CHAPTER XIX: DEPARTMENT OF SHIPPING

Dredging Corporation of India Limited

19.1.1 Loss of interest due to delay in preferring escalation claims

The Company suffered a loss of interest of Rs.2.93 crore due to delay in preferring escalation claims against Kolkata Port Trust.

The Dredging Corporation of India Limited (Company) entered (March 2002) into a contract with Kolkata Port Trust (KPT) for dredging services in the approach channels to Haldia Dock Complex. As per the contract the Company could prefer claims for fuel and material escalation at the end of every quarter. Further, for the purpose of claiming fuel escalation, any increase in the prices of fuel was to be based on rates actually paid by the Company whereas the material escalation claims were to be based on all India whole sale price index.

A review in Audit of the Company's claims for fuel escalation revealed that during the period April 2002 to March 2007 there were avoidable delays ranging from 15 to 118 days after giving an allowance of 40 days for collection of requisite data considering that Company was allowed credit upto 30 days for making the fuel payment, in preferring fuel escalation claims. In respect to material escalation the avoidable delays (during the period January 2004 to March 2007) were upto 550 days after allowing for 80 days for collection of data considering the fact that 'All India Price Indices' were available within 68 days on the web site of Ministry of Labour since 2003. By avoiding these controllable delays, the Company could have earned interest of Rs.2.93 crore*.

The delay in raising the claim for fuel escalation was attributed by the Management (May 2007) to the fact that though the supplies of fuel were made at Haldia, the bills for the same were received and paid at the Company's Headquarters at Visakhaptanam; thereafter the bills were sent to Haldia for raising escalation claims. The delay in raising the claim for material escalation was stated to be due to delay in publication of indices in Labour Journal. The Management further stated that the Company had prevailed upon KPT to accept the indices as indicated in the web site of the Ministry of Labour and the claims were being now raised within reasonable time.

The Management reply indicates that the system for preferring escalation claims was unsatisfactory. The price of fuel was known at the time of purchase and therefore, the fuel escalation claims need not have been deferred till payment for fuel was made. And the delay in claiming the material escalation bills could have been avoided by regularly checking the data relating to 'All India Price Indices' on the web site of the Ministry of Labour available since 2003. Also the Company did not streamline its procedure for

* ***Based on average rate of interest earned by the Company during the period 2004-07***

raising the claims that would have led to timely submission of claims and receipt of payments.

Thus, due to avoidable delay in preferring escalation claims against KPT, there was a loss of interest of Rs.2.93 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

Hindustan Shipyard Limited

19.2.1 Avoidable extra expenditure of Rs.1.53 crore

Despite obtaining specific approval of the Chairman and Managing Director for placing order for a quantity of 1,000 MT, non-finalisation of tender within the extended validity period resulted in extra expenditure of Rs.1.53 crore.

Hindustan Shipyard Limited (Company) invited (November 2005) limited tender enquiries for procurement of 1,000 MT of Mild Steel Plates to stock it as buffer stock. The lowest offer received was from M/s. Asian Associates, Mumbai, (AAM) an Indian agent of M/s. Salgitter Mannesmann International, Germany, (SMIG) for US$ 490 *per* MT. This was 26.4 *per cent* lower than the rates offered by the second lowest party *viz.*, M/s. Igawara Industrial Services and Trading Private Limited, Singapore (IIST). M/s. AAM subsequently reduced the rate offered by them to US$ 471 *per* MT. Despite M/s. AAM extending its offer validity period at the request of the Company six times (last time upto 3 February 2006), no order was placed on it and on the seventh occasion it refused (7 February 2006) to extend the validity period of its offer.

The limited tenders were invited again (13 March 2006) and M/s. SMIG did not participate in the bid. M/s. IIST emerged as L1 party and a quantity of 460.25 MT was procured from it at the rate of 1,224.50 Singapore Dollars *per* MT. The Company also placed orders for a quantity of 1,007 MT in a staggered manner during the period February 2007 and March 2007 at rates higher than the rates offered by M/s. AAM. The total extra expenditure due to not finalising the offer of M/s. AAM was Rs.1.53 crore*.

The Company in its reply stated (April 2007) that:

(i) There was change in the requirement of quantity of steel because of ship repair business scenario and therefore requirement was reviewed and brought down to 500 MT.

(ii) The Company sought acceptance of M/s. AAM for execution of order for reduced quantity of 500 MT, which was not acceptable to the vendor.

This reply was not acceptable in view of the following:

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* ***Based on procurement of 1,000 MT***

(i) There was no change in the requirement of steel as the Company placed additional order of 1,007 MT during the period February 2007 and March 2007. The Chairman and Managing Director had approved purchase of 1,000 MT on 28 January 2006 whereas the approval of the Chairman and Managing Director to restrict the quantity to 500 MT was taken on 7 February 2006 only after the expiry of the revised extended date of 3 February 2006.

(ii) The Company vide its e-mail dated 19 January 2006 sought acceptance of M/s. AAM for supply of part quantity and not the specific quantity of 500 MT. This communication was unwarranted as the new quantity required was not specific and could also mean very low quantity. Before sending this communication there was no proper re-estimation of revised quantity and no approval of competent authority taken to ask the supplier for part quantity.

Thus, non-placement of order within the extended validity period of the offer despite obtaining specific approval of the Chairman and Managing Director for the full quantity of 1,000 MT resulted in extra expenditure of Rs.1.53 crore.

The matter was reported to the Ministry in June 2007; reply was awaited (November 2007).

The Shipping Corporation of India Limited

19.3.1 Delay in acquisition of vessels

Delay in acquisition of six vessels resulted in additional cost.

The Company included (July 2004) acquisition of six Large Range-1 Product Tankers (vessels) in the annual plan for 2005-06 after its efforts to procure two vessels failed in 2002-03 and 2003-04. Accordingly, a proposal approved (January 2005) by the Board, was sent (February 2005) to the GOI for acquisition of six vessels at an indicative price of US$ 36 million *per* vessel, which was revised (October 2005) to US$ 43 million *per* vessel aggregating US$ 258 million equivalent to Rs.1,134.30 crore[*].

The Company floated (February 2005) global tenders for technical offers for acquisition of six vessels and short listed (July 2005) two shipyards. The GOI granted ‘in principle’ approval of the proposal in October 2005. The Company thereafter, invited (February 2006) commercial offers from the short listed shipyards and found the offer of STX Shipbuilding Company Limited, South Korea lowest at US$ 61.80 million *per* vessel after adjustment of cost of addition/deletion of certain items and the rebate offered by the shipyard. The Company submitted (April 2006) a proposal to the GOI seeking its final approval. The proposal justified the increase in the cost of vessels on the grounds of recent increase in shipbuilding costs mainly due to high steel prices in the international market and strong order book position of the shipyards. The GOI approved (October 2006) acquisition of six vessels at a price of US$ 61.80 million *per* vessel at a total cost of US$ 370.80 million. Accordingly, the Company entered (October 2006) into contracts

[*] ***At the exchange rate of one US$=Rs.43.965 prevailing in October 2005***

with STX Shipbuilding Company Limited, South Korea to acquire six vessels at a total cost of US$ 370.80 million equivalent to Rs.1,702.90 crore*.

According to the Memorandum of Understanding (MOU) for the year 2005-06 between the Company and the GOI, the Ministry would make effort to expedite the clearance of ship acquisition proposals for submission to Cabinet Committee of Economic Affairs within 14 week of receipt of the proposal (excluding time taken by the Company in furnishing information/clarifications). Audit noted (November 2006) that the proposal, initiated in February 2005, took 87 weeks to be finalised. Thirty six weeks (from 2 February 2005 to 17 October 2005) were for 'in principle' approval and another 51 weeks (from 17 October 2005 to 12 October 2006) were used in according the final approval.

At the stage of obtaining 'in principle' approval, while the Company took 18 weeks (94 days plus 35 days in the two spells) to furnish information/clarifications sought by the Planning Commission, the Planning Commission in turn called for information/ clarifications in spells over a period of 17 weeks in their examination of the proposal. It took another 51 weeks for the final approval.

In the meanwhile, the price of the vessels went up from US$ 36 million *per* vessel (February 2005) when the proposal was first sent to the Ministry for approval, to US$ 43 million *per* vessel (October 2005) when the 'in principle' approval was received. And at the time of receipt of the final approval in October 2006 (*i.e.*, after 87 weeks) the ordered price was US$ 61.80 million *per* vessel. The costs of the vessels increased primarily due to rising shipbuilding costs, a situation that was well known to the Company and the Ministry, which required processing of the proposal in a time-bound manner at each stage and level. The time for 'in principle' approval took 36 weeks. Based on the indicative price of US$ 43 million *per* vessel given in the proposal by the Company and after adjusting US$ 1.995 million *per* vessel towards the cost of items added for Common Structural Rules compliance, due to delay in the approval process the Company had to bear additional cost in the purchase of six vessels.

The Management stated (June 2007) that:

(i) it had been continuously following up the matter with the Ministry to obtain approval of the GOI;

(ii) the prices of the vessels procured and the indicative prices in the proposal were not comparable;

(iii) the offers pertained to two different periods; and

(iv) the vessels ordered by the Company were of superior technical specification and hence the prices were higher than the price of standard specification vessel.

The Ministry replied (November 2007) on the lines of the Management.

* ***At the exchange rate of one US$ =Rs.45.925 prevailing in October 2006***

As narrated above, there were unaccountable delays in processing of the proposal for acquisition of the vessels. More so, as it was well known that prices of steel was on the rise affecting shipbuilding costs worldover. In regard to superior technical specifications of the acquired vessels, the Management apart from this general statement, did not provide any specific details on the price differences on this account.

Thus, due to delay in the approval process for procurement of vessels, it is estimated that the Company incurred an additional cost of Rs.513.48 crore* on acquisition of six vessels.

**** Estimated as follows:***

(i) The cost at the time of signing of the contracts in October 2006 after allowing additional cost due to items added for common structural rules compliance-Rs.1,647.78 crore (US$59.80 million per vessel at the exchange rate of one US$=Rs.45.925 of October 2006 for six vessels)

(ii) Less indicative cost at Rs.1,134.30 crore at the time of receiving 'in principle' approval in October 2005 (US$ 43 million per vessel at the exchange rate of one US$=Rs.43.965 of October 2005 for six vessels)

(iii) Escalation of Rs.184.65 crore, from US$ 36 million per vessel (February 2005 when the proposal was first sent to the Ministry for approval) to US$ 43 million per vessel (October 2005 when the 'in principle' approval was received) to compensate for the cost of superior specifications of the vessels as the same could not be determined by the Company, has not been included.