P.A.C. No. 615

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

(SIXTH LOK SABHA)

SEVENTY-SECOND REPORT

IMPORT OF RAPESEED AND RAPESEED OIL FROM CANADA

MINISTRY OF CIVIL SUPPLIES AND COOPERATION

[Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil)]

Presented in Lok Sabha on 17-4-1978
Laid in Rajya Sabha on 24-4-1978

LOK SABHA SECRETARIAT
NEW DELHI

April, 1978/Chaitra, 1900 (Saka)

Price : Rs. 3.10

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*PART II

Minutes of the sittings of the Committee held on 28 and 29 September, 1977 and 7 April, 1978.

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

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(1977-78)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventy-Second Report of the Public Accounts Committee (Sixth Lok Sabha) on Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil) relating to the Ministry of Civil Supplies and Cooperation on Import of Rapeseed and Rapeseed Oil from Canada.

2. The Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil) was laid on the Table of the House on 7 April, 1977. The Public Accounts Committee (1977-78) examined the paragraph relating to the Import of Rapeseed and Rapeseed Oil from Canada at their sittings held on 28 and 29 September 1977. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 7 April, 1978. The Minutes of the sittings of the Committee from Part II* of the Report.

3. A statement containing conclusions/recommendations of the Committee is appended to the Report (Appendix IV). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of the subject by the Comptroller and Auditor General of India.

5. The Committee would also like to stress their thanks to the officers of the Ministry of Civil Supplies and Cooperation, Finance (Deptt. of Economic Affairs) and State Trading Corporation of India for cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 12, 1978.
Chaitra 22, 1900 (*S*)

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

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

REPORT

CHAPTER I

IMPORT OF RAPESEED INSTEAD OF RAPESEED OIL FROM CANADA

Audit Paragraph

Mention was made in paragraph 8.6 of the Report on Union Government (Commercial), 1974, Part II about import of rapeseed against loan assistance received under the Canadian Development Assistance Programme for 1969-70 and 1970-71; the loans were for Canadian $33 lakhs and $65 lakhs respectively against which 77,500 tonnes of rapeseed were imported. The imported rapeseed was allotted to the State Governments in the eastern region, mainly West Bengal, Assam and Bihar, for crushing and supplying oil through fair price shops.

1.2. During 1971-72, 16,200 tonnes of rapeseed were received free of cost as Canada contribution for relief of refugees from erstwhile East Pakistan (now Bangladesh).

1.3. Consequent on discussion between the representatives of Canada and India about Canadian assistance in the form of rapeseed, Canada offered (July 1972) to supply during 1972-73 rapeseed worth Canadian $110 lakhs FAS at the port of loading as a grant; all expenses for shipping, insurance, stowing, trimming etc., were to be borne by Government of India. Before the formal offer was made by Canada in July 1972 an Indian company (The Indian Molasses Company Private Ltd., New Delhi) wrote to the State Trading Corporation of India on 8 April 1972 pointing out that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed and suggested that, if necessary, the seed could be got crushed in Canada, the resultant oil brought to India and the rapeseed oilcake sold in Europe. Subsequently, on 25 April 1972 the company wrote to the State Trading Corporation agian pointing out that "asking for large quantities of straight oil may not produce sufficient response as the Canadian crushers like to hedge their seeds supplies and oilcake sales and this would tend to push the price up. Consequently under Canadian aid the best method would be to buy the seed and arrange simple crushing with contract with the oil millers." While considering the suggestion of the company it was held (28 April 1972) by Government that "..........what we had asked for, and have been offered, is the seed and not the oil. Besides, import of seed has an inherent advantage in that it helps to utilise idle oil-milling capacity in this country and that to "follow the straightforward course of getting the import as rapeseed, as already arranged" seemed best. About 79,800 tonnes of rapeseed were imported against the Canadian assistance for 1972-73.

1.4. In June 1973, the Canadian authorities wished to know whether part of the grant of Canadian $150 lakhs for 1973-74 would be accepted by India as rapeseed oil.

1.5. The economics of importing rapeseed oil in preference to rapeseed were then examined and it was worked out in Jun-July 1973, on the basis of prices then prevailing, that on overall cost basis import of rapeseed oil would have a price advantage of about $121 per tonne as compared to the net cost of oil (after allowing for credit for export of oilcakes) extracted in India from imported rapeseed. However, it was decided (July 1973) to utilise a portion of the Canadian grant for import of rapeseed (so long as rapeseed was being offered as gift) to meet the demand of certain eastern States for utilising the oil crushing capacity in those States. Accordingly, 18,456 tonnes of rapeseed costing about Canadian $ 47.4 lakhs and about 13,969 tonnes of rapeseed oil costing about Canadian $ 93.6 lakhs were imported against the Canadian grant for 1973-74. As in 1972-73, all expenses for shipping, insurance, stowing, trimming etc. were borne by Government of India for these imports also.

1.6. For 1974-75 Canada offered (December 1974) a grant of Canadian $ 90 lakhs for import of rapeseed oil and Canadian $ 60 lakhs for import of rapeseed. Subsequently, because of the difficulty experienced in disposing of the stocks of rapeseed (6,300 tonnes in February 1975) Canada was persuaded to allow import of rapeseed oil against the entire grant for 1974-75 and 14,050 tonnes of rapeseed oil were imported against this grant. Another grant of Canadian $ 17 lakhs was given in December 1974 for meeting the expenses for shipping, insurance etc., of the imports of rapeseed oil against the grant mentioned above. In addition, a supplementary grant of Canadian $50 lakhs was given in March 1975 for import of rapeseed and 13,416 tonnes of rapeseed were imported against that grant.

1.7. It was decided (August 1975) to obtain rapeseed oil against the entire grant of Canadian $80 lakhs for 1975-76 for import of rapeseed or rapeseed oil.

1.8. Rapeseed oil imported since 1973-74 against Canadian assistance was distributed for manufacture of vanaspati.

1.9. As mentioned above, 1,57,300 tonnes of rapeseed were imported against the loans for 1969-70 and 1970-71 and the grant for 1972-73. It was only in June-July 1973 that Government went into the economics of importing rapesed oil in preference to rapeseed. If the price advantage ($121 per tonne) in importing rapeseed oil as calculated in June-July 1973 is any indication, substantial benefit would have accrued even if a part of the Canadian assistance had been utilised for import of rapessed oil in those years. The Department of Food stated (October 1976) that "import of rapeseed took place under grants and it would not be proper to examine the transactions from the restricted angle applying commercial norms alone. Apart from the prices of oil/seed, other factors like the availability, suitability of the commodity with reference to its end use, other incidental benefits such as utilisation of idle milling capacity, providing additional employment and production of animal feed etc., had been taken into account in 1972 in deciding to continue to import rapeseed. Canadian offers till 1972-73 were for rapeseed and we had no indication whether Canadians had the oil and would supply it if we so desired. In view of the then prevailing circumstances, there was no reason to have a definite preference for oil and hence we did not sound the Canadians regarding the possibilty of getting oil instead."

1.10. The Department of Food also stated (October 1976) that "the import of rapeseed at that time was primarily for augmenting the availability of edible oils to consumers in the Eastern region' and that "the rapeseed oil produced in Canada is through the solvent extraction process and it has necessarily to be refined before it can be distributed for human consumption, as is the case with all solvent extracted oil." However, the department has not indicated the cost of refining rapeseed oil obtained through solvent extraction process.

1.11. Indigenous production of mustard and rapeseed during 1965-66 to 1973-74 was as follows:—

	(lakh tonnes)*
1965-66	12·98
1966-67	12·28
1967-68	15·68
1968-69	13·47
1969-70	15·64
1970-71	19·76
1971-72	14·33
1972-73	18·08
1973-74	16·02

*Source : Indian Agriculture in Brief.

1.12. It will appear from the above that between 1965-66 and 1973-74 the highest indigenous production of mustard and rapeseed was 19.76 lakh tonnes in 1970-71 followed by 18.08 lakh tonnes in 1972-73; in both these years only rapeseed was imported. Even in 1969-70, in which year also only rapeseed was imported, indigenous production of 15.64 lakh tonnes of mustard and rapeseed was almost equal to the production of 1967-68 and much higher than the production in other three earlier years.

1.13. As has been mentioned (October 1976) by the Department of Food, our country is generally short of oil and oilseeds. The Department of Food also stated that 1973-74 it had "opted for supply of rapeseed oil which was also cheaper as compared to rapeseed got crushed in India with a view to supplementing the indigenous availability of oils in the manufacture of vanaspati". The Department of Food further stated (October 1976) that use of imported rapeseed oil for manufacture of vanaspati was permitted for the first time in March 1973 and that prior to 1973-74 rapeseed oil was not imported as "the industry was not technically equipped to hydrogenate rapeseed oil because of certain operational and technological problems both at the refining and hydrogenation stages."

(Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil)

1.14. India imported rapeseed rapeseed oil from Canada both under the Loan Agreements as well as grants. The salient features of both the Loan Agreements and grants furnished by the Ministry of Civil Supplies & Cooperation are given in Appendix I.

1.15. According to the Audit Para, against loan assistance received under the Canadian Development Assistance Programme, 77,500 tonnes of rapeseed were imported from Canada during 1969-70 and 1970-71 for allotment to the State Governments in the eastern region. During 1971-72, 16,200 tonnes of rapeseed were received free of cost from Canada for relief of refugees from erstwhile East Pakistan (now Bangladesh). Consequent on discussion between the representaives of Canada and India about Canadian assistance in the form of rapeseed offered in July 1972 for supply during 1972-73, India imported about 79,800 tonnes of rapeseed against the first Canadian grant of $110 lakhs. Even before this formal offer by Canada was received in July, 1972, an Indian company (The Indian Molasses Company Private Ltd., New Delhi) wrote to the State Trading Corporation of India on 8th April, 1972 pointing out that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed. Explaining why the suggestion of the Indian company was not considered favourably, the Department of Food had informed the Audit in October, 1976 as follows:

> "Though the suggestion of the Indian Molasses Company Private Limited for import of rapeseed oil instead of rapeseed from Canada would appear to be motivated more by considerations of their own business interests than otherwise, it was considered in this Ministry in April, 1972. The Canadian Government offers under the loan agreements of 1969-70 and 1970-71 and the grant during 1972-73, had been in the form of rapeseed and we had not thought it worth our while asking for oil instead for the various well known reasons......"

1.16. Asked as to how the Indian company came to know about the import of rapeseed from Canada and whether it eventually benefited. when the Government decided to import rapeseed oil later from 1973, the Ministry of Civil Supplies & Cooperation in a note have stated:

> "The Indian Molasses Company Pvt. Ltd., according to their letter dated 8th April, 1972, came to know from local papers, where some mention had been made about the possibility of India importing Canadian rapeseed either under the Canadian Aid Programme or in free foreign exchange. The rapeseed oil was imported by S.T.C. on Government account and not by any private party."

1.17. The Committee desired to know why the economics of importing rapeseed oil in preference to rapeseed was not worked out in the beginning, *i.e.* in 1969-70, when rapeseed was imported against loan assistance under the Canadian Development Assistance Programme. The Secretary, Ministry of Civil Supplies and Cooperation, has stated during evidence:

> "This calculation was made in 1972-73. Before that it was not done because this oil could not be used for manufacture of Vanaspati. By that time the technology for use of rapeseed oil for the manufacture of vanaspati was not available. So, there was no need to make comparative study of the advantages of importing them. By 1972-73 sufficient progress was made in this direction. But the cost of refining it for direct consumption was not taken into account. If this is given for direct consumption, as

has been done during the current year, there would have to be an additional cost involved for getting it refined. But, at that time, its cost was not relevant. The reason for which the difference has arisen as between the cost that is calculated and what we are stating today is not that."

He has added:

"This brings us to the question as to why, during the preceding years, namely, 1969-70 and 1971-72, it was decided to import seeds and not oil. There were a number of reasons for doing that. One was that the offer from the Canadian Government was for the seeds. Now a question can be asked as to whether we could have asked the Canadian Government that whether they could offer us rapeseed oil. At that time there was no mention whether a query was made to the Canadian Government as to whether they could offer oil in lieu of seed. But, subsequently, in 1972-73 when the State Trading Corporation went to make commercial purchases of oil—not seed—they studied the situation there and they came back and reported that the Canadian market had not developed sufficiently for the supply of oil. At that time I repeat that they had gone to Canada to make commercial purchase of rapeseed oil. They came back and reported that up till that day, the Canadian Market had not sufficiently developed for supply of rapeseed oil; they were organised primarily for the supply of rapeseed the reason being that they did not have the same facilities as were available in Europe for the disposal of residual meal. Therefore, they preferred to give us seeds rather than oil upto that day. Then subsequently they had developed these facilities. In 1973-74 and later on they offered to supply us both oil and seeds. That probably explains why we did not enquire from the Canadian Government whether they were prepared to give us oil or not."

1.18. The Committee enquired whether at the time of entering into a loan agreement with Canada the question of procurement of

oil instead of rapeseed from Canada was considered by Government. The Secretary of the Ministry has stated:

> "As per our records, in the very first letter that we wrote to the Canadian Government, we stated that we might take oil. In response to this, we got the reply that they could give rapeseed."

1.19. Subsequently in a note,* the Ministry of Civil Supplies and Cooperation have explained the position thus:

> "There was, at that time, no end use for rapeseed oil either for direct consumption (little consumer acceptance for the refined rapeseed oil—refining is a 'must' from the health angle—which does not have the characteristic pungency odour of mustard oil) or Vanaspati Industry. It could not be used in the Vanaspati Industry since technology for this had then not been developed. Moreover, during that period Canada was not a big supplier of rapeseed oil."

1.20. The Committee asked whether at any time during 1969—72, the relative prices of oil then available in India and that available from Canada after solvent extraction were considered at all. The Secretary, Civil Supplies and Cooperation, has stated:

> "As per our records, such a comparative statement of cost was not made at that time. It is because at that time we did not have the technology to use it for vanaspati manufacture. We could have used it only for direct consumption. But even now, it is not meeting with the consumer acceptance."

121. Asked when was the economics of rapeseed oil and rapeseed considered by Government, the Secretary of the Ministry has stated:

> "For the first time the technology for the use of rapeseed oil in the manufacture of vanaspati was developed towards the end of 1972 and, it is only in March, 1973 that a notification was issued permitting the use of rapeseed oil in the manufacture of vanaspati. It is only after that we could use it in the manufacture of vanaspati. It could not be used for direct consumption because it is not meeting with consumer acceptance even now."

1.22. When asked whether Government had ascertained that oil was not imported because it could not be used, the Secretary of the Ministry has state:—

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*Not vetted in Audit.

"That particular query is not on the file. Had there been any document or file to support my answer, I would have placed before you, I think this should have been the reason."

1.23. To a question whether imported repeseed oil was now accepted by consumers, the Secretary of the Ministry has stated:—

"We are getting crude rapeseed oil from abroad, getting it refined here because value adding we are spending in the rupee form. But our experience is that as a result of the number of steps taken to educate the consumers that there is very little difference between rapeseed oil and mustard oil, in other centres including Delhi it has got very little acceptance from the consumer. Although the Government sells refined repeseed oil at Rs. 7.50 a kilo and large quantities are imported, there is not much off-take of refined rapeseed oil. But mustard oil is consumed in large mustard consuming areas."

1.24. The Committee desired to know why repeseed oil was being imported by the country when it was not preferred by the consumers. In reply, the Mnistry of Civil Supplies and Cooperation have stated:—

"After 1973, when technology for using rapeseed oil in the production of vanaspati became available, the policy adopted by Government was to reduce the vanaspati industry's requirement of indigenous oil by supplying to them increased quantities of imported oils so that the consequential lessening of pressure on indigenous oils would make these oils available for direct consumption in adequate quantity at reasonable prices. Further since July, 1976, in order to contain the persistently rising prices of edible oils and to make the availability position easier, Government stepped up considerably the import of edible oils for direct consumption. Earlier the distribution of imported repeseed was confined only to the mustard oil consuming areas of the country as consumers in the West and in the South do not favour the pungency and odour of mustard oil. However, as the refined repeseed oil does not have these charteristics of mustard oil, it is expected to have greater consumer acceptance in those parts as well. It is in view of these considerations that Government started importing repeseed oil."

1.25. The Committee referred to the facts stated in the audit paragraph that 18466 tonnes of rapeseed costing about Canadian $ 47.4 lakhs and about 13,969 tonnes of rapeseed oil costing about Canadian $ 98.6 lakhs were imported against the Canadian grant for 1973-74 and desired to know the reasons for not importing rapeseed oil alone during 1973-74 when the import of rapeseed oil had a price advantage of about $ 121 per tonne as compared to the net cost of oil extracted in India from imported rapeseed. The Ministry in a note have stated:—

"Rapeseed was imported to cater to the local direct consumption requirement of the Eastern region.

As was pointed out during the evidence, the price advantage of $121 a tonne in importing rapeseed oil does not take into account the refining cost. Keeping the other cost elements as they were in the statement in June/July 1973 and applying the cost of refining (Rs. 1400 per tonne, $ 122) the cost of refined rapeseed oil works out to $ 556 ($ 434 plus $ 122). Imported rapeseed crushed in India would cost $ 569 ($ 555 seed plus $ 14 crushing charges). Thus it is seen that the price advantage in importing oil was only $ 13 per tonne.

Also as stated during the evidence, there were some important considerations which weighed with the Government in preferring import of seed to oil. They included:

(a) The import of rapeseed at that time was primarily for augmenting the availability of edible oils to consumers in the Eastern region of India for whom mustard oil, which is very much akin to rapeseed oil, was the most preferred edible oil. The imported rapeseed was got crushed in the oil mills and distributed as oil as for as possible through the fair price shops or cooperatives at prices fixed by the Government. This helped in a substantial reduction of prices of local mustard oil also.

(b) The rapeseed oil produced in Canada is through the solvent extraction process and hence it has to be necessarily refined before distribution for human consumption. This refined oil, apart from being costlier than the raw oil, is of a bland nature, bereft of the pungency and smell peculiar to mustard oil preferred by the consumer in the Eastern region."

1.26. According to the audit paragraph, Canada had offered for year 1974-75 a grant of $ 90 lakhs for import of rapeseed oil and $ 60 lakhs for import of rapeseed in December, 1974. Subsequently, because of difficulty experienced in disposing of the stocks of rapeseed (6300 tonnes in February 1975) Canada was persuaded to allow import of rapeseed oil against the entire grant for 1974-75 and 14,050 tonnes of rapeseed oil were imported against this grant. In addition, a supplementary grant of $ 50 lakhs was given in March 1975 for import of rapeseed and 13,416 tonnes of rapeseed were imported against the grant.

Asked to state the reasons for change in policy, the representative of the Ministry of Finance (Department of Economic Affairs) has stated:

"There were two agreements entered in that year. The first agreement was in December 1974. It was mentioned in the agreement that they were prepared to give us rapeseed or rapeseed product. As a result of this agreement, we imported 14.90 million dollars worth of oil. This is about 14777 tonnes. This is under the first agreement entered in December 1974. Then there was a subsequent agreement three months later. On the 26 of March, 1975 in which they offered us 5 million dollars and said this was available only for seeds. So, against this 5 million agreement signed in March, 1975, we imported nearly 14,000 tonnes of rapeseed, because rapeseed was the only commodity that they offered under that grant."

1.27. The Committee referred to the difficulties, as mentioned in the Audit para experienced by Government in disposing of the stock of rapeseed of 6,300 tonnes (in February, 1975) and desired to know as to how this quantity was finally disposed of. The Ministry have stated:—

*"Due to sharp decline in the prices of mustard oil in 1975, the Eastern States showed their inability to distribute rapeseed oil at Government notified price through the public distribution system. Moreover, on account of the increase of price of rapeseed in the international market, the import price was higher and consequently the issue price of rapeseed to State Governments was raised to Rs. 3,100/- per tonne on 20 May, 1974. In view of the delay in lifting the allotted quantity of rapeseed by the State Government, the unlifted quantity against allotment was cancelled in February, 1975 in pursuance of

*Not veted in audit.

the decision taken during the discussion of the Cabinet Secretariat on 31 January, 1975 and the STC was advised to make alternative arrangements for disposal.

The Government would have incurred a loss if the said quantity was sold immediately. It was decided in February 1975 to defer the sale by two to three months by which time it would have possibly fetched a better price. As the STC experienced difficulty in disposing of the stocks by open auction or tender due to the poor response from the purchasers at reasonable price, it was decided in the meeting held on 15 March, 1975 in the Finance Secretary's office to authorise the STC to sell the import rapeseed under Canadian grant exercising their own best commercial judgement before the quality of rapeseed deteriorates resulting in still higher losses.

However, the quantity of 6,300 tonnes was damaged due to heavy rains and floods having entered into one of the godowns. It was therefore, not possible to sell the same in the normal course. It was, accordingly, disposed of by inviting tenders and effecting deliveries to the highest bidders."

1.28. In a further note*, the Ministry have stated that the damaged quantity of rapeseed was sold to soap manufacturers.

1.29. With regard to the utilisation of the quantity of 13,416 tonnes of rapeseed imported against supplementary grant of Canadian $ 50 lakhs given in March, 1975, the Ministry of Civil Supplies and Cooperation have furnished the details of price at which it was purchased and sold as under:

"The prices which the quantity of 13,416 MT of rapeseed imported in March 1975 are as under:

Quantity (MT)	Price PMT C $F.O.B.	Suppliers
5,000 ±5	370	M/s Continental Grain, 277 Park Avenue, New York.
2,746 ±5	379	Do.
2,835 ±5	324·53	M/s Cargil Inc., 2 Broadway, New York.
2,835 ±5	335·55	Do.

*Not vetted in Audit.

The rapeseed so imported was brought to Calcutta and allotted to the parties in the Eastern region nominated by the Deptt. of Food. The parties to whom rapeseed was allotted, the quantities and issue prices are given below:—

Name of the party	Quantity (MT)	Rate PMT(Rs.)
M/s Kusum Products	1,000	2,000
M/s Swaika Vanaspati	150	2,000
M/s Vegetable Products	100	1,800
M/s Vegetable Products	50	1,800
M/s United Vegetable Products	30	1,800
M/s Oswa & Allied Industries	1,000	1,800
M/s Kishan Chand	540	1,800
M/s Swa'ika Vanaspati	300	1,800
M/s Rasoi Vanaspati	1,000	1,800
M/s T.G.L. Setty	100	1,800
M/s Motilal Padampat	1,000	1,800
M/s Vegetable Products	450	1,800
M/s Kusum Products	1,000	1,800
M/s Kusum Products	2,000	1,800
M/s Amrit Banaspati	2,000	1,800
M/s Rasoi Vanaspati	1,000	1,800
M/s Kusum Products	1,000	1,800
M/s Swaika Vanaspati	500	1,800
M/s Vegetable Products	400	1,800
M/s Kusum Vanaspati	1,000	1,800
M/s Veegetables Products	200	1,800
M/s Amrit Banaspati	100	1,826
M/s Swaika Vanaspati	500	1,800
M/s Vegetable Products	100	1,800

1.30. In this context, the Committee understand that there was a difference of opinion between the Ministry of Finance

"In such a situation we would have advised the Ministry of Finance (Department of Economic Affairs) against taking any further quantity of rapeseed had they consulted us on the latest offer. Now that they have accepted the offer on their own and effected a fait accompli in this regard, their belated reference to us on the subject serves little purpose, beyond calling on us to implement the decision, regardless of consequences."

1.31. According to the Audit para, the Department of Food had informed the Audit in October, 1976 that apart from the prices of oil|seeds, other factors like the availability, suitability of the commodity with reference to its end use, other incidental benefits such as utilisation of idle milling capacity, providing additional employment and production of animal feed etc. had been taken into account in 1972 in deciding to continue to import rapeseed. Asked to give detailed justification, itemwise, the Ministry in a note* have stated:—

"Rapeseed can be expelled in the country and the expeller oil would, to a certain extent meet the requirement caused by the deficiency in the availability of mustard oil. The rapeseed oil, on the other hand, imported from foreign countries has necessarily to be refined and refined rapeseed oil had little consumer acceptance at that time;

There were representations from the East India Oil Millers Association wherein it had been stated that import of rapeseed would provide additional employment to same labour who would otherwise be unemployed. This was one of the factors which went into the consideration in deciding to import rapeseed.

After expelling oil from rapeseed, the expeller cake can be utilised for purposes of manufacture of animal feeds. In most cases the cake is fed as such. However, sometimes it is mixed with other ingredients and made into an animal feed.

The conversion cost of seed into oil would be incurred in rupees and thus there would be some savings in foreign exchange."

*Not vetted in audit.

1.32. The Committee were informed that the imported rapeseed helped in the utilisation of the idle capacity of the mills in the country. Enquired whether it was a hypothetical advantage that the Government was considering or they had any information that oil mills remained idle, the Secretary of the Ministry has stated:

> "The examination of the merits of getting oil *vis-a-vis* oil seeds in nowhere on record at that time. The first occasion when imports of oil were examined was when technology came in. It is not as if the oil milling capacity is just enough for oil seeds produced within the country. The former is very much in excess, even in the bumper years. There was in additional quantity of 25,000 tonnes and this additional milling could be done in these very mills. It was not done, we allotted only seeds to the States. They get them crushed in the mills in their own areas."

1.33. In view of the fact that the country was generally short of oil and oilseeds, the Committee desired to know why steps were not taken earlier to technically equip the oil industry to use rapeseed oil for making vanaspati. In reply, the Ministry of Civil Supplies and Cooperation have furnished the following note:*

> "Rapeseed oil contains traces of sulphur component which render hydrogenation process difficult and costly. Vanaspati manufaturers in our country were mostly used to hydrogenation of oils like groundnut oil which did not have this characteristic. However, they had been making attempts to use other oils, also. In December 1972, a team of Canadian technical experts, who had experience in suh technology visited India and held discussions with vanaspati manufacturers. They also gave a demonstration of hydrogenation rapeseed oil. Subsequently, after some more trails, the Indian manufacturers got over the problem by resorting to double refining and double deodourization prior to hydrogenation of rapseseed oil."

1.34. The Committee further enquired whether vanaspati manufacturing companies were asked to use rapeseed oil in the manu-

*Not vetted in au lit.

facture of vanaspati. The Secretary, Ministry of Civil Supplies and Cooperation has stated:

> "We imported in March, 1973. After 8 months in November, we got a letter from the Vanaspati Manufacturers' Association stating that their member factories were facing many technical difficulties in hydrogenating the imported rapeseed oil and in achieving de-odorisation. Even very recently they have said that de-odorisation has not been possible in the case of some of the oilseeds. But what you say is correct, that I can not refer you to any record of that time to show whether all these possibilities were examined."

1.35. Asked about the oil crushing capacity in the country in 1969-70 and 1976-77 and the extent to which this capacity had been put to use since 1969-70, the Ministry of Civil Supplies and Cooperation have stated:

> "Approximate data available indicate that total installed capacity in 1969-76 is 243 lakh tonnes in terms of oilseeds. No authentic data is available on oil milling capacity and the extent of capacity utilised."

1.36. The Committee pointed out that during 1973-74 and 1974-75 oil as well as rapeseed was imported; oil for vanaspati manufacturers and seed for the purpose of consumption. Enquired whether the entire oil and not the seed imported during that period was consumed by the vanaspati industry, the Secretary of the Ministry has stated:

> "Not only the oil which was imported under this grant but the oil imported as a commercial purchase was also utilised by manufacturers of vanaspati alone. The rapeseed oil we have started giving to the consumers only this year."

1.37. Asked about the rates of mustard oil and rapeseed oil in 1973, the Secretary of the Ministry has stated:

> "The price of mustard oil started from Rs. 540 per quintal in Calcutta and it had risen in December to Rs. 980. Rapeseed was being supplied at about Rs. 1600 per tonne."

1.38. Asked about the country's total demand and supply of mustard and rapeseed during 1971-72 to 1976-77 and how the shortfall, if any, was met ; the Ministry of Civil Supplies and Cooperation have stated in a note:*

"Figures for production of mustard/rapeseed from 1971-72 are given below:

	(in lakh tonnes)
1971-72	14·33
1972-73	18·08
1973-74	16·92
1974-75	22·52
1975-76	19·45
1976-77	15·62

It would be difficult to estimate the demand for mustard oil alone. The *per capita* consumption per annum of all vegetable oils is 4.5 kgs. SCT's imports and sales of edible oils/rapeseed, sesame seed are given below. It can be seen that every year the country has been importing either edible oils or oilseeds. The shortfall has always been met by imports from different countries, subject to availability of free foreign exchange.

*Not vetted in Audit.

STC'S IMPORTS & SALES EDIBLE OILS/RAPESEED, SESAME SEED

(Quantity in : MT
Value Rs. Lakhs)

		Imports		Sales		Profit/Loss	Remarks
		Qty.	Value	Qty.	Value		
1971-72	Edible Oils	79800	1869·40	90432	2905·06	483·38	Excluding 2000 MT Soya Oil gift (Approx.)
	Rapeseed	49565	420·44	46017	726·08	25·98	
1972-73	Edible Oils	45171	992·38	74560	843·80	39·35	Excluding 6000 MT Soya Oil and 2500 MT Sunflower seed oil gift.
	Rapeseed	79800	1025·60	47154	681.18 (—)	4·07	Excluding 8000 MT Rapeseed gift. Excluding 500 MT Sun Oil gift (approx.)
1973-74	Edible Oils	148016	4157·31	134266	4298·67 (—)	283·00	
	Rapeseed	14022	347·03	45277	719·52 (—)	38·58	
1974-75	Edible Oils . . .	55920	3310·55	48952	1941·09 (—)	824·54	
	Rapeseed	4521	165·69	16044	448·87 (—)	60·95	
	Sesame Seed	7301	358·07	7301	317·59 (—)	95·29	
1975-76	Edible Oils	50254	2133·51	49974	3006·80 (—)	110·06	
	Rapeseed	18612	206·12	18612	317·49	14·20	
1976-77	Edible Oils	126000	6000·00	81238	4254·30		
		(upto December 1976) (approx.)		(as on 18-9-1976)"			

1.39. Asked to indicate the reasons for decline in the production of rapeseed during 1975-76 and 1976-77, the Ministry in a note* have stated:

> "The decline in production of rapeseed, mustard during 1975-76 was due to lower coverage under the crop in the country in major rapeseed-mustard growing States like Uttar Pradesh, Rajasthan, Punjab and Haryana partly as a result of excessive rains which interferred with timely preparatory cultivation and sowing operations, and partly as a result of the comparatively low prices during the previous crop marketing season.
>
> During the year 1976-77 production of rapeseed and mustard had further declined as compared to 1974-75 and 1975-76 due to the decrease in area under rapeseed and mustard in a number of States particularly Madhya Pradesh, Punjab, Haryana, Orissa and Rajasthan which is attributable to inadequate rains at the time of sowing."

1.40. The production of mustard oil in the country from 1974 onwards has been as under:

(in lakh tonnes)

	1974-75	1975-76	1976-77	(Estimates)
Mustard oil	7·15	6.18	4·50	

1.41. Since there had been a drop in the production of mustard oil in the country and as mustard oil was an oil which was produced from mustard/rapeseed, the Committee enquired how it was that only rapeseed oil and not rapeseed was being imported. The Secretary, Ministry of Civil Supplies and Cooperation has stated:

> "6.18 lakh tonnes to which the production fell in 1975-76 also, by and large, met the requirement—not, of course the total requirement; there might have been a marginal shortfall. It is only in 1976-77 that the production has fallen to 5 lakh tonnes. These figures are for the financial year. The current crop was very much less and we went in for the import of rapeseed oil. The reason is the hope that, now, after refining we may be able to make it saleable and it will find consumer acceptance. This is an easier thing to do. Frieight charges are less compared to importng the seed. We thought that once we tried and it

*Not vetted in Audit

found consumer acceptance, in future we could go on importing rapeseed oil in preferene to rapeseed."

1.42. Asked whether the price of rapeseed had gone up so much that it was decided to import rapeseed oil during 1976-77 rather than rapeseed, knowing fully that the demand was small and the production had gone down to about 5 lakh tonnes, the Secretary of the Ministry has stated:

"I shall try to answer this question by giving three different reasons, One is, the rapeseed oil is not being allowed for manufacture of vanaspati now. In fact, the rapeseed oil that we have imported is, by and large, kept aside for direct consumption. The question of importing rapeseed oil for issue to the vanaspati industry this year has not arisen; we are giving to the vanaspati industry only palm oil and soyabeen oil."

1.43. Since the rapeseed oil was not acceptable to consumers, the Committee enquired how far it was justified to import it. The Secretary of the Ministry has stated:

"We thought, over the years, it is possible the refined oil might find consumer acceptance. In the case of refined ground nut oil, in certain sections there has been a greater acceptance. That is also a refined oil. Possible, there may be consumer acceptance for refined oil: It is not as if we have not been able to sell anything."

1.44. Asked whether the vanaspati manufacturers were prepared to use rapeseed oil in the production of vanaspati, the Secretary of the Ministry has stated:

"Left to themselves, if there was sufficient availability of indigenous oil at reasonable price, they will prefer indigenous oil rather than imported oil."

He has added:

"We have not been giving rapeseed oil. We have been giving palm oil and soyabeen oil. Earlier, we have been giving rapeseed oil."

1.45. Enquired further whether in view of the fact that the rapeseed oil price was lower than the indigenous oil price, any reduction in the price of vanaspati was effected after supplying the rapeseed oil to vanaspati manufacturers, the Secretary of the Ministry has stated:

> "Upto 5 January, 1975, there was a price control imposed on vanaspati and in calculating the price, the cost of inputs was taken into account. If we were giving them a cheaper oil, the price of vanaspati will be lower."

1.46. Subsequently the Ministry of Civil Supplies and Cooperation have in a note* stated:

> "(a) Imported oils were being issued to vanaspati manufacturers at prices cheaper than the then ruling prices of indigenous oils in any particular fortnight. The imported rapeseed oil at a CIF price of Rs. 3853.10 was given to the vanaspati industry at Rs. 3.200 per tonne during 1973-74. Imported oils were given not only to bring about a reduction in vanaspati prices but also to ward off further increases in prices in sympathy with the indigenous prices.
>
> (b) A statement showing the prices of vanaspati in the different zones during each fortnight from January 1972 till Jan., 75 when the price control was discontinued is at Appendix II.
>
> (c) It (rapeseed oil) was imported at CIF price of Rs. 3,853.10 per tonne and distributed to vanaspati manufacturers at Rs. 3,200 per tonne during 1973-74."

1.47. The Committee observed that there was variation in the quantum of grants by Canada during the years 1972-73, 1973-74, 1974-75 and 1975-76 and enquired the reason for such variation and the criterion on which grants were made to and accepted by the country. The Ministry of Civil Supplies and Cooperation in a note have stated:

> "The quantum of grant from Canada in any year is determined mainly by the following factors:
>
> (a) The total allocation for assistance earmarked by Canada for India in any particular year.
>
> (b) The availability of the commodities to be supplied under the Grant(s) to India.
>
> (c) Our own requirements of the particular commodity as indicated by the Department of Food|Department of Civil Supplies, which are based on the estimated pro-

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*Not vetted in Audit.

duction of that commodity and its substitutes, estimates of consumption requirements (Direct human consumption as well as consumption in Vanaspati Industry in the case of rapeseed oil).

(d) Relative importance of the commodity in our overall programme|plan for food imports.

The utilisation of the Canadian Aid from 1972-73 to 1975-76 is detailed below:

Year	Grant Authorised C $ lakhs			
	Rapseed/ Oil	Wheat	Skim Milk powder	Total
1972-73	110	..	20	130
1973-74	150	..	..	150
1974-75	217	250	..	467
1975-76	80	452	..	532"

1.48. Referring to one of the terms of the grant agreements (Appendix I) for the import of rapeseed|rapeseed oil, the Committee pointed out that if the full amount of the grant was not committed by India by March 31 of the year in which aid was given the balance of the grant would automatically stand cancelled. Asked to indicate the total amount of grant cancelled year-wise on account of non-procurement of rapeseed|rapeseed oil from Canada, the Ministry of Civil Supplies and Cooperation have furnished the following information*:

Figs. in Canadian $

Year	Allocation	Item/Description	Value of Imports	Amount lapsed	Purchases made by
1	2	3	4	5	6
1972-73 .	11,000,000·00	Rapeseed	10,867,293·52	132,706.48	CIDA
1973-74 .	15,000,000·00	Rapeseed: C $5·0 million	4,736,163·65	263,836.35	CIDA
		Rapeseed Oil C $10·0 million	9,385,530·45	614,469.55	
1974-75 (a)	15,000,000·00	Rapeseed oil	14,901,711·86	98,288.14	STC
(b)	5,000,000·00	Rapeseed	4,945,557·62	54,442.38	CIDA
	$ 1,700,000·00	Freight covering both (a) & (b)	993,787·04	706,212.96	

*Not vetted in Audit.

1		2	3	4	5
1975-76 .	8,000,000·00	Rapeseed Oil	7,992,924·35	7,075·65	CIIA
1976-77 .	27,000,000·00	Rapeseed Oil	20,891,568·70	6,108,431·50	CIIA
	82,700,000·00		74,714,537·19	7,985,462·81"	

1.49. The Committee note that against loan assistance received under the Canadian Development Assistance Programme, 77,500 tonnes of rapeseed were imported from Canada during 1969-70 and 1970-71 for allotment to the State Government in the eastern region, mainly West Bengal, Assam and Bihar, for crushing it and supplying oil through fair price shops. About 79,800 tonnes of rapeseed were imported against the Canadian grant for 1972-73. Thus 1,57,300 tonnes of rapeseed were imported against the loans for 1969-70 and 1970-71 and the grant for 1972-73. The Committee also note that the economics of importing rapeseed oil in preference to rapeseed were not examined all these years by Government and such an examination was done only in June-July 1973 when the Canadian authorities wanted to know whether a part of the grant of Canadian 150 lakhs for 1973-74 would be accepted by India as rapeseed oil. As a result of such an examination it was found in June-July 1973, on the basis of prices then prevailing, that on overall cost basis import of rapeseed oil would have a price advantage of about 121 per tonne (which according to Government would be reduced to $ 13* if the cost of refining is included) as compared to the net cost of oil (after allowing for credit for export of oilcakes) extracted in India from imported rapeseed. The Committee observe that during evidence no convincing argument was advanced by the representatives of the Ministry of Civil Supplies and Cooperation for not working out the comparative cost of importing rapeseed and rapeseed oil, till 1973. Rather, the Secretary of the Ministry of Civil Supplies and Cooperation had stated that "as per our records, such a comparative statement of cost was not made at that time." It is all the more surprising that such a study was not undertaken by Government even when an Indian Company had pointed out to the State Trading Corporation in April 1972 that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed. This suggestion was ignored as being merely "motivated more by considerations of their own business interests than otherwise." The Committee doubt whether this alleged fear of "motivation" was justified as rapeseed oil was

imported later on by STC on Government account and not by any private party.

1.50. One of the reasons for not asking the Canadian authorities for rapeseed oil instead of rapeseed was that Government was of the view that import of rapeseed took place under grants and that it would not be proper to examine the transactions from the restricted angle of commercial norms. However, the Canadian authorities themselves enquired whether this country wished to import rapeseed oil as part of the grant of Canadian $ 150 lakhs for 1973-74. What the Committee regret is that prior to 1973-74, Government had not even made any efforts on their own to ascertain whether rapeseed oil could also be imported against the Canadian assistance. It was as a result of the decision taken during 1973-74 that the country imported for the first time rapeseed oil costing about Canadian $ 93.6 lakhs while rapeseed costing about Canadian $ 47.4 lakhs only was imported.

1.51. The other reason advanced was that the import of seed had an inherent advantage in that it helped in the utilisation of idle milling capacity in the country. But the Committee find that between 1965-66 and 1973-74 the highest indigenous production of mustard and rapeseed was 19.76 lakh tonnes in 1970-71 and 19.08 lakh tonnes in 1972-73. Compared to the milling capacity in the country, only about 77,500 tonnes of rapeseed were imported during 1969-70 and 1970-71 against the loan assistance. The Committee, therefore, do not agree with the argument that the imported rapeseed helped significantly in the utilization of the idle milling capacity in the country or in improving the employment potential.

1.52. The Committee are perturbed to note that due to sharp decline in the price of mustard oil in 1975, the Eastern States showed their inability to distribute rapeseed oil at Government notified price. The unlifted quantity (6,300 tonnes) was consequently cancelled in February 1975. The State Trading Corporation also experienced difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. However, this quantity of 6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Committee are not inclined to be satisfied by the explanation given by the Government in this regard and would like the matter to be investigated in depth so as to fix responsibility for the loss suffered due to disposal of 6,300 tonnes of rapeseed seed. The Committee also fail to understand why Government immediately after the above episode imported another quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh dollars particularly when there was no demand for that at that time. Such being the position, it appears that the whole quantity of 13,416 tonnes was allotted to parties dealing in vegetable products in the eastern region. This indicates that Government had no firm policy for importing rapeseed based on realistic domestic demand or prices then prevailing in the international market. This matter needs to be carefully gone into.

1.53. The Committee have been informed that use of imported rapseed oil for manufacture of vanaspati was permitted for the first time in March 1973 and that prior to 1973-74 rapeseed oil was not imported as the industry was not technically equipped to hydrogenate rapeseed oil because of certain operational and technological problems both at the refining and hydrogenation stages. But when the Secretary, Ministry of Civil Supplies and Cooperation was asked whether Government had got it confirmed that imported oil could not be used by the vanaspati industry, he could not reply categorically. The Committee are, therefore, not convinced with this plea as well. The Committee are of the opinion that had rapeseed oil been imported from the very beginning, the industry would have equipped itself to use it as there was shortage of indigenous oils in the country during these years. The use of rapeseed oil in vanaspati would have also made the rate of indigenous oils cheaper for direct consumption by the public.

1.54. The manner of consideration of the question of import of rapeseed speaks volumes of Government apathy and lack of functional coordination between various agencies connected with the issue. As revealed in evidence, there was difference of opinion between the Department of Food and Ministry of Finance on the issue of import of rapeseed. The Department of Food had recorded a note on 1 March, 1975 that we would have advised the Ministry of Finance (Department of Economic Affairs) against taking any further quantity of rapeseed had they consulted us on the latest offer. Now that, they had accepted the offer on their own and affected a fait accompli in this regard, their belated reference to us on the subject serves little purpose, beyond calling on us to implement the decision,

regardless of consequences". All this proves that the import of rapeseed|rapeseed oil into the country was not made after giving careful thought

1.55. **The Committee need hardly emphasise that the whole matter of import of rapeseed/rapeseed oil against Canadian loan aid|grants needs a thorough probe to determine as to how far the decisions taken were in the best interest of the State. For this purpose, the Committee would recommend the constitution of a Committee of senior officers to go into the matter and report to them within 6 months of the presentation of this Report.**

1.56. **It is seen** that the production of mustard and rapeseed **has** fallen from 22.52 lakh tonnes in 1974-75 to 15.62 lakh tonnes in 1976-77. The Committee are concerned to note this falling trend in the production of mustard and rapeseed in the country. Obviously, **it** has resulted in more import of this essential commodity to **meet** the internal requirements of edible oils. The Committee need hardly emphasize that intensive measures, both short term and long term should be taken to augment the production of mustard, rapeseed and other oil-seeds within the country not only to avoid drain of foreign exchange through imports but also to tide over the chronic shortage of edible oils which the country has to face year after year. The Committee would watch with interest the results achieved through such measures through the annual reports of the Ministry.

CHAPTER II

PURCHASE OF RAPESEED AND RAPESEED OIL

Audit Paragraph

According to the agreements for the loans and grants provided by Canada up to 1972-73, rapeseeds were purchased by the Canadian International Development Agency through the Canadian Commercial Corporation. The State Trading Corporation acted more or less as handling agent for shipment and distribution inside the country for which it was entitled to a commission of 2 per cent of the landed cost.

2.2. Average monthly international price of rapeseed oil rose to $ 427 per tonne in June 1973 from $ 324 per tonne in April 1973. The average prices were $ 526 and $ 503 per tonne for July 1973 and August 1973 respectively. The price was $ 564 per tonne on 16th August 1973, but came down to $ 469 per tonne on 23rd August 1973. The sudden fall in price was stated to be due to huge soyabean supplies but it was anticipated at that time that a fresh rise might occur in the near future. The average monthly international price came down to $ 446 per tonne in September 1973. The price again started rising from October 1973, the average for which month was $ 472 per tonne. The average monthly international price thereafter rose to $ 633 tonne in January 1974.

2.3. From 27th August 1973 to 12th September 1973 a delegation from the State Trading Corporation was in Canada to negotiate arrangements for import of rapeseed oil on commercial basis. The delegation of the State Trading Corporation was authorised by Canada to purchase rapeseed oil against the aid for 1973-74. Accordingly, Government authorised this delegation to purchase rapeseed oil within the ceiling of Canadian $ 450—500 per tonne. The purchases negotiated by the delegation were either linked to the Chicago Board of Trade closing soyabean oil prices or prices to be established by State Trading Corporation calling for world tenders at the time of each shipment; the offer for the first shipment of 5 000-8,000 tonnes was on a fixed price basis of Canadian $ 452 per tonne c.i.f. west coast India. These offers were telexed to India by the delegation on 1st September 1973. It appears that "the full and correct interpretation of the proposals could not be made by the Department of Food". On 5th September 1973 the delegation sent another proposal for purchase of 23,000 tonnes of rapeseed oil for supply by 31st March 1974 at prices based on Chicago price for soyabean oil. As the suppliers did not agree to the revised price ceiling of Canadian $ 400—525 per tonne intimated by Government on 4th September 1973, based on prevailing international prices, no contract could be finalised. The delegation thereafter obtained four firm offers for 23,000 tonnes on c.i.f. basis and linked to Chicago price for soyabean oil; the price was provisionally assessed as Canadian $ 445 per tonne. On 14th September 1973 it was decided to authorise the Regional Manager of the State Trading Corporation at New York to finalise contracts for 23,000 tonnes of rapeseed oil (against Canadian aid) for shipments between November 1973 and March 1974 within the ceiling of Canadian $ 445 per tonne as the average of c & f India prices for various shipments. While the Regional Manager of the State Trading Corporation was negotiating with the suppliers, the president of a Canadian firm visited New Delhi and offered on 28th September 1973, 16,000 tonnes of rapeseed oil for delivery between December 1973 and March 1974 at the price of Canadian $ 549.29 per tonne c&f. This offer was considered in an inter-ministerial meeting on the same day i.e. 28th September 1973; but the price was considered very high as compared to the prevailing prices according to Chicago closings for soyabean oil on that day which were $ 516.39 per tonne for December, 1973 shipments and $ 497.66 per tonne for March 1974 shipments, the price differential between soyabean oil and rapeseed oil (price of which it lower) being usually $ 15 per tonne. Another offer was made by the Indian agent of the same company on 16th October 1973 or 5,000—8,000 tonnes for shipment in March 1974 at Canadian $ 539.77 per tonne c&f Bombay or Kandla. On 17th October 1973, the State Trading Corporation gave a counter-offer of Canadian $ 475 per tonne based on the ruling price as derived from the Chicago soyabean oil price on 15th October 1973 at $ 490.70 per tonne. This counter-offer was not accepted by the company.

2.4. On 24th November 1973, the Department of Food informed the State Trading Corporation that all purchases of rapeseed and rapeseed oil against the aid for 1973-74 would be made by the Canadian International Development Agency as before. The Canadian Commercial Corporation concluded three contracts for a total quantity of about 14,000 tonnes of rapeseed oil at prices ranging from Canadian $ 596.71 to 741.76 per tonne c&f India against the aid for 1973-74; purchases at these rates cost about Rs. 248 lakhs more as compared to the assessed price of canadian $ 445 per tonne c&f indicated in the meeting of 14th September 1973 and about 138.76 lakhs move as compared to the price of

Canadian $ 549.29 per tonne c&f offered on 28th September 1973 Entire quantity of about 18,500 tonnes of rapeseed was also purchased by the Canadian International Development Agency against the grant for 1973-74.

2.5. Canada also authorised Government of India to purchase rapeseed or rapeseed oil against the grant of Canadian $ 150 lakhs for 1974-75. As Canada agreed to utilisation of the entire grant for purchase of rapeseed oil, the State Trading Corporation invited tenders on 31st December 1974 for purchase of rapeseed oil. In response the following two offers for 13,600 tonnes in all were received:

Tenderer	Quantity	Shipment	Price (per tonne)
'X'	9,400 tonnes ±5 per cent	(a) Late January 1975/ early February 1975 or	Canadian $ 1077.41 C & F Bombay or Kandla
		(b) Latter half of March 1975	Canadian $ 1013.01 f.o.b. Vancouver
'Y'	4,200 tonnes ± 5 per cent	(a) Late January 1975/ early February 1975 or	Canadian [illegible] C & F Bombay.
		(b) Late March 1975	Canadain $ [illegible].45 f.o.b. Vancouver

The above prices were stated to have been found about 23 per cent higher over Chicago (Vancouver price) and 16 per cent over Rotterdam prices. The above offers were, however, accepted on 8th January 1975. In addition, 450 tonnes of rapeseed oil were purchased in February 1975 at the rate of Canadian $ 805.90 per tonne f.o.b. Vancouver with the balance available from the grant of Canadian $ 150 lakhs for 1974-75; the price was 16 per cent higher than the prevailing international price.

2.6. The Department of Food stated that "from the very beginning of our Canadian oilseed purchase relationship it was the Canadian International Development Agency itself which had offered to effect purchases of rapeseed on our behalf as, in its view, it could go about this discreetly without affecting market sentiment unduly as might well be the case if we had handled the purchases from India by calling for tenders etc....

2.7. It was in this context and also view of the difficulties encountered by the STC delegation in respect of price formula in negotiating with the Canadian suppliers—of whom only one who is found to be submitting offers all the time—that the Government came to the conclusion regarding the desirability of reverting to the procedures followed all along, *viz.*, purchase of rapeseed oil being effected by CIDA itself and not by us".

2.8. The Department of Food also stated (October 1976) that "it was purely coincidence that the oil prices suddenly rose in the second half of November 1973, just when CIDA seems to have gone into the market. This could in no way be held against the correctness of the considered view taken by us in September 1973 regarding the initial offer received by the STC delegation in Canada and the subsequent two offers which were found to be unacceptable both by the STC and the Department of Economic Affairs having regard to the circumstances prevailing at that time". However, as mentioned earlier when there was a sudden fall in price of rapeseed oil in August 1973 it was anticipated that a fresh rise might occur in the near future and, in fact, price started rising from October 1973.

[Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil)].

2.9. According to the Audit Para the average monthly international price of rapeseed oil during some months of 1973 was as under:

April 1973	\$ 324 per tonne
June 1973	\$ 427 per tonne
July 1973	\$ 526 per tonne
August 1973	\$ 503 per tonne
September 1973	\$ 446 per tonne
October 1973	\$ 472 per tonne

It has been further stated in the Audit Para that the price of rapeseed oil was \$ 564 per tonne on 16 August 1973 but came down to \$ 469 per tonne on 23 August 1973. From 27 August 1973 to 12 September 1973 a delegation from the State Trading Corporation was in Canada to negotiate arrangements for imports of rapeseed oil on commercial basis. The delegation was authorised by Canada to purchase rapeseed oil against the aid for 1973-74. Accordingly, Government authorised this delegation to purchase rapeseed oil within the ceiling of Canadian \$ 450—500 per tonne.

2.10. Asked to state why purchase of rapeseed oil against the aid for 1973-74 was not made in April 1973 or June 1973 when the international price of rapeseed oil was $ 324 and $ 427 per tonne respectively, the Ministry in a note have stated:

> "The purchase of rapeseed oil against the aid of 1973-74 was not made in April, 1973 or June 1973 when the international prices of rapeseed oil were $ 324 and $ 427 PMT respectively because the aid agreement was signed on 13th July, 1973."

2.11. Enquired whether the State Trading Corporation visited Canada specifically to make purchases of rapeseed oil against the Canadian grant, the Secretary of the Ministry has stated:—

> "To make purchases under the commercial account they were to visit Canada and as under CIDA grant purchases of rapeseed and rapeseed oil were to be made, the same delegation was required to make the purchases under CIDA grant also. They visited Canada towards the end of August and returned in the first week of September. They were there for about 10—12 days. They received certain offers during this period. These were transmitted to the Government of India. In the Government necessary examination was undertaken and it was decided that this should not be accepted. The STC delegation, just before returning to India, received two further offers which they brought with them. They were not for any specific amount. The price was to be determined on the basis of an alternative formula."

He has added:—

> "There were these offers which the delegation brought with them. There were also the offers made by the representatives of the Canadian firm. These were examined at the meeting here and the view was taken that these quotations are on the high-side. It was felt that we should ask our Commercial Counsellor in Washington to try to make purchase at $ 452 per tonne. Soon after that we received further offers for much higher amount. As I said, no transactions could be finalised at the figure which was acceptable to us because in the mean time the price in the Canadian market had risen. The matter was examined by the Government. The view was taken that there would be difficulty for STC to effect purchases, and, as

in the previous years, the responsibility for effecting purchases should be given back to CIDA, which they accepted. So this is the story of the transaction up to the stage when responsibility for making purchase was entrusted again to CIDA. Then what happened was this. CIDA floated an enquiry in December. They finalised the contract in January for delivery in March. The price at which they effected these contracts were definitely higher than the price at which STC had received offers and also higher than the price which the Canadian firm offered to Government in October."

2.12. The Committee desired to know at whose initiative the State Trading Corporation was asked to make purchases of rapeseed oil. The Chairman, State Trading Corporation has stated:

"Apart from the CIDA grant, Government authorised the STC to purchase about 40,000 tonnes rapeseed oil."

2.13. On being asked whether it was a commerical purchase, the Chairman, State Trading Corporation replied in the affirmative. He has added:

"When that was intended, the Canadian Government, I presume, thought it fit that rather than our running free in their market, somebody should visit and explore the market there. It was a coordination. I think, between the CIDA purchase and our own commercial purchase."

2.14. Asked who made the commercial purchase, the Chairman, S.T.C. has stated:

"I do not think there was any commercial purchase. After the deliberations, no contract could be finalised by the State Trading Corporation. Then Government instructed that only CIDA purchases would be done."

2.15. The Ministry of Civil Supplies and Cooperation have furnished a copy of the minutes of the meeting held on 14-9-1973 to consider the proposals worked out by the State Trading Corporation delegation, during its visit to Canada, for purchase of rapeseed oil from Canada. Extracts from the minutes indicating the details of offers received by the delegation, the basis of the ceiling fixed at $ 445 per tonne for the purchase of rapeseed oil, etc. are reproduced in Appendix III.

According to the above minutes, the delegation had discussed in Canada both near and long term possibilities with a wide cross-section of Canadian suppliers with a view to obtain the most competitive and reliable supply directly from the crushers thereby eliminating the middleman brokers. The purchase proposals finally worked out by the delegation were on the following basis:—

	Quantity (MT)	Value (Rs. in crores)
A. Purchase under CIDA Grant Funds .	23,000	Total value at ceiling price of $ 445 per MT c&f about Rs. 8 crores.
B. Purchases on commercial basis for the period April—Dec. 1974 on long term basis.	43,000	Total value at an estimated average price of $ 426 per MT c&f about Rs. 14 crores.

2.16. While the delegation was in Canada, the offer for the first shipment of 5000—8000 tonnes was on a fixed price basis of Canadian $ 452 per tonne c.i.f. West Coast India. This offer was telexed to India by the delegation on 1 September, 1973. It appears that "the full and correct interpretation of the proposal could not be made by the Department of Food".

2.17. In this context the Ministry in a note have elaborated the position as under:

"An offer for shipment of 5000—8000 tonnes of rapeseed oil at the rate of Canadian dollars 452 per M.T. CIF West Coast India was received from M/s. Agra Food Industries by the STC delegation touring Canada, for shipment during November/early December, 1973. This proposal was open till the 4th September, 1973, 12.00 noon New York time. In a note of 4 September, 1973, appraising the offer, STC considered the price high and suggested that a price of around $ 400 but not exceeding Canadian $ 425 CIF would be of interest." This was on the basis of comparison made with the purchases made of soyabean oil on 1-9-1973 at US dollar 460 per MT c&f Bombay.

In the same note, it was also stated that the STC delegation had contacted suppliers in Canada for short-term and long-term supplies and that three firms had evinced interest in the supply of rapeseed oil. Out of these three firms, Agra Food had sent proposals for long-term arrangements for the supply of 30,000 tonnes of rapeseed oil up to July 1974 in lots of 5,000—8,000 tonnes, Two formulae were given by the STC delegation as follows:—

(i) Chicago Board of Trade closing soyaoil prices plus fixed charges like overland freight, pumping, Wharfage and stevedoring etc. (to bring upto FOB price) less a discount for quality differential between soya and rapeseed oil which is estimated by M|s. Agra Food Industries to be not less than 15 Canadian dollars per M.T.

(ii) Alternatively the price to be established by STC calling world tenders for soya oil and then using best CIF price from such a tender applying agreed quality discount for rapeseed oil.

Considering this note on the same day, the then Joint Secretary (Sugar) commented as follows:—

(i) Neither of the two formulae for pricing is acceptable. Presently the Chicago Board of Trade prices are considerably higher than other market prices, and it will not be economically advantageous to base the pricing for our purchase on it. Alternative (ii) has its own inherent difficulties and should be rejected.

(ii) Even the delivery schedule for a small quantity of 30,000 tonnes of oil is too very protracted and will not be of much use to meet our requirements.

From the above it may be seen that there was no wrong interpretation of the message. In an informed judgement based upon the reasons given by the then Joint Secretary (Sugar), Department of Food, the offer was not accepted."

Asked to indicate the considerations which prompted the Department to ask the delegation not to make the purchases, the representative of the State Trading Corporation has stated:—

"On my record, there is a note to the effect that in view of the difficulties experienced by the STC in negotiating with Canadian suppliers of whom one was found submitting offers all the time, both the Joint Secretary in the Ministry of Food and the Joint Secretary in the Department of Economic Affairs independently came to conclusion of not accepting these offers."

2.18. According to the Audit Paragraph the delegation obtained four firms offers for 23,000 tonnes on c.i.f. basis. The price was provisionally assessed as Canadian $ 445 per tonne. The Committee were informed that on 14 September, 1973 it was decided to authorise the Regional Manager of the State Trading Corporation at New

York to finalise contracts for these 23,000 tonnes of rapeseed oil. Based on the market report of 10 September, 1973, a telex message was sent on 18 September 1973 to finalise the deal within the ceiling of Canadian $ 445 per tonne. Asked to state why the telex message was delayed by 5 days *i.e.*, it was sent on 18 September, 1973, when the decision about it had already been taken on 14 September, 1973, the Ministry in a note have stated:

"The telex message was sent on 18 September, 1973 as the authorisation of the Committee of Management for STC New York to make purchases was given at a meeting held on 17 September 1973. Under delegation of power the Committee of Management only was competent to give this authority to Regional Manager, New York."

2.19. Enquired about the names of the companies which gave the four offers, the Secretary has stated:—

"Agra Food offered 16,000 MT; Western Canada Seed Processors offered 4,000 M.T.; M/s Saskachewan Wheat Pool offered 2,000 M.T.; M/s. Cooperative Oil Mills offered 1,000 M.T. The first one was a separate offer. The three other were made as joint offer. The total quantity was 23,000 M.T."

He has added in this context:—

"There is a record of discussion. There is also a record saying that the Canadian offer was being received again and again from the same party. There was a suspicion that we are not having competitive offers."

2.20. The Committee desired to know why the Regional Manager did not complete the work entrusted to him. In reply, the Ministry have stated:

"The Regional Manager, STC, New York although was authorised on 18 September, 1973, to finalise contract for 23,000 M.T. of rapeseed oil could not finalise any contract because no offers were available within the ceiling of Canadian $ 445PMT C&F authorised to him."

2.21. While the Regional Manager of the State Trading Corporation was negotiating with the suppliers, the President of a Canadian firm visited New Delhi and offered on 28 September, 1973, 16,000 tonnes of rapeseed oil for delivery between December 1973 and March, 1974 at the price of Canadian $ 549.29 per tonne C&F. This offer was considered at an interministerial meeting on the same day *i.e.*, 28 September, 1973, but the price was considered very high as compared to the prevailing prices according to Chicago closing for soyabean oil on that day, which were $ 516.39 per tonne for December 1973 shipments and $ 497.66 per tonne for March 1974 shipments, the price differential between soyabean and rapeseed oil (price of which is lower) being usually $ 15 per tonne.

2.22. Since the price offered by the President of the Canadian firm was considered to be on the high side, the Committee desired to know whether any express instructions had been sent to the New York Regional Manager to go about making the purchase on the spot in view of the rising trend. The Chairman, S.T.C. has stated:

> "Since the ceiling of the New York Manager remained at 445 dollars obviously he could not purchase. There is nothing on record to say that he could pay a higher price and purchase."

2.23. Elaborating the position, another representative of the State Trading Corporation has deposed:—

> "May I make a point which could be relevant? We told our New York agent: 'Since you are unable to bring forth any offer which was below or anywhere near the ceiling, STC shifted to the specific offer which came from Agra Foods'. What happened was that while the initial offer of $ 549 was not acceptable, subsequently on 16 October, Agra Foods again gave another offer of $539 to which we made a counter offer of $475 which was not accepted by them and, therefore, no contract could be concluded. In the meantime, on 24 October we were advised by the Department of Food that CIDA would be making the purchases."

2.24. Enquired whether the Canadian High Commission had cautioned the Government of India through a letter that the Canadian International Development Agency would not be able to procure rapeseed oil as competitively as the State Trading Corporation could but that as the STC could not finalise the contracts, the CIDA had been asked to procure rapeseed oil on behalf of the Government of India under the 1973-74 food aid allocation for India, the Secretary, Ministry of Civil Supplies and Cooperation has replied in affirmative. At the instance of the Committee, the Ministry have furnished a copy of the letter which is reproduced below:

> "We are supplying rapeseed oil to India under the Canadian Food Aid Programme for the first time this current fiscal

year. I thought I should review in this letter some of the delays in the decision making process both in Canada and in India, which have resulted in substantially higher prices now having to be paid for the rapeseed oil.

You will recall that the Canadian High Commission took the initiative in inviting a delegation from the Government of India to visit Canada for the purpose of purchasing rapeseed oil, in part under the Canadian Food Aid Programme and in part on commercial terms. After considerable delays it was finally decided to send a Director from the State Trading Corporation to Canada in late August early September. On 4 September, a Canadian firm offered him 5—8,000 metric tons of rapeseed oil at a C and F price of Canadian dollars 451. Unfortunately the STC Director could not gain confirmation from the Government of India to enter into a contract at this attractive price.

Then on 28 September, the President of the major Canadian producer of Canadian rapeseed oil Agra Foods Limited, visited India and made an offer to the State Trading Corporation of 16,000 metric tonne at Canadian dollars 549.29 C and P; this offer was also rejected by the Government of India. On 16 October, the same Canadian Company made a revised offer of 5,800 metric tons at Canadian dollars 539.77 C and P; this offer was also rejected. It became clear that the only way rapeseed oil was to be procured from Canada was for CIDA itself to take procurement action under its normal tendering procedures. I cautioned the various concerned Government of India Officers that CIDA would not be able to procure rapeseed oil as competitively as the State Trading Corporation given the very nature of their tendering procedures. Nonetheless there seemed to be no alternative and against better judgment I convinced CIDA to procure the rapeseed oil on behalf of the Government of India under the 1973-74 food aid allocation for India.

The Canadian Commercial Corporation, acting for and on behalf of CIDA, let the first contract on 22 November for 5,700 of metric tons plus or minus 5 per cent at Canadian dollars 596.71 per metric ton C and F. I have not got confirmed details regarding other contracts that might have been let, but tenders closed 11 December for the remaining rapeseed oil tonnages, and the best prices offered were apparently $739.81 C and F for 6,300 metric tons and Canadian dollars 741.76 C and F for a further 2,383 meric tons.

Hindsight allows us to quantify the dollar cost of the delayed decision which made it necessary for CIDA to purchase the rapeseed oil for the Government of India. Presuming contracts are awarded according to the best prices offered against the tender closing 11 December, details of which I have quoted above, India will be purchasing in total 14,383 metric tons of rapeseed oil from Canada under the Food Aid Programme at a total cost of Canadian dollars 9,829,664 (according to my own rough calculations). Compare this with the 16,000 metric tons that could have been purchased on 28 September at a total C and F cost of dollars 8,788,640.

I well realise that there were various difficulties which made it difficult for the State Trading Corporation to conclude any contract with the Canadian suppliers on the basis of the offers received which I have quoted above. For one thing, I understand that the decision whether or not to procure the rapeseed oil from Canada against these various offers did not sent entirely and solely with the State Trading Corporation. Perhaps the future may bring a better understanding of Canadian rapeseed oil prices and the close relationship with the Chicago soya oil market. Three representatives from Agra Foods Limited are tentatively planning to visit New Delhi during the third week in January to explain the peculiarities of the market in more details. In fact, we have invited them to lead a short seminar/discussion on Canadian rapeseed oil at 5 P.M. on 23 January to which we will invite concerned officers from the Government of India. I hope this will lead to a better understanding of the difficulties on both sides.

Let me emphasise that it is not my intention in bringing to light the various facts outlined in this letter to criticize the State Trading Corporation, the Department of Food, or the Department of Economic Affairs. In fact, my criticism is levelled generally at Government of India procurement procedures and Canadian Government tendering procedures. The red tape and delays inherent in our respective procedures have cost the Canadian tax-payer a great deal of money for nothing under the Indian food aid allocation, and I am only hopeful that our respective procedures regarding canadian food aid can be streamlined in 1974/75 and future years."

2.25. Asked to state the usual procedure followed by the State Trading Corporation for making purchases overseas, the Executive Director, State Trading Corporation has stated in evidence:—

"Currently, for edible oil purchases we have registered suppliers with our various foreign offices like New York, London and Singapore. For registering suppliers we check their credentials. When we decide to make a purchase, we send a purchase enquiry through our foreign offices, and they in turn send the enquiry to the registered suppliers and invite offers for specific quantities to reach us by a specified time the following morning. These offers have a limited validity period, upto the end of the following day. After the receipt of the offers, we evaluate the offers. We have a Purchase Committee of the Board of the STC which includes the Director in charge of STC, two Joint Secretaries from the Ministry of Commerce, a Joint Secretary from the Ministry of Finance. This Purchase Committee then assesses these offers and takes a decision whether to buy or not to buy."

2.26. Asked why one man delegation was sent and why the purchases were not made through the STC representative there, the Executive Director of STC has stated:

"At that time, the CIDA purchases normally were carried out by CIDA authorities themselves. It is only in one or two cases that STC was required by the Government of India in consultation with the CIDA authorities to undertake the purchases. Secondly, the delegation went out to Canada because it was the Canadian authorities who suggested and invited the delegation from India to go out and explore the possibility of making long term arrangement for purchases of rapeseed oil. The proposal of STC was to send two-man delegation—a representative of the Government and a representative of the STC. But it was finally decided that only one man was to go."

2.27. Asked whether, before making the purchases of rapeseed and rapeseed oil, tenders were invited from all Canadian producers and purchases were made against the lowest tenders, the Secretary of the Ministry has stated:

"There were two agencies which made the purchases, sometimes the Canadian International Development Agency and sometimes State Trading Corporation."

He has added:

"The Canadian International Development Agency is the development aid agency of Canada. It has no rapeseed of its own. Like the State Trading Corporation, it also invited quotations and on the basis of those quotations it made purchases."

2.28. Asked whether it was a condition of the loan agreement that purchases must be made through CIDA, the Secretary of the Ministry has stated:—

"Normally, the aid giving agencies keep themselves aloof from the purchases and in this case also initially the decision was that the purchases would be made by an Indian Government agency and by the Canadian International Development Agency. Subsequently, we got a letter from them saying that if we enter the market, we will face problems."

2.29. After pointing out that the purchases against Canadian aid upto 1972-73 were made through the Canadian International Development Agency the Committee enquired how the prices paid by that agency for those purchases compared with the then prevailing international prices. The Committee further enquired whether the margins between the quotations received in September, 1973 and the then prevailing international price were more than the margins in the case of purchases through the Canadian International Agency against Canadian aid upto 1972-73. In reply, the Ministry of Civil Supplies and Cooperation have in a note* stated as follows:—

"(a) As per the terms and conditions of the Loan/Grant Agreement, rapeseed and rapeseed oil were to be purchased by CIDA on behalf of India from the Canadian market. Hence, the question of comparing prices at which rapeseed/rapeseed oil was purchased with the then prevailing international price would not arise. However, a statement

*Not vetted in Audit.

showing the rates at which purchases were made in 1972 and the corresponding prevalent international prices is given below:—

Rapeseed

Date of Purchase	Qty. (MT)	Date of Shipment	Rate US $	Oral International price (US $)
17-8-72	5080	13-9-72	137.90	142
Do.	3150	Do.	137.53	142
Do	4103.652	Do	137.65	142
10-10-72	14748	1-12-72	158.68	144
Do.	10252	6-12-72	158.68	144
3-11-72	5294	6-12-72	157.41	144

(b) Upto 1972-73, India purchased only rapeseed. It was only during 1973-74 that India obtained rapeseed oil in addition to rapeseed. In September, 1973 quotations were received for rapeseed oil and not for rapeseed. Therefor, the margins between the quotations received in September 1973 for rapeseed oil and those for rapeseed which was purchased upto 1972-73 may not be comparable."

2.30. Since the Department of Food had informed the State Trading Corporation on 24 November, 1973 that all purchases of rapeseed and rapeseed oil against the aid for 1973-74 would be made by the Canadian International Development Agency as before, the Canadian Commercial Corporation concluded three contracts for a total quantity of about 14,000 tonnes of rapeseed oil at prices ranging from Canadian $ 596.71 to 741.76 per tonne C & F India. According to the Audit Para, purchases at these rates cost about Rs. 248 lakhs more as compared to the assessed price of Canadian $ 445 per tonne C & F indicated in the meeting of 14 September 1973 and about Rs. 138.76 lakhs more as compared to the price of Canadian $ 549.29 per tonne C & F offered on 28 September, 1973. The entire quantity of about 18,500 tonnes of rapeseed was also purchased by the Canadian International Development Agency against the grant for 1973-74. The Committee desired to know whethei at any stage the question of the relative advantage of Canadian International Development Agency buying and the State Trading Corporation buying rapeseed oil was examined. In reply, the Ministry in a note stated:

> "In consideration of all these facts, Government finally came to the conclusion that it would be better if CIDA itself went for contracting the material obtainable under their grants."

2.31. Asked whether it was the failure on the part of the Government or the failure of the delegation to purchase rapeseed oil the Secretary of the Ministry has stated:—

> "The responsibility of taking higher decision was that of Government. There was no question of ascribing the failure to....He had gone there, studied the market, obtained the offer and some offers he telexed from there. These were considered at the Government level and the Government thought that they were on the higher side. Subsequent to that by the end of September or December they were not accepted when the price was rising and it was felt to leave the purchase business to Canadian International Development Agency. This was the decision taken by Government."

2.23 The Ministry of Civil Supplies and Cooperation have furnished the following figures* indicating the corresponding international prices when the Canadian International Development Agency made the purchases of rapeseed oil against their contract during 1973-74:—

Date	qty. (MT)	Price C & F (US $)	Shipment	International price (US $)
22-11-73	5700	598·61	Jan. '74	524
18-12-73	6000	741·03	March '74	616
18-12-74	2269	742·98	March '74	616

2.33. According to the Audit Para, Canada also authorised Government of India to purchase rapeseed and rapeseed oil against the grant of Canadian $ 150 lakhs for 1974-75. As Canada agreed to utilisation of the entire grant for purchase of rapeseed oil, the State Trading Corporation invited tenders on 31 December, 1974 for purchase of rapeseed oil. The Committee desired to know the considerations that led the Government to decide finally that the purchase of rapeseed oil for 1974-75 should be made by the State Trading Corporation. The representative of the Ministry of Finance (Department of Economic Affairs) has stated:

*Not vetted in Audit.

"In 1974-75 there was a letter from the Canadian High Commissioner in October 1974 in which they referred to the previous years' experience, i.e., when CIDA had made the purchase and stated that this had resulted in a loss since the tendering procedures of the CCC (Canadian Commodity Corporation) are most inappropriate while purchasing speculative commodities like rapeseed oil, and suggesting that STC may make the purchase."

In this context, he read the following extract from the letter of the Canadian High Commission:—

"The STC could not finalise any contract with the Canadian suppliers and CIDA was then forced to go the market through the C.C.C. This resulted in a loss of food worth approximately 2 million dollars since CCC tendering practices are most inappropriate while purchasing speculative commodities like rapeseed oil. Consequently, we wonder if your Ministry is not considering reverting to usual tendering practice."

2.34. Since in 1974-75, the purchases were made by the State Trading Corporation, the Committee desired to know whether these purchases were made by STC on its own or it took orders for the same from the Ministry as was the case formerly. In reply, the Chairman, STC has stated:—

"In this particular purchase in early 1975 it so happened that the prices were found to be high. Eventually the contract was finalised in consultation with the Government."

2.35. Clarifying the position, the Secretary of the Ministry has stated:—

"When in 1974-75 the responsibility was again given back to the State Trading Corporation the intention was that the decisions would be taken by STC on a commercial basis. In fact, when STC chose to consult the Ministry, the view taken was that this was a commercial purchase and STC should use its own judgement. But I think STC thought it advisable to consult the Ministry. Therefore, at the final stages, the Ministry did come into the picture."

2.36. The Committee asked whether there was any difference in the arrangements made for the purchase of rapeseed oil during

1974-75 and in the previous years. The Secretary, Ministry of Civil Supplies and Cooperation has stated:—

> "Learning from the experience of the previous years, to start with, unlike the previous years, the State Trading Corporation was not asked to operate within a particular level of quotations or to seek the previous concurrence of the government before finalising its contract."

2.37. **The Committee note that a one-man delegation of the State Trading Corporation had gone to Canada on 27th August, 1973 to negotiate arrangements for import of repeseed oil on commercial basis and had remained there till 12 September 1973. Canada had authorised the delegation to purchase repeseed oil against the CIDA grant for 1973-74. Government of India has therefore, authorised this delegation to purchase repeseed oil within the ceiling of Canadian 450—500 per tonne. The delegation after discussing both near and long term purchase possibilities with a wide cross-section of Canadian suppliers with a view to obtaining the most competitive and reliable sources of supply in Canada from crushers, thereby ' eliminating the middlemen brokers finally obtained four firm offers for 23,000 tonnes on c.i.f. basis linked to Chicago price for soyabean oil (the price was provisionally assessed as Canadian $ 445 per tonne for shipment between November 1973 and March 1974. Immediately after return of the delegation, the Regional Manager of the State Trading Corporation at New York was authorised to finalise contracts for 23,000 tonnes of repeseed oil (against Canadian aid) within the ceiling of Canadian $ 445 per tonne However while he was negotiating with the suppliers, the President of one of the Canadian Firms visited New Delhi and offered on 28 September 1973, 16000 tonnes of rapeseed oil for delivery between December 1973 and March 1974 at the price of Canadian $ 549.29 per tonne C & F. This price being very high as compared to the then prevailing prices the offer was rejected. Another offer made by the Indian agent of the same company on 16 October, 1973 for 5000—8000 tonnes for shipment in March 1974 at Canadian $ 539.77 per tonne C & F Bombay or Kandla was also rejected on the same ground. On 17 October 1973, the State Trading Corporation gave a counter offer of Canadian $ 475 per tonne. The counter-offer was not accepted by the Company. In making comparison of the prevailing international prices of soyabean of $ 516.39 per tonne for December 1973 shipments and $ 497.66 per tonne for March 1974 shipments, the fact that these prices were FAS prices and $ 50 for fobing charge, $ 30 for ocean freight and differential of in price of $ 15 per metric tonne (minus) had to be added to compare with C & F quoted prices was lost sight of. Eventually** the purchase of rapeseed oil was entrusted to Canadian International Development Agency on 24 November, 1973.

2.38. The Committee regret that from the very beginning no firm policy was followed in regard to the purchase of rapeseed oil against the grant from Canadian Government. Initially, the purchase of rapeseed oil was made by the Canadian International Development Agency through the Canadian Commercial Corporation, the State Trading Corporation of India acting more or less as handling agent for shipment and distribution inside the country. During August-September 1973 a delegation from the State Trading Corporation of India having gone to Canada to negotiate arrangements for import of rapeseed oil on commercial basis, it was authorised by Canada to purchase rapeseed oil against the aid for 1973-74. Unfortunately the S.T.C. could not finalise any deals although its delegation was in Canada and was in direct touch with the suppliers. Though the quotations received by the delegation of the State Trading Corporation from four firms for 23,000 tonnes at $ 445 per MT C & F India were the same as assessed provisionally by the delegation, yet the delegation, failed to execute the contracts on the spot. The responsibility for the failure lay squarely on the Government which had failed to evolve any satisfactory purchase procedure.

2.39. The Committee have been informed that based on the market report of 10 September 1973, a telex message was sent to the Regional Manager on 18 September 1973 to finalise the deal within the ceiling of 445 dollars per tonne. The Committee are, however, amazed to find that while the Regional Manager of the State Trading Corporation was still negotiating with the suppliers, the President of a Canadian firm was allowed to visit India and offer on 28 September 1973 16,000 tonnes of rapeseed oil for delivery between December 1973 and March 1974, at the price of 549.29 dollars per tonne C. & F. This offer, followed by another offer received on 16 Octobre 1973 from the same firm at the price of 539.77 dollars per tonne were not accepted being very high. In the meantime, the Regional Manager of State Trading Corporation, who was negotiating with the suppliers, also failed to clinch the deal as offers were not available within the ceiling of 445 dollars then. The Committee fail to understand why express instructions were not issued to the Regional Manager to go ahead for making purchases on the spot finding that there was a rising trend in prices.

2.40. In this connection, the Committee would like to point out that the Counsellor, Canadian High Commission in his letter dated 20 December, 1973 address to the Joint Secretary, Ministry of Finance (Department of Economic Affairs) had pointed out that "unfortunately the State Trading Corporation Director could not get Confirmation from the Government of India to enter into a contract at an attractive price" with a Canadian firm who offered him 5000—8000 metric tons of rapeseed oil at a C&F price of Canadian dollars 452. The Counsellor had also stated that "the only way rapeseed oil was to be procured from Canada was for CIDA itself to take procurement action under its normal tendering procedures. I cautioned the various concerned Government of India officers that CIDA would not be able to procure rapeseed oil as competitively as the State Trading Corporation given the very nature of their tendering procedures. Nonetheless there seemed to be no alternative and against better judgment I convinced CIDA to procure the rapeseed oil on behalf of the Government of India under the 1973-74 food aid allocation for India." The Counsellor had stressed in his letter that "my criticism was levelled generally at Government of India procurement procedures and Canadian Government tendering procedures. The red tape and delays inherent in our respective procedures have cost the Canadian taxpayer a great deal of money for nothing under the Indian food aid allocation and I am only hopeful that our respective procedures regarding Canadian food aid can be Streamlined in 1974-75 and future years."

2.41. This failure to procure rapeseed oil by the State Trading Corporation resulted in entrusting the purchase of rapeseed oil back to the Candian International Development Agency on 24 November, 1973. The Canadian Commercial Corporation concluded three contracts for a total quantity of about 14,000 tonnes of rapeseed oil at prices ranging from Canadian $ 596.71 to 741.76 per tonne C & F India against the aid for 1973-74. Thus the country had to pay heavily for the purchase of rapeseed oil through the CIDA which cost about Rs. 248 lakhs more as compared to the assessed price of Canadian $ 445 per tonne C&F indicated on 14 September, 1973 and about Rs. 138.76 lakhs more as compared to the price of 549.29 dollars per tonne offered on 28 September, 1973. The Committee are of the opinion that in depth study may be made about this loss with a view to fixing responsibility and taking appropriate action.

NEW DELHI; C. M. STEPHEN,

April 12, 1978. *Chairman*,

Chaitra 22, 1900 (*S*). *Public Accounts Committee.*

APPENDIX II

(*Vide* paragraph 1.14 of the Report)

Salient features of loan agreements and grants

1.1. We imported rapeseed/rapeseed oil from Canada both under the Loan Agreements as well as using Canadian grants. Therefore, the salient features of both the Loan Agreements and grants are furnished below:

1.2. *Loan Agreements*

Canada shall make available to India rapeseed/rapeseed oil as loan on the terms and conditions mentioned below:

(i) Canada shall open on its books a Loan Account in the name of India and shall credit to such account the full amount of the Loan.

(ii) The Loan shall be free from interest, commitment or service charges.

(iii) Repayment of the principal amount of the Loan shall be made in eighty semi-annual instalments over a period of forty years, the first instalment being payable after ten years.

(iv) India shall have the right to prepay principal in whole or in part on any date without Notice to Canada.

(v) All payments and repayments shall be made in Canadian dollars to the Receiver-General of Canada.

(vi) The principal of the Loan shall be paid without any deductions whatsoever and more particularly shall be free from any taxes, charges or other restrictions imposed under the Laws of India.

(vii) Except as may otherwise be specifically agreed to by Canada, the proceeds of the Loan shall be used by India exclusively for the purchase of commodities in Canada.

(viii) Commodities contracted for prior to the effective date of this Agreement may not be financed out of the proceeds of the Loan except as may otherwise be agreed to by Canada.

(ix) Proceeds from the Loan shall not be usd by India to meet the costs of any taxes, fees or customs duties.

(x) Subject to the conditions and limitations set forth, India shall be entitled to withdrawals from the Loan Account in such amounts as are required to meet the reasonable costs of the commodities eligible for financing as the costs become due and payable.

(xi) India shall provide Canada with a copy of each invitation to tender, contract and/or purchase order for the procurement of commodities in respect of which any withdrawal is to be made.

(xii) India may, by sixty days' notice to Canada cancel all or any part of the Loan not withdrawn by India prior to the giving of such notice.

(xiii) If the full amount of the Loan is not spent for the Project, the balance will be cancelled on completion of the Project by sixty days' notice from Canada.

(xiv) India shall afford accredited representatives of Canada all reasonable opportunities to visit any part of the territories of India for purposes related to the Project and the Loan Agreement.

(xv) Before any purchase contracts are entered into, the contracting authority shall invite tenders from all Canadian producers unless otherwise agreed to by the Canadian International Development Agency (CIDA).

(xvi) If other than the lowest tender with acceptable Canadian content is to be approved, the concurrence of the CIDA shall be obtained.

(xvii) The Government of India shall be responsible for—

(a) Arranging and paying for ocean freight and insurance;

(b) Inspection of the commodities prior to the packing and shipping;

(c) Preparation and submission of claim for short shipments, and losses or damage to the commodities while in transit.

(xviii) Statements of disbursements will be prepared by CIDA and forwarded to the Government of India at six monthly intervals.

2.1. The salient features of the grant agreements for the import of rapeseed/rapeseed oil are outlined below.

2.2. The Government of Canada shall, under Canada's International Development Assistance Programme, make available to the Government of India rapeseed oil worth one million Canadian dollars (C $ million) in the form of a grant.

2.3. The rapeseed oil shall be supplied FOB vessel including all outward elevation charges at the port of loading. Proof of fulfilment shall be furnished by the presentation of shipping documents (quality and weight certificate, bill of health and a clean-on-board bill of lading). All expenses concerning shipping and marine insurance, demurrage, detention, storage, interest charges and any other charges arising at both load and off-load ports, including stowing and trimming charges aboard the freighter for the rapeseed oil supplied under the Canadian Assistance shall not be covered under the grant assistance, but borne by the Government of India.

2.4. If the full amount of this grant is not committed by India by March 31 of the year in which aid is given, the balance of this Grant shall automatically stand cancelled.

2.5. The computation, use and accounting of the equivalent in India Rupee currency of the Food Grant (referred to as the counterpart fund) will be in accordance with the agreement between Canada and India.

2.6. The Government of India shall authorize the Canadian International Development Agency to make purchases of rapeseed oil on behalf of the Government of India, using its best efforts to purchase at the best possible competitive prices, consistent with supply conditions obtaining in the Canadian Market. The Government of India or their freight forwarders shall commission a Canadian freight forwarder as its agency to deliver the supplies of rapeseed oil to the port of delivery, and shall designate the Supply Wing of the Indian Embassy, Washington and the State Trading Corporation of India as its authorised agencies to perform the necessary functions relevant to the supplies.

2.7. The Government of India shall supply the Canadian International Development Agency through the Canadian High Commission in New Delhi with all details of such vessels in Indian ports before the arrival of the vessels in India and also relevant details of distribution of the rapeseed oil in the local market within two months of such distribution.

2.8. In connection with the allocation by Canada of million dollars for the purchase of rapeseed oil under the Canadian Food Aid Programme, the Government of India and the Government of Canada agree to undertake all reasonable precautions to prevent the disruption of normal commercial trade in edible oil and oil seeds by this transaction. In particular, the Government of India undertakes:

(a) To ensure that Indian exports of oil seeds and/or edible oils (excluding hand-picked and selected peanuts for direct human consumption) do not exceed in terms of FOB value the CIF value of commercial imports of oil seeds and/or edible oils during the import period related to any Usual Marketing Requirement (UMR) established for oil seeds or edible oils, or during any subsequent period in which rapeseed or rapeseed products are imported pursuant to this allocation; and

(b) Not to divert to any other country shipment of Canadian rapeseed or rapeseed products made pursuant to this allocation to India.

Loan/Aid received from Canada for import of rapeseed and rapeseed oil (in lakhs of C $)

Year	Loan
1969-70	33
1970-71	65
	Grant
1972-73	110
1973-74	150
1974-75	167
1974-75 (Supplmentary Grant)	50
1975-76	80

APPENDIX II

(*Vide* paragraph 1.46 of the Report)

Statement showing the controlled Price of Vanaspati in different Zones since 1972

(Rs. per tonne)

	North Zone	South Zone	East Zone	West Zone
1972				
Jan. 8 to Jan. 22	4907	4692	4941	4785
Jan. 23 to Feb. 7	4907	4692	4941	4785
Feb. 8 to Feb. 22	,,	4792	,,	,,
Feb. 23 to March 7	4857	,,	4881	..
March 8 to March 22 .	,,	,,	,,	,,
March 23 to April 7	,,	,,	,,	,,
April 8 to April 22	,,	,,	,,	,,
May 8 to May 22	4757	4692	4781	4685
*May 23 to June 7	,,	,,	,,	,,
June 23 to July 7	4957	4792	4981	4885
July 8 to July 22	,,	,,	,,	,,
July 23 to Aug. 7 .	,,	,,	,,	,,
Aug. 8 to Aug. 22	5152	4987	5176	5080
Aug. 23 to Sept. 7	,,	,,	,,	,,
Sept. 8 to Sept. 22	5352	5187	5376	5280
Sept. 23 to Oct. 7	,,	,,	,,	,,
Oct. 8 to Oct. 22	5552	5387	5576	5480
Oct. 23 to Nov. 8	,,	,,	,,	,,
Nov. 9 to Nov. 22;	5652	5487	5676	5580
Nov. 23 to Dec. 15 .	,,	,,	,,	,,
Dec. 16 to Jan. 1, 1973	,,	,,	,,	,,

Note :—represents per tonne price of vanaspati sold in 16·5 kg. packs, at producers" stage incl. . of excise duty.

*June 8 to June 22 .	,,	4592

	North Zone	South Zone	East Zone	West Zone
1973				
Jan. 2 to Jan. 15	6052	5877	6076	5980
Jan. 16 to Jan. 31	,,	,,	,,	,,
Feb. 1 to Feb. 15	,,	,,	,,	,,
Feb. 16 to Feb. 28	,,	,,	,,	,,
March 1 to March 15	,,	,,	,,	,,
March 16 to March 31	,,	,,	,,	,,
April 1 to April 15	,,	,,	,,	,,
April 16 to April 30	,,	,,	,,	,,
May 1 to May 15	,,	,,	,,	,,
May 16 to May 31	,,	,,	,,	,,
June 1 to June 15	6802	5637	6825	6750
June 15 to June 30	,,	,,	,,	,,
July 1 to July 15	,,	,,	,,	,,
July 16 to July 31	7552	7387	7576	7430
Aug. 1 to Aug. 15	,,	,,	,,	,,
Aug. 16 to Aug. 31	,,	,,	,,	,,
Sept. 1 to Sept. 15	,,	,,	,,	,,
Sept. 16 to Sept. 30	,,	,,	,,	,,
Oct. 1 to Oct. 15	,,	,,	,,	,,
Oct. 16 to Oct. 31	,,	,,	,,	,,
Nov. 1 to Nov. 15	,,	,,	,,	,,
Nov. 16 to Nov. 30	5252	7187	7376	7280
Dec. 1 to Dec. 15	7152	6987	7176	7080
Dec. 16 to Dec. 31	,,	,,	,,	,,

Note:—represents per tonne price of vanaspati sold in 16·5 kg. packs, producers' stage incl. of excise duty.

		North Zone	South Zone	East Zone	West Zone
1974					
Jan. 1 to Jan. 15		7152	6987	7176	7080
Jan. 16 to Jan. 31		,,	,,	,,	,,
				West (M) Zone	*West (G) Zone
Feb. 1 to Feb. 15 . . .	7702	7587	7736	7680	7620
Feb. 16 to Feb. 28 . . .	.	,,	,,	,.	.,
March 1 to March 15 . .	..	..	,,	,,	,,
March 16 to March 31 . .	..	,,	,,	,,	..
April 1 to April 15 . . .	..	..	.,	,,	..
April 16 to April 30 . . .	..	..	..	..	..
May 1 to May 15 . . .	..	..	,,	..	.
May 16 to May 31 . . .	..	..	,,	.	..
June 1 to June 15 . . .	..	..	,,	.	..
June 15 to Jan. 1375 . .	9252	9537	9936	9630	9420

*West (N) . . . . . West Zone, Maharashtra.

*West (G) . . . . . West Zone. Gujarat.

Note:—represents per tonne price of vanaspati sold in 16·5 kg. packs. at producers' stage incl. of excise duty.

There is no change in vanaspati since June 15 to Jan. 5. 1975.

APPENDIX III

(*Vide* Paragraph 2.15 of the Report)

Extracts from Minutes of the meeting held on 14-9-1973

"Shri Gujral stated that, while in Canada, he discussed both near and long term purchase possibilities with a wide cross-section of Canadian suppliers with a view to obtain the most competitive and reliable correct of supply in Canada. He also pointed out that purchases from Canda would be made directly from crushers thereby eliminating the middlemen brokers. This would not only help obtain lower prices for us but also achieve a major break-through in establishing direct contact with suppliers. The purchase proposals finally worked out by him were on the following basis:—

	Qty. (MT)	Value (Rs. in crores)
A. Purchasers under CIDA Grant Funds	23,000	Total value at ceiling price of dollars 445 per MT C&T about Rs. 8 crores.
B. Purchases on commercial basis for the period April-Dec. 1974 on long trem basis.	43,000	Total value at an estimated average price of dollars 425 per MT C & F about Rs. 4 crores.
TOTAL :	66,000	Rs. 22 crores Approx.

Specifications

Agra Foods have offered oil conforming to FAO International Specifications. The other three parties have specified that the oil sold by them would be in accordance with Canadian Government specifications Crude rapeseed oil 32-GP-300, 17th September, 1965. They maintained that the quality requirements under these specifications are more stringent and, therefore, superior to WHO/FAO specifications. The Department of Food would, however, examine these specifications and inform us (within the next two days) whether these would be acceptable to them to enable us confirm the same to the suppliers. The Food Ministry has approved both the above specifications subject to the condition that the physical and chemical characteristics included in WHO/FAO specifications but not covered by Canadian specifications, will conform to WHO/FAO standards.

(A) *Purchase under CIDA Funds*

In the context of purchase under CIDA funds, Shri Gujral stated that offers were obtained for supply of 23,000 MT for shipment between December, 1973 and March, 1974 from the following suppliers:—

	Qty.(MT)	
1. Agra Foods	16,000	
2. Western Canada Seed Processors	4,000	These parties have made a joint offer.
3. Saskachewan Wheat Pool	2,000	
4. Cooperative Oil Mills	1,000	

Shri Gujral also explained that purchases under CIDA grant can be made only from Canada. Normally, purchases under this grant are made by the Canadian Government itself by calling for tenders within Canada. For the first time the Canadian Government have authorised STC to contract for these purchases. The STC delegation was able to obtain offers for maximum of 23,000 MT rapeseed oil for shipment before 31-3-1974.

The suppliers in Canada are used to supplying only rapeseed and Canada is not yet a very big supplier of oil. Their prices are also comparatively higher. In their present offers, however, they have agreed to link their export prices to an independent international market indicator *viz.*, Chicago Board of Trade (BOT) soyaoil closings. The price formula is as follows:

(1) The FOB Canada price of rapeoil can be derived by Chicago Board of Trade (BOT) soyaoil closings (converted into Canadian dollars) on the day of concluding contract plus cost of internal freight terminal charges etc. including fooling premium less a discount differential between soya and rape oil.

(2) Agra Foods estimate fobing charges about dollars 50 MT and the differential about dollars 15 per MT. Thus according to the formula, the rape oil price FOB Canada will become Chicago BOT closing plus dollars 35. The

C&F can accordingly be estimated by adding the freight presently about dollars 30 per MT. Department of Economic Affairs have advised that STC should be satisfied that these fobing charges inclusive of premium are reasonable.

Whereas the price differential between syoabean oil and rapeoil varies from time to time, the dollars 15 discount as given in the formula was considered reasonable. Regarding our preference for oil rather than rapeseed, Shri Sampath explained that oil is both economically and operationally more desirable. As for Japan and other countries buying seed, it was stated that these countries were big consumers and surplus exporters of both meal and oil which they obtained from the imported seed.

Shri Gujral stated that on the basis of Chicago closings on Monday 10-9-1973 for soyaoil, the average December, 1973—March, 1974 rapeseed oil price as derived from the above formula worked out dollars 445 C&F India. He recommended that STC's Regional Manager in New York be authorised to finalise contracts for the above 23,000 MT rapeseed oil under CIDA funds and for shipments between November 1973 and March 1974 using this dollars 445 as the ceiling for the average of the C&F India prices for various shipments. It was opined that it may be possible to obtain lower prices in view of the falling trend in the market during the last two days. The above offer from Agra Foods and the other three suppliers stipulate that the purchase prices are to be determined by mutual agreement before 30-9-1973 for Agra Foods and before 20-9-1973 for the other three suppliers.

Shri Chhabra called Shri Banerjee, Ministry of Shipping & Transport on the phone to ascertain whether it would be more desirable to buy the above oil on an FOB or C&F basis. Shri Banerjee stated that since the indicated freight of 30 dollars per MT was reasonable the contract could be on a firm C&F basis. It was then decided that the price formula and the price ceiling as suggested above be accepted for the purchases of 23,000 MT rapeoil for November 1973 to March 1974 shipment under CIDA funds. Total C&F value of this purchases is estimated to be about 10.24 million Canadian dollars. (It was noted that the Government of Canada, in their letter dated 5-8-1973 to Shri Shamsher Singh, 1st Secretary (Economic), High Commission of India, Ottawa, Canada, have authorised the STC delegation to enter into contrtcts for approximately 23,000 MT of rapeseed oil (or additional quantities if available upto a limit of 15 million Canadian dollars).

It was also decided that for the balance funds available out of the dollars 15 million (Canadian) CIDA grant, rapeseed would be obtained from Canada. During his telephonic conversation with Shri Chhabra, Shri Banerjee, Ministry of Shipping & Transport recommended that rapeseed purchases may be made on FOB basis.

(B) *Purchases on Commercial basis for the period April—December* 1974 *and on Long Term basis*

These purchases would be made in the course of our normal free foreign exchange purchases in line with international competition. For commercial purchases on a term basis, the Canadian suppliers have offered a total quantity of 43,000 MT to be supplied between April—December 1974. Of this, Agra Foods have offered 24,000 MT and the other three suppliers 19,000 MT jointly. (The three suppliers other than Agra Foods have jointly offered a total quantity of 26,000 MT out of which 7,000 MT will be under CIDA funds and the balance 19,000 MT on commercial basis).

The price formulae sugested are:—

(1) Same as for CIDA purchases *i.e.* relating to Chicago Board of Trade soyaoil closings.

OR

(2) By applying the rape oil and soyaoil differential of dollars 15 to STC's latest and lowest soyaoil tender price for the same shipment period. The suppliers have reserved their right to accept or reject the FOB Canada rape oil price derived in this manner.

OR

(3) To take the public ledger price of rape oil in Europe on an average basis for the month prior to the month of shipment. For instance the price for September shipment to be fixed on the average of the public ledger (London) price on the 3rd, 5th and the last working day of August (this alternative was, however, not greatly favoured by the Canadian suppliers).

While on his tour, Shri Gujral had referred both formulae 1 & 2 above, to STC New Delhi for consideration of the STC Management as well as the Department of Food. Shri Gujral stated today that the full and correct interpretation of the proposals could not be made by the Department of Food who had then not agreed with any of the above price formulae. He, therefore, explained that under these formulae, STC had the benefit of relating the prices to an independent market indicator *viz.* the Chicago closings for soyabean oil and also reserved the option to refuse any or all quantities of oil if prices so derived were considered too high. As such, this arrangement would pre-empt the contracted quantities of oil for our requirements without any obligation on our part to purchase at uncompetitive price levels. In view of this clarification, it was agreed that the above long term proposal along with the price formulae be considered again so as to be able to finalise purchases on their basis. It was also agreed that the suppliers be informed of our interest in negotiating and finalising the above long term arrangement and an invitation be sent to them to visit New Delhi later this year for holding further discussions on the matter with a view to evolving concrete proposals for the next year, and if considered favourable, for a longer period".

CHAPTER IV

Statement of Conclusions|Recommendations

Sl. No.	Para No.	Ministry/Department concerned	Conclusions/Recommendations
1	2	3	4
1	1.49	Civil Supplies and Cooperation	The Committee note that against loan assistance received under the Canadian Development Assistance Programme, 77,500 tonnes of rapeseed were imported from Canada during 1969-70 and 1970-71 for allotment to the State Government in the eastern region, mainly West Bengal, Assam and Bihar, for crushing it and supplying oil through fair price shops. About 79,800 tonnes of rapeseed were imported against the Canadian grant for 1972-73. Thus 1,57,300 tonnes of rapeseed were imported against the loans for 1969-70 and 1970-71 and the grant for 1972-73. The Committee also note that the economics of importing rapeseed oil in preference to rapeseed were not examined all these years by Government and such an examination was done only in June-July 1973 when the Canadian authorities wanted to know whether a part of the grant of Canadian $ 150 lakhs for 1973-74 would be accepted by India as rapeseed oil. As a result of such an examination it was found in June-July 1973, on the basis of prices then prevailing, that on overall cost basis import of rapeseed oil would have a price advantage of about $ 121

per tonne (which according to Government would be reduced to $ 13* if the cost of refining is including) as compared to the net cost of oil (after allowing for credit for export of oilcakes) extracted in India from imported rapeseed. The Committee observe that during evidence no convincing argument was advanced by the representatives of the Ministry of Civil Supplies and Cooperation for not working out the comparative cost of importing rapeseed and rapeseed oil, till 1973. Rather, the Secretary of the Ministry of Civil Supplies and Cooperation had stated that "as per our records, such a comparative statement of cost was not made at that time". It is all the more surprising that such a study was not undertaken by Government even when an Indian Company had pointed out to the State Trading Corporation in April 1972 that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed. This suggestion was ignored as being merely "motivated more by considerations of their own business interests than otherwise". The Committee doubt whether this alleged fear of 'motivation' was justified as rapeseed oil was imported later on by STC on Government account and not by any private party.

2 1.50 -do- One of the reasons for not asking the Canadian authorities for rapeseed oil instead of rapeseed was that Government was of the view that import of rapeseed took place under grants and that it would not be proper to examine the transactions from the restricted angle of commercial norms. However, the Canadian authorities

*Not vetted by Audit.

1	2	3	4
			themselves enquired whether this country wished to import rapeseed oil as part of the grant of Canadian $ 150 lakhs for 1973-74. What the Committee regret is that prior to 1973-74, Government had not even made any efforts on their own to ascertain whether rapeseed oil could also be imported against the Canadian assistance. It was as a result of the decision taken during 1973-74 that the country imported for the first time rapeseed oil costing about Canadian $ 93.6 lakhs while rapeseed costing about Canadian $ 47.4 lakhs only was imported.
3	1.51	Civil Supplies and Cooperation	The other reason advanced was that the import of seed had an inherent advantage in that it helped in the utilisation of idle milling capacity in the country. But the Committee find that between 1965-66 and 1973-74 the highest indigenous production of mustard and rapeseed was 19.76 lakh tonnes in 1970-71 and 18.08 lakh tonnes in 1972-73. Compared to the milling capacity in the country only about 77,500 tonnes of rapeseed were imported during 1969-70 and 1970-71 against the loan assistance. The Committee, therefore, do not agree with the argument that the imported rapeseed helped significantly in the utilization of the idle milling capacity in the country or in improving the employment potential.
4	1.52	-do-	The Committee are perturbed to note that due to sharp decline in the price of mustard oil in 1975, the Eastern States showed their

			inability to distribute rapeseed oil at Government notified price. The unlifted quantity (6,300 tonnes) was consequently cancelled in February, 1975. The State Trading Corporation also experienced difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. However, this quantity of 6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Committee are not inclined to be satisfied by the explanation given by the Government in this regard and would like the matter to be investigated in depth so as to fix responsibility for the loss suffered due to disposal of 6,300 tonnes of rapeseed. The Committee also fail to understand why Government immediately after the above episode imported another quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh dollars particularly when there was no demand for that at that time. Such being the position, it appears that the whole quantity of 13,416 tonnes was allotted to parties dealing in vegetable products in the eastern region. This indicates that Government had no firm policy for importing rapeseed based on realistic domestic demand or prices then prevailing in the international market. This matter needs to be carefully gone into.
5	1.53	-do-	The Committee have been informed that use of impotred rapeseed oil for manufacture of vanaspati was permitted for the first time in March 1973 and that prior to 1973-74 rapeseed oil was not imported as the industry was not technically equipped to hydro-

1	2	3	4
			genate rapeseed oil because of certain operational and technological problems both at the refining and hydrogenation stages. But when the Secretary, Ministry of Civil Supplies & Cooperation was asked whether Government had got it confirmed that imported oil could not be used by the vanaspati industry, he could not reply categorically. The Committee are, therefore, not convinced with this plea as well. The Committee are of the opinion that had rapeseed oil been imported from the very beginning, the industry would have equipped itself to use it was there was shortage of indigenous oils in the country during these years. The use of rapeseed oil in vanaspati would have also made the rate of indigenous oils cheaper for direct consumption by the public.
6	1.54	Civil Supplies and Cooperation	The manner of consideration of the question of import of rapeseed speaks volumes of Government apathy and lack of functional coordination between various agencies connected with the issue. As revealed in evidence, there was a difference of opinion between the Department of Food and Ministry of Finance on the issue of import of rapeseed. The Department of Food had recorded a note on 1 March, 1975 that "we would have advised the Ministry of Finance (Department of Economic Affairs) against taking any further quantity of rapeseed had they consulted us on the latest offer. Now that they had accepted the offer on their own and effected a *fait accompli* in this regard, their belated reference to us on the subject

			serves little purpose, beyond calling on us to implement the decision, regardless of consequences". All this proves that the import of rapeseed/rapeseed oil into the country was not made after giving careful thought.
7	1.55	-do-	The Committee need hardly emphasise that the whole matter of import of rapeseed/rapeseed oil against Canadian loan aid/grants needs a thorough probe to determine as to how far the decisions taken were in the best interest of the State. For this purpose, the Committee would recommend the constitution of a Committee of senior officers to go into the matter and report to them within 6 months of the presentation of this Report.
8	1.56	-do-	It is seen that the production of mustard and rapeseed had fallen from 22.52 lakhs tonnes in 1974-75 to 15.62 lakhs in 1976-77. The Committee are concerned to note this falling trend in the production of mustard and rapeseed in the country. Obviously, it has resulted in more import of this essential commodity to meet the internal requirements of edible oils. The Committee need hardly emphasize that intensive measures, both short term and long term, should be taken to augment the production of mustard, rapeseed and other oil-seeds within the country not only to avoid drain of foreign exchange through imports but also to tide over the chronic shortage of edible oils which the country has to face year after year. The Committee would watch with interest the results achieved through such measures through the annual reports of the Ministry.

1	2	3	4
9	2.37	Civil Supplies and Cooperation	The Committee note that a one-man delegation of the State Trade-ing Corporation had gone to Canada on 27 August 1973 to negotiate arrangements for import of rapeseed oil on commercial basis and had remained there till 12 September 1973. Canada had authorised the delegation to purchase rapeseed oil against the CIDA grant for 1973-74. Government of India had, therefore, authorised this delegation to purchase rapeseed oil within the ceiling of Canadian $ 450—500 per tonne. The delegation after discussing both near and long term purchase possibilities with a wide cross-section of Canadian suppliers with a view to obtaining the most competitive and reliable sources of supply in Canada from crushers, thereby eliminating the middleman brokers, finally obtained four firm offers for 23,000 tonnes on c.i.f. basis linked to Chicago price for soyabean oil (the price was provisionally assessed as Canadian $ 445 per tonne) for shipment between November 1973 and March 1974. Immediately after return of the delegation, the Regional Manager of the State Trading Corporation at New York was authorised to finalise contracts for 23.000 tonnes of rapeseed oil (against Canadian aid) within the ceiling of Canadian $ 445 per tonne. However, while he was negotiating with the suppliers, the President of one of the Canadian Firms visited New Delhi and offered on 28th September 1973, 16.000 tonnes of rapeseed oil for delivery between December 1973 and March 1974 at the price of Canadian $ 549.29 per tonne C&F. This price being very high as compared to the then prevailing prices

			the offer was rejected. Another offer made by the Indian agent of the same company on 16 October 1973 for 5000—8000 tonnes for shipment in March 1974 at Canadian $ 539.77 per tonne C&F Bombay or Kandla was also rejected on the same ground. On 17 October 1973, the State Trading Corporation gave a counter-offer of Canadian $ 475 per tonne. The counter-offer was not accepted by the Company. In making comparison of the prevailing international prices of soyabean of $ 516.39 per tonne for December 1973 shipments and $ 497.66 per tonne for March 1974 shipments, the fact that these prices were FAS prices and $ 50 for fobing charges, $ 30 for ocean freight and differential of in price of $ 15 per metric tonne (minus) had to be added to compare with C&F quoted prices was lost sight of. Eventually the purchase of rapeseed oil was entrusted to Canadian International Development Agency on 24 November, 1973.
10	2.38	-do-	The Committee regret that from the very beginning no firm policy was followed in regard to the purchase of rapeseed oil against the grant from Canadian Government. Initially, the purchase of rapeseed oil was made by the Canadian International Development Agency through the Canadian Commercial Corporation, the State Trading Corporation of India acting more or less as handling agent for shipment and distribution inside the country. During August-September 1973 a delegation from the State Trading Corporation of India having gone to Canada to negotiate arrangements for import of rapeseed oil on commercial basis, it was authorised by Canada to purchase rapeseed oil against the aid for 1973-74. Unfortunately the S.T.C. could not finalise any deals although its delegation was in

1	2	3	4
			Canada and was in direct touch with the suppliers. Though the quotations received by the delegation of the State Trading Corporation from four firms for 23,000 tonnes at $ 445 per MT C&F India were the same as assessed provisionally by the delegation, yet the delegation failed to execute the contracts on the spot. The responsibility for the failure lay squarely on the Government which had failed to evolve any satisfactory purchase procedure.
11	2.39	Civil Supplies and Cooperation	The Committee have been informed that based on the market report of 10 September 1973, a telex message was sent to the Regional Manager on 18 September 1973 to finalise the deal within the ceiling of 445 dollars per tonne. The Committee are, however, amazed to find that while the Regional Manager of the State Trading Corporation was still negotiating with the suppliers, the President of a Canadian firm was allowed to visit India and offer on 28th September 1973 16,000 tonnes of rapeseed oil for delivery between December 1973 and March 1974, at the price of 549.29 dollars per tonne C&F. This offer, followed by another offer received on 16 October 1973 from the same firm at the price of 539.77 dollars per tonne were not accepted being very high. In the meantime, the Regional Manager of State Trading Corporation, who was negotiating with the suppliers, also failed to clinch the deal as offers were not available within the ceiling of 445 dollars then. The Committee fail to

			understand why express instructions were not issued to the Regional Manager to go ahead for making purchases on the spot finding that there was a rising trend in prices.
12	2.40	-do-	In this connection, the Committee would like to point out that the Counsellor, Canadian High Commission in his letter dated 20 December 1973 addressed to the Joint Secretary, Ministry of Finance (Department of Economic Affairs) had pointed out that "unfortunately the State Trading Corporation Director could not get cofirmation from the Government of India to enter into a contract at an attractive price" with a Canadian firm who offered him 5000—8000 metric tons of rapeseed oil at a C&F price of Canadian dollars 452. The Counsellor had also stated that "the only way rapeseed oil was to be procured from Canada was for CIDA itself to take procurement action under its normal tendering procedures. I cautioned the various concerned Government of India officers that CIDA would not be able to procure rapeseed oil as competitively as the State Trading Corporation given the very nature of their tendering procedures. Nonetheless there seemed to be no alternative and against better judgement I convinced CIDA to procure the rapeseed oil on behalf of the Government of India under the 1973-74 food aid allocation for India." The Counsellor had stressed in his letter that "my criticism was levelled generally at Government of India procurement procedures and Canadian Government tendering procedures. The red tape and delays inherent in our respective procedures have cost the Canadian taxpayer a great deal of money for

1	2	3	4
			nothing under the Indian food aid allocation and I am only hopeful that our respective procedures regarding Canadian food aid can be streamlined in 1974-75 and future years."
13	2.41	Civil Supplies and Cooperation	This failure to procure rapeseed oil by the State Trading Corporation resulted in entrusting the purchase of rapeseed oil back to the Canadian International Development Agency on 24 November, 1973. The Canadian Commercial Corporation concluded three contracts for a total quantity of about 14,000 tonnes of rapeseed oil at prices ranging from Canadian $ 596.71 to 741.76 per tonne C&F India against the aid for 1973-74. Thus the country had to pay heavily for the purchase of rapeseed oil through the CIDA which cost about Rs. 248 lakhs more as compared to the assessed price of Canadian $ 445 per tonne C&F indicated on 14 September 1973 and about Rs. 138.76 lakhs more as compared to the price of 549.29 dollars per tonne offered on 28 September 1973. The Committee are of the opinion that indepth study may be made about this loss with a view to fixing responsibility and taking appropriate action.