27

STANDING COMMITTEE ON FOOD,CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION (2008-2009)

FOURTEENTH LOK SABHA

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTIRBUTION

(DEPARTMENT OF CONSUMER AFFAIRS)

PRICE RISE OF ESSENTIAL COMMODITIES- CAUSES AND EFFECTS WITH SPECIAL EMPHASIS ON IMPORT OF WHEAT AND ENFORCEMENT OF PREVENTION OF BLACK- MARKETING AND MAINTENANCE OF SUPPLY OF ESSENTIAL COMMODITIES ACT, 1980

TWENTY SEVENTH REPORT

LOK SBHA SECRETARIAT
NEW DLEHI
December, 2008/ Agrahayana, 1930 (Saka)

TWENTY SEVENTH REPORT

**STANDING COMMITTEE ON FOOD,
CONSUMER AFFAIRS AND
PUBLIC DISTRIBUTION
(2008-2009)**

(FOURTEENTH LOK SABHA)

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTIRBUTION

(DEPARTMENT OF CONSUMER AFFAIRS)

PRICE RISE OF ESSENTIAL COMMODITIES- CAUSES AND EFFECTS WITH SPECIAL EMPHASIS ON IMPORT OF WHEAT AND ENFORCEMENT OF PREVENTION OF BLACK- MARKETING AND MAINTENANCE OF SUPPLY OF ESSENTIAL COMMODITIES ACT, 1980

Presented to Lok Sabha on …….
Laid in Rajya Sabha on …………

**LOK SBHA SECRETARIAT
NEW DLEHI
December, 2008/ Agrahayana, 1930 (Saka)**

<u>**CONTENTS**</u>

COMPOSITION OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION (2008-2009).

Shri Devendra Prasad Yadav - Chairman

MEMBERS

Lok Sabha

2. Shri Govinda Aroon Ahuja
3. Shri Suresh Angadi
4. Shri Alakesh Das
5. Shri Atma Singh Gill
6. Shri G.V. Harsha Kumar
7. Shri Abdul Mannan Hossain
8. Shri Baliram Kashyap
9. Shri Avinash Rai Khanna
10. Shri Wangyuh W. Konyak
11. Shri Parsuram Majhi
12. Shri Sadashivrao Dadoba Mandlik
13. Shri Harikewal Prasad
14. Shri Munshi Ram
15. Shri Ghuran Ram
16. Shri Francisco Cosme Sardinha
17. Shri Daroga Prasad Saroj
18. Adv. (Smt.) P. Satheedevi
19. Shri Chandrabhan Singh #
20. Smt.Meena Singh *
21. Vacant

Rajya Sabha

22. Shri T.S Bajwa**
23. Smt. Mohsina Kidwai
24. Shri Mangala Kisan
25. Shri Shantaram Laxman Naik
26. Shri Kanjibhai Patel
27. Shri Rajniti Prasad
28. Shri Parshottam Khodabhai Rupala
29. Shri Ram Narayan Sahu
30. Shri Matilal Sarkar
31. Vacant

Secretariat

1.	Shri A.K. Singh	-	Joint Secretary
2.	Smt. Veena Sharma	-	Director
3.	Shri B.S. Dahiya	-	Deputy Secretary-I
4.	Shri Jagdish Prasad	-	Deputy Secretary-II

---

* Ceased to be a Member of the Committee consequent to her resignation from Lok Sabha w.e.f. 11.11.2008

** Ceased to be a Member of the Committee consequent to his retirement from Rajya Sabha w.e.f. 25.11.2008

\# Ceased to be a Member of the Committee consequent to his disqualification from Lok Sabha w.e.f. 5.12.2008 on Ground of Defection.

INTRODUCTION

I, the Chairman of the Standing Committee on Food, Consumer Affairs and Public Distribution (2008-09) having been authorized by the Committee to submit the Report on their behalf, present this Twenty-Seventh Report on the subject 'Price rise of Essential Commodities – causes and effects with special emphasis on Import of wheat and Enforcement of prevention of Black Marketing and Maintenance of supply of Essential Commodities Act, 1980' relating to the Ministry of Consume Affairs, Food and Public Distribution (Department of Consumer Affairs).

2. The subject was selected by the Committee for examination during 2007-08. The Committee took evidence of the representatives of the Department of Consumer Affairs at their sittings held on 12th September, 2008, 26th September, 2008, 6th October, 2008 and 26th November, 2008. The Committee also took evidence of the representatives of Department of Agriculture and Cooperation on 4th October, 2007, Department of Food and Public Distribution on 16th October, 2007, Department of Revenue and Department of Land Resources on 12th November, 2007, Department of Agriculture and Cooperation, Department of Land Reforms and Department of Commerce on 6th October, 2008, Ministry of Petroleum and Natural Gas on 6th November, 2008. Besides, the Committee also took evidence of the representatives of STC on 6th October, 2007, HPCL, BPCL and IOC on 6th November, 2008 and FMC on 26th November, 2008. The Committee also invited Memorandum and heard the expert views of Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry (CII). Institute for Social and Economic Change, M.S. Swaminathan Research Foundation, Institute of Economic Growth, Jawahar Lal Nehru University.

3. The Committee want to express their thanks to the officers of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Consumer Affairs and Department of Food and Public

Distribution), Ministry of Petroleum and Natural Gas, Ministry of Finance (Department of Revenue), Ministry of Agriculture (Department of Agriculture and Cooperation), Ministry of Rural Development (Department of Land Resources) and the Ministry of Commerce and Industry (Department of Commerce) for placing before them the detailed written notes on the subject and for furnishing the information to the Committee, desired in connection with the examination of the subject. The Committee also wish to express their thanks to the representatives of the State Trading Corporation (STC), Forward Markets Commission (FMC), FICCI, CII, M.S. Swaminathan Research Foundation, JNU, HPCL, BPCL and IOC for appearing and placing their considered views before the Committee and for furnishing their comments and suggestions on the subject. The Committee also place on record their appreciation for the work done by the earlier Committee (2007-08).

4. The Report was considered and adopted by the Committee at their sitting held on 22nd December, 2008.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been presented in thick type in the body of the Report.

NEW DELHI
22 December, 2008
1, Pausa, 1930(Saka)

DEVENDER PRASAD YADAV
Chairman
Standing Committee on Food,
Consumer Affairs and Public Distribution

CHAPTER I

INTRODUCTORY

One of the objectives of the Government of India is to ensure availability of essential commodities to the public at large at an affordable price and to enable the poor to have access to food. The Government has given the highest priority to check price rise in the country. The Department of Consumer Affairs under the Ministry of Consumer Affairs, Food and Public Distribution is entrusted inter alia with the task of monitoring of the prices and availability of essential commodities in the country. In order to control the production, supply and distribution of, and trade and commerce in certain commodities in the interest of the general public, the Essential Commodities Act, 1955 was enacted by the Department of Consumer Affairs. It provides for regulation of production and manufacture, control of prices, regulation of transport, distribution, disposal, use or consumption and even prohibition of sale of any essential commodity. The powers under the said Act have been exercised by various Central Government Ministries, apart from the Ministry of Consumer Affairs, Food and Public Distribution (Department of Consumer Affairs) as also by the State Governments to whom some of the powers have been formally delegated. In the exercise of these powers, various Ministries/Departments of Government of India as well as the State Governments have issued control orders from time to time regulating production, distribution, pricing and other trading aspects in respect of the commodities declared as essential. The enforcement/implementation of the provisions of the Essential Commodities Act, 1955 lies with the State Governments and UT Administrations. The State Governments and UT Administrations being the enforcement agencies under the Act, are regularly taking recourse to the Act for implementation of the provisions of the Act by taking action against the violators. The commodities declared as ‘essential’ under the Essential Commodities Act, 1955 are reviewed from time to time in the light of changes in the economic situation and particularly with regard to their production and supply in consultation with the concerned Ministries/Departments administering these commodities as well as State Governments/UT Administrations.

1.2 In the context of the liberalization of the economy and the changed situation, particularly with regard to the relatively more comfortable food situation, it was felt that restrictions such as licensing of the dealers, limits on stock and control on movement were no longer required and only hamper the growth of the agricultural sector and promotion of food processing industries. Facilitating free trade and movement of foodgrains would enable farmers to get best prices for their produce, achieve price stability and ensure availability of foodgrains in deficit areas. The need to relax various controls on agricultural products including control on inter-state movement of such products, was discussed in the Conference of Chief Ministers on WTO and Agriculture held on 21.05.2001 under the Chairmanship of the then Hon'ble Prime Minister wherein it was decided to form a Committee of Ministers incharge of five Central Ministries i.e. Agriculture, Commerce and Industry, Finance, Consumer Affairs, Food and Public Distribution, Rural Development as well Deputy Chairman of Planning Commission and Chief Ministers of eleven States i.e. Andhra Pradesh, Karnataka, Orissa, Assam, UP, Punjab, Madhya Pradesh, Haryana, West Bengal, Kerala and Maharashtra. Review of the list of essential commodities and control orders to ensure free movement of agriculture products was one of the terms of reference of the Committee. The said Committee in its first meeting held on 6th July, 2001 decided that restrictions on movement of all agricultural commodities should be removed and that the Essential Commodities Act, 1955 may continue as an umbrella legislation for the Centre and the State to use when needed but that a progressive dismantling of controls and restrictions was also required. There was consensus amongst the Chief Ministers cutting across the party lines for removing unnecessary and redundant restrictions, which distort and impede operation of market forces.

1.3 In view of the uniform decision taken by the aforesaid Standing Committee and with the approval of Cabinet accorded in its meeting held on 05.02.2002, licensing requirement, stock limits and movement restrictions etc. had been dispensed with in respect of the specified foodstuffs namely wheat, paddy/rice, coarsegrains, sugar, edible oilseeds, edible oils, pulses, gur, wheat products (namely maida, rava, suzi, atta, resultant atta and bran) and hydrogenated vegetable oil or vanaspati vide central orders dated 15.02.2002 and 16.06.2003. With the issue of these orders, any dealer may freely buy, stock, sell, transport, distribute, dispose, acquire, use or consume any quantity of these commodities.

1.4 On the basis of the recommendation of the Group of Central Ministers and State Chief Ministers, the Department of Consumer Affairs moved a proposal to amend the Essential Commodities Act, 1955 by deleting all the items listed in clause (a) of Section 2 of the Essential Commodities Act, 1955 and simultaneously to retain only those commodities recommended for continuance by the concerned Ministries namely (i) drugs; (ii) foodstuffs including edible oilseeds and oils; (iii) fertilizer, whether inorganic, organic or mixed, (iv) petroleum and petroleum products; (v) hank yarn made wholly from cotton; (vi) raw jute and jute textile; and (vii) seeds of food-crops and seeds of fruits and vegetables, seeds of cattle fodder, and jute seeds. These commodities have been considered essential in the interest of the farmers and the large section of the people below poverty line. It was also proposed to give powers to the Central Government to add, remove and modify any essential commodity in the public interest. However, addition/modification of any essential commodity will depend on whether there is a scarcity or non-availability of the commodity in a situation like war, natural calamities, disruption or threat of disruption of supply such essential commodities, which cannot be tackled through normal trade channels requiring Central Government's intervention under the said Act.

1.5 The Committee have examined the various issues related to prices of essential commodities. The detailed analysis alongwith the observations/recommendations of the Committee are given in the succeeding Chapters of the Report.

CHAPTER-II

PARAMETERS FOR INCLUSION/EXCLUSION OF ESSENTIAL COMMODITIES

The list of essential commodities which was 70 in 1990 was gradually reduced to 15 and now under the Essential Commodities (Amendment) Act 2006 only the following seven commodities have been retained as essential commodities:-

(i) drugs;
(ii) fertilizer, whether inorganic, organic or mixed;
(iii) foodstuffs including edible oilseeds and oils;
(iv) hank yarn made wholly from cotton;
(v) petroleum and petroleum products;
(vi) raw jute and jute textile;
(vii) seeds of food-crops and seeds of fruits and vegetables, seeds of cattle fodder, and jute seeds.

2.2 When asked about the basic parameters for inclusion/deletion of any commodity in the list of essential commodities, the Department stated that the following four criteria/aspects are adopted to declare the commodity as essential:-

(i) The demand and supply position of the commodity during the last 4-5 years and specific shortage, if any;

(ii) Whether any control/regulation has been resorted to during the last five years or so;

(iii) Supply trends so as to indicate if price variation was far above the normal rate of inflation; and

(iv) Import/export policy profile of the commodity.

2.3 The Committee also enquired as to whether there is any mechanism to periodically review the inclusion/deletion of essential commodities. In reply, the Ministry stated that the list of essential commodities has been reviewed from time to time, with reference to the production and supply of these commodities and the prevailing economic policies of the Government, in consultation with the concerned administrative Ministries/Departments for these commodities. The Ministry also informed that when the inclusion of an item was prima facie not justifiable with reference to its essentiality and the basic objectives of the Act, such an item should be covered under a separate legislation and not under the omnibus provisions of the Essential Commodities Act.

2.4 When enquired about the sort of extra monitoring powers the Government gets after declaring a commodity as essential commodity, the Department informed the Committee that if any new commodities other than those seven commodities listed in schedule to the Essential Commodities (Amendment) Act, 2006 are to be declared as 'essential' under the Essential Commodities Act, 1955 the validity of such commodities will remain essential for a period not exceeding six months provided Central Government may in public interest extend such period beyond the said six months. State Government/UTs have also been delegated powers of Essential Commodities Act, 1955 to monitor the implementation of Essential Commodities Act, 1955 and submit monthly reports to the Government. The need to continue new commodities declared essential is monitored on a monthly basis with reference to their price trends and availability in the domestic markets. This Department has an Economic Division to monitor these aspects and these are submitted on a regular basis to the Committee of Secretaries and Cabinet Committee on Prices, for its directions, if any.

2.5 Once a commodity is declared essential, under the provisions of Section 3 of the Essential Commodities Act, 1955, the Central Government may for the purpose of maintaining or increasing supplies of any essential commodity or for securing their equitable distribution and availability at fair prices, issue orders inter-alia to;

a. regulate by licenses, permits or otherwise the production or manufacture of that commodity;
b. control the price at which it may be bought or sold;
c. regulate by licenses, permits or otherwise its storage, transport, distribution, disposal, acquisition use or consumption;
d. prohibit its withholding from sale.

2.6 Asked whether the Government contemplates to declare all pulses and onion as essential commodities in view of scarcity and less production, the Committee was informed that pulses of all kinds whether whole or split are already included as essential commodities under the nomenclature “Foodstuffs”. Therefore, there is no need to declare pluses as essential commodities separately. “Onion” was declared as essential commodity vide Central Notification dated 29.06.1999 and subsequently removed from the list of essential commodities vide Central Notification dated 25.11.2004. The decision to remove “Onion” from the list of essential commodities was taken as part of the policy evolved by the Committee comprising of some Union Ministers and Chief Ministers constituted during the Conference of Chief Ministers on “WTO and Agriculture” held on 21st May, 2001. The said Committee had decided to dismantle all unnecessary and redundant controls on movement and distribution, particularly of agricultural commodities, under the Essential Commodities Act, 1955.

2.7 During evidence the Committee enquired about the reasons for steep hike in the prices of onion. The Secretary responded that it was due to less production of onion as well as tendency of hoarding in the traders. On this the Committee suggested that the onion should be declared as essential commodity for a particular period to check the hoarding, the Secretary stated that onion comes under the category of vegetable.

2.8 The Committee note that under the Essential Commodities (Amendment) Act, 2006, only seven commodities have been retained as essential commodities. The Government considers four aspects to declare the commodity as essential *viz.* (i) the demand and supply position of the commodity during the last 4-5 years and specific shortage, if any; (ii) whether any control/regulation has been resorted to during the last five years or so; (iii) supply trends so as to indicate if private variation was far above the normal rate of inflation; and (iv) import/export policy profile of the commodity. Once the commodity is declared as essential, under the provision of section 3 of the Essential Commodities Act, the Government may issue orders inter-alia to (a) regulate by licenses, permits or otherwise the production or manufacture of that commodity; (b) control the price at which it may be bought or sold; (c) regulate by licenses, permits or otherwise its storage, transport, distribution, disposal, acquisition use or consumption; (d) prohibit its withholding from sale. The Committee also note that pulses have already been included as essential commodities under the nomenclature 'Foodstuffs" and, therefore, the Department of Consumer Affairs does not feel the need to declare it as essential commodity separately. The Committee feel that the due to less production of pulses, the country has to import pulses in a large quantity every year to meet the consumer demand. In the opinion of the Committee the word "pulses" should be clearly mentioned in the seven

commodities which have been declared as essential. The Committee, therefore, recommend that Section 3 (iii) of the Essential Commodities Act, 2006, should be read as "foodstuffs including pulses, edible oilseeds and oils".

2.9 The Committee further note that "Onion" was declared as essential Commodity <u>vide</u> Central Notification dated 29.6.1999 which was subsequently removed from the list of essential commodities vide Central notification dated 25.11.2004. The Committee are concerned to note that onion is the commodity which is used in every household whether rich or poor throughout the year. There are instances in the past when due to short supply of onion in the market, the Government had decided to distribute the onion through Super Bazar and Kendriya Bhandar on control rate. The Committee are not convinced with the arguments put forth by the Secretary, Department of Consumer Affairs that Onion cannot be declared as essential commodity as it comes under the category of vegetable. The Committee have observed that at times the prices of onion are much high as compared to other vegetables in the market. The Committee, therefore, desire that in view of the gap in the production and demand and supply of onion, the Government should review its decision taken on 25.11.2004 and include the onion in the list of essential commodities to check hoarding and black-marketing and also to make available the onion to consumer at a reasonable prices.

CHAPTER - III

MECHANISM TO MONITOR THE PRICES OF ESSENTIAL COMMODITIES

The Committee has been informed that the Price Monitoring Cell (PMC) in the Department of Consumer Affairs monitors the prices of essential commodities regularly. Prices of some other essential commodities, their availability and related development on National and International level are also analyzed by the PMC and highlighted in the weekly notes and agenda notes prepared for the meeting of Cabinet Committee on Prices (CCP), Committee of Secretaries and High Power Prices Monitoring Board (HPPMB).

3.2 The Price Monitoring Cell (PMC) in the Department of Consumer Affairs is entrusted, *inter-alia,* with the task of monitoring of the prices of 14 commodities in the country viz., rice, wheat, atta, gram, tur/arhar, tea, milk, sugar, vanaspati, mustard oil, groundnut oil, potato, onion and salt, and other matters concerning price scenario based on the information received from other Ministries of the Central Government as well as Food and Civil Supplies Departments of the State Governments. Daily retail prices and weekly wholesale prices are collected from 18 and 37 centres respectively. With effect from 12.7.2006, nine additional centres have been included in the Daily Price Report.

3.3 The Price Monitoring Cell provides secretarial support to the High Powered Price Monitoring Board, which reviews the prices and availability of essential commodities and recommends appropriate necessary action to check the rise in prices. It also formulates proposals relating to export and import of essential commodities, market interventions etc. for COS/CCP.

3.4 The Department of Consumer Affairs have informed the Committee that since July, 2006, price situation is reviewed at higher level in meetings such as Committee of Secretaries and the Cabinet Committee on Prices on a regular basis in view of the importance the

Government attaches to controlling price-rise in 14 specified commodities, covering major food-grains, pulses, edible oils and vegetables and ensuring adequate availability of these commodities. Price Monitoring Cell provides secretarial support to these Committees and monitors implementation of decisions taken by these Committees.

3.5 The Committee enquired about the mechanism through which the Ministry of Consumer Affair and Ministry of Agriculture co-ordinates among themselves and control the disparity between demand and supply. The Ministry stated in reply that the Price Monitoring Cell of the Department of Consumer Affairs regularly collects, compiles and reviews the wholesale and retail prices at different centres. The reports prepared on the basis of such price-review, including the recommendations for containing prices constitute the basic note for the Committee of Secretaries (CoS) and Cabinet Committee on Prices (CCP). Ministry of Agriculture is represented on these Committees and the notes prepared in Department of Consumer Affairs are shared with Ministry of Agriculture. Department of Consumer Affairs also heavily depends upon Ministry of Agriculture for the various data generated or compiled by it, like, Data on Acreage, Production, Yield, Crop prospects, imports of food-grains, etc. Notes involving policy decision and requiring inter-ministerial consultations are shared with each other by both the Ministries and representatives of the other ministry invited for participating in the meetings taken in each Ministry, prior to the meetings of the Committee of Secretaries.

3.6 When asked whether Government proposes to review the working of PMC/HPPMB as the prices of Essential Commodities have risen unabated, the Department of Consumer Affairs replied that there have been no HPPMB meetings for the last two years. The high level meetings of the Cabinet Committee on Prices and Committee of Secretaries regularly monitor the price situation.

3.7 Asked to explain the reasons as to why despite the number of steps being taken to stabilize the price of Essential Commodities, there is steep rise in the prices during the last six months, the Department of

Consumer Affairs stated that the Price Monitoring Cell (PMC) in the Department of Consumer Affairs is not mandated to control the prices. It is entrusted, *inter-alia,* with the task of monitoring of the prices and availability position of essential commodities in the country.

3.8 The Committee enquired from the Department of Food and Public Distribution as to whether any thinking has been given to establish some specialized agency to study the market condition so that the market intervention strategies are adopted at the right time. The Department of Food & Public Distribution stated that to keep track of the market situation on a daily basis, it monitors domestic prices based on the Reports received from the Price Monitoring Cell of the Department of Consumer Affairs as well as NCDEX spot prices on the Internet. The international prices are also monitored based on information available in the Web-sites of the International Grains Council (IGC), United States Department of Agriculture (USDA) etc. Regular feedback is obtained from the Department of Agriculture & Cooperation regarding production prospects and feedback on market conditions is also taken from various stakeholders from time to time.

3.9 The Committee have been informed that the Price Monitoring Cell (PMC) in the Department of Consumer Affairs monitors the prices of 14 commodities namely rice, wheat, atta, gram, tur/arhar, tea, milk, sugar, vanaspati, mustard oil, groundnut oil, potato, onion and salt, their availability and related development on national and international level and prepare a weekly note for being placed before the Cabinet Committee on Prices. This Cell recommends appropriate necessary action to check the rise in prices. The Committee find that the Government has not been able to check the rise in prices of essential Commodities specially wheat, pulses and edible oil which have risen manifold in the past few years which in the opinion of the Committee is lack of foresightedness on the part of Price Monitoring Cell. The Committee, therefore, recommend that the Department of Consumer Affairs should review the working of Price Monitoring Cell and adopt a strategy to watch the market trend of prices which are likely to rise in future, so that there is no shortage of Essential Commodities in the market.

3.10 The Committee note that High Powered Price Monitoring Board (HPPMB) set up by the Department of Consumer Affairs regularly monitors the price situation in the market. The Committee, however, are dismayed to note that no meeting of HPPMB was held during the last two years which clearly indicates that the Government is not at all serious towards the interests of consumer welfare. The Committee feel that when common man is hit badly in the situation of uncontrolled price rise, it is the responsibility of the Government to set up a mechanism to regularly monitor the price situation and take remedial steps. The Committee fails to understand as to what purpose will be served by merely setting up of HPPMB if it does not hold meetings for such a long period. The Committee, therefore recommend that the Department should give directions to HPPMB to hold sittings at a fixed interval so that the Government may take timely action to check the price rise of Essential Commodities.

CHAPTER IV

CAUSES OF PRICE RISE OF ESSENTIAL COMMODITIES

The Committee enquired about the specific causes of price rise of essential commodities particularly since the last three years. In reply, the Department of Consumer Affairs stated that the basic reason for rise in prices of food articles is demand and supply mismatch. Demand for these commodities is growing on account of increase in population and income. This has coincided with hardening of international prices. On the supply side, the availability of land cannot increase in line with the increase in demand. In addition, there is increase in the cost of inputs. Moreover, the yield of many crops continues to be very low in India. Seasonal factors also contribute to price rise. Details for increase in prices as furnished by the Department of Consumer Affairs is as under:

Wheat: The domestic production of wheat during 2005-06 and 2006-07 was estimated to be 69.35 million tonnes and 74.89 million tonnes respectively. However the stocks of wheat had reached very low level because of the stagnant production of wheat around 69 million tonnes since last 2 years, which combined with the global shortfall in production led to rise in wheat prices.

Pulses: There has been perennial demand-supply mismatch in case of pulses. The domestic production of pulses after reaching 14.9 million tonnes during 2003-04 declined to 13.4 million tonnes in 2005-06. As per the Fourth Advance Estimate released by Department of Agriculture & Cooperation, production of pulses was 14.23 million tonnes during 2006-07.

Edible Oils: In the case of edible oils also there has been perennial demand-supply mismatch. On top of it, domestic production is estimated to have declined from 27.98 million tonnes (2005-06) to 23.88 million tonnes during 2006-07 as against the demand of oilseeds estimated to be 44.34 million tonnes for the year 2006-07 by the Working Group of the

Planning Commission. Hardening of international prices of edible oils and diversion of edible oils for making bio-fuel have also contributed to increase in domestic prices of edible oil.

Milk: Prices of milk have shown an increase largely due to higher exports of Skimmed Milk Powder during the years 2005-06 and 2006-07. Subsequently, on 9.2.2007, a ban was imposed on the export of Skimmed Milk Powder which would remain valid up to 30.9.07. Increase in the production cost of milk as a result of costly feed/fodder, has also impacted on the prices of milk.

Onion: Prices of onion have registered an increase owing to higher exports during the year 2006-07 recorded at 11.61 lakh MT as compared to 8 lakh tonnes during 2005-06. The overall onion production during the year 2006-07 was estimated to be around 66.08 lakh MTs which is higher compared to last year production of 62.23 lakh MTs. Farmers / traders have stored good quality onions from Rabi produce for further marketing.

Potato: Potato production during the year 2006-07 is estimated to be around 270.20 lakh tonnes as against production of 264.80 lakh tonnes during 2005-06. At present, supply of potatoes is being made mainly from cold stores since bulk of the potato is produced only in Rabi season. The present potato prices are a little higher as compared to last year, because of the slow release of the cold stores stock by traders / farmers.

4.2 The Department of Consumer Affairs have further informed that the rise in domestic prices is owing to the combined effect of the factors such as, growing demand on account of increase in population and income, hardening of international prices, changes in consumption pattern, diversion of food grains for fuel, adverse weather and climate change, increase in crude oil prices, improvement in income and living standards and increase in freight rate.

4.3 The Additional Secretary, Department of Agriculture has explained the reasons for hike in prices during evidence as under:-

> “Prices are the outcome of increase in population and income levels, etc. Broadly, as you know well, price really is the outcome of interplay between demand and supply. If there are supply side shortages, price will go up; and if there is high demand, the price will correspondingly go up. Now, higher income means better purchasing power on the part of the people. Then, it also means that people who are not consuming certain things are now consuming those items. Also, we have mentioned about the international prices would also impact on domestic prices. Plus, diversion to other usages. Let me give an example. Brazil today produces a lot of sugar; the large scale sugarcane producers in the world. About 6 MT like that but 60 per cent of that now using for out and out for sugar production. That means, if it is diverted to something else, naturally the price of sugar would go up.
>
> Similarly, a lot of soya oil is being used for bio-fuel. That means, the availability of soya oil for edible purposes would go down and correspondingly the prices would go up. That is why, the Department is trying to say that prices would be determined by a number of factors.”

4.4 The Government has taken the following fiscal, administrative and monetary measures to bridge the gap between demand and supply of essential commodities and to moderate their prices:-

(i) To augment availability of wheat, Public Sector Agencies STC, MMTC, PEC have imported about 18.0 lakh tonnes of wheat during 2007-08. Period of validity of import of wheat at zero duty was extended from 31.12.206 to 28.02.2007 and further to 31.12.07. It is now extended until further orders.

(ii) Export of wheat was banned w.e.f. 09.02.2007 up to 31.12.2007. The ban is now extended until further orders.

(iii) In order to maximize procurement of wheat and paddy, the Government has been increasing MSPs and announcing bonus in the last 5 years. The Government has fixed the MSP of wheat for Crop Year 2007-08 (to be marketed in RMS 2008-09) at Rs. 1000 per quintal. It also approved an incentive bonus of Rs. 100 per quintal during the Kharif Marketing Season 2007-2008 for Paddy.

(iv) DGFT vide its notification dated 01.04.2008 banned export of non-basmati rice. Department of Revenue vide its Notification No. 37/2008-Customs dt. 20.03.2008 has issued orders for reducing import duty on rice to zero up to 31.03.2009. Government of India has imposed export duty of Rs. 8,000/- per tonne on basmati rice w.e.f. 10.05.2008. Government also directed that the order regarding removal of restrictions on licensing, stock limits and movement of rice be kept in abeyance for a period of one year. DGFT vide its notification dated 01.04.2008 raised MEP on basmati rice to $1200 per tonne.

(v) Government has protected vulnerable sections of society through Targeted Public Distribution System (TPDS) and Antodaya Anna Yojna (AAY). Under the TPDS, wheat, rice, sugar and kerosene oils area allocated to State Governments for distribution through the Fair Price Shops.

(vi) The Central Issue Price for rice and wheat has not been revised since 01.07.2002. For wheat it remains at Rs. 4.15 per kg for BPL and Rs. 2 per kg for AAY. For rice, it is Rs. 5.65 per kg for BPL and Rs. 3 per kg for AAY.

(vii) Customs duty on import of pulses was reduced to zero on June 8, 2006 and the period of validity of import of pulses at zero duty was extended from 31.03.07 to 01.08.2007 and further to 31.03.09.

(viii) A ban was imposed on export of pulses with effect from June 22, 2006 (except export of Kabuli chana w.e.f 7.3.07). The period of validity of prohibition on export of pulses, which was initially upto 31.02.07 was extended upto 31.03.2008. DGFT vide its notification dated 01.04.2008 extended the prohibition on export of pulses (except Kabuli chana) by another year up to 31.3.2009.

(ix) As per initiative of Government, the State agencies (NAFED, PEC Ltd., MMTC and STC) have imported about 1.4 Million Metric Tonnes (MMT) of pulses during 2007-08, out of which 12.13 lakh tonnes have arrived and 10.55 lakh tonnes has been disposed of up to 29.5.2008.

(x) During 2008-09, Government has further allowed the import of 1.5 million tonnes of pulses by Public Sector Undertaking and NAFED for a period of one year. Out of the total contracts of 90,000 metric tonnes made by these agencies, 6616 metric tonnes have arrived up to 29.5.2008.

(xi) Public Sector Undertakings (PSUs) have imported 46,500 tonnes of palm oils during 2007-08.

(xii) Department of Revenue vide its notification dated 01.04.2008 made the following changes in the import duty of edible oils:-

a. Import duty on crude edible oils cut to zero;
b. Import duty on refined and hydrogenated oils reduced to 7.5%;
c. Import duty on hydrogenated vegetable oils also reduced to 7.5%;
d. Customs duty on butter and ghee was reduced to 30%. Butter oil was also included vide notification dated 29.04.2008.

(xiii) The Government has also withdrawn the 4% additional countervailing duty on all edible oils.

(xiv) DGFT vide its notification dated 01.04.2008 prohibited the export of edible oils for a year up to 31.3.2009.

(xv) Government directed that the order regarding removal of restrictions on licensing, stock limits and movement of edible oils and oilseeds be kept in abeyance for a period of one year.

(xvi) Government also directed that

(i) the Tariff Rate Quota be removed on safflower oil

(ii) the ban on export of castor oil, coconut oil and oils produced from minor forest produce, except sesame oil, be lifted, and that such exports be closely monitored, and that the export of coconut oil be allowed only from Kochi port.

(iii) the 'deemed export' of edible oils to 100% export oriented units be allowed with the condition that the final product be non-edible.

(xvii) When the onion prices stared flaring up, NAFED increased the MEP from USD 250 PMT in March/April 2007 to US$ 495 PMT in October 2007 to increase the domestic availability of onion. The export of onion was also put under license through designated canalizing agencies vide Notification No. 22 (RE-2007)/2004-2009 dated 4th October, 2007. Furthermore, Government also organized sale of onion through mobile centers operated by Delhi Government, NAFED, Kendriya Bhandar as well as Mother Dairy. These outlets numbering around 375, sold onion at Rs 17-18 per kg when the outside price was Rs. 22-24 per kg. Subsequently, with the domestic prices of onion showing a declining trend, MEP was successively reduced. Currently, MEP of onion is US$ 180 PMT. The export restriction was also lifted w.e.f 16.11.07 having regard to the increased availability of kharif onion.

(xviii) Custom duty for maize reduced to zero under a tariff Rate Quota of 5 lakh per annum vide DGFT notification dated 01.04.2008. Export of maize has also been banned.

(xix) The Department of Revenue in its notification dated 29 April, 2008, reduced the import duty on Skimmed Milk Powder (SMP) from 15% to 5%.

(xx) Steps were taken by Reserve Bank of India to reduced liquidity in the system by increasing the cash reserve ratio, first to 7% w.e.f 6th August, 2007 and then to 7.5% on 30 October, 2007. These steps have mopped up liquidity in the market of more than Rs. 30,000 crores. CRR was hiked by 50 basis points to 8% in 2 stages (from April 26th and May 10th 2008) of 25 basis points each. This is expected to mop up Rs. 18,500 crores from system. It was further hiked to 8.25% w.e.f the fortnight beginning May 24, 2008.

(xxi) As a measure of abundant precaution, Forward Markets Commission (FMC) has on23.01.07, directed the three National Exchanges, namely (a) Multi Commodity Exchange of India Ltd., (b) National Commodity & Derivatives Exchange Ltd., (c) National Multi Commodity Exchange of India Ltd., to delist all contracts of tur and urad and to close out all outstanding positions in all Tur and Urad contracts at the closing price on 23.01.07. FMC has also stated that no further contract shall be launched without its prior approval and permission already granted to launch contracts in Urad and Tur stands withdrawn.

(xxii) Similarly, FMC has on, 27.2.2007, directed all the three National Exchanges that no new futures contracts in wheat and rice shall be launched.

(xxiii) To contain volatility in the futures prices of wheat, pulses etc. Forward Markets Commission (FMC) has taken required regulatory measures such as imposition of limits on open position, reduction in limits on daily price fluctuations and imposition of additional/special margins.

(xxiv) Forward Market Commission, as on 7.5.2008 suspended futures trading in Gram, Potato, Soya oil and Rubber for a period of 4 months (up to September 6, 2008)

(xxv) Keeping in view the prevailing price situation, the Central Government had issued a Central Order dated 29.08.2006 under the Essential Commodities Act, 1955 to enable the State Governments to invoke Stock Limits in respect of wheat and pulses for a period of 6 months. By virtue of this Order, the State Governments/UT Administrations have been empowered to take effective action to bring out the hoarded stock of these items to ensure their availability to the common people at reasonable prices. Government has, on 01.09.2007, extended the validity of the Central Order by another six months. It has not been extended further by six months from 1.3.2008 till 31.08.2008. Edible oils, oilseeds, rice and paddy have now also been included within the ambit of the above Central Order.

(xxvi) Government has taken initiatives such as the National Food Security Mission (NFSM), Rashtriya Krishi Vikas Yojna (RKVY) to improve the production and productivity in agriculture.

4.5 The Committee sought suggestions/views of various experts/organizations viz (i) Confederation of Indian Industry (CII); (ii) The Central Organization for Oil Industry and Trade; (iii) Institute for Social and Economic Change; (iv) M.S.Swaminathan Research Foundation; (v) Institute of Economic Growth; (vi) Jawahar Lal University; and (vii) Federation of Indian Chamber of Commerce and Industry (FICCI). In his memorandum, Shri M.S.Swaminathan, Chairman, M.S.Swaminathan Research Foundation suggested the following steps for reining the prices of various commodities in the country:-

(i) Ban on futures trading in all essential commodities;

(ii) Setting and enforcing strict central stock limits for wheat and severe action against hoarders;

(iii) Move immediately towards a universal PDS so as to stabilize foodgrain prices and provide relief to a large section of so-called APL households who are often almost as poor as those classified as BPL;

(iv) Enhance domestic procurement efforts and reduce dependence on imports;

(v) Expand NREGS and implement it honestly and efficiently;

(vi) Implement the recommendations of the National Commission on Farmers in improving the productivity and profitability of pulses and oilseeds;

(vii) Introduce the rural godown and warehousing scheme to prevent distress sales of farm commodities.

4.6 The Federation of Indian Chambers of Commerce and Industry (FICCI) in Memorandum furnished to the Committee have suggested the following steps to check the price rise in primary articles:-

(i) Improve farm productivity;

(ii) Strengthen agricultural extension system;

(iii) Make India 'One Common Market'

(iv) Increase awareness amongst farmers about futures trading as an effective price discovery mechanism; and

(v) Encourage private sector participation in developing agri-marketing infrastructure and in technology development and transfer.

4.7 When asked about the steps being taken to bring an improvement in marketing to reduce the excessive share going to the middle man and to ensure better realization for the farmers and in turn to reduce price rise, the Department of Agriculture and Cooperation stated that they are implementing Price Support Scheme (PSS) for procurement of oilseeds and pulses through NAFED which is the Central nodal agency for procurement of notified oilseeds and pulses at the Minimum Support Price (MSP) declared by the Government. NAFED undertakes procurement of oilseeds and pulses under PSS as and when prices fall below the MSP. Procurement under PSS is continued till prices stabilize at or above the MSP. Losses, if any, incurred by NAFED in undertaking MSP operations are fully reimbursed by the Central Government. Profit, if any, earned in undertaking MSP operations is credited to the Central Government.

4.8 The Cooperation Division is also implementing Market Interventions Scheme (MIS) on the request of a State/UT Government for procurement of agricultural and horticultural commodities generally perishable in nature and not covered under Price Support Scheme. The MIS is implemented in order to protect the growers of these commodities from making distress sale in the event of bumper crop when there is glut in the market and the prices tend to fall below economic levels/cost of production. Procurement under MIS is made by NAFED as Central agency and by the State designated agencies. Losses, if any, incurred by the procuring agencies are shared between Central Government and the concerned State Government on 50:50 basis (75:25 in case of North-Eastern States). However, the amount of loss to be shared between Central Government and the concerned State Government is restricted to 25% of the procurement cost. Profit, if any, earned by the procuring agencies is retained by them.

4.9 Further, purchases under PSS and MIS are undertaken directly from the farmers without involving the middleman. The objective of both the schemes is to help the farmers in getting remunerative prices for their produce.

4.10 Besides, the following schemes/interventions are also operational to control the prices of certain agricultural inputs:-

(i) From Kharif 2006-07, farmers are .being provided crop loan upto Rs. 3.00 lakh at 7 per cent rate of interest.

(ii) A Special Rehabilitation Package has been launched in September, 2006 in31 specially distressed districts in four States viz. Andhra Pradesh, Maharashtra, Karnataka and Kerala.

(iii) A National Rainfed Area Development Authority has been set up to expand area under irrigation, improved water management with watershed development and rain harvesting in the rainfed areas.

(iv) Development/Strengthening of Agricultural Marketing Infrastructure, Grading & Standardization.

4.11 When enquired about the mechanism through which the, Department of Consumer Affairs, Department of Food and Ministry of Agriculture co-ordinate among themselves and control the disparity between demand and supply of various foodgrains, the Committee was informed that the Department of Food & Public Distribution is mainly concerned with demand and supply of foodgrains for the TPDS and Welfare Schemes while the Department of Agriculture and Cooperation are concerned with the overall domestic demand and supply of foodgrains. There are frequent meetings of the two departments to discuss the matter of demand and supply of foodgrains.

4.12 On being asked as to the long-term and short term strategies adopted to address the issue of mismatch between demand and supply of these items so as to arrest the trend of hike in prices, the Ministry informed that the short-term strategy to contain rise in prices on account of mismatch between demand and supply includes:

(a) imports and release or distribution of imported goods through various PSUs;

(b) reduction in import duty;

(c) subsidy to the PSUs to compensate for the loss incurred on imports and distribution of goods in domestic market suspension of exports;

(d) release of stock from the buffer stocks available with FCI through Targeted Public Distribution System and under Antyodaya Anna Programme;

(e) Keeping the issue prices for supply through PDS and for Antyodaya Anna Progamme lower than market prices;

(f) Subsidising inputs, like, fertilizers, water and electricity.

4.13 The Committee express their concern over the rising trend in the prices of most of the essential commodities during the last two years. Prices of commodities in the physical market are governed by demand and supply sectors prevailing in the market. The Committee have noted that mismatch between demand and supply is the main contributor to the hike in prices of essential commodities specifically the foodgrains. The Committee have been given to understand that the rise in domestic prices is owing to the combined effect of the factors such as growing demand on account of increase in population and income, hardening of international prices, changes in consumption, diversion of foodgrains for fuel, adverse weather and climate change, increase in crude oil prices, improvement in income and living standards and increase in freight rate.

The Committee note that various steps have been taken by the Government to contain the price rise which include measures like augmenting domestic supplies of wheat and pulses through imports at reduced rates of duty and ban on imports; and reduction in import duty on edible oils etc. The Government has also imposed stock limits for wheat, pulses, edible oil, oilseeds and rice. On the monetary side, RBI has increased CRR by .25 points on two occasions to reduce money supply in the market to reduce inflationary pressures on prices. For improving productivity and production in the medium-term in the

agricultural sector, the Government have taken initiatives such as National Food Security Mission and Rashtriya Krishi Vikas Yojana. The Committee note that 40 per cent of the edible oil requirement of the country is met by the imports which is susceptible to international pressures on price front. Therefore, its impact is felt on the price rise of the edible oils in domestic sector also. The Committee feel that although the Government is vigilant about the adverse impact of price rise on the economy of the country culminating into inflationary trends yet the measures taken by the Government are not proving to be effective in bringing down the prices of the essential commodities. The Committee desire that the Department in consultation with other concerned Departments should chalk out a long-term strategy to meet such a situation so that it does not assume gigantic proportions, affecting the development and growth of the country. They should also take such steps that would insulate the prices in the country from international price fluctuations.

4.14 The Committee further note that less production of agricultural produce whether it is oil, pulses or wheat also contributes to the rise in prices of these commodities. The Committee note that the Planning Commission has constituted a Working Group on crop husbandary, agricultural inputs, demand and supply projections and agricultural statistics for the Eleventh Five Year Plan. The Working Group has given the demand and supply projections for each year of the plan for foodgrains, oilseeds, sugarcane, cotton, jute and mesta. From the statement of gap between demand and production of different kinds of foodgrains, it has been observed that there will be gap between the production and demand of the agricultural produce in the Eleventh Five Year Plan. The Committee feel that to increase agricultural production, there is need to improve the condition of soil, its nutrient content, water management and to grow alternative crops. In the opinion of the Committee, the Agricultural Ministry should organize latest researches, adopt new technologies and measures to raise agricultural production i.e. wheat, rice, oilseeds and pulses. The Government should make arrangements for telecasting the new technology for production of foodgrains on electronic media on the pattern of 'Krishi Darshan'. As suggested by Central Organization for Oil, Industry and Trade (COOIT), use of vegetable oil for bio-fuel should not be permitted as long as local production of these oils is short to meet the country's demand for food. The Committee, at

the same time, also desire that conversion of vegetable oil, soya oil to bio fuel should be restricted; instead bio diesel plant should utilize only oil from non-edible oilseeds from plants grown on wasteland. The Committee, therefore, recommend that to increase supply, agriculture should be made a profitable avocation and the Government should give highest priority to provide the small and marginal farmers, opportunity for assured and remunerative marketing of their produce at the time of harvesting. The nodal ministry should also direct Agriculture Ministry and Agriculture Research Institutes and Universities to take up the responsibility for providing necessary inputs, particularly seeds of appropriate varieties and the nutrients needed for a good and healthy crop.

CHAPTER V

DEMAND AND PRODUCTION OF AGRICULTURAL PRODUCE

The Department of Agriculture and Cooperation furnished the following data showing the demand and estimated production of wheat, rice, pulses and edible oil seeds for the last 5 years:-

(a) Rice **(Million Tonnes)**

Year	Demand	Estimated Production
2002-03	86.59	71.82
2003-04	87.92	88.53
2004-05	89.24	83.13
2005-06	90.54	91.79
2006-07*	91.84	92.76

(b) Wheat **(Million Tonnes)**

Year	Demand	Estimated Production
2002-03	66.10	65.76
2003-04	67.16	72.15
2004-05	68.12	68.64
2005-06	69.25	69.35
2006-07*	70.29	74.89

(c) Pulses **(Million Tonnes)**

Year	Demand	Estimated Production
2002-03	12.81	11.13
2003-04	13.02	14.91
2004-05	13.23	13.13
2005-06	13.43	13.39
2006-07*	13.64	14.23

(d) Oilseeds **(Million Tonnes)**

Year	Demand	Estimated Production
2002-03	25.26	14.84
2003-04	25.69	25.19
2004-05	26.12	24.35
2005-06	26.54	27.98
2006-07*	26.97	23.88

5.2 As regards the efforts made by the Government to increase the production of foodgrains, the Ministry of Agriculture informed the Committee that to increases production of cereals, wheat and rice, a centrally sponsored Integrated Cereals Development Programme (ICDP) has been in operation from October, 2000. Under the programme, assistance is provided to 90:10 basis between the Government of India and the States for prorogation of improved/hybrids technology, varietal replacement and production of certified seeds, pest management, etc. To increase the production of edible oil and Pulses etc., a centrally sponsored scheme called 'Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize (ISOPOM)' is under operation since April, 2004. Under this scheme, assistance is provided on 75:25 basis by the Government of India and the State Governments.

5.3 Asked whether the Government has any mechanism to have periodic demand/ supply projections of different essential commodities so as to take timely action in this regard, the Department of Consumer Affairs informed the Committee that the Planning Commission constituted a Working Group on "Crop Husbandry, Agricultural Inputs, Demand and Supply Projections and Agricultural Statistics for the 11th Five Year Plan (2007-2012)". This Working Group has given the demand supply projection for each year of the plan for foodgrains, oilseeds, sugarcane, cotton and jute & mesta. A similar Working Group was constituted by the Planning Commission for the 10th Five Year Plan. A statement on the projections for 11th Plan is given in table below:-

Production

Year	Projected Production (Million Tonnes)							
	Rice	Wheat	Coarse Cereals	Cereals	Pulses	Foodgrains	Oilseeds	Sugarcane
1	2	3	4	5(=2+3+4)	6	7 (=5+6)	8	9
2007-08	93.59	69.40	36.22	199.20	14.03	213.23	32.64	312.37
2008-09	94.56	70.11	36.59	201.26	14.51	215.77	35.42	317.66
2009-10	95.54	70.84	36.97	203.36	15.01	218.37	38.43	322.95
2010-11	96.54	71.59	37.36	205.49	15.53	221.02	41.70	328.24

2011-12	97.56	72.34	37.76	207.66	16.06	223.72	45.24	333.54

Demand

Year	Demand (Million Tonnes)							
	Rice	Wheat	Coarse Cereals	Cereals	Pulses	Foodgrains	Oilseeds	Sugarcane
1	2	3	4	5(=2+3+4)	6	7 (=5+6)	8	9
2007-08	90.91	71.19	35.14	197.25	16.77	214.02	45.56	261.75
2008-09	92.87	72.72	35.89	201.49	17.51	219.01	47.43	275.91
2009-10	94.83	74.26	36.65	205.75	18.29	224.04	49.35	290.74
2010-11	96.81	75.80	37.42	210.04	19.08	229.12	51.34	306.28
2011-12	98.79	77.36	38.19	214.35	19.91	234.26	53.39	322.54

Gap between Production and Demand

Year	Gap (Million Tonnes)							
	Rice	Wheat	Coarse Cereals	Cereals	Pulses	Foodgrains	Oilseeds	Sugarcane
1	2	3	4	5(=2+3+4)	6	7 (=5+6)	8	9
2007-08	2.67	-1.79	1.08	1.95	-2.74	-0.79	-12.92	50.62
2008-09	1.69	-2.61	0.70	-0.23	-3.00	-3.23	-12.01	41.75
2009-10	0.71	-3.41	0.32	-2.39	-3.28	-5.67	-10.92	32.21
2010-11	-0.27	-4.22	-0.06	-4.55	-3.56	-8.11	9.65	21.97
2011-12	-1.23	-5.02	-0.43	-6.69	-3.85	-10.54	-8.15	11.00

Source: Working Group Report for the 11th plan

5.4 When asked about the measures taken to increase the production of foodgrains, the Secretary, Department of Consumer Affairs stated during evidence:-

> "If the land under cultivation has to be increased, either the prices to the cultivator should be remunerative or productivity of land should be higher. Our productivity of any agricultural produce, whether it is oil, pulses or wheat, should improve. Now, that is within the Agriculture Department. That is where, as my colleague mentioned, they have their schemes and have submitted them to the Planning Commission also in the Eleventh Plan document that they would have certain schemes to improve the productivity as well as the remunerative prices to the farmers".

5.5 When asked Whether the Department has maintained any data with regard to land under cultivation of specific foodgrains items, which have been declared as essential commodities, the Department of

Consumer Affairs informed that they rely on the various estimates prepared in the Ministry of Agriculture in respect of land under cultivation of specific food-grains items, including, wheat, rice, pulses and edible oils. The data/estimates on the acreage of major crops, as on 27.7.2007, as reported in “All India Crop situation of kharif (2007-08)” prepared by the Department of Agriculture and Cooperation are given in a table below:

(Area in Million Hectares)

Commodities	2003-04	2004-05	2005-06	2006-07	2007-08* (Kharif)
Wheat	26.60	26.38	26.48	27.99	
Pulses	23.46	22.76	22.39	23.19	9.11(7.49)
Gram	7.05	6.71	6.93	7.49	
Tur	3.52	3.52	3.58	3.56	2.86(2.75)
Nine Oilseeds	23.66	27.52	27.86	26.51	13.74(12.91)
Groundnut	5.99	6.64	6.74	5.62	3.91(3.46)
Rapeseed & Mustard	5.43	7.32	7.28	6.79	
Soyabean	6.55	7.57	7.71	8.33	7.80(7.34)

* Area sown reported of Kharif 2007-08 as on 27.07.2007,

5.6 The availability of agricultural land is decreasing mainly due to increase in population and diversion of agricultural land for non-agricultural purposes such as urbanization, roads, industries etc. Therefore, there is a concern for maintaining sustainable agricultural production to meet the requirement of increasing population in the country. However, the net shown area has been maintained at around 140-142 million hectares during last more than 37 years. Further, through improvement in cropping intensity, the gross cropped area has increased from 165.79 million hectares in 1970-71 to 192.80 million hectares in 2005-06. Along with this yield levels have also been improved which enabled the country to meet the increasing demand for foodgrains during these years.

5.7 The Department of Agriculture and Cooperation has taken a number of initiatives during 2007-08 in addition to the steps taken earlier. These include the launch of two major programmes, namely, the National Food Security Mission (NFSM) to step up production of rice, wheat and pulses and the Rashtriya Krishi Vikas Yojana (RKVY) to incentivize the States to invest more in the agriculture and allied sectors. A National Policy for Farmers, 2007 has been approved and its main aim is to focus on the economic well-being of the farmers in addition to production and productivity. The National Rainfed Area Authority (NRAA) has been operationalized to coordinate and address the problems of rainfed agriculture. A Weather Based Crop Insurance Scheme (WBCIS) has been introduced on a pilot basis, which is under implementation in addition to National Agricultural Insurance Scheme to cover the farmers' risk.

5.8 Central Organization for Oil Industry and Trade (COOIT) presented its views on the subject and cited the reason for price rise in edible oils due to demand-supply mismatch caused by stagnant oilseeds production in India and increasing dependence on imports. The Department of Agriculture informed that the area under Oilseeds has increased from 18.91 million hectare in 1981-82 to 22.64 million hectares in 2001-02 and further to 26.51 million hectare in 2006-07. Production of oilseeds has increased from 20.66 million tonnes in 2001-02 to 24.29 million tonnes in 2006-07 and it is estimated to be 28.82 million tonnes in 2007-08. However, there is large gap between demand and supply and the gap is met through imports.

5.9 The steps taken by the Government to increase the production and productivity of pulses as a medium term strategy during 11th Five Year Plan are:-

(a) Diversification of area from rice-wheat cropping system in the States of Punjab, Haryana, Uttar Pradesh and Bihar to chickpea and early pigeonpea;

(b) Replacing less reminerative cereals by pulses in rainfed areas;

(c) Introduction and popularization of short duration varieties of chickpea, lentil, urdbean and mungbean in rice fallows in eastern India (U.P., Jharkhan, Bihar and West Bengal) and coastal peninsula region (A.P., Karnataka and T.N.);

(d) Popularization of pulses as intercrops with coarse cereals, cotton, sugarcane etc.,

(e) Popularization of Urdbean and mungbean during spring/summer as catch crops in intensive cropping system areas of northern region;

(f) Promotion of water harvesting structures in rainfed areas growing pulse crops;

(g) Promotion of sprinkler sets for irrigation to bring more area under assured irrigation with efficient use of water;

(h) Keeping in view the low seed replacement rate in pulse crops, the production of certified seeds of pulses has to be augmented substantially. The production of breeder seed and certified seed of pulses is required to be doubled in the next 3-5 years so as to raise the SRR of pulses from existing 5-7% to 25%.

(i) The entire quantity of the breeder seeds produced by the ICAR/SAUs for the next 3-5 years is to be allocated to the States for further multiplication into certified seeds.

5.10 For increasing the production and productivity of oilseeds, oilseeds production programmes are being implemented under ISOPOM from 1st April, 2004 in 14 major oilseeds growing States viz; Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, U.P. and West Bengal.

5.11 Increasing productivity is one of the important measures to moderate the price movement and reduce import dependence. It is also informed that Ministry of Agriculture is involved in giving estimates of acreage, yield and production in respect of agricultural commodities. Officials of the Consumer Affairs interact with Ministry to Agriculture in various forums, including various meetings convened to review/monitor prices, where all possible short, medium and long-term measures to contain prices are discussed.

5.12 Department of Consumer Affairs has also informed that there is decline in cultivatable land, area sown and land degradation is on the rise.

5.13 The Department of Agriculture & Cooperation is concerned with the production of wheat, rice, oilseeds and pulses. The supply and distribution aspect falls under the purview of Department of Food and Public Distribution.

5.14 When asked about the measures to increase the production of foodgrains and edible oil, the representatives of FICCI stated during evidence:-

> "First of all there is an urgent need to increase productivity of crops. As of now the productivity of crops has been falling. There is an urgent need. In this case we suggest that there is need for private sector participation and the private sector is also very keen to involve themselves in this area and the case of increasing productivity has to be taken up on a war footing.
>
> As far as the question of diversification of crop as a whole is concerned and the area under cultivation is concerned, the country as a whole is going through a diversification of agriculture in the sense that earlier the crop pattern was dominated by rice and wheat for a long time, but now in some States horticulture has been coming up in a major way. To what extent this diversification in agriculture is going to benefit Indian agriculture is again a researchable area.
>
> But as far as we see, out exports are rising and as far as horticulture crops are concerned, it is too early to say whether the proposed cultivable area under different crops is going to benefit because if we are diversifying from wheat and rice and going to grow horticulture and oilseed crops, there is the issue of food security. But in case we are going to grow horticulture crops, it is going to enhance our exports. There has to be some balance between the cultivable area being proposed under different crops in the country."

5.15 Asked as to how the private sector can contribute in enhancing the productivity of different crops, the representatives of FICCI replied as under:-

> "Right now the Government Research Organizations are developing new varieties of seeds. In case the private

> sector is also allowed to intervene in that, that can also help. The most important thing is that right now extension system of the Government is not really working properly. So, if the extension system is enhanced by involving the private sector, that can really boost productivity of crops.
>
> We have the successful story of PEPSI where contract forming is allowed. They are giving seeds on their own. They have extension workers who are really helping the farmers in adopting new varieties. If that kind of a model is implemented, that can help in improving productivity."

5.16 In reply to above query, the Experts who appeared before the Committee informed that prediction of supply of essential commodities is very important today because the Government also needs to plan its Food Policy in advance, particularly in storage and to take a decision on export to obtain best results. This can be done through scientific and economic process. They also informed that the Institute of Economic Growth is a part of the process of short-term forecasting for two years based on econometric model and this is also done with the help of satellite imagery and other meteorological data. For short-term projection, scientific data based on knowledge of rainfall, possibly on assumption that rainfall will be normal, other infrastructure variables and price variables are taken into consideration. For longer period prediction however we have to see the behaviour of the prices over a period of many years and then make the prediction.

5.17 When asked whether the Department of Consumer Affairs being the nodal Department, on the issue of price rise of essential commodities, has interacted with the concerned Ministries particularly the Ministry of Agriculture for taking note of the initiatives taken to increase the agricultural productivity, the Department informed that Officials of the Consumer Affairs interact with Ministry of Agriculture in various forums, including various meetings convened to review/monitor prices, where all possible short, medium and long-term measures to contain prices are discussed. Increasing productivity is one of the important measures to moderate the price movement and reduce import dependence. Ministry of Agriculture has taken steps to disseminate results of research in agricultural universities to farmers. An official of Department of Consumer Affairs also attends weekly meetings on Crop Weather Watch Group of the Department of Agriculture & Cooperation. This Group discusses issues relating to production, yield, acreage, weather outlook, prices situation, fertiliser and reservoir status etc.

5.18 From the Statement of demand and estimated production of foodgrains, the Committee observed that the production of foodgrains during the last five years was less as compared to their demand. For example, in 2002-03, the demand of rice was 86.59 million tonnes whereas the production was only 71.82 million tonnes. Similarly, during 2004-05, the demand of rice was 89.24 million tonnes but the production was 83.13 million tonnes. In the case of wheat, pulses and oilseeds, the production was less than the demand in the country for the last five years. The reasons for less production of foodgrains are stated to be increase in population and diversion of agricultural land for non-agricultural purpose such as urbanization, roads, industries etc. In order to increase the production of agricultural produce, the Government of India has been implementing a number of schemes viz. Integrated Cereals Development Programme (ICDP), Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize (ISOPOM). The Department of Agricultural and Cooperation has also taken a number of initiatives to enhance the production of foodgrains during 2007-08 which includes two major programmes namely, The National Food Security Mission (NFSM) and Rashtriya Krishi Vikas Yojana (RKVY) to incentivize the states to invest more in agricultural and allied sectors. A National Policy for Farmers 2007 has also been approved for economic well being of farmers. The National Rainfed Area Authority (NRAA) has been operationalized to coordinate and address the problem of rainfed agriculture. Besides, a Weather Based Crop Insurance Scheme (WBCIS) has been introduced in addition to National Agricultural Insurance Scheme to cover the farmers' risk. The Committee are of the opinion that unless and until these schemes and programmes are implemented in letter and spirit, the situation will remain unchanged. The Committee, therefore, recommend that the Government should make sincere efforts to persuade the

State Governments to implement the aforesaid programmes /schemes/ projects to maintain sustainable agricultural production to meet the requirement of increasing population in the country.

5.19 The Committee are constrained to note that despite the various measures undertaken by the Government, the production of oilseeds in the country has not increased. Although the area under oilseeds has increased from 18.91 million hectare in 1980-81 to 22.64 million hectares in 2006-07 and the production of oilseeds has increased from 20.66 million tonnes in 2001-02 to 24.89 million tonnes in 2006-07, still the dependency on import to meet the requirement of oilseed in the country cannot be negated. Taking note of the indigenous production and imports alongwith the overall demand and supply position of oilseeds and edible oil in the country, the Committee feel that there is an urgent need to pay more attention to R&D for improved varieties of seeds and improved technologies for production of oilseeds. Farmers should be made aware of the R&D technology and given incentives for opting of production of oilseeds through result oriented scheme/plan. The Committee feel that to bridge the gap between demand and supply of edible oil, the increase in production of oilseeds is desirable. To reduce the dependency on imported edible oils, efforts for developing improved high-yielding varieties of oilseeds through Seed Corporation of India need to be geared up. For this, Government should make a policy to make available good quality seeds at cheaper rates and educate farmers about latest methods of agriculture. So far the water conservation and irrigation is concerned, scope of drip irrigation should be extended. The Committee therefore, strongly recommend that Government should think of ways and means to make available disposable drip system within the reach of every farmer that would result in water conservation and there will be surety of irrigation. Result-oriented action should also be taken to promote and popularize the use of non-traditional secondary source of edible oil. The Committee urge upon the Government to make available high yielding seeds and fertilizers in time to boost small farmers' crop production capacity.

CHAPTER VI

IMPORT/EXPORT OF FOODGRAINS

The Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) is primarily concerned with food security of the country. Government constantly reviews the stock position of foodgrains with it in the Central Pool vis-à-vis the prescribed buffer norms, production of foodgrains in the country, trend for procurement for Central Pool, requirement for Public Distribution System (PDS) and other welfare schemes, open market prices, etc. A decision to import or export foodgrains on Government account is taken depending on the overall situation. There was no import of foodgrains for the Central Pool during 2004-05. However, keeping in view the reduction in wheat stocks in the Central Pool, the need to keep a check on the open market prices of wheat as well as to augment the domestic availability of wheat and since the Government is fully committed not to compromise in the matter of food security, a decision was taken on 1st February, 2006 to permit State Trading Corporation to import 5 lakh MTs of wheat at the Southern ports only. Wheat is being imported for the last two years.

6.2 The Committee have been informed that the decision to export and import foodgrains is based on the domestic production of foodgrains and the demand of foodgrains within the country. Imports and exports are done by private/public sector importers if the item is on Open General License (OGL) based on their commercial consideration. In case of foodgrains required for Targeted Public Distribution System (TPDS) and other Government schemes, the procurement, market prices and other relevant factors are taken into account and decision to import is taken to meet the requirements to the extent of shortfall. Sometimes, Government also imports foodgrains for sale in the domestic market to keep prices stable and ensure adequate buffer stocks.

6.3 The Department of Consumer Affairs has informed that the Government takes the decisions about import/export of food grains at the highest level in a holistic manner and after consulting all concerned ministries. Various objectives are prioritized before the final decision is taken. The objectives include: Food security, the requirement for Public Distribution System, increased festival demand, containing inflation, providing higher prices and higher income to farmers (by allowing exports and lowering imports), need to establish credibility of India in the international market as a reliable supplier.

6.4 The Department of Agriculture and Cooperation furnished the following details of import/export of wheat, rice, pulses and edible oil seeds for the last five years :-

(Million Tonnes)

Rice

Year	Import $ ('000 Tonnes)	Export $ ('000 Tonnes)
2002-03	0.87	4967.87
2003-04	0.54	3412.06
2004-05	-	4778.10
2005-06	0.26	4088.17
2006-07*	0.16	4745.52

Wheat

Year	Import $ ('000 Tonnes)	Export $ ('000 Tonnes)
2002-03	-	3671.25
2003-04	0.46	4093.08
2004-05	0.22	2009.35
2005-06	-	746.18
2006-07*	5500**	47.83

Pulses

Year	Import $ ('000 Tonnes)	Export $ ('000 Tonnes)
2002-03	1992.29	148.08
2003-04	1723.33	153.88
2004-05	1339.45	271.18

2005-06	1695.95	447.44
2006-07*	2255.65	247.42

Oils

('000 tonnes)

Year	Vegetable Oil	
	Export$	Import$
2002-03	NA	4365.03
2003-04	NA	5290.30
2004-05	NA	4542.00
2005-06	NA	4288.10
2006-07*	NA	4269.37
2007-08	NA	4902.80

NA : Not Available

6.5 The country-wise import of wheat for the year 2006-07 and 2007-08 is given below:-

Country of Origin	Qty. imported (Lakh MT) 2006-07	Qty. Contracted (Lakh MT) 2007-08
Australia	14.282	0.05
Canada	11.855	3.06
CIS	20.18	9.95
France	2.602	-
Argentina	1.521	-
Hungary	4.10	-
Grand Total	**54.540**	**13.06**

6.6 The Department of Food and Public Distribution informed that estimates of production and consumption demand of foodgrains are periodically received from the Department of Agriculture and Cooperation. These are examined in detail in the Department of Food & Public Distribution in order to make timely and appropriate action as necessary. For example whenever the production of foodgrains is lesser than the demand, recommendations may be made for export bans and zero duty imports on private account in order to improve the domestic availability and contain rise in prices. Various agencies of the Central Government such STC, PEC and MMTC facilitate imports. Global tenders are floated as per terms and conditions finalized from time to time. NAFED, PEC Ltd, MMTC and STC target to import 1.5 Million Metric Tonnes (MMT) of imports of pulses during 2007-08. Out of the total contracts of 10.40 lakh tonnes made by these agencies, 2.43 lakh tonnes have arrived up to 31.7.07. Depending on differential between domestic and international prices, the Government would try to limit its imports to the level of gap between domestic demand and supply.

6.7 When asked about the reasons for import of wheat during the year 2006-07 as well as the proposed imports during the year 2007-08, specifically when the availability of wheat in the country exceeds the demand during each of the year, the Department of Food and Public Distribution replied that the production of wheat in Crop year 2005-06 (which was marketed in RMS 2006-07) was 69.35 million tonnes while the demand of wheat in 2005-06 was 69.25 million tonnes of wheat. At the start of the RMS 2006-07, i.e. on 1st April, 2006, the stocks of wheat in the Central Pool were only 20.1 lakh tonnes against the buffer norm of 40 lakh tonnes of wheat. During RMS 2006-07 procurement of wheat for the Central Pool was only 92.3 lakh tonnes due to high open market prices, less than targeted production, less market arrivals, negative market sentiments and more private participation. In order to make up the shortfall for the TPDS and Welfare Schemes, the Government took decisions to import 5.5 million tonnes of wheat in order to ensure food security. As further informed by the Department of Agriculture and Cooperation, production of wheat in Crop Year 2006-07 (which was marketed in RMS 2007-08) is estimated to be 74.89 million tonnes while the demand of wheat according to the Department of Agriculture and Cooperation, is estimated to be 70.29 million tonnes. This demand is for the country as a whole. At the start of the RMS 2007-08, i.e. as on 1.4.2007, the stocks of wheat in the Central Pool were 45.6 lakh tonnes against the buffer norm of 40 lakh tonnes. However, procurement of wheat in RMS 2007-08 was only 111 lakh tonnes against the requirement of 150 lakh tonnes for the TPDS and Welfare Schemes. In order to make up the shortfall, the Government took decisions to import wheat for the Central Pool. The State Trading Corporation of India Ltd.(STC), New Delhi were authorized by Government for import of wheat on Government Account during 2006-07 and 2007-08.

6.8 The Department of Food and Public Distribution also informed that the stocks of wheat, rice, coarse grains and sugar as on 01.3.2007 with FCI and State agencies were 51.0 lakh tons, 139.67 lakh tons, 0.05 lakh tons and 139 lakh tons, respectively. The Government is not maintaining stock position of edible oil and pulses. The existing minimum buffer norms for stocking of foodgrains in the Central Pool with effect from April 2005 and stock position during current year are as follows:

(in lakh tons)

AS ON	WHEAT		RICE		TOTAL	
	Actual stock	Minimum buffer norms	Actual stock	Minimum buffer norms	Actual stock	Minimum buffer norms
01.04.2007	47.03	40.00	131.72	122.00	178.75	162.00
01.07.2007	129.27	171.00	109.77	98.00	239.04	269.00
01.10.2007	101.21	11 0.00	54.89	52.00	156.10	162.00

6.9 It would be seen from the above table that the stock of wheat in the Central Pool on 1.7.2007 and 1.10.2007 is lower than the buffer norms. Thus, imports have been done on private/Government account to meet the shortfall. As regards sugar, as per the norms, stock of sugar for two & half months to three months requirement for internal consumption is to be maintained which was about 40-47 lac tons in 2006-07 sugar season. The stock of sugar of about 139 lac tons was available in the country as on 1st March, 2007 and there is no shortage of sugar in the country. However, there has been a shortage of domestic edible oils production in the country. Import of edible oils has been resorted to for more than two decades. Government has allowed import of all edible oils under open general license except coconut oil. There is no shortage of rice in the country.

6.10 The Committee also enquired whether any analysis of the Government's policy of procurement has been made to know the reasons for lesser procurement of wheat. The Department of Food and Public Distribution stated in reply that as per the present procurement policy, the Government agencies (FCI and State Agencies) carry out procurement operations in all districts having marketable surplus of foodgrains. All the foodgrains conforming to the prescribed specifications offered for sale by farmers at the specified procurement price (MSP plus bonus) are bought by the Government agencies. This policy gives the option to farmers to sell their produce to the Government agencies at their procurement price or at higher prices to the private parties, which ensures remunerative prices to them. This policy also serves to procure stocks for the Central Pool for the TPDS and welfare schemes as well as for buffer stocks for food security. This policy has been working successfully for past several years. The low level of procurement of wheat in RMS 2006-07 was on account of many factors like high ruling open market prices, lower than the targeted production of wheat, negative market sentiments, low market arrivals, low stocks of wheat in the Central Pool and more active participation by private traders.

6.11 The Committee have been furnished the following statement showing the Import/Export Duty Structure in respect of pulses, wheat, rice, oilseed and sugar during the last five years i.e. from 2003-04 to 2007-08:-

(i) RICE, WHEAT, PULSES AND OILSEEDS

S.No	Commodity	Customs duty rate				
		2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
1.	Pulses	10%	10%	10%	10%/0%[3]	0%
2.	Rice in husk	80%	80%	80%	80%	80%
3.	Husked rice (brown rice, broken rice)	80%	80%	80%	80%	80%
4.	Semi milled or wholly milled rice	70%	70%	70%	70%	70%
5.	Wheat	50%	50%	50%	50%/0[1]	0%[2]
6.	Sugar	60%	60%	60%	60%/0%[4]/60%	60%
	Oilseeds*		30%	30%	30%	30%

[1] W.E.F. 09.09.2006
[2] W.E.F. 30.03.2007
[3] W.E.F. 08.06.2006
[4] During 23.6.2006 to 30.9.2006

6.12 When enquired about the measures taken by the Government to augment the availability of foodgrains in the domestic market, the Secretary, Department of Consumer Affairs stated during evidence:-

> "If you take wheat, wheat has been de-listed from futures trading. Export is banned at the moment. Import can be done at zero duty. For stockholding limits we have authorized the States and the States have fixed different stockholding limits from time to time. Rice again has been de-listed from futures trading and export is banned at the moment in the case of non-basmati rice. In the case of basmati rice, of course, we have export subject to an MEP."

6.13 The Department of Consumer Affairs have also informed that despite various remedial steps which have been taken by the Government such as reduction of custom duty on import of pulses to zero and which were extended upto 31st March, 2007 and ban on export on wheat and rice which has been extended till further order, the Government have not succeeded in curbing the price rise of essential commodities. The Committee have also observed that with high rate of inflation the prices of food and fuel products are rising and thus the consumers are hit from all sides.

6.14 The Committee wanted to know the methodology for calculating the import duty. The Secretary, Department of Consumer Affairs stated during evidence as under:-

> "Sir, import duty is calculated on the tariff value. So, we have kept it low intentionally. A review of it is taken every fortnight. If we increase this, the landed cost of oil will become quite high. Then, two things will happen. First, people will not import because the domestic price to that

> extent will be slightly lower than the imported cost. Today, we are importing about 4.7 million tonnes. If for this reason, imports do not take place, then similar demand will chase only 7.52 million tonnes, or may be slightly a million tonne here and there – about 8 million tonnes, of edible oil, availability of which is 12 million tonnes. So, the prices may further increase. This is one method by which tariff value is kept lower, fixed or not increased to contain prices. It means that average duty on oil is 31 per cent. This is a method – either you decrease the duty or keep the tariff value constant. Government has thought that to keep tariff value constant is better for two reasons. First, it gives stability and you do not have to keep on increasing or decreasing so that long-term contracts are met. Secondly, prices can be moderated. That is the reason why tariff value is kept constant."

6.15 The Committee enquired about criteria of taking a decision to cut or reduce import duty to 0% on essential commodities, the nodal Ministry stated that cuts or reductions in import duty on commodities like wheat, sugar, edible oils etc during the last one year have been prescribed by the Department of Revenue based on recommendations of the Cabinet Committee on Prices (CCP) or Committee of Secretaries (COS) which monitors price situations of such commodities on a regular basis. The major criterion for taking such a decision is to induce importers to import adequate quantity of essential commodities to augment domestic supply, with a view to containing the rise in prices.

6.16 On being asked whether any study has been done to know the impact of cut in duty of essential commodities on the overall availability and prices of foodgrains, the Ministry replied that no specific study has been done by this Department to know the relationship between impact of cut in duty of essential commodities on the overall availability and prices of foodgrains. However, the likely impact of cut in duty of essential commodities on the overall availability and prices of food grains is reviewed in periodical meetings on prices. Since a host of factors influence the availability and prices of commodities in a dynamic manner, it would be difficult to segregate the impact of cut in duty in precise quantitative terms. Broadly, it is observed that rise in prices of edible oils in domestic market was moderate as compared to the rise in prices in international market.

6.17 The Committee observe that the Government of India is fully committed to provide food security to every citizen in the country. Due to less production of wheat in the country in 2006-07, there was reduction in wheat stock in the Central Pool. The Committee have been informed that at the start of RMS 2007-08, i.e. as on 01/04/07, the stock of wheat in the Central Pool was 45.6 lakh tonnes against the buffer norms of 40 lakh tonnes. The procurement of wheat in RMS 2007 was only 111 lakh tonnes against the requirement of 150 lakh tonnes for the TPDS and other welfare schemes. In order to make up the shortfall as well as to keep the prices stable and ensure adequate buffer stock, the Government took decision to import wheat for the Central Pool. The custom duty on import of wheat was reduced to zero and a ban on export of wheat and rice was imposed. Accordingly, in 2006-07, a quantity of 54.540 lakh metric tonnes of wheat was imported from Australia, Canada, CIS, France, Argentina and Hungary. Besides, a quantity of 13.06 lakh metric tonnes was contracted for the year 2007-08.

The Committee find that despite putting a ban on export of wheat and rice and reduction of custom duty in the import of pulses to zero, the Government could not succeed in curbing the price rise of essential commodities. However, consequent upon the ban on export of wheat, the prices of wheat declined by 3.92 per cent during this period. The Committee fail to understand the reasons for import of wheat in 2007-08 when the availability of

wheat in the country exceeded the demand. In the opinion of the Committee, the Government could not take timely steps to address the issues viz. high open market prices, less than targeted production, less market arrivals, negative market sentiments and more private participation which contributed to less procurement of wheat. With the high rate of inflation, the prices of foodstuffs have risen considerably and the consumers are hit from all sides. The Committee, therefore, recommend that the Government should make sincere and timely efforts to address the aforementioned issues. In this regard, the Government should also take steps for procurement of wheat directly from the farmers by giving them remunerative prices. To increase the production of foodgrains in the country, the farmers should also be encouraged to adopt modern methods and modern technology of agriculture. The Government should also ensure that the buffer stocks of foodgrains especially wheat and rice in the Central Pool do not fall below the buffer norms so as to meet any eventualities in future.

CHAPTER VII

IMPOSING OF TAXES ON ESSENTIAL COMMODITIES

As per entry No. 54 of State List of the 7th Schedule to the Constitution of India, the taxation on sale and purchase within a state of goods, including essential commodities, is a State subject. The VAT system of taxation on sale and purchase of commodities in any State is accordingly under the purview of the respective State Government. The intent at the time of introduction of the VAT system was to have a harmonized tax structure in respect of all commodities. This was worked out by the States themselves through the Empowered Committee (EC) of State Finance Ministers in accordance with convergence parameters identified and agreed among the States. The rates of VAT for various commodities were accordingly agreed to be uniform across the States.

7.2 Regarding the tax rate for foodgrains, the EC of State Finance Ministers had initially decided to keep the VAT rate on foodgrains at 4%. However, the EC reviewed the matter in the light of requests made by a number of States to exempt foodgrains from VAT and decided in its meeting held on 17 January, 2005 that ‘Only for 2005-06, States would have the option of exempting foodgrains from VAT’. The EC again discussed the issue in its meeting held on 15 July, 2006 and decided to give option to the States to exempt foodgrains from VAT during 2006-07 as well. Thus, the EC itself has provided the flexibility to the States in this regard, which has resulted in some States levying tax on foodgrains like rice and wheat, while some other have exempted these items from levy of VAT.

7.3 It has been suggested by the experts to rationalize entry tax/octroi/toll tax and remove restriction on stock limit and inter-State movement restriction on agricultural produce under the Essential Commodities Act. Reform in the excise and other levies viz Mandi tax, Sales tax, VAT by the system of one single uniform tax at the rate of 4 per cent across the States has also been suggested. When asked to comment on aforesaid suggestion of experts, the Ministry stated that domestic market in our country is fragmented and subjected to plethora of laws and regulations. Since the issues relating to administration of various legislations governing internal trade and harmonization of various taxes entail coordination among various States, the Inter State Council has to initiate consultation process with various State and Regional authorities to remove artificial trade barriers and harmonize tax structure.

7.4 In this context, the Additional Secretary, Department of Revenue deposed before the Committee during evidence as under:-

> "The reform of introduction of VAT has helped in reducing the disparities and it has also probably helped in avoiding price increase because many of the other taxes have been subsumed in VAT. It is because at the State level, there were a lot of other taxes which have gone into and which were got merged with VAT. VAT by itself, of course, is not the ultimate objective. Again, as hon. Committee is aware, there is a decision to introduce goods and services tax w.e.f, 1st April, 2010. This will be a joint effort of the Central and State Governments and the Central Government is now working with the Empowered Committee (EC) of the State Finance Ministers to arrive at a workable package for the implementation of VAT w.e.f. 1.4.2010. With the introduction of GST, the Central Sales Tax- which is a Central levy on the inter-state sale of goods will be zero rated. We have already started that process by reducing the rate of CST to three per cent w.e.f. 1st of April, 2007. It will be reduced by one per cent in each of the coming years till it is phased out and it is zero rated in 2010."

7.5 When asked whether some States/UTs have exempted foodgrains from the purpose of VAT, the Ministry in its written reply stated that States/UTs of Chattisgarh, NCT of Delhi, Gujarat, Jammu & Kashmir, Jharkhand, Karnataka, Maharashtra, Madhya Pradesh, Pondicherry and West Bengal have exempted food grains from Value Added Tax (VAT). State of Tamil Nadu has exempted food grains from VAT, except wheat which is being taxed in the State at the rate of 2%.

7.6 The Federation of Indian Chambers of Commerce and Industry (FICCI) suggested to make India a common market. During evidence, the representatives of FICCI further elaborated:-

> "We have been talking about one common market for India because in the presence of these barriers, goods cannot move from one State to another. Besides that, we have entry tax, octroi tax and toll tax. It is not only agricultural commodities but it is for industrial commodities also. It is acting as a major hindrance to the development of India as one market. Then, for agricultural commodities as such, there are of course, restrictions on stock limits and inter-State movements under the Essential Commodities Act. Then you have got to remove physical checks at various locations and borders, namely, national, State borders and district borders, bridges alongwith the system of administration and mechanism of checking payment of taxes. These not only cause the stoppage of movement from one State to another State and one area to another area but this is a huge harassment also. You have to take all-India permits, regional permits, local permits to move and these kinds of hassles are there. We would suggest that the tax burden should be kept at four per cent because agricultural commodities are essential items. Since agricultural commodities are essential commodities, we would suggest for checking and keeping the prices at low level. Otherwise, the cascading effect also increased the final prices to a much higher level. Excise and other levies such as mandi tax, sales tax, VAT should be replaced bya system of one single uniform tax. We have already mentioned this. The mandi tax should be made uniform because this is varied in different States. It is very difficult for us to arrive at uniform foodgrains prices throughout the country. We are going through a major revolution in agricultural marketing with futures trading with private sector, retails coming in. There will be pressure on prices and the prices will go down because of competition amongst competing agencies. In that kind of a situation, we should also aid this process of downward pressure on prices to settle them at a low level so that agricultural goods prices are not a burden for the common man."

7.7 It has been observed that some States are levying tax on foodgrains like rice and wheat, while some others have exempted these items from levy of VAT. Asked as to why the specific foodgrains like wheat, rice and pulses are not brought under the category of items which are exempted from VAT, the representatives of Department of Revenue stated during evidence:-

> " The power of the Central Government in respect of sales tax rate is only through the Central Sales Tax Act – Section 14 and 15 – which gives the Central Government the power to declare certain commodities as goods for special importance in inter-State rate and commerce. So, most of the essential commodities are brought under this category. This covers crude oil, jute, LPG, oil seeds, pulses etc. All these things are covered in this definition of declared goods under the Central Government which the Central law has provided. But what the law provides is that no State law shall fix a tax rate more than four per cent on these items. So, up to four per cent, the States are free to fix the rates because the taxation of sale of goods is something which the States are free to tax. But in a particular State in which the sales tax is zero, the Central Sales Tax will also be zero. But the maximum a State can impose is four per cent."

7.8 From the data given by the Department of Food and Public Distribution, the Committee has observed that there is a large-scale variation in levying of various taxes like Mandi Tax, DEMI, ID fee, VAT etc. by various State Governments.

Statement showing taxes levied by different States on Rice

(Rates in percentage)

S.No.	State	Market Fee	Dami	RD Cess	ID Fee	VAT	Mandi Tax	Total	Remarks
1.	Haryana	2	2.5	2	0	4	0	10.5	
2.	Punjab	2	2.5	2	1	4	0	11.5	
3.	Rajasthan	1.6	2	0	0	4	0	7.6	FCI exempted from VAT
4.	Himachal Pradesh	0	0	0	0	4	0	4	
5.	Jammu & Kashmir	0	0	0	0	0	0	0	
6.	Delhi	0	0	0	0	0	0	0	
7.	Uttar Pradesh	2.5	0	0	0	4, Trade Tax	0	6.5	
8.	Uttarakhand	2.5	0	0	0	4	0	6.5	
9.	Madhya Pradesh	0	0	0		0	0	0.1	Nirashrit Shulk (NS) 0.1
10.	Chhattisgarh	2	0	0	0	0	0	6.2	Commission on Tax 4

									NS 0.2
11.	Maharashtra	1.05	0	0	0	4	0	5.05	
12.	Gujarat	0.5 to 1	0	0	0	0	0	0.5 to 1	
13.	Andhra Pradesh	1	0	5 on Paddy2	0	4	0	10	
14.	Tamil Nadu	0	0	0	0	2	0	2	
15.	Kerala	7	0	0	0	1	0	8	
16.	Karnataka	1.5		0	0	4	0	5.5	
17.	West Bengal	0.5	0	0	0	0	0	0.5	
18.	Bihar	0	0	0	0	1	0	8	Entry Tax 4, Addl. Tax 3
19.	Jharkhand	1	0	0	0	4	0	5	
20.	Orissa	1 on Paddy	0	0	0	4	0	5	
21.	Assam	1	0	0	0	2	0	3	
22.	Meghalaya	0	0	0	0	0	0	0	
23.	Nagaland & Manipur	0	0	0	0	0	0	0	

Statement showing taxes levied by different States on Wheat

(Rates in percentage)

S.No.	State	Market Fee	Dami	RD Cess	ID Fee	VAT	Mandi Tax	Total	Remarks
1.	Haryana	2	2.5	2	0	4	0	10.5	
2.	Punjab	2	2.5	2	1	4	0	11.5	
3.	Rajasthan	1	2	0	0	4	1.6	8.6	FCI exempted from VAT
4.	Himachal Pradesh	0	0	0	0	4	0	4	
5.	Jammu & Kashmir	0	0	0	0	0	0	0	
6.	Delhi	0	0	0	0	0	0	0	
7.	Uttar Pradesh	2.5	0	0	0	4, Trade Tax	0	6.5	
8.	Uttarakhand	2.5	0	0	0	4	0	6.5	
9.	Madhya Pradesh	2	0	0	0	0	0	2.2	Nirashrit Shulk (NS) 0.2
10.	Chhattisgarh	2	0	0	0	0	0	2.2	Nirashrit Shulk (NS) 0.2
11.	Maharashtra	1.05	0	0	0	4	0	5.05	
12.	Gujarat	0.5 to 1	0	0	0	0	0	0.5 to 1	
13.	Andhra Pradesh	1	0	0	0	4	0	5	
14.	Tamil Nadu	0	0	0	0	2	0	2	
15.	Kerala	7	0	0	0	1	0	8	
16.	Karnataka	1.5	0	0	0	4	0	5.5	
17.	West Bengal	0.5	0	0	0	0	0	0.5	
18.	Bihar	0	0	0	0	1	0	8	Entry Tax 4, Addl. Tax 3

19.	Jharkhand	1	0	0	0	4	0	5	
20.	Orissa	1	0	0	0	4	0	5	
21.	Assam	0	0	0	0	2	0	2	
22.	Meghalaya	0	0	0	0	0	0	0	
23.	Nagaland & Manipur	0	0	0	0	0	0	0	

7.9 The net impact of these taxes varies from State to State which is highest in the case of Punjab, which is 11.5 per cent and lowest in Jammu and Kashmir, Delhi, Meghalaya, Nagaland and Maniput where the tax levied is nil. In Madhya Pradesh, it is 0.1 per cent and in West Bengal, it is 0.5 per cent. In this context, the Committee enquired whether any reforms have been suggested to have some sort of uniformity in levying taxes of essential commodities in various taxes to avoid large scale disparity in prices of essential commodities, the representatives of Department of Revenue stated:-

> "As I indicated earlier, the Empowered Committee of State Ministers wanted uniformity. They tried to work out uniformity but different States had very strong, different views on this mainly based on the historical experience. For example, Andhra Pradesh was having 4 per cent earlier. The State wanted to continue that rate. Haryana and Punjab were having 4 per cent purchase tax which continues. Himachal Pradesh was having 3.5 per cent which has been rationalized to 4 per cent. Again, Orissa, Rajasthan, Uttar Pradesh, Uttarakhan were haning 4 per cent. So, that has been a continuation of the practice which the particular States were adopting. On the other hand, Delhi, Gujarat, Jammu and Kashmir, Jharkhan, Karnataka, Maharasthra, Puducheery and Tamil Nadu – except wheat- had zero per cent even in the pre-VAT ear, in the Sales Tax System. They have chosen to continue that system. Since this was something on which the State Finance Ministers could not reach an agreed view for implementation, it was agreed that the States should have different rates for the initial period. Perhaps, the only occasion will now arise only with the introduction of Goods and Service Tax in the year 2010. An immediate solution may not be forthcoming because in spite of the best efforts of the State Finance Ministers, they have not been able to arrive at a consensus which was acceptable to all the States."

7.10 Asked whether the Department can issue any guidelines to maintain uniformity in imposing the tax and VAT, the witness stated:-

“No, Sir, because constitutionally, it is the States’ power. So, the Government of India will have no authority to issue any guidelines in this matter.’

7.11 The Committee note that as per entry no. 54 of the State list of the Seventh Schedule to the Constitution of India, the Taxation on Sale and Purchase within a State of goods, including essential commodities, is a State subject. The Committee observe that there is a large scale variation in levying of various taxes like Mandi Tax, DEMI, IDF, VAT by the State Governments. The concept of Value Added Tax (VAT) was introduced with a view to having a harmonized tax structure in respect of all commodities. The rates of VAT for various commodities were accordingly agreed to be uniform across the States by the Empowered Committee of State Finance Ministers. The Empowered Committee of State Finance Ministers had initially decided to keep the VAT rate of foodgrains at 4%. Subsequently, the EC itself provided the flexibility to the States in this regard which resulted in some States levying tax on foodgrains like rice and wheat, while some others have exempted these items from levy of VAT. Consequently, 11 States namely, Chhattigarh, NCT of Delhi, Gujarat, Jammu & Kashmir, Jharkhand, Karnataka, Maharashtra, Madhya Pradesh, Pudducherry and West Bengal have exempted foodgrains from VAT. State Government of Tamil Nadu has exempted foodgrains except wheat which is being taxed at 2%. The Committee strongly recommend that the remaining States/UTs should be persuaded to exempt the foodgrains from VAT provided that the State Government be consulted and the

difficulties of the States be resolved before making such exemptions.

7.12 The Committee further note that all the taxes like Sales Tax, Local Municipal Taxes and other market taxes have been merged with VAT except the Central Sales Tax (CST) which is levied by the Central Government on sale or purchase of goods in the course of inter-State Trade and Commerce. The Government proposes to phase out the CST by 1.04.2010. The Committee do not appreciate the multiple tax pattern like Mandi Tax, Sales Tax, Local Municipal Tax like entry tax, octroi tax and toll tax levied on the foodgrains which ultimately lead to increase in the prices of essential commodities. The Committee, therefore, recommend that the Government should remove restrictions on the inter-State movement on agricultural commodities and introduce single uniform tax pattern across the States on essential commodities especially on foodgrains.

CHAPTER-VIII

Acquisition of land under Special Economic Zone(SEZ)

Land is one of the biggest resources for any country. With the enormous expansion of the State's role in promoting public welfare and economic development since Independence, acquisition of the land for public purpose has become far more important than ever before. Further, with the changing scenario of industrialization, liberalization, urbanization and new economic policy there is an immense pressure on land. Now-a-days, land is being acquired for setting up Special Economic Zones (SEZs) so as to generate employment through industries activity of land acquisition for public purposes as well as for setting up industries, the issue related to land acquisition and rehabilitation of the affected persons whose land is being acquired have been the matter of debate recently. The Committee note that land and its management falls under the State List. However, the Union Government has played a crucial role in the advisory capacity as well as a facilitator since Independence. In this scenario, the responsibility of the Department of Land Resourses, being the nodal Union Department, to deal with the issues related to land is immense.

8.2 Land being a State subject, a decision to earmark the land for various uses including SEZ is taken by the respective State Governments in accordance with the policies laid down by them. The Department of Commerce has not laid down any specific policy for acquisition of land for SEZs. The Board of Approval considers only those proposals which are duly recommended by State Government. At National level, as per Allocation of Business Rules – 1961 (as amended from time to time), the matter relating to Land Acquisition and Land Reform etc. falls under the purview of Ministry of Rural Development.

8.3 State Governments have been advised that in case of land acquisition for Special Economic Zones, first priority should be for acquisition of waste and barren land and if necessary single crop agricultural land could be acquired for the SEZs. If perforce a portion of double cropped agricultural land has to be acquired to meet the minimum area requirements, especially for multi-product Special Economic Zones, the same should not exceed 10% of the total land required for the SEZ. The Ministry of Commerce have further stated that only those Developers who are in possession of land are given formal approvals. Those who do not have possession or are in the process of acquiring/purchasing land are not given formal approvals. The total land area in 404 valid formal approvals granted till date is about 54280 hectares. Out of this 95 approvals are in respect of State Industrial Development Corporations and State Government agencies involving land areas of approximately 20000 hectares. 172 SEZs have been notified as of 30 November 2007. In the case of proposals which have been granted formal approval, the land was already in possession of the private developer or the State Government bodies.

8.4 The Ministry of Commerce have informed the Committee that the Empowered Group of Ministers (EGOM) for discussion on issues relating to Special Economic Zones (SEZ) including acquisition of land in its meeting held on 5th April 2007, have taken following main decisions:

(a) In respect of pending applications for SEZs, these may be processed for in principal, formal approval and, notifications subject to the condition that the State Governments would not undertake any compulsory acquisition of land for such SEZs.

(b) The minimum processing area limit to be fixed uniformly at 50% for multi product SEZs as well as sector specific SEZs.

(c) Upper limit of the area required for multi product SEZs to be fixed at 5000 hectares. However, State Governments may prescribe a lower limit.

(d) Ministry of Rural Development to be requested to reformulate a comprehensive Land Acquisition Act to address all relevant issues.

(e) A comprehensive Resettlement and Rehabilitation Policy be worked out ensuring livelihood from the project to at least one person from each displaced family.

8.5 When asked whether food security and prices of Essential Commodities will be effected by acquiring the land under SEZ, the Ministry of Agriculture informed that so far, the acquisition of land for the SEZ purposes is very nominal in comparison to the total cultivated lands (182.57 million ha. in 2005-06). Therefore, the acquisition of land for SEZ has not much adverse effect on the Food Security of the country, at this stage. On being enquired about the impact of acquisition of land, the Ministry of Agriculture informed that the cultivable land has decreased from 185.09 million ha. in 1980-81 to 182.57 million ha. in the year 2005-06 in the country. During the same period, land under non agricultural uses has increased from 19.66 million ha. to 24.94 million ha. (increased by about 5.28 m.ha.).

8.6 The availability of agricultural land is decreasing mainly due to increase in population and diversion of agricultural land for non-agricultural purposes such as urbanization, roads, industries etc. Therefore, there is a concern for maintaining sustainable agricultural production to meet the requirement of increasing population in the country. On being asked what steps have been taken/being undertaken in this regard, the Ministry of Agriculture has informed that the Ministry has taken following steps in this matter:

1. Department of Commerce has been provided with a check-list (D. O. No. 52/Secy.(A&C)/06 dated September 25, 2006) to facilitate the Board of Approval while taking a decision on the issue of diversion of agricultural land.

The check-list has been circulated on 3rd November, 2006 to all the State Govts. by the Ministry of Commerce to be considered while proposing a SEZ plan. In addition, Hon'ble Union Minister of Agriculture has written a D.O. letter in October, 2006 to Union Minister of Commerce expressing concern regarding transfer of agricultural land for SEZ.

2. The 19 action points of National Land Use Policy Outlines (NLPOs) have been circulated to all the State Governments and UTs. for follow up. These NLPOs provide for suitable steps for prevention of diversion of agricultural land for non - agricultural purposes by the State Governments, besides suggestion for utilization of land as per land capabilities for sustaining agricultural production.

8.7 In addition to above, Government of India is implementing various programmes namely, (i) National Watershed Development Project for Rainfed Area (NWDPRA), (iii)Soil Conservation for Enhancing the Productivity of Degraded Lands in the Catchments of River Valley Project and Flood Prone River (RVP & FPR), (iii)Reclamation of Alkali Soil (RAS), (iv)Watershed Development Project in Shifting Cultivation Areas (WDPSCA), (v)Drought Prone Area Programme (DPAP), (vi)Desert Development Programme (DDP), (vii)Integrated Waste-land Development Programme (IWDP) for development of degraded lands in the country. Under the these programmes, since inception upto end of X Five Year Plan, an area of 50.83 million hectare has been developed. Part of such developed land is also brought under cultivation to maintain balance in different type of land uses.

8.8 The representative of the Department of Land Resources during oral evidence stated that the Department of Land Resources had constituted Parthasarthy Committee during the year, 2003. Steps taken for the treatment and to increase food production to eliminate poverty are given in this report as wasteland and rainfed areas is spread throughout the country. He further informed that by merging three programmes IWDP, DDP, DPAP- a single programme is being made that i.e. IWSP which still has to receive cabinet approval. As per the Parthasarthy Committee the total food production upto the year 2020 will be upto 307 million tonnes. He has also informed that productivity of foodgrains during the year 2007-08 in respect of foodgrains and pulses is the highest productivity that we have achieved which can be due to land treatment water shed project and application of quality, seed, fertilizer etc.

8.9 When asked whether any criterion has been fixed for acquiring the land for Special Economic Zone (SEZ), the Additional Secretary, Ministry of Commerce and Industry stated during evidence:-

> "We give approval to the SEZ based on the recommendation of the State Government. Now we have advised the State Governments that first priority must be given for acquisition and use of waste land and single crop land. In any case not more than 10 per cent of land could be taken of double crop land if it is absolutely essential. We have also indicated that from 5th April, 2007, the Government will not approve any proposals where land is compulsorily acquired or proposed to be compulsorily acquired."

8.10 The Committee have been furnished the following Statement showing the State-wise area of SEZ as on 26.11.07:-

(In Hectares)

State	**Valid Formal approvals**	**Notified SEZs**	**Total area of formal approvals**
Andhra Pradesh	862.615	6124.617	6987.232
Chandigarh	0	58.45	58.45
Chattisgarh	10.77	0	10.77
Dadar & Nagar	105.59	0	105.59
Delhi	16.06		16.06
Goa	120.51	249.475	369.985
Gujarat	12881.7	7104.967	19986.667

Haryana	731.79	857.9563	1589.7463
Himachal Pradesh	0		0
Jharkhand	0	36.4218	36.4218
Karnataka	986.7209	1661.11	2647.8309
Kerala	52.76	513.582	566.342
MP	281.36	50.907	332.267
Maharashtra	6896.51	4302.055	11198.565
Nagaland	450		450
Orissa	2299.4	211.265	2510.665
Pondicherry	346		346
Punjab	221.49	46.124	267.614
Rajasthan	181.23	96.09	277.32
Tamil Nadu	3833.209	1321.467	5154.676
Uttaranchal	454.2	13.5426	467.7426
UP	384.94	99.65	484.59
West Bengal	306.701	108.8943	415.5953
Total	**31423.5559**	**22856.574**	**54280.1299**

8.11 During evidence the Committee enquired as to what is the parameter for assessment and to make difference between single crop agricultural land, waste and barren land. The Additional Secretary, Department of Land Resources stated:-

> "Let me state at the very outset that this particular subject belongs to the Ministry of Commerce and, this particular advisory which has gone out to the States, has also been issued by them. In the course of issuing this advisory to the States, at one time, we had been asked whether we had any views on the subject. After careful consideration, the advice of the Ministry of Rural Development to the Ministry of Commerce was that only barren and waste lands should be used. The utilization of agricultural land should be avoided all together but as far as possible should be kept to the minimum. Apart from this, we have also said that if at all there is any agricultural land, which is used for this purpose, then, to that extent, you should try and compensate for that agricultural land by improving the productivity of other agricultural lands. Also, if you are giving barren lands, then the extent to which the barren land is given, you should try to locate other barren lands and develop them into agriculturally sound productive lands.
>
> Sir, we are fully aware and we are fully concerned about the fact that in the recent past the SEZs have proliferated, and that is why, the Group of Ministers, after very careful consideration, had indeed placed on

> embargo on giving any further permission for SEZ until the Rehabilitation and Resettlement Act also came into force. It is because not only is this issue of land for SEZ an issue by itself but wherever SEZs are given to people or persons or firms, the issue of displacement also comes into the picture. So, there is on the one hand this delicate balance between food security and also on the other hand there is displacement of people. In our country, today these have become very major problems which we need to tackle, so, from our side we are fully cognizant of it and we are doing our best."

8.12 Asked whether the Ministry of Rural Development maintains any record of land which has been converted from barren land to agricultural land, the witness stated:-

> "I would just like to inform you that this data unfortunately has not been maintained by us so far. Regarding the data as to exactly how much has been converted into agricultural land, we have not maintained that data from the very beginning of this Watershed Programme. But now, in view of the extreme importance of the question that you have asked, we are advising the States to collect this data. What happens is that in most of the programmes where we treat these barren lands, after treatment, these lands do not necessarily become agriculturally productive lands. Some of it is used for bushes. We try to green the area but that does not necessarily mean that it converts into food productive agricultural land. So, the question you have asked is a very important question. But as, I have indicated in my formal reply, that data has not so far been collected by us. Now, in the light of extreme concerns of food security, that is the data that we will try to compile."

8.13 The Committee are concerned to note that the availability of agricultural land is decreasing mainly due to increase in the population and diversion of agricultural land for non-agricultural purposes such as urbanization, roads, industries etc. The Committee have been informed that the land is being acquired for setting up Special Economic Zones (SEZs) to generate employment through industries. Till now, the Government have given approval to 404 projects under SEZ for about 54,280 hectares land from 23 States/UTs out of which 95 approvals are in respect of State Industrial Development Corporation of State Government Agencies involving land areas of approximately 2000 hectares. The Committee note that the Empowered Group of Ministers (EGOM) had discussed some important issues relating to SEZ viz (i) Norms for disposal of pending applications for SEZ; (ii) Fixing of minimum as well as maximum limit of land required for multi-product SEZs; (iii) Reformulation of a comprehensive Land Acquisition Act; and (iv) Working out a comprehensive Resettlement and Rehabilitation Policy.

The Committee further note that to maintain the sustainable agricultural production to meet the requirement of agricultural production in the country, the Ministry of Agriculture has formulated a 19 Action Points of National Land Use Policy Outline (NLPOS) for prevention of diversion of agricultural land for non agricultural purposes by the State Governments. The Committee are of the opinion that setting up of large number of SEZ will affect not only agriculture adversely but also threaten food security and will undermine availability of resources for development. Industrialization is good for the prosperity of the country but not at the cost of agricultural land. The Committee, therefore, desire that the Government should not give the formal approval without obtaining a certificate from the State

Government to the effect that waste land/degraded land/barren land was not available in the district for setting up of SEZ in the particular areas of State. The State Government should identify wasteland for development in lieu of agricultural land being acquired. The Committee, therefore, recommend that the Government should give priority to acquire only barren and waste lands not exceeding 10% of the total land required under the SEZ. In case of utilization of agricultural land, if required for the purpose, the State Governments should try to compensate the agricultural land by improving the productivity of other agricultural lands. Further, they should try to locate other barren land and develop them into agriculturally sound productive land and formulate a Land Use Policy to minimize and regulate the conversion of agricultural land for other uses. The Committee are aware that the Land Acquisition Bill, 2007 is pending in Lok Sabha for discussion. The Committee desire that in the meantime the Government should frame model rules under the Land Acquisition Act for early implementation of the Act.

8.14 The Committee further note that Ministry of Rural Development is not maintaining the data of waste land which has been converted into agricultural land rather they depend only on the information provided by the State Governments. The Secretary, Ministry of Rural Development have promised during evidence that they will try to compile and calculate the data of agricultural land from State Governments which have been converted into agricultural land. The Committee, therefore, recommend that Ministry of Rural Development (Department of Land Resources) should collect the data of waste land converted into agricultural land from all the States/UTs which would help the Government to take the desired initiatives for food security for large population of the country and have a fair idea of conversion of agricultural land into other uses.

CHAPTER IX

SHORTCOMINGS IN PUBLIC DISTRIBUTION SYSTEM (PDS)

The Public Distribution System (PDS) has been evolved as a system of management of scarcity and for distribution of foodgrains at affordable prices. Over the years Targeted PDS has become an important part of Government's policy for management of food economy in the country. TPDS is supplemental in nature and is not intended to make available the entire requirement of any of the commodities distributed under it to a household or a section of the society.

9.2 The Targeted Public Distribution System (TPDS) is operated under the joint responsibility of the Central and the State Governments. The Central Government, through FCI, has assumed the responsibility for procurement, storage, transportation and bulk allocation of foodgrains to the State Governments for distribution to the public through a network of more than 4.93 lakh Fair Price Shops (FPS). The operational responsibility including allocation within State, identification of families below the poverty line, issue of ration cards, monitoring and supervision of functioning of FPS, rests with the State Governments. The foodgrains are allocated to different categories of poor people through TPDS as per the following details:-

9.3 The **Antyodaya Anna Yojana** (AAY) was launched in December 2000 for one crore poorest of the poor families. AAY contemplates identification of poorest of the poor families from amongst the BPL families covered under TPDS within the States and providing them foodgrains at a highly subsidized rate of Rs. 2 per kg. for wheat and Rs. 3 per kg. for rice. The scale of issue that was initially 25 kgs. per family per month has been increased to 35 kgs per family per month with effect from 1 April,. 2002.

Objective of TPDS

9.4 Objective of TPDS is to supply subsidized foodgrains to the poor families. The concurrent evaluation of TPDS conducted by the Deptt. of Food and Public Distribution through NCAER has shown decrease in leakages and diversions, which points to the fact that TPDS is improving over a period of time. Because of implementation of 9 Point Action Plan from July, 2006, more than 96.90 lakh ineligible/bogus ration cards have been cancelled.

9.5 For improving TPDS, the Deptt. of Food and Public Distribution has received certain suggestions from time to time. Some of them are as follows:

i) Foodgrains allocations by the Govt. of India should be linked with strict compliance with the stipulations under the PDS (Control) Order, 2001 by State and UT Governments and other directions of the Government of India so that failure of a particular State or UT Government in compliance should lead to curtailment of the allocations.

ii) Based on the evaluation feedback on TPDS there should be provision of penal action against defaulting States and UT Govts. This may be in the form of reduction in Central assistance in monetary value linked to the value of foodgrains diverted and leaked.

iii) In major States, FCI may retain the role of only MSP-based procurement operations. The rest all responsibility for procurement, storage, transportation and distribution of foodgrains under TPDS should be delegated to the concerned State Governments. By this the concerned State Governments will have full responsibility for all the operations under the TPDS and would be fully answerable for performance. To such State Governments, Govt. of India may release funds for the subsidy involved in the form of Central assistance.

iv) Transfer of Central food subsidy to targeted families can also be done in cash instead of foodgrains as is being done currently, by crediting respective amounts of food subsidy to their accounts in specified banks. However, this will still suffer from exclusion/inclusion errors which are the major area of concern.

9.6 When asked about the existing strategy of the Government to help the poorest of the poor in the context of rise in prices of essential commodities, the Department of Food and Public Distribution stated in a note furnished to the Committee that the following strategy is being followed by the Govt. to help the poorer sections of the society:-

(i) Out of total 6.52 crore accepted number of BPL families for allocation, the poorest among them (2.43 crore AAY families) are being distributed foodgrains at highly subsidized issue prices @35 kg per family per month. The extent of food subsidy being provided to these AAY families is 86% on wheat and 82% on rice.

(ii) AAY families are thus being distributed rice and wheat at issue price of wheat at Rs.3 per kg and rice at Rs.2 per kg. These issue prices for AAY families have been retained at the level of December, 2000.

(iii) The extent of subsidy on foodgrains to BPL families other than AAY is 71% on wheat and 66% on rice, calculated in terms of their economic cost of FCI. Issue price for these BPL families has been retained at the same level as it was in July, 2001.

(iv) In addition to foodgrains, the Govt. is also providing imported edible oils to State and UT Governments with a subsidy of Rs.15 per kg. to be distributed @ I kg per BPL/AAY family per month.

(v) Distribution of subsidized foodgrains and edible oils not only makes them available to the weaker sections, their distribution also helps in augmenting the total availability of these commodities, thereby softening the prices.

(vi) In addition to the above, to contain the price rise of essential commodities in the market, depending upon their availability in the Central Pool, allocations of foodgrains are also being issued for APL families.

(vii) Apart from the normal allocation of rice and wheat for APL category under TPDS during current year 6.2 lakh tons of wheat and rice have also been issued as adhoc and festival allocations.

(viii) To keep price rise under check, as a market intervention measure, 9 lakh tons of wheat have been issued to State Govts. and UT administration under the Open Market Sale Scheme. Open Market Sale of wheat is also under contemplation for bulk consumers.

9.7 Asked whether it is a fact that the shortcomings in the TPDS also contribute in rising of prices of essential commodities, the Department stated that generally rise in price of a particular commodity is response to demand-supply equilibrium of that commodity. If the demand remains at the same level or increases but there is decline in supply of that commodity or there is no increase in its supply, then the price is expected to rise. In the context of functioning of TPDS, even if some malpractices take place, because of which the intended ration card holder families may get distributed some less quantity of the commodities, the pilfered/diverted quantity also becomes available in the market, thereby overall availability of that commodity not getting reduced. As a result the shortcomings in TPDS do not seem to be contributing to rise in prices of essential commodities.

9.8 A study was conducted by the National Council of Applied Economic Research (NCEAR) to evaluate the function of Targeted Public Distribution System (TPDS) the major finding the study are as under: -

> "On the one hand, food was being delivered to the poor quite regularly during the survey period in majority of the selected states. The fact that poorest of the poor do obtain their entitlement quite regularly indicates allocative efficiency of the TPDS system including that of fair price shops. On the other hand, deeper probing revealed gross irregularities indicating large-scale identification errors, excess cards issued and widespread diversion of food entitled for the poor. These issues need to be

corrected if the functioning of the TPDS system is to be improved. The correct identification of the beneficiary is the first step in that direction. Although, attempts have been made to decentralize the identification process by involving the Panchayats and other Local Bodies, the latter process has also to some extent politicized the whole process of identification of the poor. This is happening because of complete lack of monitoring of the system)of identification) at any stage. Given the ground reality, it would not be possible to improve the PDS system unless the consumer especially the poorest ones become aware of their rights. The problem of identification error arises because of lack of information/awareness among the poor about the eligibility criteria for the AAY or BPL or any other welfare schemes for that matter. The people in the lower strata seems to be unaware of the criteria being followed in issuing AAY, BPL or APL card. It would not be possible to improve this system unless the consumers are properly educated on these issues. For this purpose mass information system like local language newspapers, regional radio and television stations should be used to keep the villagers informed and updated about the criteria, entitlement, price of PDS grains etc. Proper monitoring of the system and effective punishment against the culprit for wrong identification would be needed. It would be more appropriate if there are multiple authorities cross checking the identification. In the long run, distribution system should be computerized and all FPS and civil supply godowns should be connected online. This will bring more efficiency and transparency in the system and reduce the scope for diversion of benefits away from the beneficiaries."

9.9 When enquired about the steps taken for strengthening the Fair Price System (FPS), the Secretary, Department of Food and Public Distribution stated during evidence as under:-

"You also talked about strengthening the Fair Price Shop(FPS) system, and making available more foodgrains in terms of price rise. Unfortunately, some States are not able to run their Civil Supplies Corporations or their Civil Supplies Distribution properly because it is not always possible to cover everybody through the FPS. One of the reasons is that we cannot really push more grains into the market even through the FPS unless there is sufficient stock in the FCI. So, one of

> the ways to prevent profiteering is that the State Civil Supplies Corporation should play a more proactive role during the harvesting season, and then sell without profit or with some marginal profit. The State Civil Supplies Corporation does not function properly in many States, and that is one of the problems that we are confronted with."

9.10 The State-wise procurement of wheat of different States during the last five years is as under:-

(Lakh MT)

State	2003-04	2004-05	2005-06	2006-07	2007-08
Haryana	51.22	51.15	45.29	22.29	33.50
M.P.	1.88	3.50	4.84	Neg.	0.57
Punjab	89.38	92.40	90.10	69.46	67.81
Rajasthan	2.59	2.79	1.59	0.02	3.83
U.P.	12.13	17.40	5.60	0.49	5.46
Others	0.81	0.71	0.43	0.00	0.11
All India	158.01	167.95	147.85	92.26	111.28

9.11 From the above statement, it may be seen that in 2006-07 and 2007-08, the FCI could not purchase the required quantity of wheat. During evidence, when the Committee enquired as to why the procurement has failed, the Secretary, Department of Food and Public Distribution stated:-

> "If we were to buy 15 million tonnes domestically and say at whatever price you can tender, that is a different operational formula. But what we are trying to do is to provide Minimum Support Prices to farmers. Whosever wants to sell at that price, sells it; if he thinks he will get a higher price later or in a private trade, he sells to the private trade. So, the freedom is with the farmer. It is almost impossible to go correctly to a target. Sometimes, you are below the target; sometimes, you are above the target, depending on how the market behaves. Now this particular year, in the wheat, a lot of people are on record advising farmers not to sell and saying that prices will rise, please do not sell at this price. Now, it is another matter that prices did not rise too much and those advisors are no more seen. But this sentiment that

> looking at the previous year the prices may rise – if I remember correctly, in November last year, the price of wheat was about Rs. 1130 or Rs. 1140 in Delhi – or will be high in September/October and we will hold it back or some traders would have bought it and held it back. Obviously, in the market, the FCI did not get as much as it thought it will get. This is one of the reasons why we could not procure as much as we would like to."

9.12 As regard availability of good quality of essential commodities to the common man at reasonable rate, the Committee was informed that the Government has taken following steps to make available good quality foodgrains to the consumers through Public Distribution System and Other Welfare Schemes:-

(i) Ample opportunities are provided to the officials of the State Governments/UT Administrations to inspect the stocks prior to lifting from the Food Corporation of India (FCI) godowns.

(ii) Instruction have been issued to all the State Governments/UT Administrations that an officer not below the rank of Inspector should be deputed to check the quality of foodgrains before lifting from the FCI godowns.

(iii) The samples of foodgrains are to be jointly drawn and sealed by the officers of the State Governments/U.T. Administrations and the FCI from the stocks for display at the counters of Fair Price Shops (FPSs) for the benefit of consumers.

(iv) The officers of the State Governments and the Ministry pay surprise checks to the FPSs, to over see the quality of foodgrains being distributed through PDS.

9.13 In reply to another question regarding increasing availability of commodities during the periods of price increase, the Committee have been informed that the Government is planning to set up a non-formal Public Distribution System (PDS) to spruce up supplies of essential commodities to control prices through State Civil Supplies' Corporations and Consumers' Marketing Federations to enable these agencies to effectively intervene in the market by increasing availability of commodities during periods of price increases. The scheme would involve providing non-plan assistance to these agencies subject to certain performance benchmarks. These measures are aimed at increasing domestic availability and a consequent reduction in prices through improved supply management. However, this scheme is yet to be formulated.

9.14 The Committee are concerned to note that the Government has not been able to fulfill its commitment to help the poor in the context of rise in prices of essential commodities through PDS. The Committee note that the Government supplies subsidized foodgrains to the poor families under Public Distribution System. FCI has been given the responsibility for procurement, storage, transportation and distribution of foodgrains to the public through a network of more than 4.93 lakh Fair Price Shops (FPS). Identification of beneficiaries, issue of ration cards, monitoring and supervision of FPS, rest with the State Governments/UTs. Under Antodaya Anna Yojana (AAY), foodgrains to the poorest of the poor families at a highly subsidized rate i.e. Rs. 2 per kg for wheat and Rs. 3 per kg for rice is supplied. The Committee find that although the Government has formulated and is following the strategy to issue foodgrains, edible oils and pulses at subsidized rates to the BPL, AAY and APL families, yet it has not been able to help the poorer sections of the society due to the shortcomings in the functioning of PDS. The Committee strongly recommend that 20% of the poor persons who are above poverty line i.e. just above BPL should be considered for supply of PDS foodgrains at subsidized rates. One of the menace in the proper functioning of PDS is the leakage and diversion of foodgrains at large scale, which fact has also been corroborated in the evaluation study conducted by NCAER. The Committee, therefore, strongly recommend that to stop the leakage and diversion of foodgrains, Government should introduce Vehicle Movement System to track the delivery of foodgrains to Fair Price Shops (FPS). The Government should also persuade the States/UTs to strengthen its enforcement machinery to take action in case of diversion and leakage of foodgrains. The Committee are of the view that the very purpose of supply of foodgrains at highly subsidized prices is defeated if the benefit of TPDS does not reach to the intended persons of

AAY, BPL and APL families and are diverted to open market for sale at higher rates. The Committee feel that although the management and operation of PDS is the joint responsibility of Central and State Governments concerned, yet it is the Central Government which procures and allocates the foodgrains to the State Governments which in turn distribute foodgrains through their agencies within their respective States. It is, therefore, the responsibility of the Central Government to devise a mechanism to obviate the diversion of foodgrains meant for distribution to poorer people of the society. The Committee, therefore, emphasize that the issue of diversion of foodgrains should be tackled with utmost seriousness and recommend that to check the diversion of foodgrains, a joint special audit by officials of FCI and State Governments should be conducted in the event of offtake being abnormally high.

9.15 The Committee further note that the Government contemplates to strengthen the Public Distribution System (PDS) by setting up a new scheme viz. 'Non-Formal Public Distribution System' to spruce up supplies of essential commodities at control price. The scheme will be implemented through State Civil Supplies Corporations and Consumers' Marketing Federations by increasing availability of commodities during period of price increase. While appreciating the efforts made by the Government to spruce up supplies of essential commodities at control price during price increase, the Committee desire that the scheme of Non-formal PDS should be introduced and implemented in the current financial year itself.

CHAPTER-X

The Wheat (Stock Declaration) Order-2007

The Department of Consumer Affairs informed the Committee that in the context of the liberalization of the economy and the changed situation, particularly with regard to the relatively more comfortable food situation, it was felt that restrictions such as licensing of the dealers, limits on stock and control on movement are no longer required and only hamper the growth of the agricultural sector and promotion of food processing industries. Facilitating free trade and movement of foodgrains would enable farmers to get best prices for their produce, achieve price stability and ensure availability of foodgrains in deficit areas.

10.2 The need to relax various controls on agricultural products including control on inter-state movement of such products, was discussed in the conference of Chief Ministers on WTO and Agriculture held on 21.05.2001 under the chairmanship of the then Hon'ble Prime Minister wherein it was decided to form a Committee of Ministers incharge of five Central Ministries i.e. Agriculture, Commerce and Industry, Finance, Consumer Affairs, Food and PD, Rural Development as well Deputy Chairman of Planning Commission and Chief Ministers of eleven States. Review of the list of essential commodities and control orders to ensure free movement of agriculture products was one of the terms of reference of the Committee.

10.3 The said Committee in its first meeting held on 6th July, 2001 decided that restrictions on movement of all agricultural commodities should be removed and that the Essential Commodities Act, 1955 may continue as an umbrella legislation for the Centre and the State to use when needed but that a progressive dismantling of controls and restrictions was also required.

10.4 In view of the uniform decision taken by the aforesaid Standing Committee and with the approval of Cabinet accorded in its meeting held on 05.02.2002, licensing requirement, stock limits and movement restrictions etc. had been dispensed with in respect of the specified foodstuffs namely wheat, paddy/rice, coarsegrains, sugar, edible oilseeds, edible oils, pulses, gur, wheat products (namely maida, rava, suzi, atta, resultant atta and bran) and hydrogenated vegetable oil or vanaspati vide central orders dated 15.02.2002 and 16.06.2003. These Notifications, however, do not restrict the Central Government or the State Governments from operating the Public Distribution System (Control) Order, 2001 in respect of Public Distribution System (PDS) items, operation of the rice/paddy levy orders issued by the State Governments for the purpose of procurement of rice and regulating procurement and distribution of sugar. The **"Removal of Licensing Requirement Stock Limit and Movement Restrictions on specified Foodstuffs (Amendment) Order 2006"**, which enabled the State Governments to impose stock limits on wheat and pulses was issued by Department of Consumer Affairs on 29.08.2006**.** All the States and UTs were also requested to take effective action using the powers vested with them under the Essential Commodities Act, 1955, to bring out the hoarded stocks of these items into the open market. The validity of this Central Order was extended further by six months w.e.f. 1.3.2007 vide Central Order dated 27.2.2007**.** After reviewing the situation, Government has decided to further extend the validity of the Central Order by another six months w.e.f 1.9.2007.

10.5 Pursuant to issue of **"Removal of Licensing Requirement Stock Limit and Movement Restrictions on specified Foodstuffs (Amendment) Order 2006"** dated 29.8.2006 under Essential Commodities Act, 1955, stock limits for wheat and pulses have been fixed by 11 States/UTs.

10.6 The **"Wheat (Stock Declaration by Companies or Firm or Individuals) Order, 2007",** makes it mandatory for any company/firm/individual purchasing wheat in excess of 50,000 tonnes during RMS 2007-08 to file returns regarding purchases made and stocks held by them. The State Governments of wheat producing States were advised to give wide coverage to this Order and ensure that private traders declared their purchases and stocks as stipulated in this Order. The State Governments were also asked to verify the records available in their Agriculture Marketing and Trade Tax Department and compare it with the returns filed by various companies/firms/individuals with Government of India. The State Governments have also been asked to investigate any instance of misreporting/under reporting purchases of wheat by any company/firm/individual and to take stringent action as per the provisions of Essential Commodities Act, if any violation of the "Wheat (Stock Declaration by Companies or Firm or Individuals) Order, 2007" is detected.

10.7 The Committee also enquired as to how many companies have actually filed the declaration under the "Wheat (Stock Declaration by Companies or Firm or Individuals) Order, 2007", the Department of Food and Public Distribution stated that till end of September 2007, nine companies have filed the declarations under the "Wheat (Stock Declaration by Companies or Firm or Individuals) Order, 2007".

10.8 The Committee have been informed that the States too had a responsibility in containing prices of essential commodities. The Chief Ministers had the power to issue control order under the Essential Commodities Act with Central Permission. Despite such a vast power granted to State Governments, prices of essential commodities are still soaring high. Asked as to how the Government of India would strengthen its monitoring mechanism over the functioning of the State Governments, the Department of Consumer Affairs informed the

Committee that In the context of unprecedented rise in prices of some essential commodities in the mid 2006, there had been wide spread concern from various corners for taking immediate steps to mitigate the rising trend of prices of essential commodities. Representations from the Chief Ministers of Punjab and Delhi and also from the Govt. of Andhra Pradesh, Rajasthan and Maharashtra were received for restoration of powers under the Essential Commodities Act, 1955 for undertaking dehoarding operations in view of the assumption that there is speculative holding back of stocks particularly of wheat and pulses in anticipation of further rise in prices. Central Govt. has already taken a number of steps to control the price rise in essential commodities by trying to augment supply including through imports by reducing the duty level on import of both wheat and pulses to zero.

10.9 These actions have physically improved the supply position. The situation was further reviewed by the Govt. and it was decided with the approval of the Cabinet to keep in abeyance some provisions in the Central Order dated 15.2.2002 for a period of six months with respect to wheat and pulses (whole and split), so as to tackle the crisis on availability and prices of these commodities. Accordingly, the Central Govt. issued a Central Order No. 1373(E) dated 29.8.2006 by virtue of which the words or expressions made in respect of purchase, movement, sale, supply, distribution or storage for sale in the "Removal of (Licensing requirements, Stock limits and Movement Restrictions) on Specified Foodstuffs Order, 2002" notified on 15.02.2002 have been kept in abeyance for commodities namely wheat and pulses for a period of six months. The transport, distribution or disposal of wheat and pulses (whole or split) to places outside the State as well as to import of these commodities have been kept outside the purview of the aforesaid Order of 29.08.2006. The Order of 29.08.2006 was initially in force for a period of 6 months, which was extended thrice for a period of 6 months each by Central Notification dated 27.02.2007,31.8.2007 and 28.02.2008. This order is currently in force upto 31.8.2008. The same has now again been extended up to 30.04.2009 vide Central Notification dated 27.08.08. The Order has permitted State/UT Governments to fix stock limits in respect of wheat and pulses.

10.10 So far as implementation of these orders is concerned it has been mentioned that only 17 State Governments/UTs have either issued stock limits for all the five items or wheat and pulses only or have issued only licensing requirements/stock declaration (of these 17, 12 States/UTs have actually issued stock limit orders/in the process of issuing. 5 States/UTs have issued licensing requirements/stock declarations). 7 States are considering to issue stock limit orders. 7 States/UTs have decided not to issue stock limit orders. The remaining 4 States/UTs have not responded at all.

10.11 During evidence the Committee enquired about the status of implementation of the Stock Declaration Order by the States/UTs. The Secretary, Department of Consumer Affairs stated:-

> "It is quite clear that the supply constraints are certainly in position in the sense that supply is not meeting the demand. Hoarding, as I was submitting, is a function of putting into place a stock limit regime which six or seven State have done. Other five or six States have not put limits but they have asked for declaration both by wholesalers and retailers, which means about a dozen States have some sort of a monitoring mechanism or the other. Other States have clearly mentioned that they would not like to put the stock limit, whatever be the reasons. Hoarding is a function of the expectations whether the price will increase or otherwise. Some amount of hoarding is also there. I am not talking about wheat but in terms of perishable goods where total demand at that point of time is not there, so they will be put in the warehouse. I would not venture to say with any authority that hoarding has happened in large measure because States have not taken steps to have a hoarding limit beyond six. This is a function of the State Government trying to do something within their respective States. Apart from that, the Hon'ble Prime Minister has asked the Chief Ministers, we have taken that sort of feed back, to constitute Committees.

Meetings are held, as suggested by the Prime Minister, and we also have the reports of these meetings. That is the mechanism we have. Our Minister has written to the Chief Ministers that they should consider putting limits. We have again written to the Chief Secretaries that six States have done and based on the powers given to them they should put a stock limit."

10.12 The Committee note that the Central Government has taken a number of steps to control the prices of essential commodities. One of the major initiatives taken by the Government was to issue Wheat (Stock Declaration by Companies or Firms or Individuals) Order, 2007 through which it was made mandatory for any company, individual to file return if they purchase wheat in excess of 50,000 metric tonnes. So far as implementation of these orders is concerned it has been mentioned that only 17 State Governments/UTs have either issued stock limits for all the five items or wheat and pulses. 5 States/UTs have issued licensing requirements/stock declarations). 7 States are considering to issue stock limit orders. 7 States/UTs have decided not to issue stock limit orders. The remaining 4 States/UTs have not responded at all. The Secretary, Department of Consumer Affairs admitted during evidence that there is some amount of hoarding because except six, the other States have not taken steps to put the stock hoarding limit of wheat. In the opinion of the Committee, a large number of multi national companies or private traders have entered into the market in a big way and are purchasing huge quantity of wheat over and above Minimum Support Price (MSP) fixed by the Government. They procure wheat in excess of their requirement which leads to profiteering, hoarding and blackmarketing of wheat. The Committee feel that only filing the return by the individual or traders or companies will not give any tangible result to curb the hoarding of wheat by them. The Committee, therefore, recommend that the matter should be taken at the highest level of the remaining States to implement the stock hoarding limit in letter and spirit to fight the menace of hoarding and blackmarketing of essential commodities thereby helping in curbing the price rise.

CHAPTER XI

Hoarding and Blackmarketing of Essential Commodities

The Committee have been informed that the Department of Consumer Affairs is the nodal Department under the Ministry of Consumer Affairs, Food and Public Distribution, which is entrusted inter-alia with the work of Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities. Action against hoarders and blackmarketers is undertaken by the State Governments under the provisions of The Essential Commodities Act, 1955 and the Prevention of Black-marketing and Maintenance of Essential Supplies Act, 1980 for prevention of unethical trade practices like hoarding and black-marketing. The Act empowers the State Governments to detain persons whose activities are found to be prejudicial to the community. As informed by the Department, directions have been given to States/UTs from time to time to take necessary actions under both the Acts to prevent hoarding and smuggling. Secretary (Consumer Affairs) has also vide his d.o. letter dt. 14.06.2007 advised Chief Secretaries of all States/UTs, to strengthen the enforcement machinery to prevent mal-practices in essential commodities and take necessary action against the unscrupulous persons indulging in hoarding and blackmarketing of essential commodities. The Department has also asked all State Governments/UT Administrations to submit monthly reports indicating the action taken under the provisions of these two Acts. They have been requested to send their views on the recommendations made by the Parliamentary Standing Committee as to whether there is any lacunae in the Essential Commodities Act due to which most of the unscrupulous persons go scot free despite serious offences.

11.2 The Department has informed the Committee that besides, Conferences with the Secretaries of Consumer Affairs, Food & Civil Supplies Departments of all States/UTs are held by this Department periodically in which all the State Governments/UT Administrations are emphasized upon to take necessary actions under the provisions of these two Acts to check hoardings, smugglings etc. of essential commodities by unscrupulous traders/persons. It has been emphasized upon them to take all necessary measures to prevent hoarding and blackmarketing which lead to non-availability of essential commodities coupled with rise in prices. Further, periodical video conferences are also arranged with States/UTs under the Chairpersonship of Additional Secretary (Consumer Affairs) wherein the need for taking effective action under these two Acts by the States/UTs is reiterated. This was also taken up in the Chief Secretaries conference held under the Chairmanship of Cabinet Secretary on 22.04.2008.

11.3 The Department of Consumer Affairs has furnished the following statement showing the number of persons arrested, prosecuted and convicted for violations of Essential Commodities Act, 1955 during 2008 (up to 31.08.2008):-

S. No.	States/UTs	No. of Raids conducted	No. of persons arrested	No. of persons prosecuted	No. of persons convicted	Value of goods confiscated in Rs. Lakh	Reported upto
1	Andhra Pradesh	12367	15	4	-	19.98	July
2	Assam	508	11	19	Nil	0.04	July*
3	Arunachal Pradesh	15	Nil	Nil	Nil	Nil	June
4	Bihar	9	9	Nil	Nil	Nil	June
5	Chhattisgarh	225	1	32	1	102.03	March
6	Delhi	133	120	96	4	61.7	August
7	Gujarat	22867	17	78	Nil	174.85	August
8	Goa	31	Nil	Nil	Nil	Nil	July
9	Haryana	3	Nil	Nil	Nil	Nil	June
10	Himachal Pradesh	9418	6	40	Nil	3.3	April
11	Jammu & Kashmir	103	66	27	Nil	Nil	March
12	Jharkhand	Nil	Nil	Nil	Nil	Nil	April
13	Karnataka	1883	49	1	1	23.13	June
14	Kerala	58346	10	Nil	Nil	3.33	July
15	Madhya Pradesh	14921	52	107	Nil	405.15	April
16	Maharashtra	1496	1791	1371	Nil	2009.4	June
17	Manipur	69	1	Nil	Nil	0.09	July
18	Meghalaya	36	1	2	1	0.05	August
19	Mizoram	43	Nil	Nil	Nil	Nil	March

20	Nagaland						Not Reported
21	Orissa	1497	8	64	Nil	13.66	July
22	Punjab	20584	15	4	1	1.95	June
23	Rajasthan	137	Nil	57	Nil	10.89	February
24	Sikkim	1	2	2	Nil	0.01	June
25	Tamil Nadu	11106	1095	608	761	431.7	June
26	Tripura	17	3	Nil	Nil	0.43	May
27	Uttaranchal						Not Reported
28	Uttar Pradesh	19869	536	845	Nil	696.1	July $
29	West Bengal	71	32	5	Nil	10.73	April
30	A&N Islands	203	Nil	Nil	Nil	Nil	July
31	Chandigarh	3	4	Nil	Nil	0.27	March **
32	D&N Haveli	8	1	Nil	Nil	0.07	July
33	Daman & Diu						Not Reported
34	Lakshadweep	Nil	Nil	Nil	Nil	Nil	July
35	Pondicherry	381	54	54	1	4.9	July
	Total	176350	3899	3416	770	3973.76	
	* - Except January & February						
	** - Except January						
	$ - Except May						

11.4 From the above Statement, the Committee find that a large number of States/UTs have furnished a 'Nil' report regarding the persons arrested and persons prosecuted as well as convicted. When asked as to why some of the State/UTs have submitted "NIL" report to the Department of Consumer Affairs and whether they have implemented the Essential Commodities Act in their respective State, the Department stated that going by the "NIL" reports sent by some State Governments/UTs, it can be presumed that these State Govts./UTs might not have conducted any raids/not have detained any persons for indulging in mal-practices in essential commodities. In respect of those States/UTs, who have not sent any "monthly action taken report", it would be very difficult to come to any conclusion on the action taken by them under the Essential Commodities Act, 1955 and Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act, 1980. However the States/UTs have been addressed separately to submit the monthly Action Taken Reports as required.

11.5 During evidence, the Committee pointed out that upto 31.08.2008, 1,76,350 raids were conducted but only 770 persons were convicted under the Act and enquired the reasons for low conviction. The Secretary, Department of Consumer Affairs stated:-

> "This is with the State Governments. We, in fact, at the level of our Ministers as well as at my level have been impinging upon the State Governments that this should be tightened up. In various conferences and at other levels these two points have been emphasized. At the State level, the hon. Prime Minister had written a letter to Chief Ministers to strengthen this machinery and mostly, by and large, in the States they have formed these committees under the Chairmanship of the Chief Minister."

11.6 The Committee have also furnished the following information regarding the action taken by States/Union Territories under the Essential Commodities Act, 1955 and Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980 during the last three years i.e. 2005, 2006 and 2007 (upto 15.4.2008) :-

Year	No. of Raids	No. of persons arrested	No. of persons prosecuted	No. of persons convicted
2005	**94356**	**4421**	**2449**	**39**
2006	**134025**	**5421**	**3244**	**498**
2007	**235405**	**6944**	**4872**	**1022**
2008 (1.1.2008 to 31.5.2008)	**116967**	**1799**	**1792**	**759**

11.7 From the above statement it has been noted that the number of raid/persons arrested/prosecuted/convicted under Essential Commodity Act, 1980 and prevention of black-marketing and maintenance of supplies of Essential Commodities Act, 1980 during the last three years is constantly on the rise, which is indicating that tendency of hoarding and black-marketing by traders is also rising creating artificial scarcity leading to price rise. In this context, the

Committee enquired about the steps being taken to curb these activities. The Department of Consumer Affairs in their written reply furnished to the Committee stated that the enforcement of the Essential Commodities Act, 1955 lies with the State Governments/ Union Territories. The State Governments/UT Administrations have been delegated powers to take necessary action under the provisions of both “The Essential Commodities Act, 1955” and “The Prevention of Blackmarketing of Essential Commodities Act, 1980”, to prevent mal-practices in essential commodities. Besides, Central Government is also regularly monitoring actions being taken by various States/UTs under the aforementioned two Acts. Letters have also been written at the level of Additional Secretary (CA) to all the States/UTs indicating the lapses observed in the Action Taken Reports being sent by them monthly.

11.8 Asked whether the low prosecutions was due to lack of proper investigation of cases on the part of the enforcement machinery, the Secretary stated during evidence:-

> “We have separately also brought to the notice of the States, in fact, not only the concern of the Standing Committee but as a concern of all of us that this is very important for the States to follow. We will repeat those instructions and find out as to what are the reasons for this.”

11.9 Asked whether there is a proposal for strengthening the enforcement machinery to take stringent action against these people, the Department of Consumer Affairs stated that action under the Essential Commodities Act, 1955 and Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act, 1980 is undertaken by the State/UTs. The raids, arrests and institution of cases, etc. are also done by them. These two Acts provide adequate powers to the State Govts./UTs to take actions against unscrupulous persons indulging in hoarding and black marketing of essential commodities. State Governments are therefore periodically advised to take effective action against such unscrupulous persons under the provisions of these Acts.

11.10 The Department of Food and Public Distribution in reply to recommendation contained in Para No. 4.25 of 23rd Report on Demands for Grants (2008-09) stated that the Department of Consumer Affairs has sought views of State/UT Governments regarding any lacunae in the Essential Commodities Act and the 'Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980' and suggestions regarding changes, if any, required to make them more effective in curbing hoarding and black-marketing of Essential Commodities. During evidence, the Committee enquired whether there is any need to make modification in the Essential Commodities Act, the Secretary stated :-

> "I do not feel that more powers to the investigating agencies at the State level be given because it will impede firstly the market as a whole and secondly one cannot foresee what use they will be made at the State level. The provisions in respect of stock holding limits and blackmarketing are two potent provisions. As the Hon. Minister had indicated, if we implement them properly and with vigour, I think, it should be adequate."

11.11 He further added:-

> "I personally do not feel, Sir, that our law is inadequate. In any case, the EC Act was amended in 2006 after widespread States consultations. So, I do not think that there is any need to change that. But about technology, yes, I agree. That depends on the nature of the technology used by the miscreants to try to get out of the clutches of the law."

11.12 The Committee have been informed that there is standing order issued to all the State Governments/UT Administration to submit monthly reports to the Department of Consumer Affairs indicating the action taken under provisions of Essential Commodities Act, 1955 as also Prevention of Black Marketing and Maintenance of supplies of Essential Commodities Act, 1980. Asked whether the Government is receiving the required information from all the States / UTs regularly, the Committee was informed that regular follow up action to obtain the "monthly action reports" from the State Government/UTs are carried out by the Central Government. Despite regular reminder, some State Governments either do not respond at all or furnish monthly reports in an irregular manner. The matter was also taken up at high levels with the State Governments/UTs. The Committee have observed that as per Section 3 of the 'Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act, 1980', the State Governments/UTs are required to report the details of detention cases to the Central Government within 7 days from the date of approval of detention case by the State Governments/UTs. When enquired about the detention cases reported by various States under Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act, 1980 for the year 2007 and 2008 (upto 18.09.2008), the Committee was furnished the following information:-

Name of State	2007	2008 (As on 18.09.2008)
Gujarat	50	13
Tamil Nadu	65	85
Maharashtra	1	-
Madhya Pradesh	3	-
Andhra Pradesh	-	03
Total	119	101

11.13 The States/UTs which have not furnished the reports have been addressed by Additional Secretary (CA) vide his letter dated 10.09.2008. This letter emphasized upon the need of timely submission of the reports being sent by the States/UTs.

11.14 The Committee note that the Department of Consumer Affairs is entrusted with the responsibility to prevent unethical trade practices like hoarding and blackmarketing through two Acts viz. The Essential Commodities Act, 1955 and Prevention of Blackmarketing of Essential Commodities and Maintenance of Supplies of Essential Commodities Act, 1980. Action against hoarders and blackmarketers is undertaken by the State Governments under the provision of these acts. The Department of Consumer Affairs from time to time takes views of the State Governments/UTs to know whether there is any lacuna in the Acts due to which most of the unscrupulous persons go scot free despite serious offences. From the information furnished by the Government, the Committee find that despite a large number of raids conducted by the enforcement machinery of State Governments/UT Administration, the number of persons prosecuted and convicted were very minimal which may be due to shortcomings in the Acts. The Secretary, Department of Consumer Affairs during evidence stated that the provisions of the Acts are adequate provided these are implemented properly with vigour. However, he admitted that due to technology used by miscreants, they try to get out of the clutches of the law. The Committee feel that since the number of persons arrested and convicted under the Acts are on the rise, indicating the corresponding rise in cases of hoarding and blackmarketing, there is inadequacy in the provisions of the Acts to take action

against unscrupulous persons indulging in hoarding and blackmarketing of essential commodities. The Committee, therefore, strongly recommend that the Government should make amendments in the penal provisions of the Acts in consultation with the States/UTs so that the offenders do not escape for want of the requisite provision in the law.

11.15 The Committee note that Essential Commodities Act, 1955 and Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act, 1980 empowers the State Governments/UTs to take action against the unscrupulous persons indulging in hoarding and blackmarketing of essential commodities. From the information furnished by the Department of Consumer Affairs, the Committee find that during 2008, the rate of conviction of the persons arrested is very low as compared to the persons prosecuted for violation of the Essential Commodities Act, 1955. Out of 1,76,350 persons arrested during this period, 3416 persons were prosecuted and only 770 persons were convicted. It is more surprising that in Andhra Pradesh, Gujarat, Kerala and Uttar Pradesh where 12,367, 22,867, 58, 346 and 19,869 respectively raids were conducted but not a single person was convicted. In respect of Punjab, 20,584 raids were convicted but only 15 persons were arrested and out of 4 prosecution, only one person was convicted under the said Acts. The Committee are not satisfied with the argument of Department of Consumer Affairs that the enforcement of the Essential Commodities Acts lies with the State Governments and Union Territories to take action against the hoarders and blackmarketers. In the opinion of the Committee, the Central Government cannot shrink with its responsibility for the proper implementation of the Acts. According to the Department, going by the 'NIL' reports sent by some State Governments/UTs, it can

be presumed that these State Governments/UTs might not have conducted any raids or not have detained any persons for indulging in malpractices in essential commodities. The Committee deplore the lackadaisical approach of State Governments/UTs in either not furnishing any 'monthly action taken reports' or by giving 'NIL' reports. The Committee, therefore, strongly recommend that the Department should strengthen its enforcement machinery and direct the State Government/UTs to conduct regular raids to catch hold the hoarders and blackmarketers who create artificial scarcity leading to price rise and to ensure that the persons arrested are prosecuted strictly in accordance with the law of land. It will also help the Government to keep check over the rising in prices of essential commodities.

11.16 The Committee note that as per Section 3 of the 'Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act, 1980', the State Governments/UTs are required to report the details of detention cases to the Central Government within 7 days from the date of approval of detention case by the State Governments/UTs. The Committee find that only 5 State Governments have furnished information in this regard to the Department of Consumer Affairs during the year 2007 and 2008 (upto 18.09.2008). The Committee are of the view that other State Governments have not furnished any information so it may be construed that except 5 State Governments/UTs, other State Governments/UTs have not made any detention under the Act. It appears to the Committee that the remaining States/UTs are not serious in the implementation of the Acts and, therefore, Department of Consumer Affairs is being kept in the dark by most of the State Governments by not abiding by Section 3 of the aforesaid Act. The Committee, therefore, recommend that the State Governments should be persuaded to supply the information of detention cases within the prescribed time limit as per the Act.

CHAPTER-XII

FORWARD MARKET COMMISSION

The Concept of Forward trading in India has its inception since 1875 when Bombay Cotton Trade Association Ltd. introduced forward trading in cotton. Subsequently many regional Exchanges came into existence. Forward Markets Commission (FMC) got its statutory status under the Forward Contracts (Regulation) Act, 1952. The Futures Market performs two important economic functions, namely, of price discovery and price risk management with reference to a given commodity. In order to minimize the risk factors associated with the futures market, regulation of forward trading is done by a three tier regulatory structure, viz., the Central Government, Forward Markets Commission and the recognized Commodity Exchanges / Associations. It functions under the administrative control of the Ministry of Consumer Affairs, Food & Public Distribution; Department of Consumer Affairs, Govt. of India.

12.2 The subject 'futures trading' is in the Union List of Seventh Schedule of the Constitution. The Parliament enacted the Forward Contracts (Regulation) Act, in 1952 and the same has been on the statute book since then. This Act governs forward trading in India. The Act governs goods which have been defined to exclude actionable claims, money and securities, i.e., the Act applies mainly to commodities. Presently, the futures trading is regulated in 105 commodities by issue of notification under Section 15 of the Act. At present, there are 22 recognized associations for futures trading including 19 specific commodity (Regional) Exchanges. The Commission thus is a statutory authority entrusted with regulatory functions under the Act.

12.3 The Commission consists of a Chairman and three members. It has its headquarters at Mumbai and a Regional Office at Calcutta. Forward Markets Commission has 5 Divisions to carry out various tasks. These Divisions were formed on 1st August 2005 in order to streamline the work on a functional basis.

NATIONAL MULTI – COMMODITY EXCHANGE

12.4 The Committee observed that there were three national multiple commodities exchanges out of which two are situated in Mumbai and one at Ahmedabad. When asked as to why all the multi- commodity exchanges are centralized only in the western part of the country and what were the difficulties faced in setting up of multi- commodity exchange all over the country, the FMC in a written reply intimated that the three national exchanges were granted recognition after following an elaborate process of inviting applications through issue of a press note and short-listing them on the basis of the criteria prescribed in terms of the proposed organizational structure, management structure, trading, clearing and settlement practices etc. as the national exchanges provide for online trading with national reach, geographical location of the exchanges is of little significance as the trading terminals of the exchanges can be accessed from any part of the country.

12.5 The Committee wanted to know if some application were in the process with FMC for recognition as national commodities exchanges, the Chairman FMC replied in the positive.

12.6 The Committee pointed out that the National Board of Trade, Indore (NBOT) was declared the best commodity exchange during the National Conference of Commodity Exchanges held on 2nd September, 2003 on the basis of volume of trade. When asked whether the NBOT has been declared as a National Multi-commodity Exchange, the FMC stated that among the existing single commodity exchanges, NBOT had achieved the highest turnover. Even though NBOT was one of the applicants for the status of the National Exchange, it was not given the recognition as a Multi Commodity Exchange as it had failed to set up the same within the stipulated time from the date of in-principle approval of their application.

12.7 The Chairman, FMC in reply to a related question stated during evidence that out of 16 requests only 4 were shortlisted in which NBOT was also there. But they themselves had to surrender the licence and couldn’t develop their National Exchange since they couldn’t get the software and develop the IT system.

PRICE DISSEMINATION PROJECT

12.8 The Committee was informed in a written reply that the government of India had launched the ‘price dissemination project’ during the XI five year plan to facilitate the farmers to increase their bargaining capacity and to provide information of prices for their product in pre-sowing and pre-harvesting period.

12.9 When asked about how far the ‘Price Dissemination Project’ is likely to be successful in checking the prices of Essential Commodities, the FMC in a written reply informed that the dissemination of futures prices would enable farmers to understand the economic significance of the futures market and help them to make use of the price signals emanating on a real time basis from the futures market in their sowing and marketing decisions. It is also expected that the availability of futures prices at the mandis will enable small and marginal farmers to get better price realization for their produce from the traders who normally offer very low price to farmers taking advantage of their ignorance about the future demand and supply situation and then financial compulsions.

12.10 When the Committee desired to know whether the project was being implemented in all the districts of the States/UTs, the FMC in their written replies informed that the task of placing the ticker boards in areas having farmers footfalls is stupendous and would be implemented with the support of various organizations (like APMCs mandis, rural post offices, rural branches of the banks, etc.) having reach to the farmers. in the first phase starting this year, around 1000 agmarknet APMCs (mandis) spread over 18 states which already have agmarknet's computer hardware and internet connectivity have been identified for placement of price ticker boards. it will be extended to all mandis in all states in the following years.

12.11 When asked about the study to see the percentage of small and marginal farmers benefited from future/forward trading, the Chairman,FMC during the evidence stated that so far no such study has been conducted but they were trying to bring more and more farmers to the future trading market.

12.12 On being asked as to how the forward market commission ensures that the small/marginal farmers are benefited from the dissemination of prices at APMCs the FMC in their replies intimated that the commission has been organizing awareness programmes for mandi officials, traders and farmers so as to familiarize them with the futures market.

AWARENESS PROGRAMME ABOUT PRICE FLUCTUATIONS

12.13 According to the FMC, creation of awareness amongst the farmers and related bodies and organizations including the ones which could be potential hedgers / aggregators was one of the major activities of the Commission this year.

12.14 When the Committee desired to know about the extensive training to farmers and their cooperatives regarding Agriculture Price

Risk Management and to encourage them to participate in the future market, the FMC in their written replies stated that it was true that the benefits of futures market have not trickled down to the small and marginal farmers in a big way mainly due to their ignorance and lack of awareness and non-availability of appropriate infrastructure.

12.15 The Committee wanted to know the steps taken to create awareness by the Government/Forward Market Commission amongst the farmers about the price fluctuations, cropping patterns and to avoid distress sale of the foodgrains. The FMC in a written reply stated that on its part, firstly the FMC has launched an awareness campaign to create awareness amongst farmers about the benefits of futures trading. In this campaign, the FMC is collaborating with all the Commodity Exchanges, Agricultural Universities, Business Schools, Commodity Boards, Cooperative Organizations, NABARD, other institutes such as NIAM, CAB, NIBM, VAMNICOM, IGDIR, MANAGE and various farmers' training centres. In the Financial year 2007-08, FMC conducted 114 awareness programmes out of which 75 were exclusively for farmers.

MONITORING MECHANISM

12.16 When the committee asked about the details of surprise checks and raids conducted by FMC at the recognized associations during the last three years, the FMC stated that till about 10 years back, there were hardly any major commodities under futures trading. Hence, the commission had very little regulatory work and limited enforcement activities

12.17 When asked about the steps taken by the Forward Market Commission to make the process of price discovery of commodity transparent, the committee was informed that there are certain pre-requisites for an efficient and transparent futures market. The process of price discovery in commodity exchanges becomes robust and transparent when the trading acquires sufficient liquidity and depth. Participation by a large number of stake holders and sufficient hedge positions by physical market players, viz., producers, processors, exporters, importers, etc., ensures a balance between speculators and hedgers through competitive buy-sell positions (reflecting supply-demand equations in the physical market). This ensures against price manipulation by one or a few players. a robust regulatory framework and sufficiently empowered and independent regulator are a sine qua non for a healthy market. The market should also be free from major Government interventions. Government has introduced a bill in the Parliament to amend the FC(R) act to strengthen the regulatory framework and confer autonomy on the regulator. Expeditious enactment of these amendments is necessary.

<u>Trading of Essential Commodities in the Futures Market</u>

12.18 The Forward Contracts (Regulation) Amendment Bill, 2006 was referred to the Committee for examination. The Committee examined the bill and presented the report to Parliament on 19th December, 2006. The Committee strongly recommended that agricultural commodities especially foodgrains including coarse grains, pulses and sugar need not be permitted to be traded in the commodity market. The Hon'ble Finance Minister in his Budget Speech (2007-08) announced the decision of the Government to ban forward trading of Wheat and Rice with effect from 27th February, 2007. The Government also had banned forward trading of Tur and Urad on 2nd February, 2007. The Committee in their 19th Report on Demands for Grants (2007-08) presented to Parliament on 27th April, 2007 had also recommended that there was an urgent need to ban forward trading in the remaining essential commodities.

12.19 The Committee wanted to know the position of ban on agricultural and other essential commodities at present. The Chairman, FMC during evidence deposed that it was true that the ban on trading of certain commodities in the future market still continued. The

Committee learnt from the press clippings dated 27^{th} November, 2008 that the ban on trading of these commodities in the futures market will be lifted after November, 2008. The FMC in their post evidence replies dated 5^{th} December, 2008 in reply to a related question intimated the Committee that Wheat, Rice, Tur and Urad had been de-listed since early 2007.

12.20 The Committee at their sitting held on 8^{th} December, 2008 took further evidence of the representatives of the Department of Consumer Affairs desired to know the latest position in this regard. The Secretary, Department of Consumer Affairs deposed that he will find after getting the details. The Committee asked the Secretary, to furnish the details in this regard. Nothing has been heard so far form the Department of Consumer Affairs.

12.21 The Committee note that there were 3 National Multi Commodity Exchanges out of which 2 were situated in Mumbai and one at Ahmedabad. According to FMC, some more applications were in the process for recognition as National Multi Commodity Exchanges. The Committee desire that the National Multi Commodity Exchanges should be spread all over India and should not be limited to a particular area/zone and recommend that the recognition to other parties for National Multi Commodity Exchanges be accorded without any further loss of time.

12.22 In this connection, the Committee also note that the National Board of Trade (NBOT), Indore was declared the best Commodity Exchange during the National Conference of Commodity Exchanges held on 2nd September, 2003 on the basis of volume of trade. The NBOT has not yet been declared a National Multi Commodity Exchange. According to the Ministry, the NBOT had achieved the highest turnover amongst the existing single commodity exchanges. The Committee understood that NBOT has put in place fully automated online system long ago. Being a duly approved demutualised set up, NBOT deserve a fair and better treatment because it pioneered the concept of the most efficient, transparent trading, clearing, settlement and delivery mechanism. The Committee strongly recommend that NBOT be recognized as a National Multi Commodity Exchange as per the old guidelines in the national interest and the paid up capital criteria of Rs. 100 crore as stipulated under New Guidelines should not be made applicable to the existing commodity exchanges who are otherwise satisfying the other guidelines stipulated in the guidelines.

12.23 The Committee note that the Government of India launched the Price Dissemination Project during the Eleventh Five Year Plan in order to facilitate the farmers to increase the bargaining capacity and to provide information of prices for their product in pre-sowing and pre-harvesting period. The Committee was also informed that the dissemination of future prices would enable farmers to understand the economic significance of the futures market and help them to make use of price signals emanating on a real time basis. According to FMC, the task of placing the ticker board in areas having farmers' footfalls is stupendous and would be implemented with the support of various organizations having reach to the farmers. In the first phase, around 1,000 agmarknet APMCs spread over 18 States which already have agmarknets computer hardware and internet connectivity have been identified for placement of Price Sticker Boards. It will be extended to all mandis in all States in the following years. The Committee recommend that the Price Sticker Boards which have been identified be commissioned without any further delay for the benefit of the farmers. FMC should also make concerted efforts to install the Price Sticker Boards to all the mandis in all the States of the country in the coming years. The Committee also desire that a study/survey be conducted to ascertain the percentage of small and marginal farmers who have been benefited from future/forward trading as according to FMC, no such study has yet been carried out by them.

12.24 The Committee find that the creation of awareness among the farmers and related bodies and organizations was one of the major activities of the commission. The Committee has been informed that the benefits of future markets have not tickled down to the small and marginal farmers in a big way mainly due to their ignorance and lack of awareness and non-availability of appropriate infrastructure. The Committee has also been informed that the FMC is collaborating with the commodity exchanges, agricultural universities etc. to launch awareness campaigns to create awareness amongst the farmers and in the financial year 2007-08, FMC has conducted 114 awareness programmes out of which 75 were exclusively for farmers. While the Committee appreciate the steps taken by FMC to spread awareness among the farmers, it is not enough and a lot more is needed to be done so that the benefits of future market could reach the level of small and marginal farmers in a big way.

12.25 The Committee note that the Commission had very little regulatory work and limited enforcement machinery as there were hardly any major commodities under future trading till about 10 year back. The Committee was informed that there were certain pre-requisites for an efficient and transparent future market. According to FMC, a bill has been introduced in Parliament to amend the Future Contract Act to strengthen the regulatory framework and confer autonomy on the regulator. The Committee hope that the bill is passed expeditiously in the Parliament and the FMC is conferred with requisite autonomy so that the regulatory framework is strengthened.

12.26 The Committee note that pursuant to the recommendations of the Committee, the Government imposed a ban on trading of agricultural/essential commodities in the futures market from February, 2007. The Chairman, FMC informed the Committee during evidence that the ban on trading of these commodities in the futures market was still in operation. The Committee was surprised to find in the press the very next day, that the ban on trading of these commodities would be lifted after November, 2008. The Committee take a very serious view in this matter and recommend that the ban on trading of essential commodities should continue.

CHAPTER-XIII

RISE IN PRICE OF PETROLEUM AND PETROLEUM PRODUCTS

Petroleum and Petroleum Products is one of the important component covered under Essential Commodities vide 'The Essential Commodities (Amendment) Act, 2006. Prices of Petroleum Products have been determined variedly by adopting different methods like import parity pricing, Administered Pricing Mechanism (APM).

13.2 In September 1997, the Government, based on the recommendations of the Rangarajan Group, decided in principle to dismantle Administered Pricing Mechanism (APM) in a phased manner. Subsequently, in November 1997, the Government announced a phased programme for dismantling of APM. The Government initiated the phased programme for dismantling of APM from April, 1998. Effective from 1.4.2002, the APM was dismantled except for pricing of subsidized products viz., PDS Kerosene and Domestic LPG. In post-APM Regime since 1.4.2002,the Government decided that pricing of all petroleum products, except PDS Kerosene and Domestic LPG, would be market-determined. Domestic LPG and PDS kerosene would be subsidized for which necessary provision would be made in fiscal budget.

Production of Oil and Import -Export

13.3 The Ministry of Petroleum and Natural Gas is concerned with exploration and production of oil and natural gas (including import of Liquefied Natural Gas), refining, distribution and marketing, import, export and conservation of petroleum products. As per Annual Report (2007-08) of the Ministry of Petroleum and Natural Gas ,during 2007-08 crude oil production in the country is expected to be about 34.763 million metric tonnes (MMT) and 31.67 billion cubic meters (BCM) of natural gas production as against the production of 33.99 MMT of crude oil and 31.74 BCM of natural gas in 2006-07.

13.4 When the Committee asked about actual production of crude oil by the two major oil companies, ONGC and Oil India Limited engaged in the exploration and production of oil and natural gas in the Country, the representatives of Ministry of Petroleum and Natural Gas during evidence informed that the total production of ONGC and Oil India during 2005-06 was 30.14 million metric tonnes and in 2006-07, it increased to 31.513 metric tonnes and during 2007-08, it was 31.362 metric tonnes.

13.5 The Additional Secretary to the Ministry further elucidated:-

> "The production of Oil India would be around 10 percent of that but in the macro sphere, we are importing something like 80 percent of our crude oil requirement. It is 75 percent by the public sector and if we add the private sector, it comes to 80 percent of our requirement".

13.6 When the Committee asked about the export policy of petrol in the face of major domestic demand met from import, the representative of the Ministry of Petroleum and Natural Gas during evidence inter-alia stated that: –

> "…………..Today we have refinery capacity far in excess of our domestic demand. As against an approximate domestic demand of 120 million tonnes, we have a refinery capacity of 150 million tonnes. The idea is that you will import crude oil at a particular price and you will be exporting products after value addition. This is exactly what is being done by some of the refineries in the country. This not only provides valuable foreign exchange for us but also provides employment. I think, it is very good for the economy of the Country…."

13.7 The Committee enquired whether consultation with public sector oil companies were held regarding Import-Export Policy. The representative of the Ministry during evidence stated:-

> "This is constantly under discussion with the oil marketing companies. I must also say that the public sector oil marketing companies are also exporting many of their products depending upon the geographic location."

13.8 On being asked by the Committee whether the Ministry grants permission to export the commodities whose prices are determined by the Government, the Ministry intimated that they do not permit export of LPG and Kerosene. But all other products can be exported.

Pricing of Petroleum Products

13.9 The Committee observed that the prices of crude oil in the international market came down substantially from $ 147 per barrel to around $ 65 per barrel but in spite of this the prices of Petrol, Diesel and LPG have not come down in the domestic market. The Committee referred to the announcement of the Minister of Petroleum in the Parliament that they will announce a policy in this regard in a week's time.

13.10 On the query raised by the Committee as to what is being done with regard to policy announcement by Minister of Petroleum in the Parliament Session so that the benefits of decreasing prices of crude oil in the international market could reach the domestic consumers. The representatives of the Ministry during evidence inter-alia clarified that:-

> "………..The important thing is that the rupee has substantially devalued. As distinguished Members are aware, in the course of last few months, there been virtually a decrease in the value of rupee from Rs.40 per dollar to Rs.50 per dollar. So, the gains that we had as a result of reduction in the prices of oil, have been eaten away by that".

13.11 The representative of the Ministry in his brief introductory remarks clarified that:-

> " …….there has been no abnormal increase in the prices of petroleum products in the Country if we were to take six to seven years of framework…… the increase in prices of other products in the country, particularly the essential commodities, agricultural products and pulses which sometimes have increased by 50% in the course of just one year, the increase in the prices of petroleum products has not been substantial. They are suffering large under recoveries on the sale of these four essential commodities. The under-recoveries on account of LPG per cylinder is of the order of Rs.330 per cylinder and in the case of kerosene, we are having a under-recovery or short pricing of about Rs.22 per litre. In the case of diesel, we were having an under recovery of Rs.8 to Rs.9. However, these under-recoveries have decreased in the recent past in the case of petrol and diesel. The jewels of the Indian Public Sector, IOCL, BPCL, HPCL are suffering losses which comes to a total of Rs.14431 crores for the first half of the year. However, three upstream oil companies viz. ONGC, the Oil India and GAIL contribute a part of the losses of the downstream oil marketing companies and the oil bond issued by the Government to compensate the losses. A total of Rs.1,24,000 crores of under-recovery by oil marketing companies is estimated when the whole year is completed which would leave large unmet gaps in their balance sheets. Thereby furnishing the major under recoveries as a major reasons for why prices not decreased despite the international prices of crude oil has come down to about 70 dollars from 140-147 dollars previously."

The under-recoveries of OMCs during 2004-05 to 2008-09 as furnished by the Ministry in the background note is as under:-

(Rs. Crore)

Under-Recovery	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09 (estimated)**
PDS Kerosene	9,480	14,384	17,883	19,102	32,043
Domestic LPG	8,362	10,246	10,701	15,523	23,953
Petrol	150	2,723	2,027	7,332	6,106
Diesel	2,154	12,647	18,776	35,166	62,675
Total	**20,146**	**40,000**	**49,387**	**77,123**	**124,777**

**Gross under-recoveries without considering refinery discount, oil bonds and upstream assistance.*

13.12 Subsequently the Committee have note that the government has reduced the prices of Petrol and Diesel by Rs. 5/- litre and Rs. 2/- litre respectively w.e.f. 6.12.2008. However, the prices of LPG remained unchanged. The prices of crude oil in international market have further come down to around $ 40 per barrel.

Taxes and Duties:-

13.13 In the background note furnished by the Ministry, the Committee found that State level taxes form a significant part of the retail selling price of petrol and diesel. The rates of taxation vary widely from a minimum of 18% to a maximum of 33% in case of petrol and from a minimum of 8.80% to a maximum of 26% in case of diesel.

<u>Changes in customs duty rates</u>

Product	As on 01/08/2004	19/8/2004	1/3/2005	14/06/2006	05/06/2008
Crude	10	10	5	5	Nil
Motor Spirit	20	15	10	7.50	2.50
Diesel	20	15	10	7.50	2.50
Kerosene (PDS)	10	5	Nil	Nil	Nil
LPG	10	5	Nil	Nil	Nil

<u>Changes in Excise Duty Rates</u>

Product	AS ON 16/6/04	AS ON 19/08/04	AS ON 1/3/05	As on 1/3/07	As on 1/3/08	As on 5/6/08
Petrol -Advalorem Specific **(Rs/Ltr) at Delhi**	26.00% Rs 7.50/Ltr **11.97**	23.00% Rs 7.50/ltr **11.90**	8.00% Rs. 13/ltr **14.59**	6.00% Rs. 13/ltr **14.66**	Nil Rs. 14.35/ltr **14.78**	Nil Rs.13.35/ltr **13.75**
HSD - Advalorem Specific **(Rs/Ltr) at Delhi**	11.00% Rs 1.50/Ltr **3.32**	8.00% Rs 1.50/ltr **3.01**	8.00% Rs.3.25/Ltr **4.80**	6.00% Rs 3.25/Ltr **4.69**	Nil Rs 4.60/Ltr **4.74**	Nil Rs 3.60/ltr **3.71**
Kerosene (PDS)	16.00%	12.00%	NIL	NIL	NIL	NIL
LPG (Dom.)	8.00%	8.00%	NIL	NIL	NIL	NIL

NOTE: - With effect from 09.07.04 - An additional levy of Education Cess @ 2% has been imposed. Revised to 3 % effective 01.03.2007

13.14 Since the sales tax on petroleum products varies from State to State, the Committee raised the question on uniformity of sales tax for which the Ministry during evidence informed the committee:-

> "In regard to sales tax issue raised by the Members, we are constantly writing to the State Governments to reduce the sales tax so that the price, which the retail consumer pays in the various States would be lowered or at least, be uniform.
>
> In the case of Kerosene and LPG, we have already done and it has been made declared good. No State can charge more than four percent. We are always trying for this in the case of petrol and diesel."

13.15 The CMD, HPCL further added during evidence:-

> "Today, the major incedence of taxes is by the States. The sales tax or the VAT today is in the range of approximately above 20 per cent in almost all the States. In some States, it is as high as 30 per cent. Now, this is an area, which is a matter of concern for us. For a company like Hindustan Petroleum, where we have a refinery in Mumbai, we also have the additional problem of having a three per cent octroi for the crude that is coming in. So, we are getting loaded on many sides on this."

Phasing Out of Subsidies on PDS Kerosene and domestic LPG-

13.16 In the background note furnished by Ministry of Petroleum and Natural Gas, Committee found that the Government had decided that the subsidies on PDS Kerosene and Domestic LPG, in the Post-APM era starting from 1.4.2002, would be on a specified flat rate basis for each Depot/Bottling Plant and would be met from the fiscal budget. After providing for the aforesaid subsidy, the retail prices would then vary as per changes in the international oil prices. The subsidies were to be phased out in three to five years. In October 2007, the Government reviewed the position of fiscal subsidies on LPG and SKO and extended the schemes till 31st March 2010.

13.17 In a written reply furnished by the Ministry of Petroleum and Natural Gas, the Committee found the allocation of subsidy on PDS Kerosene and LPG (Domestic) from 2002-03 to April- September, 2008 as under:-

	PDS Kerosene			**LPG (DOMESTIC)**		
	Unit Subsidy (Rs./Litre)			Unit Subsidy (Rs./Cyl.)		
	From Govt. Budget	By Oil Companies	Total	From Govt. Budget	By Oil Companies	Total
2002-03	2.45	1.69	4.14	67.75	62.27	130.02
2003-04	1.65	3.12	4.77	45.18	89.54	134.72
2004-05	0.82	7.96	8.78	22.58	124.89	147.47
2005-06	0.82	12.10	12.92	22.58	152.46	175.04
2006-07	0.82	15.17	15.99	22.58	156.08	178.66
2007-08	0.82	16.23	17.05	22.58	214.05	236.63
Apr-Sep'08(P)	0.82	31.88	32.70	22.58	306.38	328.96

13.18 When the Committee asked as to why the subsidy has decreased from 2.45 paise to 82 paise in kerosene and from 67.75 paise to 22.58 paise in LPG where latter's rate are increasing, the Committee was informed during the evidence by the representative of the Ministry :-

> "……. The intention of the Government at that time was to come to market related prices and remove all subsidy element. So it was decided that in a phased manner the prices will increase and subsidies will be decreased and everybody would pay market oriented prices. But, unfortunately, with the steep increase in oil prices thereafter, the Government, taking into account the sentiments of

> the people of India, were not in a position to implement this. So the subsidy element which is given through the Budget of the Government of India has remained stagnant. As a matter of fact, it has decreased. However, it is offset by the oil bond which is given through the Budget of India. We do not call it subsidy any more; we call it oil bond".

13.19 When the Committee asked about the issue of phasing out subsidy by 2010, the representatives of the Ministry intimated during the course of evidence that this is a decision which the entire economic sector has to take a call on.

13.20 When the Committee asked as to whether any alternative has been made in this regard, to the phasing out the subsidy, the Ministry informed that in all times to come, BPL families will surely get kerosene at the subsidized rate.

Diversion and Adulteration of Kerosene

13.21 It has been reported in the Annual Report that with a view to assessing the genuine demand of kerosene in different States/UTs, in December 2004, the Government commissioned a comprehensive study of the subject through the National Council for Applied Economic Research (NCAER) which estimated that siphoning off of kerosene for non-household purpose is 18.1%, diversion of kerosene from PDS to open market is 17.9% and diversion of kerosene to no card households is 2.6%. Total leakage is thus estimated at 38.6% of total sale of PDS kerosene, which is fairly a large percentage which needs to be taken into consideration.

13.22 When the Committee, asked about the issue of the reduced weight of the gas in cylinders, the representatives of the Ministry during evidence stated:-

> "The oil marketing companies are constantly conducting checks not only in their bottling plants,

> but every cylinder of gas is weighed. We also cross check at the dealer points and all complaints are attended to. All the oil companies have a toll free number and anyone can register a complaint on that.
>
> I do agree that inspite of that all this is happening. There could be stray cases of underweight. If at all we discover it, very stringent punishment is given to people who are involved in this."

13.23 The representative of the Ministry in reply to a related question deposed during evidence that the system was not immune to mal-practices.

Awareness Campaign

13.24 The Committee observed that there is rampant misuse of LPG in the country for other purposes and desired to know whether any awareness campaign is being carried out to check the misuse of LPG.

The representative of the Ministry during the evidence informed -

> "First of all, I would say that the entire question of diversion of LPG or misuse of LPG is rampant basically because of the same problem. While the market price should be almost double of what it is today. We are giving it at 50 percent of the prices. This is meant only for the domestic use. All the hotels, marriage parties and other kind of industrialization users, have to buy LPG, which is of a different size paying a much higher price. It is close to about Rs.1000 for 19 kg. cylinder. People are tempted not do this. They are allowed to divert. You have correctly said that some year ago, there was plenty of LPG available because there was no problem at that time. A few years ago, the prices were according to market determination. People were paying the full price of LPG. There was no need for diversion……. Today, when they are suffering such deep losses on it, there is really no motivation for the oil marketing companies to go on increasing the supplies because on each cylinder, they lose more and more money……… If we take a house hold of five people, almost 50 percent of the population of

> India is covered by LPG…….. Given this magnitude and the fact that one cylinder is given to a family every month, there is bound to be some diversion and some misuse."

13.25 The representatives further stated:-

> "Oil marketing companies and the Government are very much aware of it and then we are constantly inspecting the premises of the dealers and taking punitive action against dealers whenever this misuse is revealed to us. We are going to launch a massive campaign against misuse and for conservation telling the people the advantage of pooling in the car and driving the car between 45 km to 55 km. There is an organization called the Petroleum Conservation Research Association (PCRA) and from next month we are going to launch a massive all India campaign on educating people on the need for conservation of petroleum products and stop the misuse of LPG cylinders. In some parts of India there is bound to be diversion. The fundamental reason for this is the differential pricing of LPG and so the temptation to use domestic LPG cylinders for kitchen in the hotels or for marriage functions is very high".

Monitoring Mechanism

13.26 The Committee observed that the LPG Cylinders are not delivered in time to the consumer and are sold at higher price.

13.27 When the Committee asked whether any guidelines are there in the Ministry to ensure that consumers get LPG gas in time and at reasonable prices and whether any Monitoring mechanism exists with the Ministry to check this. The representative of the Ministry informed the Committee during evidence: -

> "The prices are fixed by the Ministry. However, we do not have a monitoring system of going to the field. We are very much dependent on the oil marketing companies to do this. The Ministry does not directly do this. However, whenever complaints come to us, we ensure that these are attended to. There are marketing discipline guidelines which are issued by the Ministry and all the oil marketing companies are bound to follow these guidelines."

13.28 The Committee note that the total production of crude oil by two major oil companies i.e. by ONGC and Oil India Limited was 30.14 million metric tonnes during 2005-06, 31.513 million metric tonnes during 2006-07 and 31.362 million metric tonnes during 2007-08. The Committee was informed during evidence that around 80 per cent of our requirement was met through imports. The Committee further note that the Government has permitted export of all other petroleum products except LPG and Kerosene. The Committee are surprised to note that on the one hand about 80 per cent of our petroleum requirement is met by imports and on the other hand permission is granted to some oil companies to export these products for profit depending upon geographic locations. The argument put forth by the Ministry that crude oil is imported at a particular price and is exported after value addition is not acceptable to the Committee. The Committee, therefore, recommend that the export of petroleum products be allowed only after the domestic requirements are met.

13.29 The Committee note that the prices of crude oil in the International Market came down substantially from $147 per barrel to around less than $40 per barrel but the prices of petroleum products viz Diesel, Petrol, Kerosene and LPG had not been reduced and the benefits of the decrease in prices of crude oil in International Market did not percolate down to the domestic consumers. The Committee was informed that the under-recoveries of the oil companies are estimated to be around Rs. 1,24,000 crores on completion of the whole year. The huge under-recoveries of the oil companies was stated to be the main reason for not decreasing the prices in domestic market despite decrease in the price of crude oil in the International market. The substantial devaluation of Indian currency i.e. Rupee as compared to dollar was another reason attributed by the Ministry for not decreasing the prices of petroleum products in the domestic market. However, the Government has recently reduced the prices of petrol and diesel in domestic market by Rs. 5 per litre and Rs. 2 per litre respectively but the prices of LPG remained unchanged. The Committee feel that the minimal reduction in prices is not enough and more needs to be done keeping in view the fact that the prices of crude oil in International Market still has a reducing trend and recommend that the effect of reduction in the price of crude oil should percolate down to the consumers and consequently the prices of four major petroleum products viz. Petrol, Diesel, Kerosene and LPG be further reduced

in proportion to the reduction in the price of crude oil in the International Market and the Public Sector Oil Marketing companies be compensated whenever there is an increase in the price of crude oil so as to offset the losses to be suffered by the oil companies.

13.30 The Committee further note that State Level Taxes form a substantial part of the retail selling price of Petrol and Diesel. The rates of taxation vary widely from State to State from 18% to 33% in case of Petrol and from 8.8% to 26% in case of Diesel. According to the Ministry they were constantly writing to the State Governments to reduce the sales tax so as to make it uniform throughout the country. No State Government can charge more than 4% as Tax on Kerosene and LPG. The Government is trying this in case of Petrol and Diesel. The Committee are not satisfied with the version of the Ministry that they are constantly writing to the States to reduce the Sales/VAT Tax and recommend that the Government should take up the matter in right earnest at the higher levels in the State Governments and make the taxes uniform throughout the country as has been done in case of Kerosene and LPG.

13.31 The Committee find that there is rampant misuse of LPG for other purposes. According to the Ministry the oil marketing companies and the Government were very much aware of the problem and they were constantly inspecting the premises of the dealers and taking punitive action against dealers whenever the misuse was revealed to them. The Committee also note that the Ministry is going to launch a massive campaign against misuse. The representative of the Ministry admitted during evidence that there was bound to be some misuse. The Ministry attributed the differential pricing of LPG as the main reason for the misuse of LPG Cylinders and so the temptation to use domestic LPG cylinders in the hotels or for marriage functions was very high. The Committee desire the Ministry to launch massive awareness campaign in the country to check the misuse of LPG cylinders for other purposes and take strong punitive action against the persons found involved in such activities.

13.32 The Committee find that according to the comprehensive study conducted by National Council for Applied Economic Research (NCAER) the leakage in kerosene was about 38.6% of total sale of PDS Kerosene. The Committee also find that at times the cylinders of domestic LPG were delivered underweight. According to the Ministry constant checks were conducted by Oil Marketing Companies in their bottling plants and the cylinders were weighed. The representative of the Ministry was candid during evidence in admitting that in spite of all that it was happening. He also admitted during evidence that the system was not immune to malpractices. The Committee take a serious view of the situation prevailing and recommend that the Government take stringent measures to check the malpractices of diversion of kerosene and underweight of gas cylinders and make foolproof measures to make the system immune to such malpractices.

13.33 The Committee was informed by the Ministry that the subsidies on kerosene and domestic LPG were to be phased out in three to five years time. The Government reviewed the position of fiscal subsidies on kerosene and LPG in October, 2007 and extended the scheme till 31 March, 2010. The Committee find that the subsidy provided by the Government on kerosene and domestic LPG was Rs. 2.45 per litre and Rs. 67.75 per cylinder respectively in the year 2002-03 which was reduced to Rs. 0.82 per litre and Rs. 22.58 per cylinder during 2007-08. According to the Ministry the intention of the Government at that time was to come to market related prices and remove all subsidy element. During evidence also the Ministry admitted that the subsidy element has decreased. The Committee was assured that BPL families will continue to get kerosene at the subsidized rates. The Committee are not convinced with the reasoning of the Ministry and recommend that the BPL families who constitute about 26% of the population be provided domestic LPG also at the subsidized rates, the subsidies on LPG and kerosene be increased and the oil companies be compensated by way of oil bonds etc.

13.34 Another malpractice found by the Committee was that the LPG cylinders were not delivered on time and were sold at higher price. According to the Ministry whenever complaints in this regard were received by them those were attended to. The Committee was informed that there were marketing discipline guidelines issued by the Ministry and all the oil marketing companies were bound to follow those guidelines. The Committee feel that merely issuance of guidelines will not sufficient as still such cases are rampant. The Committee are of the view that the monitoring mechanism in this regard needs to be strengthened. The Committee, therefore, desire the Government to make concerted efforts in this direction so that all the oil marketing companies as well as the distributing agencies strictly adhere to the guidelines and further the oil distribution agencies who are not delivering the LPG cylinders within the stipulated time or found selling at higher price are strictly punished. The Committee further desire that the oil companies should provide LPG cylinders to the distributing agencies in proportion to the number of consumers registered with them to avoid blackmarkeing of LPG cylinders. The Committee would like to be informed of the steps taken in this direction.

NEW DELHI
22 December, 2008
1 Pausa, 1930(Saka)

DEVENDER PRASAD YADAV
Chairman
Standing Committee on Food, Consumer Affairs and Public Distribution