

## CHAPTER XII: MINISTRY OF SHIPPING

### Dredging Corporation of India Limited

#### 12.1 Non-safeguarding of financial interests under dredging contract

**Dredging Corporation of India Limited failed to safeguard its financial interests under a dredging contract entered into with Kamarajar Port Limited, which resulted in avoidable extra expenditure of ₹18.73 crore.**

Dredging Corporation of India Limited (DCIL) obtained (18 October 2014) a Capital Dredging Contract from Kamarajar Port Limited (KPL) for deepening of its Coal berths (CB1 and CB2) at Chettinad International Coal Terminal of Ennore Port at a total contract price of ₹46.35 crore (₹36.45 crore towards capital dredging and ₹9.90 crore towards charges for idle time of dredgers). As per the agreement, DCIL was to dredge 3 lakh cubic meters (cum) of soft soil upto a depth of 16.0 meters (m) and 7.50 lakh cum of stiff clay/ hard soil from 16.0 m to 18.50 m depth, aggregating to 1.05 million cum quantity with a variation of plus or minus 20 per cent. The contract was to be executed within eight months to be reckoned from 30<sup>th</sup> day of the date of issue of Letter of Award (LoA), i.e., by 18 July 2015. The contract provided for levy of liquidated damages for delayed completion of work at the rate of 0.5 per cent per week of the total value of contract subject to a maximum of 10 per cent of the contract value. DCIL intended to use Trailing Suction Hopper Dredger (TSHD<sup>1</sup>) for removing soft soil and Cutter-Suction Dredger (CSD<sup>2</sup>) for removing stiff clay/ hard soil. At the time of contract, KPL turned down the proposal of DCIL to pay the mobilisation/ demobilisation charges for deployment of dredgers on the ground that the proposed dredgers were already at the seashore of KPL. Further, the contract stipulated that in order to minimise the idle time, DCIL should deploy CSD with prior approval of KPL.

DCIL completed the dredging contract by 30 October 2015, with a delay of more than three months and dredged a quantity of 1.04 million cum against the agreed quantity of 1.05 million cum and claimed an amount of ₹36.37 crore. As KPL did not accord permission to deploy CSD, DCIL deployed three TSHDs instead of one TSHD and one CSD earlier intended to complete the entire dredging work and incurred an amount of ₹47.58 crore against ₹36.37 crore claimed as per the contractual terms. DCIL also incurred an amount of ₹3.81 crore for mobilisation/ demobilisation charges for deployment of dredgers for execution of the contract. Further, due to delay in execution of contract, KPL recovered an amount of ₹3.71 crore towards liquidated damages.

<sup>1</sup> A trailer suction hopper dredger (TSHD) trails its suction pipe when working. The pipe, which is fitted with a dredge drag head, loads the dredge spoil into one or more hoppers in the vessel. When the hoppers are full, the TSHD sails to a disposal area and either dumps the material through doors in the hull or pumps the material out of the hoppers

<sup>2</sup> A cutter suction dredger's (CSD) suction tube has a cutting mechanism at the suction inlet. The cutting mechanism loosens the bed material and transports it to the suction mouth. The dredged material is usually sucked up by a wear-resistant centrifugal pump and discharged either through a pipeline or to a barge

Audit observed that:

- Prior to issue of LoA, though DCIL had expressed its intention to use CSD for removal of hard soil, it agreed to incorporate a term in the contract which stipulated requirement of prior permission of KPL for deployment of CSD. When DCIL approached for permission, KPL denied the permission for deployment of CSD. As a result, DCIL had to dredge the stiff clay/ hard soil with the TSHDs which were meant for removal of soft soil.
- Due to poor dredging capability of TSHDs, DCIL could not complete the contract within the scheduled contract period and had to incur liquidated damages of ₹3.71 crore.
- Despite acceptance of terms and conditions by both the parties in May 2014, KPL issued the LoA on 18 October 2014. In the meanwhile, DCIL de-mobilised its TSHD in April 2014 to take up another assignment at Haldia. Despite this, DCIL did not insist for inclusion of mobilisation charges in the contract.
- Further, due to not giving permission to deploy CSD by KPL, the existing CSD was withdrawn from the KPL for dry dock works in May 2015. In order to execute the KPL's contract, DCIL deployed three TSHDs during the contract period. In connection with mobilisation and demobilisation of these dredgers, DCIL incurred an amount of ₹3.81 crore which was not reimbursed by KPL.

Thus, due to deployment of TSHDs for dredging the stiff clay/ hard soil, DCIL incurred an extra expenditure of ₹11.21 crore (actual expenditure of ₹47.58 crore less amount of ₹36.37 crore realised as per contractual terms) on execution of work, along with ₹3.71 crore towards liquidated damages for delayed completion of work and ₹3.81 crore towards mobilisation/ demobilisation charges.

Management replied (November 2019) that:

- KPL did not agree for deployment of CSD as there was no facility for shore pumping, no reclamation area and there was no place for double handling by TSHD due to shipping. As CSD occupies more space with anchors and other ancillary equipment, it would have become a hindrance to the shipping movement and other commercial operations.
- Though CSD was required to be deployed to dredge hard strata soil, DCIL had deployed TSHDs so as to maintain cordial relations with KPL. As a result, it took excess time and expenditure.
- DCIL could not insist for mobilisation and demobilisation charges since there was no such component in the contract.

The reply is not acceptable in view of the following:

- The agreement between KPL and DCIL did not stipulate double handling of TSHD and CSD. DCIL intended to use TSHD for removal of soft soil upto 16 m for the initial two months period of contract. Thereafter, it intended to use CSD for removal

of hard soil/ stiff clay. DCIL should have impressed upon KPL for granting permission of deployment of CSD by explaining that without CSD it would take much more time and require deployment of more TSHDs. The payment terms should also have been arrived at accordingly.

- DCIL re-deployed the dredgers available at KPL to take up dredge works at another port due to delay in issue of LoA by KPL. However, it did not insist for inclusion of a clause in the contract for payment of mobilisation charges.
- During the pre-award discussions (26 March 2014), since the earmarked dredgers were available at Ennore Port, KPL did not agree for the payment of mobilisation/ demobilisation charges. However, as there was considerable delay in issue of work order (October 2014) by KPL and DCIL had already redeployed the dredgers to other Ports, DCIL should have renegotiated the terms with the KPL and sought for reimbursement of mobilisation/ demobilisation charges incurred.

The Ministry replied (November 2019) that:

- DCIL intended to use both CSD and TSHDs as per the requirement and contract rates were inclusive of mobilisation and demobilisation charges. TSHDs were meant for removal of hard soil also.
- Since the dredgers which would have been idle otherwise were efficiently utilised for dredging and earned revenue, the cost of dredging cannot be considered extra.

The reply is not acceptable in view of the following

- DCIL intended to use TSHD for removal of soft soil and CSD for removal of hard soil/ stiff clay. However, due to denial by KPL for deployment of CSD, the Company had to deploy TSHDs for removal of hard soil/ stiff clay which resulted in extra time and cost.
- Due to deployment of more TSHDs, the Company incurred additional expenditure of ₹11.21 crore than the revenue realised amounting to ₹36.37 crore, apart from imposition of liquidated damages of ₹3.71 crore and non-realisation of mobilisation/ demobilisation charges of ₹3.81 crore. Further, for keeping the CSD harboured at KPL port idle during 2014-15, it incurred ₹7.71 crore towards operation expenses and overhead without earning any revenue.

Thus, DCIL's failure in safeguarding its financial interests under the dredging contract with KPL resulted in incurring of avoidable extra expenditure amounting to ₹18.73 crore.