

No. F. 1(161)/DD-II/PPRA/2011
GOVERNMENT OF PAKISTAN
PUBLIC PROCUREMENT REGULATORY AUTHORITY
(CABINET DIVISION)

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Islamabad, dated 16th March, 2012

SUBJECT: AWARD OF CONSULTING CONTRAT TO M/S VO TYAHPROMEXPORT IN VIOLATION OF PUBLIC PROCUREMENT RULES, 2004 LEADING TO AWARD OF \$350 MILLION CONTRACT TO SAME COMPANY.

Reference Public Procurement Regulatory Authority's letter of even number dated 3rd March, 2012 on the above noted subject.

2. Your request was forwarded to Pakistan Steel Mills Corporation Limited, Karachi for disposal under Rule – 48 of Public Procurement Rule, 2004. The comments of Procuring Agency are enclosed.



(Ali Temoor)
Asstt. Director-III

Syed Adil Gilani,
Advisor,
Transparency International- Pakistan,
5 C, 2nd Floor,
Khayaban-e-Ittehad, Phase VII,
DHA,
Karachi.



PAKISTAN STEEL

PAKISTAN STEEL
(Corporate Secretariat)

No.Sec/PPRA-224/2012/718

March 12, 2012

Mr. Naeem Ahmad,
Deputy Director II,
Public Procurement Regulatory Authority,
Government of Pakistan,
Islamabad.

SUB: AWARD OF CONSULTING CONTRACT TO M/S VO TYAZHPROMEXPORT IN VIOLATION OF PUBLIC PROCUREMENT RULES 2004 LEADING TO AWARD OF USD \$350 MILLION CONTRACT TO SAME COMPANY

Please refer PPRA letter No.F.1(181)/DD-II/PPRA/2011 dated 3rd Feb, 2012 on the subject captioned above.

As desired, Comprehensive report / comments on the contents of complaints is enclosed along with a copy of reply sent to TIP.

Encl: Comments, Reply to TIP


(ABSAR NABI)
SECRETARY
PAKISTAN STEEL

REPORT/COMMENTS

ON

AWARD OF CONSULTING CONTRACT TO M/S VO TYAZHPROMEXPORT IN VIOLATION OF PUBLIC PROCUREMENT RULES 2004 LEADING TO AWARD OF USD 350 MILLION CONTRACT TO SAME COMPANY.

BMR&E is in receipt of letter No. F.1(181)/DD-11/PPRA/2011 dated 3 Feb 2012 (PUC) of Govt. of Pakistan, Public Procurement Regulatory Authority (Cabinet Division) articulated to the letter of Transparency International of Pakistan (TIP) dated 28 Jan 2012, addressed to Chairman (ACEO) Pakistan Steel, indicating therein violation of PPRA rules on the subject contract to VO Tyazhpromexport.

For the sake of clarity of apprehension conceived by TIP in their above referred letter, Pakistan Steel's comments in the matter are as under:

- i) Pakistan Steel was established with the techno-economic collaboration of the former USSR with a designed capacity of 1.1 million tons per year (mtpy) and a built-in potential for expansion up to 3.0 mtpy. The existing production capacity of Pakistan Steel is suo-economic which necessitated its expansion but no concrete step could be taken over the years in this regard.
- (iii) The present Government has accorded priority to the expansion of Pakistan Steel's production capacity. It constituted a Committee in Jan 2009, comprising all stakeholders i.e. Board of Investment, Planning Division and Pakistan Steel, under the chairmanship of Minister for Industries and Production to oversee the expansion of Pakistan Steel. Meanwhile a visit of Pakistan was scheduled to Russian Federation from 11 May 2011, during which the matter of expansion of Pakistan Steel's production capacity duly came up for discussion.
- iv) The concerned officials of the visiting Pakistani delegation held a meeting on the issue with the Russian state-owned firm, VIO Tyazhpromexport, the original designer and manufacturer of Pakistan Steel, wherein it was noted that as a first step towards expansion, technical audit of the plant would be carried out by VIO Tyazhpromexport for Pakistan Steel's expansion up to 1.5 mtpy.

- (vi) Pakistan Steel plant and its technology is Russian origin and in order to ensure compatibility of the existing plant with the modifications / additions necessary for the capacity expansion programme, Pakistan Steel also considers it mandatory that this programme should be carried out with the technical assistance of Russian Federation so that value for money could be safe guarded. Technical audit as a precursor to the implementation of the expansion programme is absolutely necessary to identify the requirement for restoration of the existing production capacity of 1.1 mtpy as well as the need for new equipment addition or up-gradation of the facilities for expansion up to 1.5 mtpy:
- (vii) The Board of Directors in its meeting held on 12 Jan 2012 deliberated the application of PPRA Rules in this specific case and directed Pakistan Steel management to process the case with the endorsement of Ministry of Production for getting waiver of PPRA Rules-2004 from relevant authority to award the contract for technical audit to Russian state-owned firm, M/s. Tyazhpromexport an estimated cost of USD 150,000.00 (exclusive of withholding tax) and as per the agreed terms and conditions.

Considering the status of the case in question, Pakistan Steel is of the view that expansion project is of national interest, play an important role in the economy of the country. Management of Pakistan Steel is processing the case to fulfill all codal formalities, without violating rules and procedures, including the option of exemption of PPRA rules to materialize the award of contract to VO Tyazhpromexport for the technical audit of Pakistan Steel. On the basis of technical audit report Govt. of Russia will also provide economic assistance for this project amounting to USD 350 Million or more depending upon the need for rehabilitation of existing capacity to 1.1 mtpy and afterward expansion upto 1.5 mtpy.

In view of the position explained above, it is once again ^{reiterated} ~~reiterated~~ that the award of consultancy contract to M/s VO Tyazhpromexport will only be finalized within ambient of rules set forth.



PAKISTAN STEEL

PAKISTAN STEEL
(Corporate Secretariat)

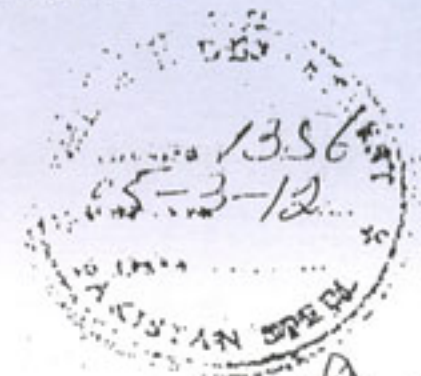
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March 2, 2012

Syed Adil Gilani,
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KARACHI.

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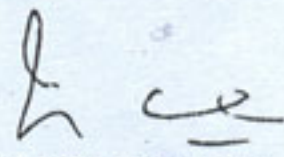
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SUB: AWARD OF CONSULTING CONTRACT TO M/S VO TYAZHPROMEXPORT IN VIOLATION OF PUBLIC PROCUREMENT RULES 2004 LEADING TO AWARD OF \$ 350 MILLION CONTRACT TO SAME COMPANY

Dear Sir,

Kindly refer to your letter dated 28th January, 2012 addressed to Chairman, Pakistan Steel, on the subject captioned above.

2. With regard to the contents of your letter, it is apprised that the contract of technical audit of Pakistan Steel has not yet been awarded to the Russian firm and the same would be processed in accordance with the prevalent rules / regulations of the Government.


(ABSAR NABI)
SECRETARY
PAKISTAN STEEL

c.c. to:

- ~~APEO (BMR&E)~~

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Eng. Syed Azeemul Haque
A/GM (BMR&E)
Pakistan Steel