C.P.U.No.896

10

TENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2005-2006)

(FOURTEENTH LOK SABHA)

FOOD CORPORATION OF INDIA - REVIEW ON EXPORT OF FOODGRAINS BY FOOD CORPORATION OF INDIA

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Presented to Lok Sabha on 23.12.2005
Laid in Rajya Sabha on 23.12.2005

LOK SABHA SECRETARIAT
NEW DELHI

December 2005 / Agrahayana1927 (S)

CONTENTS

COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS

(2005 – 2006)

CHAIRMAN

Shri Rupchand Pal

MEMBERS, LOK SABHA

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4 Shri P. S. Gadhavi
5. Shri Suresh Kalmadi
6. Dr. Vallabhabhai Kathiria
7. Smt. Preneet Kaur
8 Shri Sushil Kumar Modi
9. Shri Sriniwas Patil
10. Shri Kashiram Rana
11. Shri Mohan Rawale
12. Shri Rajiv Ranjan Singh
13. Shri Bagun Sumbrui
14. Shri Parasnath Yadav
15. Shri Ram Kripal Yadav

MEMBERS, RAJYA SABHA

16. Prof. Ram Deo Bhandary
17. Shri Ajay Maroo
18. Shri Pyarimohan Mohapatra
19. Shri K. Chandran Pillai
20. Shri Shahid Siddiqui
21. Smt. Ambika Soni
22. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri S Bal Shekar	Joint Secretary
2.	Shri J.P.Sharma	Director
3.	Shri N.C. Gupta	Under Secretary
4.	Shri Bala Guru G.	Sr. Executive Assistant

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Tenth Report on "Review on Export of foodgrains by Food Corporation of India."

2. The Committee's examination of the subject was based on Chapter V of C&AG Report No. 4 of 2005 (Commercial) of India.

3. The Committee took evidence of the representatives of Food Corporation of India on 16th September, 2005. The Committee took evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution on 20th October, 2005.

4. The Committee on Public Undertakings (2005-06) considered and adopted the Report at their sitting held on 21st December, 2005.

5. The Committee wish to express their thanks to Food Corporation of India and the Ministry of Consumer Affairs, Food & Public Distribution for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Food Corporation of India and Ministry of Consumer Affairs, Food and Public Distribution, who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

6. The Committee also place on record their appreciation for the assistance rendered by the Comptroller & Auditor General of India.

7. They would also like to place on record their appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi:
21st December, 2005
30 Agrahayana (1927 S)

Rupchand Pal
Chairman,
Committee on Public Undertakings

GLOSSARY

1.	Acquisition Cost	The Cost (MSP) at which foodgrains are purchased from farmers + statutory charges like Mandi charges Purchase tax, etc. and non-statutory charges like Mandi labour; and carry-over charges.
2	Distribution cost	Includes freight charges, handling charges, storage charges, Transit shortages, Interest , Administrative charges.(cost incurred in moving foodgrains)
3	Economic Cost	Acquisition cost + Distribution cost
4	Carrying cost	Holding cost of buffer stocks.
5.	ex-Port town basis	Means transportation charges from inland dept to the port town was to be borne by the FCI
6	FFW Programme	Food for Work Programme:
7.	CCEA	Cabinet Committee on Economic Affairs
8.	HLC	High Level Committee

PART – I

REPORT

1. INTRODUCTION

1.1 Chapter V Audit Report of the Comptroller & Auditor General of India No. 4 (Commercial) 2005 contained twenty two audit observations (vide Audit Paras Nos.5.1 …… 5.12). The basic thrust of all these audit paras is on review on export of foodgrains by Food Corporation of India. The Committee have examined all the audit paras in detail in the succeeding paragraphs.

1.2 The Food Corporation of India (FCI) was established in the year 1965 and entrusted with the purchase, storage, movement, transport, distribution and sale of foodgrains and foodstuffs. FCI is the nodal agency through which the Government of India (GOI) implements its food policy, the objectives of which are to

(i) safeguard the interests of farmers by effective price support mechanism,
(ii) distribute foodgrains and sugar throughout the country at uniform issue prices and
(iii) maintain satisfactory levels of operational and buffer stocks to ensure nation's food security.

1.3 The salient features of the observations made by Audit in the audit paras can be delineated as under:

(a) The Government of India permitted the Food Corporation of India (FCI) to offer wheat and rice for export to liquidate excess stocks in the central pool. Accordingly FCI issued 19.71 million MT of wheat and 13.53 million MT of rice was issued for export. The economic cost and sale value of the quantity of wheat and rice issued for export were Rs.33,927 crore and Rs.19,792 crore respectively.

(b) The increased procurement of wheat and rice was not justified both from the point of view of production as well as off take and led to heavy accumulation of stocks in central pool. Consequently 33.24 MMT of wheat and rice was issued for export during the period from November 2000 to February 2004.

(c) The Ministry fixed lower export price for wheat due to incorrect adoption of economic cost and higher carrying cost. This resulted in additional subsidy burden of Rs 1608.63 crore.

(d) The sale price fixed for export of wheat and rice was on ex-FCI port godown. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. In the process, FCI had to incur Rs.516.36 crore towards freight charges in respect of 22 districts test checked in audit.

(e) FCI reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents as directed by the Ministry.

(f) The exporters to Bangladesh were given an unintended benefit of Rs.44.25 crore in transportation of foodgrains by rail.

(g) The exporters were given undue benefit of Rs.20.20 crore by allowing them to lift the foodgrains after price revision.

(h) There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when it was not required, extending undue benefit to exporters, issue of foodgrains at pre-revised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

(i) Internal Audit was not entrusted/involved for checking the documentation through out the export operations contributing to many omissions and commissions.

A copy of the Audit Paras as contained in C&AG's report is given at Annexure – I. The various acts of omissions and commissions revealed by the Audit in the above paras have been dealt with by the Committee in detail as under :-

Genesis of the Export Scheme

1.4 As per Audit Para the Government of India in October 1998 fixed the norms for the quantity of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy, which ranged from 15.8 Million Metric Tonne (MMT) to 24.3 MMT. As against this, the stock position as on 30 September 2000 was 40.06 MMT. In view of the burgeoning stock position, the Ministry of Consumer Affairs, Food and Public Distribution, in September 2000 submitted a proposal for consideration of the Cabinet Committee on Economic Affairs (CCEA) for "Revamping of Public Distribution System (PDS) – Measures to improve off-take of foodgrains". A Group of Ministers constituted, to consider the above proposal, decided in October 2000, inter-alia, that FCI might be permitted to offer wheat for export at a price equal to economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for 'below poverty line' (BPL) category of families. Based on the above decision, FCI commenced the export of wheat in November, 2000.

1.5 They were also permitted to issue rice for exports in December 2000 and wheat for export of wheat products in December 2001.

2. FACTORS CONTRIBUTING TO EXPORT OF FOODGRAINS:

Heavy accumulation of stock & Reasons for heavy accumulation

2.1 The Brief of the Para states that, the Food Corporation of India (FCI) did not regulate procurement of wheat and rice so as to maintain the stock levels within the norm fixed by the Govt. of India under buffer stock policy (October 1998). The procurement was indiscreet which led to heavy accumulation of stocks and was much in excess of the norms fixed for quantity of stocks of wheat and rice to be held at the beginning of the every quarter in Central pool. The excess procurement was not justified either from the production point of view that is to safeguard the interest of farmers or from the off-take under PDS/other central sponsored schemes that is to meet social obligation. Further the liquidation of stocks was also necessitated due to space constraints particularly to accommodate fresh inflow of stocks that were expected from the ensuing procurement season.

2.2 When enquired about the reasons for procurement of foodgrains much in excess of the norms, FCI replied as follows:

> "As per the existing policy of Government of India, the Central Government extends price support to paddy and wheat through Minimum Support Price (MSP) operations conducted by the Food Corporation of India (FCI) and the State agencies. Under this policy, all the foodgrains conforming to the prescribed specifications offered for sale at specified procurement centers are bought by the public procurement agencies. The farmers have the option to sell the produce to the FCI / State agencies at MSP or in the open market as is advantageous to them. These procurement operations are open-ended and continue throughout the procurement season. As such, no target for procurement is fixed for the Government agencies. Moreover the excess procurement during the period under discussion was done by the State agencies and not the FCI.
>
> The total procurement of foodgrains in any particular season depends upon several factors such as total production, market arrivals, open market prices, participation by private agencies etc. The quantum of procurement is

independent of the amount of off take of foodgrains through the welfare schemes."

2.3 Giving reasons for heavy accumulation of stocks of foodgrains, Secretary Ministry of Consumers Affairs, Food and Public Distribution during his evidence before the Committee stated as under:-

> "Sir, as you are aware, procurement operations in India of foodgrains are actually MSP-driven and they are not driven by demands of the PDS. So, it is true that in these years, the years which are being examined by this Committee, the procurements were high. It is because it is MSP-driven and the FCI or the State Agencies do not have any flexibility of not accepting the foodgrains of the FAQ quality or the quality approved by the Government which are offered by the farmers for procurement. So, it is true that on account of high procurement of these years under examination, the stocks had gone very high, but at the same time, I would also like to point out that during these years, domestic off-take of foodgrains has also increased. It is not that the domestic off-take has not increased. For example, during the year 2000-01 the total off-take of foodgrains was 167 lakh metric tonnes – 104 lakh metric tonnes of rice and 63 lakh metric tonnes of wheat. In 2001-02, the total off-take was 265 lakh tonnes – 133 lakh tonnes of rice and 132 lakh tonnes of wheat. In 2002-03, the off-take went up to 373 lakh tonnes – 179 lakh tonnes of rice and 194 lakh tonnes of wheat. In 2003-04, the total off-take was 388 lakh tonnes – 219 lakh tonnes of rice and 169 lakh tonnes of wheat. In 2004-05, the total off-take went up to 403 lakh tonnes – 230 lakh tonnes of rice and 173 lakh tonnes of wheat. Therefore, from 2000-01 level of 167 lakh tonnes distributed under various schemes like PDS, it had gone up to 403 lakh tonnes in 2004-05.
>
> During these years, it is also equally important to note that the Government had introduced new schemes of subsidized distribution of foodgrains to the poor and the poorest of the poor. For example, Antyodaya Anna Yojana was introduced in December 2000. SGRY was introduced in September 2001. Annapurna Yojana was introduced in 2000-01. Emergency feeding programmes in the KBK districts of Orissa were also introduced during these years, in 2001. At the same time, in addition to the introduction of various schemes for subsidized distribution of foodgrains to the poor and the poorest of the poor and also general increase in the off-take level, the scale of issue of foodgrains has also been increased during the relevant years. For example, till 1999-2000, the scale of issue for BPL was 10 kg per family per month. From 1.4.2000 to 30.6.2001 the scale of issue for BPL family increased to 20 kilograms per family per month whereas for APL it remained at 10 kilograms per family per month. From 1.7.01 to 31.3.02, the BPL scale of issue was raised to 25 kilograms whereas for APL, it continued to be 10

> kilograms and under Antyodaya Annayojana it continued to be 25 kilograms. Subsequently from 1.4.02 till the present, the scale of issue is 35 kilograms per family per month for all categories – APL, BPL and Antyodaya Anna Yojana."

2.4 To a question as to why the Government of India did not review / monitor the procurement activities of FCI in order to restrict procurement and control the mounting buffer stocks, the Ministry in their note furnished to the Committee stated as under:-

> "The Government of India follows the policy of open-ended procurement. Under this policy, FCI is required to procure the entire quantity of foodgrains, conforming to prescribed specifications (fair average quality) offered to them by the farmers at the MSP.
>
> As per the buffer stocking policy, food stocks are maintained by the Central Government to meet the prescribed minimum buffer stock norms for food security, for monthly releases of foodgrains for supply through PDS / welfare schemes, to meet emergent situations and natural disasters and for market intervention to augment supply so as to help moderate the open market prices. Procurement of foodgrains is not linked to the buffer stocking policy.
>
> Hence the Government could not have stopped its procurement to regulate the mounting stocks."

2.5 Asked further as to whether the moving away of APL families from the PDS fold was also one of the important reasons for accumulation of foodgrains which consequently forced FCI to liquidate the excess stock by selling the foodgrains to exporters, at highly subsidized prices, the FCI stated that

> "The flight of APL consumers was only one of the reasons for heavy accumulation of stocks. The main reason for the high accumulation of foodgrains was however the increase in procurement by State agencies. "

2.6 When asked as to whether FCI explored the possibility of liquidating the excess stock, by reducing the Above Poverty Line (APL) price rate instead of selling it to traders / exporters at highly subsidized rates, and also, whether the reduction of APL price rate gave desirable results, the FCI stated in their note stated as follows:

> "The Central Issue Price for APL beneficiaries was reduced as is shown below to make the PDS stocks attractive to them:-
>
> (In Rs/Qtl)
>
> | PERIOD | RICE | | WHEAT |
> |---|---|---|---|
> | | COMM. | GR.A | |
> | 25.7.2000 to 11.7.2001 | 1087 | 1138 | 830 |
> | 12.7.2001 to 21.3.2002 | 795 | 830 | 610 |
> | 1.4.2002 to 30.4.2002 | 695 | 730 | 510 |
> | 1.7.2002 to till date | 795 | 830 | 610 |
>
> However, the change in APL prices did not yield the desired results to liquidate the excess stock and the scheme of sale of foodgrains for exports was taken up as a last resort measure."

2.7 Giving justification for export of foodgrains by FCI, Secretary of the Ministry during evidence stated as under:-

> ………………"The short point I want to draw your attention to is that the need to export foodgrains was necessitated on account of very high level of stocks as in spite of various schemes framed by the Government for distribution of foodgrains at lower prices, at subsidized prices, the stocks were still very high; because of the carrying costs associated with carrying foodgrains for a longer time and also the deterioration of quality. These are the issues which influenced the Government to take a decision to allow FCI to export foodgrains."

2.8 The Committee drew the attention of the Ministry to a letter dated 13.11.2000 The then Chairman vide D.O. No. CHN/FCI/2000/9031/188 also took up the matter with the GOI for utilization of surplus stocks through Food For Work Programme by saying that this infrastructure building will have impact on the life of inhabitants besides saving FCI not only storage losses but also the carrying costs………"

With reference to the above mentioned letter, the Committee enquired as to why the Ministry of Food allowed the export of foodgrains, when the then Chairman, FCI felt that the surplus stocks can be properly utilized for food for work programme.

The Committee further enquired as to whether there was a difference of opinion on the matter of export between FCI and the Ministry of Food. In this regard, the Secretary, Ministry of Food, admitted during his oral evidence, before the Committee, by saying :-

> "On the strength of this letter and the decision taken by the Government, there was a difference."

In reply to a question as to whether Ministry took any action to liquidate the surplus stock for FFW, the Ministry stated :-

> In his D.O Letter dated 13th November, 2000 addressed to the then Food Secretary, Sri Bhure Lal had sought Government's permission for using the surplus foodgrains for Food for Work (FFW) Program especially in the deficient States, which would also help in creating assets like water harvesting structures, village roads etc. He did not suggest that exports might not be made of the surplus stocks.
>
> The FFW programme was implemented with effect from January 2001."

2.9 Asked as to whether FCI brought to the notice of the Ministry the issue of surplus food stocks of foodgrains, in reply FCI in their note stated as follows:

> "FCI took adequate measures to bring to the notice of the Ministry about burgeoning strata procurement of foodgrains during 98 onwards as would be evident from the following:
>
> The issue regarding disposal of foodgrains which accumulated in the depots of the FCI had been taken up with the Ministry through HLC from time to time.
>
> In the HLC meeting held on 8th September, 1997, a proposal was moved to the HLC for disposal of ABC Category Rice. It was brought to the notice of the HLC that major concentration of stock of ABC category of rice was in the procurement/non consuming States like Rajasthan, UP, Punjab and MP. One lakh MT of rice was also available in Gujarat which was more or less considered a non-consuming State and it was proposed to sell the stocks on 'as is where is' basis and, accordingly, a letter No. J.1(1)/96/PY/S.III/Nov.96 dated 15.9.1997 was written to the Ministry.

The minutes of the HLC meeting held on 12th April, 1999 wherein the issue regarding disposal of 'D' category rice was discussed. The Ministry vide letter NO. 1-16/98-DR.III/Vol.II conveyed its approval for its disposal.

FCI also took up the matter with the Ministry vide D.O. No. 1/10/99/URS Rice/S.IV dated 23.12.99 of the then MD for conveying approval to fix the minimum reserve price by the HLC rather than by the Ministry for disposal of imported wheat of C&D category and, accordingly, Ministry vide letter No. 8/1/2000-DR.III dated 20.1.2000 conveyed approval authorizing HLC to dispose off 40,000 MTs of C&D category wheat by calling tenders.

A proposal was also moved to the Ministry for accepting the tendered rates below 15% of the 3/4th CIP as decided in Ministry's letter No. 8-7/97-DR.III dated 7.7.99 and in this way, an additional stock of 11,500 tonnes Grade-'A' rice could be disposed off at a rate of Rs. 578/- per annual and HLC also proposed to make a reference to MOCAF&PD for giving counter offer of Rs. 526/- per quintal for a balance quantity of 1508 tonnes Common Rice which had been quoted a lesser price and, accordingly, the reserve price for disposal of D Category and URS Rice was revised to 50% of the Economic Cost vide Ministry's letter No. 8-12/2000-PY.IV dated 22nd June, 2000.

2.10 Pointing out that at the time of export several states in India were hit by drought, Committee asked as to whether their requirement of food was met before carrying out export, the Ministry of food stated as follows:

"During the year 2002-03, the Government of India declared 15 States as drought affected States. Under the special component of SGRY, foodgrains were allotted to these drought-affected states. The allocation was made on the recommendations of Drought Management Division of the Department of Agriculture and Cooperation for taking up relief employment works in the drought affected areas, taking into account requirements projected by affected states from time to time, man days likely to be generated etc.

For the drought, which occurred during July, 2002 to June, 2003, total quantity of 87.87 lakh tonnes of foodgrains was released under the Special Component of SGRY as shown below :

State	Original demand	Allocation made as per Inter Ministerial Group after assessment of demand
Andhra Pradesh	25.00	17.20
Chhatisgarh	12.60	4.74
Gujarat	1.95	3.06
Haryana	9.72	0.25
Himachal Pradesh	0.19	0.10
Jharkhand	-	0.40
Karnataka	11.09	7.20
Kerala	1.00	0.52
Madhya Pradesh	8.50	7.80
Maharashtra	2.32	2.32
Orissa	12.19	4.22
Rajasthan	56.00	32.56
Tamil Nadu	9.00	5.00
Uttranchal	-	0.50
Uttar Pradesh	20.00	2.00

As per the established procedure the original demand made by the affected States was examined by the Central Team appointed by the Ministry of Agriculture which is further considered by the Inter Ministerial Group/High Level Committee and foodgrains is allocated by Ministry of Rural Development on the basis of their final recommendations, which takes into account the impact of drought etc. in the field and assistance required to be given to the States Government.

In addition to above a quantity of 56.250 MTs of rice 18,750 MTs of wheat was allocated to Himachal Pradesh for drought relief on BPL rates during 2002-03."

2.11 Asked by the Committee as to whether complaints regarding inadequacy of supply of foodgrains were received from drought hit states, Ministry stated as under:-

"Drought Management Division, Ministry of Agriculture & Cooperation has confirmed that as per the information available in their Department, no complaint of shortage of foodgrains for undertaking relief employment was received from any State affected by drought. Ministry of Rural Development, which is the nodal agency for allocation of foodgrains under Special Component of SGRY has also confirmed that there was no complaint of shortage of foodgrains for supply under special component of SGRY. FCI was also not in receipt of any such complaint."

2.12 When asked as to whether sale of foodgrains for export is resorted to only when there is heavy accumulation of excess stocks or has it become a regular phenomenon, which might be continued in future also, the management of FCI in their written reply stated as follows:

> "As per the Cabinet approval FCI has been authorized to sell foodgrains for export if there is surplus stock in the Central Pool beyond the buffer norms of 143 lakh tonnes and 100 lakh tones of wheat and rice respectively. Presently the exports have been stopped with effective from 11th Aug' 03.

2.13 On being asked as to why FCI sold foodgrains for export, knowing fully well that 'export' is a subject governed by the Ministry of Commerce, FCI in their written reply stated as follows:

> "While framing of Export Import policy is the subject matter of the Ministry of Commerce, as per Business of Allocation Rules, Department of Food and Public Distribution has the mandate for "Trade and Commerce in, and supply and distribution of foodgrains'. Thus the Department was acting as per its' allocated responsibilities.
>
> Moreover the FCI as per para 6 (2), (3) of Chapter II of FCI Act is bound to be guided by instructions of the Central Government on questions of policy, which it did in following the instructions to sell the foodgrains for exports.
>
> It is also brought on record that the entire scheme of export was executed in consultation with Ministry of Commerce and the Ministry was represented on the High Level Committee, which made all recommendations regarding the scheme. "

2.14 When asked as to whether any target for export of foodgrains during 2002-03 was laid down, FCI in their written reply stated as follows :-

> "No targets for export were fixed. Sale for exports was allowed to be done till the stocks in Central Pool were above 243 lakh tonnes of foodgrains as per the Cabinet decision.".

2.15 The Committee noted that Abhijit Sen Committee was setup by the Government with the objective of evolving a long term grain policy, which inter-alia gave some recommendations regarding the export of foodgrains.

Asked to highlight the salient features of the recommendations of this Committee, FCI in their note stated as under:-

The recommendations of the HLC on long-term policy regarding exports of foodgrains were as follows :-

(i) Short term recommendations :-

(ii) In view of reports regarding diversion of grain meant for exports, suitable steps have to be taken to tighten procedures to prevent leakages into the domestic market.

(iii) The current export drive should be reviewed as soon as stocks come down to 17 and 22 million tones for rice and wheat respectively, after which steps should be taken to move towards the long-term recommendations.

(iv) Long term recommendations :-

The Committee recommends that –

(a) Exports should be entirely on private account. Private exporters can source their grain from the OMSS. The prices for exports should therefore, follow the same principle as other OMSS sales. Subsidies on this, if any, should as far as possible be at the point of export, rather than at the point of sale from public stocks and should not be higher than on PDS sales. Subsidies should be given only if domestic stocks are sufficiently high and world prices are less than the domestic OMSS price. The only exception to this may be to honour long-term grain contracts that Government may offer as incentive to the private sector to develop infrastructure and market presence for future exports.

2.16 When asked as to whether above recommendations have been implemented, the management of FCI in their written reply sated as follows :-

> "As recommended by the Committee great stress was laid on strict compliance of the safeguard mechanism in-built in the scheme of sale of foodgrains for exports by the FCI. SRMs were asked to conduct surprise inspection to ensure that foodgrains issued for export were not diverted to the domestic market.
>
> The stocks position was also reviewed and fresh allocation for export of foodgrains from Central Pool was stopped with effect from 11.8.2003 as per recommendations of the Committee that sale for exports should be stopped as the stocks come down to the level of 17 and 22 million tonnes of rice and wheat respectively.
>
> As regards the long term recommendation to keep the exports on private account only, the Ministry of Commerce is framing a scheme on these lines, which would open direct procurement and export to the private sector for which a fixed subsidy would be payable by that Ministry on successful completion of exports and not by the FCI."

Storage Capacity

2.17 The total storage capacity (Covered & Central Account Pool (CAP) with FCI during the year 2000-01 to 2002-03 was as under :-

Lakh MTs

Year	As on	Covered	CAP	Total
2000-01	01.4.2000	208.54	45.54	254.08
	30.6.2000	218.69	52.26	270.95
	1.10.2000	213.81	52.61	266.42
	1.10.2001	269.00	85.46	354.46
2001-02	01.4.2001	246.92	67.54	314.46
	30.6.2001	267.18	83.39	350.57
	1.10.2001	269.00	85.46	354.66
	1.10.2002	282.16	70.39	353.09
2002-03	1.4.2002	279.01	79.39	358.40
	30.6.2002	300.75	79.05	379.80
	1.10.2002	282.16	70.95	353.09
	1.10.2003	236.86	42.85	279.71

2.18 In addition to above storage capacity, State Agencies also keep the stocks on account of Central Pool in the Covered / CAP spaces available at CWC, SWC and private godowns. Thus the total storage capacity under the Central Pool mechanism was as follows during the relevant period.

Year	As on	Covered	CAP	Total
2000	1.9.2000	418.91	63.90	482.81
2001	1.9.2001	482.20	105.53	587.73
2002	1.9.2002	555.31	108.84	664.15

2.19 Asked as to whether storage capacity was adequate to store the surplus. stock of foodgrains, Ministry in their note stated as under :-

> "The very purpose of initiating export sale was to manage excessively large stocks of wheat and rice in the Central Pool due to high level of production and procurement and inspite of higher domestic off-take under different schemes. The stock of foodgrains on 1st July 2000 was 422 lakh tonnes, to which fresh procurement of 212 lakh tonnes of rice and 165 lakh tonnes of wheat was added. Out of these the total off-take was around 170 lakh tonnes, without exports, leaving over 600 lakh tonnes of foodgrains in the Central Pool the next year.
>
> Similarly in the next year fresh procurement added 221 lakh tonnes of rice 206 lakh tonnes of wheat, whereas the domestic off take was 266 lakh tonnes, leaving almost 650 lakh tonnes of foodgrain in the Central Pool. As against these levels of stocks, the covered storage capacity was much less and almost 100 lakh tonnes of foodgrains were being stored under CAP storage, which was liable to easy damage because of the elements of nature. Thus while the addition to the stock by way of procurement was in the range of 400 lakh tonnes the off-take remained 170 to 270 lakh tonnes with the best of efforts, adding to the already burgeoning stocks.
>
> Even by way of surplus over the buffer norms of 100 lakh tonnes of rice and 143 lakh tonnes of wheat, there was sufficient grounds for resorting to exports as may be seen from figures shown below:

Date	Stock of foodgrains			Buffer norms			Surplus
	Rice	Wheat	Total	Rice	Wheat	Total	
1.7.2000	144.90	277.57	422.47	100.00	143.00	243.00	179.47
1.7.2001	227.51	389.20	616.71	100.00	143.00	243.00	373.71
1.7.2002	219.37	410.94	630.11	100.00	143.00	243.00	387.11
1.7.2003	109.74	241.94	351.68	100.00	143.00	243.00	108.68

Storage capacity available with FCI and State Agencies were occupied and foodgrains had to be stored in the open under covered sheets. Threatened by possibility of deterioration, increasing administrative and storage charges for maintaining the stocks and for making available storage space for coming procurement and after exploring all avenues of enhancing domestic off-take, the Govt. of India continued further export of foodgrains until fresh allocation for exports were stopped with effect from 11.8.03."

A letter from Sri Bhure Lal, then Chairman, FCI to then Secretary F&PD clearly bring out the state of affairs in UP regarding shortage of storage capacity. Because of inadequate storage space, fresh procurement was being hampered leading to law and order problems by agitating farmers. He suggested that some evacuation of foodgrains might be effected by way of exports.

From the domestic off-take levels during 2000-01 and 2001-02, which stood around 170 to 270 lakh tonnes approximately, it can be seen that had the stocks not been liquidated under export, it would have further added to the increasing inventory of wheat and rice in the Central Pool, resulting in huge expenditure towards carrying cost, storage, interest etc.

These figures clearly show that the stocks levels under the Central Pool mechanism were quite beyond manageable levels and required immediate remedial measures to bring them down, which could only have been provided by export even after increase in domestic off take. As there was a shortage of covered godown additional storage capacity was created in the Open, where keeping the stock for long would have resulted in the deterioration of foodgrains."

Subsidy Burden due to exports

2.20 C&AG observed that an additional subsidy burden of Rs.14135 crore was incurred due to export of foodgrains. Commenting on the above, the Secretary, Ministry of Food however, clarified

"Our prices are not competitive in the global market. Obviously when exports are to be resorted to of agricultural commodities, in order to make our foodgrains competitive in the global market, the export prices would have to be, therefore, lowered. So, whatever the Government did was basically to encourage exports at prices which are competitive in the global market so that the stocks could, at least, be offloaded because the objective of reducing the stocks would not have been achieved if the export prices had not been reduced to the extent they were reduced. So, I would only request you and Hon. Members to keep this broad, macro picture in mind in deciding and further discussing this issue."

2.21 On being asked to furnish a note on the assessment of loss, if export had not been done, the Ministry of food stated as follows:-

> "Had the foodgrains not been exported, and assuming that FCI had to hold the stocks for an additional period of two years, FCI would have incurred an estimated additional cost of Rs. 27626.34 crores as normal buffer holding cost for carrying the stocks [calculated on the basis of buffer rates for final accounts 2000-01 to 2003-04, 2004-05 (RE), 2005-06(BE)]. Against this, the subsidy claimed for off-take under exports for the corresponding period is Rs. 16308.97 crore. There was also possibility of the stocks getting deteriorated over the period, resulting in significant loss of value."

2.22 To a question as to whether it was a fact that the subsidy given to exporters had been met from the head `Food Subsidy', FCI in their written note stated "Yes".

Further, when asked as to whether the subsidy which was meant for a social activity and meant for certain section of people below the poverty line in the PDS system was shared by exporters also, the Secretary, Ministry of Food during oral evidence stated :-

> "Yes, Sir, this position is correct.

3. FIXATION OF LOWER EXPORT PRICE FOR WHEAT

3.1 As per C&AG, the Group of Ministers (GOM) decided in October, 2000 that wheat be offered for export at a price equal to the economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for BPL category. The Ministry adopted Rs.8300 per MT and Rs.2204 per MT, being the estimated economic cost for 2000-01 and the related carrying cost respectively which was worked based on the revised method of allocation of distribution costs suggested by Expenditure Reforms Commission (ERC). On the basis of recommendations of ERC, the issue price of wheat was arrived at Rs.3892, which was stepped up to Rs.4150, that is the BPL price, the minimum rate at which the wheat was to be offered for export. As such the wheat for export was issued at Rs.4150 during November 2000 to March 2001.

It was observed that the recommendations of ERC (July 2000) were intended for arriving at the realistic economic cost, which the consumers under PDS ought to pay and did not have approval of the Government of India. Even the subsequent approval of the Government of India (July 2002) was categorical that the revised methodology was to arrive at a realistic economic cost for the consumers under PDS and as such not relevant to arrive at the issue price of wheat for export. Further, while taking the decision (October 2000) the relevant available costs were the economic cost of 1999-2000, that is, the costs of immediate preceding year and carrying cost of two years referred would be the carrying costs of 1999-2000 and 1998-99. Accordingly, the issue price based on the criteria decided by the GOM would work out to Rs.6044 per MT (Rs.8875 minus Rs.1445+ 1386) Thus, adoption of issue price of Rs.4150 per MT for export as against Rs.6044 during 2000-01 was not in order.

The export price fixed in 2001-02 was in the range of Rs 4200 to Rs.4300 per MT as against the applicable price of Rs.5841 per MT as per the criteria of GOM and based on the economic cost (2000-01) and buffer carrying cost of the preceding two years (1999- 2000 and 2000-01). Similarly, the issue prices in 2002-03 and 2003-04 (September 2003) were also lower. As a result, there was short realization of Rs.1608.63 crore on 168.69 lakh MT of wheat issued for export during the period November 2000 to September 2003. This in turn led to increased subsidy burden on the Government of India on export of wheat to the extent of Rs.1608.63 crore due to adoption of lower economic cost and higher carrying cost.

It was seen from the note submitted to CCEA, that the ERC recommendations for change in the method for working out economic cost and buffer carrying cost was to be finalized in consultation with CAG as was done in 1979 while fixing the economic cost. However, in the instant case, the issue was not referred to CAG.

3.2 On the observations made by audit FCI in their note clarified as under:-

> "The C.A.G. in their Report 4 (Commercial) of 2005 – "Review on export of foodgrains by FCI" observed that the Ministry of CAF & PD had adopted Rs. 8, 300/- PMT as the economic cost for 2000-2001 and after deducting carrying cost @ Rs. 2,204/- PMT per year for two years, the issue price of wheat was arrived at Rs.3,892/- PMT (Rs. 8,300 – Rs. 4,408). The same, however, was stepped up to Rs. 4,150/- PMT to bring it at par with BPL price in order to comply with the cardinal principle that the stocks for exports would not be issued at a price less than the BPL rates. It was further observed by the CAG that the Government has taken Rs. 8,300/- PMT as the economic cost on the basis of recommendations of Expenditure Reforms Commission (E.R.C) in July, 2002 though the same was intended for arriving at a realistic economic cost and did not have the approval of the Government of India.

As per the observations by CAG, the relevant economic cost while taking decision for issue of foodgrains for exports during October, 2000, should have been taken as Rs. 8,875/- PMT, i.e. economic cost for 1999-2000. From this, the carrying cost for the preceding two years, i.e. 1999-2000 and 1998-99 should have been deduced for working out the issue price for exports would have been worked out to Rs. 6,044/- PMT (Rs. 8,875 – (Rs. 1,445 + Rs. 1,386). According to the CAG, the adoption of issue price of Rs. 4,150/- PMT for export was, therefore, not in order.

The Ministry of CAF&PD, in reply to the above observation of CAG, had mentioned that the economic cost of Rs. 8,300/- PMT was correctly taken instead of Rs. 8,875/- PMT as taken by the CAG. Further, the carrying cost for the subsequent two years, i.e. 2000-2001 and 2001-2002 @ Rs. 2,204/- for each year was required to be deducted from this figure since the carrying cost relevant for the purposes of effecting savings would be that applicable for the two succeeding years. Accordingly, the issue price of wheat was arrived at Rs. 3,892/- PMT which was stepped up to Rs. 4,150/- PMT to maintain parity with the BPL rates. It was also clarified by the Ministry that the E.R.C.'s recommendations on the basis of which the price has been calculated have since been approved by the Government of India in July, 2002.

From the above, it would be observed that basically the difference of opinion for working out the issue price for exports between the CAG and the Ministry of CAF&PD has been on two accounts viz.

"(i) the economic cost of Rs. 8,300/- PMT was taken by the Ministry of CAF&PD on the basis of recommendations made by the E.R.C. approved by the Government in July, 2002 whereas according to the CAG, the economic cost should be Rs. 8,875/- PMT relevant for the year 1999-2000; and

(ii) the carrying cost for the succeeding two years, i.e. 2000-2001 and 2001-02 were taken into account by the Ministry of CAF&PD while working out the issue price for exports whereas according to the CAG carrying cost for the years 1989-1999 and 1999-2000 should have been taken into account. "

FCI further clarified :

"Till the year 2000-01 the carrying cost of wheat was calculated on the basis of detailed instructions issued by the Government of India dated 31st January, 1979. As per these instructions transportation cost and transit shortages were allocated to the carrying cost in the ratio of sales and accretion to operational stocks: accretion to buffer stock with reference to the highest level reached earlier. However, based on the recommendations of the Expenditure Reforms Commission the Government of India issued detailed instructions on 9th July, 2002 whereby the transportation cost and transit shortages were allocated to the carrying cost of buffer in the ratio of operational stocks: 1/3rd of the opening buffer and accretion to buffer stock with reference to the highest level reached earlier.

During the year 2002-03 the buffer stocks of wheat with the FCI was only 0.70 lakh tonnes and based on the revised guidelines the buffer carrying cost showed significant increase. This anomaly was rectified by the FCI when the Board of Directors recently approved the revised method of calculating the buffer carrying cost allocating the freight cost and transit shortages on the basic formula followed till 2000-01 with the modification that accretion to buffer and operational stocks will be with reference to the previous years level rather than with reference to the highest level reached earlier. However, the carry over charges payable to State agencies would continue to be shown as a separate item of cost under buffer carrying cost."

3.3 Justifying the above criteria adopted for fixation of export price the Secretary during his evidence before the Committee stated as follows:-

"The ERC's recommendations were basically on economic cost of wheat and rice. Accordingly, the Ministry – on receipt of the ERC's recommendations, and after examination of the same – prepared a note for the Cabinet on 17 July 2000 on the economic cost of wheat and rice. It was a revision in the light of the recommendations of the ERC, which was considered by the Cabinet. Thereafter, the Cabinet approved the broad suggestions made in the note.

As far as the economic cost for PDS and economic cost for export is concerned, FCI is the agency stocking the foodgrains, and it is carrying foodgrains for both PDS and later we have allowed it for export also. Therefore, we had to find the same principles of economic cost, which were adopted for domestic distribution or domestic stocks. I am saying this because there should be no separate principles for calculating the economic cost for domestic stocks, and calculating the economic cost for exports. It would also be operationally difficult to calculate separately for both because the economic costs are based on certain principles. Therefore, any variation in principles for export and PDS would not have been possible.

Secondly, with regard to the carrying cost, we have taken two succeeding years for calculation because the stocks are already held by the FCI, and we could not have taken the carrying cost for the preceding year going by the past two years. I am saying this because it really does not give the carrying cost. Actually, we can also observe that it is only increasing. In 2000-2001, the estimated economic cost was Rs. 8,300 per metric tonne, which was based on the Revised Estimate (RE) figures. On the other hand,

> the final figures today have come to Rs. 8,834.80 per metric tone because the stocks are held by the FCI, and it is economically justified to take the future carrying cost rather than the past carrying cost. If I had moved those stocks there, then I would have carried the stock for the next two or three years. Therefore, the economic principles justify that we take the succeeding years to calculate the carrying cost because we would be carrying it for the next two years. In addition, quality details, cost etc. are also increasing. Hence, it is always economically justifiable to take the future carrying cost rather than the past carrying cost. "

3.4 When asked to give the reasons for taking carrying cost of two succeeding years, while calculating the export price, the Ministry of food stated as follows:

> "The export prices for the years 2000-03 during which sale for exports was done – were fixed by taking the economic cost minus carrying cost applicable for two succeeding years, subject to the condition that it would not be lower than BPL prices as per the formula approved by the GOM. As the idea was to save high carrying cost that would have been incurred in the future, it was in order that cost to be incurred in the coming two years were taken into consideration and not what had already been incurred."

3.5 The Committee pointed out that ERC recommendation for export prices were intended to be used only for PDS and not for export purpose, and asked the Ministry to explain as to the reasons for applying the ERC recommendations, for export scheme, the Ministry of Food stated as follows:

> "In respect of foodgrains procured and distributed by the FCI, only one economic cost each for wheat and rice is fixed for all the schemes, including PDS, export, open sale and other welfare schemes. ERC recommendation was for methodology of fixation of economic cost of the foodgrains procured / distributed by the FCI. ERC did not recommend different economic costs for different schemes. Therefore this economic cost was taken into consideration for fixation of export prices."

3.6 As per audit para, ERC recommendations were not approved by Government at the time of export of foodgrains. Committee therefore asked from the representatives of Ministry of Food to explain as to how ERC recommendations could be applied before their approval. In reply, Ministry in their note stated as under:-

> "The Expenditure Reforms Committee report was received in this Department in July 2000 on the basis of which a Cabinet Note was sent to the Cabinet on 17th July 2000. The following recommendation contained in the Note were approved by the Cabinet in its meeting held on 21st July 2000.
>
> (1) The recommendations of the Commission to charge to buffer carrying cost freight charges and transit losses to the extent of 1/3rd of the opening stock of buffer in addition to charging in full the transport cost and transit losses to the extent there is accretion to the buffer.
>
> (2) The Commission's recommendation for charging carry over charges to the buffer carry over costs.
>
> (3) The recommendation of the Commission to pass the benefit of pooling while working out the economic cost of wheat and rice.
>
> After working out detailed modalities of the above recommendations, order regarding the above were communicated to the FCI on 9th July, 2002. In view of the acceptance of the recommendation of the Commission, the principles of allocation of costs between normal operations and buffer stocks were modified with effect from 25.7.2000. However, FCI informed this Department that since the accounts of the FCI for 2000-01 had already been finalized and approved by the Board of Directors and were also submitted to C&AG for audit, it was not possible to make the order effective from 25.7.2000. Therefore, this Department issued orders to comply with the above principles w.e.f. the accounts of 2001-02 onwards."

3.7 Asked as to why C&AG was not consulted, while finalizing the change in the method for working out economic cost and buffer carrying cost, as was done in 1979, the FCI in their written reply stated as follows:

> "The revised method for calculation of buffer carrying cost was issued in the year 2002 based on the approval given by the Cabinet while considering the recommendations of the Expenditure Reforms Commission. In view of the urgency it had not been possible to consult the C&AG, which had been recorded in the Cabinet note. "

4. INCORRECT FIXATION OF PRICE FOR WHEAT FOR WHEAT PRODUCTS

4.1 According to C&AG, the High Level Committee (HLC) fixed (August 2001) a price of Rs. 4700 per MT for issue of wheat for export of wheat products, based on the cost details given by FCI and Private Parties. This was worked out based on sales realization minus conversion cost (Rs. 6220 –Rs. 1520). The average conversion cost quoted by the parties worked out to Rs. 1254/MT, whereas HLC adopted Rs. 1520/MT as conversion cost. This resulted in lowering of issue price by Rs. 266 per MT and extra subsidy Rs. 7.15 crore on sale of 2.69 lakh MT of wheat.

4.2 According to Audit Para 5.4.2, the fixation of price for export of wheat products has been incorrectly done. When asked to explain the factual position with regard to the above observation of the Audit, the of FCI in their written note stated as follows :-

> "The HLC recommended the fixation of wheat price for export of wheat products on the basis of deliberations held by it. As there was no reliable data available regarding export of wheat products, various PSUs, Roller Flour Mills Association and FCI were requested to submit their estimations regarding realization from export of wheat products and conversion cost of wheat. The estimates received, were at great variance with each other and the HLC deliberated on the elements of cost and realization figures and after detailed discussions arrived at the final figures of Rs.6220 for realization and Rs.1520 for conversion cost, giving the final issue price of Rs.4700 per MT.
>
> As brought out above there was no readily available data and none of the estimates could have been independently accepted as final figure. As the subject belonged to the Roller Flour Mills, their estimates had to be given due and sufficient credibility.
>
> The final figure of 4700 per MT is also supported by the fact that on an Open Market Sale price of Rs.6500 per MT the effective sale price comes to Rs.4750 after allowing for a subsidy of Rs.1750 PMT. Thus the final export price was rightly arrived at keeping in view the competitiveness of Indian product in the International Market."

4.3 It has been stated in the Audit Para, that the cost of conversion proposed by FCI with regard to export of wheat products was Rs.750 per MT. This was the lowest cost quoted.

When asked to explain the basis on which the above conversion cost of Rs. 750 per MT was proposed, FCI in their written reply stated as follows :-

> "The FCI did try to furnish realistic calculation for conversion cost, which according to them was Rs.750 per MT. However, as this is not the core business of FCI they would have naturally depended on verbal inquiries from the market, which could not be taken as fully realistic. This is also borne by the fact that estimate provided by the other PSUs and Roller flour mills (RFMs) were quite at variances with FCI figures."

4.4 When further asked as to what were the steps taken by FCI to inform the Ministry about the above conversion cost, FCI in their written reply stated as follows:-

> "The estimate provide by FCI was considered by the HLC alongwith estimates received from other sources and a final view was taken after detailed deliberations in the meetings, which was ratified by the Ministry."

4.5 When asked as to what was the justification for adopting higher conversion cost of Rs.1520/- MT, which resulted in fixation of lower issue price, Ministry in their written reply stated as follows :-

> "The HLC recommended the fixation of wheat price for export of wheat products on the basis of deliberations held by it. As there was no reliable data available regarding export of wheat products, various PSUs, Roller Flour Mills Association and FCI were requested to submit their estimations regarding realisation from export of wheat products and conversion cost of wheat. The estimates received, were at great variance with each other and the HLC deliberated on the elements of cost and realisation figures and after detailed discussions arrived at the final figures of Rs.6220 for realisation and Rs.1520 for conversion cost, giving the final issue price of Rs.4700 per MT.
>
> As brought out above there was no readily available data and none of the estimates could have been independently accepted as final figure. As the

wheat products are manufactured by the Roller Flour Mills, their estimates had to be given sufficient credibility.

The final figure of 4700 per MT is also supported by the fact that on an Open Market Sale price of Rs.6500 per MT, the effective sale price comes to Rs.4750 after allowing for a subsidy of Rs.1750 PMT. Thus the final export price was rightly arrived at keeping in view the competitiveness of Indian product in the International Market.

The price of Rs.4750 per MT for wheat products was not low as the then prevailing price for export of wheat was Rs.4250/- and a differential of Rs.500/- on account of higher realization was quite just and appropriate."

5. UNFRUITFUL EXPENDITURE ON TRANSPORTATION.

5.1 The Brief of the Audit Para No. 5.4.3, states that the sale price fixed for export of wheat and rice was on ex-FCI port godown. This facilitated the exporters to lift foodgrains from the godowns of their choice and that too, at the cost of FCI and have them delivered at the port of their choice. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far-flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. In the process, FCI had to incur freight charges on unwarranted movement of foodgrains from various far-flung godowns in the country to the port town designated by the exporters.

The high incidence of freight charges on inland movement also had the effect of reducing the net realization from exports, which fell below the issue rate for BPL category.

On being asked as to what were the reasons behind FCI, bearing the cost of transportation of lifting of foodgrains by exporters from godowns of their choice and whether this has compromised the financial interest of the Company FCI replied as follows:

> "The rates fixed for issue of stock for exports were on ex-Port town basis and, therefore, cost of transportation of stocks up to port railhead was to be borne by the FCI as per the scheme. There was no compromise with the financial interest of the company as transporting the foodgrains up to the port towns was an integral part of the export scheme and the scheme had been drawn by keeping this factor in view. This provision was a better safeguard against diversion of foodgrains to the domestic market."

5.2 When asked as to what were the adverse effects, on the net realization from exports, due to high incidence of freight charges, FCI in their note stated as follows:

"There is no question of any adverse effect because the rates for issue of stocks for exports were declared on ex-Port town basis, i.e. transportation charges from inland depot to the port town was to be borne by the FCI. Had FCI / Ministry not allowed the exporters to lift the stocks of their choice, the desired purpose of maximizing the exports for speedy evacuation of stocks could not have been achieved, which was the primary objective of the scheme."

5.3 When asked to comment upon the decision of giving a free hand to the exporters to lift the foodgrains from the godowns of their choice which resulted in heavy expenditure on freight charges to be borne by FCI and therefore consequently amounted to almost issuing the foodgrains below BPL rates in violation of the instructions of the group of Ministers, FCI replied as follows:

"The basic purpose of extending this facility was that exporters would be in a position to satisfy themselves about the quality of stocks and, accordingly, make commitment / contracts in the market. Further lifting of stocks from the inland depots of procuring region was financially a prudent decision as it avoided the unnecessary expenditure on double handing of stocks, which would have been incurred, had the same stocks been lifted after storing them in the port godowns.

Moreover, the incidence of freight charges is incurred in all movements, as stocks are to be moved from procuring region (surplus state) to consuming region (deficit state).

Movement of stocks for exports from a particular inland depot to a particular port had to be permitted to the exporters in view of operational requirements, particularly where the final destination (foreign country) of a particular transaction was nearer to a particular port or where there was easier availability of ships at a particular port at the required time or in case where a particular port was more suitable in view of the particular type of ships etc.

Thus the provision was essential for success of the scheme and the freight expenses could not be termed a loss making. Economy in overall operations was maintained, keeping in view the operational requirements.

The element of transportation of stock within the country is inbuilt in the Central Issue Price of foodgrains, which in this case happens to be BPL price. As the transportation of foodgrains was part and parcel of the scheme it cannot be isolated from the export transaction and as such the effective export price was not less than the BPL prices."

5.4 When enquired as to why FCI did not formulate a rationale plan to avoid criss-cross movement of foodgrains for export, FCI replied as follows:

> "The urgency for both the FCI and the exporters was to complete the export transaction in the fastest possible time. The shortage of railway rakes was a common problem and making use of the rakes in the most efficient manner was in everyone's interest, especially for the exporters who had to complete the export transaction and submit the documents within a specified time period. In such situation criss-cross movement of foodgrains for export as referred to by the CAG in its report was not a very regular phenomenon. The instances cited by C&AG in its report would be stray cases, because of unavoidable circumstances, such as the port suiting the logistics for export or non availability of vessel to suit the stock movement etc. Thus there was no such grave problem on account of criss cross movement requiring specific provisions."

6. DEFICIENCIES IN SALE OPERATIONS

Exclusion of FCI from Export Operation

6.1 As per Audit, STC, MMTC and PEC were allowed to export foodgrains. However, FCI was not considered for export. Asked as to whether FCI was also interested in export of foodgrains, FCI in their written note stated as follows:-

> "The primary function of the FCI is protecting farmers' interests through MSP operations and ensuring food security through the PDS. Extending FCI's role to direct exports would dilute its primary objective. Moreover as per new export scheme being proposed by the Commerce Ministry, the private sector is expected to be allowed to procure directly and undertake exports of foodgrains."

6.2 On being asked as to why FCI did not prevail upon the Ministry to undertake export operations, directly, thereby preventing private parties from acting as middlemen and earning profits, FCI stated as follows:-

> "Even for the supply of foodgrains under the Public Distribution System the FCI only offers foodgrains to the State agencies from their base depots and it does not actually undertake distribution upto consumers. Similarly, for export of foodgrains the FCI offered surplus stock of foodgrains to exporters at the prices determined by the Government.
>
> Quantitative magnitude of the export was large enough even for PSUs/PSEs and Corporation bodies such as STC, MMTC,NCCF, NAFED, PEC and Marked to handle. FCI's main role had been to oversee and ensure smooth implementation of the scheme, to fulfill its' basic objectives of ensuring domestic food security.'

Reimbursement of Road transport charges without proper documents

6.3 Brief of the Audit Para states that the FCI, while reimbursing road transport charges to the exporters was required to obtain proof of movement of stocks into the port towns as per directions of the Ministry. However, transportation charges of Rs.105.27 crore were reimbursed without obtaining the prescribed documents duly authenticated in respect of 15.46 lakh MT of foodgrains in eight districts in three regions. As such the directions of the Ministry for reimbursement of transportation charges based on actuals were not complied with and the correctness of the expenditure could not be vouch-safed in audit.

When asked as to what were the directions of the Ministry to FCI regarding reimbursement of transportation charges and whether such directions were compiled with, the Ministry replied as follows :-

> "The exporters of wheat are eligible for reimbursement of rail-freight by the shortest route from FCI depot to the port-town depot of the Corporation or actual freight, whichever is less, on production of export documents.
>
> For reimbursement of freight charges on movement by road, the exporters are required to furnish a certificate from the local Truck Union / handling and forwarding agents about details of trucks with quantities despatched / lifted ex-FCI depot and similar certificate from the agents at port towns for receiving the stocks with truck numbers, quantities, weight and freight payments made for such truck movements. The payments are restricted for the quantities actually transported through the shortest route for paying the railway freight."

6.4 When enquired as to whether it was true that FCI reimbursed transportation charges without obtaining the prescribed documents in proof of movement of stock into the port towns, FCI in their written reply stated as follows :-

> "CAG has not given party-wise, allocation-wise, date-wise, release order-wise, date and quantity etc. in respect of 15.46 lakh m. tonnes of foodgrains issued from eight districts in the three regions namely, Punjab, Haryana and A.P. where it is claimed that transport charges were reimbursed without obtaining the prescribed documents.
>
> However, all the three regions have confirmed that all prescribed documents have been obtained from the exporters as per instructions issued in the matter from time to time."

6.5 When asked as to whether truck chits / goods receipts are the standard mechanism for proper proof of payment, while reimbursing road transportation charges, FCI stated as follows :-

> "In addition to truck chits / goods receipts there are other stipulated documents prescribed vide FCI Hqrs. Letter dated 11.03.2002, to be furnished by exporters, as detailed below :-
>
> (a) Original goods receipt
> (b) List of truck numbers from local truck transport union / weighment chits
> (c) FCI gate pass."

Undue benefit of Rs. 44.25 crore to Exporters for foodgrains exported through rail to Bangladesh.

6.6 Post delivery expenses (PDE) allowed to exporters ranged from Rs. 1700 to Rs. 3850 per MT for rice and Rs. 1175 to Rs. 2850 per MT for wheat. This was paid irrespective of destinations i.e the distance involved in export of foodgrains to various countries. No exercise was done to work out the realistic PDE, which exporters would be incurring. In case of exports to Bangladesh by rail, FCI moved goods directly from godowns to various destinations in Bangladesh.

The allowance towards PDE ranging from Rs.1175 per MT to Rs.3850 per MT was extended in respect of foodgrains issued for export and transported by rail to Bangladesh as against only Rs.30 per MT borne by the exporter. Thus there was an excess reimbursement of Rs. 44.25 crore.

When asked to comment upon the post delivery expenses that were allowed to exporters of grains to Bangladesh which resulted in an unintended benefit of Rs. 44.25 Crore to them, FCI in their note stated.

> "The exporters were reimbursed part of the expenses incurred by them in export transactions of the foodgrains. In order to make the reimbursement WTO compatible, it had to be ensured that the reimbursement was done under a uniform policy, irrespective of the actual expenses borne by the exporter. Keeping this in view the government decided to extend uniform reimbursement of expenses irrespective of distance, mode of transportation etc. of specific export transactions. The subsidy was kept at the level which was less than the lower limit of the permissible expenses as advised by Ministry of Commerce and being WTO compatible. For example in the case

of subsidy for exports of wheat products the permissible reimbursable came to Rs.2665 and Rs.3665 for Bangladesh and Middle East respectively. However, the subsidy allowed was Rs. 1750 per MT, which shows that there was no unintended benefit extended to exports meant for Bangladesh."

6.7 On being asked as to whether post delivery expenses are uniform irrespective of the destination, FCI in their written reply stated as follows:

"Yes Sir, The Post Delivery Expenses are extended on uniform basis, irrespective of the destination."

6.8 When asked as to whether the Ministry had carried out any exercise for fixation of Post Delivery Expenses (PDE), keeping in view the varying distances and different modes of transport in export of foodgrains to various countries, the Ministry in their note stated as follows:-

"The exporters were reimbursed part of the expenses incurred by them in export transactions of the foodgrains. In order to make the reimbursement WTO compatible it had to be ensured that the reimbursement was done under a uniform policy irrespective of the actual expenses borne by the exporter. Keeping this in view the government decided to extend uniform reimbursement of expenses irrespective of distance, mode of transportation etc. of specific export transactions.

……….It has to be borne in mind that the huge exercise of export was undertaken by the FCI without addition in the manpower. To ensure 100% check of each transaction would have meant setting up extensive machinery at various stations, which would have been an expensive proposition. Allowing the export transactions to be handled on a case-by-case basis could have also led to use of discretion by the field staff and possible harassment of the exporters. Moreover as the subsidy was kept at a level less than the minimum permissible, there was no scope for any unintended or excess benefit going to anyone.

The subsidy was kept at the level which was less than the lower limit of the permissible expenses as advised by Ministry of Commerce and being WTO compatible. For example in the case of subsidy for export of wheat products the permissible reimbursable came to Rs. 2665 and 3665 for Bangladesh and Middle East respectively. However, the subsidy allowed was Rs. 1750 per MT, which shows that there was no unintended benefit extended to exports meant for Bangladesh."

Loss of Rs.20.20 crore due to issue of foodgrains after price variation

6.9 Brief of the Audit Para states that exporters were given undue benefit of Rs 20.20 crore by allowing them to lift the foodgrain at pre revised lower price after price revision on a quantity of 8.58 lakh MT of wheat.

According to the Audit Para, there has been a loss of Rs. 20.20 Crore due to issue of foodgrains at pre-revised rates after price revision. When asked to explain the actual position, FCI in their written reply stated as follows:

> "CAG has pointed-out that in case of exports, exporters were allowed the benefit of pre-revised lower price even for quantity lifted after the date of revision. Whereas for issue under PDS, whenever the issue prices are revised, the revised prices are charged for the quantity issued from one week prior to the date of revision.
>
> It is submitted that principle adopted for PDS cannot be applied for export sale of foodgrains. In case of exports, the prices were fixed for each quarter. The exporters entered into contract with foreign buyers at the agreed rates. There was difficulty in obtaining Railway rakes for movement of stocks from inland depots to Port Town depots. Several exporters could not lift the stocks due to the reasons beyond their control. It was therefore, decided by the Ministry to allow lifting upto 30 days from the end of the quarter at pre-revised rates. Thereafter the price on the date of lifting was made applicable."

6.10 Commenting on the reasons for giving the benefit of pre-revised lower price rate after the dates of price revision to exporters, the Ministry of Food replied as follows :-

> "For issue under PDS, whenever the issue prices are revised, the revised prices are charged for the quantity issued from one week prior to the date of revision.
>
> It is submitted that principle adopted for PDS cannot be applied for export sale of foodgrain. In case of exports, the prices were fixed for each quarter. The exporters entered into contract with foreign buyers at the agreed rates. There was difficulty in obtaining railway rakes for movement of stocks from inland depots to port town depots. Several exporters could not lift the stocks due to the reasons beyond their control. It was therefore decided by the Ministry to allow lifting upto 30 days from the end of the quarter at pre-revised rates. Thereafter the price on the date of lifting was made applicable."

Extension of export price for lustre lost wheat purchased under open market sale scheme (Domestic) (OMSS-D)

6.11 Brief of the para states that Lustre lost wheat was issued for export of wheat products only from October 2002. Subsequently when the Ministry ratified supply of lustre lost wheat from February 2002 to September 2002 for export of wheat products retrospectively, lustre lost wheat issued under Open Market Sales Scheme Domestic (OMSS (D) in August 2002 was also categorized as issues for export and the benefit of post delivery expenses was also extended. As the Ministry's ratification was only for those lustre lost wheat stocks issued prior to 1 October 2002 for wheat products export, application of export price to stocks issued under OMSS (D) resulted in extending unintended concession of Rs.95 lakh and as such was irregular. The local management stated that the reimbursements were made at the instance of FCI Headquarters/Ministry.

On being asked as to what were the reasons for ratification of the issuing of lustre lost wheat under Export Scheme from February 2002 to September 2002, the Ministry replied as follows :-

> "The Lustre Lost Wheat (LLW) is the name given to the wheat of crop year 2001-02, which was partly affected by untimely rains shortly before the harvest. As a result the grains lost their shine hence the name. This wheat, while maintaining the original nutritional value had a slightly shorter shelf life, which required that issue of the stocks should be done on priority basis. As such to liquidate the LLW stocks the Government had allowed the issue of LLW for export in grain form but certain exporters had erroneously exported wheat products out of the wheat obtained under OMSS. The recommendations of HLC to allow issue of luster lost wheat for export of wheat products had been made to the government on 18.2.02 on the basis of its meeting held on 22.1.02. This issue was deliberated in the government and a decision was taken on 25.9.02 to allow sale of wheat including luster lost wheat for export of LL Wheat products which was to come into effect from 1.10.02. However, as some exporters had in the meantime exported wheat products out of wheat obtained under OMSS erroneously (this issue was represented by their Association on the basis of HLC recommendation), a

> decision was taken to ratify all such transactions, which took place between 1.2.02 to 30.9.02."

6.12 The Audit Para says that lustre lost wheat issued under open market sales scheme (domestic) to private firms such as M/s. Dewas Flour Mills and M/s.Sanghvi Flour Mills were also categorized as if they were issued for export purposes and accordingly export subsidy of R.0.95 Crore was released to them. When asked to state the actual position, the management of FCI in their written reply stated as follows:

> "M/s. Sangvi Food Products, Indore and M/s. Dewas Flour Mills Pvt. Ltd., Dewas purchased luster lost wheat under open sale scheme and exported wheat products as is evident from the documents of exports submitted by them. On completion of export of wheat product, the exporters named above submitted their reimbursement claim in terms of Headquarter instructions, contained in fax bearing dated 24-04-2002. The instructions, inter-alia suggested that any exporter in addition to RFMs could also deposit the cost and lift the wheat stocks from the godown of the FCI for export of wheat product out of the wheat purchased by them from FCI stocks under OMSS (D) and get the amount of post delivery and other expenses reimbursed by FCI subsequently as per the existing rates after submission and verification of export documents.
>
> Since the parties named above were issued wheat for export of wheat product from FCI godown during the period 1.2.02 to 30.9.02, they were entitled for the benefits in terms of the Ministry's order dated 1.10.02"

6.13 Justifying the extension of subsidy benefit to LLW (luster lost wheat) issued under OMSS(D) in August, 2002, the Ministry of Food replied as follows :-

> "In the first meeting of Standing Committee on exports held under the chairmanship of Secretary (F&PD) on 10.4.2002 a suggestion was made that the Roller Flour Millers and exporters of wheat products may be permitted to first purchase wheat at OMSS(D) wheat price, export wheat products out of it and get the amount of post delivery and other expenses reimbursed by FCI subsequently, as per existing rates, after submission of export documents. As per minutes of the meeting the Committee had agreed to the suggestion and an order to this effect was issued by the government on 22.4.2002 (Ann-G), which provided for the following :-

Roller Flour Mills (RFMs) and exporters of wheat-products are also permitted to export wheat-products from the wheat purchased from FCI stocks at the Open Market Sales Price (D) of FCI and get the amount of post-delivery and other expenses reimbursed by FCI subsequently as per the existing rates after submission and verification of export documents. These documents should be presented by the exporters within the prescribed period after taking delivery of wheat from FCI godowns".

6.14 On being asked as to whether there is any Market Intelligence System (MIS) available with FCI, the management of FCI in their written reply stated as follows :-

"There is no formal set up for Market Intelligence in FCI. However, information regarding latest international trade in foodgrains and prices etc. were appraised to the HLC, from time to time."

Loss due to issue of wheat at reduced rates applicable for lustre lost wheat for exports

6.15 Brief of the Audit Para states that FCI issued 31738 MT of wheat at a reduced rate of Rs 3960/MT as applicable for lustre lost wheat though the stocks were not lustre lost as per the reports of Independent Consignment Certification Officer (ICCO) which resulted in loss of Rs 1.11 crore.

6.16 When asked as to whether it was true that good quality wheat was sold at the reduced rate applicable for lusture lost wheat by the District Office of FCI at Bikaner, FCI in their written note stated as follows:

"No, Sir, District Office, Bikaner, has not sold good wheat as luster lost wheat."

6.17 On being asked as to whether the management of FCI got any clarification from the concerned regional office at Bikaner, and whether the reports of ICCO were ignored in this regard, FCI in their reply stated as follows:

"The SRM / Rajasthan has confirmed that while earlier, only a part of the wheat consignment was certified as Lustre lost, subsequently the balance part was also declared as Lustre Lost Wheat. The procuring regions of Punjab and Haryana have also confirmed that entire quantity of wheat procured by them during 2001-02 was luster lost. Thus the reports of ICCO do not have any relevance in this regard."

7. IRREGULARITIES IN EXPORT TRANSACTIONS

Non-recovery of penalties due to engagement of private middlemen by Public Sector Undertakings.

7.1 Brief of the Audit para. states that exporters were required to furnish Bank Guarantee (BG) for the difference between the OMSS (D) price and export price charged. In the event of failure to fulfill export obligations, Bank Guarantee(BG) would be encashed. However, PSUs were exempted from BG submission. As the PSUs were engaging middlemen and private parties for export operations this exemption was extended to them also. With the result FCI failed to levy/collect any penalty in case of default in the absence of BG.

7.2 On being asked as to whether the private parties / middlemen who acted as agents for export operations of PSUs furnished any Bank Guarantee and the reasons as to why FCI extended the benefit of exemption from Bank Guarantee to PSUs when they started engaging private middlemen, FCI replied as follows :-

> "Initially the sale of foodgrains for export scheme was started with the Central PSUs such as MMTC, STC, PEC, etc. Later on the private exporters were also allowed to act as associates of the PSUs. In such cases also the FCI had official transaction with the PSUs only, who acted as guarantor for the associates dealings. Hence they were not required to furnish BG."

Clarifying further, FCI stated as under:-

> "The BG was an instrument by which the interest of the FCI were protected in case the export transactions failed to materialize. As the PSUs by being Government agencies provided this assurance, no need was felt initially to make them furnish BG like private exporters. However w.e.f. 27.8.2003 the provision of BG was extended to all exporters including PSUs."

7.3 When enquired as to whether it was true that FCI failed to levy or collect any penalty from such private parties, who indulged in irregularities in exports, FCI replied as follows :-

> "In all cases where irregularities in exports were established, necessary penal action has been taken. It includes recovery of differential cost in two cases pertaining to the period when the private exporters were not furnishing BG while action as associate of PSUs."

Non-submission of export documents

7.4 Brief of the Audit Para No. 5.6.2 states that exporters were required to submit certain export documents like H-Form, Bill of lading, Invoice, Shipping bills and bank realization certificate, etc after the completion of the exports and within 45 days for wheat and 90 days for rice from date of issue of foodgrain, failing which BG will had to be encashed**.** The following are the cases of non-submission of export documents: -

- Exporters after export of 9.72 lakh MT of wheat and 0.04 lakh MT of wheat for wheat products and 4.93 lakh MT of rice did not submit the entire set of documents and only part documents were given.
- For export of 3.83 lakh MT of wheat and 0.91 lakh MT of rice issued, no export documents were submitted to audit for verification by District/Regional office.
- As per instructions of FCI Hqrs, lifting of wheat /rice stocks by parties for export to Bangladesh through Barges, proof of export was to be substantiated as per the document given by the Inland Water Authority. However, for export of 17178.376 MT of rice exporters did not furnish authenticated documents.

7.5 On being asked as to what were the documents required to be furnished by the exporters, FCI stated in their written replies as follows :-

> The documents required to be furnished by the exporters were prescribed in FCI Hqrs. Circulars dated 3.12.2001, 22.10.2002 and 13.12.2002 and are as follows :-
>
> (i) Bill of lading
> (ii) Bank Realization Certificate from Bank
> (iii) `H' / `C' Form
> (iv) Invoice
> (v) Shipping Bill
> (vi) GR Form

7.6 Asked further as to whether all the required documents were submitted by the exporters, FCI stated in their written reply as follows :-

> "The documents were submitted by the exporters for getting their BG released as proof of successful completion of exports. If the documents were not submitted, the District Office withheld the BG."

7.7 When enquired as to why FCI did not initiate recovery proceedings when exporters failed to submit the export documents within the prescribed time and why FCI accepted incomplete documents from the defaulting exporters, the management of FCI in their written reply stated as follows :-

> "All PSUs / exporters, who failed to submit the export documents in time were penalized by the field offices. Their Bank Guarantee was encashed, if it was established that the stocks had not been exported. In case of default by PSUs, who were required to submit Indemnity Bond, the differential cost between the OMSS (D) price and the effective export price have been recovered. FCI had taken action against the following PSUs / exporters :-
>
> (i) NCCF-2000 MT rice – lifted Ex. Ludhiana (Punjab) through their associate exporter – differential cost with taxes were recovered.
> (ii) Bhagwati Exports – Bank Guarantee encashed.
> (iii) Pioneer Food – Bank Guarantee encashed.
> (iv) NCCF – Allocation of 6500 MT rice – differential cost recovered; and
> (v) M/s Hemant International – 2000 MTs – differential cost recovered.
>
> Apart from encashment of Bank Guarantees, cases have also been filed against exporters, who had manipulated / submitted fake documents.
>
> (1) M/s R. K. Exports, Bhopal – submitted manipulated export documents and fraudulent Bank Guarantees, - CBI, Bhopal has registered a case.
> (2) M/s A. K. Flour Mills Pvt. Ltd., Ankleswar, Gujarat – The party exported wheat flour instead of whole wheat and submitted forged documents – Bank Guarantee was encashed, FIR filed, Money Suit for recovery of interest and differential cost has been filed and is pending in Court.
> (3) NCCF – Police case is pending in the Court at Faridabad, Haryana.
> (4) M/s Hemant International – FIR has been lodged by the District Manager, FCI, Kurukshetra, Haryana.
> The above parties have also been blacklisted."

Non-submission of original documents

7.8 Brief of the Audit Para states that original export documents were not submitted by the exporters for export of 2.71 lakh MT rice and 1.41 lakh MT of wheat in Andhra Pradesh Region.

Commenting on the above observation of Audit, FCI stated as under:-

"Regional Office, Andhra Pradesh has confirmed that they have accepted `H' Form and `C' Form, in original. Regarding the other prescribed export documents, Regional Office, Andhra Pradesh insisted for submission of original documents. The PSUs / private party viz. M/s PEC Ltd. and M/s Satnam Overseas Ltd. expressed the difficulty in furnishing the original Bill of Lading, Bank Realization Certificate, Shipping Bill, GR Form stating that these originals are required to be submitted by them to the following statutory authorities :-

(1) Bank Realization Certificate / Shipping Bill furnished to DGFT;
(2) GR Form to be sent to RBI through negotiating bank for confirming receipt of foreign exchange against exporter; and
(3) Bill of Lading : All the three originals are to be sent to overseas buyers through banking channel to get the cargo dispatched at the destination.

The matter was examined in FCI Headquarters and directions were issued that non-encashable copy of the Bill of Lading and other documents, duly stamped by the bank, may be accepted as authenticated photocopies.

Export documents, duly authenticated by the banker, have been accepted in these cases."

7.9 On being asked as to how FCI ensured that the same sets of documents were not submitted to any other offices / regions of FCI or any other organizations, the management of FCI in their written reply stated as follows :-

"Instructions were issued to all concerned that original prescribed documents were required to be submitted by the PSUs / Private Exporter.

However, in cases where allocations have been made in the name of two or more Regional Offices and there is a single shipment at port town and where original documents are submitted in one office of FCI and are also required to be submitted in the other office of FCI, the question of submission of attested copy arose. FCI Headquarters issued instructions; vide their Order dated 6/7.3.2003, that, in such cases, a copy of the non-negotiable Bill of Lading, duly stamped by the bankers, should be obtained from the PSU / private exporter, to ensure that the stocks have been exported."

Doubtful Cases of Export

7.10 Considering the ex-FCI godown export rate which was far below the economic cost, the Ministry stated in February 2001 that it was essential for the Corporation to ensure that the rice offered for export was actually exported and was not recycled in the local market. For this purpose, it was directed that a senior officer not below the rank of Senior Regional Manager was required to verify the documents to check forging and to ensure that the rice issued by FCI was only exported. However, the required checks at Senior Regional Manager level were not exercised as is evident from the following:-

"(i) Dates of shipping bills/bill of lading for export of 19596 MT of wheat and 715 MT of wheat products and 8782 MT of rice issued from various regions related to the period **prior** to the lifting of stock from FCI godowns. Custom authentication was made after the bill of lading dates in respect of 8082 MT of wheat products.

(ii) The Shipping bills indicated different origins other than the actual origin of the stocks lifted as per the records of FCI in respect of export of 1.36 lakh MT of rice in 26 cases.

(iii) The names of vessels mentioned in bill of lading were different from corresponding shipping bills in respect of export of 8303 MT of rice issued in Southern region.

(iv) The exporters of basmati rice indulged in malpractices of submitting documents of already exported basmati rice against the stock received from FCI to comply export formalities. To curb this FCI instructed the exporters to indicate a clause indicating "non-basmati/non-scented" in all bills of lading. But the document submitted in respect export of 8833/MT of rice from South did not have this stipulated clause.

(v) As against 12,795 MT of AP rice issued from Andhra Pradesh Region for exports, the exporters submitted documents in respect of PR 106 variety, which was of Punjab origin.

(vi) In respect of 3,675 MT of rice and 1,025 MT of wheat relating to crop year 2001-02 issued from Andhra Pradesh region, the exporters submitted documents indicating different crop years that is, 2000-01 (175 MT of rice), 2002-03 (3500 MT of Rice) and 2002-2003 (1025 MT of wheat).

(vii) FCI issued boiled rice for exports with a maximum broken percentage of 16 whereas the bills of lading received for 8,065 MT of boiled rice in Tamilnadu and Andhra Pradesh regions indicated the presence of 20 and 25 per cent brokens. This showed that the stocks actually exported in such cases were not FCI stocks.

(viii) The exporters of wheat products were required to export only on CIF basis as per the Ministry's instructions (December 2001). However in respect of 4467 MT of wheat issued for export of wheat products, the export was on FOB basis, which was contrary to the instructions of the Ministry. "

The Committee sought clarification from Ministry of Food and FCI on the above points which have been discussed below:

7.11 Regarding the verification of documents by an officer of FCI not below the rank of Senior Regional Manager to ensure that the rice issued by FCI was only exported, FCI stated as follows:-

> "Senior Regional Managers were also advised to get the documents checked randomly from the concerned centralized agencies & banks from time to time. Instructions in this regard were issued, vide Hqrs. Letter dated 20.2.2003. The exporter was at liberty to upgrade the rice and obtain rice from the market for export along with FCI rice to meet his contractual obligations."

7.12 When enquired as to whether FCI verified the origin of goods indicated on the shipping bills while accepting the export documents, FCI stated as follows :-

> "Wherever the Regional Offices observed any discrepancy in respect of the stipulated documents, they have raised and got the discrepancy removed at their level. These discrepancies could be related to origin of goods in shipping bills or any other shortcomings in other stipulated documents. In cases of discrepancies in origin of goods, the exporters concerned were asked by SRMs concerned for submitting the correct origin through the customs."

7.13 When enquired as to whether it was true that documents submitted for rice issued from Tamilnadu and Karnataka, did not have the clause indicating `Non-

Basmati rice / Non-scented rice' in bills of lading, the management of FCI in their written reply stated as follows :-

> Regarding `clause of `Non-Basmati rice', Tamil Nadu Region has submitted that the decision of Government of India was issued by Hqrs., on 28.11.2001 in this respect, and it was received in Tamilnadu Region on 5.12.2001. Hence, the clause was incorporated subsequently in the Bill of Lading in respect of M/s Kantilal & Co., Mumbai. Since the document submitted by the party was in order, FCI released the Bank Guarantee submitted by the party. However, the issue is being further examined and an amount of Rs.28,05,487/- has been withheld.

7.14 On being asked as to why the Regional Office of FCI Andhra Pradesh accepted export documents for P.R.106 variety when the variety was not actually issued by them, FCI further stated as follows :-

> "Andhra Pradesh region vide their reply dated 14.7.2005 have informed that the exporter furnished amended shipping bills duly approved, signed and stamped by the Custom Authorities of Kandla along with supporting documents for 5043 MT Parboiled Rice I.R.-64 instead of PR-106. However, the matter is being investigated further for fixing responsibility, if required, for apparent failure of the staff at first instance."

7.15 When asked as to how the Regional Office of FCI Andhra Pradesh accepted export documents for the stock of different crop years other than those actually issued, FCI stated as follows :-

> "Andhra Pradesh Region has replied vide letter dated 14.7.2005 that FCI issued wheat stocks for export pertaining to different crop years in the matter of M/s NCCF, Raipur – GNG Exports. The exporter expressed their difficulty to furnish the export documents crop year-wise as it was difficult to mention separate crop years. Since the wheat exported was in bulk with maximum quantity of 2002-03 crop, the export documents indicated wheat as 2002-03 crop only. This matter is being further investigated in association with the custom / port authorities for fixing the responsibilities upon the delinquent officials for their apparent failure."

7.16 To a question as to how FCI could accept the documents for export of Boiled Rice indicating 20% to 25% brokens, while the maximum percentage of brokens allowed as per FCI specifications was only 16% and why such an unfair trade practice was allowed, the Committee were informed :-

> “Andhra Pradesh region vide ibid mentioned letter dated 14.7.2005 informed that exporter concerned, i.e. M/s Spongen & Sons, submitted certificates in which broken rice was 16.4%. The exporter also clarified that the contract entered into with the foreign buyer export No.PSTR/PJs/2003 dated 10.1.2003, it was mentioned in Bill of Lading that rice exported with 25% brokens. The exporter furnished amended contract with the buyer indicating the percentage of brokens as 16%. In view of the Certificate, and documents in light of amended contract furnished by the exporter, the documents were accepted. In this matter also investigations for failure of staff, if any, is being conducted and responsibility accordingly, would be fixed.”

7.17 On being asked as how FCI could accept the export documents for wheat products on FOB basis, when Ministry’s instructions were to accept documents on CIF basis and whether any responsibility has been fixed for such a lapse and recovery effected from the officials responsible for the same, the management of FCI stated in their written reply as follows :-

> “SRM, FCI, Chennai had accepted export documents in respect of 330 MT of wheat sold to M/s South India Flour Mills in July, 2002 and 340 MT of wheat sold to M/s Sabourt Ltd., Chennai in May, 2002 under OMSS(D) Scheme on FOB basis have been accepted by them, as no loss has been caused to the Corporation on his account. However, this matter is being further investigated to ensure that the exporter has not been wrongly benefited. Action against the delinquent officials would be taken accordingly.”

7.18 In view of the above irregularities pointed out by Audit, Committee asked as to whether there were safeguards against diversion of stocks to the domestic market, FCI in their note stated as follows:

> “The scheme for sale of foodgrains was covered with the following safeguard mechanism to prevent diversion of stocks to the domestic market :-
>
> 1. Scrutiny of the prescribed export documents, which all PSUs/exporters were required to submit within the prescribed time limit of 45 days in case of wheat and 90 days in case of rice.

2, All PSUs were required to submit reports of exports by them and their associates to FCI on a monthly basis and to ensure that there was no diversion of stocks lifted for exports.

3. FCI, on its own, conducted random checks at border checkpoints in West Bengal as well as at the ports in association with the Custom Authorities.

4. Copies of Release orders issued from major issuing States of Punjab and Haryana were also marked to the CBI.

5. Instructions were issued to Zonal Managers and SRMs to carry out surprise inspections to ensure transparency in export transactions.

6. Bank Guarantee / differential cost was recovered from defaulting PSUs / exporters, wherever irregularities could be established.

7. FIRs/ cases have also been filed against PSUs / exporters who submitted forged documents. FCI had also blacklisted such exporters who submitted forged documents. FCI had also blacklisted such exporters."

Non-recovery of overtime allowance

7.19 Brief of the Audit Para states that the FCI was to recover OTA whenever it was required to work beyond normal working hours for delivery of stocks to the exporters. But in 13 district offices, the OTA incurred for Rs. 1.72 crore on export operations were not recovered from exporters as per terms.

7.20 On being asked as to what were the reasons for nor recovering the overtime allowance (OTA) from the exporters and also the reasons as to why FCI had borne the expenses on account of OTA in deviation of the terms and conditions agreed to in this regard, the management of FCI stated as follows:-

"The decision not to charge OTA, demurrage on exporters' account, at the loading station was on the analogy that the stocks have to be moved to the ports on FCI's account. Thus, in cases where the stocks had been moved on FCI's account, OTA, Demurrage, will not be charged from the exporters. However, where the transactions have been shown ex-loading stations, such benefit would not be available to the exporters. Further, demurrage charges would be borne by the exporters, if stocks on export account were loaded on

Sundays/holidays. OTA, however, is admissible to labourers getting wages from FCI under different systems and not by the labourer engaged purely on contract basis from HTC (Handling, Transport Contractor).

In view of the position explained above, FCI regions have charged OTA/demurrage from exporters from time to time as applicable in the respective export transaction. However, various exporters and export associations have represented that entire expenditure on account of OTA incurred and also demurrage on rakes incurred before and after office hours should be borne by FCI. In view of protest from various quarters, it has been decided to seek legal opinion from Additional Solicitor General. A final decision will be taken on receipt of legal opinion."

Non-collection of sales tax on gunnies

7.21 Brief of the Audit Para states that as per FCI Headquarters instructions, sales tax on gunnies in case of wheat exported in bulk was to be collected from all parties at the rates prevailing in the respective States from where exports took place. FCI, Rajasthan and Punjab regions did not collect the sales tax on gunnies to the tune of Rs.15 lakh on the stocks issued to the exporters.

7.22 When enquired as to whether sales tax on gunnies in case of wheat exported in bulk was collected from all parties, the management of FCI stated as follows :-

"Hqrs issued instructions for recovery of Sales Tax on gunnies. The Sales Tax on gunnies was collected by SRMs wherever applicable."

Lack of control by FCI in obtaining Railway receipts in favour of the parties.

7.23 Brief of the Audit Para states that the stocks despatched to port towns for export should be in the name of the concerned port District Office of FCI, but, several rakes despatched from up North were in the name of the exporters themselves. FCI Headquarters instructed in October 2002 its field offices that the quantities despatched to port towns for export purposes were to be accounted for at the despatching ends and the Railway Receipts were to be obtained in the name of the exporters at the despatching ends themselves. This was not in line with the instructions issued by the Ministry directing FCI to institute suitable mechanism to safeguard against diversion of stocks to the domestic market. However the port district office of South Zone did not comply the instructions in this regard and thereby neither receipt of foodgrains at the port towns nor their actual export could be ensured.

7.24 When asked as to why the stocks were despatched in the name of exporters. FCI stated as follows:

> "Initially, Railway Receipts (RRs) were made in the name of Asstt. Manager (Depot) of FCI at Port town, which was to be endorsed in favour of the exporter by the recipient Asstt. Manager (Depot). Later on, vide instructions dated 16.10.2002 this system of endorsement of Railway Receipt by the port town was dispensed with and sale was being accounted by the office issuing the stocks. This was done to simplify the procedure for accountal of sale tax, as in the earlier system the receiving depot of the FCI was being identified as the 'point of sale' and would have been considered liable for sale tax, if the exports did not materialize."

7.25 On being asked as to how it was ensured that the stocks in all such cases actually reached the Port Districts, the management of FCI further stated as follows:

> "To verify that the stocks had genuinely reached the port town, the parties were to receive the rakes in presence of FCI officials who in turn were required to confirm receipt of rakes by way of monthly statement."

7.26 When asked as to why the recipient port districts did not send the prescribed monthly receipt statement to the despatching districts and how the actual quantities despatched and exported tallied, in such a scenario, FCI stated as under :-

> "The system of sending monthly reports does not appear to have been followed very assiduously. However, the actual quantity despatched / lifted from the region were tallied with the export documents submitted by the exporters periodically."

7.27 When enquired as to whether monthly statements were sent from the consignees to consignors, indicating the receipt of foodgrains for export purposes, the management of FCI in their written reply stated as follows:

> "The instructions dated 16.10.02 provided that the receiving depots would send monthly receipt statement, but this does not appear to have been fully followed. The reconciliation of stocks was done on the basis of documents submitted by the exporters at the conclusion of exports."

8 INTERNAL AUDIT

8.1 As per Audit Para, an independent Internal Audit wing works in FCI right from the Corporate level down to the District Office level. Considering the amount of subsidy involved in export transactions and the complexities in monitoring the transactions such as scrutinizing export contracts, allotments, issues, accountal, verification of export documents and release of bank guarantees, the Corporation could have entrusted the work relating to the verification and reconciliation of the documents at all levels to Internal Audit. FCI did not envisage this internal check system while commencing the export operations (November 2000). Only in May 2002, the HLC decided that all the export transactions were to be audited and reconciled by internal audit. FCI field offices did not implement even this decision and no internal audit report on export transactions was made available to audit except in Andhra Pradesh and Maharashtra regions. Thus, lack of inadequate internal controls and appropriate role for internal audit in reviewing the export transactions resulted in various omissions and commissions referred to above.

8.2 When asked as to why FCI did not entrust the work relating to verification and reconciliation of the documents at all levels to "Internal Audit", the management of the FCI stated as follows:-

> "Finance Division of respective Region/District was associated at all stages from issue of Allocation / Release Order, receipt of payment etc. till acceptance of exports documents. This served the same purpose of exercising a check, as was the job of Internal Audit."

8.3 As regard non implementation of the decision of the High Level Committee that all export transactions were to be audited and reconciled by internal audit, FCI. Stated as under:-

“The decision of HLC for conducting internal audit was implemented. This is confirmed from the ED (IA)’s letter No. IA/HQ/Spl. Audit/Export Sale /1011 Dated 01.11.2002.”

Recommendations and observations of the Committee

Recommendation No. 1

The Committee note that the Government of India in October 1998 fixed the norms for the quantity of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy, which ranged from 15.8 Million Metric Tonne (MMT) to 24.3 MMT. As against this, the stock position as on 30 September 2000 was 40.06 MMT. In view of the burgeoning stock position, the Ministry of Consumer Affairs, Food and Public Distribution, in September 2000 submitted a proposal for consideration of the Cabinet Committee on Economic Affairs (CCEA) for "Revamping of Public Distribution System (PDS) – Measures to improve off-take of foodgrains". A Group of Ministers constituted, to consider the above proposal, in October 2000, decided inter-alia, that FCI might be permitted to offer wheat for export at a price equal to economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for 'below poverty line' (BPL) category of families. Based on the above decision, FCI commenced the export of wheat in November, 2000.

They were also permitted to issue rice for exports in December 2000 and wheat for export of wheat products in December 2001. Accordingly, FCI issued 19.71 MMT of wheat and 13.53 MMT of rice for exports during November 2000 to February 2004. The economic cost and the sale value of the quantity of wheat and rice issued for export (based on the highest sale price obtained in a year) were Rs.33,927 crore and Rs.19,792 crore respectively involving a subsidy burden of Rs 14,135 crore being the difference between economic cost and sales realisation

Factors contributing to export of foodgrains

(a) Excess procurement of foodgrains

The Food Corporation of India and Ministry of Consumers Affairs, Food and Public Distribution have justified excess procurement of foodgrains on the contention that the procurement of foodgrains operations in India, are actually MSP driven and not based on the demands of PDS, therefore, FCI or state procurement agencies do not have any flexibility of not accepting the foodgrains offered by the farmers. The Committee have also been informed that, if exports had not been done, FCI would have incurred an additional cost of Rs.27626.34 crore for holding the stocks.

(b) Inadequate storage capacity

The Committee note that covered storage capacity available with FCI was not adequate to store the surplus stocks of foodgrains and almost 100 lakh tonnes of foodgrains were being stored under Central Accounts Pool (CAP) storage, which was likely to be easily damaged because of the elements of nature. Deterioration of foodgrains, increasing administrative and storage charges for maintaining the stocks and for making available storage space for coming procurement, were other reasons which necessitated export of foodgrains.

The Committee fail to understand as to why steps were not taken well in advance for augmenting the storage capacity so as to obviate the present situation of foodgrains lying in the open and exposed to vagaries of nature. The Committee can not absolve both the Ministry and FCI of their responsibility of not addressing this problem sufficiently in advance and in proper perspective. The Committee, therefore, strongly recommend that a comprehensive review of storage capacity of all the godowns of FCI be made and adequate steps be taken for augmenting the storage capacity.

Recommendation No. 2

Delay in liquidation of excess stocks.

The Committee note that the Ministry has woken-up very late and taken nearly two years in submitting the proposal to CCEA for export of excess foodgrains. The Committee therefore deprecate the delay on the part of the Ministry for not addressing to the problem of burgeoning buffer stocks of FCI in the right earnest despite the fact that FCI had been highlighting this problem through letters and deliberations in the High Level Committee meetings.

The Committee are also unhappy to note that the Ministry of Food allowed distribution of surplus foodgrains for `Food for Work programme' only after the then Chairman, FCI, mooted this proposal to the Ministry. The Committee also find it distressing that the decision regarding increase of supply of foodgrains for BPL and APL families was taken only in 2002, when the problem of surplus stocks of foodgrains had actually become insurmountable. The Committee, therefore, take a serious view of the situation and feel that had the Ministry taken these corrective steps earlier, the stocks of foodgrains might not have swelled to a level which warranted exports.

The Committee recommend that to obviate recurrence of such situation in future, Ministry should periodically make assessments of stocks at the disposal of FCI and initiate suitable remedial steps, well in advance, for their disposal without causing any loss to the exchequer.

RECOMMENDATION NO.3

Food Subsidy

As per audit observation, the Committee note that a subsidy of Rs.14135 crore has been given to the exporters under the Head food subsidy. The Committee highly deprecate that the `food subsidy' basically meant for social activity i.e. PDS covering BPL families has been wrongfully extended to exporters which is a commercial activity.

The Committee therefore, totally disapprove the decision of the Ministry of giving subsidy to exporters for liquidating the excess buffer stocks and strongly recommend that in future food subsidy to exporters should be strictly avoided.

Recommendation No. 4

Fixation of lower export price for wheat

The Committee have been informed that the Group of Ministers (GOM) decided in October, 2000 that wheat be offered for export at a price equal to the economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for BPL category. The Ministry adopted Rs.8300 per MT and Rs.2204 per MT, being the estimated economic cost for 2000-01 and the related carrying cost respectively which was worked out, was based on the revised method of allocation of distribution costs suggested by Expenditure Reforms Commission (ERC). On the basis of recommendations of ERC, the issue price of wheat was arrived at Rs.3892, which was stepped up to Rs.4150, that is the BPL price, the minimum rate at which the wheat was to be offered for export. As such the wheat for export was issued at Rs.4150 between November 2000 and March 2001. The Committee further note that while taking the decision of export during a particular year, Ministry has taken the estimated economic cost and carrying cost of subsequent two years. As per Audit this has resulted in a loss or additional subsidy burden of Rs.1608 crore.

However, Food Corporation of India and Ministry of Food have contended that by adopting the above criteria there was no loss and they adopted this criteria in consonance with ERC recommendations. The Committee further note that the revised methodology suggested by the ERC and approved by the Cabinet had two effects, firstly reduction of economic cost and secondly increase in carrying cost, which finally resulted in fixation of lower export price.

The Committee are not convinced with the justification given by Ministry for adopting the criteria of calculation of Export Price based on ERC recommendations as the same were applicable for the PDS system and not for export scheme. The Committee therefore deprecate the Ministry for adopting wrong criteria for calculation of export price.

Recommendation No. 5

Unfruitful Expenditure on Transportation

The Committee note that the sale price fixed for export of wheat and rice was on ex-FCI port godown basis, which means transportation charges from inland FCI depot to the port town was to be borne by FCI. This facilitated the exporters to lift foodgrains from the godowns of their choice and have them delivered at the port of their choice. As a result, the exporters lifted the foodgrains from the godowns of their choice situated in farflung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. As per audit, FCI had incurred Rs.516.36 crore towards freight charges. The high incidence of freight charges on inland movement had the effect of reducing the net realisation from exports which fell below the issue rate for BPL category.

The Committee further note that FCI has justified the lifting of foodgrains by the exporters from the godowns of their choice for several reasons, namely, nearness of final destination (foreign country) to a particular port, easier availability of ships at a particular port at a cheaper rate etc. According to them these steps were essential for the

success of the scheme and as such only rail-freight through the shortest route was reimbursed and economy in overall operations was maintained.

The Committee are of the view that this is a clear case where undue benefit / advantage has been extended to the exporters. They also feel that the policy per se in this regard of reimbursing of transport charges from inland godown to port town, was a loss making proposition which resulted in issuing the foodgrains below the BPL price. In the opinion of the Committee the reimbursement of transport charges is an export subsidy to traders, which should have been avoided. Insofar as export of foodgrains is concerned, the Committee recommend that a clear cut policy should be evolved with regard to reimbursement of transport charges.

Recommendation No. 6

Deficiencies in Sale operations

Undue benefit of Rs. 44.25 crore to Exporters for foodgrains exported through rail to Bangladesh.

The Committee note that Post Delivery Expenses (PDE) which inter-alia include shipping freight, loading and unloading charge etc. allowed to exporters ranged from Rs. 1700 to Rs. 3850 per MT for rice and Rs. 1175 to Rs. 2850 per MT for wheat. This was paid irrespective of destinations i.e the distance involved in export of foodgrains to various countries. No exercise was done to work out the realistic PDE, which exporters would be incurring. For instance in case of exports to Bangladesh, FCI moved goods directly from godowns to various destinations in Bangladesh by rail.

The Committee further note that the allowance towards PDE ranging from Rs.1175 per MT to Rs.3850 per MT was extended in respect of foodgrains issued for export and transported by rail to Bangladesh as against only Rs.30 per MT borne by the exporter thereby allowing a subsidy of Rs. 1750 per MT which, as per audit, led to excess reimbursement of Rs. 44.25 crore.

The Committee are not satisfied with FCI's contention that the reimbursement of PDE (irrespective of

destinations) was WTO compatible as they feel that the Ministry should have got clarification from Group of Ministers, as to whether post delivery expenses had to be allowed uniformly. The another argument advanced by FCI that without additions in manpower, it would have been a herculean task to handle all export transactions on a case by case basis is also not acceptable to the Committee as FCI being a commercial organisation can not fritter away Government money on such frivolous grounds.

The Committee feel that there is no commercial prudence in giving a PDE of Rs. 1750 per MT, as against only Rs. 30 per MT borne by the exporters. The Committee highly deprecate the Ministry / FCI for having failed to work out a realistic PDE and save the Government money. The Committee therefore recommend that a proper and fool proof system of export (sale) operations should be evolved which may also include realistic assessment of PDE for export purposes in future.

Recommendation No. 7

Irregularities in export transactions.

According to C&AG, there were instances of irregularities in export transactions such as non-recovery of penalties, non-submission of export documents, non-submission of original documents, diversion of stocks to domestic market instead of exporting, etc. FCI has also admitted that during the course of the operations, there might have been some mistakes and that there were complaints of diversion and misuse of grains. The Committee have noted that in many such irregularities, cases have been referred to CBI and FIRs have been lodged and further investigations are being made.

The Committee recommend that the investigations in all the cases of irregularities should be expedited and appropriate action be taken against erring exporters / delinquent officials of FCI. The Committee also desire that suitable steps be taken as suggested by Abhijit Sen Committee, to tighten procedures to prevent leakages of foodgrains meant for export into domestic market.

Recommendation No.8

Internal Audit

The Committee deprecate that the Internal Audit wing of FCI was not entrusted / involved for checking the documentation throughout the export operations, in-spite of clear cut directions of HLC in May, 2002. This lead to many omissions and commissions. The Committee do not agree with the contention of FCI that Finance Division of regional office of FCI was associated at all stages of export operations and this served the same purpose of exercising a check, as was the job of Internal Audit. The Committee are of the opinion that the role of Internal Audit is totally different from that of Finance Division. They would like to emphasise that Internal Audit Wing has the wherewithal and special acumen to critically analyse the cases of omissions and commissions, which Finance Division is not equipped of.

The Committee feel that had the internal audit wing been associated at all stages of export operation, various irregularities and deficiencies which have occurred in export operations would not have taken place. The Committee therefore recommend that FCI should invariably associate the Internal Audit Wing at all effective

stages of export operations in future and follow the audit norms strictly.

Recommendation No.9

Need for a long term policy regarding export of foodgrains

The Committee take a serious view of extending of food subsidy to exporters in the instant case as food subsidy is intended only for the PDS system for BPL families. To avoid recurrence of such a situation the Committee observe that there is an imperative need for evolving a long term policy regarding export of foodgrains. The Committee have been informed that a High Level Committee (HLC) under the Chairmanship of Sh. Abhijit Sen has gone into this aspect and submitted a report suggesting framing of a scheme which would open direct procurement and export to private sector. The Committee therefore desire that this matter may be pursued vigorously with Ministry of Commerce so that an export policy for foodgrains is framed expeditiously.

New Delhi	RUPCHAND PAL
21 December, 2005	CHAIRMAN
30 Agrahayana, 1927 (S)	COMMITTEE ON PUBLIC UNDERTAKINGS

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

CHAPTER : V

Food Corporation of India

Export of foodgrains

Highlights

The Government of India permitted the Food Corporation of India (FCI) to offer wheat and rice for export to liquidate excess stocks in the central pool. Accordingly FCI issued 19.71 million MT of wheat and 13.53 million MT of rice was issued for export. The economic cost and sale value of the quantity of wheat and rice issued for export were Rs.33,927 crore and Rs.19,792 crore respectively.

(Para 5.1)

The increased procurement of wheat and rice was not justified both from the point of view of production as well as off take and led to heavy accumulation of stocks in central pool. Consequently 33.24 MMT of wheat and rice was issued for export during the period from November 2000 to February 2004.

(Para 5.3)

The Ministry fixed lower export price for wheat due to incorrect adoption of conomic cost and higher carrying cost. This resulted in additional subsidy burden of Rs 1608.63 crore.

(Para 5.4.1)

The sale price fixed for export of wheat and rice was on ex-FCI port godown. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. In the process, FCI had to incur Rs.516.36 crore towards freight charges in respect of 22 districts test checked in audit.

(Para 5.4.3)

FCI reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents as directed by the Ministry.

(Para 5.5.2)

The exporters to Bangladesh were given an unintended benefit of Rs.44.25 crore in transportation of foodgrains by rail.

(Para 5.5.3)

The exporters were given undue benefit of Rs.20.20 crore by allowing them to lift the foodgrains after price revision.

(Para 5.5.4)

There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when it was not required, extending undue benefit to exporters, issue of foodgrains at pre-revised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

(Paras 5.6.1 to 5.6.4)

Internal Audit was not entrusted/involved for checking the documentation through out the export operations contributing to many omissions and commissions.

(Para 5.10)

5.1 Introduction

The Food Corporation of India (FCI) was established in the year 1965 and entrusted withthe purchase, storage, movement, transport, distribution and sale of foodgrains and foodstuffs. FCI was the nodal agency through which the Government of India (GOI) implemented its food policy, the objectives of which were to (i) safe-guard the interests of farmers by effective price support mechanism, (ii) distribute foodgrains and sugar throughout the country at uniform issue prices and (iii) maintain satisfactory levels of operational and buffer stocks to ensure nation's food security. The Government of India fixed (October 1998) the norms for the quantity of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy, which ranged from 15.8 Million Metric Tonne (MMT) to 24.3 MMT. As against this, the stock position as on 30 September 2000 was 40.06 MMT. In view of the burgeoning stock position, the Ministry of Consumer Affairs, Food and Public Distribution (Ministry), Government of India, submitted (September 2000) a proposal for consideration of the Cabinet Committee on Economic Affairs (CCEA) for "Revamping of Public Distribution System (PDS) – Measures to improve off take of foodgrains". A Group of Ministers constituted, to consider the above proposal, decided (October 2000), inter-alia, that FCI might be permitted to offer wheat for export at a price equal to economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for 'below poverty line' (BPL) category. The issue of wheat for export commenced in November 2000.

FCI was also permitted to issue rice for exports in December 2000 and wheat for export of wheat products in December 2001.

Accordingly, FCI issued 19.71 MMT of wheat and 13.53 MMT of rice for exports during November 2000 to February 2004. The economic cost and the sale value of the quantity of wheat and rice issued for export (based on the highest sale price obtained in a year) were Rs.33,927 crore and Rs.19,792 crore respectively involving a subsidy burden of Rs 14,135 crore being the difference between economic cost and sales realisation

5.2 Scope of Audit

The objective of the review was to examine the entire scheme of export of foodgrains to ensure whether the financial interest of FCI/Government was safeguarded while liquidating the excess stocks. The review also covered the irregularities as well as deviations from the instructions issued by GOI for export of foodgrains during the period from November 2000 to February 2004. Audit test checked during December 2003 to March 2004 the records relating to exports in 57 District Offices in 16 Regions involving a quantity of 17.23 MMT out of a total of 33.24 MMT of wheat and rice issued for export. The findings of Audit are detailed in the following paragraphs.

5.3 Factors contributing to export of foodgrains:

5.3.1 Heavy accumulation of stocks.

The table below gives the stock levels of wheat and rice as on the first day of January, April, July and October of the years 1998 to 2002 under the Central Pool as against the minimum stock level under Buffer Stocking Policy.

(Quantity in MMT)

Year	1st January		1st April		1st July		1st October	
	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat
1998	11.49	6.76	13.05	5.08	12.04	16.48	8.96	15.24
1999	11.69	12.70	12.16	9.66	10.56	22.46	7.74	20.31
2000	14.72	17.17	15.72	13.19	14.49	27.76	13.21	26.85
2001	20.70	25.04	23.19	21.50	22.75	38.92	21.45	36.83
2002	25.62	32.42	24.91	26.04	21.94	41.07	15.77	35.64
Minimum stock under buffer norm	8.40	8.40	11.80	4.00	10.00	14.30	6.50	11.60

It could be seen from the above table that the stock levels gradually started piling up from early 1999 and reached a level of 42.25 MMT in July 2000. This included 24.90 MMT with FCI against storage capacity of 27.10 MMT available.

The mounting stocks of rice and wheat with FCI coupled with serious storage problem that was expected to crop up during the khariff procurement season commencing from October 2000 forced the Government of India to take a decision to export foodgrains (October 2000).

The Management confirmed (November 2004) the audit observations.

5.3.2 Reasons for heavy accumulation

The table below gives the details of production, procurement and off-take of wheat and rice from 1998-99 to 2002-03:

Year	Production (MMT)			Percentage increase in production	Procurement (MMT)			Percentage increase in procurement	Procurement as a percentage of production	PDS & Schemes Offtake (*) (MMT)		
	Rice	Wheat	Total		Rice	Wheat	Total			Rice	Wheat	Total
1998-99	86.08	71.29	157.37		11.87	12.65	24.52		15.58	11.71	8.37	20.08
99-2000	89.68	76.37	166.05	5.52	17.31	14.14	31.45	28.26	18.94	12.27	6.24	18.51
2000-01	84.98	69.68	154.66	-6.86	19.59	16.36	35.95	14.31	23.24	10.02	5.22	15.24
2001-02	93.08	71.81	164.89	6.61	21.28	20.63	41.91	16.58	25.42	12.96	8.06	21.02
2002-03	75.72	69.32	145.04	-12.04	16.3	19.03	35.33	-15.70	24.36	17.32	14.19	31.51

(*) Excluding Open Sale and Exports

The Central Pool stock of wheat as of 1 April 1999 was 9.66 MMT against a minimum stock requirement of 4 MMT under the buffer norms. The procurement during the year 1999-2000 (the major part of procurement is done during April-October) was 14.14 MMT. Against this, the off-take for PDS and centrally sponsored schemes during the same period was only 6.24 MMT. As a result, the stock position at the beginning of April 2000 rose to 13.19 MMT, that is, more than thrice the minimum stock requirement under the buffer norm. The production of wheat in the year 2000-2001 was 69.68 MMT as compared to 76.37 MMT in the preceding year. Despite the fall in production and a comfortable buffer at the beginning of the year, the procurement during the year 2000- 2001 was 16.36 MMT, as against 14.14 MMT in the previous year. The excess procurement was not justified also from the point of view of PDS off-take, which fell to 5.22 MMT in 2000-01 from 6.24 MMT in the previous year. This resulted in further piling up of stock to 21.50 MMT by 1 April 2001, five times the buffer norm of four MMT.

Similarly in the case of rice, the stock as of 1 October 1999 was 7.74 MMT against a minimum stock requirement of 6.50 MMT under the buffer norm. The production of rice during the year 1999-2000 (October – September season) was 89.68 MMT as compared to 86.08 MMT in 1998-99. Though the production increased by only 3.60 MMT and despite comfortable buffer stock at the beginning of the season, the procurement during 1999-2000 was increased to 17.31 MMT from 11.87 MMT in 1998-99. The substantial increase in procurement was also not justified from the off-take point of view, as the off-take in 1999-2000 was only marginally higher at 12.27 MMT as against 11.71 MMT in 1998-99. This increased the stock position at the beginning of the next procurement year (October, 2000) to 13.21 MMT, that is, twice the minimum stock of 6.50 MMT under the buffer norm.

Thus, the increase in procurement of wheat in 2000-2001 (April-March) and of rice in 1999-2000 (October-September) was not justified either from the point of view of production (support to the farmer) or from the point of view of off-take (PDS needs). This led to piling up of stocks and the Government of India perforce had to resort to export of wheat and rice.

Deficiencies in the pricing of wheat and wheat products for export are discussed in succeeding paras.

5.4.1 Fixation of lower export price for wheat

The Group of Ministers (GOM) decided (October, 2000) that wheat be offered for export at a price equal to the economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for BPL category. The Ministry adopted Rs.8300 per MT and Rs.2204 per MT, being the estimated economic cost for 2000-01 and the related carrying cost respectively which was worked based on the revised method of allocation of distribution costs suggested by Expenditure Reforms Commission (ERC). On the basis of recommendations of ERC, the issue price of wheat was arrived at Rs.3892, which was stepped up to Rs.4150, that is the BPL price the minimum rate at which the wheat was to be offered for export. As such the wheat for export was issued at Rs.4150 during November 2000 to March 2001.

It was observed that the recommendations of ERC (July 2000) were intended for arriving at the realistic economic cost, which the consumers under PDS ought to pay and did not have approval of the Government of India. Even the subsequent approval of the Government of India (July 2002) was categorical that the revised methodology was to arrive at a realistic economic cost for the consumers under PDS and such not relevant to arrive at the issue price of wheat for export. Further, while taking the decision (October 2000) the relevant available costs were the economic cost of 1999-2000, that is, the costs of immediate preceding year and carrying cost of two years referred would be the carrying costs of 1999-2000 and 1998-99. Accordingly, the issue price based on the criteria decided by the GOM would work out to Rs.6044 per MT (Rs.8875 minus Rs.1445+ 1386) Thus, adoption of issue price of Rs.4150 per MT for export as against Rs.6044 during 2000-01 was not in order.

The export price fixed in 2001-02 was in the range of Rs 4200 to Rs.4300 per MT as against the applicable price of Rs.5841 per MT as per the criteria of GOM and based on the economic cost (2000-01) and buffer carrying cost of the preceding two years (1999- 2000 and 2000-01). Similarly, the issue prices in 2002-03 and 2003-04 (September 2003) were also lower. As a result, there was short realization of Rs.1608.63 crore on 168.69 lakh MT of wheat issued for export during the period November 2000 to September 2003. This in turn led to increased subsidy burden on the Government of India on export of wheat to the extent of Rs.1608.63 crore due to adoption of lower economic cost and higher carrying cost.

It was seen from the note submitted to CCEA, that the ERC recommendations for change in the method for working out economic cost and buffer carrying cost was to be finalised in consultation with CAG as was done in 1979 while fixing the economic cost. However, in the instant case, the issue was not referred to CAG.

The Management stated (November 2004) that the revised methodology adopted for working out the economic cost and buffer carrying cost and the fixation of the issue price of wheat for export on the revised basis would need to be commented upon by Ministry. The Ministry's reply was awaited (November 2004).

5.4.2 Incorrect Fixation of price for Wheat Products

The High level Committee (HLC) recommended (August 2001) a price of Rs.4700 per MT for issue of wheat for export of wheat products on the basis of cost details prepared by FCI and offers received from STC and three private parties. FCI projected the sale realisation including byproducts at Rs.6718 per MT whereas the roller flour mills (RFMs) and STC projected it as ranging between Rs.5205 per MT and Rs.6385.50 per MT. The cost of conversion (including profit) proposed by FCI was Rs.750 per MT, while STC and the RFMs quoted from Rs.1000 per MT to Rs.2075 per MT. The HLC, while taking note of these variations worked out the issue price of wheat at Rs.4700 per MT as given below: -

Sale realisation	Rs.6220 per MT
Less Conversion Cost	Rs.1520 per MT
Issue price	Rs.4700 per MT

The Ministry fixed (December 2001) the price at Rs. 4750 per MT after taking into account the escalation in the issue price of wheat from August 2001 to December 2001. It was observed in Audit that the average of conversion costs quoted by parties considered by HLC worked out to Rs.1254 per MT only whereas the HLC adopted a conversion cost of Rs.1520 per MT. Even after taking into consideration the average of different variables quoted by all the parties as reasonable, the issue price worked out to Rs.4966 per MT against the issue price of Rs.4700 per MT fixed by HLC. On this basis, the extra subsidy allowed for issue of wheat for export of wheat products was Rs.266 per MT. Consequently, the extra subsidy on the quantity of 2.69 lakh MT of wheat, for export of wheat products, issued during January 2002 to February 2004 was worked out to Rs.7.15 crore.

5.4.3 Unfruitful expenditure on transportation

The sale price fixed for export of wheat and rice was on ex-FCI port godown. This facilitated the exporters to lift foodgrains from the godowns of their choice and that too, at the cost of FCI and have them delivered at the port of their choice. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. For instance the foodgrains were transported from Raichur in Karnataka to Kandla port in Gujarat and from Punjab to Tuticorin in Tamilnadu. There were also cases of movement from one port town (Chennai) to another port town (Tuticorin) at the cost of FCI. In the process, FCI had to incur freight charges on unwarranted movement of foodgrains from various far-flung godowns in the country to the port town designated by the exporters.

It was observed that the implication of making available the foodgrains from whichever godown the exporters chose and move the foodgrains to the port town of their choice was not examined by the Ministry. FCI spent Rs.516.36 crore on freight charges in this process in respect of 22 districts examined in audit involving movement of 7.2 MMT foodgrains out of a total of 33.24 MMT foodgrains issued for export, which was unwarranted.

The high incidence of freight charges on inland movement also had the effect of reducing the net realization from exports, which fell below the issue rate for BPL category as seen from the table below:

(Figures Rs. per MT)

Commodity	Max. sale price for export in 2001-02	Average inland freight	Net realisation from exports	BPL issue price
Wheat	4300	738	3562	4150
Raw rice/ Boiled rice	5650/6000	699	4951/5301	5650

The Management replied (November 2004) that the BPL rates were uniform throughout the country and FCI's foodgrains were moved from the surplus States to the deficit States by payment of freight by FCI at the consignor's end. It also stated that payment of freight by FCI up to port town, which was as per the terms and conditions for issue of foodgrains for export, was an integral part of the export operations and no such inference could be drawn thereon.

The Management's reply is not tenable as permitting the exporters to lift the foodgrains at their discretion and involving heavy freight charges at the cost of FCI was not financially prudent and cannot be justified equating the same with the movement of foodgrains from surplus States to the deficient States in fulfilment of the food policy and to supply foodgrains at uniform prices especially to weaker sections of the country. Further the PDS nominee in Karnataka or Tamilnadu had no justification to demand stock in Punjab when sufficient stocks were available in the nominated depots in their States. The fact that the net realization from export was less than the BPL price has not been denied.

Thus the decision of giving a free hand to the exporters to lift the foodgrains from the godowns of their choice not only resulted in unwarranted movement of foodgrains entailing heavy expenditure on freight charges but also resulted in issuing the foodgrains below BPL rates in violation of instructions of GOM according to which exports were to be effected at BPL rates.

5.5 Deficiencies in sale operations

5.5.1 Exclusion of FCI from export operation

The Management proposed (November 2000) to the Ministry that FCI could undertake the export operations directly or through private parties in case the nominated Public Sector Undertakings engaged middlemen for export operations. The Government while deciding (November 2000) that the export of foodgrains would be undertaken by the three Public Sector Undertakings viz., STC, MMTC and PEC, stated that a view on engaging FCI in export operations would be taken after watching the performance of the three Public Sector Undertakings. However, FCI was not considered for export operations although the other Public Sector Undertakings engaged middlemen for export and private parties were permitted to export foodgrains on their behalf. FCI could have also been entrusted with export operations for attaining / adding economy and efficiency, considering the long experience it had in port operations with adequate manpower for the procurement and distribution of foodgrains. The Management stated (November 2004) that the Ministry would furnish a suitable reply. Ministry's reply was awaited (November 2004).

5.5.2 Reimbursement of Road Transport Charges without proper documents – Rs.105.27 crore.

The Corporation, while reimbursing road transport charges to the exporters was required to obtain proof of movement of stocks into the port towns as per directions of the Ministry. FCI Headquarters, in turn, directed its field offices to insist on truck chits/goods receipts and cash receipts for freight along with certificates from licensed customsclearing agents giving details of trucks, commodity, quantity received and payment released on behalf of the party at port towns. However, the field offices reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents duly authenticated in respect of 15.46 lakh MT of foodgrains in eight districts in three regions. As such the directions of the Ministry for reimbursement of transportation charges based on actuals were not complied with and the correctness of the expenditure could not be vouched-safed in audit.

The reply of the Ministry/ Management was awaited (November 2004).

5.5.3 Undue benefit of Rs. 44.25 crore to exporters for foodgrains exported through rail to Bangladesh

The Post Delivery Expenses (PDE) allowed to exporters ranged from Rs.1700 per MT to Rs.3850 per MT in respect of rice and from Rs.1175 per MT to Rs.2850 per MT in the case of wheat and were uniform irrespective of the destination, that is, the distance involved in export of foodgrains to various countries. No exercise was done to arrive at realistic post delivery expenses that the exporters would be incurring. The Government also allowed uniform discount for export by both rail and sea. It was observed that in the case of exports to Bangladesh by rail, the loaded rakes were directly moved from FCI inland godowns to various destinations in Bangladesh. FCI paid the freight charges from its inland godowns to the final destination and recovered the differential rail freight between the actual rail freight incurred and the rail freight from inland godown to the designated Indian rail port at border with Bangladesh, from the exporter. This differential freight recovered from the exporter worked out to approximately Rs.30 per MT.

The allowance towards PDE ranging from Rs.1175 per MT to Rs.3850 per MT was extended in respect of foodgrains issued for export and transported by rail to Bangladesh as against only Rs.30 per MT borne by the exporter. Thus the reimbursement of Rs. 44.25 crore towards PDE, worked out on the basis of the minimum rate of Rs.1175 per MT for wheat and Rs.1700 per MT for rice on a quantity of 0.93 lakh MT of rice and 2.51 lakh MT of wheat directly moved by rail to Bangladesh, was not in order.

The Management stated (November 2004) that the Ministry while deciding to allow uniform discount for export by rail and sea appeared to have approached the subject matter pragmatically considering the distances involved from Indian sea port to farthest countries like Russia, USA, Egypt, Indonesia, South Korea, South African countries, London, Germany, Italy (to name a few) and nearer countries like Srilanka and Bangladesh where lead involved was less. The Management further stated that to allow different PDE to different countries based on distances or linked by rail as well as sea, would result in a spectrum of different discounts (PDE) monitoring of which would be a herculean task. The reply is not valid as in the context of large differential in the rate for Bangladesh between Rs.30 per MT and Rs.1175 per MT, the Ministry should have weighed the cost benefits by notifying the rates, which could have resulted in saving of Rs.44.25 crore in the export of foodgrains by rail.

5.5.4 Loss of Rs.20.20 crore due to issue of foodgrains at pre-revised rates after price revision

In the case of issue of foodgrains for PDS, whenever issue prices were revised, the revised prices were charged for quantities issued from one week prior to the date of revision. However, in the case of exports, the exporters were allowed the benefit of prerevised lower prices even for quantities lifted after date of price revision. Considering the primary objective of liquidating the surplus stocks on priority, the extension of benefit of pre-revised price to the exporters for quantities lifted after price revision was a deviation from the general principles of prudence followed by the Corporation for domestic issues. Resultantly, FCI suffered a loss of Rs.20.20 crore on account of extending such concession to exporters on a quantity of 8.58 lakh MT of wheat and rice.

The Management stated (November 2004) that the Ministry would offer its comments on this decision. Ministry's reply was awaited (November 2004).

5.5.5 Extension of Export price for lustre lost wheat purchased under Open Market Sales Scheme-(Domestic) (OMSS -D)

Lustre lost wheat was issued for export of wheat products only from October 2002. The District Office, FCI, Ujjain, issued (August 2002) 6613 MT of lustre lost wheat to M/s. Dewas Flour Mills and M/s. Sanghvi Flour Mills under OMSS (D). The issues thus made were only for sale under OMSS (D). Subsequently when the Ministry ratified supply of lustre lost wheat from February 2002 to September 2002 for export of wheat products retrospectively, the wheat issued to the above parties was also categorized as if issues were for export and accordingly export subsidy of Rs.0.95 crore was released to the parties. As the Ministry's ratification was only for those lustre lost wheat stocks issued prior to 1 October 2002 for wheat products export, application of export price to stocks issued under OMSS (D) resulted in extending unintended concession of Rs.95 lakh and as such was irregular.

The field office (Regional Office, Bhopal) of FCI stated (September 2004) that the Region never recommended reimbursement of PDE and inland transportation charges in the instant case but the party directly approached FCI, Headquarters/Ministry and got the approval of the same. The FCI Management simply forwarded (November 2004) the reply without offering any specific remarks. The Ministry's reply was awaited.

5.5.6 Loss due to issue of wheat at reduced rates applicable for lustre lost wheat for exports – Rs.1.11 crore

The District Office, Bikaner, issued 31,738 MT of wheat at the reduced rate of Rs.3,960 per MT applicable to lustre lost wheat though the stocks were not lustre lost as evident from Independent Consignment Certification Officer reports. This resulted in a loss of Rs.1.11 crore being the difference between the rate of good wheat and lustre lost wheat.

The Management stated (November 2004) that reply was awaited from concerned Regional Office.

5.6 Irregularities in the export transactions

5.6.1 Non-recovery of penalties due to engagement of private middlemen by Public Sector Undertakings:

The exporters were required to furnish a Bank Guarantee for the difference between the OMSS (D) price and the export price charged. In the event of failure to fulfill the export obligations and furnish the required proof thereof within the stipulated time, FCI would encash the Bank Guarantee. Thus the Bank Guarantee could be used as a deterrent device against malpractices. The Public Sector Undertakings were, however, exempted from submission of Bank Guarantee and instead they were required to submit an indemnity bond. At the same time, the Public Sector Undertakings were also permitted to engage private parties as agents and middlemen for export operations. As a result, the benefit of exemption from furnishing Bank Guarantee got extended to these private parties also. The indemnity bond furnished by the PSUs was not a suitable substitute for Bank Guarantee as it did not facilitate timely realization of dues in cases of doubtful transactions. Resultantly, FCI failed to levy or collect any penalty from such parties in the absence of Bank Guarantees.

The export documents such as export contracts, invoices, bills of lading and bank realisation certificates were received in the names of the private parties on behalf of the Central and State Public Sector Undertakings. There were several cases of doubtful transactions as discussed in the following paragraphs.

5.6.2 Non-submission of export documents

As per the terms and conditions for issue of foodgrains for export, the exporters were required to submit the following documents after completion of exports: -

(i) H Form
(ii) Bill of lading
(iii) Invoice
(iv) G.R. form
(v) Shipping bill
(vi) Bank Realisation Certificate

These documents were to be submitted within a period of 45 days for wheat and 90 days for rice from the date of issue of foodgrains, failing which the Bank Guarantee furnished by the exporters would be encashed.

It was observed that the exporters did not submit to FCI the entire set of documents, that is, submitted only one or more of the above documents in respect of 9.72 lakh MT of wheat and 0.04 lakh MT of wheat for wheat products and 4.93 lakh MT of rice issued from 23 District Offices in seven Regions of FCI. No export documents were furnished for verification to audit either by the District Office or by the Regional Office in respect of 3.83 lakh MT of wheat and 0.91 lakh MT of rice issued from 18 District Offices in four Regions.

As per the instructions of FCI Headquarters, New Delhi, in cases of lifting of wheat/rice stocks by the parties, for export to Bangladesh through barges, the proof of export was to be substantiated by the documents from the office of Inland Water Transport Corporation, Kolkata. It was observed that in respect of 17178.376 MT of rice issued from Andhra Pradesh region for export through barges, Inland Water Transport Corporation, Kolkatta did not authenticate the documents. However, the unauthenticated documents submitted by the party were accepted in violation of the FCI Headquarters instructions.

5.6.3 Non-submission of original documents

The exporters were required to submit the export documents in original. A test check in Andhra Pradesh region revealed that the exporters did not submit the original documents in respect of export of 2.71 lakh MT of rice and 1.41 lakh MT of wheat. Failure to insist on original documents was not in order as it could lead to possible misuse by the exporters.

5.6.4 Doubtful cases of Export

Considering the ex-FCI godown export rate which was far below the economic cost, the Ministry stated (February 2001) that it was essential for the Corporation to ensure that the rice offered for export was actually exported and was not recycled in the local market. For this purpose, it was directed that a senior officer not below the rank of Senior Regional Manager was required to verify the documents to check forging and to ensure that the rice issued by FCI was only exported. However, the required checks at Senior Regional Manager level were not exercised as is evident from the following:

(i) The dates of shipping bill/bill of lading for export of 19,596 MT of wheat, 715 MT of wheat products and 8,782 MT of rice issued from Karnataka, Andhra Pradesh, Tamilnadu, Punjab and Gujarat regions related to the period prior to lifting of stocks from FCI godowns. The customs authentication of shipping bills was made after the bill of lading date in respect of 8,082 MT of wheat products (South Zone and West Zone)

(ii) The shipping bills submitted by the exporters in respect of 1.36 lakh MT of rice in 26 cases of issues for export from Karnataka, Andhra Pradesh and Haryana regions indicated origins other than the actual origin of the stocks lifted as per the records of FCI.

(iii) The names of the vessels mentioned in the bills of lading and the corresponding shipping bills were different in respect of 8,303 MT of rice issued from Karnataka, Andhra Pradesh and Tamilnadu regions.

(iv) FCI received reports that the exporters of Basmati rice were submitting the export documents, pertaining to Basmati rice, which they had already exported, against the stocks issued by FCI to comply with export formalities. In order to prevent this malpractice, FCI issued instructions (December 2001) to incorporate a clause indicating “non-Basmati/non-scented rice” in all bills of lading. It was observed that the documents submitted for 8,833 MT of rice issued from Tamilnadu (3729 MT) and Karnataka (5104 MT) regions did not have the stipulated clause. Thus the field offices failed to comply with the instructions of FCI headquarters intended to prevent possible misuse of documents by the exporters.

(v) As against 12,795 MT of AP rice issued from Andhra Pradesh Region for exports, the exporters submitted documents in respect of PR 106 variety, which was of Punjab origin.

(vi) In respect of 3,675 MT of rice and 1,025 MT of wheat relating to crop year 2001-02 issued from Andhra Pradesh region, the exporters submitted documents indicating different crop years that is, 2000-01 (175 MT of rice), 2002-03 (3500 MT of Rice) and 2002-2003 (1025 MT of wheat).

(vii) FCI issued boiled rice for exports with a maximum broken percentage of 16 whereas the bills of lading received for 8,065 MT of boiled rice in Tamilnadu and Andhra Pradesh regions indicated the presence of 20 and 25 per cent brokens. This showed that the stocks actually exported in such cases were not FCI stocks.

(viii) The exporters of wheat products were required to export only on CIF basis as per the Ministry's instructions (December 2001). However in respect of 4467 MT of wheat issued for export of wheat products, the export was on FOB basis which was contrary to the instructions of the Ministry. A few specific instances of submission of doubtful/forged export documents by the exporters are enclosed in the annexure-2 as case studies.

5.7 Non-recovery of Overtime Allowance– Rs.1.72 crore

The terms and conditions governing the sale of foodgrains for exports inter alia provided that FCI depots would observe normal working hours for delivering stocks to the exporters. In exceptional circumstances, when some work was required to be done in extra working hours, FCI would charge exporters all extra expenses as might be applicable. However overtime allowance of Rs.1.72 crore incurred on export operations in 13 District Offices of five Regions was not recovered from the exporters in deviation of the agreed terms.

5.8 Non-collection of sales tax on gunnies – Rs.15 lakh

As per FCI Headquarters instructions, sales tax on gunnies in case of wheat exported in bulk was to be collected from all parties at the rates prevailing in the respective States from where exports took place. FCI, Rajasthan and Punjab regions did not collect the sales tax on gunnies to the tune of Rs.15 lakh on the stocks issued to the exporters.

5.9 Lack of control by FCI in obtaining Railway Receipts in favour of the parties

The stocks despatched to port towns for export should be in the name of the concerned port District Office of FCI. However, several rakes despatched from up North were in the name of the exporters themselves. FCI Headquarters instructed (October 2002) its field offices that the quantities despatched to port towns for export purposes were to be accounted for at the despatching ends and the Railway Receipts were to be obtained in the name of the exporters at the despatching ends themselves. This was not in line with the instructions issued by the Ministry directing FCI to institute suitable mechanism to safeguard against diversion of stocks to the domestic market. It was also directed that the recipient port districts (consignee) should send monthly statements to the respective despatching Districts/Regions (consignors) indicating the receipt of foodgrains for export purposes at the respective port towns. However, the port District Offices of South Zone did not send any such statements to the despatching ends. As a result, FCI could not ensure the receipt of foodgrains rakes despatched from other centres at these port towns nor that the same stocks were actually exported.

5.10 Internal Audit

An independent Internal Audit wing works in FCI right from the Corporate level down to the District Office level. Considering the amount of subsidy involved in export transactions and the complexities in monitoring the transactions such as scrutinizing export contracts, allotments, issues, accountal, verification of export documents and release of bank guarantees, the Corporation could have entrusted the work relating to the verification and reconciliation of the documents at all levels to Internal Audit. FCI did not envisage this internal check system while commencing the export operations (November 2000). Only in May 2002, the HLC decided that all the export transactions were to be audited and reconciled by internal audit. FCI field offices did not implement even this decision and no internal audit report on export transactions was made available to audit except in Andhra Pradesh and Maharashtra regions. Thus, lack of inadequate internal controls and appropriate role for internal audit in reviewing the export transactions resulted in various omissions and commissions referred to above.

5.11 Conclusions:

(i) There was heavy procurement of wheat and rice neither justified from production point of view nor justified from off-take, leading to unnecessary piling up of stocks much in excess of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy. Resultantly, the Government of India had to resort to export of wheat and rice with the intention of surmounting storage problems and reducing carrying cost.

(ii) Although the Ministry fixed the issue price of wheat for exports based on the criteria laid down by the Group of Minister constituted for considering the proposal for export of wheat, but the variables adopted, namely, economic cost and carrying cost for arriving at issue price were for the purpose of arriving at the realistic economic cost which the consumers under PDS ought to pay and as such were not relevant for export of foodgrains. In the process the price fixed was lower resulting in short realisation of Rs.1608.63 crore, which led to additional subsidy burden.

(iii) The exporters adopted a policy of pick and choose in lifting foodgrains leading to avoidable inland movement of foodgrains involving heavy freight charges at the cost of FCI. The freight charges incurred in 22 districts examined in Audit worked out to Rs.516.36 crore. The high incidence of freight charges on inland movement also had the effect reducing the net realization from exports which fell below the issue rate for BPL category.

(iv) There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when it was not required, extending undue benefit to exporters, issue of foodgrains at prerevised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

5.12 Recommendations:

(a) While fixing the export price for foodgrains it is desirable that clear guidelines are laid down defining various terms and conditions unambiguously to avoid extra subsidy burden to the Government of India.

(b) It is desirable that foodgrains for export should be identified as regards variety, quality and location of stocks.

(c) As issue of surplus foodgrains for exports tends to become a regular feature, it is imperative that a proper system is evolved for monitoring export operations. FCI should keep proper checks and balances in place for ensuring compliance of export commitment.

(d) Internal Audit should be entrusted with checking of documentation of export transactions.

Appendix II

MINUTES OF THE 8th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 16th SEPTEMBER, 2005

The Committee sat from 1130 hrs to 1330 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS
LOK SABHA

2. Shri Gurudas Dasgupta
3. Shri P. S. Gadhavi
4. Dr. Vallabhabhai Kathiria
5. Shri Shriniwas Patil
6. Shri Kashiram Rana
7. Shri Mohan Rawale
8. Shri Rajiv Ranjan Singh
9. Shri Bagun Sumbrui
10. Shri Parasnath Yadav

MEMBERS
RAJYA SABHA

11. Prof. Ram Deo Bhandary
12. Shri Ajay Maroo
13. Shri Shahid Siddiqui
14. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri P. K. Bhandari,	Joint Secretary
2.	Shri J. P. Sharma,	Director
3.	Shri S. B. Arora,	Deputy Secretary
4.	Shri Ajay Kumar,	Assistant Director

REPRESENTATIVES OF THE OFFICE OF C&AG

1.	Shri T. G. Srinivasan,	Dy. CAG (Comml)
2.	Shri Sunil Chander,	Pr. Director (Comml)
3.	Shri E. R. Solomon,	Pr. Director (Comml)

REPRESENTATIVES OF THE FOOD CORPORATION OF INDIA

1.	Shri V. K. Malhotra,	Chairman & Managing Director
2.	Shri Javed Yusuf Zai,	Executive Director (Commercial)
3.	Shri R. P. Vaishnav,	Additional Financial Advisor (Cost)

2. At the outset, the Committee were briefed by the officials of C&AG in connection with examination of Food Corporation of India - Chapter V of C&AG's Report No.4 of 2005 (Commercial) on `Review of Export of Food Grains'.

3. Thereafter, the Committee took oral evidence of the representatives of Food Corporation of India on the above mentioned subject.

4. Verbatim proceedings of the meeting has been kept on record separately.

5. The Committee decided to hold their next sitting on 5th October, 2005.

The Committee then adjourned.

MINUTES OF THE 10th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 20th OCTOBER, 2005

The Committee sat from 1130 hrs to 1300 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS
LOK SABHA

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Dr. Vallabhabhai Kathiria
5. Smt. Preneet Kaur
6. Shri Shriniwas Patil
7. Shri Kashiram Rana
8. Shri Bagun Sumbrui

MEMBERS
RAJYA SABHA

9. Shri Ajay Maroo
10. Shri Pyarimohan Mohapatra

SECRETARIAT

1.	Shri J. P. Sharma,	Director
2.	Shri N. C. Gupta,	Under Secretary

REPRESENTATIVES OF THE OFFICE OF C&AG

1.	Ms. Anusua Basu,	Deputy C&AG (Comml)
2.	Shri Sunil Chander,	Principal Director (Comml)
3.	Shri E. R. Solomon,	Principal Director of Comml. Audit

REPRESENTATIVES OF MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION

1.	Shri R. N. Das,	Secretary
2.	Shri Vivek Mehrotra,	Addl. Secretary & Financial Adviser
3.	Shri Karnail Singh,	Joint Secretary, Impex, Edible Oil & Vigilance
4.	Shri Sanjay Kaul,	Joint Secretary, FCI & Policy
5.	Shri Rajiv Kishore,	Director, Impex & Vigilance

6. The Committee took oral evidence of the representatives of the Ministry of Consumer Affairs, Food & Public Distribution in connection with the examination of Food Corporation of India – Chapter V of C&AG's Report No.4 of 2005 (Commercial) on `Review of Export of Food Grains'.

3. Verbatim proceedings of the meeting has been kept on record separately.

4. The Committee also decided to hold their next sitting on 17th November, 2005 to take oral evidence of the representatives of the Ministry of Finance, Ministry of Health & Family Welfare and Insurance Regulatory and Development Authority.

The Committee then adjourned.

MINUTES OF THE 13th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 21st DECEMBER, 2005

The Committee sat from 1500 hrs to 1550 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS
LOK SABHA

2. **Shri Manoranjan Bhakta**
3. **Shri Gurudas Dasgupta**
4. **Shri P.S. Gadhavi**
5. **Shri Suresh Kalmadi**
6 Dr. Vallabhabhai Kathiria
7. Shri Shriniwas Patil
8. Shri Kashiram Rana
9. Shri Mohan Rawale
10. Shri Bagun Sumbrui
11. Shri Parasnath Yadav

MEMBERS
RAJYA SABHA

12. **Shri Ajay Maroo**
13. **Shri K. Chandran Pillai**
14. **Smt. Ambika Soni**

SECRETARIAT

1.	Shri S. Bal Shekar,	Joint Secretary
2.	Shri J. P.Sharma,	Director
3.	Shri N. C. Gupta,	Under Secretary

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

Shri Sunil Chander, Principal Director (Commercial)

2. XXXXXXXX XXXXXXX XXXXXX XXXXXX XXXXX

The Committee considered the Draft Report on Food Corporation of India – `Review on Export of foodgrains by FCI' and adopted the same with minor modifications.

3. The Committee authorized the Chairman to finalise the Reports for presentation.

4. XXXXXXXXXX XXXXXXXXX XXXXXXXXX

The Committee then adjourned.