P.A.C. No. 675

PUBLIC ACCOUNTS COMMITTEE (1978-79)

(SIXTH LOK SABHA)

HUNDRED AND FOURTEENTH REPORT

SUGAR EXPORTS IN 1974 AND 1975

(MINISTRY OF COMMERCE)

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 53rd Report (Sixth Lok Sabha)]

सत्यमेव जयते

Presented in Lok Sabha on 30 MAR 19..
Laid in Rajya Sabha on.....

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NEW DELHI

February, 1979/Phalguna, 1900 (S)

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77		2 (from bottom)	insert 'made' after 'had been'	
79		4 (from bottom)	than	that
80		16	Insert 'into the circumstances in which high value contracts' after conducted.	

CONTENTS

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INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Fourteenth Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Fifty-Third Report (Sixth Lok Sabha) on Sugar Exports in 1974 and 1975 relating to Ministry of Commerce.

2. On 31 May, 1978 on 'Action Taken Sub-Committee', consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri P. V. Narasimha Rao—*Chairman*
2. Shri Asoke Krishna Dutt—*Convener*
3. Shri Vasant Sathe
4. Shri M. Satyanarayan Rao
5. Shri Gauri Shankar Rai
6. Shri Kanwar Lal Gupta

Members

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 27 January, 1979. The Report was finally adopted by the Public Accounts Committee (1978-79) on 19 February, 1979.

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

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

NEW DELHI;
February 27, 1979
Phalguna 8, 1900 *(S)*

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with action taken by Government on the Committee's recommendations|observations contained in their 53rd Report (Sixth Lok Sabha) on "Sugar Exports in 1974 and 1975" commented upon in paragraph 27 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil) relating to the Ministry of Commerce.

1.2. The Committee's 53rd Report was presented to the Lok Sabha on 23 December, 1977 and contained 69 recommendations. According to the time schedule for furnishing Action Taken Notes on the Committee's recommendations and observations prescribed in the Committee's 5th Report (Fourth Lok Sabha), the Notes indicating the action taken by Government in pursuance of the recommendations and observations contained in the 53rd Report were required to be furnished to the Committee latest by 22 June, 1978. On a request made by the Ministry on 18 August, 1978, this time limit was extended till 15 September, 1978. However, by 15 September, 1978, Action Taken Notes in respect of only 58 recommendations were made available by Government. On a further request made by the Ministry, the time-limit had been further extended till 30 September, 1978. Advance copies of the Action Taken Notes in respect of the 11 recommendations were made available to the Committee on 28 October, 1978.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:

(i) *Recommendations or observations that have been accepted by Government*:

Sl. Nos. 2, 3, 5—9, 11-12, 17, 24—27; 30—34; 41—43, 45-46, 51—57, 60, 62—64 and 66.

(ii) *Recommendations or observations which the Committee do not desire to pursue in the light of replies received from Government*:

Sl. Nos. 1, 4, 10, 13—16, 18-19, 29, 35—37, 44, 58-59.

(iii) *Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration:*

Sl. Nos. 20—23*, 28, 38—40, 47—50 and 61.

(iv) *Recommendations or observations in respect of which Government have furnished interim replies.*

Sl. Nos. 65, 67, 68 and 69.

1.4. The Committee will now deal with the action taken by Government on some of their recommendations|observations.

Avoidable failure to procure and confine exports of Sugar during 1977 from the levy quota.

1.5. Commenting on the decision on the modalities of export from the free sale quota departing from past practice, which resulted in a considerable additional burden on the exchequer by way of difference between the price that would have been payable had sugar for export been procured only from the levy quota, the Public Accounts Committee (1977-78) had, in paragraph 1.111, 1.112, 1.113 and 1.114 of their 53rd Report (Sixth Lok Sabha), observed:

"1.111. Apart from the immediately ascertainable extra expenditure of Rs. 5.68 crores on the transaction highlighted in the Audit paragraph, the decision to effect exports from the free sale quota, in a departure from past practice, has also resulted in a considerable additional burden on the exchequer by way of difference between the price that would have been payable had sugar for export been procured only from the levy quota and the prices actually paid for the purchase of free sale sugar, as well as in an erosion of the profits that would otherwise have been available to Government from exports of levy sugar. It is, therefore, a moot point whether even if export of additional quantities had been considered inescapable in the interests of maximising foreign exchange earnings, the entire quantity of 5.07 lakh tonnes expored during 1974 could not have been obtained only from the levy quota. This could have been done either by regulating suitably the releases of levy sugar for internal consumption or, in the alternative, by adjusting suitably the proportion of levy and free sale quotas and obtaining the additional

*No vetted in Audit.

quantity required for meeting the export commitments out of such an enhanced levy suota rather that succumbing, as it appears to have happened, helplessly the dictates of the industry."

'1.112. The Committee have been informed in this connection that if a quantity of more than 4 lakh tonnes had been drawn for export out of the levy quota, this would have adversely affected the availability of levy sugar for the public distribution system and, besides causing resentment among the consumers, would have also pushed up the price of free sale sugar and it was, therefore, not considered proper to do so. The Committee, however, find that internal consumption of sugar had remained almost constant during the 1972-73 and 1973-74 sugar seasons (being respectively 35.11 lakh tonnes and 35.29 lakh tonnes) in spite of the fact that the total production of sugar in the 1973-74 season (39.48 lakh tonnes) was more than that in the 1972-73 season (38.73 lakh tonnes) and at the beginning of the 1973-74 season, a carry-over stock of 8.64 lakh tonnes of sugar was also available as against the carry-over stock of only 5.99 lakh tonnes at the beginning of the 1972-73 season. Besides, by the time sugar for exports from the free sale quota had actually been procured, the 1974-75 sugar season had also commenced. It is also significant in this context that even as late as in September 1974, a suggestion had been made at the special meeting of the Board of Directors of the State Trading Corporation (11th September, 1974) that efforts to obtain more levy sugar out of the current crop should continue so that purchase of free sale could be postponed to a later date. The Committee cannot, therefore, help feeling that with a little initiative and imagination, ways and means could have been found to confine the exports only from the levy quota."

"1.113. As regards the other alternative of revising upwards the proportion of the levy quota, the Department of Food have informed the Committee that as this was purely a commercial transaction between the State Trading Corporation and the industry, Government had not considered this point. Yet, Government had not hesitated to reduce, during the 1974-75 sugar season, the levy quota from 70 to 65 per cent and though it has been claimed that this decision 'was taken in the best interest of the consumer', the Committee cannot resist the impression that the policy of partial control on sugar has favoured the industry more than the consumer. They consider it regrettable that Government had not been able to take adequate corrective action to discipline the industry, particularly in the light of the recommendations of the Tariff Commission, 1973, that 'if the industry cannot be disciplined to keep the price fluctuations of free market sugar within reasonable limits, or if any practical mechanism cannot be evolved by Government to control the price and distribution of such sugar, the solution may lie in a suitable adjustment, from time to time, in the ratio between the levy quota and the free market quota so that the profits accuring to the industry through free sale sugar do not show any run-away tendency."

"1.114. It would, therefore, be evident from the discussions in the foregoing paragraphs that the manner in which the question of procurement of sugar for export was handled was far from satisfactory and that the decisions taken from time to time were weighted more in favour of the sugar industry than of the interest of the Government. The circumstances in which the State Trading Corporation entered into export commitments in excess of the allocations and the Department of Food ocnsidered it necessary to discuss with the industry Government's intention to export free sale sugar even before a definitive decision was taken in this regard have also not been satisfactorily explained and have given rise to grave doubts in the Committee's mind. It would appear, therefore, that there is more to this transaction than what meets the eye. Having due regard to the number of missing links in the transaction and the magnitude of the extra expenditure involved, the Committee are firmly of the view that only a detailed enquiry under the Commission of Enquiry Act would bring to light the wider ramifications of the transation commented upon in the Audit paragraph. They accordingly recommend that such an enquiry be instituted forthwith and completed expeditiously."

1.6. In their Action Taken Notes furnished in response to the above observations, the Ministry of Agriculture and Irrigation (Department of Food) have stated.

Paragraph 1.111.

"Production, consumption, exports and stocks of sugar during 1972-73, 1973-74 and 1974-75 production seasons were as follows:

(figures in lakh tonnes)

		1972-73	1973-74	1974-75
1.	Carry-over from previous season	5·99	8·64	8·78
2.	Production	38·73	39·48	47·97
3.	Total availability (1+2)	44·72	48·12	56·75
4.	Internal consumption	35·11	38·29	34·57
	L	24·49	23·91	24·75
	LF	10·62	11·38	9·82
5.	Exports	0·97	4·05	9·24
6	Closing stocks (3. 4 and 5)	8·64	8·74	12·94

To make 4 lakh tonnes levy sugar available during 1973-74, the Government had to restrict the total release of levy sugar for domestic consumption to a level even lower as compared to the previous year notwithstanding the increase in population and repeated requests received from the Chief Ministers of the various State Governments to increase the allotment of levy sugar to them. The monthly levy releases for the public distribution had already been brought down from 2.06 lakh tonnes to 1.85-1.90 lakh tonnes for a number of months in 1972-73 and 1973-74. The *per capita* sugar consumption which was 7.4 kg. per annum even as early as in 1970-71 came down to 6.2 in 1972-73 and 6.1 in 1973-74.

Any attempt to reduce it further, to maximise sugar export, would have created serious problems in the domestic economy of our country. Similarly, upward revision of ratio of levy to levy-free sugar in the context of declining trends of production during the year would have resulted in a steep rise of the prices of free-sale within the country."

Paragraph 1.112

"It would be seen from the break-up of consumption figures during the years 1972-73 and 1973-74 that even though the total production of sugar in 1973-74 was more than that of 1972-73, the consumption of levy sugar came down inspite of increase in population in that year. The Committee's conclusion that with a little initiative and imagination ways and means would have been found to confine the exports only from the levy quota is, thus, not borne from the facts as the levy sugar for export had already been drawn upon to the hilt.

The higher carry-over and the slightly higher production in 1973-74 as compared to 1972-73 were taken into account in making available 4-5 lakh tonnes for export from that year's production, keeping some closing stock for carry-over to the next year 1974-75, to meet the requirements of internal consumption till fresh production becomes available in sufficient quantities cumulatively from over 200 factories situated in different parts of the country for release in a particular way. The total production of sugar in October 1974 was 62,000 tonnes and in November 1974 3.45 lakh tonnes. The releases of levy sugar for the public distribution system had, therefore, to be arranged from the carry-over stock of 1973-74. This position is usual each year. In any case, it may be stated that whatever surplus levy sugar could have become available from the production of sugar in the early months of next season was taken into account in computing availability of levy sugar for export during 1974-75 season."

Paragraph 1.113

"The policy of partial control was introduced in 1967 and continued thereafter with a short break in 1971-72, to serve the interest of consumers and the cane growers alike, consistent with the obligation to ensure a minimum return to the industry. This policy has by and large been successful. In 1974-75 the levy quota was reduced from 70 per cent to 65 per cent to avoid a priec increase for levy sugar which became necessary by compensating the industry to have more free-sale for disposal at higher prices. In fact, the price of levy Sugar, for Public distribution through fair price shops, which was fixed at Rs. 2.15 per kg. in December 1972, was maintained at that level till March 1978, i.e., for 5¼ years, perhaps unparalleled in the history of the public distribution for any commodity in our country. This was, therefore, in the public interest.

A similar step was not considered advisable to secure more levy sugar for export as already explained."

Paragraph 1.114*

"The above mentioned elucidations would establish that the procurement of sugar for export was handled in a judicious manner and the procurement was effected at the most economic rate. The export of 1.07 lakh tonnes of free sale sugar resulted in a profit of Rs. 17.15 crores, besides earning foreign exchange to the tune of Rs. 55.06 crores. The exchequer would have lost the above profits and advantages if the exports had been restricted to levy sugar available. It has also been clarified that the discussions with the industry on 26-3-74 were purely informal and of an exploratory nature. The sugar industry is fully aware of the sugar production, carry-over stocks, consumption and the availability for exports. In fact, the procurement of levy-free sugar for exports increased in the sugar years 1974-75 and 1975-76 as tabulated below:

(Figures in lakh tonnes)
(Sugar years)

Procurement for exports	1973-74	1974-75	1975-76
Levy	4·00	6·00	0·5
Levy-free	1·00	7·00	5·5

It will be seen that the proportion of levy-free sugar for export had been constantly on the increase. In fact, in 1975-76, ratio of levy to levy-free was 8:92. This change-over was the result of a deliberate policy of taking full advantage of the favourable international sugar situation by maximising sugar production and sugar exports.

The Government, therefore, with all due deference to the observations of the Committee and after the most careful consideration of the same, feel that there is absolutely no need for instituting a detailed enquiry under the Commission of Enquiry Act."

*Not vetted in Audit.

1.7. The Government's reply fails to clear the grave doubts of the Committee about the wisdom, propriety and even the bona fides **of the decision taken for export of sugar in 1974 and 1975 out of levy-free quota, which had the twin effects of enabling the producing mills to make huge undue profits by artificially raising the prices through concerted action and, as a corollary, substantially eroding the profitability of the export transactions of State Trading Corporation. The Committee are unable to appreciate the stand taken by the Government against instituting an enquiry under the Commission of Enquiry Act, as such an enquiry would have cleared whether there was any collusion on the part of any of the officers involved in the decision making process with the sugar industrial interests. The Committee accordingly reiterate their earlier recommendation that a detailed enquiry under the Commission of Enquiry Act may be instituted forthwith and completed expeditiously.**

Adequate advantage not taken of rising trend of the market for sale of white sugar by STC

1.8. Stressing the need for evolving procedures for a more intelligent and scientific assessment of the market conditions and a better planning of the sales strategy by the State Trading Corporation, the Committee had, in paragraphs 2.116, 2.117 and 2.118 of their 53rd Report (Sixth Lok Sabha) observed:

> "2.116 A similar disconcerting picture also emerges in respect of sales of white sugar by the State Trading Corporation. The Committee note the while the f.o.b. prices obtained for Indian white sugar between 17 April 1974 and 16 July 1974 were substantially higher than the London daily prices (LDP) for raw sugar (c.i.f. Caribbean ports) the f.o.b. prices obtained from exports of Indian White Sugar during the period 22 July 1974 to 23 September 1974 were on three occasions slightly higher, on two occasions equal to and on the four remaining occasions lower than the London daily prices for raw sugar. Further, though international prices of sugar started rising rapidly from the middle of July 1974 and the London daily prices rose by 44 per cent from £ 250 to £ 360 per ton between 16 July 1974 and 23 September 1974, the f.o.b. price for Indian white sugar rose during the same period by about 26 per cent only from £ 270 to £ 341 per tonne."

> "2.117 Explaining the reason for not availing of this price rise and selling sugar at lower prices during July-Sep-

tember 1974, the Chairman of the State Trading Corporation informed the Committee during evidence that while the prices quoted on the London market were certainly indicative of the market conditions and the market did rise in August and September, large quantities of sugar could not be accumulated and shipped at one time in the hope that prices would rise. Besides, sales could be effected only according to programme depending on the availability of buyers. It has been further contended that depending upon the demand at any point of time for Indian Sugar, the rates of premium vary and cannot strictly correspond to the actual premium commanded by other international suppliers and that the prices obtained by the State Trading Corporation compared favourably with those obtained by other countries."

"2.118 The Committee are, however, unable to appreciate the logic of these arguments. The fact remains that during this period ,when the sugar market continued to rule firm and there was little to indicate that the supply situation was becoming less tight, as many as nine cargoes had been sold by the Corporation. It was, therefore, not an instance of stocks not being available to take advantage of the rising prices. Besides, in view of the fact that a sellers' market existed during this period on account of a continuing tight supply/ demand situation, the Committee see no reason why higher premia could not have been commanded for Indian sugar. It is also significant that certain other developments on the international sugar front such as the lower yields from the beet crop in some European countries, failure of the beet crop in the United, Kingdom on account of virus infections, the suspension in August 1974 by the U. S. Department of Agriculture of the restriction on import of sugar in the USA during the remaining months of 1974 etc., had taken place at that time. The Committee cannot, therefore, resist the impression that adequate advantage had not been taken of the rising trend of the market at that time by the State Trading Corporation and that such a situation could well have been avoided by a more intelligent and scientific assessment of the market conditions and a better planning of the sales strategy."

1.9. The Action Taken Notes* furnished in pursuance of these observations/recommendations by the Ministry of Commerce are reproduced below:

Paragraph 2.116

"The implication of the Committee's observations is that since London Daily Price increased by 44% from 16 duly 1974 to 23-9-74, the f.o.b. price of Indian White Sugar should also have increased to the same extent during the period in question. The circumstances in which such an exactly proportionate rise or fall between the quotations of the terminal markets and the Indian export transactions was not obtained, have been already explained have also been brought out in paragraph 2.57 of the Report."

Paragraph 2.117

"No Comments."

Paragraph 2.118

"As brought out in para 2.117, large quantities of sugar cannot be stocked and shipped expecting that the market will improve at a particular point of time. Sales are normally effected depending upon the market ruling for the coming months, availability of sugar, shipment facilities and requirement of international market. All efforts, within the operational limits were, however, taken to ensure that maximum advantage was taken of the rising trend at the time of sales."

1.10. The Committee are surprised to note the reply of the Ministry of Commerce that 'all efforts, within the operational limits, were taken to ensure that maximum advantage was taken of the rising trend at the time of sales.' The arguments that 'large quantities of sugar cannot be stocked and shipped expecting that the market would imporve at a particular point of time' does not hold good in view of the fact that a sellers' market existed during the period on account of continuing tight supply/demand situation in the terminal markets and that as many as nine cargo loads were sold by the State Trading Corporation during this period. While conceding that the rates of premium on Indian sugar cannot strictly correspond to the actual premium commanded by other international suppliers, the Committee see no reason why higher premia could not have been commanded for Indian sugar. They cannot erase the impression

*Not vetted in Audit.

gained earlier that adequate advantage was not taken of the rising trend of the market at that point of time by the State Trading Corporation and that such a situation could well have been avoided by a better planning of the sales strategy and a proper appreciation of the market situation. The Committee, therefore, emphasise that the State Trading Corporation should equip itself with sound market intelligence relating to international production trends, availability of and demand for the commodity, behaviour of world prices, recent happenings in international trade etc., so as to enable it to regulate export sales, in future, in the best interests of the country.

Failure to take recourse to contractual provision and inept handling of sugar deals with a commodity dealer not normally in sugar business, without proper verification of bank credentials.

1.11. On the basis of the facts disclosed in the Audit paragraph and the evidence tendered before them, the Committee had adversely commented upon the performance of the State Trading Corporation and had expressed thorough dissatisfaction with the manner in which certain sugar deals were concluded with a commodity dealer, not normally in the international sugar business and concessions were extended to him to the detriment of the country's interests even after he had defaulted in the performance of his contractual obligations. The Committee had in paragraphs 2.106, 2.125 and 2.126 of their 53rd Report (Sixth Lok Sabha) observed:

"2.106. The Committee are concerned to note that while on the one hand, Ministry by its inept handling of the situation, had to incur an extra expenditure of Rs. 5.68 crores on the procurement of sugar for export, the State Trading Corporation, on its part, had concluded a number of export sales at rates below the then prevailing international prices and that its failure to enforce the contractual provisions in regard to breach of contract in a specific case of default had resulted in the short-realisation of a staggeringly large sum of Rs. 14.91 crores (£ 78.95 lakhs). Despite all protestations to the contrary, the Committee cannot help feeling, on the basis of the facts disclosed in the Audit paragraph and the evidence tendered before them, that the final picture which emerges of the Corporation's performance is anything but satisfactory. In particular, they are, to say the least, thoroughly dissatisfied with the manner in which certain deals were concluded with a commodity trader not normally in the international sugar business in preference to other leading and better known sugar trade houses and concessions were extended to him to the detriment of the country's interests even after he had defaulted in the performance of his contracts. This case, as the discussions in the foregoing paragraphs would indicate, also gives rise to suspicion of malafide intentions on the part of those concerned."

"2.125. As stated at the outset, the Committee are, in particular, thoroughly dissatisfied with the handling of the sugar deals with a commodity trader (Cie Noga of Geneva) not normally in the international sugar business and the renegotiation of the contracts concluded with him to the detriment of the country's interests. The Committee note that out of 6.32 lakh tonnes of sugar sold by the State Trading Corporation between April 1974 and March 1975, contracts had been concluded with Cie Noga for as large a quantity as 2.84 lakh tonnes (2.09 lakh tonnes upto August 1974 at prices ranging between £ 267 and £ 315 per tonne f.o.b. and 0.75 lakh tonnes between December 1974 and March 1975 (0.11 lakh tonnes at $ 1135 per tonne f.o.b. in December 1974, 0.31 lakh tonnes at £ 295 per tonne f.o.b. on 10 March 1975 and 0.33 lakh tonnes at £311.30 per tonne f.o.b. on 17 March 1975) and that while the contracts upto August 1974 had been fully implemented, Cie Noga had taken delivery of only 0.12 lakh tonnes against the contract of 10 March 1975 for 0.31 lakh tonnes and had defaulted in the performance of the other two contracts entirely and of the 10 March 1975 contract partially. Strangely enough, however, instead of taking recourse to the contractual provisions in regard to breach of contract, the State Trading Corporation had entered into a fresh contract, in July 1975, for 0.60 lakh tonnes in lieu of the rescinded contracts at the price of $ 525 (£ 219.39) per tonne, on the ground that prospects of recovery of claims in the event of starting litigation were poor. As compared to the prices in the rescinded contracts of December 1974 and March 1975, the renegotiation of the contracts with Cie Noga had resulted in the short realisation of an amount of £78.95 lakhs (Rs. 14.91 crores."

"2.126. The Committee are concerned to find that before entering into such high value contracts with a newcomer in the sugar business, the State Trading Corporation had not thought it fit to make any enquiries in regard to the antecedents, financial position and other relevant details in regard to Cie Noga and that it was only more than two years later, in June 1976, after Cie Noga had defaulted, that some attempt had been made to conduct some enquiries through the London branch of the State Bank of India in regard to the financial standing of the Geneva based trader. While the Secretary, Foreign Trade, was good enough to concede that the State Trading Corporation should have verified properly the bank credentials of the party before awarding big-value contracts, the State Trading Corporation have informed the Committee that prior to commencement of sugar exports, the Corporation had had an earlier dealing with Cie Noga in 1972 for the import of rapeseed oil where the performance 'was satisfactory'. The Committee have been further informed that the first offer for purchase of sugar from Cie Noga was received through Marpro, a London firm of brokers, who had earlier rendered competitive service to the Corporation and that 'in view of previous relations', it had not been considered necessary to verify Cie Noga's standing."

Probe recommended to cover the conduct of the officials responsible for handling the award of high-value contracts to a firm.

1.12. In paragraphs 2.127 an 2.128 of their 53rd Report, the Committee had observed that the first sale with the firm, a new entrant in sugar business, was concluded without any reference to the Board of Directors of the State Trading Corporation at the level of the then Director in charge of sugar exports and was ratified only subsequently by the Board. Furthermore, out of 13 sales made to the said firm between April 1974 and March 1975, prior approval of the Board of Directors of STC or the Sugar Exports Sales Committee had been obtained only on four occasions and that in a majority of the transactions, the Board or the Sugar Exports Sales Committee had been presented with a *fait accompli*. In paragraph 2.139 of their 53rd Report (Sixth Lok Sabha), the Committee had taken a grave view of the various acts of omission and commission which had resulted in a huge loss to the exchequer. The Committee had, *inter alia*, recommended that a thorough probe should be conducted, among others, into the conduct of the officials responsible for handling the case. The observations and recommendations of the Committee are reproduced below:

"2.127. It would, however, appear from the facts made available to the Committee that prior to 19 April 1974 when the first sale of 11,000 tonnes of sugar was concluded with Cie Noga on the basis of an offer received from Marpro, the dealings of the State Trading Corporation with the London firm of brokers had been confined mainly to imports and exports of oils and only one contract for the import of 10,000 tonnes of rapeseed oil had been entered into with the principals, Cie Noga, some 18 months earlier, on 29 November 1972. In these circumstances, the Committee are unable to appreciate the rationale for the State Trading Corporation having rushed into commitments with Cie Noga without adequately verifying the firm's standing. It is also somewhat strange that in spite of the fact that Cie Noga was a new entrant to the sugar business and the value of the contract was also over Rs. 5 crores, the first sale had been concluded without any reference to the Board of Directors of the State Trading Corporation at the level of the then Director in charge of sugar exports and had only been ratified subsequently by the Board."

"2.128. It has aso been contended that the non-verification of the credentials of Cie Noga notwithstanding the performance of Cie Noga 'was fully satisfactory' on every count till the later contracts of December 1974 and March 1975 had run into difficulties and that the prices offered by the firm were, in almost all the cases, higher than what was being offered by other parties and at which sugar was being sold to other parties. In this connection, the Committee find that while the contracts concluded till 27 August 1974 for a total quantity of 2.09 lakh tonnes had been fully implemented, a contract for the export of 10.000 tonnes of Basmati Rice concluded with the same firm on 28 August 1974 had also run into difficulties prior to the further sales of sugar effected in December 1974 and March 1975, as only a quantity of 5,000 tonnes had been lifted by Cie Noga and an amount of $ 2.50 lakhs had been realised as liquidated damages from the firm for the default. It is also significant in this context that out of 13 sales made to Cie Noga between April 1974 and March 1975, prior approval of the Board of Directors of STC/the Sugar Export Sales Committee (SESC) had been obtained only on four occasions. It would, therefore, appear that in respect of a majority of the transactions, the Board/SESC had been presented with a *fait accompli.*"

"2.139. The discussions in the preceding paragraphs add up to a situation which is far from complimentary to the State Trading Corporation. The Committee cannot but take a grave view of the various acts of omission and commission which has resulted in a huge loss to the exchequer. The Committee accordingly recommend that a thorough probe should be conducted into the circumstances in which high-value contracts had been awarded to Cie Noga without an adequate verification of credentials and a number of concessions had been extended to the firm even after it had defaulted twice to the detriment of the country's interests as well as the conduct of the officials responsible for handling the case. The part played in this somewhat dubious episode by the Indian and Foreign agents of Cie Noga (Engee International New Delhi and Marpro of London) also needs to be gone into. The probe, in the Committee's view, should be entrusted to the Commission of Enquiry, the setting up of which has been recommended earlier in paragraph 1.114.'

1.13. In their Action Taken Notes*, furnished in response to the observations made in paragraphs 2.106, 2.125 and 2.126, the Ministry of Commerce have stated:

Paragraph 2.06

"M|s. Cie Noga though, not in the sugar business particularly, was in regular commodity trading business and had previous dealings with STC to their satisfaction.

As already submitted to the PAC, on its sugar transaction with Cie Noga, Geneva on an overall basis, STC did not incur a loss. Indeed there has been a net gain of Rs. 10.18 crores as intimated to PAC. As regards the firm's default on the contracts, since the position was last reported to PAC, arbitration proceedings have been initiated through the Refined Sugar Association, London against M/s. Noga for their default in lifting 14,269 MT under the re-negotiated contract. The damage claimed is US $ 2,471,408.05 or US $ 2,310,382.45 if the arbitrators

*Not vetted in Audit.

reduce the quantity in default by the shipping tolerance of 5 per cent allowed under the contract. The claim is in addition to the amount of US $ 7,49,127.75 obtained by STC by encashment of the 10 per cent bank guarantee."

"2.125. As explained to the PAC earlier, prior to commencement of sugar exports, STC had a contract in 1972 with M/s. Cie Noga, Geneva for import of rapeseed oil. Hence business with Noga was not for the first time. On its sugar transactions with Cie Noga on an overall basis STC did not incur a loss."

"2.126. Prior to the conclusion of a contract with M/s. Cie Noga, for the export of sugar STC had in 1972 a contract with this firm, for the import of rapeseed oil. The rest is factual and no comments."

1.14. In their Action Taken Notes*, furnished in response to the observations made in paragraphs 2.127, 2.128 and 2,139, the Ministry have stated:

Paragraph 2.127

"The files relating to the sugar dealings with Cie Noga are in the custody of the CBI. However, it is reported by the STC that the sugar deal with M/s. Cie Noga prior to 19 April 1974 was concluded by the Director in charge of sugar exports in consultation with the Committee of Management and the Government Directors of the STC and with the knowledge of the Chairman of the STC."

Paragraph 2.128

"The Board of Directors in their meeting on 27 April 1974 (while constituting the Sugar Export Sales Committee) had authorised the Director in-charge of Sugar Exports to negotiate and conclude transactions, if found necessary at any time, in his best judgement, subject to all such transactions being reported weekly to the Sugar Export Sales Committee for ratification."

Paragraph 2.139

"The sugar deals of STC with M/s. Cie Noga are under investigation by CBI. The CPU has also taken up for study sugar exports by STC. On receipt of their final reports/ recommendations, further action in the matter will be taken by the Ministry."

Not vetted in Audit

1.15. The Committee had earlier pointed out the indiscreet action of the then Director-incharge of sugar export of the State Trading Corporation in entering into high value contracts with a foreign firm a new entrant in sugar business without verifying its financial credentials, even though it had just a couple of months before the conclusion of impugned contracts defaulted in the case of the contracts for basmati rice. If this action was taken with the specific concurrence of any superior authority who had opportunity to go into the pros and cons of the proposed transaction, that authority also becomes equally responsible for the aforesaid indiscretion. However, the reply of the Government only speaks of the contracts having been concluded by the Director "in consultation with" the Committee of Management and the Government directors of the STC and "with the knowledge of" the chairman of the STC which does not absolve the director of the responsibility in regard to this transaction.

1.16. Another act of indiscretion on the part of the Director pointed out by the Committee was the non-enforcement of the penalty provisions against the firm for breach of original contract and instead re-negotiation of the contract at lower prices resulting in substantial erosion of overall profitability of the export transactions of the State Trading Corporation. It is explained that the Board of Directors had given blanket authority to the Director to renegotiate and conclude transactions "at any time in his best judgement" subject to all such transactions being reported weekly to the Sugar Export Sales Committee for ratification. As the Sugar Export Sales Committee had no role in renegotiating contracts and concluding transactions, the responsibility therefore lies squarely on the Director himself. The Committee, however, do not wish to make any recommendations on this issue as the matter is already under investigation by the CBI. The Committee hope that the CBI would conclude investigation in the case with due expedition.

1.17. Incidentally a matter that needs examination is whether it was prudent on the part of the Board of Directors of the State Trading Corporation to have given an unfettered discretion to the Director (Sugar Exports) to negotiate and conclude transactions presenting the Sugar Export Sales Committee with what amounted to a fait accompli.

1.18. This Report has been finalised by the Committee in line with their original recommendations without preudice to such comments as may be deemed necessary by the Committee on Public Undertakings, who have since taken up for examination specifically the role of STC, a public enterprise, in the exports of sugar on Government account.

CHAPTER II

RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee note that in the context of the anticipated increased production of sugar in the 1973-74 season (which was estimated in January 1974 at about 45 lakh tonnes by the Department of Food), the high international prices of sugar and the need for maximising foreign exchange earnings from exports, the Cabinet had decided on 27 February 1974, that the aim should be to export a maximum quantity of 7 lakh tonnes of sugar, including 1 lakh tonnes to the United Kingdom and the United States of America, of which 4 lakh tonnes were to be exported immediately. The Cabinet Secretary, while communicating on 1 March 1974 the Cabinet decision to the Department of Food, had also indicated that the modalities for export were to be worked out by the Department in consultation with the then Commerce Secretary. The Committee have been informed by the Department of Food that after consultation with the Cabinet and Commerce Secretaries, a Special Committee of Senior Officers of the Ministries of Commerce and External Affairs and the Departments of Food, Economic Affairs and Expenditure was formed to decide on the modalities of export and that this Special Committee had met five times between 13 March 1974 and 24 July 1974 and discussed matters relating to mode of sales to different countries on Government to Government basis, export of raw sugar to USA and the quantity of white sugar to be sold by the State Trading Corporation.

[S. No. 2 (Para No. 1.93) of Appendix XXIII to the 53rd Report of the Public Account Committee (Sixth Lok Sabha)]

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G.25015/1/78-Fin. IV dated the 5th August, 1978]

Recommendation

Even before the Special Committee on Sugar had commenced its deliberations and in spite of the fact that all along in the past sugar exports had been effected only out of the levy quota, the Department of Food, in a departure from past practice, had proposed to the Ministry of Finance on 5 March 1974 that 2 lakh tonnes of sugar should be procured from the free sale quota of the industry at a negotiated price on the ground, *inter alia,* that the drawal of this quantity from the levy quota would reduce the monthly release of levy sugar for internal consumption from the then existing level of 2 lakh tonnes to 1.85 lakh tonnes and also affect the additional releases of levy sugar during the summer months and the festival season. The Ministry of Finance, after carefully considering the "weighty arguments" of the Department of Food and the "substantial budgetary implication" of the proposal which had not been taken into account by the latter, had, however, pointed out on 28 April 1974 that there might not be any necessity for procuring sugar out of the free sale quota for export and that if the proposal was accepted, the Central Exchequer would have to forego a sum of not less than Rs. 22 crores and probably more, representing the difference between the levy sugar price payable to the sugar mills and the price that may have to be paid to the mills if 2 lakh tonnes were to be procured from the free sale quota. Observing in this connection that it would be "very difficult for the Central Government to forego such a large sum of money in the present context of acute budgetary stringency", the Ministry had advised that in view of the fact that the trend of production was not as earlier anticipated, the proposal might be reviewed and referred back to them by the end of May 1974 when the position in regard to indigenous sugar production would become clearer.

[S. No. 3 (Para No. 1.94) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G.25015|1|78|Fin.IV, dated the 5th August, 1978]

Recommendation

The Committee find that this question was further discussed in the Department of Food on 22 May, 1974 with the Minister of Food & Agriculture and the Ministry of Finance approached again on

24 May, 1974 for concurrence to the proposal to export a total quantity of 6 lakh tonnes by drawing 4 lakh tonnes from the levy quota and the remaining 2 lakh tonnes from the free sale quota. The revised proposal had been based on the premise that since indigenous production might not be more than 41 lakh tonnes, it would not be possible to step up exports of sugar to more than 4 lakh tonnes by depending only on the levy portion of the production, after taking into account the requirements of the internal distribution system. Having regard to the decrease in the estimated production as compared with the earlier estimates and after getting the reasonableness of the price of Rs. 290 per quintal quoted by the industry in March 1974 checked by the Chief Economic Adviser, the Ministry of Finance had agreed, on 1 July, 1974, that it would not be correct to take more than 4 lakh tonnes out of the levy quota for export and had communicated their approval for the procurement of only 1 lakh tonnes out of the free sale quota. The Ministry, while considering the price of Rs. 290 per quintal as reasonable, had also suggested that the Department of Food should negotiate with the industry so as to obtain "as low a price as possible."

[S. No. 5 (Para No. 1.96) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV, dated the 5th August, 1978]

Recommendation

Negotiations accordingly held with the industry on 15 July 1974 by the Department of Food. however, proved abortive as the industry withdrew its earlier (March 1974) offer of Rs. 290 per quintal on the ground that the levy prices originally fixed in December 1973 had not been revised by Government although the industry had paid a very high price for sugarcane and suffered losses on account of lower recovery and high cost of production and slump in the market during April-June 1974 on account of larger arrivals of khandsari sugar and other factors. The industry had, however, then suggested that the procurement work in respect of exports of sugar out of free sale quotas might be entrusted to the State

Trading Corporation who could secure the required quantity for export either by inviting tenders or making direct purchases from the factories at negotiated prices. Subsequently, in a letter dated 19 July, 1974, the ISMA and NFCSF had informed the Department of Food that it would be difficult for them to persuade all their member factories to deliver free sale sugar at a fixed price of Rs. 290 per quintal and had suggested that sugar for export from the free sale quota should be purchased on tender basis which would enable Government to obtain their requirement at a price not very much different from Rs. 290 per quintal as "many factories in the low cost regions will be too willing to deliver sugar in the interest of exports."

[S. No. 6 (Para No. 1.97) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV, dated the 5th August, 1978]

Recommendation

After further discussion of this question by the Special Committee on Sugar on 24 July, 1974, the Department of Food was requested to make one more attempt to procure 1 lakh tonnes of free sale sugar for export "at an agreed price" from the industry Negotiations, were, therefore, once again held on 5 August, 1974 when both the ISMA and NFCSF offered 1 lakh tonnes of free sale sugar at the rate of Rs. 325 per quintal (excluding excise duty), which was referred to the Ministry of Finance for acceptance on 6 August, 1974. Initially, however, the industry had voiced their earlier suggestion that the quantity required be procured by inviting tenders. The Ministry of Finance had, however, suggested on 21 August, 1974 that the State Trading Corporation should be asked to purchase one lakh tonnes of sugar by inviting tenders and it appears that this decision had been based, *inter alia*, on a statement made by one of the representatives of the industry during negotiations that if the Department of Food went in for tenders, the price was likely to be lower.

[S. No. 7 (Para No. 1.98) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV, dated the 5th August, 1978]

Recommendation

Before inviting tenders in pursuance of this decision, the State Trading Corporation had also conducted negotiations with the industry on 4 September 1974, when the latter offered about 1.10 lakh tonnes at Rs. 340 per quintal. Explaining the necessity for these negotiations when a decision had already been taken to invite tenders for the purchase, the State Trading Corporation have informed the Committee that in view of the fact that it was the first time that the Corporation was required to procure large quantities of free sale sugar, a decision had been taken to hold a preliminary meeting with the industry before taking a view whether to issue a tender or negotiate an agreement with the industry and that this meeting was intended to help the Corporation "to familiarise itself with the industry's set-up and its spokesmen" and also "to get a feel of the market conditions." On 11 September 1974, however, a special meeting of the Directors of the Corporation considered the situation and decided that in view of the uncertain market conditions, it would be more prudent to make purchases through tender.

[S. No. 8 (Para No. 1.99) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV dated the 5th August, 1978].

Recommendation

Efforts made by the State Trading Corporation to obtain lower prices by floating a tender on 12 September, 1974 also having failed on account of poor response, negotiations were again conducted with the industry by the Corporation on 18 October, 1974 when the former indicated that they would make a firm commitment for only 80,000 tonnes of C—30 and/or D-30 grades of sugar at an ex-factory price of Rs. 365 per quintal. After prolonged discussions, the industry finally agreed to the price of Rs. 430 per quintal quoted earlier on

4 September, 1974 for both 'C' and 'D' grades, on the condition that the factories should be paid 98 per cent of the price on presentation of documents without furnishing any bank guarantee; that the bank charges/commission incurred in respect of the despatches of sugar would be paid by the Corporation and that the factories should be permitted to sell sugar from both the production years 1973-74 and 1974-75. This was accepted by the Corporation and ultimately 90349 tonnes were supplied at this rate. Subsequently, to meet the export commitments of the Corporation, a further quantity of 0.17 lakh tonnes was procured at the price of Rs. 360 per quintal finalised on 16 and 26 December, 1974, which was the tariff value declared by Government for the month of December, 1974.

[S. No. 9 (Para No. 1.100) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

It may be pointed out that the price of Rs. 430, mentioned is apparently a printing error for Rs. 340 otherwise factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015-Fin. IV dated the 5th August, 1978].

Recommendation

No doubt, it has been contended by the Department of Food that a definite decision to export free sale sugar was taken only in July 1974 and not earlier and the negotiations held with the industry for the purchase of free sale sugar in March 1974 before that decision was taken "was purely an exploratory one with no firm commitments on either side." It has also been stated by the Department that the proposal for meeting the industry's representatives on 26 March, 1974 was not initiated by any of its officers and that while the proposal to procure 2 lakh tonnes of sugar from the free sale quota had been referred to the Finance ministry for their concurrence in accordance with the normal practice, the industry's representatives, "who normally meet" the officers of the Department in connection with their difficulties, problems and assistance required, etc. or to advise the Department on how to improve production, "happened to meet" the officers of the Department, when they offered to cooperate and make available a limited quantity of free sale sugar upto 30 per cent of the requirements. **The Committee have further been informed in this context that though the idea that exports should be maximised as much as possible was not unknown** to the industry, the officers who met the industry's representatives had not disclosed to them as to what would be the quantity to be exported.

[S. No. 11 (Para No. 1.102) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV dated the 5th August, 1978].

Recommendation

The Department have also argued that the exploratory discussions with the industry had not placed Government at a disadvantage and given rise to avoidable speculation. While conceding that the industry could certainly play with the price of free sale sugar and could take "undue advantage", the Department have, however, pointed out that the price range obtaining in the important sugar markets of the country during the relevant period would indicate that the price fluctuations were "within narrow limits" during the period from March to June 1974 and it was only from July 1974 onwards, after the fall in production during the 1973-74 season became known and the availability of khandsari sugar was also meagre, that the prices started going up. The Department have contended that it could not be, therefore, said that the industry took an undue advantage of the discussion held on 26 March, 1974, and the prices of wholesale sugar were deliberately manipulated by it.

[S. No. 12 (Para No. 1.103) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV dated the 5th August, 1978].

Recommendation

In view of the conflicting nature of the statements made by the representatives of the Department of Food and the State Trading Corporation on this question, the Committee have found it necessary to examine this in some detail. On detailed enquiries, they

are surprised to learn that even while the 24 May, 1974 proposal of the Department of Food to export a total quantity of 6 lakh tonnes of sugar (4 lakh tonnes from the levy and 2 lakh tonnes from the free sale quotas) was under the Finance Ministry's consideration and a final decision was yet to be taken, "it was clear when the Ministers of Commerce and Agriculture met in June that at least one lakh tonnes would be agreed upon." While admitting in this context that when the State Trading Corporation entered into export commitments in excess of quantities allocated, "it did not have a written authority from the Department of Food", the Secretary (Foreign Trade), however, informed the Committee that "as far as information or knowledge of this discussion (between the Ministers) was concerned", the Corporation was "fully in the picture" and "knew all the time as a result of close contact" with the Food Department and the Commerce Ministry that at least 1 lakh tonnes as against the 2 lakh tonnes asked for were going to be released for their sales. He further added that after studying the market trends at that time and finding that it had "to enter the market in a big way", the Corporation thought, "in its commercial wisdom", that it "should start making commitments in anticipation of this release of one lakh tonnes" and that, in his analysis, the State Trading Corporation "acted in very good faith and did its best to get the maximum unit value".

[S. No. 17 (Para No. 1.108) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No Comments.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV dated the 5th August, 1978].

Recommendations

1.115. The state of affairs reflected in the Audit paragraph could well have been avoided had the export strategy been determined on the basis of a more realistic and reliable forecast of indigenous sugar production. The Committee are concerned to note that on account of the inability to forecast more accurately production trends, the estimates had to be periodically revised downwards within as short span of time, contributing in no small measure to the disastrous consequencies that ensued, while the Cabinet had decided, in February 1974, that a maximum quantity of 7 lakh tonnes of sugar might be exported on the basis of the estimates made in January, 1974 by the Department of Food that sugar production during the 1973-74 sugar season (October, 1973—September, 1974) would be about 45 lakh tonnes, the industry had informed the Department of Food, on 26/28 March, 1974, that, according to its estimate the production would not be more than 43 lakh tonnes. Actual production of sugar till April, 1974, when the normal crushing period of the factories would have come to a close, was, however, only 35.81 lakh tonnes and the estimates were further revised by the Department of Food in May, 1974 to 41 lakh tonnes. In spite of the downward revision, from time to time, of the estimates, actual production during the sugar season amounted to only 39.48 lakh tonnes, which was only slightly more (0.75 lakh tonnes) than the production of 38.73 lakh tonnes achieved during the 1972-73 sugar season.

[S. No. 24 (Para No. 1.115) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

1.116. The Committee have been informed in this connection that the original estimates were only "very rough estimates based on the area which is brought under cultivation of sugarcane" collected through the Economics and Statistical Organisation of the Department which, in turn, obtained the information from the State Governments as well as its own offices located in various States, and through the sugar factories themselves. The Committee, however, find that while the Directorate of Economics and Statistics in the Ministry of Agriculture & Irrigation prepares the estimates of area and production of principal crops (including sugarcane) on the basis of the data furnished by the State Government which collect relevant information in this regard through their Department of Agriculture, Industries and Cooperation and the Offices of the Cane Commissioner and Directorates of Sugar (where they exist), much of the statistical data in regard to production trends, capacity utilisation, rate of sugar production, etc. are obtained from the sugar factories themselves and the associations (ISMA, NFCSF, etc.) of the sugar industry. Admittedly, no machinery is available with the Department of Food to check the installed capacity or the utilisation rate during the period of crushing and reliance is placed in this regard on the industry itself under the 'Self Removal Procedure' for excisable commodities. The State Governments also appear to place reliance on the industry itself for compiling data on sugar production.

[S. No. 25 (Para No. 1.116) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

1.117. It would, therefore, appear that in so far as estimation of sugar production is concerned, on the basis of which the export strategy is determined, an almost exclusive reliance is placed on the industry and that no monitoring machinery is available with the Department of Food to check the veracity and reliability of the data furnished by the industry so as to safeguard against the possibility of exaggerated and unrealistic forecasts. In the light of the observations contained in the Report of the Central Excise Self Removal Procedure Review Committee (September, 1973) in regard to various malpractices adopted by the sugar factories (underweighment of cane with a view to evading duties, manipulation of production accounts so as to claim higher rebates or larger refunds etc.,) the committee are doubtful how far it is a sound policy to place an excessive reliance on the data made available by the industry.

[S. No. 26 (Para No. 1.117) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

1.118. These facts, therefore, only serve to emphasise the need for devising a more suitable system for a scientific and more accurate forecasting and estimation of production as to reduce the wide gap that exists at present between the estimates and actuals. The Food Secretary, however, appeared to derive comfort from the fact that on account of the imponderable factors involved, even technically best equipped countries were not in a position to predict fairly and accurately as to what would be the production of a particular crop. The Committee have also been informed subsequently by the Department of Food that the variations between the estimates and actuals of production were attributable to changes in climatic conditions, incidence of pests and diseases, the quality of cane, diversion of cane to gur and khandsari units etc., and that these factors are such that they do not lend themselves to making a more accurate forecast of production. While the Committee are not unwilling to concede that any estimate can be vitiated by a number of unforeseen and unpredictable factors, they are, however, of the view that it should not be beyond the capabilities and ingenuity of exports in the field of econometrics to evolve a more satisfactory system of forecasting where the reliance at present placed on the industry could be minimised, if not altogether eliminated. A critical review of the projections made from time to time would also appear to be necessary to determine what actually went wrong in the estimation so as to adopt concrete corrective measures. The Committee, therefore, recommend that such a review should be undertaken with the help of expert assistance and the procedures and practices for the estimation of production streamlined with a view to ensuring that the estimates approximate as closely as possible to the actuals.

[S. No. 27 (Para No. 1.118) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken (Sl. Nos. 24 to 27—Para Nos. 1.115 to 1.118)

The estimates of sugar production are formulated during season mainly on the basis of information furnished by the sugar factories. The State Governments are also requested to furnish their estimates of duration, recovery, cane quantity, sugar production etc. which they undertake through their Cane Commissioners/Director of Sugar Organisations. The estimates of sugarcane production too are not available at the beginning of the season. Directorate of Economics and Statistics is formulating first and second estimates regarding the acreage under sugarcane for a particular sugar year in October-December and January-February respectively. It is only in the final estimates given at the end of the season (*i.e.* in September-October) that the figures of sugarcane production besides acreage are also given. There is, thus, not only lack of information about the sugarcane production but the drawal of sugarcane by the sugar factories also depends on the extent of diversion of cane to gur and khandsari depending upon the prices of these commodities. Whenever there is decline in sugarcane production, there is more than proportionate reduction in the drawal by the sugar factories, and conversely, when there is increase in sugarcane production, there is more than proportionate increase in the drawal by the sugar factories. The sugarcane production during 1975-76 season, as compared to that of 1974-75, showed a decline of 2.56 per cent as against which the cane crushed and sugar produced during 1975-76 season declined by 13.57 per cent and 11.11 per cent respectively as compared to 1974-75 season. Again the sugarcane production in 1976-77 season as compared to 1975-76 increased by 9.53 per cent, but the increase in cane crushed and sugar produced in 1976-77 was 16.89 per cent and 13.58 per cent respectively as compared to 1975-76 season. In addition to these uncertainties, there are imponderables such as climatic conditions, incidence of pests and diseases, quality of cane etc. as mentioned in Para 1.118. As a result of all these factors, the formulation of accurate forecast of production becomes very difficult.

As present, the Sugar Directorate, equipped as it is, is in a position only to collect statistical information from these sources and formulating the estimates on the basis of information so collected.

However, in view of the suggestions made by the Committee, the Government will examine the scope to evolve ways and means leading to more reliable estimates of production to narrow down the wide gap that exists at present between the estimates and actuals and periodical review of such estimates, within the constraints of forecasting an agro-based industry's drawal and output.

This note has been vetted by Audit.

Sd/-

(C. N. RAGHAVAN)

Joint Secretary to the Govt. of India.

[Ministry of Agriculture & Irrigation (Department of Food) endorsement No. G. 25015/1/78-Fin. IV (Vol. II) dated the 28th October, 1978]

Recommendation

It has, however, been contended by the State Trading Corporation that the alleged loss of Rs. 2.23 crores would not arise "if the sales are evaluated with comparable and relevant data" and that since the actual shipments against these contracts were made much later (June-August, 1974) and the shipments would take about eight weeks to arrive at U.S. ports, it would not be correct to compare the prices obtained by the Corporation for distant deliveries either with the terminal prices obtaining on the New York Coffee and Sugar Exchange on a given data for prompt delivery (spot prices) or with prices realised on these dates by other sugar exporting countries for prompt deliveries. It has been further argued that the sale prices should more appropriately be compared with the corresponding terminal 'future' quotations having regard to the expected time of arrivals at U.S. ports of shipments effected by the Corporation. On this basis, it has been claimed that the State Trading Corporation has commanded premia ranging from 10 to 60 dollars per tonne on the sales concluded in May, 1974 under the US Sugar Act, which resulted in the realisation of a total premium of U.S. Dollars 22.98 lakh over the No. 10 futures quotations on the dates of sale applicable to the period when the cargoes sold by it were likely to arrive at U.S. ports.

[S. No. 30 (Para 2.108) of Appendix XIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual No comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT (ST) dated the 22nd August, 1978]

Recommendation

The Committee, however, find that even if the then ruling trends of 'future' quotations on the New York Coffee and Sugar Exchange are taken into account, the prices obtained by the State Trading Corporation were comparatively less. A study of the then prevailing market trends seems to indicate, prima facie, that the State Trading Corporation had not taken full advantage of the bullish trend during this period of the international Sugar market caused by a continuing tight supply/demand situation. According to a fortnightly newsletter published by a New York sugar broker (Czarnikow-Rionda Company, Inc.,) the tight supply/demand situation which had become evident in April, 1974 had continued during May and June, 1974, as a result of which the domestic raw sugar market had ruled firm. Pointing out in this context that during this period the trade remained "very much on a hand-to-mouth basis being forced to do so by a lack of plentiful supplies", the broker had gone on to predict, in his newsletter of 9 May, 1974 that on account of the early conclusion of the harvest and crushing operations of the Cuban 1973-74 sugar crop coupled with the reduction of the area under beet in Europe, hopes of a European bumper crop and a possible relief from the then current tightness late in the year or early in 1975 had dimmed. Again, on 23 May, 1974, the broker had indicated that the market was expected to remain firm unless and until additional prompt supplies could be found "to relieve a situation in which refinders find themselves with very low sugar stocks".

[S. No. 31 (Para 2.109) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

As already submitted to the PAC STC's sales of 75,000 tonnes of raw sugar to the USA were made during 24th to 31st May, 1974. Contracts were concluded for shipments during June, July and August, 1974 which would take about 8 weeks to arrive at US ports. Accordingly, prices realised by STC should be compared with the future quotations applicable to these latter months on the dates of contracting.

STC had taken a decision to conclude sales at a fixed price applying their commercial judgment.

It may also be submitted that the market reading of any single sugar operator cannot be taken as basis for contracting as different opinions are expressed by different sources to suit their own requirements.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

The Committee further find from these fortnightly newsletters that during the fortnight ending 25 April, 1974, futures quotations on the New York Coffee and Sugar Exchange had advanced over the entire range of delivery months and that after reaching a high of 24.70 cents per pound on 22 April, 1974 and declining slightly for May deliveries, the prices for July and September deliveries had registered solid gains of 295 and 244 points respectively. Subsequently during the fortnight ending 9 May, 1974, record high prices were reached on 8 May, 1974 in the New York No. 11 futures market, when the July, 1974 contract traded at 25.15 cents per pound and closed at 24.50 cents per pound, representing a gain of 307 points while September and October contracts closed at 22.51 and 22.41 cents per pound respectively, registering gains of 341 and 355 points. However, despite the firm tone of the actuals market (spot quotations) and the continuing signs of a tight supply/demand position, futures values for July, September and October deliveries declined during the fortnight ending 23 May, 1974 by 236, 243 and 226 points respectively to 22.14, 20.08 and 19.15 cents per pound presumably because of the apparent desire on the part of the U.S. refineries to use their buying power on the acquisition of prompt deliveries of raw sugar so as to keep their refineries running in the context of an increasing realisation that the tight supply/demand position would persist in the second quarter of the year and also possibly continue through the third quarter.

[S. No. 32 (Para 2.110) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

No comments

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT (ST) dated the 22nd August, 1978].

Recommendation

Commenting on this decline in futures values at a time when supplies were at their tightest the New York Sugar broker (CRCO, Inc.) had pointed out, *inter alia,* on 23 May, 1974, that the decline was attributable to factors which were beyond the scope of the sugar market like general speculator sentiment, prices of other commodities, foreign exchange adjustments, inflationary pressures and general economic and political uncertainties of various types. While conceding in this context that it would be futile to argue whether the then prevailing spot quotations or the future quotations were the correct indices under the then existing supply and demand conditions, the broker had nevertheless gone on to observe that though the market was "slightly tested" during the week with futures values declining, a major downward move in sugar values" was unlikely at that juncture and "not sustainable for any lengtn of time".

[S. No. 33 (Para 2.111) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

No comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 2nd August, 1978].

Recommendation

That this decline in the futures quotations was only a temporary phenomenon would be evident from the fact that during the subsequent period (May 24—June 20, 1974), the futures values generally followed the former lead of the actuals market (spot quotations). Thus during the fortnight ending 6 June, 1974, the period when the State Trading Corporation had concluded its sales of raw sugar at the c.i.f. US ports (duty paid delivered basis) prices of 22.58 cents and 22.49 cents per pound the futures quotations on the No. 10 Contract had closed on 6 June, 1974 at 25.20/25.00, 24.60/25.00 and

23.90 cents per pound respectively for July, August and September deliveries and at 21.87 cents per pound for October deliveries. Again, on 20 June, 1974, the futures quotations for September deliveries had closed at 24.75 cents per pound.

[S. No. 34 (Para 2.112) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

No comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

In this context, the timely and regular collection and a collation of data in regard to world market conditions and price trends assume great importance. Since the success or failure of the export strategy depends to a very large extent on a proper appreciation of the market situation at given point of time, the Committee need hardly emphasise the importance of the exporting agency being armed with all relevant data relating to international production trends, availability of and demand for sugar, behaviour of world prices, recent happenings on the world sugar front, etc. so as to be in a position to regulate export sales in the best interests of the country. It would, however, appear from the facts brought out in the foregoing paragraphs that despite the existence of an apparently elaborate machinery in the foreign offices of the State Trading Corporation and its Management Services Division for the collection and analysis of market intelligence, the Corporation's performance in this important sphere has been somewhat unsatisfactory. The impression in the Committee's mind that only comparatively junior officers with limited expertise and experience and inadequately trained in the nuances of gathering information of commercial value are posted in the Corporation's foreign offices also needs to be dispelled. The Committee would, therefore, urge the State Trading Corporation and the Commerce Ministry to review comprehensively the adequacy of the existing arrangements for the collection and collation of market intelligence so as to take necessary remedial measures for improving their usefulness. An effective channel of communication should also be maintained between the Corporation's foreign offices and the Indian Trade Missions, Commerical counsellors, Embassies and other agencies abroad entrusted with the collection of market intelligence so as to ensure the timely and efficient exchange of information which could form the basis for the determination of the strategy to be adopted.

[S. No. 41 (Para No. 2.119) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

STC collects market intelligence from abroad through a number of sources on a daily, weekly, fortnightly, monthly and other basis. List of market reports on Sugar being received are:—

Daily reports:

(a) LDP and brief market situation—telex by STC London.

(b) Report by M/s. Czarnikow Rionda Co. Pvt. Ltd.

(c) Report of M/s. Acli Sugar Ltd. through M/s. Morlidhar Premchand, New Delhi.

(d) Samachar.

Weekly reports:

(a) Weekly report by M/s. Cargill.

(b) Weekly summary report by M/s. Sucre & Danree.

(c) Weekly summary report by M/s. Acli Sugar Ltd. through M/s. Morlidhar Premchand, New Delhi.

(d) Sugar Review by M/s. C. Czarnikow Ltd., London.

Fortnightly reports:

(a) Report of M/s. Czarnikow Rionda Co. Pvt. Ltd.

(b) M/s. Woodhouse Drake & Carey's Report.

Monthly reports:

(a) Report of M/s. Sucre & Denree. Paris.

(b) M/s. Goldetz Ltd., London's Report.

(c) Report of M/s. ED&F Man, London/New York.

Other reports:

(a) Report of M/s. F.O. Licht, West Germany.

(b) Monthly report of the U.S.D.A.

(c) Periodical reports from STC's overseas offices at Paris, New York, Frankfurt, Singapore, Sydney and Japan.

STC's foreign offices have already been advised to establish close contact with the Indian Trade Missions, Commercial Counsellors, Embassies and any other Government agencies in their areas entrusted with the collection of marketing intelligence so as to ensure that the timely and efficient exchange of information whenever required.

The recommendation of the Committee is noted.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

The relatively lower realisations obtained by State Trading Corporation from its sugar sales also give rise to doubts in regard to the efficacy of the modality adopted by the Corporation for concluding export sales. The Committee note in this connection that while the Department of Food used to sell sugar for export through open tenders, which is the normally accepted method of purchase or sale and also a well recognised international trade practice, the State Trading Corporation had adopted the 'bid system' under which contracts were entered into through restricted negotiations with international sugar and commodity traders. Justifying this deviation from the open tender system, the Commerce Ministry have stated that "it was felt that better prices would be realised if sales were made against specific enquiries and market demand rather than through tenders when the market may lack the necessary buying strength." The State Trading Corporation have further informed the Committee that there was no specific advice from Government that it should follow the open tender system in its sugar sales and that, in its commercial judgment, after an attempt at floating a tender on 9 July, 1974 which was not "particularly encouraging", the Corporation had taken the view that the bid system, which provided flexibility in negotiations and enabled maximum and prompt advantage being taken of the market situation at any particular point of time, was likely to secure the best prices.

[S. No. 42 (Para No. 2.120) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No comments.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

It has also been brought to the Committee's notice that while the open tender system had built-up administrative safeguards and would theorotically permit all interested parties to participate, it suffers from the following disadvantages:

(a) Time is lost in a tender as a few days notice has necessarily to be given to enable parties to submit offers.

(b) The timing of a tender issued in the absence of a specific demand from buyers does not evoke the best response.

(c) The time of delivery has a direct bearing on the price realisation and since the delivery period, in a tender, is stipulated by the seller, it may or may not suit the buyers' requirements.

(d) A tender system is less elastic and the bidders have to provide a cushion in the prices offered to cover the risk over a longer period for which the offer has to be kept valid as against a bid, the validity could be for a short period, even for an hour or less.

[S. No. 43 (Para No. 2.121) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

Factual. No comments.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

In these circumstances, the Committee would like the Ministry to make a comparative study of the methodologies adopted by the Department of Food and the State Trading Corporation as well as those adopted by other countries so as to determine, *inter alia*, whether there were any deficiencies in the method adopted by the Corporation and to see what improvements could be brought about in the present methods to ensure that sugar sales are effected at internationally competitive prices and the country is not placed at a disadvantage *vis-a-vis* other sugar exporting countries.

[S. No. 45 (Para No. 2.123) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The Department of Food was selling sugar by calling export Global tenders. When STC took over exports of sugar in April, 1974, it tried all the following methods of sale *i.e.* (i) by calling tenders as was being done by Department of Food earlier, (ii) Government to Government sales and (iii) by negotiations. There was also a Cabinet directive that sugar for export should be sold more by negotiations than by conventional methods of calling tenders to maximise the foreign exchange earnings. STC also found that in actual practice negotiations yielded better results. The Ministry accept the recommendations of the PAC.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

One of the reasons for transferring the work relating to sugar exports to the State Trading Corporation from the Department of Food was that the Corporation which had its organisation abroad would be in a better position to obtain market intelligence and get better value for the sugar being exported. However, in the context of the actual performance of the State Trading Corporation, it is moot point whether these expectations have been fulfilled in actual practice. The Committee are, therefore, of the view that it would be worthwhile to undertake a comparative study of the economies of exports effected through the Department of Food and those handled by the State Trading Corporation, with a view to identifying the areas of divergence and the causes for the somewhat lacklustre performance of the latter. The proposed study should also specifically examine in detail the reasons for the comparatively lower realisationas accruing from the exports of Indian sugar at a point of time when the international sugar prices were rising sharply. The study, which assumes particular importance in the context of recent reports appearing in certain sections of the press of allegations of "widespread malpractices" in sugar exports by the State Trading Corporation, the general thrust of which was that many export deals were struck at rates below the international prices, there were unnecessary or inflated payments of commissions to brokers and under-invoicing of exports with a kick-back from the buyer going into secret bank accounts, should be entrusted to an independent agency unconnected either with the State Trading Corporation or the Department of Food.

[S. No. 46 (Para No. 2.124) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The Committee on Public Undertakings has already taken up export of sugar by STC for study and requisitioned STC's files relating to the subject. The CBI is also conducting an enquiry into alleged lapses in certain sugar deals. After these reports become available, the Ministry would consider constituting a committee to further examine the matter, as recommended by the PAC.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

Another reason attributed by the Commerce Ministry for the selection of Cie Noga for the sale of Indian sugar was that the foreign offices of the State Trading Corporation "were constantly on the look-out" for competitor to the traditional traders in sugar "so as to broad base to the extent possible, the bidding and demand for Indian sugar." Yet, surprisingly enough, apart from Cie Noga, the State Trading Corporation had not been able to induce any other non-traditional competitors to make a successful bid for Indian Sugar, though as many as 76 enquiries/references/bids were stated to have been received during 1974-75 from Government agencies, foreign/Indian Companies, etc.

[S. No. 51 (Para 2.129) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

As stated with reference to para No. 2.127 sugar deals concluded with M/s. Cie Noga are under investigation by CBI.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

Yet another significant fact which emerges from the evidence is that two other leading trade houses in sugar (Sucres and Danres, Paris and E. D. & F. Man, London), who had not got any contract for the purchase of Indian sugar except for a quantity of 0.33 lakh tonnes and 0.36 lakh tonnes sold in April, 1974 and March, 1975 respectively, had actually repurchased 1.67 lakh tonnes, out of 3.46 lakh tonnes shipped upto December, 1974, from those with whom these contracts were entered into, the principal one of which was Cie Noga. It has, no doubt, been contended by the State Trading Corporation that there was nothing unusual or mysterious about such transactions since it was "quite common for cargoes to change hands frequently before finding a final home". However, having due regard to the fact brought out earlier in this Report that sales of white sugar had been effected by the Corporation between July, and September, 1974 at prices below the then ruling international prices, the Committee cannot resist the impression that Cie Noga had entered the sugar market mere as a speculator and that having purchasd sugar at lower prices from the State Trading Corporation when the market was bullish, had succeeded in re-selling the quantities at higher prices, thereby reaping considerable benefits at India's expense and that when the international prices started coming down subsequently from January. 1975, the firm had contrived to wriggle out of its commitments to take delivery of the subsequent cargoes contracted at higher prices. This impression of the Committee is also reinforced by the fact that while the contract in respect of the quantity of 11,000 tonnes sold on 19 December, 1974 had been duly signed and returned by Cie Noga on 21 January, 1975, two other contracts in respect of the sales concluded on 10 and 17 March, 1975 had not been received back, duly signed, by Cie Noga. Significantly enough no reasons were also given by the firm for not returning these contracts.

[S. No. 52 (Para No. 2.130) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

As stated earlier the sugar deals with M/s. Cie Noga are under investigation by CBI. It is however again reiterated that it is not unusual in the sugar trade where daily transactions are taking place to buy sugar and place it with other dealers depending upon who requires the physical delivery of sugar at a particular moment.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978]

Recommendation

The committee find that the contracts entered into by the State Trading Corpn. for sale of sugar to free world destinations provide, in the event of breach of contract for arbitration by the Council of Refined Sugar Association, London, whose decision is enforceable in law in the United Kingdom. Yet, instead of taking recourse to this provision, the Corpn. had rescinded the three contracts which had not been implemented by Cie Noga and executed a fresh contract for 60,000 tonnes at the price of $ 525 (£219.39) per tonne in July '75. Even after re-negotiation of the contract, there had been a further default in the performance of the contract as only 0.46 lakh tonnes had been lifted by Cie Noga. The Committee have been informed, that while full payment had been received for the quantities shipped (45, 731 tonnes), an amount of 0.67 crore had been realised in respect of the qty. not lifted (13,419 tonnes) by encashing the bank guarantee. A further sum of Rs. 5.09 crores is also stated to have been realised by the resale of the qty. not lifted at (Rs. 3,793.09) per tonne as against the price of $ 525 (Rs. 4638.23) per tonne finalised with Cie Noga.

[S. No. 53 (Para No. 2.131) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The decision to re-negotiate the contract was taken by STC s Board. Since the sugar deals with M/s. Cie Noga are under investigation by CBI no further comments can be offered at this stage.

[Ministry of Commerce. Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

The failure of Cie Noga to lift 0.63 lakh tonnes of sugar out of the total qty. of 0.75 lakh tonnes purchased by them in December, 1974 and March, 1975 has been attributed to the following:

(i) A sharp fall in the international sugar prices soon after the finalisation of the contracts in question;

(ii) the problems raised by Cie Noga's ultimate buyers (Sudan) about honouring their purchase commitments with the firm; and

(iii) Cie Noga's inability to raise finance for payment to STC against the 360 days' Sudanese letter of credit held by them.

Asked to indicate the reasons for not resorting to legal action against Cie Noga for its default, in terms of the contract, and for renegotiating the contracts at a lesser price, the Committee have been informed, *inter alia,* by the State Trading Corporation that in the context of a declining market, "a settlement with Nogas actually offered a better alternative to making a distress sale or lose the opportunity of actual shipment by getting involved in litigation|arbitration." It has been further stated that a resort to litigation was not favoured as legal proceedings besides being time consuming would have involved expenditure in foreign exchange without certainty as to the final outcome and that while legal action in individual cases could perhaps lead to a questionable advantage in view of the fact that the repercussions of such actions generate considerable illwill, international trading houses often resolved disputed claims and counter-claims by mutual consultation rather than by resorting to arbitration or legal action.

[S. No. 54 (Para No. 2.132) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

No comments.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

It also appears from the evidence that the decision of the State Trading Corporation to accept the re-negotiated proposal of Cie Noga had been considerably influenced by the fact that two of the disputed contracts (10 and 17 March, 1975) had actually remained unsigned and that the legal repercussions of this situation might not have strengthened the Corporation's position *vis-a-vis* that of Cie Noga.

[S. No. 55, (Para No. 2.133) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

As already stated the sugar deals with M/s Cie Noga are under investigation by the C.B.I.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

While conceding that the realisations from these transactions with Cie Noga were lower than what the Corporation would have got had the original contracts been enforced, the Chairman of the State Trading Corporation has, however, argued that if an objective view were to be taken of the whole episode, the Corporation had actually benefited from its association with Cie Noga. It has been further contended that on an overall basis the Corporation had not incurred a loss on its sugar transactions with Cie Noga and that the transactions had in fact resulted in a net gain of Rs. 10.18 crores. Certain statistics in support of this contention have also been furnished by the Corporation, from which the Committee find that the national loss of Rs. 37.14 crores arising out of the failure of Cie Noga has been sought to be set off not only against the subsequent realisations from the re-negotiation of the disputed contracts (Rs 21.21 crores) the amount realised by encashment of bank gurantee (Rs. 0.67 crores), and the amount realised by the resale of the quantity not lifted by Cie Noga against the re-negotiated contract (Rs. 5.09 crores) but also against the monetary advantage alleged to have accrued from other sales to Cie Noga during 1974-75 (Rs. 7.59 crores) and 1975-76 (Rs. 12.76 crores).

[S. No. 56 (Para No. 2.134) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

No Comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

The Committee are, to say the least, surprised by these arguments. It would appear, *prima facie*, that greater concern had been shown by the State Trading Corporation for extricating Cie Noga from its difficulties, alleged and real, than for safeguarding Government's interests. Since the fact that two of the disputed contracts had not been duly signed by Cie Noga also appears to have influenced the decision to accept the re-negotiated proposal, the Committee see no reason why these could not have been got executed promptly after the deals had been struck with Cie Noga on 10 and 17 March, 1975, instead of waiting till 8 May, 1975 when STC's standard contracts were forwarded for signature to Cie Noga by the London Office of the Corporation despite the fact that they had been asked on 31 March, 1975 itself to forward these contracts. In any case, the Committee are doubtful how far this would have come in the way of the Corporation enforcing its claims in view of the fact that Cie Noga had partially implemented the contract of 10 March, 1975 by lifting a quantity of 12,100 tonnes out of 31,000 tonnes against this sale.

[S No. 57 (Para No. 2.135) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha).].

Action Taken

All dealings with M/s. Cie Noga are under investigation by the CBI.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978.]

Recommendation

As regards the attempt at extenuation that the State Trading Corporation had not incurred any loss on its sugar transactions with Cie Noga if the totality of the transactions was taken into account and that the association had been beneficial, this can only be considered as very special pleading and is by no means convincing. The basis for the claim that a monetary advantage of Rs. 20.35 crores had accrued to the State Trading Corporation from the quantities lifted by Cie Noga during 1974-75 and 1975-76, which in any case was no relevance to the point presently under consideration, have also not been indicated and can at best be considered hypothetical in view of the fact that many of the sales during 1974-75 had been effected below the then prevailing international prices. In any event in so far as the specific deals under examination are concerned, it is fairly obvious that Government, due to the mismanagement of the situation by the State Trading Corporation, had lost considerable foreign exchange which according to the Corporation's own computation, works out to Rs. 10.17 crores.

[S. No. 60 (Para No. 2.138) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha).].

Action Taken

As per STC's calculations, the Corporation has, on its entire sugar transactions with Noga, benefited to the extent of Rs. 10.18 crores. Nevertheless the matter is under investigation by the CBI.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978.]

Recommendation

The Committee have been informed that apart from encashing the bank guarantee for the second default of Cie Noga in not lifting 13,419 tonnes out of the re-negotiated quantity of 60,000 tonnes and stopping all dealings with the firm, the question whether the State Trading Corporation could claim any further damages from Cie Noga for their default had been referred to a Senior Counsel in U.K. for his opinion and that further action in the case would be taken in the lights of the Counsel's opinion. Now that considerable time has elapsed since then, the Committee would like to be apprised of the further developments in this regard and the action, if any, taken as a sequel thereto. It should also be examined whether any action is possible against the agents of Cie Noga.

[S. No. 62 (Para No. 2.140) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha).].

Action Taken

Since the position was last reported to the PAC, arbitration proceedings have been initiated through the Refind Sugar Association, London against M/s. Noga for their default in lifting 14,269 MT sugar under the renegotiated contract for 60,000 MT and the amount claimed as damages is US $ 2,471,408.05 or US $ 2,310,382.45 if the arbitrators reduce the quantity in default by the shipping tolerance of 5 per cent allowed in the contract. The claim is in addition to the amount of US $ 7,49,127.75 obtained by encashment of the 10 per cent Bank Guarantee.

The contracted dated 24-7-75 was made by M/s. Cie Noga themselves and not by their Indian Agents. STC, as stated above, has already initiated arbitration proceedings against Noga claiming damages for breach of contract. Hence, in law, no action can be taken by STC against the agents of Noga for breach of contract on the part of Noga.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce) O.M. No. 1|1|78-FT(ST) dated the 22nd August, 1978.]

Recommendation

The Committee have also gained an impression, and this is reinforced by some of their earlier findings on the subject contained in the 160th Report (Fifth Lok Sabha), that the agents of Foreign Companies and trade houses, particularly the Indian counterparts, are normally of no help and whatever service is rendered by them is also of little significance. Besides, the Indian agents often act only as contactmen and appear to be more concerned with safeguarding the interests of their foreign principals often to the detriment of national interests. The Committee have been informed in this connection that there is no special machinery available with the State Trading Corporation to verify the antecedents and credentials of Indian agents of foreign firms. They are, therefore, firmly of the view that in the case of commodity trades, where no question of after-sales service or maintenance is involved, it should be possible to eliminate these middlemen agents and to deal directly with the foreign principals.

[S. No. 63 (Para No. 2.141) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha).].

Action Taken

No Indian agents are appointed by STC. The foreign buyers/ suppliers appoint agents on their own choice without any reference to STC. The STC has been increasingly trying to deal directly with the foreign buyers/ suppliers so as to eliminate the middlemen.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August. 1978.]

Recommendation

While the Committee note that certain steps in this direction have been taken by the State Trading Corporation and guidelines have been circulated to its divisions and subsidiaries in pursuance of a review conducted in November, 1973 they feel that a lot more needs to be done to tackle this problem in a more effective manner. The existing arrangements for the antecedents/of Indian agents, where dealings with such agents are inescapable also need to be strengthened so as to secure the interests of the country. The Committee, therefore, desire that the role played by agents in the transaction of the State Trading Corporation should again be comprehensively reviewed in the light of the experience gained so far and all necessary steps taken to minimise, if not altogether eliminate. dealings with agents.

[S. No. 64 (Para No. 2.142) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha).].

Action Taken

STC undertakes business transactions with reputed international organisations only and as such it is expected that these foreign buyers/sellers also in turn appoint reputable organisation as their agents in India. The Indian agents are not appointed by STC. STC on its part endeavours to minimise dealings through Indian agents and usually these are limited to utilising the Indian agents as a means of communication with their foreign principals. However, if the foreign principals want to deal only through his Indian agent, STC has hardly any option in the matter. The recommendation of the Committee noted.

[Ministry of Commerce. Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August. 1978.]

Recommendation

Yet another aspect which causes concern to the Committee relates to the functioning of the State Trading Corporation. The Committee were surprised to learn that while no enquiries had been initiated into the conduct of any official connected with sugar deals of the State Trading Corporation as many as thirteen enquiries/investigations into the conduct of different officials of the Corporation, some of them in the higher income brackets, were being processed. This certainly does not speak well of the Organisation. The committee would urge that apart from analysing in depth the causes for such a state of affairs and taking necessary measures to tighten the existing procedures, only officers of proven integrity should be selected, after the most careful screening, for appointment to executive and managerial positions. Officials found guilty of having abused their positions and indulged in malpractices should be proceeded against sternly and expeditiously. As earlier recommended in paragraph 6.16 of the Committee's 187th Report (Fifth Lok Sabha), a more positive and dynamic procedure has to be evolved in this regard so that punishments are graded according to the magnitude and seriousness of the lapse committed by the officials so that the positive action taken even in two or three cases acts as a deterrent to others.

[S. No. 66 (Para No. 2.144) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

13 enquiries/investigations relate to cases which were either registered or material facts about them received after preliminary investigation. As regards sugar deals, although preliminary investigations started earlier, a case was actually registered only in October, 1977 for detailed enquiry. The case is still under investigation of the CBI.

In regard to the observations of the PAC every endeavour is made by the Corporation to analyse and minimise the chances of Malpractices/irregularities. To this end, the Corporation set up a Unit exclusively devoted to vigilance work and is engaged presently in restructuring and revamping the organisation to enable sensitive operations being carried out effectively by managers with known dependability, efficiency and integrity. Although at the time of appointment the Corporation follows a rigid system of getting the antecedents verified by the District authorities, it is considered desirable that there should be a proper system of evaluating managers' integrity and activities on a continuing basis. A system of reporting upon the integrity of the Managers through confidential reports every year is already in vogue. It is contemplated to make the reporting of integrity assessment more effective in consultation with the CBI. Periodically a screening will be made to prepare list of officers of doubtful integrity and their activities watched unobtrusively by the CBI until their cases are decided one way or the other. Surprise inspection of godowns/field offices, periodical visits to BOs examination of existing procedures/rules, rotation of staff to root out vested interests etc., are some of the other means adopted by the Corporation to strengthen the existing procedures to have a check on officers indulging in malpractices. High value contracts, losses and pilferages are also now being subjected to scrutiny.

In regard to dealing with delinquent officers, the practice is usually to act on the advice of the C.V.C. regarding imposition of penalties in respect of senior managers. Attempt is always made to punish the delinquents according to the magnitude and seriousness of their lapses. However, the observation of the Committee for appropriate future action has been noted.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce), O.M. No. 1|1|78-FT(ST) dated the 22nd August, 1978]

CHAPTER III

RECOMMENDATIONS OR OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT.

Recommendation

Having gone through the Audit paragraph, the Committee are inclined to take a dim view of the manner in which the question of procuring sugar for exports during 1974 and 1975 had been handled by the Department of Food and the Ministry of Commerce. It is disconcerting that on account of what can only be described as an inept handling of the situation by the departments concerned and the State Trading Corporation, resulting primarily from the determination of the export strategy on the basis of unrealistic and unreliable estimates of indigenous sugar production, Government had been placed in the helpless position of having to listen to the dictates of a recalcitrant industry and to incur an extra expenditure of as large a sum as Rs. 5.68 crores on the procurement of 1.07 lakh tonnes of sugar from the free sale market for exports. After an analysis of the evidence tendered before the Committee, it would appear that the sorry state of affairs reflected in the Audit paragraph was not entirely unavoidable. This is discussed in the succeeding paragraphs.

[S. No. 1 (Para No. 1.92) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

The conclusions reached in the para have been noted. The Department of Food do not agree with the conclusions drawn for the reasons explained in replies in succeeding paragraphs.

The basis adopted for the formulation of the sugar production estimates has already been explained. Though as a first step estimates of production are no doubt called for from the factories, these are analysed and vetted on the basis of information received from other sources. The Directorate of Economics & Statistics furnishes the information regarding cane availability, its percentage utilization by the sugar industry and the sugar recovery percent sugarcane for the season as a whole and the yield of cane per acre which too form the basis of these estimates. The State Governments are also requested to furnish their estimates of duration, recovery cane quantity, sugar production etc., which they undertake through their Cane Commissioners|Directors of Sugar organisations.

The estimates of sugarcane production are not available in a firm manner at the beginning of the season. Directorate of Economics & Statistics is formulating first and second estimates regarding the *acreage* under sugarcane for a particular sugar year in October-December and January-February respectively. It is only in the final estimates given at the end of the season (*i.e.* in the next September-October) that the figures of sugarcane production besides acreage are also given. There is, thus, not only lack of information about the sugarcane production but the drawal of sugarcane by the sugar factories also depends on the extent of diversion of cane to gur and khandsari depending upon the prices of these commodities. Whenever there is decline in sugarcane production, there is more than proportionate reduction in the drawal by the sugar factories, and conversely, when there is an increase in sugarcane production, there is more than proportionate increase in the drawal by the sugar factories. The sugarcane production during 1975-76 season, as compared to that of 1974-75, showed a decline of 2.56 per cent as against which the cane crushed and sugar produced during 1975-76 season declined by 13.57 per cent and 11.11 per cent respectively as compared to 1974-75 season. Again, the sugarcane production in 1976-77 season as compared to 1975-76 increased by 9.53 per cent, but the increase in cane crushed and sugar produced in 1976-77 was 16.89 per cent and 13.58 per cent respectively as compared to 1975-76 season. In addition to these uncertainties, there are imponderables such as climatic conditions, incidence of pests and diseases, quality of cane etc. As a result of all these factors, the formulation of accurate forecast of production becomes very difficult. It will not be correct to assume that the volume of sugar exports for a particular sugar year is determined only on the basis of the estimated production of sugar for that year (difficulty of the estimates being well known) but other equally important factors like the international prices of sugar and the need for maximising foreign exchange earnings from exports also lend an equal weight for the fixation of the quantum of exports.

This note has been vetted by Audit.

[Ministry of Agriculture & Irrigation (Department of Food) endorsement No. G.25015|1|78-Fin.IV (Vol. II) dated the 28th October. 1978]

Recommendation

Strangely enough, however, even before a conclusive decision to effect exports from the free sale quota had been taken, the Department of Food had held discussion with representatives of the sugar industry on 26 March 1974, when the representatives of the Indian sugar Mills Association (ISMA) and the National Federation of Cooperative Sugar Factories Ltd. (NFCSF) had informed the Department that according to their latest estimate, sugar production in the 1973-74 season would be only around 43 lakh tonnes as against the previous estimate of 45 lakh tonnes and that the Joint Committee of the Joint stock and cooperative sectors of the sugar industry had decided to offer to the Department of Food sugar for export from their free sale quota upto 30 per cent of the total quantity to be exported subject to a ceiling of 2 lakh tonnes, at a fixed ex-factory price of Rs. 290 per quintal (excluding excise duty). Subsequently in a letter dated 28 March 1974, the Presidents of ISMA and NFCSF, while confirming the offer made at the meeting on 26 March 1974, had also drawn attention to the fact that the offer was subject to the condition that the existing proportion of levy sugar and free sugar quotas would be continued at 70:30.

[Sl. No. 4 (Para No. 1.95 of Appendix XXIII to the 53rd Report of the Public Account Committee (Sixth Lok Sabha)]

Action Taken

In this connection a reference is invited to para 3 of the note dated 28-3-74 recorded by the then Joint Secretary (Sugar) *vide* page 154 in Appendix 1 to the 53rd Report of the PAC (Sixth Lok Sabha). The discussions with the industry on 26-3-74 were follow up action of a talk which the industry had on an earlier occasion. In their earlier discussions the industry had suggested that the Government should export 8 to 10 lakh tonnes of sugar to take full advantage of the high prices ruling in the world market. They were then asked how it would be possible if, as had been the practice till then, sugar exports had to be found entirely from the levy quota. They promised to consider the matter and come with their proposals in due course. This they did on 26.3.1974.

Incidentally, it may be pointed out that consultation with the industry, and dialogue between them and the Government on important matters is a normal practice and necessary for developing an atmosphere of mutual appreciation of each other's problems and viewpoint.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G.25015/1/78-Fin. IV dated the 5th August, 1978]

Recommendation

Thus, for the procurement of 1.07 lakh tonnes of free sale sugar for exports, Government, in the above milieu, had to pay to the industry Rs. 5.68 crores more than what it would have paid at the price of Rs. 290 per quintal which, having regard to the industry's cost structure, was certified as reasonable by the Chief Economic Adviser of the Ministry of Finance. The *Prima facie* conclusion that emerges from the discussions in the foregoing paragraphs is that the preliminary negotiations held with the industry on 26 March 1974 by the Department of Food almost simultaneously after having submitted the proposal to effect exports from the free sale quota influenced considerably the subsequent course of events culminating finally in the procurement of sugar from the free sale market at prices of Rs. 340 and Rs. 360 per quintal as against the price of Rs. 290 per quintal quoted initially by the industry and enabled the industry to exploit the situation to its own advantage.

[S. No. 10 (Para No. 1.101) of Appendix XXIII to the 53rd Report of the P.A.C. (Sixth Lok Sabha)]

Action Taken

The Department do not agree with the conclusion drawn by the Committee. The replies to para 1.95 are relevant here also. If it is held that it was wrong to have had talks with the industry earlier, leading to their offer of Rs. 290 per quintal without any commitments from the Government side, then it would not be correct to calculate the extra expenditure incurred by the Government with reference to their offer of Rs. 290 per quintal as the same could not have been in existence. Further, if the talks were held with the industry after the decision to export free sugar was finally taken on 1-7-1974, the industry would, as in fact it did, demand such higher price in relation to the market prices for free sugar then prevailing. It has to be appreciated that while offering free sugar for export at Rs. 290 per quintal on 26-3-1974 the industry had expected the average realization of only Rs. 300 per quintal but as the season advanced and the decreasing production trends became clear the market prices for free sugar steadily increased.

It averaged Rs. 329 in August, Rs. 431 in September, Rs. 337 in October and Rs. 358 in November, 1974.

In this connection it is relevant to indicate the extent of the information available with the industry regarding the closing stock of sugar, sugar production, consumption (levy and lèvy free) and the availability for exports. All these figures are available with the industry. In fact, the production figures are taken from the individual factories each month *i.e.* the industry is the source of supply for such figures. The releases of sugar (levy and levy free) are widely publicized. The working of the availability of sugar for exports into levy and levy free thus becomes a mere mathematical exercise. The table below give the figures of the opening stocks of sugar, production, consumption and the closing stocks during the years 1972-73 to 1974-75:—

(In Lakh tonnes)

Year	Opening stocks	Production	Consumption	Closing tock	Availability or exports
1972-73	5·99	38·73	35·11	8·64	0·97
1973-74	8·64	39·48	35·29	8·78	4·05
1974-75	8·78	47·97	34·57	12·94	9·24

It was thus obvious to the industry that the ambitious programme for the export of 7 lakh tonnes from the sugar season 1973-74 could not be achieved by confining exports to levy portion only and that the Government had necessarily to resort to purchases from the levy free portion to fulfil their export commitments. It is, therefore, not correct to hold that it was the meeting on 26-3-1974 that put industry wise to such a situation and influenced considerably the subsequent course of events.

This note has been vetted by Audit.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G.25015|1|78-Fin. IV (Vol II) dated the 28th October, 1978]

Recommendation

It, however, appears on the evidence that adequate care was not taken by the Department to ensure that the industry did not get to know, during what has been described as "a purely exploratory" discussion, Government's thinking on this important question.

Though it was stated during evidence by the Secretary, Department of Food that the quantities to be exported "were never revealed" to the industry at these discussions, the Committee find, from the letter of 28 March 1974 from the Presidents of ISMA and NFCSF, that at the meeting held on 26 March 1974, the question of exports during 1974 was generally discussed when a suggestion had been made by the representative of the Department of Food that "if need be, sugar for exports may be procured in the proportion of 70% levy sugar and 30% free sale sugar". It would, therefore, appear that Government's intention of effecting exports from the free sale quota and to make a departure from the past practice in this regard had been communicated to the industry in March 1974 itself and it is inconceivable to the Committee that the industry would not have taken advantage of this information. No minutes of the meeting held on 26 March 1974 having been prepared, the Committee have also not been in a position to satisfy themselves fully that the quantities to be exported were not, even inadvertantly, disclosed to the industry. It is, however, significant in this context that the quantity of free sale sugar offered by the industry (2 lakh tonnes) also corresponded to the quantity initially proposed by the Department of Food to be exported from the free sale quota. The Committee are, therefore, doubtful how far it was prudent to have disclosed to the industry, during the exploratory discussions, Government's intention to export free sale sugar without having any firm indication of the actual production and in the absence of any definite decision in this regard.

[S. No. 31 (Para No. 1.104) of Appendix XXIII to the 53rd Report of the P.A.C. (Sixth Lok Sabha)]

Action Taken

As will be clear from paras 1.58 and 1.59 of the Committee's report as well as in reply to para 1.101, the sugar industry is fully aware of all facts and figures regarding total production, stock, consumption and the availability for export. Discussions with them in the matter of exports to enlist their cooperation had taken place even in the past when exports limited and of only levy sugar. As explained in reply to para 1.95, the discussions on 26-3-74 were a follow up of a earlier suggestion made by the industry to export 8 to 10 lakh tonnes and it was asked how it would be possible only with levy sugar. It came prepared with its considered proposals on 26-3-1974. No suggestion was made at this meeting for supply of sugar for export in the ratio of 70 per cent to 30 per cent nor was the target of export disclosed to the industry in that meeting. The note recorded by the then Joint Secretary (Sugar) who held the talks on behalf of the Department should be given credence. What the industry offered was free sale sugar to the extent of 30 per cent of the total sugar exports during the year 1974 to the free world markets (excluding the preferential quota of 1 lakh tonnes to the US and UK markets) subject to a ceiling of two lakh tonnes at a fixed negotiated price. This was discussed with reference to its earlier suggestion to export a total of 8 to 10 lakh tonnes.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G.25015/1/78-Fin. IV dated the 5th August, 1978]

Recommendation

As regards the argument of the Department of Food that the inference that the exploratory discussions had placed Government at a disadvantage and had given rise to avoidable speculation was not correct in view of the steady condition of the market during March to June 1974, the Committee need hardly point out that till June 1974, no definite decision to effect exports out of the free sale quota having been taken and in the context of the easy availability of khandsari sugar during this period, the industry could have ill afforded to play with the free sale sugar prices and that while the bullish trend of the free sale sugar market from July 1974 onwards could perhaps be attributed to a certain extent to the fall in production and meagre availability of khandsari sugar, the final decision to procure sugar for export from the free sale quota taken on 1 July 1974 must have its impact on the prices which admittedly could be manipulated by the industry. It would, therefore, be facile to assume that the industry would not have exploited the situation to its own advantage. Yet another fact which is relevant in this connection is that even as late as in August 1974, the judgement of the Ministry of Finance was that it might be possible to obtain a lower price than Rs. 325 per quintal quoted by the industry on 5 August, 1974 and even in July 1974, the industry's own representatives had suggested that Government might be able to obtain their requirement from the factories in the low cost regions at a price "not very much different" from Rs. 290 per quintal. It is also significant in this context that it was the industry which at every stage suggested the course of action to be adopted by Government. It is also amply evident that the industry had resiled from its earlier offer primarily because its expectations of *quid pro quo* arrangement, *viz.*, revision of levy sugar prices fixed in December 1973 and payment of compensation by the State Governments for the high cane price paid by the factories, had not materialised. In these circumstances, the conclusion that the premature step of holding discussions with the industry in March 1974 influenced the subsequent course of events is fairly inescapable.

[S. No. 14 (Para No. 1.105) of Appendix XXIII to the 53rd Report of the P.A.C. (Sixth Lok Sabha)]

Action Taken

The Department do not agree with the conclusions drawn in the para that the premature step of holding discussions with the industry in March 1974 influenced the subsequent course of events. As clarified in para 1.101, the industry is well posted with the information regarding the availability of sugar (levy and levy free) for export purposes. In fact, the discussions held with the industry on 26-3-1974, as stated in reply to para 1.95, were a follow up action of a talk which the industry had on an earlier occasion. The offer of Rs. 290 per quintal made by it at that stage had no significance in the absence of any commitment from the Government side. It has been amply clarified in reply to para 1.101 that if the talks had been held with the industry only after 1-7-1974, the industry would have demanded much higher prices in tune with the market factors. The average realization in August 1974 was Rs. 329 which rose to Rs. 431 in September 1974. The price of Rs. 340 at which the sugar was purchased from the industry, therefore, was a reasonable price which could not be termed as manoeuvering by the industry. The reference to the failure of a *quid pro quo* arrangements having been responsible for the industry's resiling from its earlier offer is not justifiable as the industry's expectation regarding the revision of levy prices for sugar produced each year is normal due to established practice.

This note has been vetted by Audit.

[Ministry of Agriculture & Irrigation (Department of Food) O.M. No. G. 25015/1/78-Fin. IV (Vol. II) dated the 28th October, 1978]

Recommendation

The Committee find that purchases of free sale sugar at considerably high prices had to be resorted to mainly because the State Trading Corporation had entered into export commitments in excess of the quantities initially authorised. Though the decision taken on 1st July, 1974, to procure 1 lakh tonnes of free sale sugar for export had been communicated formally to the Corporation by the Department of Food only on 22nd August, 1974 and arrangements had also not been finalised to procure free sale sugar from the internal market, the State Trading Corporation had entered into export commitments by 23rd July, 1974 for a quantity of 0.63 lakh tonnes of sugar over and above 3 lakh tonnes of white sugar and 1 lakh tonnes of raw sugar (total: 4 lakh tonnes) authorised for export out of the levy quota by the Department of Food. This according to the Department of Food, "had also to some extent contributed to the difficult situation".

[S. No. 15 (Para No. 1.106) of Appendix XXIII to the 53rd Report of PAC (Sixth Lok Sabha)]

Action Taken

As already submitted to PAC, apart from the 4 lakh tonnes of levy—3 lakh tonnes of white and 1 lakh tonnes of raw—STC was aware all the time of the discussions that took place in the concerned Ministry and knew that at least 1 lakh tonnes as against 2 lakh tonnes asked for were going to be released for export. It was as a result of this that the STC had by 23rd July, 1974 entered into export commitments for a total of 4.63 lakh tonnes including 1 lakh tonnes of raw sugar which were within the total quantity decided to be allocated for export. Thus it need not be construed as a case of over contracting done by STC.

[Ministry of Agriculture and Irrigation (Department of Food) O.M. No. G.25015|1|78-Fin. IV. dated the 5-8-1978]

Recommendation

The picture that emerges in this regard is somewhat disquieting. While the Chairman of the State Trading Corporation contended before the Committee that the export commitments entered into by the Corporation were always within the allocations sanctioned and that the question of over-contracting just did not arise, the Secretary, Department of Food maintained that the allocation available at that time to the Corporation was only 4 lakh tonnes, as against which contracts had been entered into for a total quantity of 4.63 lakh tonnes till 23rd July, 1974 (including 1 lakh tonnes of raw sugar meant for U.K. and U.S.A. under international agreements). The Committee find that at the meeting of the Special Committee on Sugar held on 24th July 1974, the representative of the Department of Food had also pointed out that the Department "had not informed the STC of the additional provision of 1.00 lakh tonnes for export out of free sale quotas (approved by the Ministry of Finance on 1st July, 1974), and arrangements for its procurement had not been finalised yet, and in the absence of any such information STC should not have effected excess sale without obtaining the specific concurrence of the Department of Food". The Food Secretary had agreed with this view and had added that while the Department "would help to fulfil the commitment already made by the STC", the Corporation was not to make further sales without the prior concurrence of the Department of Food.

[S. No. 16 (Para No. 1.107) of Appendix XXIII to the 53rd Report of PAC (Sixth Lok Sabha)]

Action Taken

No comments as position has been explained with reference to para No. 1.106 and para 1.108.

[Ministry of Agriculture and Irrigation (Department of Food) O.M. No. G.25015|1|78-Fin. IV, dated the 5-8-1978]

Recommendation

If this were indeed so, it is not dear to the Committee why no formal communication to this effect was sent by the Department of Food to the State Trading Corporation before 22 August 1974 and why it was necessary for the Special Committee on Sugar to have criticised the action of the State Trading Corporation. It is also significant that no reference had been made by the Corporation's representative at the Special Committee's meeting of 24 July 1974 to the reported meeting between the two Ministers. It is still more strange that, apart from a note recorded on 24 June 1974 in the relevant file of the Commerce Ministry by the then Additional Secretary in the Ministry, wherein a mention had been made by him that the Food Secretary had informed him that "at the meeting between the Commerce Minister and the Minister for Agriculture already a decision has been reached to increase the quota for export from 4 lakh tonnes to 5 lakh tonnes", no formal record of the discussion between the two Ministers is stated to be available either in the Commerce Ministry or the Department of Food. The note recorded by the Additional Secretary was also not sent to the Department of Food; neither had he made any mention of this note and the reported discussions between the two Ministers at the 24 July 1974 meeting of the Special Committee which he subsequently attended. Besides, apart from informing the Committee that the meeting between the two Ministers "appears to have been of an informal nature" and no representative of the State Trading Corporation "appears to have been present at this meeting", neither the Commerce Ministry nor the Department of Food have been able to vouchsafe when this alleged meeting between the two Ministers was held and when and how exactly the reported decision of the two Ministers to release 1 lakh tonnes of free sale sugar for export was conveyed to the State Trading Corporation. In these circumstances, the Committee have not been in a position to satisfy themselves fully whether the State Trading Corporation was justified in entering into export commitments in excess of the allocations made by the Department of Food.

[S. No. 18 (Para No. 1.109) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

The justification for STC entering into export commitments in excess of the allocations made by the Department of Food was their knowledge all the time that at least 1 lakh tonnes more were going to be released for export.

[Ministry of Agriculture & Irrigation (Deptt. of Food) O.M. No. G. 25015|1|78-Fin. IV, dt. 5-8-1978]

Recommendation

The reasonableness of the prices paid to the industry for the procurement of free sale sugar is also open to question. The Committee find that while the industry had quoted the price of Rs. 290 per quintal and Rs. 325 per quintal respectively in March and August 1974, free sale sugar for export during 1974 had actually been procured in October 1974 and December 1974 at Rs. 340 per quintal and Rs. 360 per quintal respectively. The State Trading Corporation have sought to justify these prices on the ground that free sale sugar market was bullish at the relevant time and the price of Rs. 340 per quintal (October 1974) was considered to be in line with the then prevailing market level and that the price of Rs. 360 per quintal finalised in December 1974 was "the best possible obtainable" and was in line with the tariff value declared by Government for December 1974. It is, however, not clear to the Committee why the analogy of the tariff value, which is supposed to be an index of the then prevailing wholesale prices, was not applied on the earlier occasions. The Committee find that when the price of Rs. 340 per quintal was agreed upon in October 1974, the tariff value for free sale sugar was only Rs. 320 per quintal and that when the industry had quoted the prices of Rs. 340 per quintal (September 1974), Rs. 325 per quintal (August 1974) and Rs. 290 per quintal (March 1974), the then prevailing tariff values were respectively Rs. 305 per quintal, Rs 290 per quintal and Rs. 270 per quintal. Besides, apart from the quantity of 0.17 lakh tonnes procured at the price of Rs. 360 per quintal in December 1974, for export during the year 1974, the Committee have been informed that additional quantities of 1.72 lakh tonnes were also procured at the same price of Rs. 360 per quintal finalised in December, 1974 and were shipped during 1975. In view of the fact that production from 1974-75 sugar season would have started coming in by then leading to a fall in free sugar prices and the tariff value for free sale sugar had also been subsequently reduced periodically by Government (Rs. 345 per quintal with effect from 1 February, 1975, Rs. 330 per quintal with effect from 1 March, 1975 and Rs. 310 per quintal with effect from 1 April 1975), the Committee are unable to appreciate why the State Trading Corporation failed to take advantage of the downward trend of the free sugar market and bound themselves to the obviously unreasonable price of Rs. 360 per quintal in respect of shipment effect during 1975.

[S. No. 19 (Para No. 1.110) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

The free sale sugar is purchased from the industry at a negotiated price. A guide to this price can be the tariff value prevalent in the month of purchase of sugar from the industry. The tariff value for free sale sugar is fixed, every month, by the Ministry of Finance taking into account the data relating to the average realization prevailing in the month two months prior to the concerned month, the price trends subsequently etc. This value is for the purposes of reckoning the excise duty on free sale sugar. This value, under the circumstances, can only be expected to correspond with the realizations over a period of time and not at every point of time.

When the industry quotes for selling free sugar for export, it takes into account the currently prevailing market prices and also the likely price trends in the domestic market in the period scheduled for shipment. It also keeps in view the profits which will accrue to Government by the sale of sugar in overseas markets. The domestic free sale sugar market was bullish between July, 1974 and November, 1974 and the price of Rs. 340 per quintal paid by the STC was in line with the market trend in October, 1974. In fact, the international market was at its peak between October and December 1974, the average of November, 1974 being £ 566 per tonne, and the industry could expect reasonably a price in consonance with the actual export price for this free sale sugar and internal market trends. The price of Rs. 340 paid to the industry was, therefore, a reasonable price in the context of the circumstances in those days.

This note has been vetted by Audit.

[Ministry of Agriculture & Irrigation (Deptt. of Food) endorsement No. G. 25015/1/78-Fin. (Vol. II) dated 28th October, 1978]

Recommendation

To begin with the Committee find from the Audit paragraph that while the Department of Food, before the responsibility for sugar exports was entrusted to the State Trading Corporation on agency basis, had all along finalised contracts for the sale of raw sugar under the U.S. Sugar Act at prices determined on the average of the prices of the Spot Contract No. 10 quoted (in terms of U.S. Cents per pound c.i.f. duty paid delivered basis) by the New York Coffee and Sugar Exchange for the period from March to September/October of that year plus a fixed premium, all the sales effected under the Act by the State Trading Corporation were below the U.S. domestic quotations. Thus, in respect of contracts concluded between 24 and 31 May, 1974 for a total quantity of 75,000 tonnes of raw sugar to be shipped during June-August 1974 (actual quantity shipped: 74, 732 tonnes), the sale prices obtained by the Corporation worked out to 19.46 and 19.37 cents per pound (f.o.b.) equivalent to only 22.58 and 22.49 cents per found c.i.f. US port duty paid delivered basis, as against the Spot Contract No. 10 prices of 23.25 Cents per pound on 15 May, 1974 and 24.25 Cents per pound from 24 to 31 May, 1974. According to Audit, these sales below the then prevailing No. 10 Contract prices had resulted in an amount of U.S. Dollars 27.79 lakhs (Rs. 2.23 crores) being realised less.

[S. No. 29 (Para No. 2.107) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

It is re-submitted that the question of alleged loss of Rs. 2.23 crores does not arise if sales are evaluated with comparable and relevant data. US Domestic Prices in terms of US Spot Contract No. 10 is a price ruling on a given date for prompt delivery. Sales made by STC on that date for delivery 3 months or 4 months later on should not be compared with 'spot' prices ruling on that date.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978]

Recommendation

It is also significant in this context that while the f.o.b. prices obtained by the Corporation ranged between US Dollars 427 and 429 per tonne (19.46 and 19.37 cents per pound), three Columbian shippers had combined to sell 12,000 tonnes raws, to a New York Trade House at a price of US Dollars 494 per tonne (fob) and sellers from Salavador had also similarly placed 4,000 tonnes July|August shipment, with another Trade House at a reported f.o.b. price of 22.68 cents per pound. The rising trend of the future market would also be evident from the fact that on 5 June 1974, the New York subsidiary of a Paris Trade House had won a tender in the Dominican Republic, paying even for a shipment to commence as late as in March, 1975, nearly nine months later, the price of 19.515 cents per pound (f.o.b.) which was about 150 points above the equivalent New York quotation on that day. Even during the subsequent periods (June 7, June 20, 1974) and June 21, July 11, 1974 considerable quantities of raw sugar had changed hands at prices higher than that obtained by the State Trading Corporation for deliveries during August to October, 1974 as detailed below:

(i) During the period 7 June—20 June, 1974, Salvadoran sellers had placed in tender 4.000 tonnes for July/August shipment with a New York Trade House at 24.786 cents per pound (f.o.b.).

(ii)) Even in respect of October shipments, two lots (10,000 tonnes each) of Peruvian raws had been sold to New York Trade Houses at US Dollars 21.146 per 46 kils FAS ($ 459.50 per tonne) and US Dollars 21.201 per 46 kils FAS ($ 460.90 per tonne).

(iii) As late as on 8 July 1974, in a tender Columbia, a Northern Refiner had bought through a Trade House a cargo of 12,000 tonnes Columbian raws, for shipment by vessel to present August 25|September 10, at a reported price of US Dollars 513.425 per tonne, f.o.b.

[Sl. No. 35 (Para 2.113) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

As explained in STC's earlier reply to the PAC on the basis of NY Contract No. 10 future quotations on the dates of sale applicable to the period when the cargoes sold by STC's were likely to arrive at US Ports, STC had realised a premium of US$ 22.98 lakh.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1|1|78-FT(ST) dated the 22nd August, 1978]

Recommendation

It would, therefore, appear that except in respect of a quantity of 14,000 tonnes shipped in August, 74 and which have been deilvered at US ports during October, 1974, the State Trading Corporation had failed to take full advantage of the admittedly tight supply/demand position of the raw sugar market and the consequential rising trend of raw sugar prices and had instead sold its cargoes at an inopportune moment when there was a temporary slump in the futures values. It would also appear that the Corporation had not fully appreciated certain developments on the international sugar front such as the inauspicious start of the European beet season, serious damages to the beet crop on account of adverse weather conditions and the need for resowing in certain areas, the unsually early conclusion of the Cuban Sugar season, etc. so as to exploit the situation to the country's advantage. The Committee consider it regrettable that the State Trading Corporation had not assessed the market situation properly and taken care to ensure that its sales were effected at the most appropriate time and at the most advantageous prices.

[Sl. No. 36 (Para 2.114) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

As explained in replies to the PAC full advantage of the situation, within the constraints prevalent at that time, was taken by STC and sales were concluded at the best possible price for future deliveries to ensure optimum realisation.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978].

Recommendation

The incorrect appreciation of the behaviour of the sugar market had also led to the rejection by the State Trading Corporation of the offers received from three reputed trade houses for the total quantity on the average pricing pattern which, if accepted, would have given an additional price advantage of Rs. 12.46 crores to Govt.

The Committee were surprised to learn that in spite of the firm tone of the raw sugar market and the fact that the international prices of sugar had started rising sharply from the middle of July 1974, the State Trading Corporation had left these bids out of account on the assumption that the international sugar market would enter a period of lower price levels from the earlier high levels. In the context of the then prevailing bullish trend of the market, which has been discussed at some length in the foregoing paragraph this was somewhat facile assumption to make and the Committee are, therefore, not entirely satisfied with the explanation of the State Trading Corporation.

[S. No. 37 (Para No. 2.115) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

The bids received from the three parties on the basis of average pricing pattern brought out the following factors:—

(i) the first bid proposed a simple average for the price one month following the shipments plus a premium;

(ii) the second party increased the range of the period over which the average price was proposed to be spread;

(iii) the third party gave a bid for June shipment but with pricing to be based on August average i.e. two months later and the premium offered was lower by almost 40% than the premium offered by the other two.

In other words, the cautious approach of the second bidder in enlarging the span of the pricing period and the lower premium of the third bidder reflected a bearish trend in the market.

In the face of the above data, the commercial judgement of the STC was that it might be better for them to sell the cargoes on a fixed price basis straightway taking the maximum advantage of the market as it offered itself at that time when the sales were concluded rather than to take a speculative view of what might happen to the market subsequently. Besides, the prices realised showed a sizable profit.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 78]

Recommendation

While the Committee are not unwilling to concede that it might perhaps be difficult and impractical to prescribe a rigid methodology of sales and that a decision in regard to the system to be adopted would have to be taken with reference to the situation prevailing at a particular point of time, they, however find that the Special Committee on Sugar, at its first meeting held on 13th March, 1974, had decided, *inter alia,* that quantities, other than those sold, by bilateral negotiations on a Government basis, would be sold by the State Trading Corporation by international tendering. Besides, since a sellers' market existed during the period under review, the Committee feel that better results might have ensued had sales been effected through tenders. This is also borne out by the fact that compared to the prices obtained by the State Trading Corporation by adopting the bid system, substantially higher prices had been obtained in tenders floated by other countries like Columbia, the Dominican Republic, Salvador, etc. Since the bids are valid only for very short periods, even an hour or less in some cases, and the stakes involved are also very high, the Committee also apprehend the possibility of the unfettered discretion that appears to vest in individual officials of the Corporation for finalising deals and obtaining subsequently the *ex-post facto* approval of the Board being abused. This fear stems from the fact that out of 21 contracts concluded by the Corporation between 17 April, 1974 and 23 September, 1974, as many as 9 contracts had been confined to one commodity trader, dealings with whom have been examined in some detail later, while the remaining 12 contracts had been distributed amongst 5 other better known sugar trade houses.

[S. No. 44 (Para No. 2.122) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

In addition to the Special Committee meeting held on 13th March, 1974 referred to in the point, there has been a Cabinet directive that sugar for export should be sold more by negotiations rather than by conventional methods of calling tenders to maximise the foreign exchange earnings. Accordingly, STC also found that in actual practice negotiations yielded better results.

[Ministry of Commerce, Civil Supplies & Cooperation, (Deptt. of Commerce) O.M. No. 1|1|78-FT(ST) dt. 22-8-1978]

Recommendation

What is even more surprising is the fact that though the State Trading Corporation was only acting as an agent of the Department of Food, it had never sought the advice of that Department before taking a decision to rescind the disputed contracts and conduct negotiations with Cie Noga for the execution of a fresh contract; nor was the matter referred to the administrative Ministry (Ministry of Commerce) so as to obtain the Law Ministry's opinion. The Secretary, Foreign Trade, while informing the Committee in this context that in the normal course, if there was a default by any party in the execution of a contract, the State Trading Corporation did not have to go the Commerce Ministry or the Food Department and that in such circumstances it was the responsibility of the Board to take a decision, was good enough, however, to admit hat if the Corporation had sought the Ministry's advice, they "would definitely have looked into the matter." Considering the fact that large sums of money were at stake, the Committee are firmly of the view that rather than taking a unilateral decision in this regard, the State Trading Corporation ought to have taken the Department of Food and the Commerce Ministry into confidence and proceeded on the basis of sound legal opinions, instead of relying only on a "commercial judgement." That this was not done is regrettable.

[S. No. 58 (Para No. 2.136) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Though the exports were done by STC on Government account, it would not be strictly correct to assume that the STC was acting as an agent of the Department of Food. One of the reasons why export of sugar was handed over to STC was that these should be effected by STC as commercial operations and that STC should exercise its commercial judgement in all matters relating thereto. As already stated by the then Foreign Trade Secretary in his evidence before the Committee, if there was a default by any party in the execution of a contract, it was not necessary for the STC to go to the Commerce Ministry or the Food Department and it was the responsibility of the Board of Directors to take a decision. The Government is of the view that if the STC were required to consult or take the approval of the Government in such cases, it would not only delay the process of taking decisions but also result in erosion of the autonomous commercial character of the Corporation.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce), O.M. No. 1|1|78-FT(ST) dated the 22nd August, 1978]

Recommendation

It is also significant in this context that at the meeting of the Board of Directors of the State Trading Corporation held on 24 July, 1975, when alternative proposals to resolve the dispute with Cie Noga were considered, three of the five Government Directors on the Board (Additional Secretary, Ministry of Finance, a Joint Secretary of the Commerce Ministry and the Economic Adviser to the Ministry of Industrial Development) had expressed themselves in favour of recourse to arbitration and had also confirmed this in writing to the Chairman of the State Trading Corporation within about a week of the Board's meeting. However, the majority view to accept Cie Noga's offer to lift 0.60 lakh tonnes at the f.o.b. price of $ 525 per tonne appears to have prevailed. In the Committee's opinion, since conflicting views had been expressed on the question, particularly by the Government Directors, it would have been more appropriate if a final decision in this regard had been taken after consultations with the Government departments on whose behalf the deals were being handled.

[Sl. No. 59 (Para 2.137) of Appendix XXIII to the 53rd Report of the PAC (6th Lok Sabha)]

Action Taken

In addition to what has been stated in reply to paragraph 2.136, Government considers that just because divergent views were expressed in the Board, it was not necessary for the Corporation to approach the Government for a decision. Once the majority of the Board have decided on a particular course of action and the Government Directors did not consider it necessary to get the decision changed by issue of directive from the Ministry, the majority decision of the Board should be taken as good as representing the collective view of the Board.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce), O. M. No. 1/1/78-FT(ST) dated the 22nd August 78]

CHAPTER IV

RECOMMENDATIONS OR OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

Apart from the immediately ascertainable extra expenditure of Rs. 5.68 crores on the transaction highlighted in the Audit Paragraph, the decision to effect exports from the free sale quota, in a departure from past practice, has also resulted in a considerable additional burden on the exchequer by way of difference between the price that would have been payable had sugar for export been procured only from the levy quota and the prices actually paid for the purchase of free sale sugar, as well as in a erosion of the profits that would otherwise have been available to Government from exports of levy sugar. It is, therefore, a moot point whether, even if export of additional quantities had been considered inescapable in the interest of maximising foreign exchange earnings, the entire quantity of 5.07 lakh tonnes exported during 1974 could not have been obtained only from the levy quota. This could have been done either by regulating suitable the releases of levy sugar for internal consumption or, in the alternative, by adjusting suitable the proportion of levy and free sale quotas and obtaining the additional quantity required for meeting the export commitments out of such an enhanced levy quota rather than succumbing, as it appears to have happened, helplessly to the dictates of the industry.

[S. No. 20 (Para No. 1.111) of Appendix XXIII to the 53rd Report of the Public Accounts Committee (Sixth Lok Sabha)]

Action Taken

Production, consumption, exports and stocks of sugar during 1972-73, 1973-74 and 1974-75 production seasons were as follows:—

(figures in lakhs tonnes)

	1972-73	1973-74	1974-75
1. Carry over from previous seasons	5·99	8·64	8·78
2. Production	38·73	39·48	47·97
3. Total availability (1+2)	44·72	48·12	56·75

4. Internal	35·11	35·29	34·57
consumption (L	24·49	23·91	24·75
LF)	10·62	11·38	9·82
5. Exports	0·97	4·05	9·24
6. Closing stocks (3, 4, & 5)	8·64	8·78	12·94

To make 4 lakh tonnes of levy sugar available during 1973-74, the Government had to restrict the total release of levy sugar for domestic consumption to a level even lower as compared to the previous year notwithstanding the increase in population and repeated requests received from the Chief Ministers of the various State Governments to increase the allotment of levy sugar to them. The monthly levy releases for the public distribution had already been brought down from 2.06 lakh tonnes to 1.85 1.90 lakh tonnes for a number of months in 1972-73 and 1973-74. The per capita sugar consumption which was 7.4 kg. per annum even as early as in 1970-71 came down to 6.2 in 1972-73 and 6.1 in 1973-74. Any attempt to reduce it further, to maximize sugar export, would have created serious problems in the domestic economy of our country. Similarly, upward revision of ratio of levy to levy-free sugar in the context of declining trends of production during the year would have resulted in a steep rise of the prices of free sale sugar within the country.

This not has been vetted by Audit.

[Ministry of Agriculture and Irrigation (Deptt. of Food) endorsement No. G.25015|1|78-Fin. IV (Vol. II) dated the 28th October, 1978]

Recommendation

The Committee have been informed in this connection that if a quantity of more than 4 lakh tonnes had been drawn for export out of the levy quota, this would have adversely affected the availablility of levy sugar for the public distribution system and, besides causing resentment among the consumers, would have also pushed up the price of free sale sugar and it was, therefore, not considered proper to do so. The Committee, however, find that internal consumption of sugar had remained almost constant during the 1972-73 and 1973-74 sugar seasons (being respectively 35.11 lakh tonnes and 35.29 lakh tonnes) in spite of the fact that the total production of sugar in the 1973-74 season (39.48 lakh tonnes) was more than that in the 1972-73 season (38.73 lakh tonnes) and at the beginning of the 1973-74 season, a carry-over stock of 8.64 lakh tonnes of sugar was also available as against the carry-over stock of only 5.99 lakh tonnes at the beginning of the 1972-73 season. Besides, by the time sugar for exports from the free sale quota had actually been procured, the 1974-75 sugar season had also commenced. It is also significcant in this context that even as late as in September 1974, a suggestion had been made at the special meeting of the Board of Directors of the State Trading Corporation (11th September, 1974) that efforts to obtain more levy sugar out of the current crop should continue so that purchase of free sale sugar could be postponed to a later date. The Committee cannot, therefore, help feeling that with a little initiative and imagination, ways and means could have been found to confine the exports only from the levy quota.

[Sl. No. 21 (Para No. 1.112) of Appendix XXIII to the 53rd Report of the Public Accounts Committee (Sixth Lok Sabha)]

Action Taken

It would be seen from the break up of consumption figures during the years 1972-73 and 1973-74 that even though the total production of sugar in 1973-74 was more than that of 1972-73 the consumption of levy sugar came down inspite of increase in population in that year. The Committee's conclusion that with a little initiative and imagination ways and means would have been found to confine the exports only from the levy quota is, thus, not borne from the facts as the levy sugar for export had already been drawn upon to the hilt.

The higher carry-over and the slightly higher production in 1973-74 as compared to 1972-73 were taken into account in making available to 4-5 lakh tonnes for export from that year's production, keeping some closing stock for carry over to the next year 1974-75. to meet the requirements of internal consumption till fresh production becomes available in sufficient quantities cumulatively from over 200 factories situated in different parts of the country for release in a particular way. The total production of sugar in October 1974 was 62,000 tonnes and in November 1974, 3.45 lakh tonnes. The releases of levy sugar for the public distribution system had, therefore, to be arranged from the carry over stock of 1973-74. This position is usual each year. In any case, it may be stated that whatever surplus levy sugar could have become available from the production of sugar in the early months of next season was taken into account in computing availability of levy sugar for export during 1974-75 season.

[Ministry of Agriculture & Irrigation (Dept. of Food) endorsement No. G.25015/1/78-Fin. IV (Vol. II) dated the 28th October, 1978]

Recommendation

As regards the other alternative of revising upwards the proportion of the levy quota, the Department of Food have informed the Committee that as this was purely a commercial transaction between the State Trading Corporation and the industry, Government had not considered this point. Yet, Government had not hesitated to reduce, during the 1974-75 sugar season, the levy quota from 70 to 65 per cent and though it has been claimed that this decision "was taken in the best interest of the consumer," the Committee cannot resist the impression that the policy of partial control on sugar has favoured the industry more than the consumer. They consider it regrettable that Government had not been able to take adequate corrective action to discipline the industry, particularly in the light of the recommendations of the Tariff Commission, 1973, that "if the industry cannot be disciplined to keep the price fluctuations of free market sugar within reasonable limits, or if any practical mechanism cannot be evolved by Government to control the price and distribution of such sugar, the solution may lie in a suitable adjustment, from time to time, in the ratio between the levy quota and the free market quota so that the profits accruing to the industry through free sale sugar do not show any run-away tendency."

[S. No. 22 (Para No. 1.113) of Appendix XXIII to the 53rd Report of the Public Account Committee (Sixth Lok Sabha)]

Action Taken

The policy of partial control was introduced in 1967 and continued thereafter with a short break in 1971-72, to serve the interest of consumers and the cane growers alike, consistent with the obligation to ensure a minimum return to the industry. This policy has by and large been successful. In 1974-75, the levy quota was reduced from 70 per cent to 65 per cent to avoid a price increase for levy sugar which became necessary by compensating the industry to have more free-sale sugar for disposal at higher prices. In fact, the price of levy sugar, for public distribution through fair price shops, which was fixed at Rs. 2.15 per kg. in December 1972, was maintained at that level till March 1978 i.e. for 5¼ years, perhaps unparalleled in the history of the public distribution for any commodity in our country. This was, therefore, in the public interest. A similar step was not considered advisable to secure more levy sugar for export as already explained.

This note has been vetted by Audit.

[Ministry of Agriculture & Irrigation (Deptt. of Food) Endorsement No. G.25015/1/78-Fin. IV (Vol. II) dated the 28th October, 1978]

Recommendation

It would, therefore, be evident from the discussions in the foregoing paragraphs that the manner in which the question of procurement of sugar for export was handled was far from satisfactory and that the decisions taken from time to time were weighted more in favour of the sugar industry than of the interest of the Government. The circumstances in which the State Trading Corporation entered into export commitments in excess of the allocations and the Department of Food considered it necessary to discuss with the industry Government's intention to export free sale sugar even before a definitive decision was taken in this regard have also not been satisfactorily explained and have given rise to grave doubts in the Committee's mind. It would appear, therefore, that there is more to this transaction than what meets the eye. Having due regard to the number of missing links in the transaction and the magnitude of the extra expenditure involved, the Committee are firmly of the view that only a detailed enquiry under the Commission of Enquiry Act would bring to light the wider ramifications of the transaction commented upon in the Audit paragraph. They accordingly recommend that such an enquiry be instituted forthwith and completed expeditiously.

[S. No. 23 (Para No. 1.114) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

***Action Taken**

The above mentioned elucidations would establish that the procurement of sugar for export was handled in a judicious manner and the procurement was effected at the most economic rate. The export of 1.07 lakh tonnes of free sale sugar resulted in a profit of Rs. 17.15 crores besides earning foreign exchange to the tune of Rs. 55.06 crores. The exchequer would have lost the above profits and advantages if the exports had been restricted to levy sugar available. It has also been clarified that the discussions with the industry on 26th March, 1974 were purely informal and of an exploratory nature. The sugar industry is fully aware of the sugar production, carry over stocks, consumption and the availability for

*Not vetted in Audit.

export. In fact, the procurement of levy-free sugar for exports increased in the sugar year 1974-75 and 1975-76 as tabulated below:

(Figures in lakh tonnes)

Procurement for exports	Sugar years		
	1973-74	1974-75	1975-76
Levy	4·00	6·00	0·5
Levy free	1·00	7·00	5·5

It will be seen that the proportion of levy free sugar for export had been constantly on the increase. In fact, in 1975-76, ratio of levy to levy free was 8 : 92. This change over was the result of a deliberate policy of taking full advantage of the favourable international sugar situation by maximising sugar production and sugar exports.

The Government, therefore, with all due deference to the observations of the Committee and after the most careful consideration of the same, feel that there is absolutely no need for instituting a detailed enquiry under the Commission of Enquiry Act.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1|1|78-FT(ST) dated the 29th January, 1979]

Recommendation

The Committee are concerned to note that while on the one hand, Ministry by its inept handling of the situation, had to incur an extra expenditure of Rs. 5.68 crores on the procurement of sugar for export, the State Trading Corporation, on its part, had concluded a number of export sales at rates below the then prevailing international prices and that its failure to enforce the contractual provisions in regard to breach of contract in a specific case of default had resulted in the short-realisation of a staggering large sum of Rs. 14.91 crores (£ 78.95 lakhs). Despite all protestations to the contrary, the Committee cannot help feeling, on the basis of the facts disclosed in the Audit paragraph and the evidence tendered before them, that the final picture which emerges of the Corporation's performance is anything but satisfactory. In particular, they are, to say the least, thoroughly dissatisfied with the manner in which certain deals were concluded with a commodity trader not normally in the international sugar business in preference to other leading and better known sugar trade houses and concessions were extended to him to the detriment of the country's interests even after he had defaulted in the performances of his contracts.

This case as the discussions in the foregoing paragraphs would indicate, also gives rise to suspicion of malafide intentions on the part of those concerned.

[Sl. No. 28 (Para No. 2.106) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

M/s. Cie Noga though, not in the sugar business particularly, was in regular commodity trading business and had previous dealings with STC to their satisfaction.

As already submitted to the PAC, on its sugar transaction with Cie Noga, Geneva on an overall basis, STC did not incur a loss. Indeed there has been a net gain of Rs. 10.18 crores as intimated to PAC. As regards the firms' default on the contracts, since the position was last reported to PAC, arbitration proceedings have been initiated through the Refined Sugar Association, London against M/s. Noga for their default in lifting 14,269 MT under the re-negotiated contract. The damage claimed is US$ 2,471,408.05 or US$ 2,310,382.45 if the arbitrators reduce the quantity in default by the shipping tolerance of 5 per cent allowed under the contract. The claim is in addition to the amount of US$ 7,49,127.75 obtained by STC by encashment of the 10 per cent bank guarantee.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978]

Recommendation

A similar disconcerting picture also emerges in respect of sales of white sugar by the State Trading Corporation. The Committee note that while the *f.o.b.* prices obtained for Indian White Sugar between 17 April 1974 and 16 July 1974 were substantially higher than the London daily prices (LDP) for raw sugar (*c.i.f.* Caribbean ports) the *f.o.b.* prices obtained from exports of Indian White Sugar during the period 22 July, 1974 to 23 September, 1974 were on three occasions slightly higher, on two occasions equal to and on the four remaining occasions lower than the London daily prices for raw sugar. Further, though international prices of sugar started rising rapidly from the middle of July 1974 and the London daily prices rose by 44 per cent from £ 250 to £ 360 per ton between 15th July, 1974 and 23rd September 1974 the *f.o.b.* price for Indian white sugar rose during the same period by about 26 per cent only from £ 270 to £341 per tonne.

[Sl. No. 38 (Para No. 2.116) of Appendix XXIII to 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

The implication of the Committee's observations is that since London Daily Price increased by 44 per cent from 16th July, 1974 to 23rd September, 1974 the *f.o.b.* price of Indian White Sugar should also have increased to the same extent during the period in question. The circumstances in which such an exactly proportionate rise or fall between the quotations of the terminal markets and the Indian export transactions was not obtained, have been already explained and have also been brought out in paragraph 2.57 of the Report.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1|1|78-FT(ST) dated the 22nd August, 1978]

Recommendation

Explaining the reasons for not availing of this price rise and selling sugar at lower prices during July-September, 1974, the Chairman of the State Trading Corporation informed the Committee during evidence that while the prices quoted on the London market were certainly indicative of the market conditions and the market did rise in August and September, large quantities of sugar could not be accumulated and shipped at one time in the hope that prices would rise. Besides, sales could be effected only according to a programme depending on the availability of buyers. It has been further contended that depending upon the demand at any point of time for Indian Sugar, the rates of premium vary and cannot strictly correspond to the actual premium commanded by other international suppliers and that the prices obtained by the State Trading Corporation compared favourably with those obtained by other countries.

[S. No. 39 (Para No. 2.117) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Factual. No comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1|1|78|FT(ST) dated the 22nd August, 1978]

Recommendation

The Committee are, however, unable to appreciate the logic of these arguments. The fact remains that during this period, when the sugar market continued to rule firm and there was little to indicate that the supply situation was becoming less tight, as many as nine cargoes had been sold by the Corporation. It was, therefore, not an instance of stocks not being available to take advantage of the rising prices. Besides, in view of the fact that a sellers' market existed during this period on account of a continuing tight supply| demand situation, the Committee see no reason why higher premia could not have been commanded for Indian sugar. It is also significant that certain other developments on the international sugar front such as the lower yeilds from the beet crop in some European countries, failure of the beet crop in the United Kingdom on account of virus infections, the suspension in August 1974 by the U.S. Department of Agriculture of the restriction on import of sugar in the U.S.A. during the remaining months of 1974 etc., had taken place at that time. The Committee cannot, therefore, resist the impression that adequate advantage had not been taken of the rising trend of the market at that time by the State Trading Corporation and that such a situation could well have been avoided by a more intelligent and scientific assessment of the market conditions and a better planning of the sales strategy.

[S. No. 40 (Para No. 2.118) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

As broughtout in para 2.117, large quantities of sugar cannot be stocked and shipped expecting that the market will improve at a particular point of time. Sales are normally effected depending upon the market ruling for the coming months, availability of sugar, shipment facilities and requirement of international market. All efforts, within the operational limits, were, however, taken to ensure that maximum advantage was taken of the rising trend at the time of sales.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978].

Recommendation

As stated at the outset, the Committee are, in particular, thoroughly dissatisfied with the handling of the sugar deals with a commodity trader (Cie Noga of Geneva) not normally in the international sugar business and the renegotiation of the contracts concluded with him to the detriment of the country's interests. The Committee note that out of 6.32 lakh tonnes of sugar sold by the State Trading Corporation between April 1974 and March 1975, contracts had been concluded with Cie Noga for as large a quantity as 2.84 lakh tonnes [2.09 lakh tonnes upto August, 1974 at prices ranging between £ 267 and £ 315 per tonne f.o.b. and 0.75 lakh tonnes between December 1974 and March 1975 (0.11 lakh tonnes at $ 1135 per tonne *f.o.b.* in December 1974, 0.31 lakh tonnes at £ 295 per tonne *f.o.b.* on 10th March, 1975 and 0.33 lakh tonnes at £ 311.30 per tonne *f.o.b.* on 17 March, 1975)] and that while the contracts upto August, 1974 had been fully implemented, Cie Noga had taken delivery of only 0.12 lakh tonnes against the contract of 10th March, 1975 for 0.31 lakh tonnes and had defaulted in the performance of the other two contracts entirely and of the 10th March, 1975 contract partially. Strangely enough, however, instead of taking recourse to the contractual provisions in regard to breach of contract, the State Trading Corporation had entered into a fresh contract, in July 1975, for 0.60 lakh tonnes in lieu of the rescinded contracts at the price of $ 525 (£ 219.39) per tonne, on the ground that prospects of recovery of claims in the event of starting litigation were poor. As compared to the prices in the rescinded contracts of December 1974 and March 1975, the renegotiation of the contracts with Cie Noga had resulted in the short realisation of an amount of £ 78.95 lakhs (Rs. 14.91 crores).

[S. No. 47 (Para No. 2.125) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

As explained to the PAC earlier, prior to commencement of sugar exports, STC had a contract in 1972 with M|s. Cie Noga, Geneva, for import of rape-seed oil. Hence business with Noga was not for the first time. On its sugar transactions with Cie Noga on an overall basis STC did not incur a loss.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978].

Recommendation

The Committee are concerned to find that before entering into such high value contracts with a new-comer in the sugar business, the State Trading Corporation had not thought it fit to make any enquiries in regard to the antecedents, financial position and other relevant details in regard to Cie Noga and that it was only more than two years later, in June 1976, after Cie Noga had defaulted, that some attempt had been to conduct some enquiries through the London branch of the State Bank of India in regard to the financial standing of the Geneva based trader. While the Secretary, Foreign Trade, was good enough to concede that the State Trading Corporation should have verified properly the bank credentials of the party before awarding big-value contracts, the State Trading Corporation should have verified properly the bank credentials of the party before awarding big-value contracts, the State Trading Corporation have informed the Committee that prior to commencement of sugar exports, the Corporation had had an earlier dealing with Cie Noga in 1972 for the import of rapeseed oil where the performance "was satisfactory". The Committee have been further informed that the first offer for purchase of sugar from Cie Noga was received through Marpro, a London firm of brokers, who had earlier rendered competitive service to the Corporation and that "in view of previous relations", it had not been considered necessary to verify Cie Noga's standing.

[S. No. 48 (Para 2.126) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)]

Action Taken

Prior to the conclusion of a contract with M|s. Cie Noga, for the export of sugar STC had in 1972 a contract with this firm for the import of rapeseed oil. The rest is factual and no comments.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978].

Recommendation

It would, however, appear from the facts made available to the Committee that prior to 19th April, 1974 when the first sale of 11,000 tonnes of sugar was concluded with Cie Noga on the basis of an offer received from Marpro, the dealings of the State Trading Corporation with the London firm of brokers had been confined mainly to imports and exports of oils and only one contract for the import of 10,000 tonnes of Rapeseed Oil had been entered into with the principals, Cie Noga, some 18 months earlier, on 29th November, 1972. In these circumstances, the Committee are unable to appreciate the rationale for the State Trading Corporation having rushed into commitments with Cie Noga without adequately verifying the firm's standing. It is also somewhat strange that in spite of the fact that Cie Noga was a new entrant to the sugar business and the value of the contract was also over Rs. 5 crores, the first sale had been concluded without any reference to the Board of Directors of the State Trading Corporation at the level of the then Director in charge of sugar exports and had only been ratified subsequently by the Board.

[S. No. 49 (Para No. 2.127) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The files relating to the sugar dealings with Cie Noga are in the custody of the CBI. However, it is reported by the STC that the sugar deal with M|s Cie Noga prior to 19th April, 1974 was concluded by the Director in charge of sugar exports in consultation with the Committee of Management and the Government Directors of the STC and with the knowledge of the Chairman of the STC.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978].

Recommendation

It has also been contended that the non-verification of the credentials of Cie Noga notwithstanding the performance of Cie Noga "was fully satisfactory" on very count till the later contracts of December 1974 and March 1975 had run into difficulties and that the prices offered by the firm were, in almost all the cases, higher than what was being offered by other parties and at which sugar was being sold to other parties. In this connection, the Committee find that while the contracts concluded till 27th August, 1974 for a total quantity of 2.09 lakh tonnes had been fully implemented, a contract for the export of 10,000 tonnes of Basmati Rice concluded with the same firm on 28th August, 1974 had also run into difficulties prior to the further sales of sugar effected in December 1974 and March 1975, as only a quantity of 5,000 tonnes had been lifted by Cie Noga and an amount of \$. 2.50 lakhs had been realised as liquidated damages from the firm for the default. It is also significant in this context that out of 13 sales made to Cie Noga between April 1974 and March 1975, prior approval of the Board of Directors of STC|the Sugar Export Sales Committee (SESC) had been obtained only on four occasions. It would, therefore, appear than in respect of a majority of the transactions, the Board|SESC had been presented with a fait accompli.

[Sl. No. 50 (Para No. 2.128) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The Board of Directors in their meeting on 27th April, 1974 (while constituting the Sugar Export Sales Committee) had authorised the Director In-charge of Sugar Exports to negotiate and conclude transactions, if found necessary at any time, in his best judgment, subject to all such transactions being reported weekly to the Sugar Export Sales Committee for ratification.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O. M. No. 1|1|78-FT(ST) dated the 22nd August, 1978.]

Recommendation

The discussions in the proceeding paragraphs add up to a situation which is far from complimentary to the State Trading Corporation. The Committee cannot but take a grave view of the various acts of omission and commission which has resulted in a huge loss to the exchequer. The Committee accordingly recommend that a thorough probe should be conducted had been awarded to Cie Noga without an adequate verification of credentials and a number of concessions had been extended to the firm even after it had defaulted twice to the detriment of the country's interests as well as the conduct of the officials responsible for handling the case. The part played in this somewhat dubious opisode by the Indian and Foreign agents of Cie Noga (Emgee International, New Delhi, and Marpro of London) also needs to be done into. The probe, in the Committee's view should be entructed to the Commission of Enquiry, the settling up which has been recommended earlier in paragraph 1.114.

[S. No. 61 (Para No. 2.139) of Appendix XXIII to the 53rd of the PAC (Sixth Lok Sabha)].

Action Taken

The Sugar deals of STC with M/s. Cie Noga are under investigation by CBI. The CPU has also taken up for study sugar exports by STC. On receipt of their final reports/recommendations, further action in the mater will be taken by the Ministry.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

CHAPTER V

RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

The Committee learn that information in regard to the Indian agents of foreign firms dealing with the State Trading Corporation and other Government and quasi-Government agencies is regularly exchanged only in respect of agents or firms who have been black-listed by the Chief Controller of Imports & Exports or otherwise placed on the caution 'list' circulated by competent authorities like the CCI & E, the Ministry of Home Affairs, etc. Further, under the law, the power to black list firms can be exercised only by the Chief Controller of Imports & Exports and the State Trading Corporation is stated to have no system of black-listing of Indian agents. Having due regard to the role that some of these dubious 'agency' firms could play and the links and inter-connections that exist between different firms, the Committee feel that this is not a very satisfactory arrangement. They would, therefore, like Government to review the existing legal provisions in this regard so as to bring about the desired improvements. A suitable system should also be devised to ensure a continuous and effective flow of information in regard to the performance of agents, Indian as well as foreign, between different Government and quasi-Government agencies and public sector Corporations The Committee would await a detailed report on the action taken in pursuance of these recommendations.

[S. No. 65 (Para No. 2.143) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The recommendation is under the consideration of the Ministry of Commerce.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978]

Recommendation

The discussions in the foregoing paragraphs also bring into sharp focus the need for evolving permanent strategy for sugar exports so as to maximise export earnings and reduce costs. Now that the State Trading Corporation has been handling sugar exports on behalf of the Department of Food for well over three years the Committee are of the view that it would be worthwhile to review in detail the medalities employed by the Corporation for exports of sugar with a view to improving upon them and identifying areas where economies could be effected and overhead reduced. The Committee have been informed in this connection that certain proposals in regard to the export strategy for sugar submitted by the State Trading Corporation were considered by the Government who had decided that while on account of the nature of issues involved it would not be desirable to announce decisions on them, the Committee at the working level consisting of the Food and Commerce Secretaries, the Chief Economic Adviser and the Chairman of the State Trading Corporation should keep the situation under review and take appropriate decisions from time to time.

[S.No. 67 (Para No. 2.145) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The modalities of export of sugar from India, in light of the experience gained during the last three years, have been reviewed by STC. In order to evolve a long range strategy for exports, STC has made some recommendations. They are under consideration. In addition, to have economies on costs a revised agreement is being finalised with the sugar industry.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

While the Committee trust that the Working Level Committee would continuously monitor and evaluate the performance of the State Trading Corporation in the sphere of exports and take prompt steps to remove hurdles and bottlenecks that may come in the way of export performance they are, however, of the opinion that it would be desirable to announce decisions on some of the proposals of the State Trading Corporation such as reserving C/D/E 30 grade sugar for export, amending the Sugar (Packing & Marking) Order, 1970 to permit packing of sugar in 50 kg. poly-lined twill jute bags so as to facilitate handling of and minimise damage to export cargoes and making available institutionalised facilities for priority movement of export cargoes over railways adequate warehousing capacities and berthing priorities at the ports, so as to avoid any ambiguities and to streamline the existing procedures. They would therefore, like Government to re-examine these issues in depth and would like to be apprised of the specific steps taken in this behalf.

[S. No. 68 (Para No. 2.146) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

The proposals of S.T.C. are under consideration.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978].

Recommendation

The Indian share of world trade in sugar has ranged between 0.45 per cent in 1972-73 to a maximum of 3 per cent in 1974-75 and according to the State Trading Corporation, with advance planning and careful management , this could be raised from 3 per cent to at least 5 per cent or even 7 per cent and steadily kept up at that figure. In the Committee's view, it should also be possible to obtain higher unit value realisations by exporting sugar in a processed form and by improving the quality colour and size of the crystals. Efforts also need to be directed towards maximising sugar exports to the Petro-dollar countries in the Middle East and evolving long-term measures for the export of sugar to these and other non-traditional countries which might offer potential markets for Indian sugar. While some steps like export of sugar cubes, change in packing, confining exports to colour 30, etc. are stated to have been taken as experimental measures by the State Trading Corporation, the Committee feel that a lot more still needs to be done to give an impetus to exports of Indian sugar. The Committee have also been informed in this connection that the response from the OPEC countries for Indian sugar has been practically nil and that this lack of interest was attributable largely to the preference of the Middle East countries for a better quality sugar for which they have the capacity to pay. While the Committee would like the various experimental measures to be pursued to their logical conclusion, they would also urge Government to undertake a critical and in-depth study of the entire question of sugar exports so that factors affecting our export performance can be identified and remedial measure taken.

[S. No. 69 (Para No. 2.147) of Appendix XXIII to the 53rd Report of the PAC (Sixth Lok Sabha)].

Action Taken

With a view to ensure higher unit value realisation as well as to secure wider acceptability of Indian sugar in foreign markets, the STC forwarded to the Govt. its proposal in Sept., 1977 only long range strategy for export. Emerging out of this proposal the Government has taken the following steps during the current year:

(i) larger allocation has been made from levy quota;

(ii) STC has been asked to select sugar mills for procurement of sugar for export;

(iii) the sugar factories have been advised to intimate additional cost involved in packing sugar in 50 kg. bags.

As regards the improvement in quality of sugar, some processing or technological modifications may be necessary in the production stage. The National Sugar Institute, Kanpur has been requested to make suitable recommendations, after examination, in this regard.

STC has, on its own, addressed the countries who normally consume Indian Crystal Sugar to ascertain their annual requirements. Based on the replies direct negotiations will be initiated with these countries which will help in developing permanent markets for Indian sugar.

Action on other proposals of STC is under consideration.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) O.M. No. 1/1/78-FT(ST) dated the 22nd August, 1978.]

NEW DELHI;
February 27, 1979.
Phalguna 8, 1900 (*S*).

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

APPENDIX
STATEMENT OF CONCLUSIONS OR RECOMMENDATIONS

S. No.	Para No. of the Report	Ministry or Department concerned	Conclusions or Recommendations
1	2	3	4
1	1.7	Commerce	The Government's reply fails to clear the grave doubts of the Committee about the wisdom, propriety and even the *bona fide* of the decision taken for export of sugar in 1974 and 1975 out of levy-free quota, which had the twin effects of enabling the producing mills to make undue profits by artificially raising the prices through concerted action and, as a corollary, substantially eroding the profitability of the export transactions of State Trading Corporation. The Committee are unable to appreciate the stand taken by the Government against instituting an enquiry under the Commission of Enquiry Act, as such an enquiry would have cleared whether there was any collusion on the part of any of the officers involved in the decision making process with the sugar industrial interests. The Committee accordingly reiterate their earlier recommendation that a detailed enquiry under the Commission of Enquiry Act may be instituted forthwith and completed expeditiously.
2	1.10	-do-	The Committee are surprised to note the reply of the Ministry of Commerce that 'all efforts, within the operational limits, were taken to ensure that maximum advantage was taken of the rising

1	2	3	4
			trend at the time of sale'. The arguments that 'large quantities of sugar cannot be stocked and shipped expecting that the market would improve at a particular point of time' does not hold good in view of the fact that a sellers' market existed during the period on account of a continuing tight supply|demand situation in the terminal markets and that as many as nine cargo loads were sold by the State Trading Corporation during this period. While conceding that the rates of premium on Indian sugar cannot strictly correspond to the actual premium commanded by other international suppliers, the Committee see no reason why higher premia could not have been commanded for Indian sugar. They cannot erase the impression gained earlier that adequate advantage was not taken of the rising trend of the market at that point of time by the State Trading Corporation and that such a situation could well have been avoided by a better planning of the sales strategy and a proper appreciation of the market situation. The Committee, therefore, emphasise that the State Trading Corporation should be armed with sound market intelligence relating to international production trends, availability of and demand for the commodity, behaviour of world prices, recent happenings in international trade etc., so as to enable it to regulate export sales, in future, in the best interests of the country.

3	1.15	Commerce	The Committee had earlier pointed out the indiscreet action of the then Director-incharge of sugar export of the State Trading Corporation in entering into high value contracts with a foreign firm—a new entrant in sugar business—without verifying its financial credentials, even though it had just a couple of months before the conclusion of impugned contracts defaulted in the case of the contracts for basmati rice. If this action was taken with the specific concurrence of any superior authority who had opportunity to go into the *pros and cons* of the proposed transaction, that authority also becomes equally responsible for the aforesaid indiscretion. However, the reply of the Government only speaks of the contracts having been concluded by the Director "in consultation with" the Committee of Management and the Government directors of the STC and 'with the knowledge of' the Chairman of the STC which does not absolve the Director of the responsibility in regard to this transaction.
4	1.16	Do.	Another act of indiscretion on the part of the Director pointed out by the Committee was the non-enforcement of the penalty provisions against the firm for breach of original contract and instead re-negotiation of the contract at lower prices resulting in substantial erosion of overall profitability of the export transactions of the State Trading Corporation. It is explained that the Board of Directors had given blanket authority to the Director to renegotiate and conclude transactions "at any time in his best judgement" subject to all such transactions being reported weekly to the Sugar Export Sales Committee for ratification. As the Sugar Export Sales Committee

1	2	3	4
			had no role in renegotiating contracts and concluding transactions, the responsibility therefor lies squarely on the Director himself. The Committee, however, do not wish to make any recommendations on this issue as the matter is already under investigation by the CBI. The Committee hope that the CBI would conclude investigation in the case with due expedition so as to bring to book all those guilty of collusion with private vested interests.
5	1.17	Commerce	Incidentally a matter that needs examination is whether it was prudent on the part of the Board of Directors of the State Trading Corporation to have given an unfettered discretion to the Director (Sugar Exports) to negotiate and conclude transactions presenting the Sugar Export Sales Committee with what amounted to a *fait accompli*.
6	1.18	Do.	This Report has been finalised by the Committee in line with their original recommendations without prejudice to such comments as may be deemed necessary by the Committee on Public Undertakings, who have since taken up for examination specifically the role of STC, a public enterprise, in the exports of sugar on Government account.

GMGIPMRND—LS II—3779 LS—16-3-79—1150.