C. P. U. No. 468

COMMITTEE ON PUBLIC UNDERTAKINGS (1981-82)

(SEVENTH LOK SABHA)

FORTY-THIRD REPORT

ON

THE SHIPPING CORPORATION ON INDIA LTD.

(Ministry of Shipping to Transport)

Presented to Lok Sabha on 27-4-82

Laid in Rajya Sabha on 27-4-1982

LOK SABHA SECRETARIAT

NEW DELHI

April, 1982/Vaishaka, 1904 (Saka)

Price Rs. 3.00

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FORTY-THIRD REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS ON THE SHIPPING CORPORATION OF INDIA LTD.

Page	Para	Line	For	Read
3	4	3	UNCAD	UNCTAD
	4	4	UNOTAD	UNCTAD
4	9	5-7	"In the container cargo,which was about one million tonnes. Indian share was stated to be 25 per cent Accounting for"	"In the container cargo, which was about one million tonnes, Indian share was stated to be 25 per cent. Accounting for"
6	14	4	corss	cross
8	23	5	ILFT	IIFT
17	7	2	support	supporting
42	17	8	arty	party
58	5	7	industing	inducting
60	13	5	(TRANCHART)	(TRANSCHART)
67	32	9	family	fairly

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(1981-82)

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3. Shri S. C. Gupta—*Senior Financial Committee Officer.*

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* Ceased to be a Member consequent on his appointment as Deputy Minister on 15 January, 1982.

** Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1982.

STUDY GROUP IV ON SHIPPING CORPORATION OF INDIA LTD., AGRICULTURAL REFINANCE & DEVELOPMENT CORPORATION AND CERTAIN ASPECTS OF DELHI TRANSPORT CORPORATION, HOUSING & URBAN DEVELOPMENT CORPORATION, CEMENT CORPORATION OF INDIA LTD.

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* Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1982.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty-third Report on the Shipping Corporation of India Ltd.

2. The Committee took evidence of the representatives of the Shipping Corporation of India Ltd. on 27, 28 ond 29 January, 1982 and of Ministries of Shipping and Transport, Commerce (Department of Commerce) and Finance (Department of Revenue & Insurance) on 10 and 12 February, 1982.

3. The Committee considered and adopted the Report at their sitting held on 20 April, 1982.

4. The Committee wish to express their thanks to the Ministry of Shipping and Transport and the Shipping Corporation of India Ltd. for placing before them the material and information they wanted in connection with the examination of the subject. They also wish to thank in particular the representatives of the Ministries of Shipping and Transport, Commerce (Department of Commerce) and Finance (Department of Revenue & Insurance) and the Shipping Corporation of India Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI;
April 24, 1982
Vaisakha 4, 1904 (*S*)

BANSI LAL,
Chairman,
Committee on Public Undertakings.

PART-I

BACKGROUND ANALYSIS

I. MARKET SHARE

A. Objectives of S. C. I.

1. The Shipping Corporation of India was formed on 2nd October, 1961 by the amalgamation of Eastern Shipping Corporation Ltd. and Western Shipping Corporation Ltd. Its main objectives are (i) to continue to meet the needs of national trades, both bulk and general cargo, by providing adequate tonnage for the growing trade; (ii) to increase market share both in dry bulk, liquid bulk and general cargoes emanating from and to India and in cross trades and (iii) to innovate in both technical and commercial fields and keep abreast of technological/technical changes which are taking place in shipping.

2. The Corporation owns a diversified fleet comprising 147 vessels of the aggregate 49.79 lakhs DWT (29.91 lakhs GRT) accounting for about 52 per cent of the total national fleet. It operates a number of cargo liner services, passenger-cum-cargo services, overseas and coastal tanker services, dry bulk cargo services, overseas bulk carrier services and overseas tramp services. The S.C.I. fleet as on 31 July, 1981 was as given in the table below:-

Type of Vessel	No.	GRT	DWT	Per centage of total fleet (DWT)
Dry Cargo Vessels	80	8·05	11·15	22·39
Bulk Carriers	21	5·33	9·41	18·90
Combination Carriers	12	5·68	10·30	20·69
VLCCS	2	2·80	5·53	11·11
Crude Carriers	13	6·19	10·87	21·83
Product Carriers	8	1·08	1·72	3·46
Colliers	3	0·29	0·45	0·90
Passenger-cum-Cargo Vessles	6	0·42	0·25	0·50
Timber Carriers	2	0·07	0·11	0·22
Total	147	29·91	49·79	100·00

B. *Market Share of Indian Shipping and S. C. I.*

3. The table below indicates year-wise share of Indian vessels including SCI vessels in carriage of India's sea borne import and export trade since 1974-75:—

(In Million tonnes)

Year	Total sea borne trade			Imports/Exports carried by Indian Vessels			Imports/Exports carried by SCI vessels			Percentage carried by Indian Vessel to total	Percentage carried by SCI to total Indian vessel
	Imports	Exports	Total	Imports	Exports	Total	Imports	Exports	Total		
1974-75	32·01	30·92	62·93	11·33	6·21	17·54	N.A.	N.A.	N.A.	27·9%	N.A.
1975-76	30·11	31·84	61·95	15·36	6·40	21·76	2·38	1·65	4·03	35·1%	18·5%
1976-77	28·90	35·39	64·29	18·75	7·67	26·42	6·25	1·93	8·18	41·1%	31·0%
1977-78	26·32	31·89	58·21	14·44	7·79	22·23	N.A.	N.A.	N.A.	38·2%	N.A.
1978-79	32·00	30·92	62·92	16·70	6·12	22·82	10·76	1·68	12·44	36·30%	54·5%
1979-80	36·49	34·72	71·21	16·43	6·14	22·57	14·79	2·12	16·91	31·70%	74·92%

(N.A.—Not available)

4. The percentage share of Indian Shipping came down further to 28 per cent during 1980-81. Asked about the porvisions pertaining to cargo sharing in the UNCAD code of conduct for liner conferences, a representative of the SCI stated that the UNCTAD code which governed the movement of cargo in the liner sector, adopted a formula of 40:40:20 in the liner cargo sharing. In other words, in the liner sector the National lines, *i.e.* Indian lines may carry 40 per cent of the cargo. The Resolution of the UNCTAD containing the aforesaid formula was yet to be ratified by requisite number of its members to make it affective. As regards the bulk cargo. the UNCTAD formula provided 50 per cent share for the National Line.

5. The Committee were further informed that due to positive government policy that all oils, crude as well as products, should be carried in the national bottoms, the SCI has a predominant share in the carriage of liquid bulk cargo. The share of Indian lines in dry bulk cargo, however, continued to be very low. The Japanese had insisted while negotiating with the MMTC contracts for the purchase of iron ore that 85 per cent of their cargo should be carried in the Japanese bottoms and only 15 per cent was permitted to Indian Lines. Later with the help of Ministries of Shipping and Transport and Commerce, it had become possible to increase Indian share on a graduated basis and at present Indian share was 23 per cent.

6. The witness admitted that the share of Indian Lines as a whole In India's overseas trade had been diminishing during the last three or four years but pleaded that the share of the Corporation had been on the increase during these years. Clarifying the matter further the witness stated that in liquid cargo Indian share was 95-96 per cent and out of this SCI's share would be 90 per cent. In the case of dry bulk cargo out of total 22 per cent Indian share. SCI share would be 10 per cent to 12 per cent. Even MMTC could not help much in the matter when SCI approached them for increased share. In case of Goa iron ore, several shipowners themselves were exporters, yet they had been engaging foreign vessels for this export and were using their own vessels in cross trades.

7. According to the Annual Report of the SCI (1980-81) it was necessary to take some policy measures to meet the increasing competition from foreign lines which have no obligation to provide a regular, comprehensive and dependable service to India's overseas trade. Considering the sizeable growth of Indian shipping in recent years and its operation within the shipping conferences, the prominent place India occupied in the maritime map of the world and the

provisions pertaining to cargo sharing in the UNCATD code of conduct for Liner Conferences which India had already ratified, appropriate regulatory measures, including necessary modifications in the scheme of export incentives, were necessary to arrest the present trend of diversion of cargo to foreign lines to enable Indian shipping to achieve their legitimate share in India's overseas trade.

8. Asked to elaborate the policy measures needed, a representative of the SCI stated in evidence that "our purchase should be on *f.o.b.* basis and our sales should be on *c.i.f.* basis. When we do not have enough commodities to export, we must export services, like shipping which has a tremendous potential for earning foreign exchange." He added that Indian ships must be utilised to the maximum extent possible for both imports and exports. He observed that in the private sector, for various reasons and inducements, they preferred foreign lines. When they were not able to use foreign lines, they would utilise non-governmental Indian lines. Asked what was the hitch in exporting shipping service, he replied that "They get some inducements which we in the public sector are not in a position to give and as a result of all those inducements, many Indian shippers prefer to ship on foreign lines." To elaborate his argument he submitted that in some cases "even before the cargo is loaded on the vessel the Bill of Lading is issued."

The Transport Secretary stated that the share of Indian bottoms had increased to 40.60 per cent during 1981-82. He submitted that one third of Indian Trade was iron ore (22 to 25 million tonnes) and there the Japanese had been insisting on the cargo being carried in Japanese ships and Indian share was still 25 per cent. In the container cargo, which was about one million tonnes.

Indian share was stated to be 25 per cent Accounting for the fall in the cargo carried by Indian vessel in 1980-81, the Financial Adviser of the Ministry of Shipping and Transport deposed:

> "The total sea-bound import and export broadly falls under three categories. One is the dry bulk cargo. In this case, the percentage which the Indian ships handled during 1975-76 was 24.9, which fell to 18.2 per cent in 1979-80. In the case of POL, in 1975-76, the percentage was 58.8 and in 1979-80 it was 58.4. In the case of liner cargo, in 1976-77, it was 39.58 per cent and in 1979-80, it was 28.45 per cent. Therefore, the main area where there is some sort of reduction in the cargo carried by Indian vessels has taken place is the dry bulk cargo and

the liner cargo. So far as the liner cargo is concerned, it is the cargo which is susceptible to containerisation. The containerisation is handled through a consortium of three Indian Shipping Companies. They are handling the containeried items. The intrusion of non-conference line and foreign vessels had the effect of cutting into the share which the Indian bottoms were carrying earlier. The extremely competitive market and non-conference line operations primarily account for the fall in the share of Indian liner cargo. In the case of dry bulk cargo, as the Secretary explained, most of the dry bulk cargo is the export of Indian iron ore. Insistence on the part of Japanese buyers to carry the same in their own bottom is the primary reason for the fall in the dry bulk cargo."

10. During 1979-80, even though the export and import went up by 8.29 mt., the share of the Indian ships did not increase, which implied that the increase in the total sea-bound cargo went to bottoms other than Indians. Asked to explain this phenomenon and the wide fluctuation in the share of Indian Shipping in the sea born trade, the Transport Secretary stated "I do admit that I had not done that much study." Asked about the efforts made by the Ministry to improve Indian share, the Transport Secretary pleaded that at the Government level, they were earnestly trying to move government cargo by Indian ships all the time, but they had no control over the private trade.

11. The SCI submitted that the entire exports of Oil Cakes which were on f.o.b. basis were shipped by foreign flag vessels and major portion of iron ore exports were being shipped by foreign flag vessels. Asked to clarify the position, a representative of SCI stated that export of oil cakes to UK and other East European countries was usually channelised on a liner type ship and it could be done through SCI liner ship. In regard to export of iron ore, he admitted that at the time of negotiations with Japanese, hands of MMTC were very tight and now with the inclusion of SCI in the negotiation, the position had been improving.

12. Asked to comment on the export of oil cakes in foreign flag vessels, the representative of Commerce stated:—

"The entire oil cake trade is in private hands, even though it is canalised by the STC. The purpose of canalisation is not to do contracting by STC, but periodical quota releases by the Agriculture Ministry based on domestic requirements. It is only to see that the quotas are spread throughout the year in a particular fashion. Contracting is done by individual parties. There is no control over them, whether they do it on f.o.b. basis or other basis."

13. The Committee desired to know if it was not possible for STC/MMTC to control the shipping in case of canalised items. The representative of the Commerce Ministry stated that that would be possible only if STC took upon itself the responsibility for contracting also. Further asked if shipping could be stipulated in the STC contracts, the witness said: "We have not given thought to this idea. I would not commit now, but this is an area where we can examine it."

14. When the Committee desired to know what was the share of Indian Shipping in the cross trade and whether that was commensurate with its fleet strength, the Transport Secretary stated that "No worthwhile statistics are available on corss trade."

C. *Standing Committee for better Cargo Support*

15. According to the Annual Report (1980-81) of the Ministry of Shipping and Transport, the utilisation of Indian shipping is periodically reviewed by the Standing Committee set up in February, 1979 for securing better cargo support for Indian ships and for ensuring better coordination between public sector agencies, shipping industry and the Ministry of Shipping & Transport (TRANSCHART). Asked about the number of times the Standing Committee met since February, 1979 to review the position and outcome of each meeting, the representative of the Ministry of Commerce stated that in all four meetings were held (April 1979, November. 1979, December, 1980 and July 1981). MMTC, STC, SAIL and other concerned organisations attended to these meetings. Besides, the Ministry of Commerce held a number of departmental meetings with the concerned organisations to discuss the problems that cropped up.

16. As regards the objective of setting up of the Committee, the Commerce representative submitted in reply to a question that its "main purpose is to increase the share of the Indian shipping as a whole." It was set up to coordinate between various projects, the Indian Shipping Lines, the Ministry of Shipping and the TRANSCHART to see how best the Indian Lines could be served.

17. As regards the role of Ministry of Shipping in the development of Indian shipping, a representative of the Ministry submitted that the Ministry of Shipping had no control over the private cargo. Supporting this view the Transport Secretary stated "Basically our objective is to get as much of government cargo as possible. On private cargo we do not have much control."

18. When the Committee pointed out how the Standing Committee could discharge its functions of promoting Indian shipping by holding irregular meetings, the Transport Secretary admitted that the Committee was "a bit weak" and it was not functioning as efficiently as it should. Taking note of this he convened a meeting on 11 October, 1980 in which all the shipping lines and the shipping industry were invited. There he recorded that the TRANSCHART should convene a meeting of the Standing Committee in the first week of every month to review the shipping arrangements.

19. According to Transport Secretary, some of the important decisions taken at the meeting of 11 October, 1980 were:—

(i) the share of Indian shipping lines for export of iron ore to Japan should be increased progressively to 50 per cent and a representative of SCI should be associated by MMTC in the negotiation with the Japanese and SCI in turn consult other Indian Shipping Companies participating in the iron ore trade with a a view to achieve the target of 50 per cent share of Indian Shipping;

(ii) MMTC, STC, SAIL and other public sector undertakings should associate TRANSCHART on a regular basis and well in time before concluding foreign sale/purchase contracts so that shipping arrangements most favourable to national interest including freight earnings for India could be discussed and worked out;

(iii) The Ministry of Commerce would consider the question of providing incentives to Indian shippers with a view to inducing them to progressively patronise Indian Shipping lines;

(iv) The activities of unscrupulous brokers and shipping agents, freight forwarders etc. should be curbed;

(v) The Working Group set up to go into the question of the activities of unscrupulous tramp operations in India's overseas trade would submit its report by the end of

January, 1981. Government may consider legislative measures to curb these undesirable activities; and

(vi) There should be regular meetings between shippers and ship owners to look into the difficulties of each other.

20. When the Committee desired to know from the Chief Controller of Chartering, who happened to be the Chairman of the Standing Committee, as to why regular meetings were not being held in spite of Secretary's specific directive in the matter he stated: "Every month to hold a meeting is not practicable. It is not that I disagreed or anything like that." Asked as to what cognisance of the failure to carry out his directives was taken by him, the Secretary, Ministry of Shipping and Transport stated in evidence that to the extent that he has not been reminding the Chairman of the Standing Committee he failed.

D. *Unhealthy Competition*

21. It has been stated that SCI faces stiff and unhealthy competition from non-conference lines and foreign ship operators who indulged in unethical practices such as (i) issuing predated Bills of loading; (ii) undercutting of rates and surcharges; (iii) paying higher brokerage than what is laid down in the conference tariff and what is customary practice; (iv) giving commission to the clearing and forwarding agents in addition to what is paid to brokers; and (v) giving monetary assistance for handling of cargo within port premises.

22. About the particulars of Indian shipowners indulging in malpractices, a representative of SCI stated that non-conference Indian lines in international trade, other than West Asia Gulf, were not in existence. A number of foreign non-conference operators were indulging in the malpractices. The witness, however, expressed his inability to prove any of the aforesaid unethical practices. One instance of existence of malpractices was that the brokers had been approaching SCI for payment of higher percentage than permissible as incentive which they were stated to have been receiving from other shipowners.

23. The Committee were informed by the SCI that the malpractices were brought out from time to time in various Reports and discussions such as (i) Report of the Indian Institute of Foreign Trade on the Study of Cargo Booking, Cargo Aggregation and Freight Fixation (IIFT Report, 1976), (ii) Meeting of Ministry

of Shipping & Transport held on 25 February, 1977 to set up National Sole Shipping Agency with Statutory Authority; (iii) SCOPE Shipping Meeting called by the Ministry of Commerce at Bombay on 8 November, 1977; (iv) Report of the Working Group under the Chairmanship of Shri A. Padmanabhan, Joint Secretary, Ministry of Shipping and Transport, 1980; (v) Notification of Collector of Customs, Bombay dated 5 April, 1980; and (vi) Meeting held in Ministry of Shipping on 10 November, 1980; and (vii) SCI's letter dated 23 November, 1981 addressed to the Ministry of Shipping & Transport.

24. To overcome the malpractices indulged in by certain liners and to meet the increasing non-conference competition, the SCI made a number of suggestions which, *inter alia* included:

(i) A portion of incentives/assistance offered to the exporters in the various forms may be given to the exporters only on their satisfying the conditions and producing a certificate to the effect that the shipments made on Indian Vessels;

(ii) As far as possible, India's sale should be on c.i.f. basis and import on f.o.b. basis with a view to leave the control of shipping arrangements in the hands of Indian parties;

(iii) TRANSCHART should be vested with greater powers to ensure that the shipments by public sector undertakings such as MMTC, STC, Cotton Corporation of India, etc. were made by Indian lines, including export of oil-cakes and iron ores;

(iv) A scheme of licensing freight brokers might be introduced and D.G., Shipping be given regulatory powers over freight brokers;

(v) The clearing and forwarding Agents should be brought under a scheme of licensing and control to ensure better support to Indian Lines. To achieve this end a strict scrutiny of disbursement accounts of private agency in India by Reserve Bank of India was necessary.

25. The Committee desired to know when these suggestions were formulated and taken up with the appropriate authorities such as Ministry of Finance/Commerce, Reserve Bank of India, D.G., Shipping, etc. and outcome thereof. In reply, a representative of SCI stated that from 1976 onwards, the Corporation had been making the suggestions whenever specific situations arose. Later it was

informed that these suggestions were also contained in the minutes and discussions held on various occasions, *viz.* (i) meeting with the Minister of State for Shipping & Transport held on 29 September, 1977; (ii) meeting of the Ministry of Shipping & Transport held on 18 January, 1979 and (iii) in the meeting held on 17 February, 1979 to set up a Standing Committee under the Chairmanship of Chief Controller of Chartering and also in the first meeting of the Standing Committee held on 17 April, 1979; and (iv) in the meetings of the Ministry held on 10 November, 1980, 17 July, 1981 and 21 December, 1981.

26. Asked when the matter relating to issue of pre-dated bills of lading was taken up with the concerned authority, a representative of the SCI stated that in their Memorandum of 10 November, 1980 to the issue was raised by the SCI. He pointed out that some shipping lines with a view to attract cargos, had been issuing pre-dated Bills of lading before the cargo was actually out of customs charges or even before the vessel arrived at the port for loading. The shippers on the strength of these pre-dated Bills of Lading backed by General Registration-I forms issued by the Customs could negotiate payment with the Banks and this helped non-conference shipping lines in getting better cargo supports. Taking note of this situation, the Collector of Customs, Bombay issued a notification on 5 April, 1980 revising the procedure for issue of GR-I form only on the event of goods having been put on board, but the procedure was revised again on 15 May, 1980 and since then GR-I forms were being issued as soon as goods were appraised by the Customs.

27. Asked to comment on the existing practice of issue of GR-I form by the Bombay Customs, a representative of the Ministry of Finance (Member, Central Board of Revenue & Excise) submitted that the Customs Department had nothing to do with issue of Bills of lading. GR-I form issued by the Customs Department was an instrument prescribed by the Reserve Bank of India and its main object was to ensure full realisation of the export value of the goods exported. As per existing practice on receipt and examination of shipping Bill the Customs Department issued GR-I form which were received in triplicate. A copy of GR-I form was returned to the Reserve Bank with the endorsement that the goods had come and they represented the full export value. Two copies of GR-I form were being handed over to the party, a copy of which was being deposited to his banker for payment. By sending the GR form to the Reserve Bank the party took an obligation to repatriate that much of foreign exchange within six months irrespective of the fact

whether the goods had been shipped or not. On the other hand the Bill of lading issued by the shipping lines would simply state that the goods were put on board. The Collector of Customs, Bombay explained the purpose of GR-I form as follows:—

> "GR-I form is mainly to watch the repatriation of foreign exchange from abroad and when a letter of credit had been opened and the customs check it with regard to the value that is declared. The Customs after satisfying themselves attest it and give it to the exporter and one copy goes to the Reserve Bank and the Reserve Bank watches the repatriation of that amount. As soon as the GR form goes to the Bank, the Bank is assured that the value declared represents the full export value and therefore, on that basis they pay to the exporter. That is the main significance of the GR-I form."

28. Further asked to clarify if the Banker would make payment without ensuring whether goods were loaded or not, the witness stated:—

> "It all depends on the contract made by the shipper and the overseas buyer. The letter of credit may stipulate that clean-on-board bills of lading must be given, in which case the banker will not pay the amount unless there is a clean-on-board bill of lading. If there is no such stipulation the banker can pay. It all depends upon the condition of the letter of credit and also the contract between the buyer and the shipper."

The witness submitted that the Bill of lading could be issued even without GR-I form. The Committee desired to know the reasons for modifying the procedure for issue of GR-I form on 5 April, 1980 and further modifying it on 15 May, 1980. In reply the Collector of Customs, Bombay deposed that until 1980 uniform procedure was that all Customs Houses had been releasing the duplicate and triplicate copy of the GR form in the Customs House itself before examination of the goods. In early 1980 some representations were received that some of the exporters were realising the sale proceeds even before the goods were brought into decks. On this basis the Madras Customs House issued a public notice. Following this the Bombay Customs House issued the notice in April, 1980. Consequently a large number of representations were received from government and non-government agencies concerned with exports i.e. Export Promotion Councils, Export Trade Associations, the Gujarat Export Corporation etc. regarding delay in issue of GR-I form caused by the new procedure. The matter was considered at length and it was found that new procedure might cause some delay and difficulty to genuine exporters. At an inter-ministerial meeting it was decided with the concurrence of the Ministry of Commerce that the GR-I form should be issued when the goods have been tendered and examined by the customs.

29. A representative of the Ministry surmised that malpractices arose from one thing, i.e. non-existence of any regulation relating to steamer agents. All persons who were paying port dues, irrespective of their credibility and financial standing, could become agents. The Committee desired to know whether the government was considering to have a scheme of licensing freight brokers and vesting the Director General, Shipping with regulatory powers in order to control the activities of the brokers. In reply the Transport Secretary stated, "This is highlighted by the Padmanabhan Committee. We are thinking of going in for a legislation on the subject." As regards clearing and forwarding agents the Committee enquired if they too could be brought under the scheme of control and licensing. In reply the witness stated although some control existed. "We can bring in some stringent regulations and there is no difficulty."

II. SERVICES OPERATED BY SCI

1. At present the SCI operates 18 overseas cargo liner services, 4 passenger-cum-cargo services besides tankers, bulk carriers and coastal services. Economies of operation of various services in different sectors since 1974-75 were as given overleaf.

Sector	Operation results						(Rs. in lakhs)
	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
WC India/East Africa (Pass)	—30·00	—47·20	—19·11	..		..	..
EC India/West Asia Gulf (Pass)	—4·39	—22·03	—21·89	—141·26	..	..	..
India/Straits (Pass)	68·96	—23·35	—49·53	—136·78	—61·85	—67·38	—61·47
WC India/East Africa (Cargo)	48·30	—8·20	173·36	196·11	31·46	33·90	94·60
ECI/Australia	67·37	—12·53	—12·55	—61·77	—164·36	—163·48	—51·62
WCI/Australia	7·99	—54·20	—80·28	—50·06	—265·60	—245·97	—29·62
India/Newzealand	46·27	42·66	14·90	45·72	—64·87	16·64	—31·91
ECI/Far East	146·46	65·14	206·08	315·79	35·37	103·08	37·30
India/UK Continent	566·45	344·68	313·33	348·62	—28·81	22·58	80·93
India/Black Sea	516·62	162·25	187·95	87·69	82·56	48·93	195·78
India/USA (Atlantic)	242·77	60·85	—33·85	103·99	—135·74	221·81	121·72
India/USA (Pacific)	204·04	31·97	—154·51	—49·38	—284·83	—354·65	—253·29
India/USA (G. Lakes)	167·13	124·90	5·72	—243·16	—391·21	—120·75	—83·45
India/W. Asia (Gulf)	84·99	—5·20	—40·51	—16·38	..	..	..
WCI/W. Asia (Gulf)	3·37	94·45	16·69	—21·09	—8·30	..	..
ECI/W. Asia (Red Sea)	117·03	2·62	—19·90	—12·85	—28·27	..	21·35
WCI/Far East	177·16	105·48	285·12	102·33	246·20	343·94	268·33

Sector	Operation results (Rs. in lakhs) 1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
India/Meditarranean	..		—18·76	—156·81	—235·74	—168·94	124·15
Straits/WCI/USA/(ATL)			174·38	—571·60		..	
India/S.E.A.	..		..	..	..	6·05	..
ECI/S. Africa	..	..	..	..		—113·35	..
Madras/Japan	..	..	..			..	33·35
India/West Africa	..				..	..	—16·05
India/East Africa	..	..	..	..	..	..	7·61
Tramping	10·21	151·36	80·88	7·99	—35·85	—189·85	70·55
Vessels Chartered Out	59·58	31·18	12·78	—7·82	11·86	32·45	83·76
Coastal/Adjacent	—128·77	—108·70	—11·89	—44·55	—92·59	—82·29	—29·48
Tanker	—579·91	+527·97	582·49	294·10	—263·25	—992·43	640·01
Bulk Carriers	1373·26	496·26	531·03	—17·85	—423·83	827·37	1882·11
Combination Carrier	475·09	—455·64	—624·47	—1267·65	—1179·71	—930·87	—769·51
Cattle Carrier	..	..	..	—91·41	—80·58	—73·63	—29·66
Passenger Services on Government Account	—424·61	—441·86	—386·17	—99·13	—15·70	—160·36	—647·00

A. Overseas Liner Services

2. The Committee pointed out that some of the liner services were making perpetual losses and desired to know the justification for continuing the services. A representative of the SCI claimed that losses were coming down. The losses on WCI|Australia route came down from Rs. 245.97 lakhs in 1979-80 to Rs. 29.62 lakhs in 1980-81 and during the year 1981-82 (upto December 1981) there was a profit of Rs. 7.95 lakhs. This was according to him, on account of running container service. Further he pointed out that on India| USA (Pacific route) the losses had come down from Rs. 354.65 lakhs in 1979-80 to Rs. 253.79 lakhs in 1980-81 and during the 9 months of 1981-82 (upto December 1981) there was a profit of Rs. 50 lakhs. Similarly, on the India/Mediterranean route the losses came down and there was a profit of Rs. 124.85 lakhs in 1980-81.

3. Asked whether the improvement in the working of the route was because of general improvement in the shipping market or whether it was because of rationalisation of the SCI, the witness stated:—

> "That is due to a variety of reasons—first is because of rationalisation of our services; secondly we have started containerisation which has a certain advantage as well as disadvantage also. The disadvantage is that the new container vessels are high-cost ones. Their operating expenses are higher than the operation of the old vessels. The advantage is that the turnround at ports is much faster so that the time taken for the voyage is reduced. This has contributed to the profits."

4. The Committee desired to know if the Ministry had reviewed the overseas liner services of the SCI at any time as part of the performance review and whether they were satisfied that the pattern of deployment of vessels was critically examined by the SCI particularly in respect of services where losses were heavy, in order to rationalise the sailings. In reply the Transport Secretary stated "Basically this is for the SCI to deploy vessels and the Ministry does not deal with the deployment of vessels and sailing operations."

5. Asked, if the Ministry ensured that at least the SCI Board reviewed the performance of different liner services, the Financial Adviser of the Ministry stated that the losing services were reviewed. He being a government Director mentioned about the losing services and desired their analysis, but the SCI Directors did not take note of this and 'they were more concerned with the totality

of the liner operations instead of one particular line being taken up for analysis.' On WCI/Australia liner which had been making losses, the SCI's view on the Board was that "There is some important Cargo to be booked—wool from Australia, and some non-ferrous metals and therefore, this ship has to run." On the Committee desiring to know if the Ministry agreed with the SCI system of reviewing the performance of the liner service as a whole, he replied that Government desired review of continuously losing services along with the sectoral analysis. SCI Directors view was stated to be:

> "We should not go into a situation of analysing each and every service whether it is India-East Africa Service or West-Coastal-Australia service, because their argument was that a liner service operation was like the operation of a train which stops at various intermediate stages."

6. On enquiry a representative of the Ministry in the SCI Board informed that he normally did not submit any report on the Board meetings to the Government excepting "in respect of important matters which impinge on the government's policy or any other controversial matter where there are differences of opinions between the Board and the Directors."

B. Developmental Services

7. The Committee were informed by the SCI that it has been support country's export efforts even at the cost of revenue by providing developmental services knowing that these would not be viable during the initial period. Asked about the details of these developmental services, a representative of the SCI listed the following services introduced in 1968:

1. West Coast of India—Australia
2. East Coast of India—West Asia Gulf
3. East Coast of India—Red Sea.
4. West Coast of India—West Asia
5. West Coast of India—East Africa

*6. India—USA (Pacific)

8. The witness stated that 3 services (Sl. Nos. 2 to 4) were discontinued because it was not possible to make any profits. He added that the East Coast of India-West Asia Gulf and West Coast of India-West Asia services were withdrawn in 1977. As regards the East Coast of India-Red Sea service, he said that all the ships

*Subsequently added in a noted.

that were going to Europe and America passed through the Red Sea and the SCI combined the services with the Continental Service, *i.e.* Europe and America Service. This amalgamation was done before 1978. He further stated that the West Coast of India-East Africa service made profit from 1974 onwards.

9. The services, *viz.* (i) West Coast of India-Australia; and (ii) India-USA Pacific continued to incur losses. The working results of these losing services from the year of their introduction were as given below:

(Rs. in lakhs)

Year	WCI Australia	India/ USA (Pacific)
1968-69	(—)12·45	32·11
1969-70	(—)30·04	117·91
1970-71	(—)12·22	97·33
1971-72	(—)10·04	47·65
1972-73	(—)6·61	58·82
1973-74	(—)26·80	3·12
1974-75	(—)7·99	204·04
1975-76	(—)54·20	31·97
1976-77	(—)80·28	(—)154·42
1977-78	(—)50·06	(—)49·38
1978-79	(—)265·60	(—)284·83
1979-80	(—)245·97	(—)354·64
1980-81	(—)29·63	(—)253·29
	(—)815·91	(—)503·71
Advanced estimates for first 9 months of 1981-82	+7·99	+46·51

10. A representative of SCI stated that the introduction of developmental services to areas not covered by existing network of services was stated to have been generally preceeded by persistent demand from the trade interests which were supported by the Ministry of Commerce and Indian Missions abroad through External Affairs Ministry.

11. Asked if there was any specific directive either from the government or from the Board of Directors for starting development services, the representative of SCI replied in negative. How-

ever, before starting a service proposal containing its economics was put up to the Board and its approval obtained.

12. Asked if during this long period of 10 years and more, any review of the performance of the developmental services which were incurring heavy losses with a view to determine desirability of their continuing or modifying or to take any other recourse, was made, the witness stated "No, Sir."

13. Subsequently, SCI intimated to the Committee that the Board of Directors of SCI was kept informed about the results of these promotional services through reports on working results, Annual Revenue Budgets, Quarterly Financial Reports, etc. from time to time. The Board at their meeting held on 18th July, 1971 reviewed the trends in the profitability of liner operations and analysed the factors mainly responsible for a sharp decline in its profitability. With regard to promotional services it was stated in this review that "on almost all the promotional services the Shipping Corporation either continues to incur a loss or just about breaks even". While considering the Fifth Plan Tonnage Expansion Paper, the Board at its Meeting held on 11th April, 1974, specifically deliberated on promotional services. For example, in the case of West Coast of India/Red Sea sector it was explained that as the trade potential had increased in this area the service should be continued; in the case of West Coast of India/Australia sector which was proved uneconomical owing to high stevedoring cost; it was considered that as there were good prospects of increased trade on this sector, the service should be continued.

14. Another detailed review came up before the Board on 17th December, 1977 and 28th January, 1978 while deliberating on Revenue Estimates for 1977-78. At the meeting of 28th January, 1978, along with Revenue Estimates, detailed reviews of performance of liner sectors showing position for 1975-76, 1976-77 and 1977-78 were also submitted. The position of losses incurred in the promotional services and reasons therefor were dealt with in this review.

15. A representative of the Ministry of Commerce stated that none of the five losing services was operated on the directive or on the advice of the Ministry of Commerce. He would not call at the moment any of these lines as promotional lines. The witness agreed with the Committee that there should be some kind of time limit for calling a service promotional which would vary from circumstances to circumstances.

16. Asked to give his assessment of the issue, the Transport Secretary stated:—

> "I do not understand why they call them promotional services. It is a commercial venture. The question is whether they should run those services or not, We have not asked them to put these services. They can reduce it tomorrow or dilute according to the commercial decision."

He added that the Ministry were not involved in taking the commercial decision. His view was that SCI should discontinue a service if it continued to incur losses for 11 years or so or improve their efficiency to make the service economically prudent.

17. Asked, whether it was not necessary for the Transport Secretary to take a view on the services losing crores of rupees during more than a decade and issue suitable directives, the witness stated:

> "I would not be able to give directives. If it is an operational decision, it is entirely for them to modify it. We do not give this kind of commercial directions."

C. *Container Service*

18. During the period of severe port congestion experienced at the major ports of Bombay and Madras, the Port Authorities offered priority-berthing to the vessels carrying containers. With a view to take advantage of this concession, SCI introduced first container Liner Service in September, 1978 along with break-bulk cargoes. At present SCI operated container services on 6 liner routes, *viz.* (1) WCI/ECI-Australia, (2) India/UK Continent; (3) India/US Pacific; (4) India/US Great Lakes; (5) India/W.E. Africa and (6) Far East/India (mainly inward). The SCI started developing container capacity from 1974-75 when it acquired the capacity of 930 containers (of 20 ft. equivalent units-TEUs) in 3 vessels. As on November, 1981, it had the capacity of carrying 10473 containers in 31 vessels. SCI had not so far acquired any cellular container ships. The liner cargo vessels acquired by SCI in the last few years are combination of semi-container cargo vessels which carry both break bulk and containerised cargo.

19. Results of semi-container operations in the pooling system on these sectors till March, 1981 were as given below:—

(Rs. in lakhs)

Year	Working Results*
1975-76	(+)344·66
1976-77	(+)313·31
1977-78	(+)30·64
1978-79	(—)28·84
1979-80	(+)22·67
1980-81 (provisional)	(+)183·26

*At the time of factual verification SCI has stated that 'container operations by SCI started only in 1978 and therfore profits shown for earlier years are not those of container vessels or container operations'.

20. The fully containerised service was introduced since April, 1981 on the India/UK-Continent Sector after termination of the pooling system. The SCI intimated that the service was likely to lose in the initial stages and at best break-even in the next 2/3 years for the reason that (i) larger investment was needed for employing ships capable of catering exclusively for container traffic, (ii) container handling was expensive, and (iii) there was severe competition in the area. According to SCI container operation could be made more profitable on this sector by invoking the principle of economy of scale, *i.e.* by inducting larger-sized cellular container ships, in the range of 600 to 800 TEUs capacity.

21. According to the SCI a number of port facilities were to be developed urgently for handling container traffic, such as—

(i) Ports should immediately plan for acquiring proper and adequate container handling equipments;

(ii) Need for rationalisation of manning of labour at various stages of operations and drawing of proper incentive schemes.

(iii) Allocation of open space and shed space to shipping lines on the basis of number of containers being handled by them.

(iv) Setting up of container freight stations at major Indian ports.

(v) Discontinuation of notional payments to labour to compensate alleged loss of employment opportunity.

22. In view of the present trend of development of container traffic and the fact that better benefits of containerisation can be derived, if the containers moved to points close to important industrial and business centres, it was stated to have been decided at the instance of Ministry of Finance, Department of Revenue to set up inland container Deports (ICD) at three selected centres, *viz.* Bangalore, Delhi and Ahmedabad. In so far as Bangalore ICD was concerned all necessary arrangements including infrastructure requiired to handle containers had been installed. However, as the foreign exchange Dealers Association of India (FEDAI), shipping companies and insurance companies had not yet finalised the form of document to be issued, by the shipping companies, from the inland centres, the use of ICDs had not yet commenced. The Central Board of Excise and Customs had decided that facilities for clearence from Customs angle for both import and export cargoes moving in containers would be provided at the proposed ICDs at Bangalore and Delhi. Similar facilities for clearance of import and export containerised cargo would also be made applicable to Ahmedabad at a latter stage. The SCI had strengthened its Delhi office and appointed new agents at Bangalore and Ahmedabad to activise its marketing activities and wished to start its new ICDs from these centres. The Central Board of Excise and Customs had also given clearance for the movement of Tobacco in containers from Guntur (Andhra pradesh) which could be treated as seasonal ICD.

23. The Committee asked about the possibility of developing integrated rail, road and sea container service as had been developed in other countries like Japan, Korea, USA and continental countries, the Secretary stated that the Ministry of Shipping & Transport were making all efforts in coordination with Ministry of Commerce to develop the system. In Bombay and Madras huge modern container terminals were being set up. A number of difficulties were being experienced such as high cost of transport involved in despatch of containers through ICDs, high charges of Customs for their having less business in ICDs and Customs rejection of door to door delivery concept, ICDs not covering all the industrial centres, high rail freight and inadequate road and river bridge facilities.

24. The representative of the Ministry of Commerce concurred with the difficulties expressed by the Transport Secretary. He said in a country like India introduction of such concept would require dealing with a large number of agencies *via.* Railways, Banking system, the Customs and the Ports and each agency had its own rules

and regulations, practices and difficulties. He, however, felt that "these are all administrative problems. We should use our ingenuity and solve them."

D. Passenger Services

25. The SCI operated four passenger-*cum*-cargo services *viz.* (i) Madras|Malaysia-Singapore; (ii) Rameshwaram|Talaimannar (India| Sri Lanka); (iii) Mainland|Andaman-Nicobar Islands and (iv) Mainland Lakshadeep Islands.

26. The services other than Madras/Malaysia-Singapor service are operated on behalf of Government of India on non-commercial grounds. The SCI stated that these services were meant for catering to the developmental needs of islands concerned and to provide a cheaper mode of transport to the inhabitants. The details of losses incurred and reimbursement made by Government in respect of these three non commercial services were as indicated below:—

(Rs. in lakhs)

Year	Andaman Sector		Lakshadweep Sector		Rameswaram/Talaimanner
	Loss	Amount reimbursed	Loss	Amount reimbursed	Loss
1974-75 . .	237·10		71·61	..	Nil
1975-76	300·76		91·93		10·57
1976-77 . .	313·76	..	82·46	..	6·28
1977-78 . .	428·23	265·00	93·45	74·76	4·99
1978-79 . .	548·30	359·93	86·31	69·05	1·53
1979-80 . .	703·36	483·29	98·59	78·87	Nil
1980-81 . .	682·23	..	119·89		Nil

27. Although earlier SCI was reimbursed fully the excess of expenditure over income as the unnumerative passenger services operated at the instance of Government, it was stopped subsequently. But it was decided later that so long as SCI made overall losses, Government will reimburse 80 per cent of the loss on these services. The Ministry of Shipping and Transport made the following submission in regard to the rationale of the latest decision of the Government:—

"SCI is operating the Mainland—Andaman and Mainland Lakshadweep Shipping Services since 1956 and 1966 respectively. As the fares fixed by the Government are lower than its break even fares, SCI is incurring losses on these services. On its own vessels operated on these services, the losses incurred by S.C.I. were reimbursed by the Central Government fully upto 1969-70 and to the extent of 80 per cent upto 1972-73. But this reimbursement was discontinued from 1973-74 in pursuance of the economy instructions issued by Ministry of Finance in August, 1974 which *inter-alia* stipulated that the public sector undertakings should absorb losses on a part of their activities in their overall profits. Accordingly no subsidy was paid till 1976-77. From 1977-78, S.C.I. started incurring losses in its overall operations due to an unprecedented fall in world freight market. In view of this, Government decided on 9-1-1978 to reimburse to S.C.I. 80 per cent of the losses incurred by it on the Mainland Andaman and Mainland Lakshadweep services in the event of S.C.I. incurring overall loss in its operations with effect from the year 1977-78. From 1977-78 to 1979-80 S.C.I. incurred losses in its overall operations and they were paid subsidy in terms of the Government decision. However, in 1980-81, S.C.I. earned profits in its overall operations and as per the Government decision no subsidy was admissible to it for that year.

Ministry of Shipping and Transport considered that the existing formula of reimbursement of losses may be modified so that the SCI would bear 50 per cent of the losses on these services irrespective of whether its total operations give a profit or a loss.

Accordingly a draft Cabinet Note was circulated incorporating the revised formula. The Ministry of Finance did not agree to this proposal mainly on the ground that it would mean increased Government subsidy from zero to fifty per cent in view of the anticipated profit of SCI and that every public enterprise should to an extent reconcile itself to cross-subsidisation of certain services if public policy so dictates.

Ministry of Shipping & Transport felt that cross-subsidisation is workable where many transactions are made and unexpected losses in one are balanced with gains in another. But in this case these Island Services will invariably have large element of loss. Their permanent (cross) subsidisation by the SCI will mean little inclination on the part of SCI to improve and modernise these services. The matter was therefore taken up again with the then Finance Minister in July 1981. In August, 1981, the then Minister of Finance observed that the grant of 80 per cent of subsidy on these services during 1977-78 to 1979-80 when SCI incurred losses, was a part of the total financial rescue operation put in by the Government in its crisis years. Now that SCI was again earning profits, there was obviously no need to continue the subsidy. He also observed that SCI had a well diversified fleet and was running certain highly remunerative services. It should not be difficult, therefore, for it to subsidise its losses on the Mainland Andaman and Lakshadweep Services in line with the General policy of the Government, which was more relevant than ever in the present economic situation.

Finance Minister also mentioned that on the draft Cabinet Note, Finance Ministry had also suggested some increase in fares, last revised in 1977, to bring down the losses of SCI. This proposal is under consideration in the Ministry."

28. The passenger fares on Mainland-Andaman sector is stated to have been kept at a very low level in the interests of developing the economy of the islands and in the national interests, right from the very inception of the service from the year 1956. The fares were not related in any way to actual costs of operations, nor were they revised periodically, in proportion to the rise in costs of operation, which was normally done on commercial services. The SCI represented to Government on 13 September, 1976 for an increase in passenger fares for shipping service between Mainland/Andaman-Nicobar Islands. The last revision in passenger fares was approved by the government by 25 per cent on cabin and bunk class fares, effective from 22nd January, 1978. Owing to progressive increase in operational costs and steep rise in bunker prices SCI had made an application for upward revision of fares to Director General of Shipping, on 10th November, 1981 where the breakeven fare, based on 1980-81 operational results were shown to be 460 per cent. of the existing fare. The matter was still pending with the Ministry of Shipping & Transport/Director General of Shipping for their clearance.

29. Mainland/Andaman Service freight rates were governed by the Indian Coastal Conference tariff. Among the various commodities that moved from Island to Mainland, was timber and timber products and from Mainland to Island, commodities like cemet, coal and foodgrains were moved. These movements were considered to be sensitive, and required specific approval from the Government

for increase in freight. The Indian Costal Conference revised the frieght rate by 15 per cent in 1972 in respect of general cargo. The next freight rate increase (25 per cent) was approved by government and made effective from 15. November, 1975. However, this increase in freight rate did not apply to timber and timber products. Owing to steep escalation in operational costs, the Coastal Conference had made increase in feright rates as approved by the Government which was made effective from 22nd January, 1978 by 25 per cent which included timber and timber products. To meet the rising cost of various operational items, SCI made an application to the Secretary, Indian Coastal Conference on 16 November, 1981, for upward revision of freight rates on general cargo and on timber and timber products. The SCI had been advised by the Secretary, Indian Coastal Conference, that 30 per cent increase by way of interim relief had been given on general cargo only (effective 30 January, 1981) and on plywood and veneer (effective 1 February, 1982). This did not include timber and timber products and other sensitive items like food grains, provisions etc. for which a meeting was being convened at Port Blair of all concerned, in April, 1982. It was pointed out that timber transport was a commercial venture and freight rate was being paid by the consumer and as such, there should be no difficulty in raising the freight rate to make the service economically viable. A representative of SCI submitted that Andaman Administration did not agree to the freight increase on the export of timber. It was a Government policy and SCI had to abide by it.

30. Asked if Rameshwaram/Talaimanner service was treated on par with the Mainland-Andaman-Nicobar Islands and Mainland-Lakshadweep Island services, the Ministry of Shipping & Transport made the following submission:—

> "With a view to maintaining a close link with Ceylon, the Government of India decided that the Shipping Corporation of India Ltd. should operate a passenger service between India and Ceylon. This service was started in June 1965 by chartering an Indian vessel M. V. Konkan Sevak which operated upto 24-1-1966. This service was suspended for a short while but recommenced with effect from 31-3-1966 by the SCI by taking over and reconditioning a steamer, TSS Irwin, one of the two vessels which were earlier operated by the Southern Railway between India and Ceylon. This service was running at a loss and the net losses incurred by the Corporation were reimbursed to them in full by the Government upto

1969-70. From 1970-71 till 1973-74, SCI received reimbursement to the extent of 80 per cent only. In 1974-75, Government of India decided to abolish the payment of all subsidy to SCI. As a result, reimbursement of losses on account of the Rameshwaram/Talaimanner was also discontinued with effect from 1-4-1974. Subsequently, Government decided on 19-1-1978 to reimburse to SCI 30 per cent of the losses only on Mainland-Andaman and Mainland-Lakshadeep services in the event of SCI making overall loss, with effect from the year 1977-78."

31. As regards the Madras/Malaysia-Singapore service, the SCI had stated that although it was not a promotional service, SCI had to keep in mind while fixing passenger fares that the majority of the travelling public in this sector represents the labour force of Indian origin working in Malaysia and Singapore. SCI's policy was to fix the passenger fares in such a way that it was able to achieve a small surplus at a reasonable level of capacity utilisation. In respect of cabin class fares, SCI had to compete with airlines, particularly the non-IATA airline who offered very cheap holiday fares.

32. India/Straits passenger service was incurring losses throughout the period 1975—1981 and the aggregate losses were of the order of Rs. 4.00 crores. The passenger seat occupancy of this service ranged from 47 per cent to 82 per cent. There was no government directive to run the India/Straits service. Asked what was the compelling necessity to continue this losing concern especially when government was not subsidising the losses, a representative of SCI stated:—

> "Our management has taken the view that one of the objectives of the Corporation in the Articles of Association is to provide overseas transport. So long as we are not making an overall loss, we consider that it is our duty to promote our trade and to provide facilities to such a low class of people who are travelling from South India to Malaysia and Singapore."

33. At a performance review meeting held on 26 February, 1980 the SCI was directed by the Ministry to take necessary steps to boost up traffic on this service by better reorganisation/introduction of group concessions and giving better service and offering other incentives. Asked about the steps taken to make the service profitable, the witness stated that SCI offered a number of concessions to attract passengers, such as 15 per cent discount to an individual for a round trip, 20 per cent concession for booking group of 4 pas-

sengers or more, one free ticket for booking a group of 15 passengers, 30 per cent concession to bonafide students and such other facilities like free boarding, free meals—breakfast, lunches etc. On a specific question, the witness stated that this year (1981-82) SCI would be making profit on this service because of better utilisation. He added that subject to getting full cargo and passenger traffic the Corporation would not make loss on this service.

34. The Transport Secretary informed the Committee that with a view to review operation of this service and take a decision the Ministry desired to know in November-December, 1981 if the service could have a stoppage at Port Blair and certain other information including the necessity of this service. The SCI informed the Ministry that stop at Port Blair was not practicable and that "this service should be continued to be run in the overall interest of the nation." As regards the Government view the witness informed that since SCI did not ask for any financial support on this Service, non deliberate decision was taken by the government on its operation. But he agreed with the Committee that since general Budget support was given by the Government, the position should be kept under review.

E. *Tankers and Bulk Carriers Services*

35. About 38 per cent of SCI fleet (75 per cent of the DWT) comprised bulk carriers, tankers and combination carriers and it was these vessels which greatly influenced SCI's profitability. There were heavy losses (Rs. 30.60 crores) on these services during the year 1977—79 but there was a marginal profit of Rs. 0.7 crores in 1979-80. The specific reasons which affected the bulk carrier and tanker operations were stated to be:

(a) The Corporation had acquired 2 VICCs & 2 OBOs to serve the country's oil and ore trade. Due to non-availability of port facilities and non-completion of Mathura & Koyali refineries, these ships had to be operated in international market where freight rates were low. This alone accounted for a loss of Rs. 15 crores in 1978-79.

(b) Non-acceptance of two bulk carriers of 75,000 DWT each of which were fixed with MMTC on charter for 16 years on account of all in export of iron ore, caused the Corporation a loss of about Rs. 2.3 crores in 1978-79.

(c) Stoppage of food imports which constituted a major activity in SCI's operations.

VLCCS—Kanchenjunga & Koyali

36. The Committee were intimated that the acquisition of first two VLCCs was approved for transportation requirements for Mathura Refinery and expansion of Koyali Refinery which envisaged movement of 3 to 4 million ton per annum between 1975-76 to 1977-78, 10 million tons during 1978-79 to 1980-81 and 14 million tons during the year 1981-82.

37. The sanction letter for the two VLCCs stated as follows:—

> "That the Shipping Corporation of India shall definitely make the vessels available for the IOC for carriage of India's crude from Iraqi ports at the freight rates to be agreed upon between the IOC and the SCI".

> "If in the meanwhile for lack of facilities for operating for India's trade the Shipping Corporation of India is obliged to charter these vessels they should regulate the chartering in such a manner that it does not handicap the return of the vessels for the objective of serving India's crude carriage when needed".

38. Asked when the expected date of completion of Mathura and Koyali refineries was 1977-78, what was the urgency of placing orders for these vessels in 1973, a representative of SCI stated that according to the project reports, the VLCCs were to be cross-traded initially. The project was sanctioned on the anticipation that Koyali Extension project would be ready by 1975, Mathura project would be ready by 1977-78. The VLCCs would be delivered by 1976 and the intervening period would be used for deploying them in the open market and the market was very lucrative indeed at that time. The representative of SCI while agreeing to the fact the SCI itself was responsible for placing orders for VLCCs opined that this was done in close collaboration with the Ministry of Petroleum. There was, however, no other agreement with Petroleum Ministry for making these ships available to them from a particular date.

39. The SCI acquired 'Kanchanjunga, in September 1975 and 'Koyali' in February, 1976. The operation of the two very large crude carriers (VLCCs) resulted in a loss of Rs. 40.64 crores till 1980-81. The SCI intimated that in May 1978, a Committee was constituted to examine the deployment of the VLCCs with a view to improve the earnings. The Committee comprising of senior officers of SCI made a detailed study of various alternative employments of the VLCCs and also their lay-up or sale prospects. This report was considered by SCI's management at a meeting held on

12th June, 1978. As there had been considerable delay in the execution of these two projects and with the development of Bombay High, the basis on which these VLCCs were acquired had changed. It was found that sale of these vessels would amount to heavy loss, resale prices being very low and it would not be economical in the interest of the Corporation to lay up these vessels. It was decided to find employment for these vessels and certain charterers should be approached at the highest level of the Corporation with a view to chartering these vessels. The two VLCCs were under this continuous voyage charter till August 1980 and March 1981 respectively.

40. The Board of Directors of SCI at their meeting of 16 February 1981, also constituted a Committee comprising representatives of Ministry of Shipping, Financial Adviser and Chief Controller of Chartering and also the Executive Director (Bulk Carriers and Tanker) of SCI to submit an indepth study/review of the operational working of the VLCCs which would include the issue to lay-up, sale and operation of the vessels. This study is still under preparation.

41. At the meeting to review the performance of SCI held on 6 November, 1979, the Ministry of Shipping & Transport directed the SCI to file a claim against the Ministry of Petroleum asking for the difference between the cost plus basis and the earnings made on these vessels on their present deployment because acquisition of these VLCCs was specific to their requirement. At the performance review meeting held on 26 February 1980, the SCI was reminded to prepare a paper for the Ministry of Petroleum to make good the loss on this account. The representative of SCI informed the Committee that a claim for Rs. 31 crores for the period 1975—79 has been made by SCI on the Petroleum Ministry through the Ministry of Shipping & Transport in June, 1980 and that another claim for Rs. 30 crores for the period 1979—81 was being made. Asked, if SCI was satisfied that they were entitled to claim compensation, why the claim was not prepared on annual basis and SCI waited until the Ministry suggested it in 1979/1980, the witness agreed with the Committee that "This claim should have been put up much earlier". and "could have been prepared on an annual basis."

42. The Committee desired to know the considerations on which the acquisition of the VLCCs was sanctioned by the Ministry, the Financial Adviser of the Ministry stated that in SCI there was a Tonnage Acquisition Committee which considered it appropriate to go in for two very large crude carriers in 1973. The Board of Directors approved the recommendations of the Committee on the fundamental premise that these would cater to the needs of the

Mathura and Koyali oil refineries. The proposal of SCI together with the recommendations of the Board of Directors were "examined by various appraising agencies which include the Planning Commission, the Project Appraisal Division, the Plan Finance, the BPE and the Administrative Ministry itself. All these appraising agencies considered that the acquisition was good and proper". He added that what, when, and how to buy was the exclusive decision of their own Board of Directors and that to what extent certain things were in the interest of the Corporation was for the executive directors to decide. Reminded about the responsibility of the Government director, the witness stated 'without bringing in the charge of interference in public sector autonomy' he could do very little. The claim for compensation framed on the basis of 12 per cent on equity and 3 per cent plus on loan as per World Bank Practice, made by SCI against IOC at his instance for incurring losses, had been taken up with the Ministry of Petroleum and the matter was under negotiation.

43. The witness added that he was not satisfied with the deployment of VLCCs in the international trade. All his efforts in the Board meeting to get clarification regarding best use of these vessels were replied with the words "we are looking into the problem." These 2 VLCCs were now being used as storage tankers and with the commissioning of Mathura refinery the utilisation of at least one of them was assured.

44. One of the reasons for non-utilisation of these VLCCs was stated to be delay in the installation of port facilities for which the Ministry of Shipping & Transport was responsible and the Committee desired to know who was responsible for this lapse. The Transport Secretary agreed that there was some slippage on the programme of installation of buoys at Salaya which were to be procured from England at a cost of about Rs. 2 crores. The buoys were installed only last year, but no attempts made to fix responsibility for this lapse. He, however, promised to look into matter.

OBOs

45. Two large size ships (MV Maharshi Karve &MV Maharshi Dayanand) were delivered in middle of 1978. The freight market, particularly for these size of ships was very low. The Committee were intimated that SCI's management foreseeing the losses these OBOs were likely to incur on deliveries was anxious to review

their likely operational results. A study as directed by the Board of Directors of SCI was made in August 1978 as to whether these OBOs should be laid up for some time in view of the low market. The study concluded that considering the likelihood of improvement in the freight market, operation of the vessels was advantageous to laying them up. This was approved by the Board.

46. By 1979, the dry bulk freight market gradually picked up. However, the rates were not adequate to cover the costs of the ships and therefore they registered losses. The losses suffered by the two ships during 1978-79, 1979-80 and 1980-81 were as under:

Name of the vessel	1978-79	1979-80 (Actuls) (Rupees in lakhs)	1980-81
Mahrashi Karve	154.28	256.88	163.19
Mahrshi Dayanand	104.19	224.42	193.21

47. In February 1981, a Committee revised the operation of these OBOs also. Considering the fact that the expected sale proceeds of Rs. 25.42 crores for each of these vessels was inadequate to meet the loan liabilities of these vessels which stood in 1-4-1980 at Rs. 29.83 crores and Rs. 30.53 crores respectively, it was felt that selling off these vessels would not be beneficial to SCI. A Committee comprising of senior commercial and technical managers of Bulk Carrier and Tanker Division considered in detail and in conclusion recommended that these two OBOs could be contnued to be operated. The ships were being operated in cross trades.

F. *Coastal Trade*

50. Coastal shipping comprised mainly of coal and salt movement in bulk and its share allocation was being controlled by D.G., Shipping. To a small extent cement and clinkers were also moved by coastal shipping. Only Indian Shipowners were allowed to undertake coastal trading. To regulate the trade and to look after interests of participating Indian Lines, Indian Coastal Conference had been formed and its present membership numbered 23 shipping lines. Total volume of cargo moved along the Indian coast between

January, 1974 and December, 1980 and SCI's share in the coastal movement were as given below:

Year	Name of Cargo and Volume (in lakh tonnes)				Share of SCI
	Coal	Salt	General	Total	
1974	4.92	4.81	4.99	14.72	21%
1970	7.01	3.94	4.51	15.46	16.5%
1976	5.66	2.33	1.53	9.52	32.5%
1977	6.56	1.13	1.30	8.99	24%
1978	6.70	2.91	2.81	12.42	21.61%
1979	4.71	2.61	1.69	9.01	31.13%
1980	7.69	2.57	1.60	11.86	275.7%

51. According to the SCI the coastal trade had been declining over the period of years because of existing uneconomic freight structure. The share of SCI in coastal trade was confined to movement of coal and salt. Explaining the share of various shipping lines in coastal trade, a representative of SCI stated that 2 of the SCI ships had been taken on charter by Tamil Nadu Electricity Board for the purpose of movement of coal and if coal moved in these ships were taken account, SCI's share in coastal shipping would be much more.

52. The operational results of coastal trade of SCI had disclosed persistent losses. The aggregate losses suffered by SCI on this account during the period 1974—81 were of the order of Rs. 4.88 crores. Coastal freight rates were fixed by the D.G., Shipping and SCI was not allowed to raise the same from time to time to cover increase in costs. After persistent efforts by the Coastal Conference the freight rate increase was referred to Bureau of Industrial Costs and Prices. Government revised the coastal freight rates for coal in April and for salt in July, 1980 which were fixed in July, 1975. According to the SCI even this increase was not sufficient to cover the operating costs. The cost of Bunker oil had been revised by Government on 11 January, 1979, 8 June, 1980 and 1 March, 1981. However, suitable increase to fully compensate shipping loss on this account had not been allowed with the result that even after mid 1980 revision this sector continued to incur losses. Besides, no despatch demurrage was being allowed for coal movement except for Railway colliers discharging at Tuticorin port. For movement of

salt even though such a clause is provided by the charter party, the amount so provided were very inadequate. The Committee were informed that SCI was not inclined to increase its share in coastal trade because of the heavy losses involved.

53. The SCI stated that for relatively short destinations in the interior movement of bulk cargo like coal and salt was organised with the help of rail/road transport. For longer distances, particularly users in coastal belt as in TNEB, coastal shipping was more useful. In October, 1980 Rail India Technical and Economic Services who made study on the subject had pointed out that as compared to Railways, coastal shipping would gain an advantage for carriage of coal beyond 1761 kms. and for salt beyond 2850 kms.

54. Another factor which affected coastal shipping was stated to be discontinuation of salt movement. Salt trâde was insisting upon freight subsidy to cover freight rate increase as from 9 July 1980. Government conceded the demand upto March 1981 but thereafter discontinued the subsidy. As a result shipowners had been compelled to ballast vessels everytime, which in turn pushed up their losses further. Accordnig to present indication, there did not appear to be much hope of salt movement by ships being resumed in the foreseeable future.

55. The Committee pointed out that water transport was the cheapest for longer haul and it ensured energy saving. They desired to know what steps the Government had taken for making coastal trade viable and at the same time attractive. The Ministry of Shipping & Transport informed the Committee that Government attached considerable importance to coastal shipping as a supplementary mode of transport for coal, salt, etc. and to relieve pressure on rail and road transport. Taking these factors into account and in order to strengthen the coastal fleet and coastal shipping. Government considered it necessary that there should be a proper Plan for the Eighties in respect of coastal shipping. Government, therefore, appointed a Committee on Coastal Shipping under teh Chairmanship of Director General of Shipping, in September, 1980 in order to facilitate the preparation of this Plan. The coastal Committee came to the conclusion that the present deplorable state of coastal shipping was due to—

(a) uneconomic rate structure, inadequate and infrequent frieght revisions to compensate for escalating coats; and

(b) coastal shipping being starved of cargo, in absence of any cargo reservation scheme.

The Committee made a number of recommendations including (i) planned diversion of coal from Railways to Coastal Shipping for supply to Western region; (ii) diversion of salt now being moved by Rail from Saurashtra to N. E. India by coastal shiping; (iii) provision of additional berth, at Haldia, Paradip and Visakhapatnam with increased handling facilities; (iv) addition to coastal shipping; (v) simplification of procedure for revision of coastal freight and delegate authority to D. G., Shipping for the purpose; (vi) berthing facilities to coastal shipping on priority basis; (vii) grant of loans for purchase of coastal ships; (viii) Identifying a 'focal point' in order to coordinate and organise coastal movement, etc. The recommendations of the Committee were under consideration of the Government.

III. AGENCY & CONTRACT SYSTEM

A. *General arrangement*

1. Agents are engaged by SCI for husbanding of vessels, cargo booking, chartering, etc. In addition to out-of-pocket expenses the agents were generally paid commission on the freight of the cargo booked at about 5 per cent and a commission on freight on cargo discharged at 1 to 2½ per cent. The Agents pay on behalf of the owners all charges and also in the case of liner vessels collect freight. Expect the ports of Bombay, Calcutta, Port Blair and Mobasa, SCI utilised the services of agents at all other ports in India and abroad numbering about 350 ports.

2. Details of payments made to agents on various accounts during 1974-75 to 1980-81 were as given below:

(Rs. in lakhs)

Particulars	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Agency Fees . .	34.97	56.91	75.58	96.72	118.00	140.39	161.91
Commission on passage money . . .	18.18	25.04	16.39	17.88	16.23	18.10	20.08
Commission on Luggage and Mail . . .	0.47	0.53	0.33	0.27	0.24	0.19	0.31
Commission on freight .	337.25	391.68	579.09	640.99	575.76	687.71	832.15
TOTAL .	390.87	474.16	671.39	755.86	710.23	846.39	1014.4[illegible]

3. In all socialist countries agency arrangements were nationalised and it was so in Egypt, Syria, Libya, Algeria, Tanzania and Mozambique. Asked about the difficulties in SCI handling the agency functions atleast in India in all the ports, a representative of SCI stated that in socialist countries, movement of cargo was controlled by the trading bodies. The experience of Egypt, Libya, Algeria and Tanzania on departmentalisation of agency system was not satisfactory. The witness argued that working of a shipping line was not comparable either with Airlines or Railways. Railways being a monopoly agency get cargo without any effort whereas SCI had to make special efforts to get cargo. The shipping agent was a representative of the shipping line, he was to get cargo

for the vessel, ensure their loading and finally to get the documents issued. On a point of clarification he stated that the agents would not be able to manipulate cargo booking accounts because freight manifesto sent to the distination port contained entry of all Bills of Lading issued in respect of cargoes booked in that vessel and the customs verified their delivery. In the matter of freight collection also, all collections were required to be deposited in the particular bank account of SCI, no withdrawal was possible by the agent. However, there was a separate disbursement account operated by the Agents to defray expenditure on behalf of SCI and in this account. SCI had been providing to the Agents weekly/biweekly a specified sum.

4. As regards the mechanism to determine the amount payable to the Agents as their fees, etc. a representative of SCI stated that Bills of Lading and certificates issued by Masters of Vessels were considered to be authenticate documents. He admitted that for any underhand dealing, the SCI had no mechanism to know about it unless a specific complaint was received on this account.

5. The Transport Secretary informed the Committee that in the matter of agency arrangements, the socialist countries were not relevant to the conditions prevailing in India and other countries like Syria and Libya were very unimportant. He said that much thought was given to the question of departmentalisation of agency function in India and the matter was discussed in the Consultative Committee meetings on 7 May, 1981, 7 July, 1981, 8 September, 1981, 3 November, 1981 and 22 December, 1981. The Ministry considered that it was entirely the commercial assessment of the SCI whether to keep an agency or whether to keep an office. The Ministry would not give any directive or express views on the subject. Later in support of his argument, the Ministry furnished the extracts from the minutes of the Consultative Committee meeting held on 22 December, 1981 of which a portion is reproduced below:—

> "The Minister pointed out that except for a small office in Mombasa, the SCI had appointed agents in the various ports in India and abroad other than Bombay and Calcutta. Unlike Bombay and Calcutta, which were terminal ports for SCI's operations and where the range of SCI's operation was very wide, all other ports, including Madras, were primarily transitory ports. If a decision was taken to open an office in Madras, a question would arise why SCI's offices should not be opened in all the other ports in India and abroad. The question was really whether this would

be more economical for SCI. It was a commercial decision and had to be taken by the SCI. The SCI had brought out in its detailed note that it was commercially more economical to appoint agents in all these ports instead of opening its own offices there."

Explaining further the Ministry's views on the 'agency arrangement', the witness added that even if there were complaints of corruption or malpractices of the agents, it was basically the SCI who were to look into that and if SCI were involved, the Ministry would look into the complaints.

6. The stevedoring work at the ports is on contracts settled on the basis of tenders from time to time. On the question of nationalisation of stevedoring, the Transport Secretary stated "The Ministry has taken a stand that it would not be nationalised for the time being" and departmentalisation of a portion of stevedoring at Haldia was not working so satisfactorily.

7. The SCI is having its shore establishments at Singapore, London, Cochin, Rameshwaram and Port Blair. It had been stated that offices in Rameshwaram were earlier run by Southern Railway who were also looking after Rameshwaram—Talaimanar Services. Port Blair office was looked after by Andaman Nicobar Administration. These offices were taken over by SCI in February, 1967 and July, 1972 respectively. In Cochin Office which was set up in July, 1978, SCI had put a senior officer and he together with couple of other officers had been acting as the representative of SCI although agents were there to look after stevedoring and other works. In Singapore office (Set up in September, 1978), the Director and officers of SCI were required to supervise the works of the agents. London is the headquarters of SCI's Conference of U.K. Continent and that Directorate had been attending to the works of the Conference.

B. *Arrangement in Madras*

8. The overseas cargo handled at the ports of Bombay, Calcutta, Madras and Cochin during 1979-80 and the cargo loaded and discharged by the SCI vessels, as furnished by the SCI, were as follows:

(In lakh million tons)

Port	Total quantity	Quantity handled by SCI
Bombay	116.07	18.63
Calcutta	67.24	31.60
Madras	93.67	35.28
Cochin	42.99	24.53

9. The Committee pointed out that whereas in Bombay and Calcutta no agents were engaged and in Cochin there was a shore establishment and asked whether SCI had worked out the economics and advantages of setting up an office at Madras. A representative of the SCI stated that the Consultative Committee attached to the Ministry of Shipping and Transport did a full exercise in December, 1981 and to have an agent it was found to be more economical than to have an office. Following payments of agency fees including brokerage were stated to have been made to the agents of SCI at Madras:

1976-77	Rs. 23.81 lakhs
1977-78	Rs. 20.49 lakhs
1978-79	Rs. 32.46 lakhs
1979-80	Rs. 33.22 lakhs
1980-81	Rs. 33.99 lakhs

10. The Shipping Corporation of India in a paper submitted to the Ministry of Shipping & Transport for the meeting of the Consultative Committee on 22 December, 1981 had indicated on assessment of staff requirement if operations at Madras were handled through SCI's own office and expenditure on their emoluments and maintenance of staff and other ancillary services. According to this assessment the expenditure was Rs. 54.97 lakhs per annum (recurring) and Rs. 8.00 lakhs (non-recurring).

11. Earlier the Ministry of Shipping & Transport (Shipping Wing) in its O.M. dated 21 May, 1981 furnished *inter-alia* a statement of projections of cost made by the SCI in establishing their own office at Madras showing details of assessment of staff requirements, expenditure on the emoluments and the maintenance of staff and other ancillary services. According to this statement the expenditure was projected Rs. 35.83 lakhs per annum (recurring) and Rs. 5.96 lakhs (non-recurring).

12. Asked how there could be such huge difference in the computation of cost within about six months for supplying information to the Committee in May 1981 and to the Consultative Committee in December, 1981, a representative of the Ministry deposed:

> "Based on the SCI's letter, Ministry gave the note to the Lok Sabha Secretariat on 21-5-1981......The Consultative Committee held on 3-11-1981 was told by the Minister that a comprehensive note would be prepared by the SCI re-

garding the feasibility of opening of offices in the ports and SCI prepared this note which was made available to members of the Consultative Committee thereafter...... SCI made the assessment of staff requirements; they calculated the expenditure on the opening of offices at Madras etc. The earlier assessment was based on the handling of 2.94 lakh tonnes during 1978-79 in Madras. Now this had to be revised and the information had to be updated based on the tonnage handled during 1980-81. The revised estimate was submitted in December, 1981. Certain new developments had taken place. Certain new regrouping of services had taken place. There were additional supervisors to monitor and control the movement; there were increased inflationary trends in the economy. All these new factors were taken into account by the SCI. They took into consideration all factors including the possible increased inflationary trends."

Asked if the Ministry had scrutinised the estimate, the witness stated "We did not examine this matter." The Transport Secretary, however, promised to look into these two sets of figures.

13. An extract from the Minutes of the Consultative Committee meeting held on 7 May 1981 relating to the shipping agency of the SCI in Madras as furnished to the Committee is given below:

"Minister also explained that based on the expenses in their Calcutta office, the expenditure at Madras would work out to Rs. 57.59 lakhs for 1978-79, if an office was opened at Madras. This, however, was not a truly representative figure as Calcutta being a base port, handles diverse types of work which was not the case in Madras. The Minister also pointed out that the figure of agency fee paid by SCI for 1980-81 was also about Rs. 33 lakhs. Based on the above statistics SCI had come to the conclusion that opening its own office at Madras would cost the undertaking much more."

14. M/s. K. P. V. Sheikh Mohammad Rowther & Co. (Pvt.) Ltd. are the agents of the SCI as Madras since 1960. They are also acting as contractors for stevedoring and victualling at Madras. The pay-

ments received by them during the period 1977-81, as furnished to the Committee, were as follows:

(Rs. in lakhs)

Year	Agency commission including brokerage on booking of passenger and fee for handling of bulk carriers and tankers	Stevedoring	Victualling
1977-78	20.49	46.90 (including levy of 282%)	36.87
1978-79 . . .	32.46	74.40 (including levy of 325%)	58.76
1979-80 . . .	33.22	108.80 (including levy of 255%)	58.49
1980-81	33.97	139.70	66.09

15. From the information furnished to the Committee by the SCI it appeared that M/s. K. P. V. Sheikh Mohammed Rowther & Co. (Pvt.) Ltd. were connected with M/s. Harbour Engineering Works and both were under the same management. The payments to M/s. K. P. V. Sheikh Mohammad Rowther & Co. (Pvt.) Ltd. for repair work undertaken by M/s. Harbour Engineering Works, Madras during the years 1976—81, as furnished to the Committee, were as follows:

Year	Amount (Rs. in lakhs)
1976-77	4 67
1977-78	12.09
1978-79	8.97
1979-80	11.98
1980-81	20.50

16. Besides agencyship, stevedoring, victualling and ship repairs, M/s. K. P. V. Sheikh Mohammad Rowther & Co. (Pvt) Ltd. have also been awarded contracts for various other items and considerable payments have been made to them.

17. Asked if it was a sound practice to have the same party for a number of functions, the representative of SCI replied that "normally, that is not the practice and the same person does not act for both agencies". In no other place, one and the same person had been appointed to discharge all the three functions (Agent, Stevedoring & Victualling). For appointing persons at Madras for discharging various functions no response to tenders of SCI was stated to have been received from any other arty and M/s. K. P. V. S. M. Rowther Pvt. Ltd. were appointed.

18. As regards the Agency function at Madras, the witness stated that no tenders were invited since inception of SCI and "the normal practice in shipping which we have followed is that once we appoint somebody as the agent, we keep him unless there are serious complaints of misconduct or malpractice against him". M/s. K. P. V. Sheikh Mohammad Rowther Co. Pvt. Ltd. who were the agents of Scindias at Madras prior to formation SCI were allowed to continue.

19. The Committee were informed that the stevedoring contract at Madras was held by M/s. K. P. V. Sheikh Mohammad Rowther & Co. Ltd. since April, 1961. In 1961 tenders were stated to have been invited from the licenced stevedores then operating in the port of Madras and M/s. K. P. V. S. were the only party responded to the tender call and appointed SCI contractor for three years upto 31-3-1964. Tenders were also invited in 1964 and in 1974 and on both the occasions M/s. K. P. V. S. were the only respondent. Excepting these three occasions, at no other point of time tenders were invited and the existing contracts with the firm were reviewed and extended for varying periods ranging from 3 months to three years at a time. Recently the contract on its expiry was reviewed in July, 1981 and extended for another 3 years with effect from 1 August, 1981.

20. The SCI was also having victualling contract with M/s. K. P. V. Sheikh Mohammad Rowther & Co. Pvt. Ltd. in respect of M. V. Chidambaram since the date of its commissioning in March 1973. M/s K. P. V. S. were holding victualling contract for T.S.S. State of Madras which was valid upto 30 September, 1974. This contract was modified and extended upto March, 1975. In 1975 tenders were invited for fresh contract. Only two parties responded and rates quoted by M/s. K.P.V.S. were found to be lower and accordingly contract was given to this party after reducing the rates further by negotiation. In December, 1977 again fresh tenders were invited by giving wide publicity in English, Hindi, Bengali and Marathi

dailies published from Ahmedabad, Bombay, Calcutta, Delhi, Madras and Patna. No advertisement was, however, given in the vernacular dailies of South India. As a result this time the only respondent was M/s. K. P. V. S. and he got the contract valid upto March 31, 1981. This contract with further upward revision of rates was extended upto March 31, 1982. Fresh tenders were stated to have been invited in February, 1982.

21. Asked if there was an impression in Madras that 'come what may' SCI contracts would go to M/s. K. P. V. S., the witness initially stated "I would not be aware of it" and then added "They are so influential people."

22. Asked about the justification for giving to the same party at Madras agency, contracts for stevedoring, victualling, ship-repairing and other things, it was submitted by the Transport Secretary that "for agency work there is really no tender system. Agents are really almost for life" and the Ministry agreed with the SCI's view that 'the agents need not be changed unless there is something serious with them like bad work, etc.' About giving contracts to the same party referring to the deliberations of Consultative Committee meeting, a spokesman of the Ministry stated: "this is a commercial decision squarely resting with the SCI being a commercial organisation which is assigned with the responsibility of showing the result. And the Ministry would not certainly like to be accused of interference in the autonomous character or in the autonomous operation of the SCI." The procedure of awarding contracts explained by the Finance Director of SCI on the direction of the Minister to the Consultative Committee meeting held on 22 December, 1981, *inter-alia*, read as follows:—

> "Shipping agency was a service agency because the agents offer service to both importers and exporters. That was why they were not normally changed. They were appointed on standard terms which were lower than the terms of shipping agents appointed by the chambers of Commerce in Madras and Cochin. This was in conformity with the practice all over the maritime world. The SCI did, however, review the position periodically and had laid down certain inbuilt checks. During the last 20 years or so SCI had only made a couple of changes in all its agents. One of the safeguards adopted was to make disbursement to the agents in weekly instalments so that they did not utilise SCI's funds. An annual review of the functioning of agents was undertaken by the SCI with all its main

agents. So far as stevedoring was concerned, tenders had been invited by the SCI from time to time, but it was found that SCI's interest was served better by negotiating the contract. This was because normally one stevedore did not quote against the other and so it ended up in the present stevedore raising up his charges. The policy regarding victualling......The main emphasis was on maintenance of quality of food served to passengers. The least contract for victualling was entered into w.e.f. 1-1-1978 and was extended for three months as stipulated in the terms of the contract."

23. The witness admitted the fact that SCI was not inviting tenders regularly and was extending the period of contracts by negotiation, but the basic point for consideration was:

" . . . where a particular system the organisation was chosen delivers the goods and gives results, why should the Government intervene in the commercial decision. In this case, the SCI is on record that this particular system has stood the test of the time and they have found it very good and in the interests of the organisation and they have also said that this has been the practice in respect of other shipping companies also."

24. Asked as to why the need to supervise the functions at Madras where maximum cargo was handled, was not felt and even a shore establishment was not set up for the purpose, the Vice Chairman & Managing Director, SCI stated "there was no need felt for the shore establishment. I think we have had a lengthy discussion on this. There is no direction from the Ministry." When this question was raised with the Ministry a representative stated that it was SCI to take a decision. " They can appoint a man in Madras tomorrow itself. It is their judgement whether they would like to keep some staff there or not." He informed the Committee that Cochin Office of SCI was set up sometime two or three years back even without informing the Ministry. On the question of setting up of office at Madras, the Ministry had asked SCI to examine the matter but no directive had been issued.

25. Asked if any complaint was received against this firm, a representative of SCI stated that about 6 months back two complaints were received from Members of Parliament through the Ministry of Shipping. Later the Committee were intimated that the complaints were received from Sarvashri K. T. Kosalram and

Niren Ghosh, Members of Parliament and SCI's views on the agency system at Madras was "the existing arrangement of handling commercial operations through an agency at Madras is financially more advantageous than establishing a full-fledged office at Madras."

26. Annual collection and expenditure made by the Agents of SCI at Madras from 1976-77 to 1980-81 were as given below:

	1976-77	1977-78	1978-79	1979-80	1980-81
Earnings (Collection)	507.41	641.45	838.84	1003.67	1122.11
Expenditure	409.35	542.31	729.05	772.67	787.93

(The above expenditure, however, did not include payments to ships Masters as advances towards wages, etc.)

27. Accounts of Madras Agents were scrutinised by the Internal Audit of SCI. The table below indicates the Bills prepared by M/s. K. P. V. S. for victualling on board M.V. 'Chidambaram', stevedoring and repairs work undertaken in Harbour Engineering Pvt. Ltd., Madras and net amount passed for payment to them:—

	Period	Billed amount (Rs.)	Deductions made (Rs.)	Percentage
1. Victualling .	1978-79	62,93,023	3,12,060	4.95%
	1979-80	61,21,233	2,37,345	3.87%
	1980-81	67,63,992	1,54,887	2.28%
2. Stevedoring	1978-79 (from 1-7-78-31-3-79)	75,51,690	1,16,031	1.54%
	1979-80	83,64,963	2,35,409	2.81%
	1980-81	116,91,170	3,20,127	2.74%
3. Repairs .	1978-79	9,70,213	1,33,345	13.74%
	1979-80	15,62,414	2,46,424	15.77%
	1980-81	24,12,626	3,94,660	16.36%

28. Cargoes were handled by the Agents. Port-wise details of cargo claims met by SCI during 1976-77 to 1980-81 were as given below:

(Rs. in lakhs)

Port	1976-77	1977-78	1978-79	1979-80	1980-81
Bombay . . .	89.30	195.03	152.10	52.42	2.20
Calcutta . . .	28.11	19.54	15.46	4.15	0.02
Madras .	20.41	25.60	44.10	16.78	2.95
Vizag	2.15	0.95	1.17	0.31	0.14
Cochin	0.27	0.28	1.52	0.38	0.08

29. Year-wise break-up of cargo claims paid and outstanding at Madras were as given below:

(Rs. in lakhs)

Claim	1976-77	1977-78	1978-79	1979-80	1980-81
Paid	20.41	25.60	44.10	16.78	2.95
Outstanding	1.63	19.78	60.98	162.19	98.95

According to SCI claims arose on short-landing of cargo, slackage of contents, damage and contamination of cargo and custom penalty on shortlanded and survey shortage cargo.

IV. WORKING RESULTS

A. *Profit/Loss*

The SCI had made profits since its inception in 1961 upto 1976-77. Thereafter there was loss upto 1979-80. Principal reasons for losses during 1977-78 to 1979-80 were stated to be manifold increase in oil prices which caused a serious set back to international shipping. The recession in the world economy on shipping caused an imbalance in the demand and supply of shipping tonnage which pushed freight rates far below economic levels. Working results of the Corporation for the period 1974-75 to 1980-81 are as given below:

(Rs. in crores)

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
(i) Operated earnings (freight, passage money, charter hire and misc. receipts) .	193·27	211·59	258·75	270·35	291·25	408·35	5016·8
(ii) Cost of operation .	158·81	201·28	254·44	327·55	409·37	409·37	482·0
(iii) Percentage of cost of operation to operating earnings .	82·1	95·1	98·34	105·21	112·46	100·25	96·08
(iv) Profit/Loss							
(a) before tax	34·55	10·31	4·31	−14·10	−36·30	−1·02	19·66
(b) after tax . .	33·01	9·73	3·65	−14·74	−37·01	−1·35	18·73

2. The Committee pointed out that although the accounts disclosed a profit of Rs. 18.37 crores in 1980-81, it did not depict the actual working results. From the note forming part of the Balance Sheet and Profit & Loss Accounts for the year 1980-81 it was seen that credit for a sum of Rs. 10.85 crores has been taken in 1980-81 under the head 'freight' being the difference between provisional freight taken credit for in 1979-80 and actual cost of transportation of crude oil to Indian Refineries during that year. The Committee pointed out that the amount of Rs. 10.85 crores which really pertained to the year 1979-80 were transferred to that year's account, the year 1979-80 would have shown considerable profit and not a loss of Rs. 1.85 crores as shown in the Accounts and as a consequence

the SCI would not have received any subsidy on its Andaman-Mainland Services for that year. Thus accounts of SCI for 1979-80 and 1980-81 did not depict the true picture of working results of SCI for these years. Going by this and taking note of non-operating incomes included in the profits, the operational result of SCI for 1980-81 did not show any improvement over the working results of 1979-80, on the contrary it deteriorated. To a Committee's suggestion that some ways and means be found to bring out the true picture of operational results of SCI, the representative of SCI pleaded that the Balance Sheet of SCI was consistent with the accounting practice which was accepted by the statutory auditors and the Auditor General. He, however, agreed that for the purpose of assessing working results for 1980-81, this amount of Rs 10.85 crores did not pertain to that year.* The Financial Adviser of the Ministry agreed with the Committee that this amount of Rs. 10.85 crores could be shown more specifically as "prior period adjustment' and impression in public mind of SCI having made so much profit could be removed. Analysing the working results of SCI, he added:

> "The profit of Rs. 18.36 crores given by the SCI does not reflect the operational or managerial efficiency of the Shipping Corporation. If you have a look at the sectoral profit made by the SCI, you will find that the liner vessels, a fleet accounting for 72 vessels or so, have given a profit of Rs. 5.50 crores in 1980-81, passenger vessels have been in the red right from 1975-76 to 1980-81, cattle carriers have been in the red, coastal adjacent services have been in the red for all these years. VLCCS have been in the red during the period except for 1975-76, tankers operation is on cost plus mostly. Therefore, the plus is reflected as profit. It is just a captive business of the Shipping Corporation. Bulk carriers also have not been good even though they made some profits. The combination carriers have made a loss practically in all years except 1979-80. Plying certain vessels on Government account in Andaman and Lakshadweep is a part of social obligation and the losses are to Government accounts. If you remove the oil captive business of the Shipping Corporation run on cost plus basis, there is not much profit left."

*At the time of factual verification, SCI pointed out "Simultaneously amount pertaining to 1980-81 accounts ascertained at over Rs. 12 crores need to be taken credit for to arrive at profit of 1980-81. This amount has been even recovered since the close of the accounts."

3. The ratio of cost of operation of SCI to its operating earnings varied from 82.1 per cent to 112.46 per cent during the period 1974-75 to 1980-81. In view of this the Committee desired to know if any cost study of the operations of SCI was made by itself or by any independent agency. In reply, the SCI stated:

> "Cost study of the operation of SCI is a continuous process carried out by the Corporation itself. There is a reasonably adequate inbuilt system for Budget and cost-control and decision making by management. Revenue, capital and Cash-flow budgets are prepared both for short term and long term. The system also envisages preparation of result of operation (vessel-wise and voyage-wise) on a monthly/quarterly basis. These are reviewed and compared with the anticipated results reckoned while preparing the revenue estimates. The review is discussed first in inter-departmental meetings, with special emphasis on cost control aspects and thereafter submitted quarterly to the Board and the Government together with our explanatory statement wherever necessary, indicating reasons for performance variances and corrective action. In addition to this alternative courses of action available for decision making are fully considered and evaluated from time to time before important management decisions are taken."

B. *Inter Firm Comparison*

4. The table below indicates comparative rate of return on capital employed and percentage of gross profit to gross earnings in respect of SCI *vis-a-vis* seven major Indian Shipping Companies.

	1979-80		1980-81	
	Comparative rate of return on capital employed	Percentage of gross profit to gross earnings	Comparative rate of return on capital employed	Percentage of gross profit to gross earnings
1. SCI	*6·03%	*9·83%	*8·62%	*12·53%
2. Scindias	6·59%	8·97%	5·78%	9·11%
3. Great Eastern	13·20%	32·65%	14·31%	29·78%
4. India Steamship	4·09%	9·28%	7·10%	14·60%
5. South India Shipping	27·77%	33·10%	27·36%	34·33%
6. Damodar Bulk Carriers	6·34%	18·38%	10·42%	32·02%
7. Chowgule	6·74%	24·42%	13·70%	41·24%
8. Ratnakar	14·52%	25·34%	16·58%	22·71%

*Excluding services on government account.

5. Asked to indicate the reasons for better performance of some of the private companies, the Executive Director (Finance) SCI stated that "since those companies have not expanded, they have got the benefit of inflation, whereas we have acquired a lot of new vessels." The SCI submitted that individually none of these companies was comparable with the SCI because of its fleet strength comprising world wide liner services, passenger vessels, large size tankers, VLCCS, Bulk carriers, combination carriers, coastal cargo vessels etc. In view of this according to the SCI it was more appropriate to compare the performance of the seven companies together with that of the SCI. Such a comparison as furnished by the SCI is brought out below:—

	1979-80		1980-81	
	Return on capital employed	Percentage of Gross profit to gross earnings	Return on capital employed	Percentage of gross profit to gross earnings
All the seven private companies .	9·4%	18·24%	10·87%	20·57%
SCI (excluding services on Govt. account) .	6·03%	9·83%	8·62%	12·53%
SCI (excluding services on Govt. account and VLCCS)	7·87%	11·95%	10·58%	14·54%

6. The Committee got an impression that fleet mix of the SCI was not optional. The Transport Secretary stated that "it is a good optimal mix." He added that there was nothing wrong with the mix excepting acquiring of two VLCCS. Operation of SCI was not comparable with those companies, excepting Scindias, because they were mainly tramp operators. Asked to comment if it would be advisable for SCI to extent its tramp operation to a greater length, the witness stated that for this reason in 1978 restructuring provided for a separate tramp division. He added "we are even sometimes thinking that we may have even to make separate companies but this still is not decided."

7. In the review meeting held by the Minister of Shipping and Transport on 27 January, 1982, the Manager (Finance), SCI informed that in the annual inter-firm exercise, comparison was being drawn with respect to the net return and not the cost of operation of individual types of ships. In this context the Minister observed that the intention of comparison was really to see whether the

operational costs in SCI were reasonable and comparable with those in private shipping companies. The Vice-Chairman and Managing Director agreed that there was always scope for further improvement in profitability.

8. The Financial Adviser of the Ministry deposed before the Committee that he had impressed upon the Management of SCI in the Board that they should have a system by which vessel voyages was analysed from the point of view of profitability, operational efficiency and its earning capacity. This type of analysis was not brought before the Board and it was reported to the Board by SCI that those were operational and commercial decisions for which the management kept a constant watch.

C. *Staff Cost*

9. The SCI had 10314 employees on its roll on 31-3-1975 of which 8,661 were floating staff. On 31 March, 1981, total employees increased to 12564 of which 10,751 were floating staff. In 1974-75 total emoluments of the staff (excluding overtime) were Rs. 18.84 crores and in 1979-80 total expenditure on this account was stated to be Rs. 38.45 crores. The average emoluments per employee during 1980-81 was Rs. 37,592 for the floating staff and Rs.. 29,358 p.a. for the shore staff. Overtime allowances paid to floating staff during the last four years varied between 19.98 and 21.11 per cent of the total expenditure on salaries and allowances. The increase in wage bill had been attributed to (i) increase in emoluments due to annual increments and promotion; (ii) increase in dearness allowance on the basis of cost of living index; and (iii) corresponding increase in the incidence of company's contribution to Provident Fund and Gratuity. The additions to the fleet from year to year (119 ships in 1974-75 and 147 ships in 1980-81) was also a contributing factor to the present level of expenditure on floating staff emoluments.

10. It had been stated that there was a definite guideline to determine the staff strength of the floating personnel engaged on manning the ships. A "manning scale" for each category of ships had been laid down in consultation with the Unions representing the floating staff and the concerned Government authorities. There had been no recruitment or revision of pay scales of shore staff for the last five years excepting addition of 135 *ad hoc* employees and officers by way of recruitment of persons with professional and technical qualifications. The total emoluments at present both in respect of officers and staff were stated to be lower than that prevailing in other private sector Shipping Companies. In the case of Senior Officers, particularly with technical and professional qualifications, the salaries and other perquisites had become less attrac-

tive with the result as many as 75 officers had left the services. As regards the justification for the level of expenditure on staff, no study appeared to have been conducted by any independent authority to assess the SCI manning scales, administrative expenditure etc.

D. *Cargo headling costs at Ports*

11. Cargo handling cost is stated to be the largest single component of the operating expenses of the SCI. Cargo handling work of SCI vessels was managed through contractors (termed as stevedoring contractors). It had been stated that it was not feasible to handle this work departmentally for several reasons. The comparative cost for handling cargo at the ports of Bombay. Calcutta, Madras and Cochin, as on 1-4-1981 was as given below:

Particulars	Bombay	Madras	Calcutta	Cochin
I. *Brask Bulk Cargo*		(In Rupees per ton)		
(i) Charges payable to Stevedoring Contractors for loading/discharging the cargo	36·25	36·75	95·00	33·50
(ii) Charges payable to port Trust Authorities for hire of Cranes, heavy lift charges, port labour idle time etc. while loading/discharging vessel's cargo	17·50	22·50	25·00	19·50
II. *Container Cargo* (Per container of 20 feet length)	2040	2185	3225	1300

12. Factors responsible for wide variation in stevedoring charges at the ports were as indicated below:—

Particulars of Items	Bombay		Madras		Calcutta		Cochin	
	Rs.	Percentage of total cost	Rs.	Percentage of total cost	Rs.	Percentage of total cost	Rs.	Percentage of total cost
(a) Basic labour cost of DLB and non-DLB labour including piece rate wages/incentive wages and DLB levy (levy rates/payable on DLB wages)	32·75	90·34	32·50	88·44	89·75	94·47	30·25	90·30
(b) Gear hire. stevedors' supervisory staff and over-heads/profits*	3·50	9·66	4·25	11·56	5·25	5·53	3·35	9·70
TOTAL	36·25	100%	36·75	100%	95·00	100%	33·50	100%

*Supervisory staff and overheads/profits.

DLB levy payable at Bombay, Madras, Calcutta and Cochin were 132 per cent, 180 per cent, 269 per cent and 170 per cent respectively.

13. Asked if government had made any study about the differences in container handling charges at various ports especially at Calcutta where charges were the highest, with a view to rationalise charges, the Transport Secretary informed that in consultation with port authorities Government had appointed a Committee recently to work out the total charges which could be levied for handling a container. He added that existance of surplus labour caused high handling cost at Calcutta.

E. *Cost of Port Delays*

14. Severe port congestion and lack of handling facilities at the ports were stated to have contributed to heavy berthing delays and slow turnround of ships of SCI enhancing the cost of operation. Details regarding delays and losses suffered during 1975-76 to 1980-81, were as indicated below:

Period	Total days of delay	Delay at Indian ports	Delay at foreign ports	Loss
				(Rs. crores)
1975-76	1723	638	1085	3·44
1976-77	2216	834	1382	4·73
1977-78	3132	1807	1325	16·93
1978-79	4538	3245	1293	11·57
1979-80	5210	3776	1474	13·92
1980-81	3382	1530	1852	10·35

15. The berthings delays in the major ports in India during the period 1979-80 to 1981-82 (upto June 1981) as furnished by the SCI are tabulated below:

Port	Delays (No. of days) 1979-80	1980-81	1981-82 (upto June 81)
Bombay	920	634	357
Cochin	107	76	19
Madras	564	138	125
Calcutta	765	191	15

16. The SCI was stated to have been handicapped in exporting and importing cargo in containers for lack of facilities for stuffing and destuffing of containers within the sheds adjoining the container berths. These facilities were stated to have been provided in Bombay to foreign lines like American President Line, Sealand, Contship and Farrel Line who were allotted sheds and spaces close to berths, like 12A, 12B, 13A and 13B. On the contrary, SCI had to incur an additional expenditure of Rs. 800/1000 per container for movement of their cargo from the sheds provided to them outside the port, at M. Jetha and 3 Frere Basin. At Madras also a special shed and stacking spaces had been provided to a French Liner (CGM) denying the same facility to SCI. Again although 47 per cent of the cargo at Calcutta (including Haldia) was handled by SCI, the Corporation had been allotted only one berth with shed in K. P. Docks. According to SCI if they were allotted 3 berths out of 51 berths at Bombay, 3 berths out of 29 at Calcutta and 1 out of 19 berths at Madras, the Corporation would be benefited by Rs. 542 lakhs per annum.

17. When the Transport Secretary was asked if SCI was discriminated in the matter of allotment of covered sheds in the Bombay port for handling container cargo, he replied in negative and submitted that in Bombay SCI had been allotted 14 per cent of the covered area for container cargo against only 12 per cent. cargo being handled by the Corporation at Bombay. It was a fact that a French firm first arrived at Bombay with containers and got the first shed allotted. The SCI came into the picture next and got the next available space allotted. Referring to SCI submission, when the Committee pointed out that allocation of places like 12A, 13A and 13B to foreign lines affected the viability of container operation by SCI, the Transport Secretary replied that SCI did not have any cellular container ship as such.

On the suggestion of the Committee to hold a meeting by the Ministry with the SCI to solve the problem in the national interest he submitted that executive directors of SCI had been attending to meetings of Port Trust of Bombay, Madras and Calcutta to settle various issues. When it was pointed out that there was allegation of port trusts showing favour to foreign companies, he agreed and said "At the lower bureaucratic level foreign companies sometimes get advantage because of some malpractices". On the point of SCI request for priority for national lines in the allotment of berth and sheds he submitted that foreign companies constructed their own sheds and the Ministry desired SCI to follow their line of approach. In the matter of preferential allotment of sheds to SCI, he submitted that the India Steam Ship, the Scindias and the SCI were under a single pool and giving preference to SCI might invite criticism. When the Committee pointed out that considering the size and diversified services of SCI, it needed preference, the Secretary replied: "We can discuss this again" although the proposal was not agreed to.

F. *Foreign Exchange Earnings*

18. Not foreign exchange earnings/savings made by the Corporation during 1974-75 to 1980-81 were stated to be as given below:

(Rs. in crores)

	Total foreign exchange Earnings/ Savings Inflow	Total foreign exchange expenses outgo	Net foreign exchange Surplus	Per centage
1974-75	198·38	79·81	109·57	57·86
1975-76	207·98	102·45	105·53	50·75
1976-77	258·94	139·20	119·74	46·24
1977-78	247·00	133·30	113·70	36·03
1978-79	288·06	186·55	101·51	35·24
1979-80	407·97	247·13	160·84	39·43
1980-81	500·78	300·78	200·00	40·00 (Estimated)

19. The SCI categorised their operating earnings under the following broad heads:—

(i) Actual collections in foreign currencies.

(ii) Actual collections from bilateral countries where transactions are in rupees.

(iii) Collections in Indian Rupees in respect of overseas services.

(iv) Rupee earnings in respect of coastal trade. Earnings under items (i) and (ii) were treated as direct foreign exchange earnings and item (iii) was treated as indirect foreign exchange saving on the assumption that if an Indian Line were not to operate, these freight earnings would have been repatriated out of India by foreign shipping companies. On this basis, the entire operating earnings with the exclusion of coastal trade earnings, had been treated as foreign exchange earnings and saving.

20. All direct or indirect operating expenses and charter hire outgo actually incurred/disbursed in foreign currencies as well as payments to bilateral countries had been treated as foreign exchange outgo. In addition, direct operating expenses incurred in Indian ports, excepting on bunker, had been treated as indirect foreign exchange outgo on the assumption that, if a foreign shipping Line were to operate, the freight earnings in Indian ports would have been repatriated out of India only after making disbursements for direct operating expenses in Indian ports. As regards bunker, it had been assumed that the bunker lifted in Indian ports by foreign operators would be insignificant. The aforesaid basis of calculation of foreign exchange was explained to the Ministry of Finance (Department of Economic Affairs) and Reserve Bank of India by the SCI through various official communication.

G. *Performance Review*

21. The Ministries were required to take meetings for the review of the performance of public undertakings under their control once a quarter. However, from the information furnished by the Ministry of Shipping and Transport, it was seen that there were in all 4 such meetings during the 4-Year period, 1977—81 as against the required number of sixteen.

22. The Transport Secretary admitted that as per directive of BPE, regular quarterly meetings were not being held. Only one formal review meeting was held by him on 21-12-1981 associating BPE, D.G. Shipping and others concerned. Two meetings held on 6-11-1979 and 26-2-1980 were presided over by the Joint Secretary. On a point of clarification, the Joint Secretary of the Ministry stated that he held the meetings on the direction of the earlier Secretary although he agreed with the Committee that holding review meetings by the Joint Secretary, who was also a member of SCI Board, did not serve the purpose of reviewing performance.

PART II

CONCLUSIONS AND RECOMMENDATIONS

1. The Shipping Corporation of India Ltd. was incorporated in October 1961. The Committee's examination has revealed that Indian Shipping in general and the Shipping Corporation in particular have suffered for want of enough cargo support. Shipping has a vast potential for foreign exchange savings and earnings for the country. The Committee regret that the share of the Indian shipping in the country's overseas imports and exports trade has steadily deteriorated from 41.1 per cent in 1976-77 to 28 per cent in 1980-81. Lately whatever increase was there in overseas trade, foreign shipping lines appeared to have got the benefit of it. The Committee were surprised to learn from the Transport Secretary that he had not done much of a study of this phenomenon of the benefit of increase in India's foreign trade accruing to foreign lines. The Committee have however been assured that the deteriorating trend has been reversed in 1981-82. Nevertheless the Committee have found that there has been serious failure to take timely regulatory and promotional measures to arrest the deteriorating trend and ensure the country's legitimate share. The responsibility for the failure rests with the Ministry of Shipping & Transport.

2. One of the major items where the share of the Indian shipping has been poor is dry bulk cargo. Although a third of Indian trade is of iron ore, the share of Indian shipping is still just 25 per cent. The insistence of the Japanese buyers of iron to transport it in their own bottoms is stated to be the reason for this. The Committee have been informed that at the time of negotiations with the Japanese the MMTC was not in a bargaining position and with the inclusion of the Shipping Corporation in the negotiations the position has been improving. The Committee desire that efforts should be made to improve the Indian share to 50 per cent progressively. In future, it should be ensured at the time of negotiation of trade agreements that at least 50 per cent of the cargo is agreed to be moved by Indian bottoms.

3. The entire oil cake trade is stated to be in the private hands even though the export is canalised through the STC. According

to the Shipping Corporation, the entire exports of oil cakes were on f.o.b. basis and were shipped by foreign flag vessels. The Committee feel that the canalising agencies, such as STC and MMTC, should have a say in transport. A representative of Ministry of Commerce told the Committee that his Ministry had not given thought to this but agreed that this was an area which the Ministry could examine. The Committee would urge that the matter should be examined early and such steps taken as would enable the country's canalised exports to move substantially in Indian bottoms.

.4. The extremely competitive market and non-conference line operations have combined to keep down India's share in liner cargo. In container cargo, which accounts for a substantial portion of the trade, our share is just about 25 per cent. The position needs to be remedied by providing adequate facilities for operation of container vessels and eliminating unhealthy competition from non-conference lines and foreign ship operators through regulatory means.

5. The Shipping Corporation has at preesnt 31 vessels carrying 10473 containers and operates container services on 6 liner routes. The Corporation has not so far acquired any cellular container ships. On the only fully containerised service operated by it on India—U.K. Continent route the Corporation is expected to at best break-even in the next 2-3 years. According to the Shipping Corporation the container operation could be made profitable by industing large-sized cellular container ships which would make for economy of scale. The Committee desire that economics of this proposal should be worked out and on the basis of the operational results of the fully containerised service acquisition of large sized cellular ships should be decided early, as the world over there has been a shift to container service.

6. The port facilities for handling contained traffic are obviously inadequate. These should be augmented soon on a planned basis taking note of the suggestions given by the Shipping Corporation.

7. The Shipping Corporation has complained that it has been discriminated against in the matter of allotment of berths and sheds for container traffic in the ports of Bombay and Madras. It has been stated that in Bombay certain foreign lines have been given sheds close to the berths and that in Madras special shed and stacking place has been provided for a French line while such facilities have not been made available to the Shipping Corporation. According to the Corporation, it would be benefited to the extent of Rs. 542 lakhs

per annum if 3 berths out of 51 at Bombay, 3 out of 29 at Calcutta and one out of 19 at Madras are provided to the Corporation. Though the Transport Secretary argued not unconvincingly that there was no discrimination as such, the Committee feel that there ought to be some preference shown to the national lines in general and the nationalised line in particular. In this connection, the Committee understand that in a number of foreign countries their national lines are given the best berths with shed facilities for handling their vessels. The Committee recommend that the matter should be examined and appropriate action taken. ...

8. The world liner services are becoming containerised fast. It is, therefore, necessary to develop in the country as integrated rail, road and sea container service as has been done in other countries like Japan, Korea, USA and Continental countries. Though there are certain difficulties in developing this, these are largely administrative problems as pointed out by a representative of the Ministry of Commerce. The Committee hope that the problems will be sorted out and integrated container service introduced as early as possible.

9. The Shipping Corporation is stated to face stiff and unhealthy competition from non conference line and foreign ship operators indulging in unethical practices, such as issue of pre-dated bills of lading, under-cutting of freight, paying higher brokerage and additional commission to the clearing and forwarding agents and giving monetary assistance for handling of cargo within port premises. Several suggestions have been given by the SCI to overcome the unhealthy competition. Although the problems and the suggestions to solve them are reported to have been made since 1976, the Committee regret that no tangible action has been taken as yet. The Committee recommend that effective steps should be taken in this regard without further loss of time.

10. The unhealthy practice of issuing bills of lading before actually loading the cargo appears to be facilitated by the Customs Houses practice of issuing General Registration-I forms on examination of the cargo tendered to customs. On the strength of these forms and the pre-dated bills of lading, documents could be negotiated with the banks by exporters. The Committee desire that even if it is not feasible to issue the General Registration-I forms after ensuring loading of cargo, steps should be taken to ensure that the bills of lading are not issued before loading.

11. At present the activities of shipping of clearing and forwarding agents are not regulated. The Committee have been informed by the Transport Secretary that government are thinking of going in for legislation on the subject. The Committee hope that the legislation will provide for adequate safeguards against malpractices.

12. One of the objectives of the Shipping Corporation is to increase India's share in cross trade. The Committee were surprised to hear from the Transport Secretary that no worthwhile statistics were available on cross trade to know the share of Indian shipping. The Committee desire that at least in future there should be some assessment of the total volume of the world cross trade and India's share in it and efforts should be directed to improve our share in order to augment foreign exchange earnings for the country.

13. A Standing Committee was constituted in February 1979 to periodically review the utilisation of Indian Shipping for securing better cargo support and for ensuring better coordination between public sector agencies, shipping industry and the Ministry of Shipping & Transport (TRANCHART). The Committee received an impression that this Standing Committee did not exhibit full awareness of its functions. Having an attenuated idea of its terms of reference it mainly confined itself to solving such problems as arose and arranging shipping of public sector cargo. In all, it held only 4 meetings between February 1979 and February 1982. The Transport Secretary admitted that the Standing Committee was "a bit weak" and it was not functioning as efficiently as it should. Although he had directed in a meeting held in October 1980 that the Standing Committee should meet atleast once a month it did not have any effect. The Committee are inclined to take a serious view of the virtual inaction of such an important Standing Committee in the context of the need to ensure adequate cargo support for Indian Shipping as a whole. The Committee recommend that the Standing Committee should be activised and for this purpose it should be reconstituted associating with it representatives of the Ministry of Commerce, shippers and shipping lines besides those of canalysing agencies at a sufficiently high level and it should be presided over by the Secretary, Shipping and Transport.

14. At present the Shipping Corporation operates 18 overseas cargo liner services, 4 passenger-cum-cargo services besides tanker, bulk carrier and coastal services. Of these, the passenger and coastal services are always in the red. The oil tanker service is a captive business for the Shipping Corporation and the profits thereon are

on account of the operation on cast plus basis. Though the bulk carrier and liner services are making some profits their operations cannot be regarded as good, according to the Financial Adviser of the Shipping & Transport Ministry. Thus there is a lot of scope for improving the operational results of the Shipping Corporation. The Committee hope that on the basis of this Report steps would be taken to rationalise the sailings, bring about effective cost control and augment revenue.

15. The Committee do not approve of the thinking of the Shipping Corporation that they are obliged to run unremunerative non-commercial services even without specific directive from government and that all the services should be viewed in their totality. In this connection the Committee desired that the Ministry should make the objectives and obligation of the Corporation clear to them.

16. Some of the liner services have been making huge losses over a long period. The India-Australia route was making losses during the period 1975—81, the India-USA(Pacific) route was showing losses for the period 1976—81 and the India-USA (Great Lakes) was incurring losses during the period 1977—81 continuously. The Committee have, however, been informed that the former two routes have turned the corner during 1981-82. That it should have taken such a long time shows that the route-wise operations have not been reviewed properly in order to take a decision on the discontinuance of the loss making routes or on making such improvements would make them viable. In this connection the Committee note that as many as 5 developmental services were started in 1968 and though these were making losses for a decade, these were continued. In the year 1977, three of them were, however, discontinued. On the two remaining services, viz., WCI-Australia and India-USA (Pacific) losses of the order of Rs. 8.16 crores and Rs. 5.04 crores have been incurred during the period 1968—81. The Committee feel that a promotional service can be taken up only on commercial considerations and when it is clearly expected that the route will be viable within a reasonable time of 2-3 years. Further, in a situation of under-utilisation of capacity of the vessels, it may be justified to operate some routes on marginal costing basis provided these could recover some part of the overhead expenses. In any case there is no case for taking up a service which cannot be justified on commercial considerations. If any such service is to be taken up, it can be only on a specific directive from government. The Committee suggest that the operation of services in future should be regulated according to this principle.

17. The Shipping Corporation operates 4 passenger-cum-cargo services, viz. Madras-Malayasia-Singapore, Rameswaram-Talaimanar, Mainland-Andaman Nicobar Islands and Mainland-Lakshadweep Islands. The Corporation has been losing on all these services. Of these, the latter 3 are operated on non-commercial consideration as per specific directive from government. Although earlier the Corporation was reimbursed fully the excess of expenditure over income on these services it was stopped subsequently. It was finally decided that so long as the Corporation made overall losses government would reimburse 80 per cent of the loss on the Mainland-Andaman Islands and Mainland-Lakshadweep Islads services alone. The annual losses on these two services are about Rs. 8 crores. The Committee are of the view that wherever government specifically direct the Shipping Corporation to operate unremunerative services subsidy equal to the losses should be given in order that it may help the Corporation to maintain these services well in public interest and also generate some internal resurces. In this connection the Committee wish to place on record the impression of their Study Group which visited Madras that the maintenance of a ship operated in the Madras|Andaman sector was to say the least very poor.

18. The losses are incurred on the passenger services operated at the instance of government on account of the low fares and freight structure approved by government. A clear case for upward revision of the tariff structure has merged out of the examination of the Committee. According to the Corporation, the present fare structure in relation to Mainland-Andaman Sector is so low that the breakeven fare would be 460 per cent of the existing fare. The Committee hope that government will take due note of the position and suitably adjust the tariff structure. While adjusting the tariff structure a difference has to be made between the domestic services and the international service in that the tariff structure for Rameswaram-Talaimanar service could be higher.

19. The Madras-Malaysia-Singapore service is operated by the Shipping Corporation on its own. The Corporation has incurred losses of the order of Rs. 4 crores during 1975—81 on this service. It was only at the instance of the Ministry in 1980-81 that several concessions were introduced to attract more traffic on this service and it is now expected to breakeven soon. The Committee regret that the Corporation did not make any tangible effort to make this route viable until recently. However, making improvement cannot be a one-time affair. The service should be kept continuously under

review to ensure that it atleast breaks even; otherwise it should be stopped.

20. About 38 per cent of the Shipping Corporation's fleet (75 per cent of the DWT) comprised bulk carriers, tankers and combination carriers and it was these vessels that greatly influenced the profitability or otherwise. There were heavy losses (Rs. 30.60 crores) on these services during 1977—79, but there was marginal profit thereafter. The Corporation had acquired 2 very Large Crude carriers (VLCCs) and 2 other large-size ships to serve the country's oil and ore trade. However, due to non-availability of port facilities and non-completion of Mathura and Koyali refineries, these ships have to be operated in international market where freight rates are low. The operation of the 2 VLCCs resulted in a loss of Rs. 40 crores during 1975—81. The Committee received an impression that the acquisition of these vessels were not properly timed. However, they have been informed that a claim for Rs. 61 crores taking into account also the return on investment has been made against the Ministry of Petroleum at whose instance these vessels were acquired. The Committee would await the settlement. In the meantime, action should be taken to deploy these vessels in a manner that they break even.

21. Two large size ships (M. V. Maharishi Karve and M. V. Maharishi Dayanand) were acquired in 1978 and those have made losses to the extent of Rs. 11.16 crores during the period 1978—81. At one stage the Shipping Corporation considered the question of sale of these vessels but decided to continue to operate them. The Committee suggest that if these are unable to recover even the direct cost of operation it is better either to lay them up or sell them. This should apply to other vessels as well.

22. Although water transport is the cheapest for longer haul and it is energy saving, the Committee regret that the volume of coastal trade is very low in as much as it ranged between 8.99 lakh tonnes and 15.46 lakh tonnes annually during 1974—80. If anything the volume of trade is showing signs of rapid decline. The SCI's share in coastal shipping is also poor. The operational results of the coastal trade of the Corporation had disclosed persistent losses (Rs. 4.88 crores during 1974—81). The main reason that is responsible for the low and declining volume of coastal trade is the uneconomic operation. Several suggestions are stated to have been made by a Committee on Coastal Shipping constituted under the chairmanship of Director General of Shipping in September, 1980. The Committee desire that early decision should be taken on these

recommendations and the coastal shipping assured its legitimate place in the transport sector.

23. Agents are engaged by the Shipping Corporation for handling work on their behalf in all ports (about 350) except in ports of Bombay, Calcutta, Port Blair and Mombasa. The Committee feel that there is no strong justification for continuing the agency arrangement in Indian ports. When railways, which also faces severe competition in high rated freight traffic from road transport, could manage cargo booking on its own, the Committee do not see any reason why a beginning should not be made in extending the departmental handling of shipping operations which are now confined to only the ports of Bombay, Calcutta and Port Blair. Though the cost of establishing an office may be more than the agency commission paid, the possibility of the Shipping Corporation's own office augmenting revenue more than offsetting the increase in cost cannot be ruled out. This aspect therefore, deserves serious rethinking.

24. The stevedoring work at the ports is done on contract basis. Based on the experience of the departmentalised operation of the work at Haldia, the Ministry seems to have taken a stand that the stevedoring work would not be departmentalised for the time being. The Committee trust that having regard to the healthy policy of eliminating intermediaries as far as possible this question will be kept under review.

25. The Committee went into the agency and the contract arrangements at Madras in some detail. At this port one concern, namely, M/s. K. P. V. Sheikh Mohammad Rowther & Co. (Pvt.) Ltd. is the agent of the Shipping Corporation since inception (1961). It is also acting as contractor for stevedoring since inception (1961) and victualling since 1973. Whereas there was no tender for settling the agency arrangement at any time contracts for stevedoring and victualling were not renewed by inviting tenders regularly but were continued by negotiations. Further, this concern has also been receiving substantial payments for ship repair work awarded to its sister concern. The total payments for agency function, stevedoring, victualling and ship repair were of the order of Rs. 259.56 lakhs during the year 1980-81. Besides these, the concern has also been awarded contracts for various other items and considerable payments have been made to it. In no other port one party has been engaged for a combination of functions like this. The Committee are strongly of the view that it is not a healthy practice to combine the agency function with any other function in relation to ship-

ping as no independent check on behalf of the Shipping Corporation will be possible. As it is there is not even a skeleton shore establishment in Madras although such establishments have been set up even recently at Singapore and Cochin to supervise the work of the agents.

26. The question of setting up a full-fledged office of Shipping Corporation at Madras to eliminate the agency arrangement has come up at the Consultative Committee meetings of the Ministry from time to time. The Consultative Committee have been informed (December, 1981) that it was economical to have the agency arrangement as the cost of setting up of an office would be Rs. 34.97 lakhs per annum as against the agency fees of Rs. 33.00 lakhs. Earlier, in a communication dated 21 May, 1981, the Ministry had intimated to the Committee on Public Undertakings inter-alia that it would cost Rs. 35.83 lakhs per annum to set up an office at Madras. Explaining such huge difference in the computation of cost within a period of about six months a representative of the Ministry told the Committee that the earlier assessment was based on the handling of cargo during 1978-79 and the revised estimate of December 1981 was after updating based on the tonnage handled during 1980-81 and taking note of new development. However, the Committee note that almost at the same point of time when the cost was intimated (21 May 1981) to the Commtitee as Rs. 35.83 lakhs, the Consultative Committee were informed (7 May 1981) that the cost worked out to Rs .57.59 lakhs for 1978-79. Thus, there was wide divergence in the cost estimates based on the handling of cargo in same year, viz., 1978-79 and given almost at the same point of time (May 1981) to this Committee and the Consultative Committee. The Committee, therefore, cannot resist a feeling that there was an attempt to somehow make it appear that it was uneconomical to open an office at Madras. In this connection the Committee find that the Ministry did not check the cost estimates at any time and it was only when the Transport Secretary appeared before this Committee, he promised to look into the two sets of figures.

27. The agent in Madras handles on behalf of the Shipping Corporation collection of revenue to the extent of about Rs. 11 crores and defrayal of expenditure to the extent of Rs. 8 crores per annum. It is significant to note that the deductions made in the bills submitted by the agent, as a result of internal audit, were as high as 13 to 16 per cent in respect of repairs work. Complaints have also been received against the party by the Ministry from responsible men. Further, compensation claims outstanding during 1980-81 at Madras were of the order of Rs. 98.97 lakhs (Rs. 162.19

lakhs in 1979-80). All these reflect badly on the working of the agent.

28. In view of the foregoing the Committee are not in a position to approve the present arrangement in Madras based on the centralisation of various functions in one concern. It is not safe to leave all these functions in the hands of a private company especially when Madras accounts for the highest quantum of cargo of Shipping Corporation in the country. It is regrettable that there is not even a small shore establishment headed by a fairly senior officer in Madras to supervise the work of the agent and the contractors. The Committee are, therefore, of the opinion that the commercial interests of the Shipping Corporation demand a full-fledged office in Madras. If, however, for any reason there is delay in opening such an office the least that should be done in the meantime is to see that the agency function is allotted to a party not concerned with any other functions relating to shipping.

29. The Shipping Corporation had made profits since its inception in 1961 upto 1976-77. Thereafter there were heavy losses (Rs. 53.60 crores) upto 1979-80. These losses cannot be merely explained away by recession in world shipping. Further, the net profit of Rs. 18.37 crores shown in the accounts for the year 1980-81 does not disclose the correct picture of the operational results during this year. Taking into account a credit adjustment of Rs. 10.85 crores relating to the year 1979-80 and the non-operating income included in the profits the Committee find that the operational result of the Corporation during the year 1980-81 shows deterioration. In this connection the Committee suggest that a system should be evolved whereby the true comparative picture of operational result from year to year could emerge in the Annual Reports. This may be evolved in consultation with the Comptroller and Auditor General of India.

30. A comparison of the results of operation of the SCI with the combined position of 7 private Indian shipping companies has revealed that during the year 1980-81 the return on capital employed in respect of Shipping Corporation (excluding services on government account) was 8.62 per cent whereas it was 10.87 per cent in respect of the private companies. Similarly, the percentage on gross profit to gross earnings was respectively 12.53 per cent and 20.57 per cent. Further, the performance of 5 private companies, viz., Great Eastern, South India Shipping, Damodar Bulk Carriers, Chowgule and Batnakar was much better compared to that of the Shipping Corporation. The Committee desire that inter-firm comparison of the cost of operation should also be made and steps taken

to have an effective cost control in the Shipping Corporation. The Board of the Corporation should systematically review the vessel voyage results to keep a constant watch on the operational efficiency.

31. There is a case for detailed cost study of the operations of the Shipping Corporation. The Committee recommend that this should be entrusted to an independent agency like BICP in consultation with the BPE. The cost study should also include a review of the staffing pattern with a view to evolve suitable norms.

32. The cargo handling cost is the largest single component of the operating expenses. A comparative picture of cost of handling cargo at the ports of Bombay, Calcutta, Madras and Cochin furnished to the Committee revealed that the handling charges at Calcutta were very high. The statistics of port delays that contributed to the slow turn round of ships enhancing the cost of operation revealed that there was maximum delay in Bombay port during 1979—82. Unless the cargo handling cost in all the ports is put on a family uniform basis there can be no possibility of diversifying the shipping with a view to ease the congestion in Bombay port. This aspect, therefore, deserves serious consideration.

33. The net foreign exchange earnings savings as worked out by the Shipping Corporation were Rs. 101 crores in 1978-79, Rs. 160 crores in 1979-80 and Rs. 200 crores (estimated) in 1980-81. These look impressive but the Committee would suggest that the basis for the computation of indirect foreign exchange earnings/savings should be scrutinised by the Department of Economic Affairs and the Reserve Bank of India and specifically approved by them so that there could be a uniform basis.

34. The Ministry of Shipping & Transport has not held regular meetings to review the performance of the Shipping Corporation. There was only one review meeting held by the Secretary and that too as late as December 1981. Earlier, a couple of meetings were held at the level of the Joint Secretary who happened to be a government director of the Shipping Corporation. He should not have been entrusted with an independent review of the performance of the management and the Board. The Committee expect that in future there will be regular and meaningful review of the performance at least at the level of the Secretary.

NEW DELHI;
24 *April*, 1982
Vaisakha 4, 1904 (*S*)

BANSI LAL,
Chairman
Committee on Public Undertakings.