

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 (DEPARTMENT OF FOOD & PUBLIC
DISTRIBUTION)**

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2011-2012)**

TWELFTH REPORT

(FIFTEENTH LOK SABHA)



**LOK SABHA SECRETARIAT
NEW DELHI**

C.P.U. No. 945

12

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**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 (DEPARTMENT OF FOOD & PUBLIC DISTRIBUTION)**

**(Action Taken by the Government on the recommendations contained in
the 35th Report of the Committee on Public Undertakings (14th Lok Sabha)
on Food Corporation of India)**



Presented to Lok Sabha on 20.12.2011

Laid in Rajya Sabha on 19.12.2011

**LOK SABHA SECRETARIAT
NEW DELHI**

19 December 2011 / 28 Agrahayana, 1933(S)

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**COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS
(2011-2012)**

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

- 2 Shri Hansraj G. Ahir
- 3 Shri Vijay Bahuguna
- 4 Shri Ramesh Bais
- 5 Shri Ambica Banerjee
- 6 Shri Shailendra Kumar
- 7 Smt. Ingrid Mcleod
- 8 Shri Vilas Baburao Muttemwar
- 9 Shri Baijayant Panda 'Jay'
- 10 Shri Adhalrao Shivajirao Patil
- 11 Shri Ponnam Prabhakar
- 12 Shri Nama Nageswara Rao
- 13 Shri Uday Singh
- 14 Dr. Prabha Kishor Taviad
- 15 Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

- 16 Shri Janardan Dwivedi
- 17 Shri Pyarimohan Mohapatra
- 18 Shri Mukhtar Abbas Naqvi
- 19 Dr. Bharatkumar Raut
- 20 Ms. Mabel Rebello
- 21 Shri Tapan Kumar Sen
- 22 Shri N.K. Singh

Secretariat

- | | | |
|---|----------------------|---------------------|
| 1 | Shri Ashok Sarin | Joint Secretary |
| 2 | Shri Rajeev Sharma | Director |
| 3 | Shri Ajay Kumar Garg | Additional Director |

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Twelfth Report on Action Taken by the Government on the recommendations contained in the Thirty Fifth of the Committee on Public Undertakings (Fourteenth Lok Sabha) on Food Corporation of India based on Audit Para 7.1.1 of Chapter VII of Report No.CA 11 of 2008.

2. The Thirty Fifth of the Committee on Public Undertakings (2008-2009) was presented to Lok Sabha on 18th February, 2009. Action Taken Replies of the Government to the recommendations contained in the Report were received in 14 January 2011. The Committee on Public Undertakings considered and adopted this Report at their sittings held on 21 October 2011. The Minutes of the sitting are given in Appendix – I.

3. An analysis of the action taken by the Government on the recommendations contained in the 35th Report (2008-2009) of the Committee is given in Appendix -II

**New Delhi:
21 October, 2011
Ashwina 1933(S)**

**JAGDAMBIKA PAL
Chairman,
Committee on Public Undertakings**

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Thirty Fifth Report (Fourteenth Lok Sabha) of the Committee on Public Undertakings (2007-2008) on "Food Corporation of India on Audit Para 7.1.1 of Chapter VII of Report No.CA 11 of 2008" which was presented to Lok Sabha on 18th February, 2009.

2. Action Taken notes have been received from Government in respect of all the recommendations contained in the Report. These have been categorized as follows:

- | | | |
|-------|---|-----------|
| (i) | Recommendations / observations which have been accepted by the Government (Chapter II) | |
| | Sl. No. [e] | (Total 1) |
| (ii) | Recommendations / observations which the Committee do not desire to pursue in view of the Government's replies (Chapter III) | |
| | Sl. Nos. [b and c] | (Total 2) |
| (iii) | Recommendations / observations in respect of which replies of the Government have not been accepted by the Committee (Chapter IV) | |
| | Sl. Nos. [a and d] | (Total 2) |
| (iv) | Recommendations in respect of which final replies of the Government are still awaited (Chapter V) | (Nil) |

3. The Committee will now deal with the action taken by the Government on some of the recommendations in succeeding paragraphs.

Recommendation No. a

Mismanagement of Food Stocks

4. In their earlier Report, the Committee had recommended as follows:

"The Committee found 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 judgement 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 the faulty management on buffer norms could lead to food insecurity. The Committee recommend that FCI/Ministry should go in for an intensive technological up gradations for the purpose of reviewing the buffer stock norms on a monthly basis instead of existing quarterly review system. The Committee also recommended 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.”

5. The Department of Food and Public Distribution in its action taken reply dated 31st March 2010 stated as follows:

“The Food Corporation of India (FCI) holds stocks of foodgrains to meet the commitments under the Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS) and for maintaining buffer stocks to meet the seasonal variations as well as to provide food security. While four months’ requirement of foodgrains for issue under TPDS and OWS are earmarked as operational stocks, the surplus over and above the same is treated as buffer stocks.

Buffer stock norms prescribe the minimum quantities of foodgrains (wheat & rice) to be maintained in the Central Pool at the beginning of each quarter. Stocks over and above the minimum buffer stock requirement are to be used for allocation to meet the requirements of TPDS, welfare schemes, strategic reserves, exports, etc. as per policy in force. The buffer stock norms have been prescribed on quarterly basis because the allocations made under TPDS and welfare schemes for a month are allowed to be lifted by the State Governments over a period of two months. Also, levels of actual offtake of stocks by State/UT Governments may vary from month to month depending upon various factors. Moreover, the monthly procurement of wheat and rice may not follow regular pattern every year. Hence, monthly buffer stock norms may not be feasible operationally, though the position of actual stocks in the Central Pool is reviewed every month.

In order to ensure food security in the country, keep prices under check, maintain adequate supplies of foodgrains for TPDS and OWS, and to meet other exigencies, Government of India, in March, 2008, decided to create a strategy reserve of 50 lakh tonnes of foodgrains consisting of 30 lakh tonnes of wheat and 20 lakh tonnes of rice over the existing buffer norms.

The quarterly minimum buffer stock norms are fixed normally for a period of five years, by a Technical Group headed by the Secretary, F&PD. This group includes experts from various fields such as Agriculture, Finance, Planning Commission, etc. The Technical Group also takes into account detailed review of the buffer stock norms undertaken through a professional organization, considering various factors and assumptions relating to demand and supply, growth in population and income, consumption patterns, requirements for allocations under various schemes, etc. For finalization of the revised buffer norms of foodgrains for 11th plan period, the Technical Group headed by Secretary, F&PD asked the National Centre for Agricultural Economics and Policy research (NCAP) to undertake a study to review the existing buffer stocking policy and make suitable recommendations for consideration. The NCAP Report is under finalization.

In view of the above, the Department is of the view that there is no need for fixing monthly buffer stock norms as the quarterly norms seem to be serving the purpose.”

In their subsequent reply dated 12 January 2011, the Department of F&PD stated as under:

“The NCAP Report on review of the Buffer Stocking Policy has been considered by the Technical Group on Buffer Stocking Policy. The report of the Technical Group is yet to be finalized.”

Comments of the Committee

6. In their earlier Report, presented to Lok Sabha in February, 2009, the Committee had specifically recommended that FCI/Ministry should go in for intensive technological upgradations to review the buffer stock norms and also take inputs from various quarters such as Economic Survey, Planning Commission, Ministry of Finance and Ministry of Agriculture etc., while fixing buffer stock norms. In their action taken replies furnished in March 2010, the Department of Food and Public Distribution had stated that the Technical Group headed by Secretary, F&PD had asked the National Centre for Agricultural Economics and Policy Research (NCAP) to undertake a study to review the existing buffer stocking policy and make suitable

recommendations for consideration. The Committee are, however, astonished at the subsequent action taken reply furnished by the Department in January 2011 that while the NCAP Report on the subject matter had been considered by the Technical Group on buffer stocking policy, its report is yet to be finalized. Obviously, the matter has not been given the serious attention that it deserved. Expressing their grave concern over the slow pace of action in a matter of serious national issue involving the food security of the country, the Committee exhort the department to address this issue in right earnest and ensure finalization of buffer stocking policy within three months of the presentation of this Report.

Recommendation No. d

Fixation of rates of levy rice

7. The Committee had in their earlier Report made the following recommendation on the issue of 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 recommended 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 aphorism 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.

8. The Department of Food and Public Distribution in its action taken reply stated as follows:

“The principles for fixation of levy rates were also revised in 2003 while fixing the principles for Custom Milled Rice. After the revision of the principles for fixation of levy rates in 2003, the elements of MSP –

Statutory Charges like Purchase Tax/Trade Tax (or VAT), Market Fee, Arhtiya Charges, Mandi Labour Charges, Milling Charges, Cost of two new gunny bags and bonus were decided to form the part of the price of the levy rice. It is stated that MSP is a major variable factor on which other charges are dependent. The milling charges are fixed in nature as recommended by Tariff Commission. Levy rates are fixed for each State on the basis of approved principles and as per the statutory levies/taxes intimated by the respective States every year. The present principles for fixation of levy rice are considered to be in order as they relate to statutory charges. Regarding Milling Charges, a study has been awarded to Tariff Commission to examine demands of States/millers and recommend milling charges that could be made applicable.”

In its subsequent reply, the Department of Food and Public Distribution further stated as under:

“The principles for fixation of levy rates were revised in 2003. While fixing the rates of levy rice in 2003-04, the Government had decided to exclude four elements from the costing sheet of levy rice, namely (1) Internal movement, (2) Storage and Interest, (3) Sales Tax at rice stage and (4) Gunny depreciation. It was a considered decision of the Government to match the levy prices of 2003-04 with levy prices fixed for 2002-03 by giving miscellaneous/special element in 2003-04. This was done with an objective of increasing rice procurement in order to meet the demands of TPDS and Other Welfare Schemes. Similarly, the MSE was allowed in 2004-05 so that the prices of levy rice of 2004-05 could match the prices of 2003-04 or otherwise the prices of 2002-03. This decision of granting the MSE in 2003-04 and 2004-05 to match the prices of 2002-03 has yielded to increase in procurement of levy rice as illustrated below:

Year	Levy	CMR	Total
2002-03	67.29	96.94	164.23
2003-04	116.69	111.59	228.28
2004-05	128.34	118.52	246.86

The levy rice procurement in 2003-04 shows an increase of 73.41% over 2002-03 and levy rice procurement of 2004-05 shows an increase of 9.98% over 2003-04. The overall increase in the procurement of rice in 2003-04 showed an increase of 39% over 2002-03 and the overall procurement of 2004-05 showed an increase of 8.14% over 2003-04. It may be worthwhile to note that the above increase were obviously due to grant of miscellaneous/special element in 2003-04 and 2004-05 to match the prices of 2002-03. Therefore, the decision of Department of Food & P.D to grant miscellaneous/special element in 2003-04 and 2004-05 can not be said to be incorrect and recovery of MSE, as suggested by Audit, is not justified.”

Comments of the Committee

9. In their earlier Report, the Committee had recommended that the Government should put in place a separate and fool proof system for fixation of rates of levy rice as the extant system as practiced gave undue benefit to a few. Surprisingly, the action taken reply furnished by the Department is silent on this specific recommendation of the Committee. The Committee strongly deprecate this casual attitude of the Department and desire that an unambiguous and specific reply on this aspect should be furnished to them within three months from the presentation of this Report enumerating the precise action taken or proposed to be taken.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation No. 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 has 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 norms 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.

Reply of the Government

Food Corporation of India has undertaken a project for computerization of stocks under Integrated Information System for Foodgrains Management (IISFM). The IISFM Project was undertaken as a Plan Scheme with a total estimated cost of Rs. 97.66 Crore in August, 2003 with objective to put in place an on-line MIS for stock position in any FCI Depot at any given point of time. Scope of the project was widened in October, 2005 to include 'Financial Accounting of FCI' & 'Computerization of State Agencies' of major procuring/distributing States. IISFM software is divided in two Modules - District Module and Depot Module. District Module is fully operational since June, 2006. Depot Module is in an advanced stage of implementation. Target date of completion of the project as per MOU signed with Ministry of Consumer Affairs, Food & Public Distribution is 31st December, 2009. FCI has requested to extend the target date for completion of the project from 31st December, 2009 to 30th September, 2010.

**Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated
31st March, 2010.**

Vetting remarks of C&AG :

FCI has undertaken the project of computerization of stocks under Integrated Information system for food grains Management(IISFM). The project was still not fully operational and does not serve its purpose of online real time information of stock, movement etc.

**C&AG letter No. 832- /III/ATN/MAB-IV/ND-3-2010 dated 14.5.2010 and
4.8.2010**

Remarks of the Government

FCI has intimated that information on stock position, monthly allocation & offtake are being reported from FCI District Offices, on fortnightly basis through IISFM District Module, since 2006 and reports are generated at Regional and Headquarters level. These reports are being used by the management for decision making.

For capturing stock data from depots on daily basis, an on-line, web based software, namely IISFM Rapid Reporting Service (IRRS) is being implemented in all depots of FCI from 4.8.2010. Reports on Stock position, off take, capacity utilisation etc. from 1.7.2010 onwards are available at <http://egrains.nic.in/irrs4>. These reports would be used by FCI offices and the Ministry.

**Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated
12th January, 2011.**

CHAPTER III

RECOMMENDATIONS / OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation No. b

Unwarranted Exports of Rice

The Committee noted that to liquidate the surplus stocks of foodgrain 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 foodgrain 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 at a lower rate as had been done in the instant case and deploras the mismanagement in a sensitive area like food.

Reply of the Government

In 2001-02 the production of rice was a record 933.40 lakh tonnes and procurement in this marketing year was resultantly high at 221.28 lakh tonnes. The Government took a decision to export rice in 2001-02 because the huge stock position of rice vis-a-vis minimum buffer norms and poor off-take for TPDS posed threat of deterioration of stocks.

In order to liquidate the stocks of foodgrains, Government took a number of decisions on 23.3.2002 which inter alia included export of foodgrains. The following measures were approved:-

- (i) To reduce the APL CIPs by Rs. 100 per quintal in respect of rice and wheat for a period of three months.
- (ii) To fix the scale of issue for APL, BPL and Antyodaya households @ 35 kg per household per month and increase allocations to States /UTs accordingly.
- (iii) To fix the scale of issue for all welfare institutions and hostels uniformly @ 15 kg per head per month and make an additional allocation equal to 5% of the BPL allocation to State/UTs at BPL CIPs on this account.
- (iv) To make open market sales of 50 lakh MTs of wheat and 10 lakh MTs of rice at prices to be determined by the existing High Level Committee of

- the FCI. FCI may be authorized to sell the stocks in the open market either through auction in prefixed lots or by fixation of sale prices keeping in view the prevailing market conditions.
- (v) To increase exports of wheat and rice, including luster lost wheat, provide WTO compatible subsidies for exports of wheat, wheat products and rice in accordance with the decision taken on 5th February 2002.
 - (vi) To fix no quantitative restrictions on the exports of rice, wheat and wheat products, subject to the condition that the stocks in the Central Pool will not be lower than the buffer stock of 243 lakh MTs (100 lakh MTs of rice and 143 lakh MTs of wheat) at any point of time.
 - (vii) To enter into counter trade and/ or extend commodity assistance in the form of foodgrains to other countries on terms to be decided on a case- to – case basis.
- The proposals at Sl No. (ii) to (vii) above were valid upto 31.3.2003.

However in 2002-03 production of rice decreased to 718.20 lakh tonnes and procurement also fell to 164.22 lakh tonnes. Actual stock position of rice as on 1.10.2002, 1.1.2003, 1.4.2003 and 1.7.2003 was 157.7 lakh MT, 193.72 lakh MT, 171.57 lakh MT and 109.74 lakh MT against the buffer norms of 65 lakh MT, 84 lakh MT, 118 lakh MT and 100 lakh MT, respectively. Considering the depleting stock position, it was decided not to make any fresh allocation of stocks for exports after 11.8.2003. No export of rice from Central Pool thereafter has been allowed.

A Group of Ministers (GOM) set up by the Cabinet to fix export prices approved the formula for fixation of export price. On the basis of this formula, the Department of Food & Public Distribution fixed the export price and subsequently the prices were recommended for each quarter by a High Level Committee constituted by the Government. These were then approved by the Government after due examination.

In order to ensure food security in the country, keep prices under check, maintain adequate supplies of foodgrains for TPDS and OWS, and to meet other exigencies, Government of India, in March, 2008, decided to create a strategic reserve of 50 lakh tonnes of foodgrains consisting of 30 lakh tonnes of wheat and 20 lakh tonnes of rice over the existing buffer norms. The strategic reserve has been created to obviate the necessity of import to the extent possible during the year of lower procurement/exigencies.

Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated 31st March, 2010.

Vetting remarks of C&AG :

Had the export of foodgrains been stopped when the reserves were slightly higher than the minimum buffer norms, the necessity of import would not have arisen.

**C&AG letter No. 832-III/ATN/MAB-IV/ND-3-2010 dated 14.5.2010 and
4.8.2010**

Remarks of the Government

No rice for Central Pool was imported. However, in 2006-07 and 2007-08, the Government of India decided for import of wheat for Central Pool in the overall interest of food security. A statement showing the rice and wheat imported for Central Pool from 2003-04 to 2009-10 is enclosed.(Annexure-I)

**Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated
12th January, 201.**

Recommendation No. 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.

Reply of the Government

Procurement of foodgrains is undertaken by FCI and State Governments. Before commencement of every Kharif and Rabi Marketing Season, a meeting is held by the Secretary, F&PD with the Food Secretaries of rice and wheat procuring States alongwith officers of the Food Corporation of India to review the arrangements for procurement of wheat and rice in the ensuing Marketing Seasons. The wheat /rice situation is being monitored regularly by taking feedback from FCI and all concerned divisions in Department of Food & Public Distribution. Meetings with FCI are held regularly at the level of Joint Secretary(Policy), Financial Advisor and Secretary, Food to review important policy matters. Important issues are also submitted from time to time to COS/ EGOM for taking decision in relation to management of foodgrains.

**Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated
31st March, 2010.**

Vetting remarks of C&AG :

Meeting of State Food Secretaries and Officers of FCI is held with regard to procurement of rice/paddy/coarse grains during marketing seasons. However, in case of fixation of components of CMR/Levy rice, the R.O, FCI, Hyderabad stated that the Government of Andhra Pradesh is not sending any proposal for recommending the same/making any copy of proposal to FCI, Hyderabad. Further, it was observed that the Government of India makes allotment of rice towards APL and the same is lifted by A.P State. But, no rice is distributed to APL beneficiaries. And all the foodgrains were issued to BPL categories. This proves that FCI, State Government and Govt of India did not act in unanimity.

C&AG letter No. 832- /III/ATN/MAB-IV/ND-3-2010 dated 14.5.2010 and 4.8.2010

Remarks of the Government

- (i) The levy price/CMR prices are fixed by the Govt. of India on the basis of comments sought from respective State Govts. before the onset of every marketing season.
- (ii) On receipt of the allotment letter from the Ministry and FCI Hqrs., FCI(RO), A.P. communicates the same to the Commissioner of Civil Supplies, Govt. of Andhra Pradesh to send the District-wise allocation. Then, on receipt of district wise allocation, the same is reiterated to the Area Managers for releasing the stocks to the AP Civil Supplies Corporation accordingly. It is the responsibility of the State Govt. to lift the stock and distribute the same to the beneficiaries for whom it is meant for. However, the observation is taken note of and FCI has assured that hereinunder the details of issue on this account would be kept track of and recorded.

Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated 12th January, 2011.

CHAPTER IV

RECOMMENDATIONS / OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation No. a

Mismanagement of Food Stocks

The Committee found 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 judgement 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 the faulty management on buffer norms could lead to food insecurity. The Committee recommend that FCI/Ministry should go in for an intensive technological up gradations for the purpose of reviewing the buffer stock norms on a monthly basis instead of existing quarterly review system. The Committee also recommended 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.

The Department of Food and Public Distribution in its action taken reply dated 31st March 2010 stated as follows:

“The Food Corporation of India (FCI) holds stocks of foodgrains to meet the commitments under the Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS) and for maintaining buffer stocks to meet the seasonal variations as well as to provide food security. While four months’ requirement of foodgrains for issue under TPDS and OWS are earmarked as operational stocks, the surplus over and above the same is treated as buffer stocks.

Buffer stock norms prescribe the minimum quantities of foodgrains (wheat & rice) to be maintained in the Central Pool at the beginning of each quarter. Stocks over and above the minimum buffer stock requirement are to be used for allocation to meet the requirements of TPDS, welfare schemes, strategic reserves, exports, etc. as per policy in force. The buffer stock norms have been prescribed on quarterly basis because the allocations made under TPDS and welfare schemes for a

month are allowed to be lifted by the State Governments over a period of two months. Also, levels of actual offtake of stocks by State/UT Governments may vary from month to month depending upon various factors. Moreover, the monthly procurement of wheat and rice may not follow regular pattern every year. Hence, monthly buffer stock norms may not be feasible operationally, though the position of actual stocks in the Central Pool is reviewed every month.

In order to ensure food security in the country, keep prices under check, maintain adequate supplies of foodgrains for TPDS and OWS, and to meet other exigencies, Government of India, in March, 2008, decided to create a strategy reserve of 50 lakh tonnes of foodgrains consisting of 30 lakh tonnes of wheat and 20 lakh tonnes of rice over the existing buffer norms.

The quarterly minimum buffer stock norms are fixed normally for a period of five years, by a Technical Group headed by the Secretary, F&PD. This group includes experts from various fields such as Agriculture, Finance, Planning Commission, etc. The Technical Group also takes into account detailed review of the buffer stock norms undertaken through a professional organization, considering various factors and assumptions relating to demand and supply, growth in population and income, consumption patterns, requirements for allocations under various schemes, etc. For finalization of the revised buffer norms of foodgrains for 11th plan period, the Technical Group headed by Secretary, F&PD asked the National Centre for Agricultural Economics and Policy research (NCAP) to undertake a study to review the existing buffer stocking policy and make suitable recommendations for consideration. The NCAP Report is under finalization.

In view of the above, the Department is of the view that there is no need for fixing monthly buffer stock norms as the quarterly norms seem to be serving the purpose.”

Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated 12th January, 2011.

Vetting remarks of C&AG :

For finalization of the revised buffer norms of foodgrains the Technical Group headed by Secretary(Food & PD), asked the National Centre for Agricultural Economics and Policy Research (NCAP) to undertake a study to review the existing buffer stocks policy and make suitable recommendations for consideration. The action taken on NCAP report may be furnished to Audit.

C&AG letter No. 832- /III/ATN/MAB-IV/ND-3-2010 dated 14.5.2010 and 4.8.2010

Remarks of the Government

The NCAP Report on review of the Buffer Stocking Policy has been considered by the Technical Group on Buffer Stocking Policy. The report of the Technical Group is yet to be finalized.

Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated 12th January, 2011.

(Please see Chapter-I for comments of the Committee)

Recommendation No. 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 recommended 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 aphorism 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.

Reply of the Government

The principles for fixation of levy rates were also revised in 2003 while fixing the principles for Custom Milled Rice. After the revision of the principles for fixation of levy rates in 2003, the elements of MSP – Statutory Charges like Purchase Tax/Trade Tax (or VAT), Market Fee, Arhtiya Charges, Mandi Labour Charges, Milling Charges, Cost of two new gunny bags and bonus were decided to form the part of the price of the levy rice. It is stated that MSP is a major variable factor on which other charges are dependent. The milling charges are fixed in nature as recommended by Tariff Commission. Levy rates are fixed for each State on the basis of approved principles and as per the statutory levies/taxes intimated by the respective States every year. The present principles for fixation of levy rice are considered to be in order as they relate to statutory charges. Regarding Milling Charges, a study has been awarded to Tariff Commission to examine demands of States/millers and recommend milling charges that could be made applicable.

Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated 31st March, 2010.

Vetting remarks of C&AG:

No action has yet been taken by the Ministry on the points as well as recommendations of COPU and the reply of the Ministry is silent about the MSE sanctioned in the rates of levy rice during 2003-04 and 2004-05 which led to overpayment of Rs.326.21 crore in Punjab, Haryana and Andhra Pradesh regions. The sanction of Miscellaneous Special Element(MSE) has been described by COPU as inadmissible, irregular and undue benefit to a few. As the inclusion of MSE in the rates was inadmissible, the overpayments made need to be recovered.

C&AG letter No. 832- /III/ATN/MAB-IV/ND-3-2010 dated 14.5.2010 and 4.8.2010

Remarks of the Government

The principles for fixation of levy rates were revised in 2003. While fixing the rates of levy rice in 2003-04, the Government had decided to exclude four elements from the costing sheet of levy rice, namely (1) Internal movement, (2) Storage and Interest, (3) Sales Tax at rice stage and (4) Gunny depreciation. It was a considered decision of the Government to match the levy prices of 2003-04 with levy prices fixed for 2002-03 by giving miscellaneous/special element in 2003-04. This was done with an objective of increasing rice procurement in order to meet the demands of TPDS and Other Welfare Schemes. Similarly, the MSE was allowed in 2004-05 so that the prices of levy rice of 2004-05 could match the prices of 2003-04 or otherwise the prices of 2002-03. This decision of granting the MSE in 2003-04 and 2004-05 to match the prices of 2002-03 has yielded to increase in procurement of levy rice as illustrated below:

Year	Levy	CMR	Total
2002-03	67.29	96.94	164.23
2003-04	116.69	111.59	228.28
2004-05	128.34	118.52	246.86

The levy rice procurement in 2003-04 shows an increase of 73.41% over 2002-03 and levy rice procurement of 2004-05 shows an increases of 9.98% over 2003-04. The overall increase in the procurement of rice in 2003-04 showed an increase of 39% over 2002-03 and the overall procurement of 2004-05 showed an increase of 8.14% over 2003-04. It may be worthwhile to note that the above increase were obviously due to grant of miscellaneous/special element in 2003-04 and 2004-05 to match the prices of 2002-03. Therefore, the decision of Department of Food & P.D to grant miscellaneous/special element in 2003-04 and 2004-05 can not be said to be incorrect and recovery of MSE, as suggested by Audit, is not justified.

**Department of Food & Public Distribution O.M. No.166(10)/2007-Py.I, dated
12th January, 2011.**

(Please see Chapter-I for comments of the Committee)

CHAPTER V

**RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT
ARE STILL AWAITED**

-NIL-

**New Delhi:
21 October, 2011
Ashwina 1933(S)**

**JAGDAMBIKA PAL
Chairman,
Committee on Public Undertakings**

APPENDIX I**MINUTES OF THE 7th SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS (2011-12)**

The Committee sat on Friday, the 21st October 2011 from 1130 hrs to 1200 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT**Convenor**

Shri Vilas Baburao Muttemwar

Members, Lok Sabha

- | | |
|---|---|
| 2 | Shri Hansraj G. Ahir |
| 3 | Shri Shailendra Kumar |
| 4 | Shri Ponnamp Prabhakar |
| 5 | Dr. Prabha Kishor Taviad |
| 6 | Shri Bhisma Shankar alias Kushal Tiwari |

Members, Rajya Sabha

- | | |
|----|---------------------------|
| 7 | Shri Janardan Dwivedi |
| 8 | Shri Mukhtar Abbas Naqvi |
| 9 | Shri Pyarimohan Mohapatra |
| 10 | Dr. Bharatkumar Raut |
| 11 | Shri Tapan Kumar Sen |
| 12 | Shri N.K. Singh |

Secretariat

- | | | |
|---|----------------------|---------------------|
| 1 | Shri Rajeev Sharma | Director |
| 2 | Shri Ajay Kumar Garg | Additional Director |

Representatives of Office of C&AG

- | | | |
|---|-------------------|-------------------------------|
| 1 | Shri A.K. Awasthi | Dy. CAG (Commercial) |
| 2 | Ms. Usha Sarkar | Director General (Commercial) |

- | | | | |
|----|-----|-----|------|
| 2. | XXX | XXX | XXX. |
| 3. | XXX | XXX | XXX. |

4. The Committee then took up for consideration the following two draft action taken reports on: -

(i) Action Taken Report on action taken by the Government on the recommendations contained in the 35th Report of 14th Lok Sabha on Food Corporation of India (FCI) (Based on Audit Para 7.1.1 of Chapter VII of C&AG Report No. CA 11 of 2008)

(ii) XXX XXX XXX.

The Committee adopted both the aforesaid Action Taken Reports without any modifications and authorized the Chairman to present the same to Parliament.

5. XXX XXX XXX.

The Committee then adjourned.

APPENDIX II

(Vide para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations/observations contained in the Thirty Fifth Report of the Committee on Public Undertakings (Fourteenth Lok Sabha) on "Food Corporation of India based on Audit Para 7.1.1 of Chapter VII of Report No.CA 11 of 2008".

I.	Total number of recommendations	5
II	Recommendations that have been accepted by the Government [vide recommendations at Sl. Nos. e	1
	Percentage of total	20%
III	Recommendation which the Committee do not desire to pursue in view of Government's replies [vide recommendation at Sl. Nos. b and c]	2
	Percentage of total	40 %
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee (vide recommendations at Sl. Nos. a and d]	2
	Percentage of total.	40%
V	Recommendations in respect of which final replies of Government are still awaited.	NIL
	Percentage of total	-