific facility becomes essential. This is precisely what has happened."

4.9 Asked to explain why the collaboration agreement for ship-building was entered into with the British firm M/s. SLL although the shipyard had been constructed with Japanese collaboration, the Ministry of Surface Transport stated in a written note:

> "A contract was concluded in August 1970 with M/s. Mitsubishi Heavy Industries of Japan for technical assistance in constructing a Shipyard at Cochin. The question of technical assistance in the building of ships was to be a subject of separate negotiations with MHI as that firm preferred to settle the terms of consultancy on a stage to stage basis.
>
> Consequently, in August 1970 a memorandum was exchanged concerning further technical cooperation by MHI in ship design, ship-building and ship repairs at the new yard. The contract could not be finalised as MHI were not prepared to lower their offer below 1708 million Yens (Rs. 4.1 crores). As a result of discussions MHI made a firm and final offer of 1420 million (Rs. 3.41 crores), on the basis of the scope and content of the technical cooperation at various levels for ship design of 61000 DWT vessel as then offered by them. They also made an alternative offer of 1200 million Yens (Rs. 2.88 crores) for reduced content and for a cmplete automation in the engine room, the kind of which our shipping companies had not accepted. We were interested only in the first alternative. Scott Lithogow Limited also offered similar collaboration for building a ship series of 75000 DWT for a price of £ 1.04 million (Rs. 1.97 crores).

The comparative merits of the two offers were as discussed below:

(a) Prices:

After protracted negotiations, MHI gave a firm and final offer of 1420 million Yens (Rs. 3.41 crores) for the kind of technical collaboration we needed, which was higher than the comparable Scott Lithgow offer of £ 1.04 million (Rs. 1.97 crores). Apart from the obvious saving in this deal we had to keep the price low as it might act as a "floor" in procuring know-how for building bigger ships.

(b) Vessel:

(i) We had been from the beginning, keen on constructing a vessel which would give optimum utilisation of the shipyard capacity.

(ii) The ship, designs of which were offered by SLL was of 75,000 DWT. The Shipping Corporation of India had already placed orders for two such ships with SLL. Scindias had also placed an order for one. This was known as panamax size as it was th maximum size in this class of carriers. This size was more advantageous than 61000 DWT.

(iii) The prospects of repeat orders of 6,000 DWT appeared not too bright. On the other hand, the Shipping Corporation of India was willing to place an order. It appeared, therefore, that the CSL, by acquiring this model would receive orders which would keep it busy for about two to three years. This also allowed us to spread the cost of know-how over a large number of ships.

(iv) It was held that if there had been no repeat orders for the first ship design, we had to go into market immediately for getting designs and drawings for a second ship. This was not necessary if we went in for 75,000 DWT as then we could get enough time to look for new designs or develop our own.

(v) The then Chief Project Officer, Cochin Shipyard pointed out that collaboration with Scott Lithgow, Limited would also make training and consultancy problems easy, as the language barrier, which was present in the case of Japanese trainers and consultants, would not exist in the case of SLL experts."

4.10 In reply to a question if it was not known at that time that the ship-building technology followed by the British firm was different from the one adopted by Japanese, the Ministry stated in a written reply:

"While the basic ship-building technology, like formulation of conceptual design, fabrication and erection and methods of out-fitting of on-board equipments has certain inherent similarity all over the world,

production technology and technique on shop floor varies between countries to countries and are linked with the basic infrastructure of the shipyard concerned."

4.11. Asked whether lack of interface between Japanese layout and the facilities of the Shipyard and the services to be rendered by M/s. SLL were not responsible for the poor performance of the Shipyard in the initial years. In their reply, the Ministry informed the Committee as under:-

"While certain inherent constraints in building a ship conceived for producing in a British Shipyard cannot be over-ruled, it may not be totally correct to assume that if the first design was entered with the same Japanese consultants, there would not have been any imbalance constraints vis-a-vis the newly created infrastructure in CSL, unless of course, the first design is to be created de novo keeping in view the infrastructure of CSL only.

As such, in retrospect it can be said that, to some extent and the lack of interface between the facilities of the yard and the services rendered by M/s. SLL have been one of the reasons for reduced capacity utilisation of the yard. This is not however the sole reason for the poor performance of the shipyard in the initial year.

The other reasons for poor performance of the shipyard have been:

(i) Shipyard took up construction of 75000 DWT vessel and laid the keel for first vessel 001 in February 1976, when the complete project facilities were not yet available.

(ii) The development of ancillary around the shipyard has been much slower than anticipated in the RPR, as a result shipyard could resort to limited off-loading.

(iii) The unprecedented power cut faced by the yard.

(iv) Labour agitation.

(v) Low productivity of the yard."

4.12 In reply to a question if SLL had suggested any alterations in the existing shipyard concept, the Development Adviser (Ship-building & ship repair) stated during evidence:

"They did not suggest any alterations in the basic structure facilities but what they suggested was quite substantial modification in the production design itself to suit the shipyard facilities."

4.13 As regards the cost of modification of design obtained from SLL, U.K., the Ministry subsequently informed the Committee in a written note, *inter alia* as under :

> "Documentation received from M/s. Scotlithgow Limited, U.K., was required to be modified in respect of shop drawing to suit the yard facilities, indigenous materials, machinery and equipment and production methods. Estimated cost of modifying the working drawings was about Rs. 15.18 lakhs.....even if the design documentation had been bought from M/s. Mitsubishi Heavy Industries, Japan, the above modifications would have been required to be made and cost incurred therefor."

4.14 In July 1981, the Board of Directors reviewed the ship-building consultancy and the progress of ship-building performance and observed "even though MHI had prepared a project report for the shipyard and planned facilities, the basic concepts such as the functioning of various departments, the means to achieve effective co-ordination between them, scheduling of works in proper sequence, proper utilisation of machinery, etc have been left unsaid. Further it was initially contemplated to get the ship design also from MHI. However, the design of the ship and shipbuilding consultancy was obtained from M/s. Scott Lithgow, U.K. Although as a result of our association with Scott Lithgow, we have developed our ship-building skills to some extent, still the productivity level has not come upto rate as envisaged in RPR. Ship-building consultancy with Scott Lithgow has also now expired. In hind sight, it can be said that our collaboration with M/s. Scott Lithgow has not proved very useful, in utilising the facilities to the optimum by adopting the latest ship-building practice and in increasing productivity. This is because Scott Lithgow themselves are nowhere near Japanese yards in latest ship-building technology".

4.15 It has been stated that Government of India during a meeting held in February, 1984 to review performance of Cochin Shipyard "also emphasised that the shipyard should have the services of a foreign consultant preferably from Japan who have the latest ship-building technology, especially as the facilities at Cochin Shipyard have been designed with the help of Japanese collaboration".

4.16 It has also been stated that the problem of matching the facilities of the shipyard and the ship-building techniques could perhaps have been solved, if the agreements for both had been entered into at the initial stage itself.

4.17 After the expiry of the Ship-building Consultancy Agreement with M/s. SLL in June, 1981, the Cochin Shipyard Ltd. went in for a fresh consultancy agreement with Japanese firm of MHI on 12th February, 1982 which was to remain in force for 30 months.

4.18 Asked why the shipyard after having gone through all the difficulties in constructing the first ship in five years continued with the same technology for the subsequent ships, the C&MD stated during evidence :

"This is a very valid question. As a matter of fact, I also was feeling that our productivity was very low and we should try to find out as to what is wrong with our work. So, we asked them (Japanese) to come back and study the entire shipyard and find out as to what was wrong with our working. We wanted them to go into our system and tell us where we went wrong. So, their consultants came and stayed with us for a few months and they had pointed out in detail the deficiencies in our system, in our design and in our methods of production."

4.19 The Committee pointed out that the Japanese were invited only after the collaboration with the British firm had expired in 1981. In this connection, the C&MD stated as under :—

"Firstly, we wrote to MITSUBISHI. They said since you have Britishers, we are not interested. Our Minister went to Japan. He persuaded the Japanese to come back again. It is on persuation."

He also stated:

"We were far away from the target set by the Japanese. That is why we invited MITSUBISHI."

4.20 The actual production as compared to RPR had gone down from 81.6% in 1981-82 to 38.42% in 1985-86. The Committee desired to know the real position after discussion with the Japanese experts. In his reply, the C&MD, CSL stated during evidence :

"We went to Japanese simply to come and study as to where we have gone wrong and why is our productivity very low. Second time when the Japanese came, it was not a collaboration agreement. It was purely a study that we wanted them to come back and find out what is wrong with our method of production. They have come to a large number of areas and mentioned the mistakes that we have committed, during their study of the Cochin Shipyard, none of the suggestions could be implemented on design. We could not implement any of the schemes."

4.21 When pointed out that at that point of time when the Japanese consultants were invited the productivity of CSL was rather high, the witness stated :

"We were not growing at that rate and cycle which we envisaged. Time was much longer than what was projected in RPR. So, we wanted to know why we are slower,. In 1981-82 we did only one vessel."

4.22 The Committee pointed out that at that time when another ship-building consultancy agreement was entered into with MHI in February, 1982 for 30 months, the Company had built and delivered only one ship out of 5 with the British technology. The Committee desired to know the reasons for entering into an agreement with the Japanese in 1982. In his reply, the Secretary. Ministry of Surface Transport informed the Committee:

> "Why did we go in 1982 to Mitsubishi ? The question was whether the ship-building facilities created could generate that amount of production? It is more in the nature of reappraisal of the initial project report in the light of non-achievement of the target."

4.23 In this connection, the Development Advisor (Ship-building & Ship-repair) of the Ministry stated during evidence :

> "We found that though we had been able to build the ship, we were far behind the target with regard to productivity envisaged. So, we were concerned about this and we thought that a reappraisal would be necessary to see if there is anything wrong somewhere and if so, to take remedial measures. So, when the Cochin Shipyard came up with this proposal, the Ministry agreed, to have a reappraisal."

4.24 When further proved about the need for entering into a new Ship-building Consultancy Agreement and further after having used the Consultancy Services of M/s. SLL for more than eight years, had not CSL acquired necessary competence to carry out their ship-building activities without foreign consultants, the Ministry informed the Committee in a written reply as under:

> "Shipyard entered into another consultancy agreement with MHI Japan in February 1982. The salient features of the agreement were—
>
> (i) Upgradation of basic technique.
>
> (ii) Training of Company Engineers in Japan.
>
> (iii) Maximum utilisation of ship-building facilities.
>
> This second Consultancy Agreement with M/s. MHI is more in the nature of reappraisal of the initial Revised Project Report in the light of non-achievement of the envisaged targets as was incorporated in the RPR of M/s. MHI. The shipyard's product range is primarily custom built products and varies between owner to owner requirements. In absence of our own design expertise the shipyard for some time to come has to depend on buying designs from the inter-nations market., The production designs of a shipyard has to have inter-face with shipyard's own infrastructural facilities and flow of work methodology. However, since the conceptual design and production design has to be procured on the competitive tender basis of such designs so purchased has to have extensive modifications etc. carried out to suit the CSL's existing facilities."

4.25 When asked to elaborate whether the fact that the Cochin Shipyard had again to go back for Japanese Consultancy did not prove that the Shipyard's collaboration with SLL did not prove very useful in utilising the facilities created at the Shipyard to the optimum, the Minjstry informed the Committee in a written reply as under:

> "It may not be correct to assume that the experience and competency acquired through building of M/s. SLL's designed ships is totally unsuitable.
>
> Based on competitive tenders, CSL has since concluded design collaboration agreement with IHI, Japan for procurement of design for the next series of vessels i.e. 86000 DWT tankers.
>
> They have also concluded production consultancy agreement with IHI Japan, so as to adopt advance out fitting at the unit/Block stage of construction as this would help to reduce the construction time in the Building Dock."

4.26 The Committee find that a contract was concluded in August, 1970 with M/s. Mitsubishi Heavy Industries (MHI) of Japan for technical assistance in construction of the shipyard at Cochin. The question of technical assistance in the building of ships was to be a subject of separate negotiations with MHI as that firm preferred to settle the terms of consultancy on a stage to stage basis. Consequently in August, 1970 a memorandum was exchanged with MHI for technical cooperation in ship design, shipbuilding and ship repairs but no contract could be finalised as the Japanese offer Rs. 3.41 crores for the technical collaboration was not comparable with the offer of Rs. 1.97 crores made by the U.K. firm M/s. Scott Lithgow Limited for similar works. Ultimately an agreement was entered into with M/s. Scott Lithgow Limited under which the latter was to give technical assistance in shipbuilding. This agreement was originally for a period of five years i.e. upto 15 August, 1978. This consultancy agreement was later on extended upto 30th June, 1981 and the total payment made to M/s. SLL was Rs. 2.04 crores as against Rs. 3.41 crores asked for by M/s. MHI of Japan.

4.27 Ostensibly the comparative economics of the two offers seems to have weighed with the authorities while accepting the offer of M/s. SLL. However, in Committee's view while considering the two offers some important aspects were obviously overlooked. It was well known that the shipbuilding technology of U.K. was different from the Japanese technology and since the shipyard has been built with Japanese technical collaboration, the infrastructure created was more suitable for the production technology and techniques of Japanese industry. It should have been anticipated that when the consultancy for shipbuilding was being obtained from U.K. rather than from Japan, there was the likelihood of a mismatch between the facilities already created and the

new technology being obtained. This is precisely what happened when the shipbuilding consultancy was assigend to the U.K. firm. The Committee are sorry to find that lack of interface between Japanese layout of the shipyard and the methods of production of M/s. SLL not only resulted in poor performance and delay in construction of the ships but also involved lot of extra expenditure on substantial modifications made in the production design to suit the shipyard facilities.

4.28 The productivity level achieved with the help of U.K. consultancy services was much below the target envisaged in the RPR and it was then alone realised that the rated output of 2 ships per annum could be achieved only when total potential of the facilities established in CSL was fully exploited by adopting latest advance outfitting techniques and related production design/engineering practices. With this end in view the Japanese firm of M/s. MHI was brought back again after a great deal of persuasion soon after the collaboration agreement with the U.K. firm M/s. SLL came to an end in 1981. The expenditure on the new consultancy agreement entered into with M/s. MHI has been estimated at Rs. 1.42 lakhs. From the facts placed before them, the Committee get an impression that the initial selection of the U.K. firm M/s. SLL as consultants for shipbuilding in preference to the Japanese firm of M/s MHI, who had collaborated in the construction of the shipyard and then again bringing back the same Japanese firm for consultancy were not dictated by financial considerations alone. The Committee apprehend that there must be something more than meets the eye. The Committee, therefore, recommend that the matter needs to be probed more thoroughly by an independent person or body and the Committee apprised of the outcome thereof.

CHAPTER V

SHIP REPAIRS

5.1 One of the main activities of CSL is Ship repairs. Ship repair dock is capable of taking in ships upto 1,00,000 DWT. As per RPR ship repair dock was expected to achieve an yearly volume of 10,00,000 GRT within nine years from commencement of production. The Ship repair dock was commissioned in February, 1981. The table below gives details of the physical performance of the ship repair dock of the Cochin Shipyard :

Year	GRT	No. of Vessels repaired	Financia (Rs. in lakhs) (turnover)
1980-81	...	...*	47
1981-82	148000	29	240
1982-83	103210	48	552
1983-84	227560	27	220**
1984-85	298165	45	465
1985-86	430525	46	741

*Only onstream repairs were carried out

**The low level of performance in 1983-84 is due to the power out enforced by the State Government which went upto 100% as well as prolonged labour agitation in CSL

5.2 It has been pointed out by Audit that the Shipyard earned profits on some ship repairs and lost heavily on others. Audit has observed that out of the 59 jobs done in 1981-82 the loss on 23 jobs was Rs 70 lakhs and out of the 39 jobs in 1982-83 the loss in 11 jobs was Rs. 56 lakhs. Similarly out of 46 jobs in 1983-84 the loss in 24 jobs was Rs. 129 lakhs and in 1984-85, out of 41 jobs, the loss in 18 jobs was Rs. 199.45. lakhs. The Company had stated that the tariff rates quoted for ship repairs were based upon the prevailing rates in other shipyards in the country. However the Audit has pointed out that there was no arrangement for regular job-wise analysis of costs and incomes to ascertain reasons for loss. In this connection, the C&MD, CSL stated :

> "Initially when we started we were maintaining job-wise accounting and we were only trying to find out what the loss is. Now, for the last two years' our position has become much more difficult in that the

shipowners take a stand that unless the cost is competitive and unless the price is competitive, they will not give a ship to us. So, about two years ago we went to the Shipping Corporation of India. and we explained to them that we would like to improve our position and get the ship only on the competitive basis and not on the allocation basis. So, from that time they have been giving to us the other quotations which they are receiving from Malaysia, Singapore and Colombo. Whenever they give a ship to us the repair comes to Rs. 80 lakhs or Rs. 90 lakhs. So, it is a very huge sum. They normally call for tenders. When they call for tenders, we send our engineers there and they try to find out what are the other quotations and what are our quotations. There are certain areas where we could reduce it and in certain areas, we could not reduce it. During the dialogue, we have discovered certain things and we have now introduced a system that in each job, every engineer should maintain a record as to what he does and tries to improve his performance ship after ship."

The witness further added :

"In the last two years, we have been able to build up statistics and we are able to maintain it."

5.3 In reply to a question as to why no costing system was being maintained for apportioning the cost of repairs, a representative of the Shipyard stated :

"The reason is, major portion of the ship repair cost is due to overhead and depreciation. But the direct expense which we incur for ship repair is generally less than 50% of the amount. In fact, when we take into account the direct expenses spent and the overhead charges, the direct expense is always very less.... That is why, higher amount of overhead had taken place."

5.4 In reply to a query as to when CSL would be able to make profit on ship repairs, the C&MD stated :

"Today we are able to make a profit without providing for government interest. If the apportioned Government interest for ship-repair is to be taken away, probably in the next two to three years we should be able to do it."

5.5 The Committee drew attention to the reply given by CSL to the Audit enquiry in February, 1985 wherein the company had stated that since the project cost of the ship repair complex was very high the fixed overhead cost could be fully absorbed only when CSL reached a very high level of performance and until then some losses were unavoidable. In that context, the Committee enquired if the company had reached that stage of high level of performance. In his reply, the CMD stated :

"I can definitely say that our performance is quite good now. We have a better estimate of each job, how much people are to work, how much time they will take. Before each job is given to the workers, the engineers and supervisors make an estimate as to how much work-content is involved, what is the norm that they have in the establishment, what is the time in which that is to be done. This control is now being exercised. It is only due to this control that we are able to match the prices prevailing in other shipyards. This is one control which we exercise so that we are able to control the costs and we are able to control the time. Today we have no problem in getting more and more work from the private sector. We have no market problem in ship repair because our performance is better. We are also concentrating on the other side. The Japanese consultants have said that we should be able to reach the rated capacity in a period of ten years. We are now almost two or three years ahead of the Japanese projections."

5.6 The Committee desired to know whether there were any deficiencies in the ship repair facilities at CSL and if not what were the reasons for not getting sufficient work. In reply, the C&MD, CSL stated during evidence :

"We ourselves were forced to do that work purely because the business in ship repair was much more competitive in places like Singapore and Colombo. So, there is very large amount of reluctance on the part of ship owners to come to India for ship repair. Purely for our survival in ship repair, we have to reduce our costs. From 1983-84 onwards, our costs have been reduced to a very large extent and our time has been reduced to a very large extent to match with the time taken by Singapore and Colombo. Due to that, today we are able to get ship repair from our own Indian ship owners very freely. Earlier, we had to go and press them very hard. But today they are willing to come because the rates are approved and at the same time, the time is also comparable."

He added :

"That is how you will find that our ship repair work has suddenly increased from Rs. 450 lakhs to Rs. 700 lakhs and this year we will have more than Rs. 800 lakhs."

5.7 The Committee noted that while the foreign exchange earnings in 1981-82 were Rs. 21.90 lakhs, the corresponding figure for 1982-83 was nil and only Rs. 6000 in 1983-84. The foreign exchange earnings had gone up to Rs. 24.66 lakhs in 1984-85 but again come down to Rs. 0.48 lakh in 1985-86. When asked why the foreign exchange earnings were declining, the Chairman & Managing Director, CSL stated during evidence :

"It depends on the availability of ships which are coming to us for repairs."

5.8 Asked whether foreign ship owners do not want to have their ships repaired in Indian Shipyards, the representative of the Ministry stated :

"In the case of Cochin two years back two of the emergency ships were repaird in record time but it is a fact that they prefer to use their own ship repair facilities."

5.9 In this connection, the Secretary of the Ministry informed the Committee :

"There is another factor also, take for example, Singapore Ship Repair Shipyard. They give credit facilities for ship repairs. We are not able to provide that type of situation. Most of the ships prefer to go to Ceylone and Singapore. We have also succeeded in getting declared that ship repairs would be treated as deemed export facility."

5.10 When asked when it was made deemed export facility, the Secretary of the Ministry stated, "We introduced this 100 per cent deemed export in 1983."

5.11 When asked about the amount which was coming to India by way of ship repair, the representative of the Ministry informed the Committee :

"Last year, in the case of Cochin Shipyard, their revenue was Rs. 7.6 crores. This year it may exceed Rs. 7 crores. Our ship repair facilities are not adequate compared to the total requirement of the shipping companies, as they can take it up to a maximum of 20% of the total requirement."

5.12 In view of the fact that there was idle capacity in ship-building, the Committee desired to know if it was not possible for the shipyards to increase their capability so far as ship repair work was concerned. In reply, the representative of the Ministry stated :

"We have to look into that also and the thrust of it has been certain modernisation schemes for ship repair. In the case of Hindustan Shipyard, already a scheme is under implementation. As regards the dry docks of Calcutta Port, the modernisation scheme is under implementation. We have included provision of ship repair facilities in the Seventh Plan for the Bombay Port Trust modernisation scheme and Cochin Shipyard's Ship repair Quay extension scheme, so that maximum revenue earning areas could be improved upon as far as ship repair facilities are concerned. The thrust of the Seventh Plan has been that ship repair should get maximum encouragement."

5.13 Asked whether any comprehensive study about the requirements and availability of the ship repairing facilities in the country has been made

by the Ministry and if so, what are the findings. In their written reply, the Ministry of Surface Transport have stated as under :

"A comprehensive study about the requirements and availability of ship repairing facility in the country was carried out by this Ministry through M/s. Blohm Voss AB West Germany in Association with Engineers India Ltd., in 1981-82. Major findings of the report are as follows :—

(a) For developing an efficient ship-repair industry in India & augmentation of facilities on a large scale a study is required to be carried out.

(b) An early construction & development of the three new Complexes (namely Haldia, Madras and Nhava-Bombay) for setting up an efficient repair industry in India. The administration and operation of these yards should be entrusted to independent organisations.

(c) The acquisition of land as well as model studies for these complexes to be initiated by the Government as required.

(d) For better co-ordination and proper functioning, the management of the Calcutta Port Trust (CPT) and Bombay Port Trust (BPT) dry-docks should be entrusted to an independent authority with full administrative powers. This authority should be free from the overall control of CPT and BPT.

(e) In order to make the Indian ship repair industry both attractive as well as competitive in the international field, the import and custom formalities have to be liberalised in consultation with concerned departments to maintain in the time schedule and quality of repair.

(f) Modern practices such as high pressure jetting, airless spray painting etc. to be introduced for such works as shipping and painting ships' hull instead of manual clipping and painting.

(g) As for the man power requirement in connection with the augmentation schemes, for most of the Port Craft repair facilities existing work force after suitable training may be diverted.

(h) For improving their techniques in the Indian yards, from time to time the technical personnel from the yards in the related fields should be deputed for proper training in reputed foreign yards.

(i) The Floating Dry-Dock being built by Hooghly Dockings Ltd., Calcutta, should be allotted to Kandla Port Trust for

repairing their craft as a replacement to the present worn out R.C.C. floating dry-dock."

5.14 While dealing with the question of diversification of activities in the Cochin Shipyard with a view to maximise capacity utilisation, the CMD stated during evidence :

"We also find that there is a large scope for ship repairing work because the amount of repair work that is done outside the country is about the order of Rs. 70 crores. So, today we are diverting some of our people from ship building to ship repairing work. So far, we have been able to do better than the Japanese projection in every successive year. With the combination of higher output in ship repairs and diversification, we are able to do better financially and the losses are being reduced. It will take at least two or three years before we could break even and by that time, the market will get stabilised and we will be getting the desired revenue."

5.15 On an enquiry about the steps being taken by the Ministry of Surface Transport to encourage the ship repair work in the Indian shipyards, the Secretary of the Ministry stated during evidence :

"You have very rightly raised this point. The Government has also been anxious about it. We reviewed the position in 1985. Earlier a study had been made of the ship repair facilities in the country. Detailed study was carried out in 1985. The port procedures have been tightened up. For all ship repairing facilities, DG (Shipping) has to give a licence. His basic guidance is that first, all these ship repairing slots which are available in the country, must be built. The slots have to be built in terms of ship repairing facilities. Every quarter the DG (Shipping) allots these slots for the repair of ships. No company can go out. The only areas where the ships can go out are; if the repairs required by the ship are in the foreign ports, or where having regard to the nature of repair requirement, our shipyards are not capable of repair. This position was introduced from 1985 onwards and, to our knowledge, this has been working quite satisfactorily."

5.16 The Committee enquired whether it was not possible to make it obligatory on the part of Indian shippers to get their ships repaired only in Indian shipyards where adequate facilities are available ? In a note, the Ministry have stated :

"As it is, under the existing instructions for repair of any ship outside the country Indian Shipping companies have to obtain permission from Director General of Shipping who in turn examines whether the capacity to handle such repairs are available indigenously for repair of ships within the given time frame. For this purpose

indigenous shipyards indicate to DG Shipping quarterly as to what are the slots available in their yard where such repairs could be carried out. DG Shipping then examines the proposals of Shipping Companies and allows ships to be repaired outside only if such capacities are not available within the country.

It may however be pointed out that at times the time taken by Indian Shipyards for repair of ships is more than the time taken abroad. In addition the foreign shipyards offer credit facilities to the shipping companies which Indian Shipyards are unable to offer due to financial constraints.

Since DG (Shipping) is holding quarterly meeting with Indian shipyards and shipping companies to draw up ship repair schedule it ensures optimum utilisation of existing repair facilities of the yards.

None of the ships are sent abroad by DG(S) if the same can be repaired in indigenous yards within the reasonable time frame. This co-ordination meeting by DG(S) has already improved repairs dock occupancy of the shipyards."

5.17 The Committee wanted to know whether some staff from ship-building side could be transferred to ship repairs side because of less work on the construction of ships. In this connection, the CMD stated in evidence :

"We have transferred about 100 workers from the steel side to the ship-repair side. Perhaps, the larger output there is to a certain extent because of contribution from a larger number of people."

He added :

"It is possible, but at the same time there are some limitations. Basically we divide repair into two categories : one for steel and one for machinery. The type of repair that is done for machinery is done by a group of people who are called engineer-fitters, but the type of repairs that are done on the steel side consists mostly of welders. If I have more people on the steel side, then my capability for repair of more steel work only is created and not more on the engineering work, these people will not be able to attend to it. But still within the Yard we have a flexibility. At any point of time if there is excess work in ship-repair, we are able to transfer people to ship-repair and get the work done. Similarly, if in ship-repair there is no work we also have the flexibility to transfer them to ship-building and get the work done."

5.18 One of the main activities of CSL is ship repairs. As per RPR ship repair dock in CSL was expected to achieve a yearly volume of 10,00,000 GRT within 9 years from commencement of production. Since 1981 when the repair dock was commissioned, the shipyard has reached a level of 4,30,525

GRT by the end of 1985-86. In financial terms the turnover in 1985-86 was of the order of Rs. 7.41 crores. However, since the project cost of the ship repair complex is very high the fixed overheads can be fully absorbed only when CSL reaches a very high level of performance. The Committee cannot but emphasise that all out efforts should be made to put the facilities already created to the maximum use and to achieve a level of performance where the shipyard is not only able to break even but also to earn profits. It is no doubt necessary that the deficiencies, if any, in the existing facilities are removed by taking appropriate and adequate measures.

5.19 It has been brought out by Audit that there was no arrangement for regular job-wise analysis of costs and incomes and hence it was difficult to pinpoint reasons for losses incurred by the shipyard in many of the repairs jobs undertaken. The Committee desire that this lacuna should be removed forthwith. There is also need for having a costing system for apportioning the direct costs and overheads.

5.20 The Committee note that the shipyard earned some foreign exchange by carrying out repairs of the foreign ships. The foreign exchange earnings had gone up to Rs. 24.66 lakhs in 1984-85 but came down to just Rs. 0.48 lakh in 1985-86. The decline in the foreign exchange has to be analysed to ascertain as to what were the reasons for very few foreign ships coming to the shipyard for repairs. Based on such a study the facilities in the repair dock should be augmented and the services rendered made more competitive with a view to attract more of foreign ships.

5.21 The Committee feel that in the context of the uncertain order book position of the shipyard in the matter of ship construction, it is necessary to pay greater attention to the better utilisation of the ship repair facilities in the yard. Admittedly there is large scope for ship repairing work in the country because at present most of the repairing is being done out side the country. The total repairing work being done outside has been estimated to be worth Rs. 70 crores and presently the Cochin Shipyards repair work is only of the order of about Rs.7 crores. With sustained efforts it should be possible to secure and undertake successfully more repair jobs. The Committee are sure that now that the total ship repair work is being systematically managed by the DG (Shipping) it should not be difficult for the Cochin Shipyard to get adequate orders for repair job. The only thing needed is that the yard should gear up its activities in the ship-repair department, devise a suitable strategy for improving its performance and deploy more manpower by diverting excess staff from ship production side with a view to enhance its capacity in ship repair work.

CHAPTER VI

DESIGNS ORGANISATION

6.1 As the Company's own design organisation is yet to build up competence in designing ships and as there is no central designs organisation for Indian shipyards, CSL is obliged to go in for foreign collaboration at high cost for the design of each new series of ships. The first agreement of this type was signed with SLL at a cost of Rs. 204 lakhs which has to be distributed over the 5 ships of 75,000 DWT series.

6.2 Thereafter CSL signed a similar agreement for 67,000 DWT series with M/s. Shipping Research Services, Norway (SRS) at a cost of Rs. 110.71 lakhs. CSL has now entered into collaboration agreement with M/s. IHI Japan for manufacture of 86000 DWT tankers.

6.3 As the cost of each Collaboration is very high, and this kind of purchase is repeated frequently with every change is class of vessel, it is necessary to build a number of ships to reduce the unit cost of collaboration for the design of the ships. In the absence of a central designs organisation to cater to the needs of the five nationalised ship-yards in the Country, this has now to be arranged from foreign collaborators at high cost.

6.4 On an enquiry if CSL had developed their own Research and Development organisation, the Secretary, Ministry of Surface Transport informed the Committee during evidence :—

> "In the earlier series the SLL had 75,000 tonnes bulk carriers. Now what was required was a technology for tanker efforts. I think for the first time more or less we will be building the tankers in the country. We have to admit that in this country as yet the design capabilities have not developed. They are in a very very ascent stage."

6.5 The witness further stated :

> "On the indigenous R&D the design capabilities have not been adequately developed in this country for ship building. We had a proposal in the Sixth Plan for having a design Centre. But due to constraint of resources, we did not go ahead with the proposal."

6.6 When enquired about the outlay required for setting up a Design Centre, the Secretary Ministry of Surface Transport informed the Committee that 'a study was carried out and it was of the order of about Rs. 6 crores.' In this connection, the Committee were further informed :—

> "In the Sixth Plan it was shelved. Since we badly need a basic design unit, we have again formulated it with a smaller outlay of Rs. 4 crores. This is very necessary because otherwise every time there

is a change in the class of Ship we have to go in for consultancy or technology Collaboration outside."

He also added :

"This time Planning Commission has agreed to provide for this smaller thing. And we are in the midst of finalising this project."

6.7 The Committee were also informed during evidence that it would take about a decade to build up total design capabilities. When pointed out that over a period of ten years it would become absolete, the witness stated :

"The question is at what time to design. It is not that they are creating a design. Once we have got the basic capabilities to design, then this technology can all the time be upgraded. I am not satisfied with Rs. 4 crores allocation, but that is what we got now. I am trying to create a nucleus along which I want to build a big thing. Even in foreign countries, the Ship designers and the Shipyards are quite different in most of the places."

6.8 Subsequently, the Ministry of Surface Transport stated in a written note as under :—

"The Ministry of Surface Transport has a proposal to set up a National Ship Design & Research Centre in the Central Sector catering to the needs of Indian Shipyards in the ship building industry. There is a projection of Rs. 4.00 crores in the 7th Plan for this Project. There is favourable indication also to get substantial bilateral assistance from the Government of Netherlands for this Project under their Technical Assistance Programme. The scheme is likely to come up for Government approval some time in March/April, 1987."

6.9 In reply to a question regarding import of designs, that Ministry stated in a written reply that *ad hoc* method of importing designs and countinuing dependence on imported inputs from foreign competitors should be stopped.

6.10 The Committee find that neither Cochin Shipyard had developed their own research and development organisation nor is there any Central designs centre where the design and technological capabilities have been adequately developed for the ships building. CSL is therefore obliged to go in for foreign collaboration for obtaining ship designs whenever orders for a new ship or series of ships are received. This not only involves high cost in terms of financial outgo, but also hampers the indigenous R&D efforts. As a result there are no plans worth the name for achieveing self-reliance in design and technological capabilities. The Committee have been informed that a study for having a design centre at the national level was carried out and a project

costing Rs. 6 crores was thought of during 6th Plan. But due to constraint of resources this was shelved. The Ministry of Surface Transport has now a proposal to set up a National Ship Design and Research Centre in Central sector for catering to the needs of the Indian shipyards. This scheme has yet to be approved by the Government. The Committee cannot but emphasise that the proposal for the Design Centre should be vigorously pursued, finalised and implemented without any further delay.

6.11 The Committee need hardly point out that research and design development related to ship design and construction has to be tackled at the national level and as a joint effort of all the Indian shipyards. Unless indigenous designs are developed to match the national requirements of advanced technology for ship-building based on long term plans it will not be feasible to construct ships by using indigenously manufactured components & materials. The Committee desire that the policy of haphazard and *ad hoc* imports of technology & design and foreign collaboration by individual shipyards should be immediately done away with. To this end there is urgent need for drawing up and implementing a long term plan for strengthening the design and development capabilities. The Committee recommend that positive steps should be taken by the Government in this direction on priority basis and Committee informed of the action taken in this direction within next six months.

CHAPTER VII

PRODUCTION PERFORMANCE

(A) *Manpower-Needs and Actuals*

7.1 The RPR of Cochin Shipyard envisaged employment of 1996 persons to attain target production of two ships (of 66,000 DWT each) a year and an annual ship repair capacity upto 7,50,000 GRT to be achieved in 10 and 9 years respectively after start of production.

7.2 It has been stated by Audit that the manpower requirements were assessed in 1971 in consultation with MHI at 2032 persons (to be positioned by the time production started in 1975-76) including 400 persons for ship repairs. Considering larger size of vessels of 75,000 DWT proposed to be constructed as against ships of 66,000 DWT envisaged in the RPR, in 1974 the requirement was reassessed as 2166.

7.3 The actual number men in position was higher since 1980-81 even though the level of production was less than that assumed while assessing man power requirement, as would be seen from the following table:

	Technical Staff		Supporting Staff & Officers		Total	
	No. sanctioned	No. in position (including of production staff)	No. sanctioned	No. in position	No. sanctioned	No. in position
As on						
31st March 1980	1,568	1,463	742	680	2,310	2,143
31st March,1981	1,763	1,561	784	725	2,547	2,286
31st March,1982	1,746	1,656	760	737	2,506	2,393
31st March, 1983	1,787	1,689	793	741	2,580	2,430
31st March, 1984	1,881	1,809	785	728	2,666	2,537
3st March, 1985	1,896	1,802	791	728	2,687	2,530
31st March, 1986	1,862	1,795	811	745	2,673	2,540

7.4 The ASCI were engaged by CSL to evolve a man power plan and initiate a manpower development programme. The first part of the work was completed and report submitted by them in July 1980. The report was also placed before the Board in March 1983; but it has not been implemented

so far (March 1986). The remuneration paid to ASCI for the report was Rs. 70,000.

7.5 Management informed Audit in January 1983 that the Report of ASCI was kept pending for a clearer picture of the organisational set up and manpower requirements on the basis of revised scale of activity to emerge. ASCI has been asked to defer the second part of their assignment viz. Management development, for the same reason.

7.6 The Committee have been informed that the CMD constituted a Committee of officers in October 1981 to look into the manpower problems and report within a fortnight. The report of the Committee was received in June 1982. However, the process of rationalising manpower was still pending (March 1986).

7.7 The Committee noted that the report submitted by ASCI, who were engaged by CSL to evolve a manpower plan and initiate a manpower development programme, in July, 1980 was placed before the Board in March, 1983. Another Committee constituted by the Chairman & Managing Director in October, 1981 to look into manpower problems gave its Report in June, 1982 but this report was not placed before the Board. When asked about the reasons for that, the CMD stated *inter alia*, as under:

> ".....March, 1980 figure is 2143. We were exceeding original manpower projected by the Japanese. At that time there was pressure from departmental heads to say that we do not have enough manpower and we require more manpower to do the work. At that time the management went to Staff College and made them to study the manpower required in the shipyard. When the staff college people came in, they discussed with these people, and they submitted a report. They discussed about what should be growth rate in the Cochin Shipyard. And for that growth rate, what should be the manpower requirement. That was what was projected. But that was not very relevant. They have thought of so many expansions and other things, doing consultancy work, doing additional products like cranes and things like that. For that manpower was projected."

7.8 Explaining the reasons for not placing the report of the Committee appointed in October, 1981 before the Board, the CMD stated:

> "That was a study requested for by me. It should not go to the Board. It need not go to the Board. This analysis was made. Manpower is given for the 3 categories of people—technical staff, supporting staff and officers. It was not clear as to what should be the department-wise division. So I requested the Chief Manager, Shipbuilding to make a study about what should be the distribution

in the various departments and what should be the strength and so on."

7.9 As regards the reasons for appointment of Administrative Staff College of India for manpower plan for CSL, the witness stated:

"When I requested him (ASCI) to make a manpower plan we wanted to make a comparison between what the Japanese have projected and what we actually have and where the mishap has happened. We found that it was on the administrative side; in the service side they have more people than on the production side. Compared to production people, the service people were more. We have banned further recruitment. No recruitment has taken place after that. We are not taking any fresh people in the last five years."

7.10 When asked about the necessity for entrusting the work of manpower analysis to the ASCI and whether the assessment of MHI not considered reasonable, the Committee were informed by CSL in written reply:—

"MHI consultants for yard construction had only given a broad category-wise break-up of manpower requirement in their project report. A more detailed manpower plan for the shipyard was prepared in the initial stages based on Japanese estimates of work involved in building 66,000 DWT Bulk Carriers and for attaining progressively the full rated capacity. This was also approved by the Board during 1974. This had formed the rough basis for recruitment and training personnel. In actual implementation, it was observed that various factors peculiar to Indian conditions and need for certain services had not been reflected in the manpower plan and there was a case for sanction of men over and above the original assessment. Thus, even though production was in early stages and ship repair works had not started by 1979, there were demands for sanction of additional strength over and above the over all limit in some departments and it was considered necessary to carry out an analysis of the situation by a specialised agency. The manpower inducted in the initial stage was also primarily for construction of the yard and installation of equipment, and the need of developing and training of the project personnel for production/SR functions was also felt.

Initially an attempt was made to see whether the O&M Unit of the Ministry could help in such an assessment but it was indicated that they would not be able to take up this work considering the scope of the study. Therefore ASCI was asked to prepare a preliminary survey report of the improvement areas and to follow-up the same by detailed study."

7.11 When asked about the reasons for not taking effective action to implement the report on manpower, especially when there was need for having a scientific assessment of manpower requirement in the shipyard, CSL stated in a written reply as under:

> "The assignment to ASCI included 3 parts viz (1) the manpower plan, i.e., identify CSL termobjectives and plans, identify an organisational structure that would help CSL to achieve its short term and long term objectives and the needs for determination for various managerial and non-managerial manpower. This was to be followed by (2) a similar exercise in management development and (3) personnel management strategy. However, the pace of growth of activities in the company did not catch up with the project report projections with the result that there was no possibility of laying down norms or finalising an organisational structure and manpower strength at the time the report was received. The ASCI report had attempted a fixation of strength, department-wise with reference to existing departments and functions and did not cover functions like ship-repair. This itself represented higher strength than originally envisaged. Therefore this was not taken up for implementation. Since then based on the experience gained and the practice followed in Japanese Yards, some of the departments have been reorganised on zone-wise function. Various other committees/specialists have studied the matter, e.g. VADM. Datta and Mr. J.W. Prins and their recommendations have been implemented, in stages. In this context. the report of ASCI has ceased to be relevant.
>
> Mean while, the original idea of continuing the services of ASCI for management development and personnel management strategy was not pursued. Subsequent studies by the Japanese consultants during 1982 have also shown that the manpower would have to be enhanced significantly to achieve the project report target of 2 ships per year."

7.12 In reply to a question if the Company had derived any benefit from the reports of the two Committees and had the Board given any directions in the matter, CSL stated that as far as the ASCI's report was concerned, the position was reported to the Board and no specific directions were sought for or received in the matter.

7.13 The Revised Project Report of the Cochin Shipyard envisaged employment of 1996 persons for attaining the target production of two ships a year and an annual ship repair capacity of upto 10,00,000 GRT. The requirements of manpower were reassessed in 1971 in consultation with M/s. MHI at 2032 persons and again in 1974, considering larger size of vessels of 75,000 DWT

proposed to be constructed as against ships of 66,000 DWT envisaged in the RPR, the requirements of manpower were reassessed at 2166 persons. The actual number of men-in-position has, however, been higher than this level since 1980-81, even though the level of production was much less than that assumed at the time of assessing manpower needs. In fact, the total number of men-in-position has gone up from 2286 in 1980-81 to 2540 at the end of the year 1985-86. In between two studies had been undertaken for assessing the manpower needs and also for initiating a manpower development programme. The first of the studies was done by the Administrative Staff College of India, who were paid a remuneration of Rs. 70,000. The assignment to ASCI covered not only an assessment of the manpower needs but also included services for management development and personnel managemeat strategy. ASCI submitted part one of their report in July, 1980, which was placed before the Board in March, 1983. The other study was done by a Committee of Officers constituted in October 1981 to look into the manpower problems. The report of this Committee was received in June, 1982. However, no worthwhile action seems to have been taken by the undertaking in pursuance of these reports and the process of rationalising the manpower planning is still continuing. The Committee feel that in the context of the very low level of capacity utilisation and large number of idle machine and man hours in the undertaking, there is urgent need for having a scientific assessment of the manpower requirements in the shipyard. The Committee desire that such a study may be entrusted to a recognised management consultancy agency, who may be required to complete the work within a given time frame. The Committee would like to be apprised of the action taken in this behalf.

(B) Machine Utilisation

7.14 Audit has stated that at the beginning of 1983-84 CSL had about 350 machines valued at Rs. 36.41 crores.

7.15 The following statement shows the utilisation of machines and idle time during the years 1981-82 to 1985-86.

	1981-82	1982-83	1983-84	1984-85	1985-86
1. Total number of machines—350					
2. Total number of machines for which log books maintained	83	83	31*	84	86
3. Total hours available.	208520.63	171615	65293	178000	220000
4. Hours utilised	113034.63	89089	18901	101000	140000
5. No. of idle hours	95486	82526	46392	77000	80000
6. %utilisation	55%	52%	29%	57%	52%

*Due to labour trouble machine logs were available only for 31 machines during 1983-84.

7.16 From the above statement it is seen that out of about 350 machines, log books had been maintained only in respect of 83 machines in 1981-82 & 1982-83, 31 in 1983-84, 84 in 1984-85 and 86 in 1985-86.

7.17 It will also be seen that the percentage of utilisation of the above mentioned machines was 55 in 1981-82, 52 in 1982-83, 29 in 1983-84, 57 in 1984-85 and 52 in 1985-86.

7.18 From the information furnished by CSL it is seen that the main reasons for under-utilisation of these machines were 'waiting for want of jobs' and 'other reasons'. Waiting for want of jobs accounted for 32% in 1981-82, 34% in 1982-83 and 55% in 1983-84. It was 31.4% in 1984-85 and 34.21% in 1985-86. 'Other reasons' for idle time accounted for 11% in 1981-82, and 1982-83 and 14% in 1983-84. It, however, came down to 8.6% in 1984-85 and 8.56% in 1985-86.

7.19 The Management informed Audit in February, 1985 that "for all costly equipments machine utilisation records are being maintained by the company. However due to labour agitation for some period the utilisation reports in respect of some machinery and cranes are not maintained.. ..the machinery and equipment are intended for full capacity operation and CSL is yet to reach the optimum level of performance".

7.20 Referring to the large percentage of idle machines hours, the Committee enquired why the machinery was kept idle. The Chairman & Managing Director, CSL explained the position as under:

> "We have hull side and regular shop for forming, welding. We have building dock, where units are assembled and welded. Out fitting is also carried on. The equipment is used in the hull shop. In the outfittings, the heavier items like diesel generating sets, pumps are normally lifted by crane and rest of the job is mostly related to fitting. The real equipment is in the hull shop except for the major crane. As far as the cranes are concerned, they are very well utilised and their utilisation figure is very high.

> As far as other machines on the hull side are concerned, these machines are required for making component, for continuing assembly work by a set of people. The units/items in the hull are made by a group of people who take certain formed things from the press. In most of the Ship building in the hull shops they have to make components for which there is no full utilisation. The idea is assembly workers would be continuously and fully engaged and they have to get all their components and cut plates from other places. Mostly machines are available in the hull shop for making components. We will not be able to utilise them fully.

We are having a log book for most of the cranes and most of the costly equipments in the hull shop. Utilisation is poor in the case of hull shop and in the case of crane the utilisation is full".

7.21 The Committee enquired about the number of machines out of 350, log books for which were kept during the year 1985-86. In reply the witness stated :

"Log books are maintained for 84 machines valued at about Rs. 23.20 crores out of 350 machines valued Rs. 36.41 crores."

In this connection, the CMD further stated :

"We do have a system of maintaining log books for the costly machines. Our total cost of the equipment is Rs. 35 crores for the total procurement. Earlier we have been maintaining log books for crane. These are actually very much required by us. Without crane we cannot do much work in building dock or out-fitting area. So, we maintained it mostly for cranes. Later on we started maintaining it for higher number of machines. We have increased the number to cover Rs. 23 crores worth of equipments. There are critical machines so far as operations are concerned. There are costly machines so far as operations are concerned. There are machines for sheet metal shop and hull shop. They cannot be fully utilised. They will have lot of idle time. Sometimes the machines are not fully loaded. We maintain log books for that."

7.22 When asked about the difficulty in maintaining the log books, the witness stated :

"Some machines do not have an operator by itself. Press is there. There is a group of workers for the assembly shop. If there is a component to be pressed, they normally put and press it in the assembly. Log books if we have to maintain, we have normally to keep them at a central place. The operator goes on recording the same. Now, the machine is not being operated continuously. The machine does not have an operator by itself. Any fitter who has undertaken proper training shall be able to operate it. But since the machine is very scarcely operated they are not maintaining a log book."

7.23 In reply to a query that some machines might not be working even for 5% of the time, the witness stated :

"There are some machines about which we have undertaken a review. In some cases we find the machine is in a wrong place. Than we shift it to a place where it should be located, where it should used. Sometimes the people do not know the use of the machine. We are seeing that the whole process is changed in such a way that they are able to fully utilise those machines."

7.24 The Committee enquired whether there were more than one similar machines which were not being utilised fully, the CMD stated in his reply :

"We have two presses. There is a 500 tonne press and a 1200 tonne press. The 1200 tonne press was being continuously operated and there was lot of backlog on that. 500T Press is not fully utilised. We tried to find out how many can be used. For 500 tonne press, we diverted lot of work. Still we find that the 1200 tonne press is overloaded. Last time, when MHI was here, they said 'we are utilising 1200T for certain things for which it is not supposed to be used.' Japanese said these all should be done by heating. We have trained some of our people in flame heating to reduce the load on the presses."

7.25 The Committee find that CSL had about 350 machines valued at Rs. 36.41 crores as at the beginning of 1983-84. With a view to watch utilisation of machinery, log books are required to be maintained for each machine and reviewed periodically to find out whether there was avoidable idle time. Out of the 350 machines in CSL log books in respect of about 86 machines only are reportedly being maintained. How in the absence of the log book the utilisation of the machines is being watched in the shipyard is difficult to understand. One of the reasons given for non-maintenance of log book is that some of the machines are very scarcely operated and hence no log book was being maintained.

7.26 The Committee note that another conspicuous feature relating to machine utilisation was the large number of idle hours *vis-a-vis* total available hours. The Committee find that the percentage of utilisation of the machines as compared to the total hours available ranged between 52 and 57 per cent during the last 5 years. This would indicate that the percentage of idle hours during the same period ranged between 43 and 47 per cent. This position is not at all a happy one. The situation needs to be reviewed systematically with a view to identify such of the costly machines which are not being used at all or which are very scarcely used and which of them could be dispensed with. The Committee desire that such an exercise should be undertaken immediately and the action taken in the matter should be intimated to them.

7.27 It has been pointed out by Audit that the causewise break-up of the idle time reveals that most of the idleness was due to "want of job". The Committee are clearly of the opinion that this under scores the need for improving the performance of the undertaking as also for finding adequate work load for men and machinery deployed. It goes without saying that only fuller utilisation of the installed capacity can lead to optimum utilisation of the factors of production, and urgent steps should be taken in this direction.

(C) Idle Time

7.28 Table below shows the percentage of idle time wages to total wages of production staff for the last seven years.

Year	Total wages of production staff (Rupees in lakhs)	Idle time wages	Percentage
1979-80	102.49	12.60	12.3
1980-81	154.98	14.64	9.4
1981-82	145.87	17.81	12.2
1982-83	142.21	11.33	8.0
1983-84	150.88	26.36	17.5
1984-85	154.91	14.34	9.26
1985-86	179.99	15.59	8.66

7.29 It will be seen from the above that the payments on account of idle time wages increased from Rs. 12.60 lakhs in 1979-80 to Rs. 26.36 lakhs in 1983-84. It was, however Rs. 14.34 lakhs in 1984-85 and Rs. 15.59 lakhs in 1985-86. The percentage of idle time wages to total wages also registered an increase from 8 in 1982-83 to as high as 17.5 in 1983-84.

7.30 According to the Audit the main reason for idle time was waiting for want of jobs. The idle time on account of waiting for want of jobs which was 0.42 lakh manhours (out of 1.91 lakh manhours) in 1979-80 rose to 1.91 lakh manhours (out of 2.44 lakh manhours) in 1985-86.

7.31 When asked about the steps taken to reduce idle time which was increasing year after year, the C&MD of CSL stated during evidence :—

"We are reconciling booked man hours with the clocked man hours of the Workers. We had started tallying them from 1984-85 onwards. It has been made more perfect to see that the hours of the people get reconciled and have been taken into account. While checking this and while reconciling and then checking this, we went into the job cards booking and we see that all the people are booked; and we have made certain people responsible. From 1984-85 when man hours have increased, idle time, total quantum is kept more or less at the same level. And we have a problem in getting all the people engaged. So, in 1985-86 and a part of 1984-85 there is a certain amount of dificulty for getting all the people work, all the time Otherwise when I double the man power, when I double the accounted hours, automatically these figures for idle hours also are doubled. But you will see that certain people are made responsible for certain

things. There is less of idle time, there is less of idle time on account of waiting for material, as per the plan set out earlier. The maintenance man is held responsible for reducing idle time due to break-down of equipment. Idle time has come down now. But due to want of work the total number of idle hours has not come down."

7.32 On being pointed out that in spite of that the overtime was still being paid, the witness stated:

"I agree with you that overtime should not be there, when there is idle work. Unfortunately the type of work which has to be done is different from the work being done by the people who are surplus. But, from 1985-86 and even during the middle of this year, it has been reduced further; it is very low now. It is our requirement and we are doing everything possible to reduce it. But we cannot totally avoid idle time because the category of people who are idling is different from those who are doing overtime work. When a ship comes for repairs, we are given some time schedule. When we open up, it may be noticed that much more damage has been done than the owner has envisaged. But we have to complete the whole work with in the original time schedule. Similarly when we try to repair some other parts of the ship, or we have to erect a part of the engien, or some welding has to be done, the workers have to sit over it and complete it. Then, we cannot avoid overtime. I do not say that a large amount of overtime is justified, but what I say is that some element of overtime is inevitable."

In this connection, the witness further stated :—

"We are making efforts to reduce idle time and overtime, but in the matter of any industry like our job idle time is inevitable. We have now been able to bring idle time within nine percent. We are definitely making further efforts to see that it is brought more nearer to nil."

7.33 The Committee noted that idle hours due to waiting for want of jobs had increased from 0.42 lakh in 1979 to 1.91 lakh in 1985-86 despite the various steps taken by CSL. On being asked about the matter, the C& MD stated :

"I have no argument. I accept it. We will definitely try to reduce it."

The witness also stated :

"There are large number of workers. There are people on the steel side who have no work. They are being diverted to other areas like ship repair outfit, etc. But these people are not familiar with the

work that is being carried on in that place. To some extent, there is idle time for want of job for them. They do not have flexibility as normal worker. There is some idle time. This is peculiar to 1985-86 and 1984-85."

7.34 Explaining the reasons for idle time and the action taken to reduce it, the Undertaking has stated in a note :—

"The various reasons for idle time in the shops and ships have been analysed in detail.

The idle time which can be controlled, i.e. which can be reduced by better planning and efficient organisation internally are the following :

(1) Waiting for raw materials, consumables and tools,
(2) Waiting for Semi-finished materials within the departments,
(3) Waiting for utilities,
(4) Waiting for transport and material handling facilities,
(5) Waiting for other workers,
(6) Waiting for instructions,

Waiting time on account of the following reasons are largely non-controllable.

(1) Waiting due to breakdown of equipment
(2) Waiting due to inclement weather.
(3) Labour trouble.

In addition to the above, waiting time for want of job is party controllable and party non-controllable.

The following action was taken to reduce the idle time :—

(a) A proper co-ordinating system was introduced and production planning was done on the basis of firm availability of materials and iuputs,
(b) A Material Planning Group was set up in the Planning dapartment for highlighting in advance the likely idleness for want of materials and for chasing up procurement of materials.
(c) A close liaison is maintained with suppliers to watch the progress in the manufacture of the items required and to ensure that the supplies are not delayed.
(d) As a reslut of experience gained in the past, orders are now placed only on reliable suppliers who can assure quality supplies and timely delivery.

(e) A PERT net work for the entire job of building each ship was prepared and used for indentifying the interfaces of different activities, positioning of raw materials, consumables, tools, semi-finished materials and such other items and this was used for detailed scheduling for day-today work and for periodical review of progress by the Head of Departments. With the installation of a new computer during 1986-87 this control measure is being computerised to make it more effective.

(f) A Production Engg. Section has been established (1985-86) to study and implement better method of production. This section is responsible to establish sequences of operations in order to avoid rework and modifications. Planned preventive maintenance of plant and machinery is done to avoid, to the extent possible, idle time due to breakdown of equipment and spares are stocked to minimise the waiting time due to breakdown of equipment.

(g) Quality circles have been introduced with effect from 1986-87 for improving quality to avoid rework.

(h) Shop Councils and Job Councils and Suggestion Scheme have also been introduced for improvement in productivity, safety and cost reduction."

7.35 According to CSL the above steps have resulted in positive improvement in the utilisation of labour. The position in respect of the years 1983-84, 1984-85 and 1985-86 has been explained as under :—

	83-84		84-85		85-86	
	Man-hours (in lakhs)	As % of available hours	Man-hours(in lakhs)	As % of available hours	Man-hours (in lakhs)	As %of available hours
Total available hours	14.07	..	26.02	..	27.24	..
Idle hours						
(i) Internal factors (other than for want to of job).	0.58	4.12	0.44	1.69%	0.23	0.85%
(ii) External factors	1.17	8.31%	0.64	2.46%	0.30	1.10%
(iii) For want of job	1.15	8.17%	1.51	5.80%	1.91	7.01%
Total idle hours	2.90	20.60%	2.59	[illegible]	2.44	8.96%

Waiting time for want of job continues to be the major reason for idleness. This was due to the tapering off of steel fabrication work in the Hull shop from 84-85 onwards.

We have now received orders for 3 tankers from the Shipping Corporation of India. In addition, to the extent possible, labour is also shifted from ship building to ship repair and *vice-versa*, depending on the quantum of work. CSL is also quoting for other works and have been able to secure few small orders."

7.36 It is seen that the payments on account of idle time wages increased from Rs. 12.60 lakhs in 1979-80 to Rs. 26.36 lakhs in 1983-84. This figure has however been brought down to Rs. 14.34 lakhs in 1984-85 and Rs. 15.59 lakhs in 1985-86. Here again the main reason for idle time was "want of jobs". The Committee have been informed that the percentage of total idle hours to total available hours, which was 20.60 in 1983-84 has been brought down to 8.96 in 1985-86. This is a healthy sign but at the same time it proves that idle time can not only be reduced further but also even totally eliminated. The Committee desire that as assured by the CMD of the Cochin Shipyard more concerted efforts should be put in to reduce the idle time to the barest minimum if not totally eliminate it in the shortest possible time.

(D) Overtime Payment

7.37 It has been pointed out by Audit that even though actual production was much lower than was envisaged in RPR, the incidence of overtime wages has been quite substantial and it has been rising from year to year since 1979-80 except in 1983-84 when the workers declined to work overtime.

7.38 The overtime payments made by CSL during the years 1984-85, 1985-86 and for the period from 1-4-1986 to 30-9-1986 were as under:

(Figures in lakhs)

	1984-85		1985-86		1986-87 (1st April, 1988 to 30-9-86)	
	OT hrs.	Amount Rs.	OT hours	Amount Rs.	OT hours	Amount Rs.
Shipbuilding staff .	5.15	54.09	4.12	49.04	0.57	7.67
Ship repair staff .	2.13	2.31	2.72	31.10	0.71	9.19
Other technical and Administrative staff.	1.89	19.94	1.51	17.87	0.33	4.42
Total . . .	9.17	95.34	8.35	98.01	1.61	21.28

7.39 It is seen that the total amount of overtime which was Rs. 95.34 lakhs in 1984-85 rose to Rs. 98.01 lakhs in 1985-86.

7.40 According to the Annual Report of the Undertaking for the year 1985-86, the annual salaries and wages bill of employees for the years 1984-85 and 1985-86 was Rs. 7,26,86,842 and Rs. 7,80,25,190 and the overtime payments during these years were Rs. 95.34 lakhs and Rs. 98.01 lakhs respectively. The overtime payments constituted more than 13 per cent and 12 percent of the salaries for the same years.

7.41 Notwithstanding satisfactory manpower position (compared with RPR) expenditure on payment of overtime was very high as may be seen from the table below:

Year	Percentage of over time to salaries and wages
Shipbuilding staff	
1979-80	12.04
1980-81	24.71
1981-82	43.41
1982-83	34.78
1983-84	14.73
1984-85	31.43
1985-86	26.56
Ship repair staff	
1979-80	4.55
1980-81	20.95
1981-82	25.53
1982-83	48.60
1983-84	28.10
1984-85	57.25
1985-86	69.58
Other Technical & Administrative staff	
1979-80	11.25
1980-81	18.23
1981-82	16.81
1982-83	22.96
1983-84	11.31
1984-85	19.14
1985-86	4.60

7.42 It will be seen from the above that the percentage of overtime to salaries and wages in the case of shipbuilding staff which was 12.04 in

1979-80 increased to 43.41 in 1981-82 and ranged from 26.56 to 34.78 during the years 1982-83 to 1985-86, except in 1983-84 when it was 14.73. Similarly in the case of ship repair staff it rose from a mere 4.55 per cent to as high as 69.58 per cent in 1985-86.

7.43 When asked whether any steps have been taken to reduce overtime the C&MD stated during evidence:

> "The overtime that we are paying is inevitable because there is a certain period which is inevitable. We are reducing overtime in a drastic manner and we are trying to reduce to a large extent. Unfortunately the type of jobs we are doing-shipbuilding and ship repair are such that a certain amount of overtime in inescapable."

7.44 As regerts the measures taken to check overtime the witness stated

> "From the middle of last year we have started checking the overtime hours, and allocating the overtime work, depending on the type of work and urgency, etc. Before last year the expenditure on overtime was 9.1 lakh hours and this year it has come down to 8.3 lakh hours. This year, we are trying to drastically reduce it by about 40 percent or even upto 50 per cent if that is possible."

He also stated:

> "We feel that today we should able to reduce it by 40% in ship building and we should be able to reduce it by 20% to 25% in ship repair."

7.45 The Committee are somewhat perplexed to find that even though the actual production in the Cochin Shipyard in terms of ships built and repaired much was lower than envisaged in the RPR and the productivity of the factors of pro duction such as labour and machines was far less than the optimal, the incidence of overtime wages has not only been quite substantial but also has been rising from year to year. Not withstanding satisfactory manpower position *vis-a-vis* RPR projections, the percentage of overtime to salaries and wages has been very high. In the case of shipbuilding staff the percentage of overtime to salaries & wages was as high as 43.41 in the year 1981-82 and has ranged between 26.56 and 34.78 per cent during the years 1982-83 to 1985-86 except in 1983-84, when it was 14.73. Similarly, in the case of ship repair staff the percentage of overtime to salaries & wages was as high as 69.58 in 1985-86. The total payments on account of overtime were of the order of Rs. 95.34 lakhs in 1984-85 and Rs. 98.01 lakhs in 1985-86. These payments constituted more than 13 per cent and 12 per cent respectively of the total cost during these years. The Committee are constrained to say that in the context of low order book position,

excessive idle time and poor utilisation of machines and equipment, the payment of high sums towards overtime wages sounds rather paradoxical. The inevitability of such payments do not appeal to the Committee. The Committee get a clear impression that an element of idle labour cost has become in built in the direct labour cost and there is undoubtedly a vested interest in work being done only during overtime. Such huge payments of overtime wages are not at all justified and smack of poor management capabilities. To say the least there is need for looking into the matter most immediately and taking urgent remedial steps. The overtime payments have to be brought down to a reasonable level within a fixed time-frame. The Committee would await a report within six months.

CHAPTER VIII

MATERIAL MANAGEMENT

Deficiencies in Inventory Control System

8.1 It has been stated by Audit that verification of inventory periodically has not been done by the Controller of Contracts and Stores as required under the Financial and Accounting Manual.

8.2 The table below shows the physical verification of stores by internal audit from 1978-79 to 1985-86 (as furnished by the Company):

Year	Total No. of stores items	No. of items verified	Percentage of 3 to 2	Balance (2—3)
1	2	3	4	5
1978-79	5,522	3,308	59.91	2,214
1979-80	7,514	2,903	38.63	4,611
1980-81	7,159	886	12.38	6,273
1981-82	11,325	1,597	14.10	9,728
1982-83	13,049	1,450	11.11	11,599
1983-84	13,955	650	4.66	13,305
1984-85	13,347	1,531	11.47	11,816
1985-86	12,147	2,439	20.07	9,708

8.3 It will be seen that the percentage of items subjected to physical verification by internal audit came down from 59.91 in 1978-79 to 4.66 in 1983-84. According to Audit, except some test verification conducted by Internal Audit, no independent verification of stores has been done so far (March, 1986).

8.4 The Company Auditors had reported (on the accounts from 1976-77 onwards) that they were not satisfied with the system of physical verification.

8.5 When the Committee enquired why such verification was not conducted, the Chairman & Managing Director, CSL, stated during evidence :—

> "It was a mistake that we have not done it earlier. The quantum of checking is what we have done according to the manual. There was also a problem in that, the Audit that we had was not strong enough or competent enough to do the checking—not only the physical checking; but also the checking of the various systems that were prevailing in the Cochin Shipyard earlier. We had not strengthened that organisation earlier. If you see the figure for 1985-86, we have brought about checking of 20%. We have now decided that all our inventory in a period of five years will get checked at least once."

The Committee pointed out that the Ministry had informed Audit in January, 1985 that "CSL needs to implement a codified system of material accounting on a time bound programme and strengthen the system of periodical review and physical verification of stock." When asked about this system, the C&MD stated during evidence:—

"We have started the codification of the materials. We gave it to a consultant and it was getting delayed a lot. We have now introduced the codified system. Now we have concluded it and introduced from 1.4.1986."

The C&MD admitted during evidence that with the introduction of the codified system the Company would have better control on the stores.

Inventory Level

8.8 The table below shows the year-end inventory levels of the last seven years as a percentage of the annual consumption:—

(Rupees in lakhs)

Year	Raw Materials	Stores and Spares	Brought out components	Goods in transit and pending inspection	Total
1979–80					
Average year consumption	120.73	67.62	n.a.	..	..
Closing stock	365.47	229.67	n.a.	90.03	685.17
Percentage	303%	340%	..	..	..
1980–81					
Average yearly consumption	139.01	188.47	560.58	..	..
Closing stock	558.06	338.17	50.60	562.35	1509.72
Percentage	401%	180%	9%	..	..
1981–82					
Average yearly consumption	524.79	111.88	602.38	..	..
Closing stock	772.58	448.08	258.06	420.59	1899.31
Percentage	147%	400%	43%	..	..
1982–83					
Average yearly consumption	395.49	126.77	577.33	..	..
Closing stock	802.52	418.12	443.65	462.38	2126.67
Percentage	203%	330%	77%	..	..
1983–84					
Average yearly consumption	467.07	116.12	475.98	..	..
Closing stock	747.79	423.04	611.25	423.46	2205.54
Percentage	160%	364%	128%	..	..
1984–75					
Average yearly consumption	538.59	80.74	823.97	..	..
Closing stock	513.56	322.57	428.93	60.56	1325.62
Percentage	95.35	399.52	52.06	..	..
1985–86					
Average yearly consumption	296.95	58.17	761.84	..	..
Closing stock Percentage	283.60	323.96	382.82	177.03	1167.41
Percentage	95.51	556.92	50.25	..	..

8.9 The closing stock of stores items includes bought out items and other stores which represent over 2 years consumption as on 31-3-1985 and 5.5 years consumption as on 31-3-1986. Since the ship building activity is almost standardised and the time frame within which stores items are required could be reasonable planned lower inventory level of stores for ship building would be possible.

8.10 When asked about the extent to which the stock of raw materials, spare parts etc. should be kept and for how many months' consumption, the CMD, CSL stated:

> "The consumption for the raw-material which is mainly steel, our norm is between 9 to 12 months. For other things it is between 6 to 8 months. As regards the imported components, we really do not have a norm because they are brought specifically for a ship and we are accounting it separately. As far as the spares are concerned, we have certain amount of spares which are already there along with equipment worth about Rs. 1.5 crores to Rs. 1.6 crores. We find that most of these spares are insurance spares. We are today accepting a principle that whatever they buy in a year should be tried so that the balance of inventory does not appreciably increase on Rs. 1.6 crores. We have not been able to go down this for quite sometime. Now, since you have asked in terms of months, our inventory in 1980-81 was 13, in 1981-82 was 14, 1982-83 was 18...."

8.11 The Committee pointed out that one of the reasons for incurring losses by C.S.L. was that as against the norm of 9 months consumption in respect of raw materials the Company had inventory for more than three years. When asked about the action taken to improve the position so that the raw material was maintained according to the requirement, the CMD stated *inter alia*, as under:—

> "The norm is 9-12 months but we have not been able to implement it in respect of the year 1984-85 our inventory is 95 per cent more which means it is equivalent to 10-12 months."

8.12 As regards the action being taken to reduce the stock of stores and spares, CSL has stated in a note:

> "A regular verification of stock of stores and spares is carried out to ensure that only the minimum requirement of various items is held in stock. Purchases are carefully scrutinised so that only items which are not in stock are purchased according to the production programme. Periodical reports of non-moving items are prepared and circulated to the various shops in order to utilise these items.

Items which are found surplus and are no longer required are regularly being disposed of."

8.13 When the Committee enquired about the increasing closing stock, the witness stated:

"Our spare parts stock is worth Rs. 1.5 crores. We have made a detailed analysis. Our maintenance people have gone into each of the spare part available in our store and tried to find out what can be made use of and also identified what is surplus. The remaining Rs. 1.6 crores stores relate to electrodes, etc. where we are exercising the control so that they are kept within the norm. We are doing a lot of exercise and disposing of the surplus stock."

Non Moving Stores

8.14 Audit has pointed out that stores balance of Rs. 423.04 lakhs as on 31-3-1984 included stores and spares valued at Rs. 189.96 lakhs which had not moved for three years or more. According to CSL the value of non-moving stores and spares stood at Rs. 223.21 lakhs on 31-3-1985 and Rs. 202.85 lakhs on 31-3-1986. The bulk of these (by value) are steel items and pipe items.

8.15 Audit has pointed out absence of systematic review of each item of non-moving stores whose value amounted to Rs. 223.21 lakhs in March, 1985.

8.16 On further enquiry about the matter, the Ministry have stated that the value of non-moving items was reduced from Rs. 223. 21 lakhs in 1984-85 to Rs. 202.85 lakhs in 1985-86 and it has been stated by the Company that the non-moving items have been reviewed and effected steps are being taken to reduce the stock through consumption/ disposal.

Steel Consumption and Wastage

8.17 The Ministry of Surface Transport has stated that the actual steel used for construction of ships 001 to 004 was as under :

Sl. No.	Ship No.	Qty. ordered	Qty. issued from this order	Actual use for ships construction after accounting for diversion to other ships/ ship repair work/ diversion from other ships materials	Balance	Qty. sold	Balance in stock
1	2	3	4	5	6	7	8
1.	Ship 001	14270	13700	13447	823	657	166
2.	Shipf002	14182	13400	13550	632	492	140
3.	Ship 003	13888	12878	12384	1272	461	811
4.	Ship 004	13959	12767	12950	967	667	300

8.18 The Cochin Shipyard informed Audit in February, 1985 that SLI had not given any norms about steel utilisation; however, the quantity of steel that could be used according to SLI standards would be about 10,500 MT for hull and 1200 MT for out fit. Norms for wastage in each stage of production have not been fixed by the Management. In the absence of such norms the reasonableness of the wastage could not be ascertained.

8.19 The Committee note that as against the requirement of 11,700 tonnes of steel for the first ship the Company had used 13,700 tonnes. When asked to account for this, the CMD stated during evidence :

> "The total requirement is 11,700 tonnes. Actual steel issued is 13,700 tonnes. In this, there is a certain amount of reusable steel which we have used for certain purposes. The remaining portion has gone as scrap. Our collaborators in Scotland have a ratio of 9 to 9.5 per cent of scrap. In the first ship, the scrap generated is about 12 per cent, which is high. In the second ship, the percentage is 11 and we hope that over a period of time, we will try to bring it to 10 per cent. In the third ship, the percentage was 10.7 and in the fourth it was 9.92 per cent. We expect that in the fifth ship it will be around 9.9 per cent. So it is not as though we do not have any norms with regard to scrap."

8.20 On enquiry whether the Ministry had taken note of it and taken any corrective step in this regard, the Ministry of Surface Transport stated in a note :

> "It has been ascertained that a detailed list of surplus steel available for disposal has been circulated to other public sector undertakings with a view to its disposal and that part of the usable balance from all the ships will be utilised for construction of tankers, small crafts, ship repairs and other engineering works.
>
> The percentage of scrap was 12.4% for first ship, 11.19% for the second ship, 10.70% for the third ship and 9.92% for the fourth ship. The extent of wastage of steel depends upon a number of factors—size and shape of plates procured from the market, the degree of sophistication of making and cutting technology available in the yard and acquaintenance of shop floor workers due to repetitive nature of the work."

8.21 It had been reported that the Management of the Cochin Shipyard had constituted a Committee to look into the alleged irregularities and losses in the surplus procurement of steel pipes for the Panamax series of ships built in the shipyard and suspended two officials of CSL. The CMD also admitted that a regular review of the inventory conducted in 1984 had revealed that there were some surplus procurement of pipes.

8.22 The Committee desired to know if the Ministry was aware of the enquiry and was there any machinery in the Ministry to watch that such irregularities do not occur. In a note the Ministry have stated :—

"The Ministry is aware of this enquiry.

The background of the case as reported by C.S.L. is as follows :

(a) Requirement of pipes for a ship are estimated taking also into account—

(i) the extra quantities required for re-routing necessitated during construction—*e.g.*, modifications to suit the individual items of machinery, actual lay-out conditions and alignment, owners' specific requirements, etc.

(ii) possible rework and wastage.

(iii) because of the long lead time required for procuring the pipes, a provision has to be made to avoid stock-out situations which would result in hold up of outfit work.

Procurement action is taken for the estimated quantity.

(b) There was a change of main engine as between the first and second ship from B & W engine to Sulzer engine and consequent change in all the associated piping work.

(c) Because of the long lead time required for procurement of pipes, indents were raised and procurement action initiated for pipes required for all the five ships by November, 1981.

(d) The possiblity of some quantities of the pipes being rendered surplus came to notice of the company during 1984 when the third ship was nearing completion in the Quay and outfit work on the 4th ship had substantially progressed.

(e) In January 1984, a Committee of officers was engaged by the company for verification of pipes and to arrange for proper preservation and storage of the pipes.

(f) The exact quantity of surplus pipes could be ascertained only after the major quantum of outfit work on ships 004 and 005 was completed. The exact quantity of surplus pipes was ascertained in April 1986. The value of surplus pipes so ascertained in 4/86 was about Rs. 50 lakhs.

(g) Pending detailed investigation into the circumstances and reasons for the excess procurement of pipes, an officer, who was in charge of indenting pipes, was suspended by

the CMD. A Committee was also appointed by the CMD "to investigate into various transactions concerning the procurement of pipes for the panamax series bulk carriers covering all aspects from estimation, indenting, procurement, storage, issue, documentation, etc., relating to the above surplus and any other matter which had adverse effect on the Company with regard to the subject under reference." The Committee was required to examine whether or not there have been lapses, acts of ommission causing loss etc., at any level and on the part of any officer and the details thereof.

The Committee has completed its investigation into estimation and indenting and submitted its report to the CMD. Investigation covering other aspects is in progress and report thereon is awaited.

(h) A detailed report on all the aspects will be submiited to the Board at its next meeting.

(i) Meanwhile, the official placed under suspension, has approached the Hon. High Court of Kerala by way of a writ petition, which has been admitted by it. The petition has since been disposed off and the suspension of the officer has been withdrawn. Disciplinary action is being initiated against officers found responsible for procurement of pipes surplus to requirements."

8.23 In this connection, the Ministry of Surface Transport has further stated in a note dated 27-3-1987 as under :

"The Management had separately informed that the Committee has submitted the first part of their report, covering estimation and indenting pipes for bulk carriers. The report, while highlighting the deficiencies in the system followed in the Design Department also mentioned about excess procurement of items. Since this was first part of the Report, the Ministry is awaiting a comprehensive report covering all aspects of the enquiry. Management has informed that the Committee is expected to submit the report in a fortnight."

8.24 When asked about the role of the representatives of the Ministry on the Board of Directors of the Shipyard, the Ministry has stated in a note :

"The powers and responsibility for day to day management of the Company is vested in the CMD. The function of the Board of Directors is with reference to giving overall direction, supervision

and control in the management of the company, and also to giving directions on such aspects of day to day management which are referred by the C&MD to the Board for direction where he feels the necessity for such directions or on matters which otherwise come to the notice of the Board.

A detailed report on the issue will be called for from the Company and the required follow up action thereon taken."

8.25 The Committee note that in the writ petition filed by Shri S. S. Sastry, Chief Manager (Contracts) in the Kerala High Court against his suspension, the Honourable High Court while quashing the order of his suspension has made the following observations in so far at the over-indenting for pipes for Panamax series of bulk carriers far in excess of the actual requirements for ship building purposes is concerned.

"It is unfortunate that the large-scale irregularities in indenting purchase, storage and utilisation of materials worth over half a crore of rupees could be noticed only about five years after the event by the Planning Department of the Company in April, 1986. It is more surprising that till the scandal broke by exposures in newspapers in the first week of October, 1986, the top-executives of the Company did not think it necessary to pursue the matter any further.

* * * *

On a perusal of the pleadings and the proceedings of the Committee of investigation, I am disturbed to find that the business of a public-sector undertaking, in which huge amounts of public funds have been sunk, is being conducted in a totally and absolutely irresponsible manner.

* * * *

A thorough investigation into the working of the Company, since its inception, seems to me to be necessary, in these circumstances, to expose the termites and rodents in our industrial bureaucracy, who eat into the vitals of our public sector undertakings. That there are such species is more than evident from the pleadings in this case. It is now for the Government of India to step in and institute a thorough investigation into the affairs of the Company."

8.26 The Committee note that the material management and inventory control systems in the Cochin Shipyard leave much to be desired. It is surprising to find that even the basic essentials such as periodical reviews and physical verification of stocks have been found to be lacking. According to Audit, except some test verification conducted by Internal Audit, no inde-

pendent verification of stocks has been done till 1986 and the codification of the materials was started only from 1-4-1986, after the Audit had pointed out the lacuna. The levels of inventories of different kind held by the shipyard at the end of each year were very high indicating that a lot of capital was locked up in inventories. The norms of consumption of various items of inventory have either not been laid down or are not being scrupulously enforced. The closing stock of store items including bought-out items represented 5.5 years consumption as on 31-3-1986. The Committee find it even more distressing to note that the non-moving stores of Rs. 423.04 lakhs on 31-3-1984 included stores and spares valued at Rs. 189.96 lakhs which had not moved for three years or more. The Committee therefore desire that a systematic exercise may be undertaken to properly assess the shipyards requirements of inventory, identify the surplus stocks and stores, lay down realistic norms for consumption of different stores and take steps for the disposal of surplus material at the earliest. The Committee would like to be apprised of the concrete steps taken in this direction within six months.

8.27 The weeknesses in the system of inventory management at Cochin Shipyard have been brought into focus by a recent judgements of the Kerala High Court. While quashing the order of suspension issued by the management of CSL against an officer of shipyard for over indenting of pipes far in excess of the actual requirements, the Court had made some very serious obseravtions about the large scale irregularities in indenting, purchase, storage and utilisation of material worth over half a crore of rupees in the shipyard. The Committee hope that as recommended by the Court a thorough investigation would be ordered by the Government immediately, if not already done so, with a view to streamline the procedures for acquiring and maintaining inventories.

CHAPTER IX

FINANCIAL PERFORMANCE—WORKING RESULTS

9.1 The Authorised and paid up capital of the Cochin Shipyard as on 31-3-1986 was Rs. 70 crores and Rs. 63.21 crores respectively. In addition the Company has also availed loan from Government of India amounting to Rs. 71.03 crores.

9.2 According to the Annual Report for the year 1985-86 the Company which commenced production in 1975-76 incurred following profit/(loss) since inception :

(Rs. in lakhs)

1975–76	(6.71)
1976–77	(14.02)
1977–78	(515.27)
1978–79	(275.09)
1979–80	(789.40)
1980–81	288.45
1981–82	1.71
1982 83	(968.27)
1983–84	(1030.72)
1984–85	(1324.79)
1985–86	(863.67)

Production Performance

9.3 The value of production for the last three years is worked out below :

	1983–84	1984–85	1985–86
		(Rs. in lakhs)	
Income from Ship building, Ship repairs and Engineering works	2347.35	479.96	3026.61
Accretion/decreation to work in progress	(—)58.53	(+)2853.78	(+)48.67
Value of production	2288.52	3333.74	3075.28

9.4 The percentage of value of production to total net assets varied from 14 in 1983-84 to 19 in 1984-85 and 17 in 1985-86.

The cumulative loss of CSL as on 31-3-1986 was Rs. 54.98 crores after taking into account subsidy of Rs. 23.52 crores on ship construction and reimbursement of interest charges of Rs. 38.49 crores. The cumulative loss of Rs. 54.98 crores works out to 86.98% of the paid up capital of Rs. 63.21 crores as on 31-3-1986. Out of the total loss of R s. 54.98 crores, loss on shipbuilding activity was Rs. 33.08 crores.

9.5 As there was no shipwise comparison of estimated and actual costs, the causes for loss in particular shop activities could not be pin pointed by Audit. Audit has also stated that even in ship repair works, CSL did not compile and compare jobwise cost and income. Hence losses incurred in ship repair jobs were not being ascertained.

9.6 According to the Ministry of Surface Transport the main reasons for the losses in CSL are :

(i) The unremunerative prices fixed by Government for the ships under the pricing policy based on the International Parity Price.

(ii) Heavy interest burden due to high cost of CSL project.

(iii) Low productivity, and

(iv) High cost of indigenous inputs and longer delivery time.

9.7 As regards the steps proposed to be taken by the Ministry to reduce the losses and overheads, the Ministry have stated in a note :

"Since the existing pricing formula has been found to be unremunerative both by the Shipyards and the Shipping Companies this Ministry has already mooted a proposal for determining the Pricing Formula, based on normative cost of construction with 80% capacity utilisation and not linking the pricing formula with the International Parity Price. The Bureau of Industrial Costs & Prices (BICP) has already undertaken the study of cost of ships built in the indigenous shipyards. It is hoped that once their report is available a more reasonable pricing formula will be evolved.

Since the interest burden on the Shipyard is very high a proposal for financial relief to the shipyard is also under consideration of the Government. It is expected that the financial relief in terms of moratorium on repayment of loan and interest holiday from 1-4-82 to 31-3-87 will be helpful to the yard, particularly because they have in the past not been able to repay their dues of loan instalment and interest thereon. Both the proposals being interlinked, they are still under the consideration of Government.

Stress is being laid by the Ministry that the Shipyard should reduce the cycle time of construction of ships as this itself would help the yard in reducing their overheads on each vessel.

In order to reduce the cycle time, the Shipyard has adopted changed methodology of construction of ships wiht emphasis on advance outfitting at the unit stage of construction. For this thay have also concluded a production consultancy agreement with IHI Japan. CSL have also implemented various recommendations of

the Datta Committee except that their proposal for rectificaton of imbalances in their facilities is yet to be approved by Government, which is separately under consideration.

Various suggestions of the Shipyards—both HSL and CSL—about import of shipbuilding quality steel. liberalisation in the import of material and equipment etc. Is separately under the consideration of Government.

Stress is also being laid that shipyard should economise in all fields of its expenditure *viz* in payment of over time to the staff, consumables, travel, etc."

9.8 The Chairman & Managing Director of CSL informed the Committee during evidence that the company had requested the Ministry for restructuring of capital by conversion of loan into equity. CSL is stated to have given the following suggestions to the Ministry for restructuring of the capital base.

"Keeping in view the heavy losses incurred by the yard so far and the uncertain outlook in the shipbuilding field, continuing of the present debt equity ratio (1:1) will be detrimental to the interest of CSL. It is felt that the Company's capital base should be restructured by conversion of all the loans into equlity. In case the entire loan cannot be converted into equity, at least 75% of the capital outlay should be provided as equity and 25% as loans. The advantage that would flow from such restructuring would be that CSL will be relieved from the annual commitment of having to meet a heavy interest burden of around Rs. 4 crores and repayment commitment of Rs. 5 crores. From the experience gained so far it is clear that the resources of such a massive size cannot be generated by CSL from the ship-building and ship-repair fields. At present CSL is providing for the interest in the accounts and writing off the same as a loss. However, it has not been possible for CSL to meet this commitment on account of inadequate financial resources.

Interest Holiday and Moratorium on repayment of loans

CSL has accumulated losses to the tune of Rs. 54.98 crores upto 31-3-1986. Out of this a sum of Rs. 19.42 crores represents interest at penal rates net of subsidy provided in the accounts on loans given by Government of India. CSI was enjoying interest holiday upto 31-3-1982 as per recommendations of the Finnance Committee appointed by the Government. As the prices of ships fixed by the Govt. continue to be far below the cost of construction, cash flow position of the Company continues to be poor. Under the circumtances CSL has requested the Govt. to extend interest holiday on all loans

given by the Government upto 31-3-1987. We have also been unable to discharge the repayment obligation on loans. As such we have requested the Government. to provide a moratorium on repayment of loans up to 31-3-1987. If these 2 reliefs are granted the accumulated losses will come down to the extent of Rs. 19.42 crores.

Deemed Exprt Status

The Govt. of India have been, from time to time declaring many industries as "deemed export industry". Such industries enjoy the following concessions:

1. Cash compensatory support,
2. Duty drawback,
3. Exemption from Excise duty,
4. Refund between Indian and International price of steel.

ONGC and certain industries financed through world bank are enjoying the above concessions. One of the reasons for the high cost of construction of ships in indigenous yards is the high cost of materials inputs procured from indigenous sources. CSL is required to buy substantial portion of the steel requirement from indigenous Steel Mills. The price of indigenous steel is almost double that of imported steel. As such around Rs. 4.5 crores additional expenditure is expected to be incurred on account of indigenous procurement of steel. Similarly on a large number of items procured from within the country we are required to pay excise duty. In case manufacture of ocean-going vessels is given the deemed export status many of the cost differences arising due to procurement of items from indigenous sources can be eliminated.

Alternatively if this can not be done CSL may be given right to import the steel and other items on a decanalised basis.

Interest on Working Capital

At present CSL's working capital requirements are being met through Cash Credit arrangements with Commercial Banks. The rate of interest levied by banks on such overdrafts is prohibitive i.e. 17.5% per annum. CSL spends around Rs. 2 crores per annum by way of interest on overdraft. In order lo reduce the expenditure on account of the above, the following measures should be considered:

(a) Increase in the quantum of stage payment to be made by Ship Owners

According to the present policy the Owners are required to pay around 50% of the price at the keel laying stage. However, almost all the materials required for the ship is to be positioned by this stage to adopt

advance outfitting methods to reduce cycle time of construction of ships. Hence by this stage CSL should get around 75% of the price.

(b) Release of Govt. subsidy at the stage of commencement of steel fabrication

Government subsidy on ships is being released at present on 50% of steel of ships being erected. This should be changed and the subsidy released at commencement of fabrication of steel for the ship.

(c) Working Capital loans from Govt.

Govt. have recognised the fact that the shipping Indusires should get soft loans from SDFC at concessional interest rate to finance the construction of ships. The ship building industries should also be given soft loans at the same interest rate to finance the construction of ships.

Sales Tax

At present the State Govts. are levying sales tax on ships constructed and delivered by indigenous shipyards. When ship owners buy ships from aborad they are not paying any sales tax on ships. As such they have been disagreeing to pay any sales tax on ships. In case such a levy is to be admitted, this will further drain the meagre resources of the yard leading to further losses. We have therefore requested the Government of India to take up the issue with the State Governments and to get total exemption from payment of Sales Tax atleast for a period of 10 years. The State Government of Kerala was initially levying sales tax at a basic rate of 15% which has now been reduced to 5%. Even so the tax burden on the shipyard as long as the ship owners refuse to reimburse the levy can be substantial. Hence either CSL should be totally exempted from the levy or alternatively the pricing policy should be modified and in addition to the price to be fixed by the Government specific provision to reimburse actual amount of sales tax by the owners should be included therein. If this is not possible a special subsidy to cover this expenditure should be provided to the yard."

9.9 When asked about the proposals submitted by the Company and the action taken by the Ministry so far in the matter, the Ministry stated in a note as under:

"The Company had submitted certain proposals for capital restructuring and other financial reliefs. Their proposals were:

1. Conversion of the present debt: equity ratio of 1:1 into 1:3.
2. Interest holiday on all loans from 31-3-82 to 31-3-87.
3. Moratorium on repayment of loans from 31-3-82 to 31-3-87.

4. Rescheduling of repayment terms of the remaining loans after restructuring the capital base.

The proposal submitted by he Company has been under consideration of Government but because of its linkage with the other issues like pricing formula, further investment to be made to rectify the imbalances in the facilities, etc., a final decision in the matter is yet to be taken."

9.10 When asked to clarify if the resturucturing of capital has been requested to offset the losses only or to restore the financial health of the Company, the Ministry stated in a note:

"Primarily, the proposal for capital restructuring of the yard has been made by the Shipyard with a view to reducing its interest burden which will ultimately reduce the overheads to some extent. This will also help the shipyard in reducing their losses. As regards restoration of of financial health of the Company what is more important is the reasonable pricing formula coupled with increased efficiency."

9.11 The working results of the Cochin Shipyard from 1975-76, when it commenced production, to the end of 1985-86 reveal that the operations of the shipyard have resulted only in losses except in two years i.e. 1980-81 and 1981-82, when some profits were shown in the account. As on 31-3-1986, the cumulative loss of CSL works out to Rs. 54.98 crores and out of the total loss of Rs. 54.98 Crores, the loss on ship-building activity alone was of the order Rs. 33.08 crores. The value of production as a percentage of the capital employed in an industrial undertaking is an index of the capacity utilisation in financial terms. In the case of CSL the percentage of value of production to the total net assets varied from 14 in 1983-84 to 19 in 1984-85 and 17 in 1985-86. The primary reason for this sorry state of affairs is undoubtedly very low level of capacity utilisation achieved so far in physical terms and the low productivity of both man and machines. The Committee feel that effective planning and construction management in CSL as well as long term planning for ship-building industry at the national level are imperative for increasing the capacity utilisation in the shipyard. A comprehensive long term plan for optimal utilisation of the infrastructure already created needs to be drawn up and implemented. For the proper implementation of any such plan it is necessary that the shipyard should economise in all fields of its expenditure and take energetic steps for maximising its capacity utilisation.

9.12 According to the Ministry of Surface Transport the main reasons for the losses in CSL are inter alia, unremunerative prices fixed by Government for the ships, heavy interest burden due to high cost of CSL project and high cost of indigenous inputs and longer delivery time. Interestingly a solution to all these problems can be found only by the Government. The Committee desire that since problems hav e now been clearly identified, no time should be lost in

resolving them. It is seen that the proposals for conversion of the present debt equity ratio of CSL, interest holiday, moratorium on repayment of loans and rescheduling of repayment terms of the remaining loans have been under the consideration of the Government for quite sometime but final decisions have yet to be taken. One particular matter which the Committee would like to be highlighted is the fact that the proposals for rectification of some imbalances in the facilities of the yard made by the Datta Committee in March, 1984 still continue to be under the consideration of the Government without any decisions having been taken so far. The Committee cannot but emphasize that various suggestions made by the management of the CSL for streamlining the working of the shipyard should have been examined and considered with a sense of urgency and in any case decisions thereon should not be delayed any longer so that the shipyard is put back on the rails without further loss of time.

NEW DELHI;
April 21, 1987
Vaisakha 1, 1909 *(Saka)*

K. RAMAMURTHY,
Chairman,
Committee on Public Undertakings

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings Contained in the Report

Sl. No.	Reference to Para No. in the Report	Conclusions/Recommendations
1	2	3
1	1.8 & 1.9	The Cochin Shipyard Ltd. was incorporated on 29th March, 1972 as a fully owned Central Government Company. Unlike other shipyards in the public sector, which were all acquired by Government at certain point of time, Cochin shipyard as the only project of its kind created as a result of fresh investment made by the Government, with Japanese collaboration. The project was commenced in 1972 with an estimated cost of Rs.40 crores and was to be completed within 5 years. The project was delayed and finally completed in 1980-81 at total cost of Rs. 130 crores. The ship-building commenced in 1976 and the first ship was completed and handed over in 1981. Even after more than a decade of its existence, it has not been possible for the Government to formulate the financial and economic objectives of the undertaking. A corporate plan drafted by the undertaking sometime in 1978 has yet to be reappraised and finalised even though the shipyard had been fully commissioned by 1981-82. In these circumstances no wonder the ship-yard had been drafting without any long term plans or objectives. The level of production in the shipyard has been far too low. It has been struggling to make one ship a year against the projected capacity of two ships of 75,000 DWT per annum. The total annual value of its production has been stagnating around Rs. 30 crores during the past 3 years whereas the capital investment was of the order of Rs. 130 crores. As on 31st March, 1986, the shipyard has accumulated a loss

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		of Rs. 54.98 crores according to its latest annual report. The future is equally uncertain as unfortunately there is no long term planning for ship-building industry at the national level. The Committee feel that in the peculiar situation in which the Shipyard was placed right from the beginning, it was all the more necessary that the objectives and aims of the undertaking should have been clearly defined and approved by the Ministry for proper direction and growth of the Shipyard.
2.	1.10	It has been tstated that in the context of the shipping scenario existing in the world, a reassessment of the role of the Shipyards in the country was being made at the level of Secretaries Committee and the Cabinet. The Committee desire that this exercise should be completed without any further loss of time and the micro objectives of the Cochin Shipyard may be set out in unambiguous and clear terms as envisaged in the guidelines issued by BPE in November, 1970 and agin in May, 1979. The Committee would like to be apprised of the action taken in this behalf at an early date.
3	1.11	The Committee find that a draft Corporate Plan of the Shipyard submitted to Government in August, 1978 has not yet been approved. The main reason given for the delay in reappraising of the Corporate Plan is that the ship-building capacity of the Shipyard has to be reassessed and refixed on a realistic basis, without which long term projections may not serve any useful purpose. Steps are reportedly being taken to assess the position in detail to enable formulation of the Corporate Plan. The Committee cannot but emphasise that in the larger interest of the Shipyard, where uncertainties regarding orders seem to have totally disrupted the planning process, the finalisation of the Corporate Plan should not be delayed any further. The Committee feel that specific approval of the Corporate Plan of the Shipyard by the Government was necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Shipyard should take.

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4.	2.45	The installed capacity of the Cochin Shipyard according to the Revised Project Report is two ships a year in terms of Panamax bulk carriers of 75,000 DWT. The actual production in the Shipyard was much less than the RPR targets. The Shipyard constructed and delivered only one ship during the five years from 1976-77 to 1981-82 against the RPR target of 3 ships of 75,000 DWT by 1981-82. The average capacity utilisation of CLS *vis-a-vis* installed capacity for the 9 years period i.e. from 1976, when the production started and upto 1984-85, was only about 30 percent. Not only was the capacity utilisation much below the targets, there were heavy delays in the construction of ships and the cycle time involved was much longer than originally envisaged. According to the Ministry detailed analysis of the reasons for the reduced capacity utilisation and larger construction cycle times in the yard had revealed that there was need to rectify some imbalances in the facilities available in the yard for which substantial investment in terms of infrastructure and equipment was required. However, a Working Group on the Ship-building and Ship-repair Industry for the 7th Plan held the view that while all necessary measures may be taken by the yard to improve the over-all productivity of the yard, it was necessary to have a smaller expert group to go into the various reasons of shortfall and, if necessary, reassess the installed capacity as well as production target of the yard in the light of the present day situation. The Committee desire that a small task force consisting of technical experts may be set up without any further loss of time for making a reassessment of the capabilities and weaknesses of the yard.
5.	2.46/82.47	Since Ship-building is predominantly an assembling industry wherein shipyards have to depend substantially on the bought-out items and raw materials from the open market, a great deal of advance planning for design and production of each ship is called for. The optimum utilisation of ship-building capacity, therefore, pre-supposes a reasonable amount of order book position covering at least 4 to 5 years total production capacity. In Cochin Shipyard, however, the uncertainties regarding orders

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have disrupted the working of the shipyard from time to time. Upto May, 1981, the shipyard had secured orders for construction of 6 ships of 75000 DWT. The sixth ship was to be delivered in 1985 but because of the longer cycle time involved in the construction of ships, the yard could build five ships and before the construction of the sixth ship could be taken up, the order for the ship placed by a private shipping company was cancelled. The Shipping Corporation of India had also placed orders for three 67000 DWT bulk carriers in 1984 through a letter of intent. This order was also subsequently cancelled in October, 1984. This left the shipyard without any work beyond the 5th ship which was expected to be completed in February, 1987. It was only on 30 March, 1986 that a new contract for the construction of three 86000 DWT oil tankers for Shipping Corporation of India was signed. This order for 3 tankers is likely to keep the ship yard busy till 1988-89, when again the shipyard will be forced with a situation of no work unless some further orders are received. In such an atmosphere of uncertainty regarding orders, cancellation of orders already received and total dependence on imported inputs such as ship designs and raw materials, it is no doubt impossible for the shipyard to function normally in a planned manner.

In this context the role played by the Ministry of Surface Transport assumes greater importance. The Committee find that even though the Government had an extremely liberal policy for financing the purchase of ships in the form of SDFC loans, there was no long term integrated plan for the acquisition and building of ships in the country. The Committee have been informed that a provision of Rs. 673 crores has been made during the 7th Plan period but this provision is barely sufficient to meet the committed requirement for ships already acquired during the 6th Plan period. There is thus no financial allocation available for the purchase of any new ships during 7th Plan. In regard to long term integrated plan for aequisition of ships and their construction in the indigenous shipyards the Committee have been informed that apart from maintaining the ratio of tonnage of 65: 35 between public and private sector, there was no other long term integrated plan for acquisition of ships. The Committee find it difficult to appreciate

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how in the absence of any long term plan and without any financial provision having been made for the shipping industry during the 7th Plan, the Ministry can render any assistance to the shipyards in the form of orders for consstruction of new ships.

6. 2.48 What is all the more disquieting is the fact that there is no meaningful coordination between different wings of the Government in regard to planning for acquisition of ships or development of maritime facilities in the country. At present there are at least three Ministries who are involved in the development of maritime facilities. These are the Ministries of Surface Transport, Defence and Agriculture. While much has been said about the recessionary situation in the shipping world and its impact on the indigenous shipyards, there is no evidence of any coordinated efforts having been made to secure orders for the shipyards who were suffering from acute underutilisation of capacities due to paucity of orders. The Committee are of the view that whatever be the conditions in the international market, the indigenous shipyards in which huge investments have been made, should not be allowed to suffer because of lack of orders. They have to be kept busy and to that end it will be helpful to have a central authority to register the capacities an d categories the shipyards and then distribute the construction of vessels according to their respective capacities keeping in view the orders already in hand. Such an authority could be the first step towards a coordinated development of maritime facilities, including the ancillaries. In addition the proposed central authority should be entrusted with the task of processing steel requirements of yards and arranging for other necessary inputs.

7. 2.49 So far as Cochin shipyard is concerned, it has currently orders for the construction of 3 tankers of 86,000 DWT for Shipping Corporation of India, This is likely to keep the shipyard busy till 1988-89. The Committee recommend that in order to ensure continuity of work beyond 1988-89, the possiblilities of securing further orders

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		from Shipping Corporation of India for their further requirements of ships during 8th Plan may be explored on a priority basis.
8.	2.50	Originally the Cochin Shipyard was intended to manufacture large sized ships. However, with the changed in the international scenario, nobody is willing go in for large sized ships. Inevitably, therefore, the Shipyard has to look around for alternatives. Its has been brought to the notice of the Committee that ONGC. have got nearly Rs. 3500 crores worth of equipment to buy. These equipments cannot be manufactured by Indian shipyards without going in for foreign collaborations, which may ask for very high prices. Under the circumstances the best that can be done is that ONGC can retain their prerogative to place orders on foreign collaborators, who can be made to take India Shipyards as partners through a stipulation in the collaboration agreement to that effect. This will ensure some work for the Indian shipyards in the form of sub-contracts and help the shipyards in avoiding idleness. Similarly, the Ministry of Agriculture has plans for the acquisition of 500 trawlers for fishing industry during the 7th Plan. These trawlers can very well be manufactured in the indigenous shipyards who are suffering for dearth of orders. Another area in which the Cochin Shipyard can venture on competitive basis is the requirement of vessels by Navy and Coast Guards. The Committee desire that a systematic study may be undertaken to find out the areas in which Cochin Shipyard can diversify. After these areas have been indentified, the Ministry of Surface Transport should coordinate with the other concerned Ministries and secure firm orders for execution by the Cochin Shipyard.
9.	2.51	It is disconcerting to note that at present there is not specific proposal for diversification of activities of Cochin Shipyard and it is apprehended that an amount of Rs. 2 Crores provided for diversification schemes during the 7th Plan may not be utilised. This is indicative of the absence of any long term and perspective planning for the optimal utilisation of the facilities created at huge cost.

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10.	2.52	The Committee find that a Shipping Development Fund Committee was set up in 1959 for administering a loan scheme, under which shipping companies both in public and private sector could get loans on very easy terms for purchase of ships. The SDFC extended credi t upto 95% of the cost of acquiring a ship repayable in 16 years at a low interest rate of 4 1/2 percent. Later on from 1971 the interest rate was raised to 6.75% for Indian built ships and 7.5% in case of foreign ships. Although the terms of the SDFC loans stipulate that every second ship acquired by a recipient of SDFC assistance should be from Indian shipyard, this *Pari Passu* obligation has not been honoured scrupulously in the past by the ship owners. Nor has SDFC insisted on the ship owners for the fulfilment of their *Pari Passu* obligation. From the information made available to the Committee it is seen that against 42 ships of 13, 79,686 DWT acquired by the Shipping Corporation of India from foreign countries, it placed orders for only 10 ships of 4,77,000 DWT on Indian Yards under *Pari Passu* obligations. Similary there is a large *Pari Passu* obligation outstanding against private sectors shipping companies. If only the *Pari Passu* obligation clause had been enforced on all shipowners, there would have been on dearth on orders for all the shipyards in the country, who have only a limited capability. Further the failure to enforce *Pari Passu* obligation has resulted in indirect subsidisation of the foreign shipyards at the cost of the indigenous shipyards. The Committee cannot but express their displeasure at the failure of the authorities to safeguard their own interest. The Committee recommend that Government should review the entire situation and taken appropriate measures urgently under intimation to the Committee.
11.	3.21	The Committee find that in accordance with the existing pricing formula announced by the Government in February, 1981, the prices of Indian built ships are determined on the basis of a notional figure known as International Parity Price. As per the pricing formula the shipyards are paid a direct subsidy of 20% of the International Parity Price by the Government and the shipowners also pay to the shipyards 10% over and above

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		the IPP towards partial cost of import substitution. Such a pricing policy, even though it gives a 30 per cent price advantage to the Indian built ships, has no rational realtionship with the cost of construction in a shipyard. It is seen that as a result of the existing pricing policy Cochin Shipyard has incurred huge losses on ships 001 to 003 which have actually been delivered. For these three ships the total loss i.e. the difference between the actual cost and the selling price including subsidy and escalation charges works out to a staggering amount of Rs. 28.84 crores. It is also relevant to note that according to the estimates prepared by the Cochin Shipyard, the cost of a tanker to be fabricated for the Shipping Corporation of India works out to about Rs. 69 crores. However, the Shipping Corporation of India has projected an anticipated price of only Rs. 37 crores per tanker on the basis of the existing IPP formula. Obviously, therefore, the pricing policy being adopted at present is in the opinion of the Committee unrealistic *vis-a-vis* the cost of construction and needs to be modified urgently.
12.	3.22	The Committee are not happy to note that even though the experience of the working of the pricing formula had clearly shown that the formula was causing hardship to both the shipyards as well as shipping companies, a review of the formula with a view to evolving measures for reducing the genuine hardships of the shipyards has not been completed with any sense of urgency. Even though the matter has been debated at different forums yet to decision has been arrived at so far. In fact instead of taking any decision a reference has reportedly been made to Bureau of Industrial Costs and Prices in May, 1985 for determining the normative cost of construction of ships. BICP has yet to complete its study and give its report and even after the report of BICP is received, the Ministries concerned will take their own time to come to some conclusion. The Committee cannot but express their displeasure at the unduly long time taken in revising the pricing formula, which was clearly unjust and unrealistic. The Committee desire that no further time should be lost in arriving at a decision on the subject, under intimation to the Committee.

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13.	3.23	The Committee are in agreement with the view that in order to make the shipyards viable it is necessary that the pricing policy of shipyards should be based on the actual cost of construction of the vessel plus a reasonable margin. Furthermore in the light of prolonged shipping recession and the falling prices of ships in foreign yards, when the shipping companies are keen to place orders on foreign yards, it is absolutely essential that indigenuous shipyard are afforded enhanced subsidies and other suitable assistance to make them commercially viable.
14.	3.24	Another question related to the pricing policy is the delay in stage payments being received by the Cochin Shipyard. As on 31-3-1985 the stage payments due but outstanding amounted to Rs. 2157.30 lakhs. The total amount due on this account in respect of ships 004 and 005 as at the close of the year 1985-86 was Rs. 20.52 crores. The Committee desire that unseemly disputes regarding the price fixed for the ships according to IPP formula and delays in stage payments by the private ship owners should be dealt with firmly by Government. It needs to be pointed out that even though the private ship owners have to make payments only out of the loans given by SDFC, they have a vested interest in delaying as much as possible the availing of loans because in the process they are able to transfer a good part of the interest burden on the shipyard. The Committee desire that this aspect should be carefully taken note and to dealt with appropriately.
15.	4.26 & 4.27	The Committee find that a contract was concluded in August, 1970 with M/s. Mitsubishi Heavy Industries (MHI) of Japan for technical assistance in construction of the shipyard at Cochin. The question of technical assistance in the building of ships was to be a subject of separate negotiations with MHI as that firm preferred to settle the terms of consultancy on a stage to stage basis. Consequently in August, 1970 a memorandum was exchanged with MHI for technical cooperation in ship design, shipbuilding and ship repairs but not contract could be finalised as the Japanese offer of Rs. 3.41 crores for the technical collaboration was not comparable with

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		the offer of Rs. 1.97 crores made by the U.K. firm M/s. Scott Lithgow Limited for similar works. Ultimately an agreement was entered into with M/s. Scott Lithgow Limited under which the latter was to give technical assistance in shipbuilding. This agreement was originally for a period of five years i.e. upto 15 August, 1978. This consultancy agreement was later on extented upto 30th June, 1981 and the total payment made to M/s. SLL was Rs. 2.04 crores as against Rs. 3.41 crores asked for by M/s. MHI of Japan. Ostensibly the comparative economics of the two offers seems to have weighed with the authorities while accepting the offer of M/s. SLL. However, in Committee's view while considering the two offers some important aspects were obviously overlooked. It was well known that the shipbuilding technology of U.K. was different from the Japanese technology and since the shipyard had been built with Japanese technical collaboration, the infrastructure created was more suitable for the production technology and techniques of Japanese industry. It should have been anticipated that when the consultancy for shipbuilding was being obtained from U.K. rather than from Japan, there was the likelihood of a mismatch between the facilities already created and the new technology being obtained. This is precisely what happened when the shipbuilding consultancy was assigned to the U.K. firm. The Committee are sorry to find that lack of interface between Japanese layout of the shipyard and the methods of production of M/s. SLL not only resulted in poor performance and delay in construction of the ships but also involved lot of extra expenditure on substantial modifications made in the production design to suit the shipyard facilities.
16.	4.28	The productivity level achieved with the help of U.K. consultancy services was much below the target envisaged in the RPR and it was then alone realised that the rated output of 2 ships per annum could be achieved only when total potential of the facilities established in CSL was fully exploited by adopting latest advance outfitting

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		techniques and related production design/engineering practices. With this end in view the Japanese firm of M/s. MHI was brought back again after a great deal of persuasion soon after the collaboration agreement with the U.K. firm M/s. SLL came to an end in 1981. The expenditure on the new consultancy agreement entered into with M/s. MHI has been estimated at Rs. 1.42 lakhs. From the facts placed before them, the Committee get an impression that the initial selection of the U.K. firm M/s. SLL as consultants for shipbuilding in preference to the Japanese firm of M/s MHI, who had collaborated in the construction of the shipyard and then again bringing back the same Japanese firm for consultancy were not dictated by financial considerations alone. The Committee apprehend that there must be something more than meets the eye. The Committee, therefore, recommend that the matter needs to be probed more thoroughly by an independent person or body and the Committee apprised of the outcome thereof.
17.	5.18	One of the main activities of CSL is ship repairs. As per RPR ship repair dock in CSL was expected to achieve a yearly volume of 10,00,000 GRT within 9 years from commencement of production. Since 1981 when the repair dock was commissioned, the shipyard has reached a level of 4,30,525 GRT by the end of 1985-86. In financial terms the turnover in 1985-86 was of the order of Rs. 7.41 crores. However, since the project cost of the ship repair complex is very high the fixed overheads can be fully absorbed only when CSL reaches a very high level of performance. The Committee cannot but emphasise that all out efforts should be made to put the facilities already created to the maximum use and to achieve a level of performance where the shipyard is not only able to break even but also to earn profits. It is no doubt necessary that the deficiencies, if any, in the existing facilities are removed by taking appropriate and adequate measures.
18.	5.19	It has been brought out by Audit that there was no arrangement for regular job-wise analysis of costs and incomes and hence it was difficult to pinpoint reasons for losses incurred by the shipyard in many of the repairs

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		jobs undertaken. The Committee desire that this lacuna should be removed forthwith. There is also need for having a costing system for apportioning the direct costs and overheads.
19.	5.20	The Committee note that the shipyard earned some foreign exchange by carrying out repairs of the foreign ships. The foreign exchange earnings had gone up to Rs. 24.66 lakhs in 1984-85 but came down to just Rs. 0.48 lakh in 1985-86. The decline in the foreign exchange has to be analysed to ascertain as to what were the reasons for very few foreign ships coming to the shipyard for repairs. Based on such a study the facilities in the repair dock should be augmented and the services rendered made more competitive with a view to attract more of foreign ships.
20.	5.21	The Committee feel that in the context of the uncertain order book position of the shipyard in the matter of ship construction, it is necessary to pay greater attention to the better utilisation of the ship repair facilities in the yard. Admittedly there is large scope for ship repairing work in the country because at present most of the repairing is being done outside the country. The total repairing work being done outside has been estimated to be worth Rs. 70 crores and presently the Cochin Shipyards repair work is only of the order of about Rs. 7 crores. With sustained efforts it should be possible to secure and undertake successfully more repair jobs. The Committee are sure that now that the total ship repair work is being systematically managed by the DG (Shipping) it should not be difficult for the Cochin Shipyard to get adequate orders for repair jobs. The only thing needed is that the yard should gear up its activities in the ship repair department, devise a suitable strategy for improving its performance and deploy more manpower by diverting excess staff from ship production side with a view to enhance its capacity in ship repair work.
21.	6.10	The Committee find that neither Cochin Shipyard had developed their own research and development organisation nor is there any Central designs centre where the design and technological capabilities have been adequately developed for ship-building. CSL is, therefore,

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		obliged to go in for foreign collaboration for obtaining ship designs whenever orders for a new ship or series of ships are received. This not only involves high cost in terms of financial outgo, but also hampers the indigenous R&D efforts. As a result there are no plans worth the name for achieving self-reliance in design and technological capabilities. The Committee have been informed that a study for having a design centre at the national level was carried out and a project costing Rs. 6 crores was thought of during 6th plan. But due to constraint of resources this was shelved. The Ministry of Surface Transport has now a proposal to set up a National Ship Design and Research Centre in Central sector for catering to the needs of the Indian shipyards. This scheme has yet to be approved by the Government. The Committee cannot but emphasise that the proposal, for the Design Centre should be vigorously pursued, finalised and implemented without any further delay.
22.	6.11	The Committee need hardly point out that research and design development related to ship design and construction has to be tackled at the national level and as a joint effort of all the Indian shipyards. Unless indigenous designs are developed to match the national requirements of advanced technology for ship-building based on long term plans it will not be feasible to construct ships by using indigenously manufactured components & materials. The Committee desire that the policy of haphazard and *ad hoc* imports of technology & designs and foreign collaboration by individual shipyards should be immediately done away with. To this end there is urgent need for drawing up and implementing a long term plan for strengthening the design and development capabilities. The Committee recommend that positive steps should be taken by the Government in this direction on priority basis and Committee informed of the action taken in this direction within next six months.
23.	7.13	The Revised Projects Report of the Cochin Shipyard envisaged employment of 1996 persons for attaining the target production of two ships a year and an annual ship repair capacity of upto 10,00,000 GRT. The requirements

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		of man power were reassessed in 1971 in consultation with M/s. MHI at 2032 persons and again in 1974, considering larger size of vessels of 75,000 DWT proposed to be constructed as against ships of 66,000 DWT envisaged in the RPR, the requirements of manpower were reassessed at 2166 persons. The actual number of men-in-position has, however, been higher than this level since 1980-81, even though the level of production was much less than that assumed at the time of assessing man power needs. In fact, the total number of men-in-position has gone up from 2286 in 1980-81 to 2540 at the end of the year 1985-86. In between two studies had been undertaken for assessing the man power needs and also for initiating a man power development programme. The first of the studies was done by the Administrative Staff College of India, who were paid a remuneration of Rs. 70,000. The assignment to ASCI covered not only an assessment of the man power needs but also included services for management development and personnel management strategy. ASCI submitted part one of their report in July, 1980, which was placed before the Board in March, 1983. The other study was done by a Committee of officers constituted in October 1981 to look into the manpower problems. The report of this Committee was received in June, 1982. However, no worthwhile action seems to have been taken by the undertaking in pursuance of these reports and the process of rationalising the manpower planning is still continuing. The Committee feel that in the context of the very low level of capacity utilisation and large number of idle machine and man hours in the undertaking, there is urgent need for having a scientific assessment of the manpower requirements in the shipyard. The Committee desire that such a study may be entrusted to a recognised management consultancy agency, who may be required to complete the work within a given time frame. The Committee would like to be apprised of the action taken in this behalf.
24.	7.25	The Committee find that CSL had about 350 machines valued at Rs. 36.41 crores as at the beginning of 1983-84. With a view to watch utilisation of machinery, log books are required to be maintained for each machine and reviewed periodically to find out whether there was avoidable idle

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time. Out of the 350 machines in CSL, log books in respect of about 86 machines only are reportedly being maintained. How in the absence of the log books the utilisation of the machines is being watched in the shipyard is difficul to understand. One of the reasons given for non-maintenance of log books is that some of the machines are very scarcely operated and hence no log book was being maintained.

25. 7.26 The Committee note that another conspicuous feature relating to machine utilisation was the large number of idle hours *vis-a-via* total available hours. The Committee find that the percentage of utilisation of the machines as compared to the total hours available ranged between 52 and 57 per cent during the last 5 years. This would indicate that the percentage of idle hours during the same period ranged between 43 and 47 per cent. This position is not at all a happy one. The situation needs to be reviewed systematically with a view to identify such of the costly machines which are not being used at all or which are very scarcely used and which of them could be dispensesd with. The Committee desire that such an exercise should be undertaken immediately and the action taken in the matter should be intimated to them.

26. 7.27 It has been pointed out by Audit that the causewise break-up of the idle time reveals that most of the idleness was due to "want of job". The Committee are clearly of the opinion that this underscores the need for improving the performance of the undertaking as also for finding adequate work load for men and machinery deployed. It goes without saying that only fuller utilisation of the installed capacity can lead to optimum utilisation of the factors of production and urgent steps should be taken in this direction.

27. 7.36 It is seen that the payments on account of idle time wages increased from Rs. 12.60 lakhs in 1979-80 to Rs. 26.36 lakhs in 1983-84. This figure has however been brought down to Rs. 14.34 lakhs in 1984-85 and Rs. 15.59 lakhs in 1985-86. Here again the main reasons for idle time was "want of jobs". The Committee haue been

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		informed that the percentage of total idle hours to total available hours, which was 20.60 in 1983-84 has been brought down to 8.96 in 1985-86. This is a healthy sign but at the same time it proves that idle time can not only be reduced further but also even totally eliminated. The Committee desire that as assured by the CMD of the Cochin Shipyard more concerted efforts should be put in to reduce the idle time to the barest minimum if not totally eliminate it in the shortest possible time.
28.	7.45	The Committee are somewhat perplexed to find that even though the actual production in the Cochin Shipyard in terms of ships built and repaired was much lower than envisaged in the RPR and the productivity of the factors of production such as labour and machines was far less than the optimal, the incidence of overtime wages has not only been quite substantial but also has been rising from year to year. Not-withstanding satisfactory man power position *vis-a-vis* RPR projections, the percentage of overtime to salaries and wages has been very high. In the case of shipbuilding staff the percentage of overtime to salaries & wages was as high as 43.41 in the year 1981-82 and has ranged between 26.56 and 34.78 per cent during the years 1982-83 to 1985-86 except in 1983-84, when it was 14.73. Similarly, in the case of ship repair staff the percentage of overtime to salaries & wages was as high as 69.58 in 1985-86. The total payments on account of overtime were of the order of Rs.95.34 lakhs in 1984-85 and Rs. 98.01 lakhs in 1985-86. These payments constituted more than 13 per cent and 12 per cent respectively of the total cost during these years. The Committee are constrained tc say that in the context of low order book position, excessive idle time and poor utilisation of machines and equipment, the payment of high sums towards overtime wages sounds rather paradoxical. The inevitability of such payments do not appeal to the Committee. The Committee get a clear impression that an element of idle labour cost has become in-built in the direct labour cost and there is undoubtedly a vested interest in work being done only during overtime. Such huge payments of overtime wages are not at all justified and smack of poor management capabilities. To say the least there is need for looking into the

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		matter most immediately and taking urgent remedial steps. The overtime payments have to be brought down to a reasonable level within a fixed time-frame. The Committee would await a report within six months.
29.	8.26	The Committee note that the material management and inventory control systems in the Cochin Shipyard leave much to be desired. It is surprising to find that even the basic essentials such at periodical reviews and physical verification of stocks have been found to be lacking. According to Audit, except some test verification conducted by Internal Audit, no independent verification of stocks has been done till 1986 and the codification of the materials was started only from 1-4-1986, after the Audit had pointed out the lacuna. The levels of inventories of different kind held by the shipyard at the end of each year were very high indicating that a lot of capital was locked up in inventories. The norms of consumption of various items of inventory have either not been laid down or are not being scrupulously enforced. The closing stock of store items including bought-out items represented 5.5 years consumption as on 31-3-1986. The Committee find it even more distressing to note that the non-moving stores of Rs. 423.04 lakhs on 31-3-1984 included stores and spares valued at Rs. 189.96 lakhs which had not moved for three years or more. The Committee therefore desire that a systematic exercise may be undertaken to properly assess the shipyard's requirements of inventory, identify the surplus stocks & stores, lay down realistic norms for consumption of different stores and take steps for the disposal of surplus material at the earliest. The Committee would like to be apprised of the concrete steps taken in this direction within six months.
30.	8.27	The weaknesses in the system of inventory management at Cochin Shipyard have been brought into focus by a recent judgement of the Kerala High Court. While quashing the order of suspension issued by the management of CSL against an officer of shipyard for over indenting of pipes far in excess of the actual requirements, the Court had made some very serious observations about the large scale irregularities in indenting, purchase, storage and utilisation of material worth over half a crore of rupees in the

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		shipyard. The Committee hope that as recommended by the Court a thorough investigation would be ordered by the Government immediately, if not already done so, with a view to streamline the procedures for acquiring & maintaining inventories.
31.	9.11	The working results of the Cochin Shipyard from 1975-76, when it commenced production, to the end of 1985-86 reveal that the operations of the shipyard have resulted only in losses except in two years i.e. 1980-81 and 1981-82 when some profits were shown in the account. As on 31-3-1986, the cumulative loss of CSL works out to Rs. 54.98 crores and out of the total loss of Rs. 54.98 crores, the loss in shipbuilding activity alone was of the order of Rs. 33.08 crores. The value of production as a percentage of the capital employed in an industrial undertaking is an index of the capacity utilisation in financial terms. In the case of CSL the percentage of value of production to the total net assets varied from 14 in 1983-84 to 19 in 1984-85 and 17 in 1985-86. The primary reason for this sorry state of affairs is undoubtedly very low level of capacity utilisation achieved so far in physical terms and the low productivity of both man and machines. The Committee feel that effective planning and construction management in CSL as well as long term planning for shipbuilding industry at the national level are imperative for increasing the capacity utilisation in the shipyard. A comprehensive long term plan for optimal utilisation of the infrastructure already created needs to be drawn up and implemented. For the proper implementation of any such plan it is necessary that the shipyard should economise in all fields of its expenditure and take energetic steps for maximising its capacity utilisation.
32.	9.12	According to the Ministry of Surface Transport the main reasons for the losses in CSL are *inter alia*, unremunerative prices fixed by Government for the ships, heavy interest burden due to high cost of CSL project and high-cost of indigenous inputs and longer delivery time. Interestingly a solution to all these problems can be found only by the Government. The Committee desire that since problems have now been clearly identified, no time should

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be lost in resolving them. It is seen that the proposals for conversion of the present debt equity ratio of CSL, interest holiday, moratorium on repayment of loans and resheduling of repayment terms of the remaining loans have been under the consideration of the Government for quite sometime but final decisions have yet to be taken. One particular matter which the Committee would like to be highlighted is the fact that the proposals for rectification of some imbalances in the facilities of the yard made by the Datta Committee in March, 1984 still continue to be under the consideration of the Government without any decisions having been taken so far. The Committee cannot but emphasize that various suggestions made by the management of the CSL for streamlining the working of the shipyard should have been examined and considered with a sense of urgency and in any case decisions thereon should not be delayed any longer so that the shipyard is put back on the rails without further loss of time.

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