PAC
Report

FORTIETH REPORT

PUBLIC ACCOUNTS COMMITTEE
(1980-81)

(SEVENTH LOK SABHA)

PURCHASES AND STORES

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

सत्यमेव जयते

Presented in Lok Sabha on 24 APR 1981
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NEW DELHI

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fortieth Report on Paragraphs 10 and 12 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Railways) relating respectively to purchase of roller bearing axle boxes from a single manufacturer and procurement of centre buffer couplers and clevises and Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1977-78—Union Government (Railways) relating to Procurement of broad gauge rail crossings.

2. This Report *inter alia* highlights the drawbacks in the implementation of the policy of import substitution. The Committee have desired that the question regarding laying down of procedures for the safeguards necessary in cases where imports are cheaper, but indigenous capacity is available especially where sole suppliers are involvd, may be considered at the highest level.

3. The Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Railways) was laid on the Table of the House on 19 March, 1980. The Committee (1980-81) examined Paragraphs 10 and 12 at their sitting held on 4 December, 1980. In respect of Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1977-78—Union Government (Railways) only written information was obtained from Ministry of Railways (Railway Board). The Committee considered and finalised the Report at thier sitting held on 15 April, 1981. Minutes of the sittings form Part II* of the Report.

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

5. The Committee would like to express their thanks to the Officers of the Ministry of Railways (Railway Board) for the cooperation extended by them in giving information to the Committee.

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

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

NEW DELHI;
16 *April*, 1981.
26 *Chaitra*, 1903 (*S*).

CHANDRAJIT YADAV,
Chairman,
Public Accounts Committee.

CHAPTER 1

PURCHASE OF ROLLER BEARING AXLE BOXES FROM A SINGLE MANUFACTURER

Audit Paragraph

1.1. Indigenous capacity for roller bearing axle boxes (axle bearings) required for wagon manufacturer, was first established in the country in 1959. Firm 'A' is the only established indigenous manufacturer and the Railways are the only consumers of the axle bearings.

1.2. Firm 'A' had a licensed capacity of 23,160 axle bearings (installed capacity of 60,000 axle bearings on three-shift basis) per annum. The licensed capacity was later raised to 35,000 nos. per annum in February, 1973.

1.3. The Ministry of Railways (Railway Board) had been procuring these axle bearings partly from Firm 'A' and partly by import until 1966 and thereafter import was discontinued, as the Firm 'A' was able to meet the requirements of Railways. Since there was only one source of supply and only one customer for the axle bearings, their procurement was done by the Ministry of Railways (Railway Board) after obtaining quotations on single tender basis and negotiating a rate with the firm thereafter.

1.4. The table below indicates the various orders for axle bearings (20.3 tonne) placed during 1959—1976, the price quoted by Firm 'A' final negotiated price, value of the orders, increase in price over the last purchase price and the percentage thereof:

Month of Order	No. of axle bearings ordered	Price per Unit		Value of order (Rs. in crores)	Increase over previous Price Rs.	Percentage increase
		Quoted Rs.	Negotiated Rs.			
October, 1959	4,696	795	660	0.31	..	..
February, 1961	24,000	700	675	1.62	15	2.3
May, 1962	20,000	807	708	1.42	33	4.8
April, 1963	30,000	Not available	715	2.15	7	1.0
July, 1964	42,000	750.50	715	3.00		
February-March, 1966	36,000	733.91	715	2.57	..	..
January, 1967	30,000	820	768	2.30	53	7.4
March, 1968	16,800	812	780	1.31	12	1.5
July, 1969	40,000	1,120	973	3.89	193	25.0
December, 1970	22,352	1,265	1,023	2.29	50	5.1
August, 1972	(i) 20,000 for delivery upto 3/73	1,300	1,140	2.28	117	11.4
	(ii) 30,054 or delivery after 3/73		1,197	3.60	174	17.0
May, 1974	33,000	3,010	2,100	6.93	960	82.5
July, 1975	42,000	3,500	2,500	10.50	400	19.0
August, 1976	(i) 36,000	2,500	2,475	8.91	(—)25	(—)1.0
	(ii) 9,000 (under option Clause		2,450	2.20	(—)50	(—)2.0

1.5. As would be seen from above, till March 1966 the difference in prices negotiated for successive orders was marginal. However, in the subsequent period *i.e.* since January 1967, after the import of axle bearing was stopped, the increase in price under contracts for the years 1969 and 1974 went up sharply.

1.6. In February 1973 the residual requirements of axle bearings for 1972-73 as well as the full requirements for 1973-74 were assessed at 1,04,422 nos. These were required for wagons to be fabricated upto March 1976.

1.7. Since the indigenous capacity of 35,000 nos. per annum was considerably short of the assessed requirement, in July 1973 the Ministry of Railways (Railway Board) considered it necessary to meet the demand for axle bearings by resorting to import. It was also felt that the global tenders would establish most competitive rates for imports and also provide data for testing the reasonableness of the rates quoted by the sole indigenous manufacturer.

1.8. Consequently, in November 1973 global tenders were floated for procurement of 1,04, 422 nos. of axle bearings. The global tenders were opened on 20th December 1973 and the following technically acceptable tenders were received:

Sl. No.	Tender	Rate per unit (Rs.)	Remarks
(1)	Firm 'A' Jaipur	3,010	Fully indigenous offer subject to escalation for wages, raw materials and power.
(2)	Firm 'B' Poland	2,366	Offer subject to negotiation and involved foreign exchange on rupee payment basis.
(3)	Firm 'C' Bombay	2,844	Offer fully imported.
(4)	Firm 'D' Baroda	(i) 2,502 (ii) 2,530 (iii) 3,196	Import with different proportions of indigenous content.
(5)	Firm 'E' Secunderabad	3,034	Import with partial indigenous content.

NOTE : 1. Rate against S. No. 1 is ex-Jaipur.

2. Rates against S. Nos. 2 to 5 represent landed cost

1.9. In February 1974 the requirement of axle bearings was reviewed in the light of the reduced target of wagon production for the years 1974-75 and 1975-76 due to financial constraints. The number of axle bearings required was reduced from 1,04,422 to 66,000 nos. It was, therefore, decided to procure only 66,000 axle bearings against global tender opened in December, 1973.

1.10. The Ministry of Railways (Railway Board) also decided (February 1974) that negotiations should be conducted only with firms 'A' and 'B' as preference was to be given for procurement, to the maximum extent, from indigenous and rupee payment sources. As a result of the negotiations held during March-April 1974, the firms quoted revised prices as under:

Tenderer	Rate unit (Rs.)	Quantity offered	Remarks
Firm 'A' Jaipur . . .	2,100	33,000	In its original quotation the firm indicated its ability to meet the entire requirements of the Railways without specifying the quantity offered. During negotiations the firm was asked to quote a firm price at least for 41,000 nos. which was assessed to be capable of being manufactured with the indigenous capacity available upto December, 1975.
Firm 'B' Poland	1,824	25,000	The firm agreed to the Railways exercising an option to order additional 10 per cent before November 1975.

NOTE : 1. Rate of firm 'A' is ex-Jaipur.

2. Rate of firm 'B' represent landed cost.

1.11. In April 1974, firm 'A' informed the Ministry of Railways (Railway Board) that they were capable of meeting the entire requirements of the Railways *viz*. 66,000 nos.; but due to uncertain price situation for raw material it was not possible to give a firm commitment for price for quantities beyond 33,000 nos. to be supplied by March 1975. The firm added that price for the supplies to be made after this date were to be negotiated at a later date.

1.12. On the assurance of firm 'A' to meet the entire requirements, the Ministry of Railways (Railway Board) decided (May 1974) not to make any imports from firm 'B'. Out of the total requirement of 66,000 axle bearings, only 33,000 nos. were ordered on firm 'A' at the negotiated price and for the balance requirements beyond March 1975, the price was left to be negotiated subsequently.

1.13. In May 1975 the Ministry of Railways (Railway Board) floated a single tender enquiry from firm 'A' for 30,000 nos. of 20.3 tonne axle bearings representing the quantity left uncovered for the wagon production requirements upto March 1976 (including 5,000 nos. for maintenance requirements) with the option to order additional 50 per cent.

1.14. As will be seen from the total in para 10.4 above, firm 'A' quoted (June 1975) Rs. 3,500 per axle bearing for and order of 42,000 nos. In negotiations the price was reduced to Rs. 2,500 for an order for a firm quantity of 42,000 nos. Orders were placed at this price in July 1975 for 42,000 nos. of axle bearings *i.e.* in excess of the assessed requirement (30,000 nos.) of the Railways.

1.15. The following points deserve consideration about the orders placed and the price given to firm 'A' from time to time :

(i) The major requirement of the Railways is for axle bearings of 20.3 tonne. The price of other types of axle bearings (*viz.* 16 tonne, 22.5

tonne etc.) is derived from the price settled for 20.3 tonne axle bearing taking into account the material content of the other axles. Consequently determination of the reasonableness of price of 20.3 tonne axle bearings was of paramount importance.

(ii) The price of the first contract for the order in 1959 was settled with firm 'A' by allowing 25 per cent price preference over the landed cost of the imported bearing and price of in digenous axle boxes and mounting charges. The price settled in the first contract was treated as the base price in subsequent contracts and escalation was allowed in the price of raw materials, components, wages etc. as justified by the firm to the Tender Committee appointed by the Ministry of Railways (Railway Board) to negotiate and settle the price. During negotiations the Tender Committee did not call for break up of the labour and material content and cost of production. In the absence of a cost analysis there was no means of ensuring that the prices settled in negotiations for the various orders were reasonable even after the indigenous production of the axle bearing had been stabilized and stepped up.

According to the Ministry of Railways (Railway Board) (October 1979), the question of cost examination of the records of firm 'A' was taken up (December 1980); but the firm turned down the proposal as unfair and suggested that in the event of cost examination being agreed to, the Railway should pay the higher cost, if justified by the cost examination, and also escalations during the currency of the contract.

(iii) The price negotiated with firm 'A' for the contract of 1974 *viz.* Rs. 2,100 per axle bearing was about 15 per cent higher than the revised price of Rs. 1,824 (landed cost) offered by firm 'B' after negotiations. (The prices of firm 'A' was also unduly excessive keeping in view that the supplies of firm 'B' would have to bear the incidence of ocean freight, insurance and customs duty. The price of Rs. 2,100 allowed to firm 'A' was, therefore, substantially in excess of the established international price and involved price preference computed at Rs. 91.08 lakhs for 33,000 axle bearings order on them.

The Ministry of Railways (Railway Board) however, maintained (October 1979) that as the purchase decision to place orders on firm 'A' was made on the basis of available indigenous capacity, the question of price preference of firm 'A' did not arise. While making such purchase from indigenous source reasonable price was only to be settled.

(iv) While the indigenous manufacture was allowed the price in excess of established international price for 33,000 axle bearings, 25,000 nos. of axle bearings plus 10 per cent additional quantity which could have been procured from firm 'B' at a lower price were carried over for procurement from firm 'A' after March 1975, even though the latter had refused to give any commitment regarding the price or agree to a pricing formula for such supplies. The objective of floating global tender for securing competitive rates and judging the reasonableness of the quotation of the sole indigenous manufacturer was thus defeated.

The Ministry of Railways (Railway Board) maintained (October 1979) that the price revealed by the global tender was made use of while negotiating the prices with firm 'A' and hence the objective of floating global tender was fully achieved.

Since firm 'A' had expressed its ability to meet the entire requirements of the Railways and refused to settle the price for the supplies to be made after March 1975, it was not in the financial interest of the Railways not to have imported the requisite no. of axle bearing viz. 25,000 nos. from firm 'B' considering that its price was lower by Rs. 276 per axle bearing and involved an extra expenditure of Rs. 69 lakhs, if these had been ordered on firm 'A' at that time itself. In this connection it is relevant to mention that the Ministry of Railways (Railway Board) was aware at that time that the price to be paid for any subsequent order on firm 'A' was bound to be higher than the price negotiated in April-May 1974. Consequently, the price to be paid for the supplies to be received after March 1975 was likely to be higher than even Rs. 2,100.

The Ministry of Railways (Railway Board) stated (October 1979) that during negotiations firms often reduce prices taking into account various factors like booking idle capacity etc., to secure orders and hence only the original lowest quotation (Rs. 2,366) of December 1973 of firm 'B' and not its revise price (Rs. 1,824) could be considered as an established international price compared to which the negotiated price (Rs. 2,100) of firm 'A' was not excessive.

(v) As seen from table above, 42,000 nos. of axle bearings were ordered on firm 'A' in July 1975 @Rs. 2,500. These 42,00 axle bearings included 25,000 nos. which could have been procured in 1974 from firm 'B' @Rs. 1,824, but were reserved for firm 'A' on the assurance that it could meet the entire requirement of the Railways. In the result, this involved an extra expenditure of Rs. 1.69 crores, which would go up to Rs. 1.86 crores, if the committment of firm 'B' for 10 per cent additional quantity is also taken into account.

The Ministry of Railways (Railway Board) maintained (October 1979) that since the entire requirement of Railways could be met by firm 'A' import was not considered incapable even though the price for subsequent purchases was expected to be higher.

(vi) The price of Rs. 2,100 allowed for the contract of 1974 could be justified on the basis of escalation over the previous contract price in the cost of material, wages, etc., upto Rs. 2,202 only. The extra price of Rs. 80 over and above the escalated price as per the previous contract was accepted by the Ministry of Railways (Railway Board) as being due to "unquantifiable factors" *Prima-facie*, the price paid was excessive with reference to the formula then adopted for price fixation.

According to the Ministry of Railways (Railway Board), the difference (Rs. 80) between the revised offer of firm 'A' and the updated last contract price was attributable factors other than escalations in steel, brass and wages which were not considered while estimating the price for May 1974 contract.

(vii) The following further distortions were noticed in the price of Rs. 2,100 per axle bearing settled in May 1974:

(a) The escalation in the price of special class steel was assumed to be Rs. 2,000 per tonne over the previous contracted price. According to the rates of the Mysore Iron and Steel Limited (since renamed Visvesvrayya Iron and Steel Limited—VISL) the rates actually charged by VISL for different specifications of special class steel had increased by a maximum of Rs. 700 per MT since the last contract of August 1972 till May 1974. This could justify an increase of Rs. 31.50 only as against Rs. 90 per axle bearing actually allowed.

According to the Ministry of Railways (Railway Board) December 1979) the basis on which escalation for special steel price was taken as Rs. 2,000 per MT could not be readily traced. The Ministry of Railways (Railway Board) added that on receipt of the audit para, firm 'A' was asked to indicate the prices paid by it to VISL and it furnished copies of two invoices relating to February 1972 and August 1974 which showed an increase of Rs. 2,600 per MT compared to 1973 price.

The invoice of August 1974 could not obviously have been available (March-April 1974) to the Tender Committee at the time of finalisation of the May 1974 contract. Hence there was no justification to allow an increase of Rs. 90 per axle bearing on account of escalation for special steel price (Rs. 2,000 per MT).

(b) An additional escalation of 10 per cent over the last contract price was admittd without spelling out the items for which this was warranted or otherwise justifying the same.

The Ministry of Railways (Railway Board) stated (October 1979) that though reasons for adopting additional 10 per cent escalation in arriving ot price of axle bearing had not been spelt out by the Tender Committee, this was obviously to cater for future escalation in material/wages.

1.16 Financial implication on account of excess price escalation for special class steel (Rs. 58.50), 10 per cent *ad hoc* escalation for unidentified items (Rs. 96) and the increase attributed to unquantifiable factors (Rs. 80) involved an extra payment of Rs. 77.39 lakhs for 33,000 axle bearings ordered on firm 'A' in May 1974.

1.17 The justification given by the Ministry of Railways (Railway Board) is not tenable for the following reasons :

(i) Examination of cost data: Since it was a case of single tender purchase due to monopoly of the manufacturer and the sole tender formed the basis of price fixation, it was desirable for the Ministry of Railways (Railway Board) to get the break up of the cost data.

(ii) Price paid under the contract of 1974: It was untenable on the part of the Ministry of Railways (Railway Board) to maintain that the original tender of Rs. 2,366 (landed price) as against the negotiated price of Rs. 1,824 of firm 'B' represented the true international price.

The fob price *i.e.* excluding customs, insurance and freight of firm 'B' works out to Rs. 1,550 as against Rs. 2,366 (landed price) originally tendered by firm 'B' and Rs. 2,100 negotiated in respect of indigenous firm 'A'.

Again in the absence of cost data and payment of a price higher than the negotiated landed price Rs. 1,824 of firm 'B' it is evident that the reasonableness of the indigenous price of Rs. 2,100 was not established.

(iii) Indigenous price excessive: The fact that the negotiated landed price of firm 'B' viz. Rs. 1,824 (fob price works out to Rs. 1,180) is Rs. 276 only per axle bearing less than the negotiated price of firm 'A' and which is not loaded with customs, insurance and freight establishes that the price paid to firm 'A' was not reasonable.

(iv) Failure to make firm commitment regarding supplies for 1975-76: It was inexpedient and imprudent on the part of the Ministry of Railways (Railway Board) not to have insisted on a firm commitment by the indigenous firm 'A' regarding the price of 25,000 axle bearings to be supplied in 1975-76 keeping in view the fact that the manufacturer who had the monopoly of production was not willing for cost examination and the price asked for and eventually given were comparatively high.

In consequence, the supplier had derived an undue benefit at public exchequer estimated at Rs. 1.69 crores to Rs. 1.86 crores ostensibly from the State policy of import substitution.

(v) Financial benefit derived by the indigenous firm : The price benefit allowed to firm 'A' for unjustified and unquantified increases in the cost of production including escalation in the price of steel amounted in all to Rs. 77.39 lakhs.

1.18 The prices for the orders placed in July 1975 and August 1976 for 42,000 and 45,000 axle bearings respectively, being determined with reference to the base price of Rs. 2,100 settled for the contract of May 1974, allowed the escalations for unidentified items (Rs. 96) and unquantifiable factors (Rs. 80). This benefit would work out to about Rs. 1.53 crores for the supplies under the above contracts.

[Paragraph 10 of the Reports of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Railways)]

1.19 From the information made available to the Committee, it is seen that global tenders were floated in November, 1973 for procurement of 1,04,422 Nos. of 20.3 tonne roller bearing axle boxes after obtaining the permission of the Ministry of Finance. The quantity mentioned represented the uncovered portion of the requirements of axle bearings for the year 1972-73 as well as the full requirements for 1973-74. These were required for wagons to be fabricated upto March, 1976.

1.20 In February, 1974 the requirement of axle bearings was reviewed in the light of the reduced target of wagon production for the years 1974-75 and 1975-76 due to financial constraints. The number of axle bearings required was reduced from 1,04,422 to 66,000 Nos. It was, therefore, decided to procure only 66,000 axle bearings against global tenders opened in December, 1973. The Committee enquired on what basis was the requirements of axle bearings reduced from 1,04,422 to 66,000 and whether this took into account the requirement of wagons for movement of traffic. In a note, the Railway Board have stated:

> "The requirements of 20.3 Ton roller bearing axle boxes were earlier worked out as 1,04,422 upto 31-3-1976; these requirements took into account the completion of wagon orders upto 1973-74 RSP. In January 1974, it became apparent that there will be a constraint in the plan funds for 1974-75 and 1975-76 and therefore, decision was taken to order the requirements of 20.3 Ton roller bearing axle boxes to the extent needed upto 31-3-1976 assuming wagon production level of 14,000 wagons in terms of four-wheelers in each of the 2 years *viz.* 1974-75 and 1975-76. On this basis, the net requirements to be ordered for wagon production upto 31-3-1976 were worked out as 66,000 Nos. These requirements were to be obtained by 31-12-1975 *i.e.* 3 months ahead of the period to which the production requirements related.
>
> The requirements of free supply inputs for wagon building are ordered consistent with the plan allocations and the Railways' requirements from the traffic angle. The revised requirements of 66,000 Nos. were therefore worked out on this basis."

1.21 In response to the global tenders, quotations were received from M/s National Engineering Industries Ltd., Jaipur (Firm 'A') which was the only established indigenous manufacturer, and six other firms including some foreign firms. In its original quotation M/s National Engineering Industries Ltd., Jaipur indicated its ability to meet the entire requirements of the Railways without specifying the quantity offered. However, the Tender Committee which made an assessment of the indigenous capacity recommended that "taking into account the orders already outstanding on M/s NEI, Jaipur and setting apart their capacity to the extent of 7,000 per year for manufacture of roller bearing axle boxes for locomotives and coaches, we can at best consider them only for additional orders to the extent of 41,000 Nos. for this item." The Tender Committee also recommended that the remaining 25,000 Nos. of axle bearings may be imported. On 23 February, 1974, the Railway Board on the basis of the recommendations of the Tender Committee decided that negotiations may be held with M/s NEI, Jaipur (Firm 'A') and M/s Kolmex of Poland (Firm 'B'). In this connection the then Financial Commissioner for Railways minuted :

> "The Tender Committee should naturally give preference to procurement of maximum/all No. from indigenous and rupee-payment source. Therefore, negotiations should be initiated with NEI and Kolmex for settlement of prices at reasonable level."

1.22 As approved by the Railway Board, with a view to procure maximum quantity from indigenous/and rupee-payment sources, negotiations were held with M/s NEI, Jaipur and M/s Kolmex, Poland. M/s NEI, Jaipur were considered for additional orders for 41,000 sets to book the indigenous capacity upto 31 December, 1975 and negotiations with M/s Kolmex of Poland were conducted with a view to obtain maximum reduction in price for an order of 25,000 sets. The Tender Committee, after having negotiations with the M/s Kolmex of Poland, recommended that 25,000 sets of 20 ton roller bearing axle boxes may be orderd on M/s Kolmex of Poland @Rs. 1180/- with an option to increase the quantity by a maximum of 10% by October, 1975. On 5 April, 1974, the then Financial Commissioner for Railways recorded the following note on the relevant file.

"Against our requirement of 66,000 roller bearing axle boxes for the period ending December, 1975, 41,000 units have been earmarked for booking the full installed capacity of NEI. Orders on this Indian firm will be placed as soon as the total capacity available is determined and the question of prices is finally concluded. This leaves a balance of 25,000 roller bearing axle boxes to be covered from imports. M/s Kolmex is the cheapest source of supply and it is accordingly proposed to avail of their offer."

1.23 After having negotiations with M/s NEI, Jaipur on 11 April, 1974, the Tender Committee recommended as under on 27 April, 1974 :

"In view of the above, the following two options are open to us :

(i) We may not import any part of the requirement in view of the latest assurance of the firm to meet our full requirement of 66,000 Nos. may be ordered now on M/s NEI., Jaipur at the negotiated price of Rs. 2100/- each for delivery @ 3,000 Nos. per month, For the remaining 33,000 Nos. we may negotiate with the firm again after 4/6 months for placing a further order. The price for the next order is naturally bound to be higher than the price now quoted by the firm.

(ii) As already recommended 25,000 Nos. assessed as the quantity required to be imported may be ordered on M/s Kolmex, Poland with option clause for additional 10% *i.e.* 25,000 Nos. making the total of 27,500 Nos. at their negotiated price of Rs. 1180/- F.O.B. which works out to landed cost of Rs. 1824/-. Out of the 41,000 Nos. which has been assessed as the realistic capacity of M/s NEI for supply upto December, 1975, 33,000 Nos. may be ordered on them now @ Rs. 2100/- each. Since this price is valid only for 33,000 Nos, this will leave a residual quantity of 5500 Nos. to meet our requirement upto December, 1975. This quantity being small be bulked in our next tender for 1976-77 requirements ".

1.24 Out of the above two options the Tender Committee recommended acceptance of (ii) above for the following reasons :

"The total supplies made by M/s NEI for all items of roller bearings (20 Ton, 22½ Ton and 16 Ton) required for wagon manufacture averaged only about 2990 in 1973-74. There have been frequent failures in supplies, particularly in the case of 16 ton roller bearing axle boxes which necessitated grant of relaxation to M/s Braithwaite to build TORX wagons with plain bearing wheel sets. Inadequate availability of roller bearing axle boxes with Hindustan Steel Ltd., had at times led to hold-up in their production of wheel-sets. Wagon builders have had to resort to stabling of wagons. There have also been frequent complaints from CLW and DLW on the firm's inability to meet their requirements in time. In this background, it would be rather too optimistic to rely entirely on the assurances of the firm for higher rate of production which they have yet to achieve. The assessment already made by the Tender Committee is the realistic assessment in which the progressive attainment of the higher capacity of 60,000 per year has already been taken into account. Based on this assessment, we may consider M/s. NEI/Jaipur only for supply of 41,000 Nos. by December, 1975 after meeting all the other commitments. The remaining 25,000 may be imported. The import of the proposed quantity would also serve as a stand-by arrangement to meet contingencies of setbacks in M/s NEI's production. *force mejeure* circumstances and also would serve as a cushion to meet increased wagon production particularly in the background that some of the wagon building units have recently been revived by the Government. If this parallel arrangement is not made and in case the optimistic expectation of M/s NEI to raise their production does not materialise this would adversely effect wagon production.

Besides, the rate negotiated with M/s Kolmex (Rs. 1180/-*f.o.b.* equivalent to a landed cost of Rs. 1824/-) is substantially lower than M/s NEI's price (Rs. 2100/- exclusive of excise duty, sales tax which will workout to a total price of about Rs. 2340/-. Therefore, it will be in the Railways' interest to procure 25,000 Nos. from M/s Kolmex, as earlier recommended, both from price and delivery consideration.

1.25. On the above recommendations of the Tender Committee, the then Financial Commissioner for Railways minuted as under on 30-4-1974 :

"In a letter dated 23-4-1974, the firm have stated that they will be able to meet the entire requirement till December, 1975 against the tender of 66,000 at the rate of 3,000 per month after meeting commitments against other orders. If this position is acceptable after verification, there is no justification for import of these roller bearings. I can appreciate the reluctance of the firm to quote firm price which would be a ruling rate for nearly two years. The mechanism of fixing a fair price for supplies for a period beyond the current financial year could be gone into by the Tender Committee in consultation with the NEI., Jaipur ."

1.26. The matter was discussed with the representative of M/s NEI on the same day *i.e.* 30-4-1978. After discussion he submitted a letter dated 1-5-1974 according to which the firm has agreed to supply only 33,000 Nos. (by March, 1975) at the negotiated price. During negotiations, on 30-4-1974, the firm's representative (i) expressed inability to increase the quantity (33,000) to be supplied at the price already negotiated ; or (ii) to agree upon any pricing formula for the further quantity (beyond 33,000) to be supplied.

1.27. The Tender Committee considered the matter further and thereafter recommended as under on the 3 May, 1974 :

"The Tender Committee's assessment of M/s NEI.'s capacity upto March, 1975 was based on their licensed capacity of 35,000. Their past performance is also in keeping with the same. It would appear that the installed capacity of the firm's factory is 60,000 but they were licensed to produce only 35,000. The firm have now received a letter of intent for increase of their licensed capacity to 60,000

Nos. In their latest letter dated 1-5-74 they have stated that in view of the recognition of the already existing capacity of 60,000 they have no legal or practical difficulty in manufacturing 5000 Nos. per month. They have given a firm commitment to supply 20-ton roller bearing axle boxes @ 3000 per month after meeting all other requirements of the railways. They will have to live up to this commitment."

1.28. On 3 May, 1974, the then Financial Commissioner for Railways recorded :

"Since *prima facie* indigenous capacity is available, import is not inescapable."

1.29. It is seen that taking into account the past performance of the indigenous firm and the progressive attainment of its higher production capacity of 60,000 nos. per year, the Tender Committee had assessed that it would be able to supply 41,000 axle bearings as against the total requirements of 66,000 nos. decided (February, 1974) for ordering for delivery by December 1975 to meet the needs of wagon production upto 31 March, 1976. The Committee enquired on what basis or proof did the Ministry of Railways (Railway Board) accept the assurance of the indigenous firm that it would be able to meet the entire requirements of the Railways. In a note, the Railway Board have stated :

"The earlier assessment was that NEI/Jaipur would be able to supply 41,000 Nos. of 20.3 Ton roller bearing axle boxes upto December, 1975 against the orders to be placed on the basis of global tender opened in December, 1973. This took into account the supplies of 10584 Nos. against the backlog and thus a total supply of 51,584 Nos. was anticipated to be received from NEI during January 1974 to December, 1975.

The matter was discussed with NEI's representative on 30-4-74 to verify whether they would be in a position to meet the entire requirements of 66,000 Nos. of 20.3 Ton roller bearing axleboxes. During these discussions, NEI confirmed firm commitment to supply 20.3 Ton roller bearing axleboxes @ 3000 Nos. per month after meeting all other requirements of the Railways on the grounds that there would be no legal or practical difficulty in stepping up the supply with the recognition of their licensed capacity to 60,000 Nos. (all types) of axleboxes per annum. It was on this basis that the Ministry of Railways considered that indigenous capacity was *prima facie* available for meeting the requirements in full and therefore, import was not inescapable. Against the order placed in May 1974, NEI supplied 46,902 Nos. of 20.3 ton roller bearing axleboxes during June 1974 to December, 1975. The drop in supplies was partly due to strike in June/July 1974 during which months the rate of supplies was very low. During January 1974 to December, 1975 the total supplies were 57,436 Nos. against the August 1972 contract and May 1974 contract taken together, *i.e.* 6000 Nos. in excess of the earlier anticipations."

1.30. Asked on what considerations the Railway Board's earlier decision to avail the offer of M/s. Kolmex for the balance requirements was changed in a period of 3 weeks, the Railway Board have stated :

"Even though initially a quantity of 25000 Nos. of roller bearing axleboxes was considered to be ordered on import, on the consideration that the indigenous supplier could not meet the requirements fully, this matter was reviewed after NEI's installed capacity of 60,000 roller bearing axleboxes was recognised by the Ministry of Industrial Development. It was considered necessary to make sure whether or not the import could be dispensed with and with this background further discussions were held by the Ministry of Railways with NEI/Jaipur. These discussions revealed that NEI would be in a position to meet the Railway's requirements fully and, therefore, import was not inescapable."

1.31. During evidence the Committee enquired what was the consideration on the basis of which the Railway Board changed its earlier decision to obtain part of the supplies by imports from Polish firm whose price was lower than the price offered by the indigenous firm. The Member Mechanical deposed :

"A number of revisions took place from the time tender was invited to the time order was placed. First and foremost, the requirements came down substantially as a result of the estimate of wagon production having come down. The requirements of bearings at the time tender was floated were 1,04,000. By the time it was finalised, the requirements were brought down to 66,000 because of the low expectation of fund allotment for wagon building programme. During the course of the decision for this contract, the licensed capacity of this firm was enhanced from 35000 to 60,000 per year by the Ministry of Industrial Development. While the wagon building programme was curtailed and therefore, the requirements of bearings were curtailed very substantially, the capacity of this firm was almost doubled. So, the Board found that it was within the firm's capacity to meet the full requirements of the wagon building programme in the new situation."

1.32. The Committee enquired whether there were any policy guidelines under which it was obligatory to place orders on indigenous manufacturers even though the prices quoted by them were found to be higher than the offers from the foreign suppliers. The Chairman, Railway Board explained during evidence:

"Yes, there is a policy guideline not only for the Ministry of Railways but for all the Ministries."

1.33. The Member Mechanical further explained:

"In the Office memo dated 2-11-1970 of the Ministry of Finance it says:

"Care should be taken to see that only those items which are not available indigenously or for which suitable Indian substitutes are not available are imported".

We are aware that no permission to import would be given when sufficient indigenous capacity is available. You raised the question whether price preference was admissible for an Indian party when compared to foreign party. That question would only have arisen when indigenous capacity was not available. Since the Board felt that indigenous capacity was adequate, we had no authority to import the bearings."

1.34. The Committee asked, if the Railway Board had no authority to import the roller bearings in view of the adequacy of the indigenous capacity why were the global tenders invited. The Member Mechanical stated during evidence:

"At that time, in 1973, the estimate of wagon building programme was made for 1974-75 and 1975-76; the estimate was for 1,04,000 bearings. At that time sanction of the Planning Commission had not been obtained, therefore, this could be only an estimate. Since indigenous capacity was not there, it was decided to call for global tenders. One other object was there. The secondary objective was that this would give us an opportunity of testing the prices of indigenous manufacturers."

1.35. Subsequently in a note furnished at the instance of the Committee, the Ministry of Railways (Railway Board) have stated:

"Ministry of Railways had assessed the requirements of 20.3 Tonne roller bearing axleboxes for wagon production upto 31-3-1976 as 1,04,422 and these supplies were required to be made upto 31 December, 1975 so that these could be used in wagons to be manufactured upto 31-3-1976. The only indigenous supplier at that time was M/s. National Engineering Industries, Jaipur. The assessment made before the issue of global tender was that even with the recognition of the firm's installed capacity of 60,000 roller bearing axleboxes per annum, the indigenous availability will fall short of the total requirements of all types of roller bearing axleboxes and that the shortfall in the indigenous availability could be met by resorting to import with this background, the decision for inviting global tenders was taken."

1.36. The Committee desired to be furnished with details of the orders placed on and axle bearings supplied by M/s. NEI, Jaipur since March, 1966. The Committee also desired to know whether all the supplies had been made by the firm within the stipulated time. In a note, the Railway Board have stated:

"Details of orders for 20.3 Tonne Roller Bearing Axleboxes placed on M/s. NEI, Jaipur since March, 1966 are as under:

S. No.	Month of the order	Qty. ordered
1.	March, 1966	36,000
2.	January, 1967	30,000
3.	March, 1968	16,800
4.	January, 1969	4,000
5.	December, 1970	22,352
6.	August, 1972	50,054
7.	May, 1974	33,000
8.	July, 1975	42,000
9.	August, 1976	45,000
10.	October, 1977	62,000
11.	April, 1980	28,000*

*This is Base quantity; additional quantity upto 8,400 can be ordered under the option clause.

While supplies against some of the orders were completed within the stipulated period(s) there was delay of 2 to 6 months in completing supplies against the other orders."

1.37. It is seen that against its assurance to meet the entire requirements *viz.*, 66,000 Nos. the firm could supply only 46,902 Nos. of axleboxes upto December, 1975. The Committee desired to know whether any of the wagons built by the wagon manufacturers/builders had to be stabled for want of axle bearings during 1974-75 and 1975-76 and whether this affected the movement of traffic on the Railways. In this connection, the Railway Board have stated:

"The BOX and CRT wagons were stabled in 1974-75 mainly on account of inadequate supplies of 20-Ton RB wheelsets from Durgapur Steel Plant even though position of 20-Ton Roller Bearing Axle Boxes during certain period also became acute. With the receipt of import supplies of 20-Ton RB wheelsets, the stabled wagons were re-wheeled and only very small number of wagons remained stabled in the closing months of 1975-76, and this too was due to wagon builders' own inability for re-wheeling them expeditiously. The table below indicates the requirements of 20.3 Ton roller bearing axleboxes for wagon production achieved in 1974-75 and 1975-76 and their availability during these 2 years.

Requirements vis-a-vis availability of 20.3 *Ton Roller Bearing Axleboxes*

Year	Stock at the beginning of the year	Actual supplies during the year	Availability for the year (2+3)	Actual consumption	Qty. regd. to release wagons at the close of the year	Total reqts. (5+6)
1974-75	7324	26324	33648	27808	1032	28840
1975-76	4569	33664	38233	26908	144	27052

The table above shows that the supplies of 20.3 Ton roller bearing axleboxes made by NEI, Jaipur were adequate for meeting the requirements during 1974-75 and 1975-76. However, details of wagons stabled during these years mainly for want of 20-Ton RB wheelsets/axleboxes as at the end of each month are tabulated below:

Details of wagons stabled for want of 20-Ton RB wheelsets/Roller Bearing Axleboxes at the close of each month in 1974-75 *and* 1975-76.

Month	1974-75 Type CRT	BOX	Total in terms of 4 wheelers	1975-76 Type CRT	BOX	Total in terms of 4 wheelers
April	100	18	145	212	13	244·5
May	100	23	157·5	224	25	286·5
June	180	..	180	413	27	480·5
July	270	12	300	337	15	374·5
August	331	18	376	355	8	375
September . . .	339	16	379	268	..	268
October	442	10	467	176	9	198·5
November . . .	460	8	480	12C	..	120
December . . .	409	15	446·5	72	..	72
January	355	25	417·5	43	..	43
February	349	41	451·5	39	..	39
March	220	17	262·5	36	..	36

1.38. The Committee enquired whether any complaints had been received from the wagon manufacturers/builders during 1974-75 and 1975-76 for non-supply of axle boxes and whether any damages were claimed on this score by the Wagon manufacturers. The Railway Board have, in a note, stated:

> "The wagon contracts placed against 1972-73 and 1973-74 RSPs were under execution with the wagon builders during the years 1974-75 and 1975-76. In regard to wheelsets, roller bearing axleboxes, centre buffer couplers etc. which are Railway Board's free supply items for wagon manufacture, it had been stipulated in the wagon contracts that these items will be supplied to the wagons builders as and when required in suitable instalments depending upon the actual progress of work, free of cost FOR their works siding. The position of 20.3 Ton Roller bearing axleboxes for wagon building became acute temporarily in 1975-76 and during this period 20-Ton RB wheelsets were also not available adequately. Therefore, the wagon builders were permitted to continue production and stable the wagons for want of wheelsets/axleboxes. It was a condition of the permission granted to the wagon builders that stabling of wagons and their subsequent wheeling/commissioning will be carried out by them at their own cost and without any additional cost to the Railway Board. In view of this condition, no claims from wagon builders for any damages were tenable."

1.39. The Railway Board have stated that the supplies of roller bearing axle boxes made by M/s. NEI, Jaipur were adequate for meeting the requirements during the years 1974-75 and 1975-76. It has also been stated that during two years some wagons had to be stabled. Asked to reconcile the two statements, the Railway Board have in a note, stated:

> "The supplies of roller bearing axleboxes during 1974-75 and 1975-76 were adequate for wagon production during these years. The stabling of wagons was mainly on account of wheelsets. However due to time taken in transit from NEI's Works to Durgapur Steel Plant (where these bearings were mounted on wheelsets)/Wagon builders' works, the physical availability to wagon builders/DSP became acute temporarily. At the close of the year 1975-76, no wagons were stabled for want of roller bearing axleboxes. It was only temporarily for a short period that the position of roller bearing axleboxes had become acute and at that time the wheelsets were also not available which led to stabling of wagons."

1.40. It is seen from the Audit Paragraph that on the assurance of M/s. NEI, Jaipur to meet the entire requirements, the Railway Board decided in May, 1974 not to make any imports. However, out of the total requirement of 66,000 axle bearings, only 33,000 Nos. were ordered on M/s. NEI, Jaipur at the negotiated price and for the balance requirements beyond March, 1975, the price was left to be negotiated subsequently. Since NEI, Jaipur accepted an order only for a part of the Railway's requirement, the Committee asked whether the Railway Board could not import the balance requirement at cheaper rate in 1974 itself instead of reserving the same for ordering on M/s. NEI, Jaipur later as the price for subsequent purchases was expected to be higher. The Railway Board, have in a note, stated:

"Ordering of the part of the requirements of roller bearing axleboxes on import when the full requirements could be met fully by the indigenous supplier, would have been against the Government's decision to make imports when this was not inescapable. Therefore, the question of importing the balance requirements for which price for ordering on NEO was to be settled subsequently, did not arise."

1.41. From the information made available to the Committee it is seen that it was one of the special conditions of the global tender issued in November, 1973 that the Railway Board reserved the right to increase the ordered quantity by a quantity not exceeding 25% on the same price and conditions and it was also mentioned that the purchaser reserved the right to exercise this option before December, 1975. The Committee enquired whether M/s. NEI, Jaipur in its original offer and/or during negotiations agreed or did it object to the inclusion of the option clause in the contract as provided for in the tender conditions. The Railway Board have stated:

"The firm in their original quotation of December 1973 did not categorically indicate acceptance of the tender conditions. During negotiations held on 2-3-74, NEI were requested to consider acceptance of the option clause for increasing the quantity upto 25% during the currency of the contract. NEI, however, did not agree to provision of option clause in the contract. In their negotiated offer, NEI stated that their offer was for a quantity of 33,000 Nos. only. Thus, no option clause was agreed to by them in original offer or during negotiations."

1.42. It is seen that M/s. NEI, Jaipur were requested to consider acceptance of the option clause for increasing the quantity upto 25% during the currency of the contract but they did not agree to this. The Committee asked what were the reasons for agreeing to this non-inclusion of the clause in the contract and whether this did not affect the Railway's interests adversely. The Committee also enquired whether such option clauses for increasing the quantity to be purchased at the discretion of the Railways were included in other contracts with M/s. NEI, Jaipur. In a note the Railway Board have stated:

"Considering the uncertain conditions of spiralling prices prevailing at the time of global tender, NEI had expressed their reluctance for committing the same firm price valid for deliveries beyond March, 1975. They had agreed to hold their firm price valid only for quantity of 33,000 Nos. which could be completed by March/April 1975. It is with this background that they did not agree to inclusion of option clause for ordering additional quantity subsequently at the same price. The Railways availed of NEI's offer fully by ordering full quantity of 33,000 Nos. for which they held their firm price of Rs. 2100/- per roller bearing axlebox valid. Therefore, there is no question of Railways' interest being affected adversely. An option clause for increasing the quantity at Railways' discretion was however included in other contracts with NEI."

1.43. The Committee enquired whether the Railway Board's decision (i) to place order for only a part of the requirements as asked for by NEI at the negotiated price; (ii) not to provide an option clause for additional ordering at the same negotiated price on the ground of NEI not agreeing to such a provision; (iii) to reserve the balance requirements for ordering at a later date at a price to be negotiated afresh as desired by NEI, knowing fully well that price of the subsequent purchase was bound to be higher than that already negotiated; and (iv) not to avail of the cheaper offer of the foreign firm for the quantity which NEI refused to accept at the negotiated price; was in the interest of the Railways. The Railway Board stated:

> "The decision for ordering 33,000 Nos. on NEI/Jaipur in May 1974 contract, for supply upto March, 1975 and for ordering the balance requirements subsequently after negotiating the price afresh was taken in line with the overall decision of the Government for not making imports when these were not inescapable. The subsequent development after opening of the global tender showed that the Railways' requirements will be met fully by indigenous supplies and import was not inescapable. Also since it was not possible to fix a firm price in March/April 1974 which would be ruling rate nearly for 2 years, having regard to the severe inflationary situation then prevailing, only 33,000 Nos. which could be delivered by March 1975 were ordered. The price settled was expected to remain valid only upto March 1975 and the quantity which could be delivered upto this time, had been ordered in the May 1974 contract. In the light of this, option clauses for ordering additional quantity which could be delivered only after March, 1975 was not agreed to by the firm and was, therefore, not provided in the contract. By placing the order on indigenous supplier only, the Railways had acted within the overall decision of the Government. Had the Ministry of Railways availed the cheaper offer of Polish supplier, this would have resulted in gross under-utilisation of NEI's capacity during 1975-76 a situation similar to that which arose as a result of import orders placed in 1966 and which was adversely commented by the PAC (1969-70) in their 116th Report."

1.44. The observations of the Committee to which reference has been made by the Railway Board are contained in para 3.69 of the 116th Report (Fourth Lok Sabha). Commenting on a case of import of roller bearing axle boxes for buffer stock in October, 1966, the Committee had *inter alia* observed as under:

> "The Committee feel that the decision to import roller bearings for wagons was taken without a realistic appraisal of the wagon building programme. The decision to import the roller bearings was based on the calculation that 5,367 wagons (requiring roller-bearing axleboxes) would be produced in 1966-67 and that the requirements of buffer stock of roller bearings for production on this scale could not be met by the existing level of indigenous production. However, at the time of the decision to import the roller bearings was taken (i.e. in October 1966) only 1,838 of BOX, BCX and BRH wagons had been produced. It should have been, therefore, apparent that, in the remaining period of six months in 1966-67, the shortfall in production of wagons was not

likely to be made up. With the prospects of production not coming up to targets, the indigenous producer could, therefore, well have met any requirements for bufferstock."

1.45. As stated earlier out of the total requirement of 66,000 axle bearings, only 33,000 were ordered on M/s NEI, Jaipur in May, 1974. In May 1975, the Railway Board floated a single tender enquiry from this firm for 30,000 nos. of 20.3 tonne axle bearings representing the quantity left uncovered for the wagon production requirements upto March, 1976 (including 5,000 Nos. for maintenance requirements) with the option to order additional 50%. Against this tender enquiry M/s NEI, Jaipur quoted or an order of 42,000 Nos. of axle bearings i.e. 12,000 Nos., in excess of the assessed requirement of 30,000 Nos. by the Railways. It is seen that the Tender Committee had recommended ordering in excess of the assessed requirement on the following consideration:

"In view of the increasing trend of prices and as the prices now offered are firm, it may perhaps be advisable to avail of the firm's offer and order a firm quantity of 42,000 Nos. so that the additional 12,000 Nos. would meet part of the requirements of 1976-77."

1.46. The Committee enquired what was the justification for ordering in excess of the assessed requirements and also desired to know at what level this decision had been taken. In a note, the Railway Board have stated:

"The tender enquiry which was issued in May 1975 was for 30,000 Nos., of 20.3 Ton roller bearing axleboxes with an option clause to order additional quantity upto 50%. This option clause was not accepted by NEI and the negotiated price of Rs. 2500/- per roller bearing axlebox quoted by them was subject to a firm quantity of 42,000 Nos. being ordered on them. The Ministry of Railways decided to avail the firm's offer for additional quantity of 12,000 Nos. over and above the fiim requirements of 30,000 Nos. upto 31 March, 1976. With a view to set off this additional quantity at firm price was taken in the overall administrative interest. Recommendations for ordering firm quantity of 42,000 Nos. were made by the Tender Committee and these were accepted by the Railway Board and the Minister for Railways.'

1.47. It is seen from the Audit paragraph that the price in the first contract entered into with M/s. NEI, Jaipur in 1959 was settled by allowing 25% price preference over the lauded cost of the imported bearing. The price settled in the first contract was treated as the base price in subsequent contracts and escalation was allowed in the price of raw materials, opponents, wages etc. as justified by the firm to the Tender Committee appointed by the Railway Board to negotiate and settle the price.

1.48. From the figures given in the table in para 1.4 above, it is observed that the difference between the rates originally quoted by the fiim M/s. NEI, Jaipur and that finally accepted on negotiation progressively widened from Rs. 32 to Rs. 1000 in respect of the contracts finalised during March, 1968—July 1975. The Committee desired to know what procedure did the Railway Board adopted to verify the quotation of the sole tenderer and ensure that the maximum possible reduction was secured, through negotiations in the price to be paid. The Railway Board have, in a note explained :

"While placing the orders for 20.3 tonne roller bearing axle boxes on the National Engineering Industries (NEI), Jaipur, the Tender Committee quantified the cost escalation since the placement of the previous contract and it is on this basis that reduction in price secured during negotiation was considered as the maximum possible reduction."

1.49. As stated above, the price in the first contract of 1959 was settled by allowing 25% price preference over the landed cost of the imported bearing. The Committee asked whether it was not desirable to reduce over the years the price preference consequent on progressive stabilisation and stepping up of indigenous manufacture leading to lower production costs (over Heads). In a note, the Railway Board have stated :

"The element of price preference in the price fixed in October, 1959 contract placed on NEI/Jaipur is Rs. 68.12. Whent the subsequent contracts were finalised, the price increase allowed to NEI was less than the amount claimed by NEI and therefore, the element of price preference allowed for 1959 contract can be considered to have been gradually eliminated in the future contracts."

1.50. The Audit para states that during negotiations with the firm for fixation of price, the Tender Committee did not call for break-up of the labour and material content of the cost of production. The Committee asked though purchases were made on single tender basis why the Railway Board did not consider it necessary to get the break-up of labour and material contents of the cost of production of axle bearings from the indigenous manufacturer. The Railway Board have stated :

" The price allowed to NEI/Jaipur in various contracts was considered justified on the basis of known cost escalations and also by comparison with the price of imported bearings. In this background, it would appear that the break-up of labour and raw material cost of the price asked by NEI was not considered necessary."

1.51. The Committee also enquired how in the absence of cost analysis, did the Railway board ensure that the prices settled in negotiations for the various orders were reasonable, particulurly after the indigenous production had stabilized. The Railway Board have stated :

"Even though no specific cost analysis based on the actual cost of production of NEI/Jaipur was done, the Tender Committee had from time to time made comparison of the negotiated prices with the prices prevailing in the international markets. In the July, 1969 contract of 20.3 tonne roller bearing axleboxes, the Tender Committee had made a comparison of the negotiated price with the price of the FAG roller bearing (West German Company's product) obtained through the Railway Adviser's Office. Now that more than one source have been established the reasonableness of price now being settled. In that tender opened in December, 1979 for 20.3 tonne roller bearing axleboxes, 3 firms participated and the prices were settled subsequently on the basis of negotiations held with the 3 firms. The price settled for this tender was justified on the basis of the previous contract price and since December 1979 tender was a competitive one, this indirectly establishes the reasonableness of prices settled for the previous contracts."

1.52 It is observed from the Table in para 14 above that the difference in the prices quoted by the indigenous manufacturer and the prices settled after negotiations was marginal till March 1966. However, in the subsequent period *i.e.* since January 1967 after the import of axle bearings was stopped, the increase in the prices under the contracts for the year 1969, 1974 and 1975 went up sharply. The Committee desired to know the reasons for the steep increases in the prices quoted for the contracts for the year 1969, 1974 and 1975 and also asked whether these increases had been analysed by the Railway Board and if so, what were the findings. In a note, the Railway Board have stated :

"The price increases reflected in the contracts. placed in July 1969) May 1974 and July 1975 were justified among other factors, by the cost escalations in the intervening period, since the placement of the previous contract(s). These cost escalations were analysed at that time and the details are furnished in the following paras :

(i) *July* 1969 *Contract* : For this contract, NEI, had quoted comparatively higher price on the grounds that they would manufacture rings within their plant by procuring steel from the indigenous sources. In the past, NEI had been importing rings becuase they did not have the ring rolling plant. With the commissioning of the ring rolling plant in their Jaipur Works, NEI had planned manufacture of these rings in India from steel available indigenously. The extra cost of raw material on account of higher indigenous price of steel per roller bearing was worked out as Rs. 135/. With respect of March 1968 contract price of Rs. 770/- per roller bearing axlebox (exlusive of mounting charges) a price of Rs. 960/- (exclusive of mounting charges) per roller bearing axlebox was allowed in July 1969 ; of the total price increase of Rs. 190/- per roller bearing axlebox increase of Rs. 135/- was justified on account of use of indigenous steel. The balance increase of Rs. 55/- was justified on account of increase in the cost of brass (Rs. 20/-) and wage increase.

(ii) *May* 1974 *Contract* : The price of 20-Ton roller bear axlebox in the previous contract of August 1972 was Rs. 1125/- plus Rs. 15/- as the mounting charges. As against this price of the Rs. 2075/- plus mounting charges of Rs. 25/- was allowed in the May 1974 contract. The Tender Committee had justified the price increase.

As against the cost escalation of Rs. 931/- per axlebox worked out...... the May 1974 contract allowed cost escalation of Rs. 960/-. The difference is due to increase in the cost of various consumables in machine shops etc. Thus May 1974 contract price is justified by cost escalation.

(iii) *July* 1975 *Contract* : With respect of May 1974 contract price of Rs. 2100/- per roller bearing axlebox (inclusive of mounting charges of Rs. 25/-); priced of Rs. 2500/- (inclusive of mounting charges of Rs. 30/-) was allowed in July 1975 contract.

The price increase of Rs. 400/- allowed in July 1975 contract with respect to pay May 1974 contract was justified."

1.53. It is seen that against the global tenders floated in November 1973, M/s. NEI, Jaipur quoted a rate of Rs. 3010/- per unit. After negotiations this rate was ultimately brought down to Rs. 2100/- per unit. Referring to the high price quoted by the firm, the Tender Committee had in a note dated 23rd February, 1974 observed:

"The price quoted by the indigenous manuafcturer is so high that unless he agrees to bring it down to a reasonable level, we may have to think of importing even a larger quantity ignoring his offer."

1.54. After series of negotiations, M/s. NEI, Jaipur furnished revised price of Rs. 2100/- (inclusive of mounting charges) per roller bearing axlebox for the contract placed in May 1974. The Tender Committee updated the previous contract price of Rs. 1140/- (inclusive of Rs. 15/- as mounting charges) and justified a revised price of Rs. 2020/-. The price of Rs. 2020 as justified by the Tender Committee comprised of the following :

Last contract price of roller bearing settled in April, 1972 .	Rs. 750
Increases allowed :	
(i) Brass .	Rs. 60
(ii) Steel . .	Rs. 90
(iii) Labour escalation .	Rs. 60
	Rs. 960
(iv) 10% towards escalation . .	Rs. 96
Total updated price of roller bearing . .	Rs. 1056
Price of axlebox . .	Rs. 935
Mounting Charges	Rs. 25
Total price for roller bearing Axlebox .	Rs. 2016 or 2020

1.55. It is seen that although the Tender Committee could, on the basis of escalations in the prices of raw material and wages, justify a price of Rs. 2020 per unit, the actual price allowed to the indigenous manufacturer was Rs. 2100/-. In their justifications for the acceptance of Rs. 2100/- per unit as a reasonable price, the Tender Committee *inter alia* had observed on 27th April, 1974 :

"It may be stated that the price that can be justified on the basis of last contract price and the current indigenous prices for axleboxes is about Rs. 2020/- . The difference of Rs. 80/- between the price now estimated and that quoted by M/s. NEI which works out to about 4% can be attributed to unquantitiable factors. The firm has already reduced their original quoted price of Rs. 3010/- (Rs. 2980 /- for the Roller bearing axlebox and Rs. 30/- as mounting charges) to their revised price of Rs. 2100/- and their does not appear any possibility of the firm reducing their price any further. The wages as also cost of raw material s are registering sharp rise and the firm will have to maintain the price firm during the contract period which will extended for about 15 months."

1.56. It is seen that for May 1974 contract, the Tender Committee justified a price of Rs. 2020/- per axlebox on the basis of the last contract price and the escalations on raw materials etc. The price actually allowed to the manfuacturer was however Rs. 2100/- per axlebox. Asked how could the Railway Board justify this difference of Rs. 80/- per piece under the normal rules, the Railway Board have stated :

"For examining the reasonableness of negotiated price quoted by M/s. NEI/Jaipur for the May 1974 contract, the Tender Committee updated the August, 1972 contract price of 20.3 tonne roller bearing axlebox by considering the known escalations in cost of account of steel, brass, wages and likely future escalation in the cost of roller bearings. The escalations in the cost of other materials/consumables like grease, cutting oil, tools, grinders etc. during 1972 to 1974 and had not been taken into account by the Tender Committee; the reasons for this is that the effect the increase in the cost of miscellaneous inputs/consumables was not if precise quantification. It was, therefore, considered that the gap between the estimated price (which did not take into account the cost increases of misc. inputs other than steel and brass) and negotiated price quoted by NEI/Jaipur was attributable to the cost of increases of other outputs referred to above. Out of total priced increases of Rs. 960/- quoted by NEI/Jaipur with respect of to the 1972 contract price of Rs. 1140/- per roller bearing axlebox (inclusive of mounting charges) Tender Committee had justified the price increase of Rs. 880/- (*i.e.* upto estimated price of Rs. 2020/- per roller bearing axlebox) on the basis of known escalations in the cost of specified materials alone *viz.* steel brass and wages. Price increase of Rs. 80/- for other misc. inputs which is only 10% of the known cost escalations is considered reasonable and justified."

1.57. In arriving at the justifiable price of Rs. 2020/- per price, the Tender Committee apart from allowing escalations in the prices of brass, steel and labour wages (Rs. 60+Rs. 90+Rs. 60) also added Rs. 96/- for other escalations. As to what were these, other escalation and how or they were justified, the Railway Board have stated.

"The element of Rs. 96/- considered in the estimated price of Rs. 2020/- by the Tender Committee was the future likely escalations in the cost of inputs and wages."

1.58. The Committee enquired whether it was the practice to allow for future escalations while determining the contract price, The Railway Board stated :

"The extent of future escalations allowed while determining the contract price depends upon the manner in which contract price is fixed. Fixed price contracts do provide for certain margin to cater for future escalations.

The price settled for August, 1976 contract was on the basis of marginal reduction of Rs. 25/- with respect to July 1975 contract. Thus the price of Rs. 2475/- was allowed for 36,000 Nos. ordered on NEI/Jaipur in August, 1976 ; however reduced price of Rs. 2450/- was to be applicable for the additional quantity of 9000 Nos. to be ordered under the option clause on the ground that this will enable the firm better capacity utilisation resulting in reduction in the cost of production.

For the contract placed in October 1977 at Rs. 2450/- per roller bearing axlebox, the price of Rs. 2450/- (*i.e.* the same price as applicable to additional quantity ordered against August, 1976 contract) was agreed to by NEI during negotiations.

As regards contract placed in April 1980 for 28,000 Nos. of 20.3 Ton roller bearing axleboxes, the price was updated from the previous contract price and price of Rs. 3050/- allowed to NEI was justified."

1.59. The Committee enquired whether 10% addition in prices on account of future escalation allowed in the May 1974 contract was peculiar to this contract only or similar provisions for future escalations had been made in the earlier or subsequent contracts for supply of axle bearings. In a note, the Railway Board have stated :

"The cushion for future likely escalations allowed in the price estimated by the Tender Committee for comparison with the price quoted by the firm appears to have been considered only for the May 1974 contract, in view of the peculiar circumstances then prevailing. It may be recalled that prices of all inputs rose very sharply consequent to the oil price hike around the end of 1973 and severe inflationary trends continuing at the time global tender for 20.3 tonne roller bearing axleboxes was being finalised. It is with this background that in the exercise made by the Tender Committee for the purpose of examining reasonableness of price quoted by the firm Rs. 96/- per roller bearing as likely future escalation was considered."

1.60. The Committee enquired how in the absence of contemporaneous data in support of unquantifiable increase, the steel price escalation etc. did the Tender Committee/Railway Board arrive at an estimated price which corresponded exactly to the revised offer of Rs. 2100/- of the NEI. The Railway Board stated :

"The Tender Committee estimated the price per roller bearing as Rs. 2020/- on the basis of cost escalations of only limited inputs and wages. They had not estimated the price as exactly Rs. 2100/- as mentioned in this point. On the other hand, they considered that the gap between the estimated price of Rs. 2020/- and the negotiated price of Rs. 2100/- quoted by the firm was on account of the increase in the cost of unquantifiable factors. As regards escalation in the price of steel it is not correct that the Tender Committee/Railway Board did not have the date in support of the increase in price adopted at the time of estimating the prices, it is however different that such date had not been kept on the relevant file. The price increase adopted by the Tender Committee was not more than the actual increase in the price of bearing steel."

1.61. Referring to the 'unquantifiable factors' taken into account by the Tender Committee, the Member Mechanical stated during evidence :

"The Tender Committee has gone on record to say that this difference in price between Rs. 2020 and Rs. 2100 was due to factors unquantifiable. I would just spell out to you that there are certain assumptions and certain figures which are available.

In the Tender Committee proceedings three major factors only could be quantified they are material, steel price and labour. You will admit that in the production of roller bearings many other factors come in. It is again our hindsight-the price of grease has increased resulting in an increase of Rs. 17/- per axlebox. You will remember the prices of oil rose due to a fuel crisis in 1973-74 in the Middle East. We tried to verify what these unquantifiable factors were. Then there are coolants and lubricants which are being used in the manufacutre and we have estimated this also. Their prices went up very substantially. Therefore, we have come up to the conculsion that these are the factors which the Tender Committee summed up by saying that they are unquantifiable. There are many little things which are used in the manufacutre, the accretion of the value of which is very difficult that it has to be rounded of. But these are reasonable assumptions I would submit."

1.62. On being pointed out by the Committee that there must be some normal procedure followed in such cases, the witness stated:

"In these tenders the factors of escalation are spelt out in the contract itself. In this particular case we are trying to adjudge the prices from the last contract price. So no procedure was spelt out.

1.63. As to the rationale of providing 10 per cent increase towards future escalation, the Member Mechanical stated :

"The 10 per cent escalatiom which was provided was for the increase in prices of these very articles. We took up the prices prevailing at the time of entering into the contract. During the execution of the contract we have to provide for the factor that the price will not remain the same."

1.64. Asked whether this 10 per cent escalation was included in any of the earlier contracts, the Member Mechanical stated :

"No, Sir, Once again, as I mentioned, this was a contract in which, whatever decision it was about the price—Rs. 2100 was the price. We have now checked up this factor subsequently.

For present day assessment, we took the labour costs in Rajasthan Area—in the adjoining factory called CIMMCO, a wagon manufacture. Wewas what was the wage escalation in the new factory from 1-4-74 to 1-4-75 during the tenure of the present tender. This was found to be Rs. 136 for the lowest paid worker.

Applying this factor which we apply for this purpose (i.e. 13%) total increase in price, on this account alone would come to about Rs. 85/-. The

Tender Committe had provided for a ten percent escalation which worked out at Rs. 96/- on bearing alone. Today, in hindsight we found that the addition of ten percent was more than justified on wages alone.

1·65. According to Audit para an additonal escalation of 10 per cent over the last contract price was admitted without spelling out the items for which this was warranted or otherwise justifying the same. The Committee pointed out that if future escalation in material/wages had been provided in arriving at the negotiated price, why could the same not be made appplicable to supplies beyond March 1975. The Committee also asked whether such built in cushion for future escalations warranted in view of this substantial difference between the quotation of NEI and the foreign tenderer. The Railway Board have stated :

> "The exercise in updating the prices was undertaken with a view to examine whether the negotiated price of Rs. 2100/- per roller bearing axle box quoted by M/s. National Engineering Industries, Jaipur, could be justified on the basis of known cost escalations and the likely escalations durig the execution of the contract. Margional future cost escalation was catered for in the firm price contract placed in May 1974 having regard to the conditions of runaway inflation obtaining at that time. The quantum of this element was taken as 10 per cent (ad hac) on the cost of bearing alone (not on the complete roller bearing axle boxes). This element of escalation worked out to Rs. 96/- per roller bearing axle box and this was not intended to caster for escalations for supplies beyond March, 1975. Accordingly, the additional requirement for the period beyond March, 1975 could not be ordered on NEI at the negotiate price of Rs. 2100/- per roller bearing axle box."

1·66. The Committee enquired whether the price settled for the indigenous purchase in May, 1974 could be considered reasonable in view of the established international price which was lower by Rs. 276/- per unit and if so on what bais. In a note, the Railway Board have stated.

> "For the price settled for May, 1975 contract, NEI/Jaipur had furnished break up of the price of roller bearing, axle box and mounting cha ges. At that time axle boxes boxe were being pruchased by NEI from outside sources indigenously and among the prices received against the global tender for indigenous axle boxes, NEI'S price of Rs. 935/- was the lowest. Other indigenous offers for axle boxes varied from Rs. 1100 to Rs. 1727/-. The price of complete axle box as settled for 1974 contract placed on NEI/Jaipur compares favourably with the prices of other technically acceptable quotations excluding that of M/s. Kolmex/Poland. The price quoted by Kolmex/Poland was exeptionally low as comapared to the prices of other foreign suppliers mainly because of the large scale maunufacutre and lower levels of wages in Poland. Since the price settled for May 1974 contract compares favourably with the prices of other Foreign Suppliers (excepting Kolmex/Poland) the price settled was reasonable."

1·67. The price of Rs. 2100 per unit allowed to M/s .NEI Jaipur was Rs. 276 more than the landed cost per unit of the ocntemporaneous Polish offer of Rs. 1824. On being asked by the Committee why the difference of Rs. 276 should not be treated as price preference to the indigenous firm, the Railway Board have stated :

> "The negotiated price of Rs. 2100/- per roller bearing axlebox (inclusive of mounting charges) allowed to NEI against May 1974

contract was justified with respect of the last contract price on the basis of cost escalations and was therefore considered reasonable. Due to different manufacturing techniques, scale of production, different raw material prices etc., the price of finished product obtaining in the international markets may not be generally comparable with the price of indigenous product. Therefore, it was not a question of price preference allowed to NEI/Jaipur but order in on the indigenous supplier to the extent capacity was available and price was reasonable.

1.68. The Ministry of Railways (Railway Board) have stated that the price revealed by global tender was made use of while negotiaing the price with the indigenous firm and hence the objective of floating global tender was fully achieved. The Committee enquired what was the basis of the Railway Board's claim that the objective of floating the global tender had been fully achieved, when neither NEI could be persuaded to bring down it quotation to the level of the lowest offer of Kolmex nor the latter's cheaper offer was availed of even for the quantitites which NEI had refused to accept for supply at its negotiated price. The Railway Board have stated :

> "The main objective for floating the global tender was to procure 20.3 tonnes roller bearing axle boxes from import to the extent the indigenous supplier was not in a position to meet the requirement fully. The secondary objective was to judge the reason ableness or otherwise of the rates tendered by M/s. National Engineering Industries/Jaipur On the basis of bids received against the Global Tender, negotiations were held with NEI and M/s. Kolmex (Polish supplier) to bring down the prices. Advantage was thus taken of the international bids in securing a reduction in price from NEI even though the negotiated price quoted by NEI did not match the lowest negotiated offer of the Polish Supplier (M/s Kolmex). To this extent the objective in floating the global tender was achieved."

1.69. During evidence the Committee pointed out that since the M/s. NEI, Jaipur was the only indigenous firm supplying this particular item it could quote any price it liked particularly because it was known that the Railways could buy their requirements only from this firm. In this context the Member Mechanical stated:

> "He tried to do what you suggest, we have our advisers abroad. We have people who can tell us what the price of similar type of bearings is in the Western and East European countries. So, we have been constantly reviewing the prices of bearings and obtaining a quotation from the indigenous supplier whose price may be higher because of the higher cost of raw material available in the country. Thereafter, we were buying through him subject to escalation due to increase in wages and raw materials, when they are substantial. However, he was not able to demand whatever he wanted. I would submit that then also, we had a means of checking his price, as we have in 1980 when two other suppliers are available, in December 1979 when we called for tenders and three firms quoted, this particular firm came out to be the lowest."

He added :

> "There were seven quotations against this tender and we were able to compare indigenous prices with those of other countries also.

The final price we paid, i.e. Rs. 2100 per bearing was considerably lower than any other price except the Polish Price, which was in our opinion somewhat an artificial price in order to come into the market."

1.70 The Railway Board have stated that M/s Precision Bearings India Ltd., Baroda have emerged as the second source of supply of roller bearing axle boxes. The details of order placed on them are as under :

Date of the order	Quantity ordered		Price
	Base qty. in contract	Total enhanced qty.	
20-10-1976	5000	5000	Rs. 2475/- each
29-6-1978	5000	7080	Rs. 2450/- each
4-8-1980	4000	5200	Rs. 3050/- each

1.71 In regard to prices for the orders placed on M/s Precision Bearings India Ltd., the Railway Board have stated that the prices quoted by PBI were always higher than those quoted by NEI and it was only on the basis of their acceptance of the same price as allowed to NEI, that the orders were placed on them. It is to be seen that :

(i) unlike NEI who make their own rolling rings, PBI use imported rolling rings involving payment of freight charges and customs duty,

(ii) the orders placed on PBI in October, 1976 June 1978 and August, 1980 were for 5000 nos. each while the quantity ordered on NEI in August 1976 and October 1977 was 30000 nos. each and 28000 in April 1980 (excluding additional quantity under option clause).

1.72 The Committee pointed out that if the price accepted by PBI was considered adequate to absorb the freight charges and customs duty for imported rolling rings and other developmental expenditure, how could the same price allowed to NEI be held reasonable when for rolling rings manufactured by them no customs duty etc. is involved, besides the bigger size of the orders enabling better capacity utilisation leading to reduced overheads. The Railway Board have stated :

"For manufacture of indigenous bearings, NEI have set up their own ring rolling plant and use indigenous raw material for this purpose. Generally the price of indigenous bearing steel used in the manufacture of rings is higher than the landed cost of imported steel. This is borne out by the comparison of the cost of imported materials and indigenous material furnished in the past by NEI/Jaipur when they set up their own ring rolling plant ; they had at that time explained that imported forged rings even with the element of ocean freight charges and custom duty cost less than the rings produced from the indigenous raw material mainly on account of higher price of indigenous bearing steel. To this extent, PBI are not at a disadvantage, apart from the fact that they have saved substantial investment involved in establishing ring rolling plant.

Since PBI have much lesser installed capacity (5000-7500 Nos. of roller bearing axleboxes per annum) *vis-a-vis* NEI's installed capacity of 6000 roller bearing axleboxes per annum PBI were not at all at disadvantage in regard to capacity utilisation even though the quantum of orders may be less than the quatum of orders on NEI/Jaipur. On the other hand, the orders placed on NEI/Jaipur do not allow them capacity utilisation to the extent the orders placed on PBI would allow to them. As regards developmental expenditure, it is generally the practice with all firms to amortize this expenditure over long period instead of loading the entire expenditure on the first order. With forged rings being an imported item for PBI, developmental activity for them too was of much smaller magnitude. Having regard to these facts, PBI's price is expected to be competitive with the prices quoted by other established manufacturer."

1.73 The Committee have been informed that after a review of the conditions of contract for the purpose of tendering undertaken in the Stores Directorate in 1975, 'book examination' clause was adopted in the tenders issued for Stores Contracts. Asked whether this clause had been invoked in respect of any of the contracts entered into with M/s NEI, Jaipur after 1975, the Railway Board have stated :

"The first contract with NEI in which 'book examination' clause has been stipulated is of October 1977. This clause has not been invoked in respect of contracts with NEI and there is no proposal at present for undertaking cost examination of their product."

1.74 The Committee enquired whether it was not open to the Railway Board to move the Ministry of Industrial Development or the Department of Company Affairs for cost examination of axle bearings produced by the indigenous firm. In a note, the Railway Board have stated :

"The negotiated price of Rs.2100/-per roller bearing axle box quoted by NEI/ Jaipur for the May 1974 contract was considered justified on the basis of previous contract price and the cost escalations. Therefore, the question of cost examination of roller bearing axle box produced by NEI/Jaipur was not relevant.

The question of cost examination would have arisen if the negotiated price quoted by M/s NEI/Jaipur was considered not acceptable by the Ministry of Railways. In that case also, the firm's consent to cost examination being undertaken would have been necessary. When a similar suggestion for cost examination was taken up with NEI/Jaipur at the time of negotiating the prices for an earlier contract (placed in December '70) with the stipulation that the quoted price would be considered as a ceiling price and lower price would be payable if the cost examination revealed a lower price than the contract price, the firm turned down this suggestion as unfair. They had suggested that in the event of cost examination the Railway Board should pay the higher cost if the cost examination revealed the price higher than the contract price. Also there are no legal provision in the Companies Act or in the Industries (D&R) Act under which a company can be directed to furnish the requisite data for the examination of the cost structure. This is the advice which was given to us by the Ministry of Industry in consultation with the Ministry of Law, Justice and Company Affairs when we referred the matter to them for invoking the necessary legal provisions for making available necessary information for cost examination of gases to be supplied by M/s. Industrial Gases to DLW."

1.75 The relevant extracts from the Ministry of Industry's letter dated 1-12-77 sent to the Ministry of Railways (Railway Board) are reproduced below:

"The question raised therein has been examined in consultation with the Ministry of Law, Justice and Company Affairs (Department of Company Affairs) and it is observed that there does not appear to be any provision either in the Companies Act or in the Industries (D&R) Act under which M/s. Industrial Gases Ltd. can be directed to furnish the requisite data/information required by the Chief cost Accounts Officer (Ministry of Finance) for the examination of cost structure of Oxygen and DA gases being supplied to the DLW. The present case does not justify investigation u/s 235 of 237 or the Companies Act, 1956.

In view of the above and the fact that there is a commercial transaction and or agreement between the DLW Administration and M/s. Industrial Gases Ltd., it is suggested that the dispute in question may be resolved by mutual discussions or by filing a civil suit, if necessary."

1.76 The Committee note that global tenders were floated by the Railway Board in November, 1973 for procurement, of 1,04,422 nos. of 20-tonne roller bearing axle boxes after obtaining the permission of the Ministry of Finance. The quantity mentioned represented the uncovered portion of the requirements of axle bearings for the year 1972-73 as well as the full requirements for 1973-74 and these were required for wagons to be fabricated upto March, 1976. In February, 1974. the requirements of axle bearings were reviewed in the light of the reduced target of wagon production for the years 1974-75 and 1975-76 due to financial constraints. As a result of this review the number of axle bearings required was reduced from 1,04,422 to 66,000 Nos. It was accordingly decided to procure only 66,000 axle bearings against the global tenders opened in December 1973.

1.77 The Committee find that in response to the global tenders, quotations were received from M/s. National Engineering Industries Ltd., Jaipur (NEI), which was then the only established indigenous manufacturer, and six other firms including M/s. Kolmex of Poland, whose offer involved foreign exchange on rupee payment basis. In its original quotation M/s. NEI indicated its ability to meet the entire requirements of the Railways without specifying the quantity offered. However, the Tender Committee which was set up by Ministry of Railways (Railway Board) to re-negotiate with the firm, after making an assessment of the indigenous capacity recommended that "taking into account the orders already outstanding on M/s. NEI, Jaipur and setting apart their capacity to the extent of 7,000 per year for manufacture of roller bearing axle boxes for locomotives and coaches, we can at best consider them only for additional orders to the extent of 41,000 Nos. of this item." The Tender Committee also recommended that the remaining 25,000 Nos. of axle bearings may be imported. On the basis of the

recommendations of the Tender Committee, the Railway Board decided on 23 February, 1974 that negotiations may be held with M/s. NEI and M/s. Kolmex of Poland, with a view to procure Maximum quantity from indigenous/rupee-payment sources. After having negotiations with the two firms the Tender Committee reiterated ordering of 25,000 sets of roller bearing axle boxes on M/s. Kolmex of Poland @Rs. 1180/- per unit with an option to increase this quantity by a maximum of 10% by October, 1975. In regard to the placement of orders on M/s. NEI the Railway Board decided on 5 April, 1974 that against the requirement of 66,000 axle boxes, 41,000 units may be earmarked for booking the full installed capacity of M/s. NEI and for the balance of 25,000 units the offer of M/s. Kolmex may be availed of. Orders on M/s NEI were however to be placed as soon as the total indigenous capacity available was determined and the question of prices was finally concluded with the firm.

1.78 After another round of negotiations with M/s. NEI, the Tender Committee recommended on 27 April, 1974 that 25,000 Nos. assessed as the quantity required to be imported may be ordered on M/s. Kolmex of Poland with option clause for additional 10% of 2500 Nos. thus making the total of 27,500 Nos. at their negotiated price of Rs. 1180/- F.O.B. which worked out to landed cost of Rs. 1824/-. The Tender Committee further recommended that out of the 41,000 Nos. which had been assessed as the realistic capacity of M/s. NEI for supply upto December, 1975, 33,000 Nos. may be ordered on them @Rs. 2100/- each. The number to be ordered on M/s. NEI was being restricted to 33,000 as the firm had indicated that in the light of uncertain conditions of rising prices, it was not possible for them to commit deliveries beyond March, 1975 on a firm price basis. The Tender Committee had also minuted that in the light of the past performance of M/s. NEI it would be rather too optimistic to rely entirely on the assurances of the firm for higher rate of production, which they had yet to achieve. Apart from the uncertain position of supplies from the indigenous manufacturer, the Tender Committee also favoured placing of an order for import of 25,000Nos. on M/s. Kolmex because according to them the rate of Rs. 1824 negotiated with M/s. Kolmex was substantially lower than M/s. NEI's price, namely Rs. 2100, exclusive of excise duty, sales tax, which would work out to a total price of about Rs. 2340/- per piece. The Tender Committee had, therefore concluded that "it will be in the Railways' interest to procure 25,000 Nos. from M/s. Kolmex, as earlier recommended both from price and delivery considerations."

1.79 The Committee are surprised to find that as per final decision taken by the Railway Board on 4 May, 1974, order was placed on M/s. NEI only for 33,000 Nos. of axle bearings on the ground that *Prima facie* indigenous capacity was available and import was not inescapable. In arriving at this decision the Railway Board placed reliance on a letter of 23 April, 1974 in which the firm had stated that they would be able to meet the entire requirement of Railways till December, 1975 against the tender of 66,000 axle bearings. In another letter of 1 May, 1974, the firm had stated that in view of the recognition of the already existing capacity of 60,000 they had no legal or practical difficulty in manufacturing 5,000 Nos. of axle bearings per month. Further in the discussion held by the Railway Board with the firm, the firm was stated to have confirmed firm commitment to supply the total requirements of the Railways. Thus on the basis of vague assurances held out by the firm, the Tender Committee's well reasoned recommendations for earmaking only 41,000 axle bearings for supply by the indigenous manufacturer and for availing of a much cheaper import offer of 25,000 axle boxes from M/s. Kolmex of Poland were set aside. That the reliance placed on the indigenous manufacturer was not warranted is borne out by the fact that against its assurance to meet the entire requirment of 66,000 Nos. the firm could supply only 46,902 Nos. of axle boxes upto December, 1975. Although it is difficult to quantify the loss suffered by the Railways on account of the shortfall in the supply of an essential item like axle bearings, the fact has not been denied that the shortage of axle bearings during the relevant period had its impact on the wagon production programme. Further, the procurement of axle bearings at a later stage at a much higher price than that prevailing in 1974 had serious financial implications.

1.80 The Committee find that not only the reliance placed on the indigenous manufacturers was too optimistic, the acceptance of the arrangement under which imports were considered not inescapable involved financial implications of great magnitude. For example, if the Tender Committee's recommendations had been accepted and 27,5000 axle bearings (25,000—2,500 being 10% optional quantity) ordered for import instead of being procured from M/s. NEI, the Railways could have straightway reduced their expenditure by at least Rs. 75.90 lakhs being the difference between the price paid to M/s. NEI and the price at which imports were to be made from M/s. Kolmex. If the elements of excise duty and sales tax payable on the price of the indigenous manufacturer are also taken into account the extra expenditure incurred by the Railways will work out to Rs. 141.90 lakhs on the purchase of 27,500 axle bearings from the indigenous manufacturer rather than importing them from the Polish firm. Further, since the indigenous firm was agreeable initially to enter into a commitment for supply of only 33,000 Nos. at the negotiated price of Rs. 2100 per unit upto March, 1975, the rest of the quantity i.e. 33,000 Nos. were carried over for procurement from the same firm after March,1 975 at a price to be negotiated afresh. These were subsequently procured from the same firm @Rs. 2500 per unit involving an additional expenditure of Rs. 132.00 lakhs for the Railways. Thus, apart from several other drawbacks noticed in the indigenous firms dealings with the Railways, which are discussed in the subsequent paragraphs, the Railway's decision not to go in for imports when indigenous capacity was available has cost the exchequer an additional expenditure of more than Rs. 2.73 crores in this case alone.

1.81 The only argument adduced by the Railway Board for not accepting the cheaper offer of the foreign firm was that "by placing the order on indigenous supplier only the Railways had acted within the overall decision of the Government. It has also been stated that if the Ministry of Railways had availed of the cheaper offer of Polish supplier this would have resulted in gross under-utilisation of NEI's capacity. While not denying the merit of this argument, the fact remains that, firstly, the sole indigenous supplier was not able to meet the full requirement of the Railways and, Secondly, the Railway Board had not been able to effectively utilise the cheaper Polish offer in hand to bring down further the quotation of the indigenous sole supplier. The advice of the Ministries of Finance and Industrial Development had not also been sought, though purchases from a sole supplier were involved.

1.82 The committee feel that this being a very important aspect of the matter should be considered by the Government at the highest level for laying down of procedures for the safeguards necessary in cases where imports are cheaper, but indigenous capacity is available, especially where sole suppliers are involved.

1.83 The other important point raised in the present audit paragraph relates to the question of determining the reasonableness of the price paid to the indigenous manufacturer. It is seen that the price in the first contract entered into with M/s. NEI in 1959 was settled by allowing 25% price preference over the landed cost of the imported bearings. The price settled in the first contract was treated as the base price in the subsequent contracts and escalation was allowed in the price of raw materials, components, wages etc. as justified by the firm to the Tender Committee appointed by the Railway Board to negotiate and settle the prices from time to time. During negotiations the Tender Committee did not call for the break-up of the labour and material content of the cost of production and in the absence of a cost analysis there was no means of ensuring that the prices settled in negotiations for the various orders were reasonable. The Railway Board have stated that even though no specific cost analysis based on the actual cost of production of M/s. NEI was done, the Tender Committee had from time to time made comparison of the negotiated prices with the prices prevailing in the international market.

1.84 It appears that the methodology followed for the fixation of prices payable to M/s. NEI against various contracts has been that being a sole tenderer M/s. NEI were quoting a fairly high price initially which was later on brought down to some extent through negotiations. In the process, perhaps a comparison was also being made with the international market prices during the period upto 1966 when imports were discontinued. The Committee, however, observe that after the imports had been discontinued in 1956 and M/s. NEI had come to occupy the position of a sole supplier of the vital component the whole situation underwent a perceptible change. The bargaining power of the firm had appreciably increased. No wonder the difference between the rates originally quoted by the firm and those finally accepted on negotiation progressively widened from Rs. 32 to Rs. 1,000 in respect of the contracts finalised during March, 1968 to July 1975. Further the difference in the prices finally negotiated for successive orders become more pronounced. Till March, 1966 the difference was marginal but in the subsequent period i.e. since January, 1967, after the import of axle bearings was stopped, the increase in price under the contracts for the years 1969 and 1974 went up sharply.

1.85 The Committee find that against the global tenders floated in November, 1973, M/s. NEI had quoted a rate of Rs. 3010 per unit. Referring to the very high prices quoted by the firm, the Tender Committee had in a note dated 23 February, 1974 observed that "the price quoted by the indigenous manufacturer is so high that unless he agrees to bring it down to a reasonable level, we may have to think of importing a large quantity ignoring his offer." After a series of negotiations M/s. NEI furnished a revised price of Rs. 2100. The Tender Committee after updating the previous contract price of Rs. 1140/- and on the basis of subsequent escalations in the prices of raw material and wages could justify a price of Rs. 2020 per unit but since the firm was adament, it was allowed to get away with a price of Rs. 2100/- in Justification of this, the Tender Committee had recorded that "the firm has already reduced their original quoted price of Rs. 3010/- to their revised price of Rs. 2100/- and there does not appear any possibility of the firm reducing their price any further." This case typifies the manner in which negotiations had been conducted with M/s NEI to bring down highly inflated prices for arriving at reasonable rates.

1.86 A further analysis of the method the Tender Committee adopted in arriving at a reasonable price payable to M/s NEI for the supplies against the contract placed in May, 1974 is all the more revealing. The Tender Committee after updating the previous contract price and after taking into account the escalations in the prices of raw materials, wages etc. since the last contract, justified a price of Rs. 2020/-. The price of Rs. 2020 as justified by the Tender Committee *inter alia* comprised of Rs. 60/- on account of increase in the price of brass, Rs. 90 on account of increase in the price of steel and Rs. 60 on account of wage escalation. Over and above the escalations, an additional 10% or Rs. 96/- was included on an *ad hoc* basis as a provision for future escalation. This provision of Rs. 96/- for future escalation was most unusual in that such a provision had never been made in any earlier contract nor in any contract following 1974. The only justification for making this unusual provision as given by the Railway Board is that "the cushion for future likely escalations allowed in the price estimated by the Tender Committee for comparison with the price quoted by the firm appears to have been considered only for the May 1974 contract, in view of the peculiar circumstances then prevailing". And the "peculiar circumstances" were nothing else but the fact that the Tender Committee was hard put to work out a price which shou'd approximate as far as possible to the irreducible minimum of Rs. 2100/- demanded by the sole indigenous supplier.

1.87 Further, the increase in the price of steel by Rs. 90/- admitted by the Tender Committee cannot be justified on the basis of the known escalation in the price of special class steel. Although the Railway Board have maintained that the price increase adopted by the Tender Committee was not more than he actual increase in the price of bearing steel, they have not been able to produce any contemporaneous record to prove that the Tender Committees estimation of the steel price was justifiable in the context of the then prevailing prices of steel.

1.88 The Committee find that even after considering the known and unknown escalations, the Tender Committee could justify a price of only Rs. 2020/- but in order that the price of Rs. 2100/- dictated by the firm may sound as reasonable, the difference of Rs. 80 between the two prices was attributed to 'unquantifiable factors and justified as a reasonable addition. The gap between the estimated price of Rs. 2020/- and the negotiated price of Rs. 2100/- was thus covered.

1.89 From the facts given in the preceding paragraphs the Committee cannot but conclude that the negotiated price of Rs. 2100/- exclusive of excise duty and sales tax per roller axle box allowed to M/s NEI against May 1974 contract was not justifiable with reference to the last contract price on the basis of cost escalations and could not therefore be considered reasonable. The price could also not be considered reasonable with reference to the established international price. The price of Rs. 2100/-allowed to M/s NEI was substantially in excess of the established international price. Even if a comparison of the price of Rs. 2100 allowed to the indigenous manufacturer is made with the landed cost of Rs. 1824 of the Polish bearing and not with its f. o. b. price which was Rs. 1180, the only indigenous manufacturer's price would appear excessive by at least (Rs. 2340-Rs. 1824) Rs. 516 per unit. The price of Rs. 2100/- could not therefore be considered as reasonable with reference to the international price.

1.90 The Committee are concerned to note that the price of Rs. 2100/- was not only unreasonable with reference to the contract of May 1974, it also vitiated the price structure negotiated for the orders placed subsequently in July 1975 and August, 1976 for 42,000 and 45,000 axle bearings respectively. This is so because prices for these contracts had been determined with reference to the base price of Rs. 2100, which comprised of unjustified escalations on account of unidentified items (Rs. 96) and unquantifiable factors (Rs. 80). It has been worked out by Audit that the extra benefit derived by the manufacturer amounts to Rs. 1.53 crores for the supplies under the above contracts.

1.91 The Committee cannot but conclude that M/s NEI have exploited their position of a monopoly indigenous supplier and have derived maximum benefit at the cost of Railways. During the course of evidence before the Committee when it was pointed out that since M/s NEI was the only indigenous firm supplying this particular item, it could quote any price it liked, the Member Mechanical candidly admitted: "He tried to do what you suggest." He however added that "he was not able to demand whatever he wanted."

1.92 The Committee find that not only the indigenous firm had been dictating their terms in so far as the price fixation was concerned, they had been taking undue advantage of their position in influencing the Railway Board's decision. For example, after it had been decided to dispense with the imports and place the order for the total requirements of 66,000 Nos. of axle boxes on the indigenous firms, the firm stipulated that in the first instance it could accept an order of only 33,000 Nos. on a firm price basis. The Railways did oblige the firm and agreed to place an order of 33,000 Nos. Knowing Fully well that prices were likely to be higher when subsequent orders were to be placed. Further even though M/s NEI were requested to consider acceptance of the option clause, as stipulated in the tender conditions. No option clause was agreed to by them in original offer or during negotiations. Again, against the single tender enquiry floated in May, 1975 for procuring 30,000 Nos. of axle bearings representing the quantity left uncovered for the wagon production requirments upto March 1976, the firm quoted for an order of 42,000 Nos. of axle bearings i.e. 12,000 Nos. in excess of the assessed requirements of the Railways.

In this case also the Railways could not but accept the stipulation laid down by the firm and placed an order for 42,000 Nos. This decision has now been justified on the ground that it was in the "overall administrative interest". The Committee are only intrigued at the undue indulgence shown to the firm from time to time.

1.93 Another important point that came to the Committee's notice was that as far back as 1970 the Tender Committee had made a suggestion to M/s NEI, while negotiating the prices for the contract placed in December 1970, that the price offered by them could be considered subject to the cost examination during the currency of the contract and that lower price would be payable if the cost examination revealed a price lower than the contract price. M/s NEI however turned down this proposal as fair and suggested that in the event of cost examination being agreed to, the Railway should pay the higher cost if the examination revealed a price higher than the contract price. The Committee are at a loss to understand why such an offer was not accepted by the Railways. Apparently, they yielded to the threat of higher price held out by the indigenous manufacturer. Availing of this offer would at least have established in a decisive manner the reasonableness of the price being paid to the manufacturer.

1.94 It is also seen that a book examination' clause has been stipulated for the first time in the contract of October 1977 entered into with M/s NEI. The Railways however have no proposal at present for undertaking cost examination of their product even now. This sounds estounding.

1.95 The above paragraphs no doubt make an unsavoury reading The Committee cannot but express their displeasure on the undue indulgence shown to this firm all along. They recommend that the whole matter may be enquired into by the Cost Accounts Organisation of the Ministry of Finance to determine what should have been the reasonable price legitimately payable for the products of this monopoly supplier after taking into account the break-up of labour and material contents of the cost of production of the manufacturer. If the enquiry reveals that the prices paid to the manufacturer were not reasonable and the manufacturer had derived undue benefit, responsibility therefor, should be fixed on the officers concerned.

CHAPTER II

PROCUREMENT OF CENTRE BUFFER COUPLERS AND CLEVISES

Audit Paragraph

2.1. On the basis of the quotations received (October 1973) for procurement of 18,872 (later in March 1974 reassessed as 9,000) light weight centre buffer couplers (coupler), the Tender Committee appointed by the Ministry of Railways (Railway Board) recommended (March 1974) the procurement from two firms 'A' of Bombay and 'B' of Calcutta at a negotiated price of Rs. 4,000 per coupler subject to the condition that the Railways would issue 560 kg. of scrap per coupler on payment basis. The committee also recommended the procurement of 50,000 clevises (a component of the coupler) at a negotiated price of Rs. 150—187 per clevis with a similar stipulation of Railways' supplying scrap at the rate of 22 kg. per clevis on the same payment terms. The Ministry of Railways (Railway Board) approved the placement of orders in October 1974 and accordingly the following contracts were awarded:

Firm	Quantity		Date of contract
	Couplers	Clevises	
Firm 'A'	3,000	15,000	7th February 1975
Firm 'B'	7,500	35,000	21st January 1975

2.2. The contracts stipulated the following condition regarding the issue of scrap by the Railways :

> "Scrap @ 560 kg. per coupler and 22 kg. per clevis will be issued in a mix of 60 per cent heavy melting scrap and 40 per cent turnings and borings at the rate of Rs. 600 and Rs. 400 per tonne respectively ex-Railway Scrap Depots Calcutta/Greater Calcutta/Bombay/Greater Bombay and the issue of such scrap will be regulated on a quarterly basis against full payment by the Contractor."

2.3. Similar stipulation was being included in the contracts since 1974, in the light of the suppliers expressing difficulty in getting melting scrap from the open market. The intention behind the issue of scrap to these firms on payment of a fixed rate of Rs. 600—Rs. 400 was to delink the contract with any fluctuation in the price of scrap in the open market and accordingly the price of Rs. 4,000 per coupler and Rs. 150—187 per clevis was worked out on the basis of scrap price (Rs. 600 per tonne for heavy melting scrap and Rs. 400 per tonne for turnings and borings) indicated in the contract. Both the firms 'A' and 'B' in their tenders stated that their tender rates were based on the assumption that the scrap would be available to them during the period of contract at the rate of Rs. 600 per tonne for heavy melting scrap and Rs. 400 per tonne for turnings and borings and that the Ministry of Railways (Railway Board) would arrange supply of scrap. This was to be a part of the contract.

2.4. The firms supplied the couplers and clevises during the period indicted in brackets below :

Firm	Couplers	Clevises
Firm 'A'	3,000 (April 1975—November 1975)	15,000 (February 1975—June 1976)
Firm 'B'	7,500 (March 1975—October 1976)	35,000 (January 1975—October 1977)

2.5. Firms 'A' & 'B' did not obtain any scrap from the Railways for manufacturing and supplying couplers and clevises.

2.6. It was noticed by Audit that there had been a decline in the price of melting scrap during the period 1974-75 to 1975-76 as indicated in the table given below :

(In Rs. per tonne)

Date	Western Region (Bombay)		Eastern Region (Calcutta)	
	Heavy Melting Scrap	Turnings and Borings	Heavy Melting Scrap	Turnings and Borings
1-4-1974 . .	1,050	800—	N.A.	N.A.
1-7-1974 .	970	750—800	875	675—725
1-10-1974	815	600—650	815	550—600
1-1-1975 .	540	350—400	600	350—400
1-4-1975	425	300—350	475	330—350
1-7-1975	455	300—350	470	325—375
1-10-1975	455	300—350	465	325—375
1-1-1976 . .	415	275—325	415	275—325
1-4-1976 . .	550	350—400	550	350—400
1-7-1976	625	400—450	640	425—475

2.7. The Ministry of Railways (Railway Board) stated (November 1979) that both the firms 'A' & 'B' did not avail of the facility of issue of heavy melting scrap and turnings and borings from the Railways against the contract for coulpers/clevises placed in January/February 1975.

2.8. The following points need consideration in this case :

(a) Under an earlier contract (May 1974) for supply of couplers, firm 'A' had accepted heavy melting scrap (466 tonnes) and turnings and borings (150 tonnes) from the Railways at the stipulated price of Rs. 600/400 per tonne. Similarly firm 'B' also accepted heavy melting scrap (433 tonnes) at the stipulated price against their earlier contract (April 1974). During that period, the market price of scrap was higher than the price fixed under the contract for Railway supply and had just started declining.

(b) Firms 'A' and 'B' took advantage of the fall in the market price of heavy melting scrap and turnings and borings by not obtaining supply of scrap from the Railways as stipulated in the contracts (January/February 1975). They however, obtained payment for the supplies of coupler/clevises at the rates stipulated in the contracts which had been fixed taking into account a higher price (than the market price) for the scrap. The benefit derived by them amounted to Rs. 7.71 lakhs.

(c) While the conditions of the contract protected the interest of firms 'A' and 'B' from fluctuations in scrap prices above the level of Rs. 600/400 per tonne, no such safeguard was ensured to protect the interest of the Railways from similar fluctuations bringing scrap prices below the level stipulated in the contract.

[Paragraph 12 of the Report of the Comptroller and Auditor General of India for the year 1978-79 Union Government (Railways)]

2.9. From the information made available to the Committee, it is seen that in the contracts entered into which firm 'A' (M/s. Bhartia Electric Steel Co. Ltd., Calcutta) on 21-1-1975 and with Firm 'B' (M/s. Mukand Iron and Steel Works Ltd. Bombay) on 7-2-1975, the following stipulation regarding supply of scrap by the Railways had been made :

"Scrap @560 Kgs. per coupler and 22 Kgs. per clevis will be issued in a mix of 60% heavy melting scrap and 40% turnings and borings at the rate of Rs. 600/- and Rs. 400/- per tonne respectively *ex* Railway Scrap Depots Calcutta Bombay and the issue of such scrap will be regulated on a quarterly basis against full payment by the contractor."

2.10. The Committee enquired why was this provision regarding supply of scrap to the manufacturing firms made and what advantage was sought to be secured by the Railways by providing scrap assistance to the manufacturers at pre-determined rates. The Member Mechanical, Railway Board stated during evidence :

"There was no advantage or disadvantage to the Railways. We were interested in getting contract fixed for the supplies. The suppliers indicated that they had been experiencing difficulties in obtaining scrap from the market and the question was since they were to quote fixed price for their supplies, other than wage escalation, they should be given raw materials like scrap steel at the fixed price. So, this clause was incorporated so that we could get the fixed price for this."

2.11. On being asked as to what would have been the result if the Railways had not agreed to the manufacturers' request for supply of scrap, the witness stated :

"The suppliers would have not taken the risk and would have provided for a possible escalation in the value of scrap and stepped up the price of couplers and we would have to pay more than what would have normally been paid by the Railways. We would have paid much higher price for the final articles and basically there was not so much competition between the firms."

2.12. Subsequently in a note furnished at the instance of the Committee, the Railway Board have stated:

"Ministry of Railways agreed to provide scrap assistance to the coupler manufacturers against January/February 1975 contracts, because scrap assistance was one of the conditions of their offers for supply of Centre Buffer Couplers. The objective was to keep the prices of Centre Buffer Couplers to the minimum possible level."

2.13. According to the Audit paragraph the contracts entered into with the coupler manufacturers from 1974 and onwards provided for supply of heavy melting scrap and turnings and borings by the Railways to manufacturers in the ratio of 60:40 at fixed rates. Asked on what considerations or basis was such a stipulation provided in the contracts, the Railway Board stated:

"Stipulations made in coupler contracts placed in 1974 and onwards for issues of scrap in 60:40 mix of heavy melting and turnings & borings were on the basis of conditions stipulated by the firms in their offer for supply of couplers. Earlier too, scrap was issued to M/s. Bhartia for manufacture of bogies against November 1972 contract since they had made such stipulation in their negotiated offer."

2.14. The Committee desired to know whether the provision for scrap assistance by the Railways in the contracts with the coupler manufacturers was made after consultation with the concerned Zonal Railway Administrations regarding availability and price of heavy melting scrap and turnings and borings. In a note, the Railway Board have stated:

"The Zonal Railways were not consulted while placing the coupler contracts in regard to the availability of scrap. This is because there are regular arisings of melting scrap and turnings and borings and therefore, the requirements under the contract were expected to be met by the Railways. Also the Railways do not appear to have been consulted as regards the price of heavy melting scrap and turnings and borings."

2.15. As to the basis for the fixation of the rates for heavy melting scrap and turnings and borings at Rs. 600/- and Rs. 400/- per tonne respectively, the Railway Board, in a note, stated:

"The basis for adopting the scrap prices of Rs. 600/400 per MT of heavy melting scrap and turnings and borings for the April/May 1974 contract is the earlier contract placed in November 1972. For November 1972 contract, the scrap prices were taken as Rs. 600/-per tonne and Rs. 350/- per tonne of heavy melting and turnings and borings respectively for the purpose of fixing the coupler price. For April/May 1974 contract the prices quoted by the firms for scrap were accepted and the coupler price was accordingly worked out on the basis of scrap prices of Rs. 600/- per tonne and Rs. 400/-per tonne of heavy melting and turnings and borings respectively. The stipulations made in April/May 1974 coupler contract were extended to the contracts placed in January/February 1975."

2.16. It is seen from the Audit Paragraph that the coupler manufacturers had in their tenders stated that their tender rates were based on the assumption that the scrap would be available to them during the period of contract at the rate of Rs. 600/- per tonne for heavy melting scrap and Rs. 400/- per tonne for turnings and borings and that the Ministry of Railways (Railway Board) would arrange supply of scrap. The Committee enquired whether in the Railways stores/depots, melting scrap was classified separately as "heavy" and "light" and accounted for accordingly and if not, how was the issue of scrap of the specified grades under the contracts expected to be regulated. In this connection, the Railway Board have stated:

"In the Railway Stores Depots, melting scrap is not classified as "heavy" and "light". The melting scrap which is issued to the coupler manufacturers is other than cast iron, industrial and rerollable scrap. Generally the lots which are offered are those which have less inherent value than others. Also thin sheets upto 2 mm thickness and Bitumen/asphalt contaminated scrap are excluded from the melting scrap issued to the coupler manufacturers because inclusion of these items affects quality of couplers."

2.17. The quantities of melting scrap and turnings and borings obtained by the coupler manufacturers from the Railways against the contracts placed in 1974 and the subsequent contracts, as furnished by the Railway Board, are given below:—

(a) Details of scrap drawn by M/s. Bhartia Electric Steel Co.

(i) April '74' contract

Month	Quantity lifted by the firm	
	Melting Scrap	Turnings & Borings
	(In MT)	
February 1975	114.310	Nil
March 1975	85.030	Nil
April 1975	67.326	Nil
May 1975	48.080	Nil
June 1975	78.920	Nil
July 1975	38.480	Nil
TOTAL	432.146	Nil

(ii) *January 1975 Contract*

No scrap was obtained by the firm against the coupler contract but for clevis for which orders were to be placed by the Zonal Railways, the firm purchased 110 MT of melting scrap from Northern Railway.

(iii) *October, 1976 and March 1977 contracts*

Month	Quantity lifted by the firm	
	Melting Scrap	Turnings & Borings
	(In MT)	
July 1977 to April 1979		
TOTAL	1927·336	1733·120

(iv) *April* 1978 *Contract*

Month	Quantity lifted by the firm	
	Melting	Turnings & Borings
	(In MT)	
January 1979	15.980	
March 1979	244·833	178·370
April 1979 . . .	5·170	90.430
May 1979	163·990	30·310
June 1979	116·970	100.690
July 1979 .	3·060	
August 1979 .	184·120	141·740
September 1979	71·480	28.660
TOTAL . .	805.600	570·400

(v) *August, 1979 Contract*

Month	Quantity lifted from S.E. Rly.		Quantity lifted from E. Rly.	
	Melting	Turnings & Borings	Melting	Turnings & Borings
	(in MT)			
October 1979	21.80	..	..	..
November 1979	177.995	150.000	86.540	..
April 1980	139.600	150.00	86.540	..
May 1980	97.20	85.680	162.270	..
June 1980	64.890	41.320	232.400	59.220
July 1980	113.310	..	120.060	330.060
August 1980	283.200	179.420	..	48.070
TOTAL	897.995	606.420	601.270	437.350

Further quantities of scrap against August '79 contract are still in progress.

(b) Details of scrap drawn by M/s. Mukand Iron & Steel Works

Month	Quantity lifted by the firm	
	Melting	Turnings & Borings
	(In MT)	
February 1975	93.180	..
March 1975	37.740	18.980
April 1975	69.080	42.100
May 1975	..	35.720
June 1975	..	..
July 1975	153.900	..
August 1975	12.100	..
September 1975	43.140	3.110
December 1975	56.860	50.090
	466.000	150.000

(ii) *February*, 1975 *Contract*

No scrap was obtained from the Railway against this contract by M/s. Mukand.

(iii) *October*, 1976 *Contract*

No scrap was obtained from the Railway against this contract by M/s. Mukand.

(iv) *March* 1977 *and April* 1978 *Contracts*

Month	Qty. lifted by the firm from Central Rly.		Qty. lifted by the firm from S.E. Rly.	
	Melting	Turnings & Borings	Melting	Turnings & Borings
	(in metric tonnes)			
January '79 to March '80				
TOTAL	1685.140	281.000	..	512.000

(v) *August*, 1979 *Contract*

Month	Quantity lifted by the firm	
	Melting	Turnings & Borings
	(in Mts.)	
February 1980	91.200	..
March 1980	121.350	169.807
April 1980	269.990	85.848
May 1980	50.000	78.370
June 1980 .	68.350	142.164
July 1980 . .	198.920	93.410
August 1980 . .	83.750	42.857
	883.560	612.456

2.18. It is seen from the details given in the above Tables that the coupler manufacturers did not draw any scrap from the Railways for their contracts of January, 1975/February 1975 although they had been obtaining large quantities of scrap from the Railways during their contracts prior to and subsequent to 1975. The Committee desired to know whether the non-drawal of scrap by the manufacturers against the 1975 contract was attributable to the lower market price prevailing during the execution of the contract. In a note the Railway Board have replied :

"The non-drawal of scrap by the firm was mainly due to availability of scrap in the market at nearly the same price at which assistance from Railway was available etc. In fact one of the firms has advised that they procured scrap from the market at prices which averaged over Rs. 600/ Rs. 400 per tonne of Melting Scrap and Turnings & Borings respectively."

2.19. In another note, the Railway Board have stated :

"One of the firms (M/s. Bhartia Electric Steel Co. Ltd., Calcutta) had obtained part of their scrap requirements from the Railways against January 1975 contract. For the balance requirements of scrap, they had procured the same from the market at nearly the same prices at which assistance was available from the Railways. The firm have furnished audited figures of purchase of scrap from the market at average price of Rs. 647/- Rs. 708/- per tonne of turnings and borings in 1975-76. M/s. Mukand purchased only turnings and borings scrap from the market and used alongwith their own foundry arisings for coupler manufacture. As per figures furnished to the Ministry of Railways duly audited, M/s. Mukand purchased scrap during the period of coupler supplies (March to October 1975) at an average price varying from Rs. 361.32 per tonne to Rs. 504.38 per tonne. The weighted average price works out to Rs. 439/- per tonne and this includes sales tax and transportation element of Rs. 22/- per tonne. Apparently, the reason for non-drawal of scrap by the coupler manufacturer was their ability to procure scrap from the market at about the same prices at which assistance from the Railways was available."

2.20. During evidence the Committee enquired why should the manufacturers pay a higher price in the market for purchase of scrap when scrap could be obtained by them from the Railways at a lower price. To this the Member Mechanical replied :

"The type of scrap we sell is different from the type that they would have bought from outside. We sell it in mixed condition. It requires double purification before it can be used, whereas the scrap from outside is segregated and the price varies according to the extent of segregation that has been carried out."

He added :

"The actual prices were not very different from what we had offered to sell. The difference is Rs. 2/- per tonne in some cases. What has happened is that sometimes they found it more convenient to purchase from other sources. For example, Mukand works are far away from the railway factories; they would add transport charges and then work out. The fact that they did not buy from us did not necessarily result in a loss to them. We auction the scrap in the condition in which it is collected. We try to segregate it as far as possible, but in the market, they segregate it and generally classify in two categories, melting scrap and turnings and borings. If turnings and borings are allowed to remain in rain etc. iron gets oxidised and the value falls."

2.21. The Committee pointed out that the quotations of the firms for supply of couplers and clevises were based on scrap assistance by the Railways. In view of this the firms should have obtained the scrap from the Railways in terms of the 1975 contracts. Explaining the reasons why the firms did not obtain heavy metlting scrap and turnings and borings from the Railways, the Railway Board have, in a note, stated :

"One of the firms (M/s. Bhartia Electric Steel) approached the Railway and obtained part requirements of scrap for manufacture of clevis against January 1975 contract. For balance requirements of scrap for clevis & coupler manufacture, the firm did not obtain scrap from the Railway presumably because they were able to procure from the market at nearly the same prices at which assistance from Railways was availbale. They have advise us that they procured scrap from the market at average price of Rs. 647/- Rs. 708 per tonne of Melting Scrap and Rs. 402-/ Rs. 454 per tonne of Turnings & Borings in 1975/1976. The Other firm (M/s. Mukand Iron & Steel) have informed that the non-drawal of scrap against February 1975 contract was due to continued non-availability of scrap of requisite quality in the Railway depot, which had stock of light corroded melting scrap. They have stated that the light corroded melting scrap required extensive processing before use and was, therefore, not obtained by them for coupler/clevis manufacture.

The facts, however, are that the firm did not approach the Railway for issue of scrap against February 1975 contract during the period of execution of contract and if they had approached the Railway in this period, the requisite category of scrap, to the extent available in the nominated Railway, could have been issued to them."

2.22. In another note in the same context the Railway Board have stated:

"For obtaining the scrap from the Railways, the coupler manufacturers have to follow the prescribed procedure and if the scrap is available from the market at the same price or marginally higher prices than at which the firm can obtain from the Railways, they would as a matter of convenience/prefer purchase of scrap from market. This appears to be the reason for their not obtaining the scrap from the Railways."

2.23. According to the Audit paragraph the market prices of scrap ruling at the time of execution of the contracts were lower than those which had formed the basis of the contract price. The Committee enquired whether the Railway Board had satisfied themselves that the firms had not purchased the scrap at the ruling lower market price and derived the benefit of lower price. The Railway Board have stated:

"The prices at which scrap was obtained by M/s. Bhartia/Mukand during period of execution of the January/February 1975 coupler contracts have been furnished by them duly audited. Since these prices have been furnished duly audited, these can be relied upon."

2.24. The copies of the certificates from the charted Accountants of the respective firms, as furnished by the Railway Board, are dated November and December 1980, *i. e.* immediately before the PAC meeting (4 December, 1980), while the contract in question were completed about 5 years ago in November, 1975. According to the audited figures, the firms purchased the scrap from the market generally at prices higher than those at which the same would have been available from the Railways.

2.25. The Committee enquired would not the fact that M/s. Mukand Iron & Steel did not approach the Railway for scrap supply, suggest that it had purchased the scrap from other than Railway sources to derive the benefit of lower market price, in the absence of any contract stipulation requiring such benefit to be passed on to the Railways. To this, the Railway Board have replied:

"Even though M/s Mukand Iron & Steel had not approached the Railways for issue of scrap against February 1975 contract, they have subsequently clarified that they used their foundary arisings instead of purchasing heavy melting scrap from the market. For the turnings & borings purchased by them, the audited statement of prices at which they purchased has been given. The weighted average price of these purchases, however, shows that they did not derive any benefit except perhaps to the extent of convenience of purchase from the market by not availing the scrap assistance."

2.26. The Committee desired to know the scrap price in the market at the time of entering into contracts with the coupler manufacturers. In a note the Railway Board have stated:

"Offers for placement of orders for couplers were made to the firms in October 1974 and the contracts were placed on the coupler manufacturers in January/February 1975. The scrap prices of heavy melting scrap and turnings and borings as obtained from Metal Scrap Trade Corporation, Calcutta, for these months are indicated below:

Month	Heavy melting scrap		Turnings and Borings
	No. 1	No. 2	
October '74	Rs. 800—850	Rs. 775—825	Rs. 550—600
January '75	Rs. 650—700	Rs. 500—550	Rs. 350—400
February '75	Rs. 625—675	Rs. 475—525	Rs. 350—400

The prices mentioned above do reflcet trend in the prices, but these prices cannot be taken as the prices of scrap purchased by the coupler manufacturers from the market."

2.27. In reply to a question whether the Railway Board was not aware of the slump in scrap price from April, 1974 and onwards, the Railway Board have stated :

"The aspect of slump in scrap prices from April 1974 and onwards does not appear to have been deleberated. It is now noted that the scrap prices had declined gradually from April 1974 onwards, but till December 1974/January 1975 the prices had not fallen below Rs. 600/- per tonne and Rs. 400/- per tonne of melting scrap and turnings & borings respectively."

2.28. As the prices of coupler and clevis as settled in March, 1974 on negotiation were based on the supply of scrap by Railways at predetermined rates, the Committee asked whether it was not desirable to negotiate the coupler/clevis price, consequent on the scrap price falling below what had been indicated by the manufacturers in their quotations, before finalising the contracts (which were signed only in January/February 1975). The Railway Board have stated :

"For the placement of contract in January '75/ February '75, the information on prices relating to Dec. '74 at best would have been available to the Ministry of Railways and the prices for this month also, as obtained from the Metal scrap Corporation, were over/ around Rs. 600/- and Rs. 400/- per MT. In the circumstances, the question of negotiating the coupler/clevis price before the placement of contracts in January/February '75 could not have arisen."

2.29. It has been stated that for April/May, 1974 contracts the coupler price was worked out on the basis of the scrap prices of Rs. 600/- per tonne of heavy melting and Rs. 400 /- per tonne of turnings and borings and that these stipulations were extended to the subsequent contracts of January/February, 1975. The Committee enquired whether it was not imperative to make suitable provision in the contract for reworking out the coupler price in the event of the market prices of scrap falling below those stipulated in the contract and the firms net lifting railway scrap at the contract price. To this the Railway Board have replied :—

"The Ministry of Railways did not anticipate that there will be fluctuations in the scrap prices leading to a situation when coupler manufacturers may not avail scrap assistance from the Railways. This appears to be the reason for not providing suitable clause in the contract in the event of fall in the price of scrap. In any case, the coupler manufacturers did not purchase the scrap from the market at prices lower than Rs. 600/- Rs. 400/- per MT of heavy melting scrap and turnings and borings respectively at which assistance was available from the Railways. With Railways' experience of operation of scrap assistance clause in the previous contracts, a stipulation was made in 1980 contracts that in the event of scrap being procured by the coupler manufacturers from the other sources at lower prices, the benefit of lower prices, will accrue to the Railways.

2.30. The Committee enquired whether the absence of a suitable provision in the contract to safeguard the interest of the Railways on account of fall in scrap prices during the currency of the contract should not be viewed as a deficiency in the contract provision. In a note, the Railway Board have stated :

"The supplies against coupler contracts are normally spread over a period of about one year and it is generally expected that there would be no violent fluctuations in scrap prices during the period. Besides, coupler manufactuers were expected to avail the scrap assistance from the Railways. Therefore, no price variation clause in the event of fall in scrap prices in the market was stipulated in the contracts."

2.31. It was stated during evidence before the Committee that no loss was incurred by the Railways on account of the fall in the market price of the scrap. However, according to Audit paragraph the manufacturing firms took advantage of the fall in the market price of heavy melting scrap and turnings and borings by not obtaining supply of scrap from the Railways as stipulated in the contracts. But on the other hand they obtained payment for the supplies of couplers/clevises at the rates stipulated in the contracts which had been fixed taking on account a higher price (than the market price) for the scrap. The benefit so derived by the firms had been calculated by Audit to be Rs. 7.71 lakhs. In this connection, the Railway Board have, in a note furnished at the instance of the Committee, explained :

"The 'benefit' computed by the Audit as having been derived by the firms is based on the assumption that the firms purchased scrap from the market at less than Rs. 600/400 per tonne of heavy melting scrap and turnings and borings. The firms did not purchase the scrap from the market at lower prices and therefore, the question of their deriving benefit does not arise."

2.32. From the information made available to the Committee, it is seen that the following stipulation regarding supply of scrap to the manufacture of couplers has been included in the contract entered into with M/s Mukand Iron and Steel Works Ltd., on 12-6-80 :—

"Scrap will be issued if such assistance is required in a mix of 60% heavy melting scrap and 40% turning and Boring @ Rs. 1200/- and 800/- per tonne including sales tax, if leviable respectively at the total rate of 770 Kgs. per NIT coupler and 800 Kgs. per TT coupler ex Central Railway Scrap Depots at Bombay. In case the scrap is procured from the source other than the Railways at lower prices, benefit of lower prices of scrap thus obtained by you, will accrue to the Purchaser."

2.33. The Committee note that in the contracts entered into with the two manufacturing firms viz. M/s Bhartia Electric Steel Co. Ltd. Calcutta and M/s Mukand Iron & Steel Works Ltd., Bombay for the procurement of centre buffer couplers and clevises, in the year 1975 stipulations were made for the supply of scrap by the Railways to the manufacturers on a pre-determined rate and against payment. Provision of scrap assistance by the Railways to the coupler manufacturers was one of the conditions of their offers for supply of couplers. According to the Railway Board the objective of the scrap assistance was "to keep the prices of centre buffer couplers to the minimum possible level". The prices of couplers payable

by the Railways were accordingly worked out on the basis of the scrap prices of which the scrap was to be supplied to the manufacturers'. On being asked as to what would have been the result if Railways had not agreed to the manufacturer's request for supply of scrap, a representative of the Ministry of Railways (Railway Board) replied that the suppliers would not have taken the risk and would have provided for a possible escalation in the value of scrap and stepped up the price of the couplers. Thus the intention behind the issue of scrap to these firms on payment at a fixed rate was to delink the contract prices from any fluctuations in the price of scrap in the open market.

2.34. The Committee find that the coupler manufacturers obtained scrap from the Railways at pre-determined rates against the contracts of 1974. Though the same stipulations were extended for the contracts placed in January, 1975, February 1975 the manufacturers did not obtain any scrap from the Railway against these contracts. The non-drawal of scrap by the coupler manufacturers against the 1975 contracts has *inter-alia* been attributed by the Railway Board to the availability of scrap in the market at nearly the same price at which assistance from Railways was available. The Railway Board even claimed that the manufacturers did buy at higher rates. In support of this claim they have furnished the certifiates issued by the Chartered Accountants of the firms. The second reason for the firm preferring to purchase at higher rates, as given by the Railway Board, is the firms' convenience of purchase from the market, compared to obtaining from the Railways through the prescribed procedure.

2.35. Both the arguments advanced by the Railway Board appear untenable for the following reasons:

(i) The Railway Board have admitted that during the period of execution of these orders there was a fall in scrap prices compared to those stipulated in the contract. In view of this it is difficult to believe that the firms did actually pay higher prices for the same quality of scrap.

(ii) The argument regarding convenience of purchase from the market is equally unconvincing as these firms have had enough past experience of dealing with the Railways' procedure and yet they had stipulated the condition of scrap assistance from the Railways in their offers for supply of couplers against the 1975 contract.

2.36. Another reason given by the Member Mechanical during the course of this evidence before the committee, for non drawal of scrap by the coupler manufacturers was that the type of scrap Railways were selling was different from the type that the manufacturers would have bought from outside. This argument also sounds patently ridiculous because of the fact that the coupler manufacturers had been using the scrap obtained from the Railway in large quantities both prior to 1975 and subsequent to 1975. The reasoning given by the Member Mechanical is thus obviously far fetched and unconvincing. In this context it is to be noted that Railway Board have in a written note submitted that one of the firms did not, in fact, approach the Railways for issues of scrap and if they had approached the requisite category of scrap could have been made available to the firm to the extent available.

2.37. The Committee are of the view that as analysed by the Audit with reference to the then prevailing prices of scrap in the market, the real reason for the non-drawal of scrap by the manufacturers against the 1975 contracts was the lower price at which scrap was available in the market. The lower market prices enabled the manufacturers to reap larger profits by buying the scrap from the the open market rather than obtaining the same from the Railways at pre-determined rates, which were higher than the then market rates. Since the prices of couplers payable by Railways were linked with the price of scrap, the manufacturers derived an unintended benefit at the cost of Railways by taking advantage of the fall in the market price of the scrap during the relevant period. The benefit so dervied by the firms and corresponding loss suffered by the Railways has been calculated by Audit to be Rs. 7.71 lakhs. The laboured explanation offered by the Railway Board to the effect that no loss was incurred by the Railways on account of the fall in the market price of the scrap is not at all convincing.

2.38. Although the manufacturers were able to make a quick buck by taking advantage of the slump in scrap prices, the Railways failed to safeguard their financial interests. According to the Railway Board "the aspect of slump in scrap prices from April, 1974 and onwards does not appear to have been deliberated. This is most unfortunate to say the least. The Committee are of the view that consequent upon the scrap prices falling below what had been indicated by the manufacturers in their quotations, the Railways should have renegotiated with the manufacturers for proportionate reduction in the supply price of the couplers.

2.39. The Committee have been informed that with Railways experience of operation of scrap assistnace clause in the previous contracts, a stipulation was now being made that in the event of scrap being procured by the coupler manufacturers from the other sources at lower prices, the benefit of lower prices will accrue to the Railways. This is no doubt an admission of the fact that the stipulation regarding scrap assistance included in the earlier contracts was one-sided and defective whereby the coupler manufacturers expoited this lacunae in the terms of the contracts of 1975 to their advantage and at the cost of Railways.

2.40. Another important point that strikes the Committee is that although the provision of an escalation clause in the purchase or work contracts takes care of the financial interests of the contractors, no such provision is made in these contracts for safeguarding the interest of Railways. The Committee desire that the Railway Board should, in consultation with the Ministry of Law and the DGS&D, incorporate a suitable provision in all the future contracts to take care of the type of contingency noticed in the present case.

CHAPTER III

PROCUREMENT BY BROAD GAUGE RAIL CROSSINGS

Audit Paragraph

3.1 Rail crossings used in railway tracks on wooden layout are of two types: (a) crossings cast from high manganese steel and (b) crossings fabricated from medium manganese rails.

3.2 The life of the cast manganese steel crossings is longer than that of the fabricated medium manganese steel crossings.

3.3 The Ministry of Railways (Railway Board) had informed the Public Accounts Committee in 1971 that the life of cast manganese steel crossings was twice that of the fabricated steel crossings. The Research, Designs and Standards Organisation (RDSO) in 1972 had informed the Zonal Railways that the average life of cast manganese steel crossings was expected to be about four times that of the fabricated crossings. Besides, cast manganese steel crossings help in reducing the maintenance costs, as bolts and loose components are not used for their installation in the railway track. These bolts and loose components, used in fabricated crossings are liable to wear or get loosened under traffic.

3.4 The Ministry of Railways (Railway Board) in March 1978 estimated the cost of cast manganese steel crossings between Rs. 6,182 to Rs. 8,556 and that of the fabricated crossings between Rs. 5,758 to 6,998. However, in view of longer life of the cast manganese steel crossings as compared to fabricated crossings namely, twice or four times as the case may be and its relative advantages in reducing the maintenance costs, the use of such manganese steel crossings would be substantially more economical.

3.5 A steel foundry was set up at Chittaranjan Locomotive Works (CLW) in 1961 with an investment of Rs. 5.97 crores and with a capacity for ten thousand tonnes of steel castings per annum. This included a capacity to manufacture one thousand tonnes of cast manganese crossings which would be equivalent to about two thousand crossings a year weighing about half a tonne each.

3.6 In December 1967 the CLW Foundry was required to produce 350 tonnes of broad gauge manganese steel crossings (of standard size 1 in 8½ and 1 in 12 suitable for wooden layout) against the installed capacity of one thousand tonnes . However, it produced only 99 tonnes in 1967-68 and 198 tonnes in 1968-69. From 1972-73 onwards the Ministry of Railways (Railway Board) refixed the capacity of the CLW Foundry at 800 number or 400 tonnes of cast manganese steel crossings. In this connection 11th Report of the Public Accounts Committee 1971-72 of the Fifth Lok Sabha and the Ministry of Railways' (Railway Board) communication to the Public Accounts Committee of June 1973 refer.

3.7 Further, heat treatment capacity of the CLW Foundry was augmented for heat treatment of the mangenese steel crossings during 1967-75 at an investment of Rs. 8.22 lakhs. [Para 19 of the Comptorller and Auditor General's Report for the year 1975-76 Union Government (Railways) refers]. The CLW Foundry has been so far the only source in the country for the supply of cast mangenese crossings to the Zonal Raliways.

3.8 The annual requirements of the crossings of all the Zonal Railways is assessed by the Ministry of Railways (Railway Board) and split between (a) cast steel manganese crossings to be procured from the CLW Foundry and (b) fabricated crossings to be:

(i) manufactured in the railway workshops, and

(ii) procured from trade.

Zonal Railways take procurement action accordingly. The following table shows the number of BG fabricated crossings/ manganese steel crossings allotted by the Ministry of Railways (Railway Board), actually procured from the CLW/Railway Workshops/Trade by the Zonal Railwavs during the six years, 1972-73 to 1977-78:—

Year	Fabricated crossings procured from Railway Workshop/Trade		Cast manganse steel crossings		
	Allotment by Railway Board	Actual procurement	Allotment by Railway Board	Actual procruement by Zonal Railways	Production by CLW Foundry
1972-73	1,993	1,884	1,394	401	434
1973-74	2,094	1,412	411	96	126
1974-75	1,290	1,317	91	123	90
1975-76	565	927	84	112	226
1976-77	867	177	Not available	69	188
1977-78	1,066	392	350	69	112

3.9 It will be seen from the above table that the procurement of manganese steel crossings from the CLW Foundry by the Zonal Railways as well as production thereof in the Foundry had been coming down and had never reached the full capacity of 800 crossings per year reported to have been built up as far back as 1972-73. On the other hand, the Zonal Railways had been procuring every year substantial number of fabricated crossings from the trade/Railway Workshops.

3.10 The extra expenditure incurred during 1972-73 to 1977-78 on the procurement of fabricated crossings as against cast manganese steel crossings, works out to more than Rs. 2.04 crores (at 1978 price level) if the life of the cast manganese steel crossings is taken to be twice that of the fabricated crossings. The extra expenditure involved would be twice this figure, if the life of the cast manganese steel crossings is taken as four times that of the fabricated crossings as per the assessment of life by RDSO. The additional expenditure incurred on the maintenance of fabricated crossings as compared to the cast manganese steel crossing cannot be assessed but is likely to be substantial.

3.11 The following points merit consideration in this case:

(i) the allotment of fabricated crossings for procurement from trade and workshops was made by the Ministry of Railways (Railway Board) every year without taking advantage of the full capacity of the CLW Foundry for cast manganese steel crossings;

(ii) the number of cast manganese steel crossings procured by the Zonal Railways from the CLW Foundry have substantially been less than the allotment made by the Ministry of Railways (Railway Board); and

(iii) considering the advantages in initial cost and in maintenance of cast manganese steel crossings, it was desirable for the Ministry of Railways (Railway Board) to have ensured the procurement of the maximum number of cast manganese steel crossings from CLW as against fabricated crossings from trade and Railway Workshops.

3.12 The Ministry of Railways (Railway Board) stated (November 1978 and March 1979) that:

(1) the orders for cast manganese steel crossings had been placed on the Foundry to ensure sufficient work-load commensurate with the actual performance of supply;

(2) there had been decline in the production capacity due to labour problems, strikes and power break-downs in 1973-74 and 1974-75;

(3) from 1975-76 to 1977-78 the capacity for production of cast manganese steel crossings was diverted to the production of higher priority items, namely, Co Co bogies and other intricate castings required for the manufacture of diesel and electric locomotives. But the CLW was producing castings from the Foundry to its installed capacity of 10,000 tonnes; and

(4) as the Railways were finding it difficult to provide necessary funds to cover the demands already placed on the CLW Foundry, the CLW Foundry on Ist October 1977 cancelled the quantity outstanding against previous orders for 668 cast manganese steel crossings.

3.13 It may, however, be mentioned that while making allotment of cast manganese steel crossings on CLW in the various years, the decline in the production capacity either due to labour trouble or power break-down or diversion of the capacity to the manufacture of higher priority items, was not taken into account. It was also inappropriate for the CLW to have cancelled the outstanding orders for supply of cast manganese steel crossings on Ist October 1977 on its own inasmuch as, it was not ensured that the funds available for procurement of cast manganese steel crossing were utilised in the best possible manner, namely for procurement of the maximum number of cast manganese steel crossings as against fabricated crossings.

[Paragraph 11 of the report of the Comptroller and Auditor General of India for the year 1977-78, Union Government (Railways)]

3.14 It is seen from the Audit Paragraph that the Steel foundry set up at Chittaranjan Locomotive Works had a capacity to manufacture 1,000 tonnes of Cast Manganese crossings which would be equivalent to about 2,000 crossings a year weighing about half a tonne each. The Committee enquired how the installed capacity of steel castings of the CLW foundry was originally fixed at 1,000 tonnes per annum. The Railway Board have stated :

> "In the original collaboration agreement for the construction of Chittaranjan Steel Foundry with the foreign collaborators, the Supplementary Agreement referred to a capacity of approximately 1,000 tonnes for the manufacture of Cast Manganese Steel Crossings."

3.15 The Committee desired to know what were the special equipment procured for the manufacture of steel castings in the CLW foundry and what was the extent of usage of these machines since their installation till date. In a note, the Railway Board have stated:

> "There has not been any investment exclusively for the manufacture of Manganese Steel Crossings, except for one Heat Treatment Furnace also useable for miscellaneous items and some Moulding Boxes at a total approx. cost of Rs. 10 lakhs. Of these, the cost of Heat Treatment Furnace with auxiliaries was about Rs. 8.22 lakhs, the balance being the cost of Moulding Boxes and other minor equipment. These are, in any case, being utilised for the production of other items of steel castings currently in hand."

3.16 In regard to the utilisation of the Heat Treatment facilities at the foundry the Railway Board have stated :

> "It will not be correct to consider the utilisation of Heat Treatment facilities in isolation. The investment of Heat Treat Furnace cannotbe considered in retrospect as having been made exclusively for the Manganese Steel Crossings, as other items were also being heat-treated in the new furnace."

3.17 When enquired how much increase of manganese steel crossings over and above 1,000 tonnes was expected due to the augmentation of the heat-treatment in 1967-75, the Railway Board have stated :

> "The requirement of the 4th furnace as a balancing equipment was foreseen in the early stage of project and no increase over and above thousand tonnes of manganese Crossings was envisaged due to provision of the 4th Heat Treatment furnace."

3.18 According to the Audit Paragraph the Ministry of Railways (Railway Board) refixed the capacity of the CLW foundry in June, 1973 at 800 numbers or 400 tonnes of cast manganese/steel crossings. As to the basis on which the Railway Board reassessed the capacity of CLW foundry at 800 crossings or 400 tonnes per year, the Railway Board have stated:

> "The re-fixation of the capacity of the Foundry at 800 Nos. or 400 tonnes of Cast Manganese Steel Crossings was, in fact, a re-assessment of the requirements of Railways in the context of greater experience gained in the usage of Cast Manganese Steel Crossings made by CLW.

3.19 In reply to a question as to how the reduction in the capacity of the foundry to manufacture steel castings from 1,000 tonnes to 400 tonnes was accounted, the Railway Board have stated:

"Extracts of paras 7 and 8 of Mr. F.N. Lloyd, representative of our Technical Collaborator, vide his letter No. FNL/M&P dated 25-10-67 to Secretary, Railway Board are reproduced below:

"Since the end of 1965 the product-mix being made in the Steel Foundry has changed from one based on steam locomotives to a mixed load containing higher proportion of other requirements and in particular wagons castings which have a much higher work content per tonne produced. As a result of these circumstances, the planning of the product-mix has been disturbed to such an extent as to constitute a radical departure from the design base of the foundry."

Starting from 1965, the product-mix has been undergoing changes, first with wagon castings and again with manufacture of Diesel & Electric loco items. In the background of our experience with the developmental problems of making these difficult castings, the capacity was re-fixed at 800 nos/400 tonnes of Cast Manganese Steel Crossings."

3.20 The actual production of B. G. manganese steel crossings at CLW foundry during the years 1967-68 and 1968-69 was only 99 tonnes and 198 tonnes respectively. Asked about the reasons for the output of B.G. manganese steel crossings during the year 1967-68 and 1968-69 being far below the installed capacity, the Railway Board have stated:

"Cast Manganese Steel Crossings were imported items. No Steel Foundry in the country had the capacity to manufacture such castings. Manufacture of Manganeses Steel Crossings is a very specialised job and there are a very few foundries in the world who are capable of undertaking the manufacture of these crossings. Chittaranjan Locomotive Works, Steel Foundry had developmental problems *vis-a-vis* design of rail crossings in the early years in the manufacture of these crossings and as such the rejection in the earlier stages were very high resulting in the production of these crossings not coming up to higher levels. The designs were later modified by RDSO."

3.21 The details of the cast manganese steel crossings produced by CLW Foundry during the period 1972-73 and 1977-78 are given below:

Year	No. of crossings
1972-73	434
1973-74	126
1974-75	90
1975-76	226
1976-77	188
1977-78	12

It will be seen from the above table that the production of the manganese steel crossings in the CLW Foundry had been coming down over the years and had never reached the full capacity of 800 crossings per year reported to have been built up as far back as 1972-73.

3.22 The Committee desired to know the reasons for the CLW foundry not being able to produce manganese steel crossings at the level (800 nos. or 400 tonnes) of even the revised capacity as assessed in 1973. The Railway Board have explained :

> "The drop of out-turn since 1973-74 (both total out-turn and Cast Manganese Steel Crossings) was due to uncertain conditions prevailing since May, 1974 and then change in product-mix. The Steel Foundry had been facing difficult labour situation and also setback due to poor power availability and poor oxygen supply. Additional diversification load pertaining to new type of Broad Gauge and Metre Gauge Co-Co bogies alongwith the additional load pertaining to Traction Motor etc. had come up resulting in Cast Manganese Steel Crossings being given lower priority. A higher priority was also given to manufacture of castings needed by Heavy Vehicles Factory, Avadi on the request of the Ministry of Defence. A number of other items like High Speed Flexi-coil Bogies, Reversing Gear Box etc. were also taken up and the capacity had been fully utilised. There is no prospect of undertaking manufacture of Cast Manganese Steel Crossings in the near future."

3.23 The Committee enquired whether the Railway Board examined the reasons for shortfall in the production of cast manganese steel crossings every year since 1972-73 and if so, whether the reasons for such shortfall were taken into account for the next year's allotment of CLW Foundry. The Committee also asked about the measures taken to achieve the full capacity (800 crossings per year) of production of manganese steel crossings. In a note Railway Board have stated :

> "Yes. The reason for shortfall such as severe power or labour problems were not foreseeable. In the hope of achieving better production, orders were placed on CLW as production, could be planned only if orders were available on the Steel Foundry."

3.24 It is seen from the Audit Paragraph that the number of cast manganese steel crossings procured by the Zonal Railways from the CLW Foundry have substantially been less than the allotment made by the Ministry of Railways (Railway Board). The Committee enquired why the Zonal Railways had procured more fabricated crossings than allotted in the 1974-75 and 1975-76 despite the financial and technical advantage in the use of manganese crossings over the fabricated crossings. The Railway Board have, in a note, stated :

> "Since CLW has not been able to fulfil the Railways requirement of cast steel manganese crossings, the demand could not be increased on them. Therefore, the purchase of more fabricated crossings from the trade has no bearing on the quantity allotted to CLW. Though it was financially and technically advantageous to the Railways to procure cast steel manganese crossings, the Railways had to go in for the fabricated crossings purely because of the limited capacity of CLW which was the only source of supply."

3.25 In reply to a question as to why did the Railway Board from 1973-74 make greater allotment of fabricated crossings for procurement from the trade than of manganese crossings from CLW, even after the maximum capacity of the CLW Foundry had been reassessed at 800 cast manganese steel crossings per year, the Railway Board stated :

"There was no improvement in the supply of CLW and hence the allotment to them was not increase.

3.26 The Committee desired to know how placing of orders for manganese crossings on and supplies from the CLW Foundry was watched after allotment of the quantity to be procured from CLW was decided each year from 1972-73. In a note the Railway Board have stated :

"The supply position of cast steel manganese crossings against the ordered quantity was monitored periodically, in the earnest hope that with improved power and labour situation production of Cast Manganese Steel Crossings at CLW will come up."

3.27 To a question whether any action was taken during the year 1973-74 to 1978-79 when the number of cast manganese crossings procured by the Zonal Railways from the CLW Foundry came down substantially as compared to the allotment, the Railway Board stated :

"All efforts were made by CLW Administration to optimise the overall production of Steel castings including that of Iast manganese steel crossings. These efforts did not materialise due to constraints beyond the control of Railway Administration."

3.28 The Committee pointed out that considering the advantage in in initial cost and in maintenance of cast mangenese Steel crossings, was it not desirable for the Railway Board to have ensured that the procurement of the maximum number of cast manganese steel crossings from CLW was done as against fabricated crossings procured from trade and Railway Workshops. To this the Railway Board replied :

"There has been no lack of orders on CLW for cast steel manganese crossings but CLW had genuine difficulties in increasing production of Cast manganese steel crossings."

3.29 Asked whether the factors, such as labour problems, strikes and power break-downs had been taken into consideration while making allotment for the procurement of manganese steel crossings for future years, the Railway Board stated :

"The factors like labour problems, strike and power break down cannot always be fore seen."

3.30 To the comments of the Audit that the capacity for manganese crossings was diverted to the production of higher priority items, the Railway Board have *inter alia* replied :

"Capacity of the foundry continuously altered with continued change of product-mix due to diesel and electric locos items replacing steam items, from 1972-73 to 1977-78. It had its effects on the capacity for manufacture of cast manganese steel crossings."

3.31 The figures regarding total out-turn of the CLW Foundry during the period 1972-73 and 1979-80 are tabulated below :

(In tonnes)

Year	CoCoBogies	Other items	Manganese crossings	Total	Equated Tonnage
72-73 .	1408	3023	217	4648	8566
73-74 .	1350	1920	63	3333	6292
74-75	1021	2472	45	3538	6193
75-76 . .	1393	3560	113	5074	9003
76-77	1335	4074	94	5503	10479
77-78	1744	3439	6	5189	9680
78-79 .	1153	3503	25	4686	9169
79-80 . . .	1629	2625	..	4254	8761

3.32 It is seen from the above table that there was a substantial drop in the total out-turn of the Foundry during the years 1973-74 and 1974-75. Explaining the reasons for the drop, the Railway Board have stated:

"The drop of out-turn in 1973-74 both of total out-turn and that of CMS Crossings was due to uncertain conditions prevailing in pre-May 1974 strike period. The period of 1974-75 was also that of uncertainty and the overall production as also production of cast manganese steel crossings was low. In 1975-76 the total production and production of cast manganese steel crossings picked up. Later in 1976-77 the production of cast manganese steel crossings came down on account of curtailment of the Railway Budget for which Railways did not have adequate funds for acceptance of the manganese crossings and as a result, the demand of the foundry was reduced. Meanwhile, Broad Gauge and Metre Gauge Co-Co Bogies and load of Casnub Bogie and bolsters as also additional load pertaining to traction motors in CLW came up on priority basis resulting in cast manganese steel crossings production being less. The production capacity created for cast manganese steel Crossings was not kept unutilised at any stage.

The priority was given to CoCo bogies, castings needed for diesel and electric locomotives and Avadi castings for Ministry of Defence as otherwise the production of diesel & electric locos as also of Tanks at Avadi would have suffered a setback, cast manganese steel crossings was only a product improvement, for which alternative material was in any case available indigenously."

3.33 It is seen that CLW Administration had advised (December, 1972) Railway Board not to reduce the manufacture of manganese steel crossings to any appreciable extent as the curtailment would effect the optimum utilisation of pattern moulding, quenching tank and heat treatment furnace In view of the advice tendered by CLW Administration, the Committee enquired how was the Railway Board justified in diverting the production of manganese steel crossings to the production of other items namely Co Co Bogies and other intricate castings etc. In a note, the Railway Board have stated:

"The production of electric locos at CLW and Diesel locos at DLW is fully dependent on availability of Co Co bogies from CLW Steel foundry. No other foundry in the country could produce these castings and if priority was not given to Co Co bogie castings, either production of these two Railway Workshops would have suffered or heavy expenditure would have been incurred in importing these castings from abroad. Similarly, other intricate castings needed for loco production in both these Workshops had to be given priority over manganese crossings for which alternate material and source of supply was indigenously available.

The initial advice by CLW Administration in 1972 was more with a view to acquire the technology for development for manganese steel crossings so that with capacity being available, these castings could be undertaken in Steel Foundry. However, the situation after 1972-73 radically changed due to unprecedented power shortage and labour trouble."

3.34. In reply to a question as to who decided the priority among the items to be produced by CLW Foundry, the Railway Board had stated:

"Based upon Board's decision regarding production of electric and diesel locos, requirements of castings needed for loco production are worked out, to which are added items needed by the Zonal Railways for maintenance purpose, including manganese Crossings. Taking into account the level of actual production of Steel Castings achieved by CLW, relative priorities are allotted by the Board in close liaison with CLW."

3.35. The Committee wanted to know since when the higher priority items were being produced in the CLW and apart from manufacture of castings for diesel and electric locos, what were the other items of castings for which over-riding priority was given. In a note, the Railway Board have stated:

"....higher priority to items other than manganese Crossings was given on the basis of locomotive production programme issued by the Railway Board from time to time. Apart from manufacture of castings for diesel and electric locos, over-riding priorities had to be given for other castings required for repairs to steam locos, tender tanks, tender underframes as also for castings required urgently for maintenance of other rolling stock on the Railways. Priorities had to be also given for manufacture of Magnet Frame required by BHEL/Bhopal for the manufacture of Traction Motors eventually to be used in electric loco production by DLW. In addition, CLW had to satisfy the demand of castings needed for Defence production workshops."

3.36. The item-wise break-up of steel foundry out-turn in order of priority is given below:

(*Tonnes*)

Particulars	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80
Coco Bogies	1408.4	1353.8	1020.6	1393.0	1334.7	1744.4	1157.8	1628.8
Loco casting for DLW	306.1	288.2	167.4	381.6	412.6	261.2	398.1	517.9
Casting for S-165 & other castings for BHEL	841.1	424.3	674.7	887.5	Nil	Nil	232.1	138.7
Casting for elec-loco TMs of CLW	709.6	510.3	473.1	572.6	930.6	950.7	989.2	1002.5
CLW Diesel loco items	568.4	373.4	367.8	240.7	250.1	329.7	282.3	460.5
Steam loco manufacture items for CLW	Nil	38.8	305.8	599.0	681.3	410.7	114.5	191.0
Rly. Maintenance items	417.3	133	287.7	607.4	617.1	279.6	166.5	28.6
Manganese crossings	218.8	58.2	55.3	96.3	93.5	6.2	24.8	..
Misc. Casting including Avadi Castings	177.9	153.2	186.1	345.5	1233.0	1207.4	1321.9	285.4
GRAND TOTAL	4647.6	3333.3	3538.5	5073.6	5503.2	5189.9	4686.2	4254.0

3.37. It is seen from the above that a very low priority was given to the production of manganese crossings so-much-so that the production of these crossings had come down gradually from 218.8 in 1972-73 to 6.2 and was nil in 1979-80.

3.38. The Committee desired to know whether any priority was given to requirements of private sector/Public Sector to manufacture other items over the requirement of Railways for which capacity had been specifically created. In a note, the Railway Board stated:

"Priority in the manufacture of castings required by private/public sector would refer to the following:

(a) Small order from M/s Richardson & Cruddas for cast manganese Castings in the context of meeting an urgent export order—this involved apart from maintaining country's image, the question of avoiding liquidated damage being imposed on the firm and was done at the express instance of Ministry of Railways.

(b) Castings required for Defence production i.e. for Heavy Vehicle Factory, Avadi—these were required for the manufacture of Tanks.

(c) Order for castings required by BHEL—these were required by loco production.

(d) A small order for the manufacture of manganese Crossings was also accepted by the Steel Foundry in the interest of meeting the urgent requirements of Steel Plants, as also with a view to developing technology, as these items would otherwise have been imported.

These were subsequently given up due to over-riding priorities given to other items required by the Railways."

3.39. Asked whether any priority of items to be produced by the CLW had been laid down by the Railway Board specially in the context of the fact that in June 1973, the Public Accounts Committee was informed that the CLW Foundry was geared upto production level of 800 crossings or 400 tonnes of crossings per year, the Railway Board stated:

"Priority is generally laid down for castings needed for loco production and for running the Railways. Other items including manganese Steel Crossings for which alternative arrangements are available in the country, cannot be given higher priority for obvious reasons."

3.40. The Audit Paragraph states that as the Railways were finding it difficult to provide necessary funds to cover the demands already placed on the CLW Foundry, the CLW Foundry on 1st October, 1977 cancelled the quantity outstanding against previous orders for 668 cast manganese steel crossings. The Committee enquired whether with the reduced Budget allotment Railway Board should not have ensured the procurement of maximum number of cast manganese steel crossings from CLW as against fabricated crossings in view of the economies in the long run. The Railway Board have stated:

"Funds were available for the procurement of points and corssings under Track Renewal Programme. Since CLW had diverted their capacity of the Steel Foundry to manufacture items other than cast manganese steel crossings, orders were placed for the manufacture of fabricated points and crossings as there was no other supplier for cast manganese steel crossings."

3.41. Asked whether the Zonal Railways informed the Railway Board of the need of procuring fabricated crossings in lieu from trade, when it came to light that the demand for cast manganese steel crossings could not be met in full on the basis of allotment, the Railway Board stated:

"Periodical reviews of the requirements of crossings are made and based upon this, the needs for procuring fabricated crossings fiom trade are decided."

3.42. Asked whether there was any proposal under consideration to increase the capacity to manufacture cast manganese steel crossings at CLW or at any other steel foundry, the Railway Board stated:

"The Ministry of Railways have decided to meet the requirements of cast manganese steel crossings, fiom trade since steel Foundry of CLW has not been able to meet this demand."

3.43. The Committee find that a steel foundry had been set up at Chittaranjan Locomotive Works in 1961 with an investment of Rs. 5.97 crores and with a capacity for producing ten thousand tonnes of steel castings each year. This included a capacity to manufacture one thousand tonnes of cast manganese steel crossings which was equivalent to about two thousand crossings a year weighing about half a tonne each. For the manufacture of cast manganese steel crossings special equipment in the form of Heat, Treatment Furnace with auxiliaries and some Moulding Boxes had been installed at a total approximate cost of Rs. 10 lakhs.

3.44. Against the installed capacity of one thousand tonne or 2000 Nos. of manganese steel crossings, the actual production of these crossings over the years had been much less. In fact in 1967-68 and 1968-69, the Steel Foundary produced only 99 tonnes and 198 tonnes respectively of the manganese steel crossings. The Committee have been informed that because of the developmental problems involved in the manufacture of the manganese steel crossings, the capacity of the steel foundry was re-fixed in June 1973 at 800 Nos. or 400 tonnes of manganese steel crossings per annum. The fact remains that even after reducing the annual capacity of the CLW foundry the actual production of the manganese steel crossings had never reached its full capacity of 800 Nos. but it had been constantly coming down over the years. From 434 Nos. of crossings produced in 1972-73, the production figure had gradually come down to as low as 12 Nos. in 1977-78. During 1979-80 the production of the manganese steel crossings was nil.

3.45. The drop in the out-turn of cast manganese steel crossings has been attributed *inter alia* **to change in the product-mix in which**

very low priority was given to the production of manganese steel crossings. As a matter of fact, the entire capacity for production of cast manganese steel crossings had been diverted over the years to the production of other items categorised as "higher priority items" namely Co Co bogies and other intricate castings required for the manufacture of diesel and electric locomotives. The Railway Board have now stated that there is no prospect of undertaking manufacture of cast manganese steel crossings in the near future.

3.46. The Committee are inclined to feel that the installed capacity for the production of manganese steel crossings has been diverted to production of other items not because these other items claimed higher priority but because the CLW Administration failed to optimise the production of steel castings including that of cast steel manganese crossings. In this context, it is relevant to recall that in December, 1972 the CLW Administration had advised the Railway Board not to reduce the manufacture of manganese steel crossings to any appreciable extent as the curtailment would affect the optimum utilisation of pattern moulding, quenching tanks and heat treatment furnace which had been specially installed for the purpose. The Railway Board overlooked the CLW's view point on the ground that other crossings had to be given priority over manganese crossings for which alternate material and source of supply was indigenously available. In this process an important factor namely the relative economics of the manganese steel crossings and its indigenous substitute the fabricated crossing, had been lost sight of. It has been worked out by Audit that between 1972-73 and 1977-78 the Railways have had to incur an extra expenditure of the order of Rs. 2.04 crores (at 1978 price level) on the procurement of fabricated crossings as against cast manganese steel crossings.

3.47. The Committee cannot but express their concern over the extra expenditure being incurred on the procurement of fabricated crossings rather than producing manganese steel crossings indigenously for which special capacity was created at great cost involving payment to a foreign collaborator. The Committee feel that before diverting the capacity meant for production of manganese steel crossings to the production of other items categorised as priority items, the economics of the relative cost of production of manganese steel crossings *vis-a-vis* other items could and should have been woked out.

3.48. The Committee would like the Railway Board to reconsider whether it would not be financially advantageous even at this stage to augment the production of cast manganese steel crossings instead of procuring fabricated crossings from the trade because of the added advantages of economies in the long run. In this context it is interesting to note that the Railway Board still feel that and though it was financially and technically advantageous to the Railways to procure cast steel manganese crossings, the Railways had to go in for the fabricated crossing purly because of the limited capacity of CLW which was the only source of supply." The diversion of even the limited capacity to other uses will thus have to be justified on the grounds of economy.

3.49. From the figures furnished by Audit for the year 1972-73 to 1977-78 it is seen that whether it is the procurement of fabricated crossings or cast manganese steel crossings there is a wide gap between the allotments made and the quantities actually procured during these years. The Committee would like to know how the Railway Board have met the shortfalls in procurement of this item all these years.

NEW DELHI;
April, 16 1981
26 *Chaitra*, 1903 (*Saka*).

CHANDRAJIT YADAV,
Chairman,
Public Accounts Committee.

APPENDIX

Conclusions/Recommendations

S. No.	Para No.	Ministry/Department concerned	Conclusions/Recommendations
1	2	3	4
1	1·76	Railways	The Committee note that global tenders were floated by the Railway Board in November, 1973 for procurement of 1,04,422 nos. of 20-tonne roller bearing axle boxes after obtaining the permission of the Ministry of Finance. The quantity mentioned represented the uncovered portion of the requirements of axle bearings for the year 1972-73 as well as the full requirements for 1973-74 and these were required for wagons to be fabricated upto March, 1976. In February, 1974, the requirements of axle bearing were reviewed in the light of the reduced target of wagon production for the years 1974-75 and 1975-76 due to financial constraints. As a result of this review the number of axle bearings required was reduced from 1,04,422 to 66,000 Nos. It was accordingly decided to procure only 66,000 axle bearings against the global tenders opened in December, 1973.
2	1·77	Do.	The Committee find that in response to the global tenders, quotations were received from M/s National Engineering Industries Ltd., Jaipur (NEI), which was then the only established indigenous manufacturer, and six other firms including M/s Kolmex of Poland, whose offer involved foreign exchange on rupee payment basis. In its original quotations M/s NEI indicated its ability to meet the entire requirements of the Railways without specifying the quantity offered. However, the Tender Committee which

			was set up by Ministry of Railways (Railway Board) to re-negotiate with the firm, after making an assessment of the indigenous capacity recommended that "taking into account the orders already outstanding on M/s NEI, Jaipur and setting apart their capacity to the extent of 7,000 per year for manufacture of roller bearing axle boxes for locomotives and coaches, we can at best consider them only for additional orders to the extent of 41,000 Nos. of this item." The Tender Committee also recommended that the remaining 25,000 Nos. of axle bearings may be imported. On the basis of the recommendations of the Tender Committee, the Railway Board decided on 23 February, 1974 that negotiations may be held with M/s NEI and M/s Kolmex of Poland, with a view to procure maximum quantity from indigenous/rupee-payment sources. After having nogotiations with the two firms the Tender Committee reiterated ordering of 25,000 sets of roller bearing axle boxes on M/s Kolmex of Poland @Rs.1180/- per unit with an option to increase this quantity by a maximum of 10% by October, 1975. In regard to the placement of orders on M/s NEI, the Railway Board decided on 5 April, 1974 that against the requirement of 66,000 axle boxes, 41,000 units may be earmarked for booking the full installed capacity of M/s NEI and for the balance of 25,000 units, the offer of M/s Kolmex may be availed of. Orders on M/s NEI were however to be placed as soon as the total indigenous capacity available was determined and the question of prices was finally concluded with the firm.
3	1·78	Do.	After another round of negotiations with M/s NEI, the Tender Committee recommended on 27 April, 1974 that 25000 Nos. assessed as the quantity required to be imported may be ordered on M/s Kolmex of Poland with option clause for additional 10% of 2500 Nos. thus making the total of 27,500 Nos. at their negotiated price of Rs. 1180/- F.O.B. which worked out to landed cost of Rs. 1024/-. The Tender Committee further recommended that out of the 41,000 Nos. which

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			had been assessed as the realistic capacity of M/s NEI for supply upto December, 1975, 33,000 Nos. may be ordered on them @Rs. 2100/- each. The number to be ordered on M/s NEI was being restricted to 33,000 as the firm had indicated that in the light of uncertain conditions of rising prices, i was not possible for them to commit deliveries beyond March, 1975 on a firm price basis. The Tender Committee had also minuted that in the light of the past performance of M/s NEI it would be rather too optimistic to rely entirely on the assurances of the firm for higher rate of production, which they had yet to achieve. Apart from the uncertain position of supplies from the indigenous manufacturer, the Tender Committee also favoured placing of an order for import of 25,000 Nos. on M/s Kolmex because according to them the rate of Rs. 1824 negotiated with M/s Kolmex was substantially lower than M/s NEI's price, namely Rs. 2100, exclusive of excise duty, sales tax, which would work out to a total price of about Rs. 2340/- per piece. The Tender Committee had, therefore, concluded that "it will be in the Railways' interest to procure 25,000 Nos. from M/s Kolmex, as earlier recommended both from price and delivery considerations."
4	1.79	Railways	The Committee are surprised to find that as per final decision taken by the Railway Board on 4 May, 1974, order was placed on M/s NEI only for 33,000 Nos. of axle bearings on the ground that *prima facie* indigenous capacity was available and import was not inescapable. In arriving at this decision the Railway Board placed reliance on a letter of 23 April, 1974 in which the firm had stated that they would be able to meet the entire requirement of Railways till December, 1975 against the tender of 66,000 axle bearings. In another letter of 1 May, 1974, the firm had stated that in view of the recognition of the already existing capacity of 60,000 they had no legal or practical difficulty in manufacturing 5,000 Nos. of axle bearings per month. Further in the discussion held by the Railway

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			Board with the firm, the firm was stated to have confirmed firm commitment to supply the total requirements of the Railways. Thus on the basis of vague assurances held out by the firm, the Tender Committee's well-reasoned recommendations for earmarking only 41,000 axle bearings for supply by the indigenous manufacturer and for availing of a much cheaper import offer of 25,000 axle boxes from M/s Kolmex of Poland were set aside. That the reliance placed on the indigenous manufacturer was not warranted is borne out by the fact that against its assurance to meet the entire requirement of 66,000 Nos. the firm could supply only 46,902 Nos. of axle boxes upto December, 1975. Although it is difficult to quantify the loss suffered by the Railways on account of the shortfall in the supply of an essential item like axle bearings, the fact has not been denied that the shortage of axle bearings during the relevant period had its impact on the wagon production programme. Further, the procurement of axle bearings at a later stage at a much higher price than that prevailing in 1974 had serious financial implications.
5	1.80	Railways	The Committee find that not only the reliance placed on the indigenous manufacturers was too optimistic, the acceptance of the arrangement under which imports were considered not inescapable involved financial implications of great magnitude. For example, if the Tender Committee's recommendations had been accepted and 27,500 axle bearings (25,000+2,500 being 10% optional quantity) order for import instead of being procured from M/s NEI the Railways could have straightway reduced their expenditure by at least Rs. 75.90 lakhs being the difference between the price paid to M/s NEI and the price at which imports were to be made from M/s Kolmex. If the elements of excise duty and sales tax payable on the price of the indigenous manufacturer are also taken into account the extra expenditure incurred by the Railways will work out to Rs. 141.90 lakhs on the purchase of 27,500 axle bearings from the indigenous manufacturer rather than

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			importing them from the Polish firm. Further, since the indigenous firm was agreeable initially to enter into a commitment for supply of only 33,000 Nos. at the negotiated price of Rs. 2100 per unit upto March, 1975, the rest of the quantity **i.e.** 33,000 Nos. were carried over the for procurement from the same firm after March, 1975 at a price to be negotiated afresh. These were subsequently procured from the same firm @Rs. 2500 per unit involving an additional expenditure of Rs. 132.00 lakhs for the Railways. Thus, apart from several other drawbacks noticed in the indigenous firm's dealings with the Railways, which are discussed in the subsequent paragraphs, the Railway's decision not to go in for imports when indigenous capacity was available has cost the exchequer an additional expenditure of more than Rs. 2.73 crores in this case alone.
6	1.81.	Railways	The only argument adduced by the Railway Board for not accepting the cheaper offer of the foreign firm was that "by placing the order on indigenous supplier only, the Railways had acted within the overall decision of the Government." It has also been stated that if the Ministry of Railways had availed of the cheaper offer of Polish supplier this would have resulted in gross under utilisation of NEI's capacity. While not denying the merit of this argument, the fact remains that, firstly, the sole indigenous supplier was not able to meet the full requirement of the Railways and, secondly, the Railway Board had not been able to effectivily utilise the cheaper Polish offer in hand to bring down further the quotation of the indigenous sole supplier. The advice of the Ministries of Finance and Industrial Development had not also been sought, though purchases from a sole supplier were involved.
7	1.82	Railways	The Committee feel that this being a very important aspect of the matter should be considered by the Government at the highest level for laying down of procedures for the safeguards necessary in cases where imports are cheaper, but indigenous capacity is available, especially where sole suppliers are involved.

8	1.83	Railway	The other important point raised in the present audit paragraph relates to the question of determining the reasonableness of the price paid to the indigenous manufacturer. It is seen that the price in the first contract entered into the with M/s. NEI in 1959 was settled by allowing 25% price preference over the landed cost of the imported bearings. The price settled in first contract was treated as the base price in the subsequent contracts and escalation was allowed in the price of raw materials, components, wages etc. as justified by the firm to the Tender Committee appointed by the Railway Board to negotiate and settle the prices from time to time. During negotiations the tender Committee did not call for the break up of the labour and material content of the cost of production and in the absense of a cost analysis there was no means of ensuring that the prices settled in negotiations for the various orders were reasonable. The Railway Board have stated that even though no specific cost analysis based on the actual cost of prodution of M/s NEI was done, the Tender Committee had from time to time made comparison of the negotiated prices with the prices prevailing in the international market.
9	1.84	Railway	It appears that the methodology followed for the fiaxation of prices payable to M/s NEI against various contracts has been that being a sole tenderer M/s NEI were quoting a fairly high price initially which was later on brought down to some extent through negotiations. In the process, perhaps a comparison was also being made with the international market prices during the period up to 1966, when imports were discontinued. The Committee, however, observe that after the imports had been discontinued in 1966 and M/s NEI had come to occupy the position of a sole supplier of the vital component, the whole situation under went a perceptible change. The bargaining power of the firm had appreciably increased. No wonder the difference between the rates originally quoted by the firm and those finally accepted on negotiation progressively widened from Rs 32 to Rs. 1,000 in respect of the contracts finalised during March, 1968 July, 1975. Further the difference in the prices finally negotiated for successive orders become more pronounced.

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			Till March, 1966 the difference was marginal but in the subsequent period i.e Since January, 1967, after the imprt of axle bearings was stopped the increase in price under the contracts for the years 1969 and 1974 went up sharply.
10	1.85	Railways	The committee find that against the global tenders floated in November, 1973, M/s NEI had quoted a rate of Rs. 3010 per unit. Referring to the very high prices quoted by the firm, the tender Committee had in a note dated 23 February 1974 observed that "the price quoted by the indigenous manufacturer is so high that unless he agrees to bring it down to a reasonable level, we may have to think of importing a large quantity ignoring his offer." After a series of negotiations M/s NEI furnished a revised price of Rs. 2100. The Tender Committee after updating the previous contract price of Rs. 1140/- and on the basis of subsequnt escalations in the prices of raw material and wages could justify a price of Rs. 2020 per unit but since the firm was adamant, it was allowed to get away with a price of Rs. 2100. In Justification of this the tender Committee had recorded that "the firm has already reduced their orginal quoted price of Rs. 3010/- to their revised price of Rs. 2100/ and there does not appear any possibility of the firm reducing their price any further." This case typifies the manner in which negotiations had been conducted with M/s NEI to bring down highly inflated prices for arriving at reasonable rates.
11	1.86	Railways	A further analysis of the method the Tender Committee adopted in arriving at a reasonable price payable to M/s. NEI for the supplies against the contract placed in May, 1974 is all the more revealing. The Tender Committee after upgrading the previous contract price and after taking into account the escalations in the prices of raw materials, wages etc. since the last contract, justified a price of Rs. 2020/- . The price of Rs. 2020 as

			justified by the Tender Committee *inter alia* comprised of Rs. 60/- on account of increase in the price of brass Rs. 90 on account of increase in the price of steel and Rs. 60 on account of wage escalation. Over and above these escalations, an additional 10% or Rs. 96. And was included on an *ad hoc* basis as a provision for future escalation. This provision of Rs. 96/- for future escalations was most unusual in that such a provision had never been made in any earlier contract nor in any contract following 1974. The only justification for making this unusual provision as given by the Railway Board is that "the cushion for future likely escalations allowed in the price estimated by the Tender Committee for comparision with the price quoted by the firm appears to have been considered only for the May 1974 a contract, in view of the peculiar circumstances then prevailing". And the "peculiar circumstances" were nothing else but the fact that the Tender Committee was hard put to work out a price which should approximate as far as possible to the irreducible minimum of Rs. 2100/- demanded by the sole indigenous supplier.
12	1.87	Railways . . .	Further, the increase in the price of steel by Rs. 90/- admitted by the Tender Committee cannot be justified on the basis of the known escalation in the price of special class steel. Although the Railway Board have maintained that the price increase adopted by the Tender Committee was not more than the actual increase in the price of bearing steel, they have not been able to produce any contemporaneous record to prove that the Tender Committee's estimation of the steel price was justifiable in the context of the then prevailing prices of steel.
13	1.88	Railway	The Committee find that even after considering the known and unknown escalations, the Tender Committee could justify a price of only Rs. 2020/- but in order that the price of Rs. 2100/- dictated by the firm may sound as reasonable, the difference of Rs. 80 between the two prices was attributed to 'unquantifiable factors' and justified as a reasonable addition. The gap between the estimated price of Rs. 2020/- and the negotiated price of Rs. 2100/- was thus covered.

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14	1.89	Railway	From the facts given in the preceding paragraphs the Committee cannot but conclude that the negotiated price of Rs. 2100/- (exclusive of excise duty and sales tax) per roller axle box allowed to M/s NEI against May 1974 contract was not justifiable with reference to the last contract price on the basis of cost escalations and could not therefore be considered reasonable. The price could also not be considered reasonable with reference to the established international price. The price of Rs. 2100/- allowed to M/s NEI was substantially in excess of the established international price. Even if a comparison of the price of Rs. 2100 allowed to the indigenous manufacturer is made with the landed cost of Rs. 1824 of the Polish learing and not with its f.o.b. price which was only Rs. 1180, the indigenous manufacturer's price would appear excessive by at least (Rs. 2340-Rs. 1824) Rs. 516 per unit. The price of Rs. 2100/- could not therefore be considered as reasonable with reference to the international price.
15	1.90	Railways	The Committee are concerned to note that the price of Rs. 2100/- was not only unreasonable with reference to the contract of May 1974, it also vitiated the price structure negotiated for the orders placed subsequently in July 1975 and August, 1976 for 42,000 and 45,000 axle bearings respectively. This is so becasue prices for these contracts had been determined with reference to the base price of Rs. 2100, which comprised of unjustified escalations on account of unidentified items (Rs. 96) and unquantifiable factors (Rs. 80). It has been worked out by Audit that the extra benefit derived by the manufacturer amounts to Rs. 1.53 crores for the supplies under the above contracts.
16	1.91	Railways	The Committee cannot but conclude that M/s NEI have exploited their position of a monoploy indigenous supplier and have derived maximum benefit at the cost of Railways. During the course of evidence before the Committee when it was pointed out that since M/s NEI was the only

			indigenous firm supplying this particular item, it could quote any price it liked, the Member Mechanical candidly admitted : "He tried to do what you suggest." He however added that "he was not able to demand whatever he wanted."
17	1.92	Do.	The Committee find that not only the indigenous firm had been dictating their terms in so far as the price fixation was concerned, they had been taking undue advantage of their position in influencing the Railways Board's decision. For example, after it had been decided to dispense with the imports and place the order for the total requirements of 66,000 Nos. of axle boxes on the indigenous firms, the firm stipulated that in the first instance it could accept an order of only 33,000 Nos. on a firm price basis. The Railways did oblige the firm and agreed to place an order of 33,000 Nos. knowing fully well that prices were likely to be higher when subsequent orders were to be placed. Further even though M/s NEI were requested to consider acceptance of the option clause, as stipulated in the tender conditions, no option clause was agreed to by them in original offer or during negotiations. Again, against the single tender enquiry floated in May, 1975 for procuring 30,000 Nos. of axle bearings representing the quantity left uncovered for the wagon production requirements upto March 1976 the firm quoted for an order of 42,000 Nos. of axle bearings i.e. 12,000 Nos. in excess of the assessed requirements of the Railways. In this case also the Railways could not but accept the stipulation laid down by the firm and placed an order for 42,000 Nos. This decision has now been justified on the ground that it was in the "overall administrative interest". The Committee are only intrigued at the undue indulgence shown to the firm from time to time.
18	1.93	Railways	Another important point that came to the Committee's notice was that as far back as 1970 the Tender Committee had made a suggestion to M/s. NEI, while negotiating the prices for the contract placed in December, 1970, that the price offered by them could be considered subject to the Cost examination during the currency of the contract and

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			that lower price would be payable if the cost examination revealed a price lower than the contract price. M/s. NEI, however, turned down this proposal as unfair and suggested that in the event of cost examination being agreed to, the Railway should pay the higher cost if the cost examination revealed a price higher than the contract price. The Committee are at a loss to understand why such an offer was not accepted by the Railways. Appearently, they yielded to the threat of higher price held out by the indigenous manufacturer. Availing of this offer would at least ; have established in a decisive manner the reasonableness of the price being paid to the manufacturer.
19	1.94	Railways	It is also seen that a 'book examination' clause has been stipulated for the first time in the contract of October, 1977 entered into with M/s. NEI. The Railways however have no proposal at present for undertaking cost examination of their product even now. This sounds astounding.
20	1.95	Do.	The above paragraphs no doubt make an unsavoury reading. The Committee cannot but express their displeasure on the undue indulgence shown to this firm all along. They recommend that the whole matter may be enquired into by the Cost Accounts Organisation of the Ministry of Finance to determine what should have been the reasonable price legitimately payable for the products of this monopoly supplier after taking into account the break-up of labour and material contents of the cost of production of the manufacturer. If the enquiry reveals that the prices paid to the manufacturer were not reasonable and the manufacturer had derived undue benefit, responsibility therefore, should be fixed on the officers concerned.

21	2.33	Railways	The Committee note that in the contracts entered into with the two manufacturing firms viz. M/s Bhartia Electric Steel Co. Ltd., Calcutta and M/s. Mukand Iron & Steel Works Ltd., Bombay for the procurement of centre buffer couplers and clevises, in the year 1975 stipulations were made for the supply of scrap by the Railways to the manufacturers on a pre-determined rate and against payment. Provision of scrap assistance by the Railways to the coupler manufacturers was one of the conditions of their offers for supply of couplers. According to the Railway Board the objective of the scrap assistance was "to keep the prices of centre buffer couplers to the minimum possible level." The prices of couplers payable by the Railways were accordingly worked out on the basis of the scrap prices at which the scrap was to be supplied to the manufacturers'. On being asked as to what would have been the result if Railways had not agreed to the manufacturers' request for supply of scrap, a representative of the Ministry of Railways (Railway Board) replied that the suppliers would not have taken the risk and would have provided for a possible escalation in the value of scrap and stepped up the price of the couplers. Thus the intention behind the issue of scrap to these firms on payment at a fixed rate was to delink the contract prices from any fluctuations in the price of scrap in the open market.
22	2.34	Railways	The Committee find that the coupler manufacturers obtained scrap from the Railways at pre-determined rates against the contracts of 1974. Though the same stipulations were extended for the contracts placed in January, 1975/February 1975 the manufacturers did not obtain any scrap from the Railway against these contracts. The non-drawal of scrap by the coupler manufacturers against the 1975 contracts has *inter alia* been attributed by the Railway Board to the availability of scrap in the market at nearly the same price at which assistance from Railways was available. The Railway Board even claimed that the manufacturers did buy at higher rates. In support of this claim they have furnished the certificates issued by the Chartered Accountants of the firms. The second reason for the firm preferring

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			to purchase at higher rates, as given by the Railway Board, is the firms' convenience of purchase from the market, compared to obtaining from the Railways through the prescribed procedure.
23	2.35	Railways	Both the arguments advanced by the Railway Board appear untenable for the following reasons: (i) The Railway Board have admitted that during the period of execution of these orders there was a fall in scrap prices compared to those stipulated in the contract. In view of this it is difficult to believe that the firms did actually pay higher prices for the same quality of scrap. (ii) The argument regarding convenience of purchase from the market is equally unconvincing as these firms have had enough past experience of dealing with the Railways' procedure and yet they had stipulated the condition of scrap assistance from the Railways in their offers for supply of couplers against the 1975 contract.
24	2.36	Do.	Another reason given by the Member Mechanical during the course of this evidence before the Committee, for non-drawal of scrap by the coupler manufacturers was that the type of scrap Railways were selling was different from the type that the manufacturers would have bought from outside. This argument also sounds patently ridiculous because of the fact that the coupler manufacturers had been using the scrap obtained from the Railways in large quantities both prior to 1975 and subsequent to 1975. The reasoning given by the Member Mechanical is thus obviously far fetched and unconvincing. In this context it is to be noted that Railway Board have in a written note

			submitted that one of the firms did not, in fact, approach the Railways for issue of scrap and if they had approached the requisite category of scrap could have been made available to the firm to the extent available.
25	2.37	Do.	The Committee are of the view that as analysed by the Audit with reference to the then prevailing prices of scrap in the market, the real reason for the non-drawal of scrap by the manufacturers against the 1975 contracts was the lower price at which scrap was available in the market. The lower market prices enabled the manufacturers to reap larger profits by buying the scrap from the open market rather than obtaining the same from the Railways at pre-determined rates, which were higher than the then market rates. Since the prices of couplers payable by Railways were linked with the price of scrap, the manufacturers derived an unintended benefit at the cost of Railways by taking advantage of the fall in the market price of the scrap during the relevant period. The benefit so derived by the firms and corresponding loss suffered by the Railways has been calculated by Audit to be Rs. 7.71 lakhs. The laboured explanation offered by the Railway Board to the effect that no loss was incurred by the Railways on account of the fall in the market price of the scrap is not at all convincing.
26	2.38	Do.	Although the manufacturers were able to make a quick buck by taking advantage of the slump in scrap prices, the Railways failed to safeguard their financial interests. According to the Railway Board "the aspect of slump in scrap prices from April, 1974 and onwards does not appear to have been deliberated". This is most unfortunate to say the least. The Committee are of the view that consequent upon the scrap prices falling below what had been indicated by the manufacturers in their quotations, the Railways should have re-negotiated with the manufacturers for proportionate reduction in the supply price of the couplers.
27	2.39	Do.	The Committee have been informed that with Railways' experience of operation of scrap assistance clause in the previous contracts, a stipulation was

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			now being made that in the event of scrap being procured by the coupler manufacturers from the other sources at lower prices, the benefit of lower prices will accrue to the Railways. This is no doubt an admission of the fact that the stipulation regarding scrap assistance included in the earlier contracts was one-sided and defective whereby the coupler manufacturers exploited this lacunae in the terms of the contracts of 1975 to their advantage and at the cost of Railways.
28	2.40	Railways	Another important point that strikes the Committee is that although the provision of an escalation clause in the purchase or work contracts takes care of the financial interests of the contractors, no such provision is made in these contracts for safeguarding the interest of Railways. The Committee desire that the Railway Board should, in consultation with the Ministry of law and the DGS&D, incorporate a suitable provision in all the future contracts to take care of the type of contingency noticed in the present case.
29	3.43	Do.	The Committee find that a steel foundry had been set at Chittaranjan Locomotive Works in 1961 with an investment of Rs. 5.97 crores and with a capacity for producing ten thousand tonnes of steel castings each year. This included a capacity to manufacture one thousand tonnes of cast manganese steel crossings which was equivalent to about two thousand crossings a year weighing about half a tonne each. For the manufacture of cast manganese steel crossings special equipment in the form of Heat, Treatment Furnance with auxiliaries and some Moulding Boxes had been installed at a total approximate cost of Rs. 10 lakhs.
30	3.44	Do.	Against the installed capacity of one thousand tonne or 2,000 Nos. of manganese steel crossings. the actual production of these crossings over the years

			had been much less. In fact in 1967-68 and 1968-69, the steel Foundry produced only 99 tonnes and 168 tonnes respectively of the manganese steel crossings. The Committee have been informed that becuase of the developmental problems involved in the manufacture of the manganese steel crossings, the capacity of the steel foundry was re-fixed in June 1973 at 800 Nos. or 400 tonnes of manganese steel crossings per annum. The fact remains that even after reducing the annual capacity of the CLW foundry the actual production of the manganese steel crossings had never reached its full capacity of 800 Nos. but it had been constantly coming down over the years. From 434 Nos. of crossings produced in 1972-73, the production figures had gradually come down to as low as 12 Nos. in 1977-78. During 1979-80 the production of the manganese steel crossings was nil.
31	3.45	**Railways**	The drop in the out-turn of cast manganese steel crossings has been attributed *inter alia* to a change in the product-mix in which very low priority was given to the production of manganese steel crossings. As a matter of fact, the entire capacity for production of cast manganese steel crossings had been diverted over the years to the production of other items categoriesd as "higher priority items" namely Co Co bogies and other intricate castings required for the manufacture of diesel and electric locomotives. The Railway Board have now stated that there is no prospect of undertaking manufacture of cast manganese steel crossings in the near future.
32	3.46	**Do.**	The Committee are inclined to feel that the installed capacity for the production of manganese steel crossing has been diverted to production of other items not because these other items claimed higher priority but becuase the CLW Administration failed to optimise the production of steel castings including that of cast steel manganese crossings. In this context, it is relveant to recall that in December, 1972 the CLW Administration had advised the Railway Board not to reduce the manufacture of manganese steel crossings to any appreciable extent as the curtailment would affect the optimum utilisation of pattern moulding, quenching tanks and

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			heat treatment furnace which had been specially installed for the purpose. The Railway Board overlooked the CLW's view point on the ground that other crossings had to be given priority over manganese crossings for which alternate material and source of supply was indigenously available. In this process an important factor namely the relative economics of the manganese steel crossings and its indigenous substitute, the fabricated crossing, had been lost sight of. It has been worked out by Audit that between 1972-73 and 1977-78 the Railways have had to incur an extra expenditure of the order of Rs. 2.04 crores (at 1978 price level) on the procurement of fabricated crossings as against cast manganese steel crossings.
33	3.47	Railways	The Committee cannot but express their concern over the extra expenditure being incurred on the procurement of fabricated crossings rather than producing manganese steel crossings indigenously for which special capacity was created at great cost involving payment to a foreign collaborator. The Committee feel that before diverting the capacity meant for production of manganese steel crossings to the production of other items categorised as priority items, the economics of the relative cost of production of manganese steel crossings *vis-a-vis* other items could and should have been worked out.
34	3.48	Do.	The Committee would like the Railway Board to re-consider whether it would not be financially advantageous even at this stage to augment the production of cast manganese steel crossings instead of procuring fabricated crossings from the trade because of the added advantages of economies in the long run. In this context it is interesting to note that the Railway Board still feel that "though it was financially and technically advantageous to the Railways to procure cast steel manganese crossings, the Railways had to go in for the fabricated crossings purely because of the limited capacity of CLW which was the only source of supply." The diversion of even the limited capacity to other uses will thus have to be justified on the grounds of economy.

35	3.49	Do.	From the figures furnished by Audit for the year 1972-73 to 1977-78, it is seen that whether it is the procurement of fabricated crossings or cast manganese steel crossings there is a wide gap between the allotments made and the quantities actually procured during these years. The Committee would like to know how the Railway Board have met the shortfalls in procurement of this item all these years.

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