C.P.U. No. 928

35

THIRTY FIFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2008-2009)

(FOURTEENTH LOK SABHA)

FOOD CORPORATION OF INDIA
(BASED ON AUDIT PARA 7.1.1 OF CHAPTER VII OF REPORT NO.CA 11 OF 2008).

MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION, DEPTT. OF FOOD & PUBLIC DISTRIBUTION

Presented to Lok Sabha on 18.02.2009

Laid in Rajya Sabh a on18.02.2009

LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF THE
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2	Smt. Anita Jain	Director
3	Shri Ajay Kumar	Deputy Secretary-II
4	Shri Balaguru G	Senior Executive Assistant

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

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Thirty Fifth Report on Food Corporation of India.

2. The Committee's examination of the subject was based on the Audit Para 7.1.1 Of Chapter VII of C&AG Report No. CA 11 of 2008.

3. The Committee took oral evidence of the representatives of Food Corporation of India on 18th September, 2008 and Ministry of Consumer Affairs, Food and Public Distribution on 23rd October, 2008.

4. The Committee on Public Undertakings (2008-09) considered and adopted this Report at their sitting held on 14th January, 2009.

5. The Committee wish to express their thanks to the representatives of the Food Corporation of India and Ministry of Consumer Affairs, Food and Public Distribution for placing before them the desired material and information in connection with the examination of the subject. The Committee also place on record their appreciation for the assistance rendered by the Officials of the Comptroller and Auditor General of India. 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.

6. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in Part-B of the Report.

New Delhi:
14th January2009
24 Pausa,1930(Saka)

Rupchand Pal
Chairman,
Committee on Public Undertakings

PART – A

REPORT

INTRODUCTION

Audit para 7.1.1 of chapter VII of C&AG's Report No.CA 11 of 2008 deals with extra subsidy burden to the Government of India due to the inclusion of 'miscellaneous/special element' in the procurement price of levy rice for 2003-04 and 2004-05, which resulted in undue benefit of Rs.326.21 crore to the rice millers. The observations made by Audit in the audit para are as follows :

"Food Corporation of India (FCI) procures rice for the Central Pool through statutory levy on rice millers and rice dealers. The percentage of levy is fixed by State Governments with the approval of Government of India (GOI) taking into account the requirements for the central pool, domestic consumption and marketable surplus. Rates of levy rice are fixed by the GOI before commencement of every Kharif Marketing Season (KMS). While fixing the rates of levy rice for KMS 2003-04, the GOI decided (October 2003) to exclude the following elements from the costing of levy rice:

(i)	Internal movement -	as the milling charges were inclusive of transportation charges upto eight kilometres on paddy as well as delivery of rice
(ii)	Storage and interest -	as the storage was normally in the millers own premises. The same applied to interest charges
(iii)	Sales tax at rice stage -	as millers did not necessarily purchase paddy at the minimum support price
(iv)	Gunny depreciation -	as only the cost of bags in which miller supplied rice to the Central pool was to be reimbursed

Since, the rates of levy rice calculated for KMS 2003-04, after excluding above cost elements were lower than KMS 2002-03 rates, the GOI decided to bring the rates for KMS 2003-04 at par with KMS 2002-03 and therefore, a 'miscellaneous/special element' (ranging between Rs.32 per quintal to Rs.37.30 per quintal*) was included, as a one time measure, in the procurement rates for levy rice for KMS 2003-04. As the rates calculated for KMS 2004-05 were found less when compared with the rates of KMS 2003-04, the ‘miscellaneous/special element’ (ranging between Re.0.67 per quintal to Rs.16.47 per quintal) was included in the rates of levy rice for KMS 2004-05 also.

For procurement of 68.89 lakh MT of levy rice during KMS 2003-04 in Andhra Pradesh, Punjab and Haryana, an amount of Rs.236.31 crore was paid to the rice millers towards ‘miscellaneous/special element’. Similarly, for KMS 2004-05, an amount of Rs.89.90 crore was paid for procurement of 67.75 lakh MT of levy rice. This nullified the GOI decision to exclude these elements from levy cost calculations as per the deciding principles to be taken into account while calculating costs for KMS 2003-04 onwards. Consequently, undue benefit of Rs.326.21 crore was passed on to the millers in Andhra Pradesh, Punjab and Haryana for supply of levy rice during 2003-04 and 2004-05.

The Management while confirming the facts stated (September 2007) that the instructions/sanctions of the GOI were executed without any deviation.

The Ministry in their reply dated November 2007 stated that ‘miscellaneous/special element’ were allowed to compensate increase in minimum support price, taxes, etc.

The reply was not tenable as increase in minimum support price was considered and suitably reflected in the rates fixed for procurement of levy rice. Inclusion of ‘miscellaneous/special element’ had in fact negated the decision to exclude the inadmissible elements.

Thus, inclusion of ‘miscellaneous/special element’ in the procurement price of levy rice for 2003-04 and 2004-05 resulted in undue benefit of Rs.326.21 crore to the rice millers and an extra subsidy burden to the GOI.”

JUSTIFICATION FOR INCLUDING A SPECIAL/MISCELLANEOUS ELEMENT

2.1 When asked to give justification for doling out an undue benefit of Rs.326 crore to rice millers, FCI in their written reply stated as follows: -

> "The observation of the Audit that the inclusion of miscellaneous special element in the procurement price of levy rice for 2003-04 and 2004-05 resulted in undue benefit of Rs. 326.21 crore to the rice millers and an extra subsidy burden to the GOI is not correct. The principles for working out various elements of economic cost of wheat and rice procured by State Governments for the Central Pool were evolved in the year 2003 in consultation with the State Governments and the Food Corporation of India to introduce an element of transparency in the methodology of fixation of prices and to reduce the area of difference of views between State government and Central government. In the background of stocks of rice being lower than buffer norms as on 1st October 2003, a decision was taken that if the levy rate for rice calculated on the basis of these principles is lower than the previous year, it shall be enhanced to the levy rate of previous year so that the rice procurement is not adversely affected. Based on the revised principle for working out the state-wise costing sheet for KMS 2003-04 this was reflected as "Miscellaneous/ Special Element". Levy rice was contributing 40 to 50% of total central pool of stocks. The levy price of rice during the year 2003-04 was kept at the same rate as that of the year 2002-03 by following incorporation of "Miscellaneous Special Element" in the costing sheet
>
> While fixing levy price for KMS 2004-05, it was seen that the levy prices, if fixed on the revised principles, would still be lower than the prices sanctioned for KMS 2003-2004 even after an increase of Rs. 10 per quintal on the MSP of paddy. It was, therefore, felt necessary to include the miscellaneous/special element for KMS 2004-05 also so that the levy prices for KMS 2004-05 would not be lower than the rate fixed in the year 2002-03. The levy price was not increased during the years in spite of increase in MSP except in Nagaland, which did not contribute to Central Pool.

Hence, in the context of need for mopping up of more rice stocks for central pool and effective implementation of revised principles, such a measure of additional cost as Miscellaneous/Special Element for the transition period given in the levy prices of rice was not unjustified."

2.2 The Secretary, Ministry of Consumer Affairs, Food & Public Distribution, in reply to observations of Audit during the oral evidence stated as follows:

"Sir, as you have also said, this really relates to the alleged excess payment made by the Government on account of fixation of a miscellaneous charge in the year 2003-04 for levy rice to be paid to the millers. If we look at the entire decision, it has to be viewed in the backdrop of the food situation obtaining at that point of time. We had shortages. We had much higher requirement for the PDS. We thought at that point of time that if we did not procure more, we would need to take recourse to other measures like imports which would be at a much higher cost.

Secondly, the levy price that was given – this is on the basis of record – was really the same as what was obtaining the previous year. What really upset the apple cart was a decision taken by the Ministry in the year 2003, October really to evolve a clear, transparent formula. That was more really in the context of a formula for the Custom Milled Rice which is given by the State Government/their agencies.

As you are aware, there are two modes for rice procurement. One is under the price support operation from the farmers where the State Governments, the FCI and their agencies procure. Then, that is milled and delivered as Custom Milled Rice. We have incidentals for procurement and costs are fixed for each incidental. The other route is the procurement or purchase by the rice millers. They mill the rice for commercial purpose. The State Governments impose levy as a percentage of rice produced. So, this issue relates to fixation of levy rice price. The origin of the new principle adopted in October 2003 really was that the State Governments had been saying that there is a need for a transparent formula for fixation of incidentals for the Custom Milled Rice delivered by the State Government which then also attracted to levy rice.

As the C&AG has also pointed out, certain costs it was decided at that point of time to disallow in the new formulation which were internal movement, storage and interest charges, gunny depreciation and also sales tax which last was subsequently found to be statutory and which could not be done away with. So, these were the factors which were to be removed from the costing. Yet, if we had removed these charges, then, suddenly the cost of levy rice would have been much below the previous year even though the MSP was not lower. There was also a need to procure more and more stocks. I may just give you the stock position.

The buffer norms stipulate that there should be a minimum stock holding of about 65 lakh tonne of rice on the 1st October of the year. As on 1st October, 2003, our actual stocks were only 52.41 lakh tonnes. So, there was a very heavy shortfall against the buffer norms.

Secondly, our TPDS allocations had also gone up. TPDS requirement for the year 2003-04 was 343.14 lakh tonnes. Before that we procured 190 lakh tonnes. What we required to give to TPDS was 343 lakh tonnes. So, we had a spectre of possible shortage and therefore, a decision was taken that while we may not increase the levy price vis-à-vis the previous year, we shall keep it constant by adding the miscellaneous charges. What was the outcome of this? If we look at the outcome, we have a Kharif procurement season also starting from October. We had procured 164 lakh tonnes in 2002-03. As compared to this in the next year, that is, 2003-04, it increased to 228.28 lakh tonnes. Then, out of the total procurement levy rice was 111.59 lakh tonnes which is of 65.83 per cent compared to the previous year. The levy procurement in 2002-03 was 67.20 lakh tonnes and in the year 2003-04 it was 111.59 lakh tonnes. If we look at the comparative cost of import, it would have been much higher. Keeping this in view, the Government decided to give the differential amount as miscellaneous charge”

2.3 When asked as to why the rice millers were favoured with benefits such as miscellaneous/special elements, despite the fact that there were allegations of rice millers involving in corrupt practices such as diversion of rice meant for social welfare programme to levy rice, milling rice with high moisture content leading to a high proportion of brokens and subsequent discoloration etc., FCI in their written reply stated as follows:

> "Unlike procurement of wheat, it is inevitable that the rice procurement involves millers as processors for extracting rice from paddy, which is procured either by FCI/State agencies or by millers themselves. Secondly, the levy rice is delivered by millers to the FCI. Even in case of CMR, the rice is milled and delivered to FCI by the rice millers on behalf of state agencies. For CMR payment is, however, made to state agencies. In turn, FCI analyzes the samples of rice so delivered by the millers and accepts the rice if it conforms to laid down specifications both in terms of quality and quantity. It is also relevant to mention that the specifications are uniform for both CMR and levy rice. However, any deviation in this regard is dealt with by the existing procedures of FCI.
>
> Though rice for the Central Pool is delivered by the state agencies through custom milling of paddy procured by FCI/State agencies, substantial quantity of paddy is still left out in the market, which is procured by the millers. It is, therefore, essential to get the rice from that paddy through levy orders enforceable by State Government to meet the requirement of Central Pool. It also ensures participation of the state governments in rice procurement.
>
> In the year 2003-04, it was decided by the Department of Food & PD to review the basis for fixing rates for levy and CMR in order to bring in transparency in the system. The revised principles of methodology for fixing levy price were evolved in 2003 after an intensive exercise and wide consultations with state governments and FCI. The revision was mainly in four elements namely: Internal Movement Charges, Storage and Interest

Charges, Sales tax at rice stage and gunny depreciation. On applying these revised principles, the cost of levy rice in KMS 2003-04 was found to be lower than the KMS 2002-03. Stock position in Central Pool at that juncture was considered inadequate. As against the buffer norm of 65 lakh tonnes, as on 1st October 2003, the stock position of rice was only 52.41 lakh tonnes vis-à-vis 157.70 lakh tonnes on 1st October, 2002. Further, levy rice contributed 40-50% of Central Pool stocks during the period 2001-2003. For instance, new rates for levy rice as per revised principles were about 3.8 % lesser than the previous year's levy price in Punjab despite 3.77% increase in MSP. The Government confronted with low stocks in Central Pool could not afford to risk lower procurement of rice.

Therefore, it was a considered decision of the Government, while approving the revised principles, to provide for additional element in the name of Miscellaneous/ Special Element (MSE) only for 2003-04 so that to match the levy price fixed for 2002-03. The decision to allow MSE for the transition period of shifting to new principles, in the context of lower stocks in central pool, provided food security to the nation."

REASONS FOR SHORTAGE OF RICE IN CENTRAL POOL

3.1 On being asked as to what are the reasons for shortage, the Secretary during the oral evidence stated as follows:

"If I could give you the figures, The procurement in the year 2002-03 was 190.02 lakh tonnes as against 211.15 lakh tonnes in the previous year. But the PDS allocation went up to 358.60 lakh tonnes as against 170.76 lakh tonnes in the previous year. So, therefore, the requirement of the PDS has gone up very substantially and the procurement had come down somewhat. Therefore, we had this shortage.

In fact, I can also give you the comparative buffer stock position on the 1st of October 2002. Against the norm of 65, it was 157.70 lakh tonnes. But as I mentioned, on the 1st of October 2003, it had come down to 52.41 lakh tonnes. We shall give you these figures in writing also".

The Committee pointed out that it was an error of judgement between October 2002 and October 2003 where the Government thought that the stock position of 157 lakh tonnes was so good that they could afford to substantially bring down the levy price.

3.2 When asked to give reasons that could have contributed to shortage of rice at the beginning of KMS 2003-04, the Ministry in their post-evidence reply stated as follows:

"The actual stock position of rice as on 1.10.2001 and 1.10.2002 was 214.52 lakh tonnes and 157.70 lakh tonnes respectively compared to the buffer norm of 65 lakh tonnes. However, the stock position declined to 52.41 lakh tonnes as on 1.10.2003. Allocation of rice for Targetted Public Distribution and Other Welfare Schemes was enhanced in 2002-03 in order to issue the stocks lying in the Central Pool, as may be seen from the table below. During 2002-03, a quantity of 69.35 lakh tonnes of rice was also allowed to be exported in view of comfortable rice stock situation. However, the procurement of rice was lower by 21 lakh tonnes in 2002-03 compared to the previous year. Therefore, the actual stock position as on 1.10.2003 fell to 52.41 lakh tonnes as against the buffer norm of 65 lakh tonnes.

	TPDS		OWS		Exports	Procurement (Financial Year)
	Allocation	Off-take	Allocation	Off-take		
2000-01	160	78.55		20.42	0.17	189.63
2001-02	170.76	80.42		48.06	19.49	211.15
2002-03	358.6	104.5	93.26	69.57	69.35	190.02
2003-04	343.13	132.67	144.53	114.52	30.88	207.81
2004-05	344.53	164.65	91.22	64.65	0.904	240.37
2005-06	399.89	190.61	61.55	57.54	NIL	266.93
2006-07	432.32	211.17	41.32	37.58	NIL	263.08
2007-08	272.14	224.43	30.68	26.35	NIL	262.92

The stock position of rice vis-à-vis buffer norms during the year 2003 was as below:-

As on	Actual stock of Rice	Buffer norm
1.1.2003	193.72	84
1.4.2003	171.52	118
1.7.2003	109.74	100
1.10.2003	52.41	65

The low stock of rice at the beginning of KMS 2003-04 (as on 1.10.2003), therefore, can be attributed to higher allocations for TPDS and OWS, resultant higher off-takes, exports made in 2002-03 and 2003-04 and lower procurement in KMS 2002-03 (October 2002 to September 2003) of 164.23 lakh tonnes".

3.3 When asked as to how and when such shortage was perceived, the Ministry in their post evidence reply stated as under:

"The position of rice stock as on 1.10.2003 and 1.10.2004 has been as under:-

As on	Actual stock of Rice	Buffer norm
1.7.2003	109.74	100
1.10.2003	52.41	65
1.1.2004	117.27	84
1.4.2004	130.69	118
1.7.2004	107.63	100
1.10.2004	60.92	65

Actual stock of rice, as seen from above, was higher than the buffer norm till 01.07.2003. The Kharif Marketing Season 2003-04 started from 01.10.2003. During the preparatory stage for KMS 2003-04, it was noticed that the procurement in KMS 2002-03 (which was ending by 30th September, 2003) was less than the previous year's procurement. As such, the stocks levels would reach below buffer norms as on 01.10.2003. Further, at the given levels of TPDS and enhanced Other Welfare Schemes allocations during 2003-04 and anticipated off-take under TPDS and OWS, it was essential to maximize the procurement to avoid any shortage in the Central Pool".

EXPORT OF RICE

4.1 To a question as to whether any export of rice was allowed in 2002-03, the representative of Ministry during the oral evidence stated as follows :

> "Actually what happened was from a position of plenty in the year 2002, we moved to a situation of shortage for different reasons, as the Secretary of Food was explaining. First of all, the allocation went up substantially, and, in fact, it went up by 100 per cent in just one year because there was an emphasis to liquidate the stock which was lying with FCI at that point of time. There was a high-level Committee constituted by the Government which made recommendations for liquidating the stocks. So, maybe as a part of the policy, there could have been some exports".

4.2 To a question as to what prompted export of rice during 2003-04 when SME(Special Miscellaneous element) was included in costing of levy rice due to perceived shortage, the Ministry in their post evidence reply stated as follows:

> "The following was the stock position of rice vis-à-vis minimum buffer norms from 1.10.1999 till 1.10.2004:

As on	Actual stock of Rice	Buffer norm
1.10.1999	77.43	65
1.01.2000	141.17	84
1.04.2000	157.19	118
1.07.2000	144.90	100
1.10.2000	132.14	65
1.01.2001	206.99	84
1.04.2001	231.91	118
1.07.2001	227.51	100
1.10.2001	214.52	65
1.01.2002	256.17	84
1.04.2002	249.12	118
1.07.2002	219.37	100
1.10.2002	157.70	65
1.01.2003	193.72	84
1.04.2003	171.52	118
1.07.2003	109.74	100
1.10.2003	52.41	65
1.01.2004	117.27	84
1.04.2004	130.69	118
1.07.2004	107.63	100
1.10.2004	60.92	65

Huge stock position of rice vis-à-vis minimum buffer norms and poor off-take for TPDS posed threat of deterioration of stocks. In the above background, High Level Committee (HLC) on Long Term Grain Policy had recommended to expand the food grain distribution through schemes such as Food For Work and Antyodaya Anna Yojana, etc. as part of efforts to reduce the stocks. Further, it was also recommended to continue the export drive till the stocks come down to optimum levels.

The Government decided to export rice from Central Pool in the year 2000-01. The following quantities of rice were exported from the Central Pool during the period 2000-01 to 2004-05:-

	Qty. of rice exported
2000-01	0.17
2001-02	19.49
2002-03	69.35
2003-04	30.88
2004-05	0.904
2005-06	NIL
2006-07	NIL
2007-08	NIL

It was decided not to make any fresh allocation of stocks for exports after 11.8.2003 since procurement in the year 2002-03 was 190.02 lakh tonnes only, less by 21 lakh tonnes compared to the previous year. Thus, exports were allowed only till there were surplus stocks above buffer norms were liquidated, in order to reduce cost on carry over stocks and to save the stocks from deterioration on account of dearth of storage space."

ADEQUACY OF BUFFER STOCK NORMS OF FOODGRAINS

5.1 The Committee noted that as against the requirement of a stock of 65 lakh tonnes on the 1st of October, FCI had only 52 lakh tonnes, which means a difference of 13 lakh tonnes only. In this regard, to a question as to whether the spectre of shortage was that alarming warranting a pay out of Rs.326 crore, the Secretary during the evidence stated as follows:

"The buffer stock norms, of course, keep in mind the seasonality. Like, you have got a different norm for October; you will have a different norm for next quarter, and so on and so forth. For example, the buffer stock norm for the 1st of January after that is much higher. It is about 84 lakh tonnes. So we factor in the possible procurement and then fix the norm".

5.2 The Secretary further clarified as follows:

"We review quarterly buffer stock position. What is more important is that our TPDS allocations had gone up very sizably. As I mentioned, from 170.76 lakh tonnes in 2001-02, it had gone up to 358 lakh tonnes in the next year. Therefore we required more for the TPDS also. That was also a thing to keep in mind. Possibly, we kept in mind the requirements, kept in mind the possible arrivals, and then we corrected that."

FIXATION OF RATE OF LEVY RICE

6.1 When asked as to what were the reasons for bringing the rates for levy rice for Kharif Marketing Season (KMS) 2003-04 at par with KMS 2002-03, FCI in their written reply stated as follows:-

"The principles for working out various elements of economic cost of wheat and rice procured by State Governments for the Central Pool were evolved in the year 2003 in consultation with the State Governments and the Food Corporation of India to introduce an element of transparency in the methodology of fixation of prices and to reduce the area of difference. In the background of central pool stock of rice being lower than buffer norms as on 1st October 2003, while revising the principles, "Miscellaneous Special Element" was included as one-time measure for working out the state-wise costing sheet for KMS 2003-04. The levy price of rice during the year 2003-04 was kept at the same rate as that of the year 2002-03 by following the method of "Miscellaneous Special Element" in the costing sheet."

6.2 On being asked as to whether instructions do exist that the rate of levy rice for any particular year cannot be less than the rates of previous year FCI in their written reply stated as follows:

"No, Sir. There are no such instructions. The instant case was an exceptional one under a set of circumstance, as explained in preceding paras, created by revised principles evolved by the Government, dwindling central pool stocks of rice and long-term effectiveness of revised principles."

6.3 When asked as to why the procurement incidentals, which were inadmissible abinitio were reimbursed to the millers FCI in their written reply stated as follows:

"While deciding the costing principles for 2003-04, the charges for internal movement, storage and interest charges, gunny depreciation and sales tax at rice stage which were hitherto included in the costing sheets of levy rice were deleted. However, it was decided that if the levy rates calculated on the basis of the revised principles were lower than that of previous year, it should be enhanced to the levy rate of the previous year by providing for the difference in the form of MSE."

6.4 On being asked as to whether approved guidelines do exist for fixation of rates of levy rice payable to millers FCI in their written reply stated as follows:

"Levy rates are fixed for each State with approval of the Government as per the approved principles.

6.5 When asked as to whether elements of cost of levy rice are decided on year to year basis, FCI in their written reply stated as follows:

"Yes. Though the principles and elements constituting levy price were derived in 2003, the exact value of each element is decided on the basis of inputs received from the State Governments and FCI and after duly taking into account changes in statutory taxes, duties and other such charges and changes in wholesale price index."

6.6 Explaining the basis of fixing the rate of levy rice, the Secretary during the oral evidence clarified as follows:

"Sir, we did not really bring down the levy price. What had happened was that the Committee had made certain recommendations. As I mentioned, this was in a different context altogether, that is for the demands of the States to have a transparent system. I was Food Secretary in the State once upon a time, and I remember that we used to come to the Government of India and say: "You are giving 'X' to this State, 'Y' to this State and 'Z' to this State. So, let there be a clear transparent mechanism.

This exercise is really done in the context of custom milled rice to the State Governments. But the recommendation also came about for levy rice. It was not that any price was fixed at that point of time. In October 2003 a recommendation was made doing away with these parameters which the C&AG has also pointed out, that is internal movement, storage and interest cost, sales tax, and depreciation. Then costing was done on the basis of removal of these elements. Subsequently, when they came to the bottom line, they discovered that this is going to be much lower than the previous year. While the MSP had not gone down, the cost was going down. This would have meant that millers would have, maybe, procured less and given less as levy. That would have meant that the total procurement would have been affected. Therefore, it was corrected before the mistake really happened. This was a thought; this was a proposal on the part of the Committee to reduce it. This is an internal Committee which we have constituted that looked into these aspects".

COMPARISON OF THE PRICE OF LEVY RICE WITH MARKET PRICE OF RICE

7.1 On being asked about the difference between levy price and market price for average quality rice in 2003-04 and 2004-05 FCI in their written reply stated as follows:-

"In every KMS, the levy price of rice is fixed by Department of Food & PD for each state. The levy price fixed for the Common and Grade 'A' variety of rice for 2003-04 and 2004-05 for the states of Andhra Pradesh, Punjab, Haryana was as under:-

Year 2003-04

	Raw		Parboiled	
State	Common	Grade ‘A’	Common	Grade ‘A’
Andhra Pradesh	999.00	1048.80	984.90	1034.90
Punjab	1003.00	1053.00	988.20	1038.20
Haryana	1003.00	1051.50	988.90	1038.20

The market price of rice (FAQ) in AP, Punjab and Haryana for KMS 2003-04 was as under:

KMS 2003-04	Whole sale price Rs./Qtl		
	A.P.	Punjab	Haryana
October’ 03	1025-1450	940	951
November’ 03	1000-1250	940	925
December’ 03	1100-1300	943	914
January’ 04	1025-1350	970	860
February’ 04	1025-1100	965	872
March’ 04	1050-1200	980	862
April’ 04	1025-1100	NT	840
May’ 04	1025	NT	873
June’ 04	1100-1250	NT	888
July’ 04	1025-1300	NT	885
August’ 04	1025	NT	902
September’ 04	1060-1300	NT	963

NT: Non-Trading.

Year 2004-05

	Raw		Parboiled	
State	Common	Grade ‘A’	Common	Grade ‘A’
Andhra Pradesh	999.00	1048.80	984.90	1034.90
Punjab	1003.00	1053.00	988.20	1038.20
Haryana	1003.00	1051.50	988.90	1038.20

The market price of rice (FAQ) in AP, Punjab and Haryana for KMS 2004-05 was as under:

KMS 2004-05	Whole sale price Rs./Qtl		
	A.P*.	Punjab#	Haryana*
October’ 04	1025	990	999
November’ 04	1050-1300	1010	983
December’ 04	1025-1060	1035	911
January’ 05	1050	1035	964
February’ 05	1025	1030	958

March' 05	1050-1100	1050	956
April' 05	1000	NT	950

NT: Non-Trading"

7.2 The Committee noted that the market price of rice was lower than the levy price. In this regard the Secretary during the evidence clarified as follows:

"The C&AG is saying that the market price was lower. I know that you have based it on our reply. But possibly when we sent the reply, there would be time and location-specific differences, and there will be other factors like varietal differences. I do not think that when you fix the price for levy, these prices will match as levy price is for the whole year. It is the projection for the year, and it is not a projection for a particular date.

On the other hand, when we take the wholesale price or the retail price, they keep fluctuating. They would depend upon so many factors like international prices, local domestic availability, etc. The daily prices of wholesale and retail are much more volatile than the levy price, which is constant for the whole marketing season as it is for one whole year".

7.3 In a post evidence reply, the Ministry further clarified as follows:

"The cost of levy rice in respect of rice procuring state is fixed by the Department of Food & Public Distribution based on various cost elements intimated by the state governments every year. The Central Government after examining the cost incidentals proposed by the state, draws the costing sheets for procurement of levy rice. The fixation of cost of levy rice has no linkage with the market prices.

Market prices of rice vary from place to place and time to time within a year whereas the Central Pool operations are based on a fixed Minimum Support Price for a crop through out the year (October to September). In addition, the stocks so procured are meant for meeting the food security programmes covering vulnerable sections of the population at a fixed issue prices.

Procurement operations are not de-linked from price support operations. The very purpose of Minimum Support Price (MSP) is to ensure remunerative prices to farmers especially whenever market rates are lower. Among the two routes of procurement for Central Pool namely, Custom Milled Rice (CMR) and Levy, the cost of rice procured through the latter has always been lower.

The concerned State Governments and FCI had apprehensions that as initially proposed levy rates of rice in KMS 2003-04 were lesser than the previous year, procurement through levy route might suffer and suggested enhancement of the same. The additional element of cost in the name of Special/Miscellaneous element was included to bring the levy rate of KMS 2003-04 on par with the rate for previous year in the interest of maximizing procurement of rice"

SUBSIDY TO RICE MILLERS

8.1 When asked as to why food subsidy was given to rice dealers and rice milers in the form of "miscellaneous / special element, FCI in their written reply stated as follows:

"No food subsidy has been given to the millers in the form of "miscellaneous / special element". Additional element of cost involved in the procurement of rice was included as MSE in the levy rate under the circumstances as explained earlier to tackle the situation in the context of lower central pool stocks of rice and long-term effectiveness of such transparent revised principles. Non-procurement of adequate quantities of rice might have resulted in forcing the country to resort to import of rice to augment the stocks."

8.2 The Committee pointed out that as per economic and business prudence the object of FCI/Government should be reducing the economic cost of rice procured for the central pool. When asked as to whether the inclusion of miscellaneous / special element would not inflate the economic cost of rice procured by FCI for the Central pool, FCI in their written reply stated as follows:-

"It is accepted that the inclusion of Miscellaneous / Special Element (MSE) in the price of levy rice had the effect to increase the economic cost because the economic cost is constituted by acquisition cost and distribution cost. However, in the larger interest of food security and in order to procure adequate rice stocks to ensure food security, this expenditure could not be avoided. However, the Department of Food & PD has been constantly striving to increase the proportion of CMR by direct purchase of paddy by FCI and State agencies from the farmers and encouraging the States to undertake decentralized procurement. This has resulted in reducing the proportion of levy rice procured to central pool from 51.12% in KMS 2003-04 to 36.78% in KMS 2006-07."

ROLE & RESPONSIBILITY OF FCI

9.1 When asked as to whether FCI have no direct responsibility with regard to what had been commented upon, the CMD of FCI during the oral evidence stated as follows:

> "If I may put it this way, the FCI is nobody to either defend or attack the Government. The levy rates are fixed by the Government of India in the Ministry of Food; we accept rice according to the prescribed quality specifications and make the payment according to the rates fixed by the government.
>
> As far as responsibility is concerned, on that I cannot say anything except to say that FCI is not responsible".

The Committee had been informed that FCI was not consulted by the Ministry when the Government of India took the decision of including a MSE in the procurement rates of levy rice for KMS 2003-04. The Committee noted that the levy rates are fixed by the Government of India in the Ministry of Food. The Committee also further noted that FCI have only little responsibility as it is only an implementing or executing agency. The Committee however had also been informed that FCI is being consulted almost on a daily basis on important operational issues by the Ministry of Food.

Recommendation

Undue Benefit to the rice-millers by inclusion of Miscellaneous/Special Element in the procurement rate of levy rice

The Committee note that FCI procures rice for the Central pool through statutory levy on rice-millers for which the percentage of levy is fixed by the State Government and the rates of levy are fixed by the Government of India before commencement of every kharif marketing season (KMS). In this regard, while fixing the rates of levy rice for KMS 2003-04, the Government of India decided in October, 2003 to exclude certain elements, namely, internal movement charges, storage and interest charges, sales tax at rice stage, gunny depreciation charges, etc. from the costing of levy rice. Subsequently, while fixing the procurement rate for levy rice for KMS 2003-04, the Government of India found that the rates of levy rice calculated for KMS 2003-04 after excluding the said cost elements were lower than KMS 2002-03 rates. In this background, the Government of India decided to bring the rates for KMS 2003-04 at par with KMS 2002-03 by including, as a one time measure, a miscellaneous/special element (MSE) in the procurement rates of levy rice for KMS 2003-04. However, contrary to one time measure, this phenomenon was again repeated in KMS 2004-05 also, when it was found that the rates for KMS 2004-05 were lower than KMS 2003-04.

The Audit (C&AG) has raised the objection that the inclusion of MSE in the procurement rates of levy rice had negated the very decision of the Government to exclude the inadmissible elements. According to the Audit, the inclusion of MSE had resulted in an undue benefit of Rs. 326 crore to the rice millers in the three States of Andhra Pradesh, Punjab and Haryana

and consequent extra subsidy burden to the Government of India for supply of levy rice during 2003-04 and 2004-05.

The Ministry, on the above Audit observation, has come out with the reply that revised principles to exclude certain parameters from cost of levy rice were evolved after an extensive exercise and wide consultation with the State Governments and FCI. However, finding that on application of the revised principles, the cost of levy rice in KMS 2003-04 coming lower than the KMS 2002-03 and in the backdrop of prevailing low stocks in the Central pool, it was a considered decision of the Government to provide for MSE to rice-millers matching the levy price fixed for 2002-03 so as to dispel the risk of lower procurement of rice.

The Committee do not find the above justifications of the Government very convincing. On one hand, the Ministry is claiming that the revised principles to exclude some elements from cost of levy rice were evolved after an extensive exercise, on the other, the very purpose was defeated to a large extent by making the extra payments to rice-millers by way of miscellaneous/special elements to compensate for the lower cost of levy rice arrived at on applying the revised principles. On the top of it, from information furnished by the Ministry, the Committee note that there was a position of plenty buffer stock of rice in the year 2002. Thereafter, a high-level Committee was constituted by the Government which made recommendations for liquidating the excess stock including exporting of foodgrains resulting in export of 69.35 lakh tonnes of rice during 2002-03. Coupled with this fact, the allocation of rice for Targeted Public Distribution System and other welfare schemes went up substantially whereas the

procurement came down during 2002-03. As a result, from a position of plenty, the buffer stock moved to a situation of shortage.

In the above backdrop, the Committee would like to make the following observations/recommendations: -

(a) <u>Mismanagement of food stocks</u>

The Committee find the above-mentioned handling of buffer stock by the FCI a typical case of mismanagement of food stocks. The Committee are of the opinion that the Government committed an error of judgment during 2002-03 and 2003-04 when facing a stock position of 157 lakh tonnes as on 1st October, 2002 against the norm of 65 and to 52 against 65 as on 1st October, 2003. The Committee feel that the Government itself has to be blamed for the situation when it allowed high stocks to be piled up and then liquidating the same through exports leading to shortage. The Committee strongly deprecate such kind of mismanagement of food stocks which is a matter of serious national interest involving the food security of the country. The Committee are of the view that faulty management on buffer norms could lead to food insecurity. The Committee recommend that FCI/Ministry should go in for an intensive technological upgradation for the purpose of reviewing the buffer stock norms on a monthly basis instead of the existing quarterly review system. The Committee also recommend that FCI/Ministry should take inputs from various quarters such as Economic Survey, Planning Commission, Ministry of Finance, Ministry of Agriculture etc., while fixing the buffer norms, taking into account the population growth, development, urbanization etc.

(b) Unwarranted Export of Rice

The Committee note that to liquidate the surplus stocks of foodgrains in 2002, the Government resorted to export of foodgrain as was recommended by the high level Committee constituted by the Government at that time. The Committee are distressed to note that while there have been need to provide more foodgrains through strengthening and expansion of PDS network, the Government opted for the export route to liquidate the stock and that too at a price not available to Indian producers. The Committee are also at a loss to understand why the export drive was continued till the stocks came down to minimum buffer norms while the exports should have been stopped at a point when the reserves were slightly higher than the minimum buffer norms. The Committee deprecate the indiscriminate export drive of the Government which ultimately led to a situation of very low stocks, wherein the Government had to subsequently import foodgrains. The Committee strongly disapprove the Government's decision to export foodgrains at a lower rate as had been done in the instant case and deplores the mismanagement in a sensitive area like food.

(c) Lack of coordination

The Committee have every reason to believe that there is a total lack of coordination amongst the Government of India /FCI and the State Governments in respect of procurement, allocation and export. Further, there was no coordination amongst the various divisions/wings of FCI. Either hand of FCI acted without knowing what the other hand was doing. The Committee recommend that the different wings/divisions of FCI and the Ministry should act in unison while taking decisions regarding management of foodgrains in future.

(d) Fixation of rates of levy rice

The Committee further note that there are no instructions which state that the levy rice for any particular year cannot be less than the rates of previous year. The Committee further note that exhaustive guidelines have not been put in place regarding fixation of rates of levy rice. The revised principles that were evolved in 2003 to introduce an element of transparency in the methodology of fixation of prices were really worked out in the context of custom milled rice and not levy rice. The Committee are also not convinced that the instant case wherein MSE was included in the costing of levy rice for KMS 2003-04 was a one-time measure, as MSE was included for KMS 2004-05 also. The Committee therefore recommend that the Government should put in place a separate and fool proof system of guidelines for fixation of rates for levy rice. The Committee feel that adhocism as has been practiced gives undue benefits to the few. The Committee further recommend that these guidelines/principles needed to be re-visited after every two years.

(e) Role and Responsibility of FCI

The Committee have been informed that FCI was not consulted by the Ministry when the Government of India took the decision of including a MSE in the procurement rates of levy rice for KMS 2003-04. The Committee note that the levy rates are fixed by the Government of India in the Ministry of Food and that FCI is only an implementing or executing agency. The Committee, however, feel that FCI had not given the relevant inputs to the Ministry regarding the possible shortage of foodgrains in the central pool at the right point of time.

The Committee, therefore, recommend that FCI headquarters and the regional offices should be computerized and connected to each other so that from the headquarters, FCI should know the level of stocks, the comfortable level at which the minimum buffer stock norm may be fixed, the estimated rainfall, actual production of foodgrains, the quantum of foodgrains coming into the market, a realistic assessment about the possible procurement, etc. for ensuring optimum and comfortable levels of stocks which are directly connected with the food security of the country.

New Delhi
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