

**COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1980-81)**

(SEVENTH LOK SABHA)

**TWENTY-SECOND REPORT  
ON  
FOOD CORPORATION OF INDIA**

(Ministry of Agriculture—Department of Food)



*Presented to Lok Sabha and  
Laid in Rajya Sabha on } ..... 29 April, 1981.*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1981/Vaisakha, 1903 (S)*

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## CORRIGENDA

### Twenty-second Report of the Committee on Public Undertakings (1980-81) on Food Corporation of India.

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# CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE . . . . .	(iii)
COMPOSITION OF STUDY GROUP I . . . . .	(v)
INTRODUCTION . . . . .	(vii)
<b>I. ROLE AND STRUCTURE</b>	
A. Setting up of F.C.I. . . . .	1
B. State Food Corporations . . . . .	2
C. Boards of Management for the States . . . . .	2
D. Advisory Committees . . . . .	4
E. Boards of Directors . . . . .	6
<b>II. PURCHASES</b>	
A. Quantum of Purchase . . . . .	9
B. System of purchase . . . . .	9
C. Support price purchases . . . . .	14
<b>III. DISTRIBUTION</b>	
A. Nature of operations . . . . .	23
B. Issue to Public Distribution System . . . . .	23
C. Supplies to Flour Mills . . . . .	25
D. Buffer stock . . . . .	27
E. Internal Distribution . . . . .	29
F. Issue and Retail Prices . . . . .	31
<b>IV. STORAGE</b>	
A. Storage Capacity . . . . .	36
B. Utilisation of Capacity . . . . .	38
C. Cost of Storage . . . . .	39
D. Storage Loss . . . . .	39
E. Additional Storage Construction . . . . .	41
<b>V. COST AND SUBSIDY</b>	
A. Costs . . . . .	44
B. Administrative Overheads . . . . .	50
C. Contract Labour . . . . .	53
D. Storage and Transit Losses . . . . .	54
E. Subsidy . . . . .	57
<b>VI. WORKING RESULTS</b>	
A. Profit/Loss . . . . .	60
B. Modern Rice Mills . . . . .	61
C. Sundry Debtors . . . . .	62
D. Monitoring . . . . .	64
E. Annual Accounts . . . . .	64
<b>APPENDIX</b>	
Summary of Conclusions/Recommendations of the Committee on Public Undertakings Contained in the Report. . . . .	66

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(1980-81)

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2. Shri T. R. Krishnamachari — *Chief Financial Committee Officer.*
3. Shri S. C. Gupta — *Senior Financial Committee Officer.*

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\*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P. A. Sangma as Deputy Minister.

**STUDY GROUP I ON PUBLIC UNDERTAKINGS UNDER MINIS-  
TRIES OF AGRICULTURE, COMMERCE, COMMUNICATIONS,  
HEALTH & FAMILY WELFARE, STEEL & MINES, RAILWAYS AND  
WORKS AND HOUSING.**

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4. **Shri Darur Pullaiah**
5. **Shri Hiralal R. Parmar**
6. **Shri Chandradeo Prasad Verma**
7. **Shri Ramanand Yadav**

## INTRODUCTION

1. The Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty-second Report on Food Corporation of India.

2. The Committee took evidence of the representatives of Food Corporation of India on 29 and 30 January, 1981 and Ministry of Agriculture (Department of Food— on 3 February, 1981.

3. The Committee considered and adopted the Report at their sitting held on 23 April, 1981.

4. The Committee wish to express their thanks to the Ministry of Agriculture (Department of Food— and the Food Corporation of India for placing before them the material and information they wanted in connection with the examination of Food Corporation of India. They wish to thank in particular the representatives of the Department of Food and the Food Corporation of India who gave evidence and placed their considered views before the Committee.

BANSI LAL,  
*Chairman,*  
*Committee on Public Undertakings*

NEW DELHI

April 28, 1981

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Vaisakha 8, 1903 (S)

## CHAPTER I

### ROLE AND STRUCTURE

#### A. Setting up of F.C.I.

The Food Corporation of India was set up on 1st January, 1965. Since its inception, work relating to imports, internal purchase, sales, storage, movement and distribution has been gradually handed over to the Food Corporation of India. Thus with effect from 1st April, 1969, the Food Corporation of India has become the sole agent of the Central Government for trading in foodgrains. Since 1977-78, the Corporation has also been handling exports of foodgrains.

1.2 In addition, the Corporation has been entrusted with the purchase of foodgrains, pulses and animal foodgrains for the Army Purchase Organisation from 1969-70. The Corporation has also been entrusted with the wholesale distribution of levy sugar. With effect from 1st March, 1976 the Corporation has been entrusted with the handling of imports and distribution of fertilizers as 'Principals' on the basis of ownership of material under the administrative guidance of the Department of Agriculture.

1.3 The main objects of the Food Corporation of India are :—

- (i) To ensure that the primary producer obtains the minimum price that may be announced from time to time and to protect the consumer from the vagaries of speculative trade.
- (ii) To take up state trading in foodstuffs on an appreciable scale and to build up gradually buffer stocks.
- (iii) To engage itself primarily in the purchase, storage, movement, distribution and sale of foodgrains and other foodstuffs.
- (iv) To secure for itself a strategic and commanding position in the foodgrain trade of the country.

1.4 The Corporation was expected to secure for itself a strategic and commanding position in the foodgrains trade all over the country and to be the sole public sector purchasing agency to bring in the much needed discipline in the foodgrains trade. The twin objectives which the Corporation sought to serve was to ensure minimum price for the primary producers and to protect consumer interest. During examination of FCI (January, 1981), the Committee desired to know as to what extent had this role of the Corporation been fulfilled. The Managing Director, FCI in evidence submitted, "Our own view is that the objectives of the FCI have been fulfilled by and large. . . . So far as the maintaining of the price line in foodgrains is concerned, we have done our duty as best as we can. In 1964, we were not self-sufficient in foodgrains. Today, the position is quite different. Although we along with other public agencies are procuring about 10% of the total production, we have been able to stabilise the prices of foodgrains all over the country." He added, "According to the policy envisaged for the

Corporation in 1964, we have been helping the producer and helping the consumer at the same time." This witness further submitted :—

".....the situation in the country in 1964 and the situation in 1980 are not exactly the same. The primary duties have been laid down, but even at the time when the Bill was presented in the House, it was made clear that it is not commercial. It should purchase according to the Government policies enunciated from time to time. Naturally with the change in the agricultural production in the country the role that the Food Corporation can play in stabilising and making available the foodgrains to the consumers actually will undergo a change".

1.5 During examination of Department of Food (Feb., 1981), the Secretary of Food Department stated :—

".....Section 13 of the Act provides that the Corporation may undertake purchase, storage, transport, distribution and sale of foodgrains and other food stocks. As far as the FCI is concerned, as it stands today, there is no need for any radical change in its structure for achieving these objectives."

1.6 The Food Corporations Act envisaged setting up of State Food Corporations, State Boards of Management, Advisory Committee. The actual position in regard to the setting up and functioning of these bodies is given below.

## **B. State Food Corporations**

1.7 The Food Corporation Act envisaged setting up of State Food Corporations after consultation with the State Governments with capital participation by the Central Government and the FCI and that the general superintendence, direction and management of the affairs and business of a State Food Corporation shall vest in a Board of Directors which shall consist of directors appointed by the FCI after consultation with the Central Government and the State Governments.

1.8 The Committee enquired in how many States the State Food Corporations had been set up. The representative of FCI stated in evidence that "no such State Food Corporation had been set up so far." As regards the reasons for it, the witness stated that the Act provided that 'the Central Government after consultation with the Government of a State may do so. But the initiatives for that had got to come either from the Central or State Government'.

1.9 In this connection, Secretary, Department of Food stated that "State Food Corporations/which were envisaged under Section 17 of the Act were not formed as the State Governments had not shown much interest in this because under this scheme it is more or less a creation of the Central Government; it is more or less a nominee of the Food Corporation of India and the State Governments have got very little power or role to play."

## **C. Boards of Management for the States**

1.10 Section 16(1) of the Act lays down that the Central Government may on a request received in this behalf from the State Government or Governments concerned or otherwise establish a Board of Management for a State or two or more contiguous States if no State Food Corporation is functioning in such State or States.



1.11 Asked in how many States the Boards of Management had been established the Corporation informed in a written reply that the Boards of Management for the States of Andhra Pradesh and Orissa were established on 14th December, 1967 and 23rd March, 1968 respectively for terms of 2 years in each case. These Boards were set up principally at the request of the State Government concerned for ensuring harmonious implementation of the policies to serve the mutual interest of the Corporation and the State Government. The Chairman and Members of the Boards of Management in both the cases were appointed by the Board of Directors of the Corporation. After review of the usefulness of the work done by the Boards of Management, the Board of Directors approved the proposal for extension of term of the Members of Boards of Management in both the States for another period of 2 years (till 12-1-1972 for A.P. and till 30-3-1972 for Orissa). For Orissa, it was further extended for 2 years till 30-3-1974.

1.12 In the case of A.P., it was felt that with the close liaison maintained between the officials of the State Government and the FCI in resolving problems connected with all aspects of the working of the Corporation in the State there was no need to further extend the term and in consultation with and on the advice of the State Government of A.P., the Board of Management was discontinued in 1972. The State Government did not also agree to the appointment of even an Informal Advisory Committee in place of the Board of Management.

1.13 As regards Orissa, the State Government stopped giving procurement work to the FCI from 1975. It was, therefore, considered that no useful purpose would be served in continuing the Board of Management in the State. On the advice of the Corporation, the Department of Food abolished the Board in 1976.

1.14 In reply to a question whether it would not help to have such Boards of management provided the State Governments are also taken into confidence while constituting the Board, the Corporation has stated in a written reply that in both the cases of A.P. and Orissa, the Boards of Management were set up with the active participation of the State Government officials in the Boards. The FCI has established offices in almost every State under Regional administration/Zonal administration and have given them substantial operational powers/functions which helped in dealing expeditiously problems connected with the FCI operations in the various States. There were no specific requests from any of the State Governments for the setting of Board of Management. The FCI also did not consider it necessary to set up separate Boards of Management, since the formation of such Boards was rigid in regard to the composition and functions.

1.15 In the course of examination of the Ministry, the Committee enquired as to what exactly was the hitch in regard to the Boards of Management set up in the two States in Andhra Pradesh and Orissa and why were they abolished. The Secretary, Department of Food stated "it was given up because the States did not want them. They found that the Board was of no use to them because they had no control over the Board."

#### D. Advisory Committees

1.16 In terms of Section 11 of the Act, the Central Government may constitute one more Advisory Committee to advise the Central Government or the FCI in regard to any matter connected with the purpose of the Act and as per Section 44(2) of the Act, the Central Government may make rules *inter-alia* to provide for the composition of the Advisory Committees and the terms and conditions of service of members thereof. The M.D., FCI informed the Committee that no rules were framed by the Government of India in this regard. It was stated by the Corporation in a reply submitted subsequently that in December, 1964, the Central Government set up an All India Committee of representatives of the trade in foodgrains with a view to assisting in creation of a proper climate of opinion and understanding among the trading community and the part they had to play in the implementation of the national food policy. In May, 1965, the Ministry of Food & Agriculture suggested to the Food Corporation of India that this Committee might be converted into an Advisory Committee under Section 11 of the Food Corporations Act, 1964, the officials of the Central Government of the Committee being substituted by the officials of the Corporation. The suggestion came up for consideration at the fifth meeting of the Board of Directors held on 21st May, 1965. The observations of the Board on the suggestion are extracted below :—

“The Board felt that the trading sector was already well-organised into various associations and other similar bodies in different parts of the country and that there was no need to set up an advisory body consisting solely of the trading community to advise the Corporation. The Board desired that a suggestion be made to the Government that the scope of the proposed advisory committee be amplified so as to include representatives of producers and consumers as well, so that the committee as a whole would be representative of producers, traders and consumers.”

1.17 The views of the Corporation were accordingly communicated to the Ministry of Food & Agriculture. The Government of India reiterated their original suggestion indicating, however, that the Committee may be expanded later as suggested by the Corporation. Accordingly, the Board of Directors of the FCI at the meeting held on 30.5.1966 agreed to the proposal of the Ministry of Food & Agriculture that the All India Committee of representatives of the trade in foodgrains constituted by the Central Government in December, 1964 might be converted into an Advisory Committee under Section 11 of the Act, 1964 the Chairman, Vice Chairman and Member Secretary of the Advisory Committee being respectively the Chairman, M.D. and the Secretary of the Corporation. The Board also desired that consideration be given to the question of the Corporation establishing liaison with other groups such as producers whether by setting up similar committees or otherwise. On this basis, the Govt. of India constituted an Advisory Committee consisting of the FCI officials and non-officials numbering about 22 (later expanded to 26) representing mostly private trade, rice and flour millers on 1-10-1966. The term of office of the non-official members was two years. Only one meeting of even this Advisory Committee was held on 18.12.1967.

1.18 The proceedings of the Committee, however, showed that the non-official members of the Committee, who were representing mostly the trade

interest in various States were more keen on finding out the operational strategies of the Corporation for their own benefit than on making constructive suggestions. By and large the Corporation derived very little benefit from the deliberations of the Advisory Committee. It has been added that the Government on 11.9.1968 wanted to know from the Corporation whether the term of the office of non-official members should be extended after the expiry date of 30th September, 1968 and whether the Committee had served the purpose for which it was constituted. In reply to this, the Government was informed that the Committee did not serve the purpose. The FCI also suggested abolition of the same. Accordingly, the Government rescinded the notification constituting the committee on 22.11.1968. Apart from this, no other Advisory Committee was set up by the Central Government.

1.19 The Committee enquired whether the structure of the Act, 1964 did not envisage that the FCI or its agents i.e., the State Corporations/ State Boards of Management to be the sole public sector procurement agency in the country. The Secretary, Deptt. of Food stated; "According to us, the answer... is 'No.' The Act does not mention that the FCI or any Government Agency would do the procurement exclusively". He informed that the State & Civil Supplies Corporations which were public sector corporations could also purchase the foodgrains. He further stated :—

"The purchases could be done on two counts; one for the Central Pool and the other for the State's own requirements. In the Central Pool the purchases could be made by the FCI or its agents like cooperatives or by the State agencies like MARKFED or HAFED in Haryana and Punjab and then these could be handed over to the Central Pool."

1.20 Asked as to what were the other organisations which procured for themselves, the Secretary, Food Deptt. stated: "For the State Pool, the State Governments were purchasing earlier and some States are still purchasing. The States are Tamil Nadu, Karnataka, Orissa, Assam, Bihar etc." Asked what was the quantity in terms of percentage which they purchased for themselves, the Secretary stated, "that is not much".

1.21 The Committee pointed out that Agriculture being a State subject, the involvement of the States in the functioning of the Food Corporation was necessary in order to make the Corporation a success. They enquired in what way this involvement had been secured so far. In a written reply, the Corporation has stated :—

"The State Governments are closely involved in the functioning of the Food Corporation of India as it is the State Government, which decides the policies and determine the role to be played by the Corporation from season to season. In spite of year to year fluctuation in production, it is mainly left to the State Governments to decide the manner of operations and the extent to which the Corporation is to be involved in procurement operations. The State Government allocates share in the procurement of foodgrains to be made by the FCI as also the centres at which the Corporation is to operate.

In the States, Government agencies like Food & Civil Supplies Departments, the Civil Supplies Corporation and Cooperative

Federations are involved in a big way to participate in procurement operations. For instance in Punjab and Haryana, the two largest procuring States, the State agencies have been allotted a major share of wheat procurement, for ultimate contribution to Central Pool. . . . . Similarly the State Governments are engaged in the distribution of foodgrains within the State, though in some of the States the entire public distribution of foodgrains is managed by the FCI, as in West Bengal."

### E. Board of Directors

1.22 Section 7(1) of the Act lays down that the Board of Directors of the Corporation shall consist of the following, namely:—

- (a) A Chairman
- (b) Three Directors to represent respectively the Ministries of the Central Government dealing with (i) Food, (ii) Finance, and (iii) Cooperation.
- (c) The Managing Director of the Central Warehousing Corporation as *ex-officio*;
- (d) A Managing Director and
- (e) Six other Directors.

1.23 It came to notice during examination of the Corporation in January 1981 that the Board of Directors consisted only of 6 officials. There were no non-officials on the Board. Their term expired in June/September, 1980. The post of Chairman was also vacant from June last year.

1.24 Asked whether there were any representatives of farming community on the Board, the M.D. stated, "In the past there had been non-official Directors. This selection is made by the Government. It does not say how they should be selected in this matter. There had been representation given to agriculturists in the past also." The Committee were informed by the Secretary, Department of Food that there was no person on the Board representing the consumers' Federation or Council nor was there any labour representative from the Central Trade Union Organisations.

1.25 The Committee enquired whether the State Governments, are consulted in making appointment to the Board, the Secretary, Department of Food stated in evidence that the composition of the Boards of Directors was decided by the Central Government. There was no system of consulting the State Governments. Asked further whether there was any bar, the witness stated, 'neither there is any bar nor there is any stipulation. It is a prerogative of the Central Government as it stands now.'

1.26 As regards the reasons for the delay in the appointment of Chairman and non-official Directors, the Secretary, Department of Food Stated, "it is under consideration of the Government". He added, "the facts regarding the post to be filled and the persons to be appointed have been brought to the notice of Government. It goes to the Appointments Committee. Nothing has finally emerged."

1.27 The Food Corporations Act, 1964 is a comprehensive piece of Union legislation on a concurrent subject. The Act provided for the establishment of Food Corporations for the purpose of trading in foodgrains and other foodstuffs. The Act extended to the whole of India. The Food Corporation of India was set up in January 1965 under the Act. The primary duty of the Corporation was to undertake the purchase, storage, movement, transport, distribution and sale of foodgrains and other foodstuffs. The Corporation was required to act on business principles having regard to the interests of the producer and consumer. The Act enabled setting up of State Food Corporations in consultation with the States. The capital of the State Corporations was to be provided by the Central Government and the Food Corporation of India. The Boards of Directors of the State Corporations were to be appointed by the Food Corporation of India after consultation with the Central Government and State Governments and the Boards were to be guided by such instructions of policy as might be given to them by the Food Corporation of India. The Act also enabled setting up of a Board of Management for a State or two or more contiguous States having no State Food Corporation. The Board of Management was to advise the Food Corporation of India on matters referred to it and perform such other functions as delegated to it by the Corporation. Thus, the structure of the Act clearly visualises the Food Corporation of India to function either by itself or in combination with the State Food Corporations/Boards of Management, as the sole trader in foodgrains in the public sector. This is necessary to realise the avowed objectives of securing for itself a strategic and commanding position in the foodgrains trade all over the country and of bringing about the much needed discipline in the trade. Unless these are realised neither the interests of the producer nor the interests of the consumer could be served well. Unfortunately, after examining the working of the Food Corporation of India the Committee are left with an impression that the Corporation as it is structured at present would not be able to make much of an impact.

1.28 In none of the States, the State Food Corporation has been set up so far. The Boards of Management set up in 1967-68 in two States, viz., Andhra Pradesh and Orissa, were abolished in 1972 and 1976 respectively. Some of the States have set up their own Food Corporations, Warehousing Corporations, Agro-industries Corporations, Civil Supplies Corporations etc. to handle the business. Thus, there is at present no unified institutional arrangement for the foodstuffs trade in the country. The policies differ from State to State. An idea of extent to which the overall interests of the producer and consumer has suffered could be had from the succeeding sections of this Report. The Committee feel that the States ought to be actively involved in the operations of the FCI. In order to make the operations of the FCI more effective and purposeful a fresh initiative should be taken by the Central Government, to set up the State Food Corporations or the Boards of Management in the States.

1.29 The Act also envisaged constitution of one or more Advisory Committees to advise the Central Government or the FCI in regard to any matter connected with the purposes of the Act. Rules providing for the composition of the Advisory Committees and the terms and conditions of service of members thereof, were to be framed by the Central Government. Surprisingly, no such rules have been framed so far. An All India Committee of representatives of the trade in Foodgrains set up in December 1964 was

converted as an Advisory Committee for the FCI in October 1966 much against the wishes of the Corporation. The Advisory Committee consisting mainly of non-official members who represented the trade, could not serve the purpose. It was naturally interested in serving the interest of private trade which the Corporation was expected to discipline. The Committee was, therefore, wound up in November 1968. During the period of 2 years of its existence the Committee held only one meeting. The Corporation goes without an Advisory Committee for more than 12 years now. Thus, there has been no such mechanism as envisaged by the Act to make the Corporation continuously responsive to the interests of the producer and consumer. This shows that the Corporation is not serious to implement the spirit of the Act. The Committee are at a loss to understand how an Advisory Committee consisting mainly of traders came to be appointed for two years in the beginning. By no stretch of imagination could it be presumed that the FCI was to serve the interests of the traders. The Committee desire that the Central Government should frame suitable rules and see that the apex level advisory committees mainly consisting of representatives of the producer and consumer are formed without delay.

1.30 The Board of Directors of the FCI consists of the Chairman and 11 Directors of whom 5 are officials. The Board, however, goes without the Chairman and six non-official Directors whose terms expired in June/September 1980. The Committee desire that an organisation like FCI having huge turnover and operational dimension should not remain without Chairman and a number of Directors for such a long time. The Board as constituted last did not have on it representatives of consumers' federation or council. This deficiency should be made good while filling up the vacancies.

1.31 In the earlier years our country was deficient in foodgrains, but has become by and large self-sufficient in the past 5 years or so. There has, therefore been a shift from the compulsory levy to support purchase operations and building up of a buffer stock to take care of cyclical changes. This has thrown up added responsibilities for the FCI. The Committee are inclined to agree with the Managing Director of the Corporation that the role and structure of the Corporation have to be redefined. The Committee, however, note the view of the Secretary, Department of Food, that the Food Corporations Act, 1964 is flexible enough to accommodate the change that has taken place and that no radical restructuring of the Corporation would be needed. Nevertheless the Committee feel that the matter requires serious consideration. The Committee trust that the inadequacies brought out and suggestions given in this Report would be the basis for such a consideration by the Government.

## CHAPTER II

### PURCHASES

#### (A) Quantum of purchase

2.1 The Corporation has been handling procurement of foodgrains at support/levy price on behalf of the Government of India/State Governments in various States. In addition, the FCI accepts deliveries for the Central Pool from the State Governments/other agencies. The Corporation also makes commercial purchases for APO. Thus the operations of the FCI fall under three categories Central, State and Commercial Operations.

2.2 The following table indicates the quantities of wheat, rice (including paddy in terms of rice) and coarse-grains procured by the FCI directly or indirectly and the total production in the country during the years 1974-75 to 1979-80 as furnished by the Corporation :—

(in lakh tonnes)

year	Wheat		Rice		Coarsegrain (Maize, Jawar & Bajra)			Total		%age of Col. 8 to 9 (Approx.)
	Procurement by FCI directly/ indirectly	Total Pro- duction	Procure- ment by FCI direct- ly/indirect- ly	Total Pro- duction	Procure- ment by FCI direct- ly/indirect- ly	Total Pro- duction	Procure- ment by FCI direct- ly/indirect- ly	Total Pro- duction*		
1	2	3	4	5	6	7	8	9	10	
1974-75	. .	17.69	241.0	23.17	395.8	0.31	192.4	41.17	829.2	5
1975-76	. .	38.26	288.5	42.35	487.4	0.41	225.0	81.02	1000.9	8
1976-77	. .	54.20	290.1	47.29	419.2	0.10	227.3	101.59	936.6	11
1977-78	. .	52.86	317.5	40.59	526.7	0.06	227.6	93.51	1071.8	9
1978-79	. .	57.71	355.1	57.03	537.7	0.11	232.1	114.85	1124.9	10
1979-80	. .	75.36	315.6	38.44	421.9	0.22	209.3	114.02	946.8	12

\*Figures are crop year-wise.



2.3 In the course of examination of the Ministry (February, 1981), the Committee wanted to know whether with only about 10% procurement of foodgrains, it could be said that the Corporation had achieved the objective of securing for itself a strategic and commanding position in the foodgrains trade all over the country. The Secretary, Department of Food stated:

“What has to be seen is what the FCI's share is in the total marketable surplus and what goes for trading. If you take wheat, the statistics show that in respect of wheat, the arrival in the country is about 31% of the total production. FCI's share and all the agencies' share put together was 18% of the production in the year 1976-77. That means it was more than half of the marketable surplus being taken by the Central Pool.”

The witness added that in respect of rice, the marketable surplus was 27% of the total production in 1976-77. The procurement was 14% of the total production which was about half of the marketable surplus.

#### (B) System of purchase

2.4 In regard to procurement, the following methods are generally adopted by the Corporation:

- (i) Rice is by and large purchased under levy on licensed millers/ licensed traders.
- (ii) Paddy is purchased under different methods viz., price support, producers levy, levy on traders, levy on movement and export from specific areas, monopoly procurement etc. as per policy of the Government. The bulk of procurement of paddy is, however, carried under price support as at present.
- (iii) Wheat and coarse-grains (including gram) are purchased under the price support scheme.

2.5 The commercial purchases for the APO are usually made in the regulated *mandis* through open bidding.

2.6 According to the FCI the manner of actual procurement is decided by the State Government and the Corporation has actually little to say in the matter except in the case of commercial purchase for the APO. However, the Corporation gives preference to the appointment of Cooperatives as its agents for the purchase operations.

2.7 The systems of procurement State-wise and the agencies employed for the procurement operations during Rabi and Kharif seasons are indicated below:—

#### A. System of Procurement wheat and agencies employed during Rabi Marketing Season 1980-81

Sl. No.	Name of the State	System of Procurement	Agencies
1	2	3	4
1.	Bihar	Price Support Operation.	FCI/State Food Corporation/Bihar S.W.C.
2.	Gujarat	Do.	State Government.
3.	Haryana	Do.	State Govt./Hafed and FCI.

1	2	3	4
4.	Madhya Pradesh .	Price Support Operation	F.C.I.
5.	Maharashtra .	Do.	State Govt./Co-operative.
6.	Punjab . . .	Do.	FCI/State Govt./Markfed/Punsup.
7.	Rajasthan .	Do.	FCI and RSWC acting as agent of FCI.
8.	Uttar Pradesh .	Do.	State Govt./UPCF/FCI/UPFECC and Agro. Industries Corpn.
9.	West Bengal . .	Do.	FCI
10.	Assam . . . .	Do.	FCI/Co-operative
11.	Himachal Pradesh .	Do.	FCI/Co-operative
12.	Jammu & Kashmir	Do.	State Govt.
13.	Manipur . . .	Do.	FCI
14.	Delhi . . . .	Do.	FCI

*B. System of Procurement and agencies entrusted with procurement of Kharif Cereals during 1979-80.*

Sl. No.	Name of the State	System of Procurement.	Agencies
1.	Tamil Nadu . . .	—	TNCSC (FCI not in field)
2.	Pondicherry . . .	Procurement of paddy under support and levy. The State Govt. has imposed 25% transport levy on paddy/rice.	FCI/Cooperatives.
3.	Madhya Pradesh . . .	Procurement of paddy/coarse grains under price support for Central Pool.	FCI/Cooperatives.
4.	Orissa . . . .	Price Support Scheme.	State Govt.
5.	Assam . . . .	—	State Govt.
6.	Manipur . . . .	Price Support Scheme.	FCI (through cooperative societies).
7.	Arunachal Pradesh	Do.	FCI (through Anchal Samities).
8.	West Bengal . . .	Paddy is procured under PSS through Agents. Rice is procured under millers levy at 45%.	FCI
9.	Gujarat . . . .	Price Support	State Govt.
10.	Maharashtra . . .	Price Support Scheme	State Govt. Cooperatives.
11.	Bihar . . . .	Not available with FCI	State Govt.
12.	Punjab . . . .	Paddy-Price Support Rice-Millers/Traders Levy 80% for IR8 and 50% for PR-106.	Paddy : FCI, State Govt. Rice : State Govt.

Sl. No.	Name of the State	System of Procurement	Agencies
17.	Haryana	Paddy-price Support Rice-Millers/ Traders levy 80% for IR8 and 50% for PR-106.	FCI/Hafed
14.	Uttar Pradesh	Paddy is procured under price support scheme by FCI/State Govt. Rice is procured by State Govt. through levy on licensed dealers/millers at 10% & major portion is delivered to FCI for Central Pool. Paddy price Support. No levy on rice.	FCI/State Govt.
15.	Rajasthan	Paddy support price no levy on rice.	FCI.
16.	Andhra Pradesh	Paddy is procured directly by farmers under price support scheme by FCI and APSCSC, Rice is procured under levy on millers/dealers at 25% which is being collected by FCI and APSCSC as per target (District-wise) fixed by State Govt. The procurement of rice is on Central A/c.	FCI/APSCSC.
17.	Jammu & Kashmir	Price Support	State Govt.
18.	Karnataka	Not available with FCI	Karnataka C.S.C.
19.	Kerala	Not available with FCI	State Govt.

2.8 The Corporation has stated in a written reply that due to year-wise fluctuations in production and Government policy, it is unable to plan its procurement operations and administrative arrangements on a long term basis.

2.9 In the course of examination of FCI, the Committee desired to know whether at any stage there was any attempt to bring about uniformity in the entire system of procurement. The Managing Director, FCI deposed.

"The FCI itself has not taken any steps to evolve a unified pattern of procurement all over the country. It is a State subject and a Central subject also. . . . Some States have watered down the procurement effort. From the Corporation's point of view, in order to minimise its own operating cost and to see that there is less burden on the transportation system, with the financial constraints on the exchequer, it is desirable that the State should procure the maximum quantity of grains from within the State and the balance from outside. In the past, India was importing foodgrains from outside. Today, certain States are "importing" foodgrains from other surplus States in the country. We would certainly welcome that each State is more and more self-reliant in food. Under the minimum support price programme, the policy of the Govt. of India is that it leaves to States Govern-

ments to decide whether they would like to take the assistance of the Corporation for undertaking procurement operations or not. In the States where we are asked to undertake procurement, we do participate either wholly or partly in the procurement....”

2.10 During the course of evidence of Department of Food, the Committee desired to know how far under these circumstances, the Corporation would be able to economically and efficiently discharge the functions assigned under the Act and what steps Government would take in future to see that there was measure of continuity in the operation of FCI in various States. The Secretary, Department of Food submitted :

“By and large, the policy and arrangement have been remaining consistent. Changes do take place occasionally. In the main procuring areas like Punjab, Haryana, U.P., Madhya Pradesh and Andhra Pradesh, more or less the pattern has been set. Only in the matter of details year after year, the variation may take place. As far as its economy is concerned if you take purely its commercial operation then FCI should not have opened a purchase centre in an area where there is not much market surplus coming. In actual practice, in order to help the farmer, the FCI has to keep a centre open in a place where even 100 tonnes come. So my view point is that the FCI should have, as far as possible, centres in places from where they can procure a sufficient quantity. The State agencies which have got local offices, should take those operations and contribute their supply to the central pool in exchange for a commission or some handling charge should be charged. The approach should be to see that the number of centres is kept to a viable limit.

2.11 The Committee were informed by the FCI that in Australia to enable the Wheat Board to effectively market the grain on a nation-wide basis, each State has passed suitable legislation accepting the board as a Central authority requiring growers to deliver wheat only to the Board and the Board is authorised to conduct business within the boundaries of the State. Asked whether the possibility of a similar arrangement in our country was considered at any time after the formation of the Food Corporation the Managing Director, FCI in evidence stated that the Australian Board was not comparable with the FCI as the former was mainly intended for entering the export market.

### (C) Support Price Purchases

2.12 In reply to a question about the total support price purchases made during the last three years marketing, the M.D., FCI during evidence gave the following information:—

	(Million tonnes)		
Rabi Season	1978-79	1979-80	1980-81
Wheat . . . . .	5.48	7.99**	5.85** (upto 24-1-1981)
<u>Kharif</u> . . . . .	3.2	2.67	4.27
Paddy (as rice)			(upto 24-1-1981)*

\*Kharif procurement is still not over completely.

\*\*Provisional.

2.13 Asked how much of it was procured directly from the farmers and how much was from the farmers cooperatives, the M.D., F.C.I. stated :

“.....We do not purchase anything directly either in Punjab or Haryana. It goes through mandies. We do not classify it as direct purchase. So far as wheat is concerned, the direct purchase was 3.54 lakh tonnes in 1978-79. In 1979-80, it was 0.78 million tonnes and in 1980-81, it was 0.11 million tonnes. The reason for steep fall in 1980-81 is because our procurement in U.P. was very low. In fact we hardly procured in U.P. In Haryana and Punjab...there is no direct purchase system at all. Coming to paddy, the figures of 1978-79 direct purchase of paddy...are 0.81 million tonnes. In 1979-80 it was 33,000 tonnes and in 1980-81 it was only 10,000 tonnes.”

2.14 The Committee desired to know as to how the farmers were assured of the support price, the M.D., FCI stated that if the FCI purchased through Kacha Arhtiya, the payment was made to the Kacha Arhtiya and not to the farmer because the Market Committee requires that every producer will sell his produce through the Kacha Arhtiya. Asked whether the FCI had received any complaint from farmers about the role of these commission agents and whether the FCI had, at any point of time, made any effort to get rid of them. The M.D., FCI stated, “the abolition of the Kacha Arhtiya has been under discussion for some years now with the Government. In fact it was reviewed, as a part of the reduction of the incidental expenses.....In 1977 (a) Committee under the Chairmanship of Secretary, Expenditure, inquired into the possibility of reducing the incidental expenses and again recommended Kacha Arhtiya should be abolished. So far, I do not think the Government of India has succeeded in persuading the State Governments to get the system abolished.”

2.15 The Committee wanted to know what action was taken against the Quality Inspectors who some time made deliberate mistakes and in how many cases Quality Inspectors' judgment was challenged by the farmers. The Corporation stated in a written reply that in order to eliminate the chances of committing any deliberate mistakes by the Quality Inspectors, the squads from Regional, Zonal and Head Offices were formed and their surprise visits to the purchase points have yielded very good results. Whenever mistakes are committed due to error of judgment necessary action against the Quality Inspectors is taken such as warning, transfer, issue of charge sheets etc.

2.16 In 186 cases, the Quality Inspectors of Punjab, Haryana and U.P. were found wrong in judgment. In 32 cases the Quality Inspectors were reported to have been caught as a result of surprise visits by the Squads during Rabi/Kharif procurement operations 1980-81 and necessary action was being taken against the delinquent Inspectors.

2.17 Asked whether the Corporation has created an organisation or a machinery to ensure that no farmer was compared to sell his product at a lower price than the price fixed by the Government, the M.D., FCI replied in the negative. He added:

“.....So far as taking care of the interests of the farmers is concerned because of the situation that minimum support price concept has come to replace the original concept of procurement

basis, compulsory levy basis, the farmer himself has to take care of his own interest in a competitive economy. The minimum support price concept does envisage that the farmer will have a more important role to play for himself. The producers' cooperative and the State Governments have a larger role to play in that."

"..... There can be no alternative in my personal opinion, but to have a producer cooperative if you want the farmer to take remunerative price. The question therefore is to have a system at the grass root level that the producers cooperatives are established."

2.18 The witness gave information regarding purchases of wheat and paddy through farmers' cooperatives during the last three years as under:—

	(Million Tonnes)		
	1978-79	1979-80	1980-81
Wheat . . . . .	1.66	2.4	1.4
Paddy . . . . .	0.26	0.14	0.75 (Till Jan., 1981).

2.19 Asked whether it was possible for the FCI to buy more from the Cooperatives, the M.D., FCI stated that if the arhtiya system was abolished and that was directly linked with the cooperatives, it might be possible to buy more. Additional Secretary, (Department of Food) however submitted that the two State Governments of Punjab and Haryana while providing for the functioning of Kacha Arhitya in their market Act, market Committee rules and market Committee regulation, had envisaged certain very legitimate functions to be performed by them. The Kacha Arhtiyas were supposed to clean the grain brought by the farmers. It was the duty of the Kacha Arhtiyas to ensure that, the grain brought by the farmer was properly presented so as to be within the specifications and refractions. They would also provide places where the grains could be kept overnight and make arrangement for the stay of the farmer in the mandies. All these services were, according to the Addl. Secretary of the Ministry, in the interests of both the producers as also the procuring agencies.

2.20 Enquired whether it was compulsory to pay only to the Kacha Arhtias and whether there were any legal restrictions under the existing State law to this effect, Addl. Secretary of Department of Food stated "it is optional. If you strictly interpret the law nothing stops the procurement agency from by-passing the Kacha Arhtiya and getting the grains directly from the producers. This point has to be conceded."

2.21 Asked further whether the Ministry had made any study to see that the producer was not put to any disadvantage, the Secretary, Department of Food stated:

"..... Under the law, if the producer comes direct, then payment has to be made only to the producer. If the producer comes through the Kacha Arhtiya, then under the law payment has to be made to the Kacha Arhtiya and not to the producer.

I am trying to think whether it is possible to amend the rules in such a way that the payment of support price is paid to the

producer even if he comes through the Kacha Arhtiya and Kacha Arhtiya Commission is only paid to the Kacha Arhtiya. That requires amendment of the rules."

2.22 The Addl. Secretary, (Department of Food) stated that in lieu of the services rendered the Kacha Arhtiyas were charging commission from the buyers i.e., procuring agencies.

2.23 The Ministry intimated subsequently that the rate of commission payable to Kacha Arhtiya in Haryana had been as under:—

From	Rate
19-10-1974 . . . . .	1.5% of the procurement price.
17-2-1974 . . . . .	2.0% Do.
8-11-1977 . . . . .	1.5% Do.
28-11-1978 . . . . .	2.0% Do.
(continuing)	

2.24 In Punjab since 1976-77 the commission payable to Kacha Arhtiya had been 1.5% and there had been no change. The Kacha Arhtiyas were not realising any commission or brokerage from the sellers.

2.25 Addl. Secretary, (Department of Food) stated during evidence that the Ministry was taking up the matter with the State Government for reducing the charges or the commission that they had prescribed for the functioning of these Kacha Arhtiyas.

2.26 It is understood that the Export Committee under the Finance Secretary had recommended that the Kacha Arhtiya commission should not be paid by the buyers and if this was not acceptable, then in any case, the commission should not exceed Re. 1/- per qtl. for wheat and 66 paise per quintal for paddy. Asked whether this recommendation has been implemented, the Corporation in a written reply stated that this recommendation had not so far been implemented. It was to be implemented by the Government of India.

2.27 Asked as to what percentage of foodgrains was directly purchased by the FCI and what percentage it secured from the State Governments and other agencies, the M.D. FCI stated :—

".....So far as Punjab and Haryana are concerned...the last two years, FCI had been procuring 25% of the purchases in the minimum support price operations from market while 75% of the purchases are made through the State agencies. Earlier the position was less for the FCI before the minimum support price practice was put into operation...we were shut out from the procurement operation in 1975-76. The Punjab Government did not allow us to procure anything."

2.28 The Committee were informed that in Philippines the millers purchase paddy at a price not lower than the Government support price and act as contractors of the National Grain Authority for milling. The Committee wanted to know whether this arrangement could be adopted in our country. The Corporation stated in a written reply that "these millers act as contractors of the National Grain Authority. The entire paddy procured by them is stored with the Warehouses. Only 61 per cent of the

rice covered is delivered to the authority, the rest remains with the millers. The NGA is also an enforcing authority and is responsible for licensing foodgrain traders and as the authority to inspect of grain business establishments. Food Corporation of India has got no such powers." The corporation added however that in India also the millers act as contractors of the Corporation and the millers are also free to purchase on their own if they so desire. The millers do not make heavy purchases as they have adequate financial resources. To increase, the involvement of millers as in Philippines the FCI has suggested the following measures :

- (i) Financial support be given to the millers for purchase of larger quantity of paddy.
- (ii) Millers be induced to utilise the warehousing facilities available with CWC and other agencies.
- (iii) Statutory obligations be imposed on the millers for milling of FCI paddy as contractors.

2.29 In this connection, the Secretary, Department of Food in evidence said — "wherever they come forward they can be agents. There is no objection to that. This year for example, Cooperative Marketing Federation which owns mills in Madhya Pradesh are procuring paddy from the farmers. They will mill it and hand over rice to the FCI." Asked whether the system was being extended to other States, the witness stated that this was the first time they were doing on a large scale. This year about 2½ lakh tonnes of paddy had been purchased by the Cooperative Marketing Federation owing Mills in Madhya Pradesh."

2.30 Asked whether the Ministry had examined the feasibility of introducing a similar system about Flour Mills in respect of wheat asking them to procure wheat at the support price and then convert it into suji, maida and atta, the Secretary, Food Department stated in reply, "Not at this stage, when we are not so sure about procuring foodgrains."

2.31 The Committee were informed that in Philippines if the farmers deliver their produce to National Grain Authority, the handling institutions can also pay to the farmers in kind viz. production inputs or other foodgrains. Asked whether the Food Corporation had at any time considered paying the farmers for the price support purchase in kind, as in Philippines. The M.D., FCI stated in evidence that that experiment was tried in the beginning of the Corporation and it was not a success.

2.32 The Secretary, Department of Food stated that this would not be a feasible proposition, the reason being that the Purchase Centres and the places where supplies were made, were not always coinciding and they differed from area to area.

2.33 Under Section 28 of the Food Corporation Act, the Food Corporation may lend or advance money to any person engaged in the production of foodgrains upon the security of foodgrains. It is understood that in the U.S.A. for most commodities, loans on the basis of target prices, are made directly to the producers on the unprocessed commodities and if market prices rise above loan levels, producers can pay off their loans and market their commodity. If market prices fail to rise above loan levels, producers can deliver the commodity to the Commodity Credit Corporation and discharge their obligation in full. The Committee enquired whether it



would not serve the interests of the producers if the U.S.A. system was adopted, the M.D. FCI in evidence stated that agricultural credit would not be the responsibility of the FCI and that "in the matter of loans, when it comes to a question of recovery, it becomes difficult."

2.34 Enquired whether the FCI had lent or advanced any money to any person under Section 28 of the FCI Act, the Corporation intimated that Food Corporation of India had extended the facility of advancing loans to cultivators engaged in the production of foodgrains upon the security of foodgrains right in the initial years of its formation i.e. 1964-65 to 1967-68. These advances were made to the farmers as a part of the Pilot Scheme undertaken to popularise high-yielding varieties of paddy in the States of Andhra Pradesh, Tamil Nadu and Karnataka under which the Corporation was to distribute various inputs such as fertilizers, improved seeds, plant protection chemicals apart from such advances. As the response from the cultivators was not encouraging and Corporation also faced difficulties in collection of foodgrains in return for such advances due to various reasons such as crop failure etc., the Corporation had to ultimately discontinue the scheme in 1967-68 itself. No such loaning facilities had been extended to farmers under Section 28 of the Act thereafter.

2.35 Asked further whether it was obligatory on these cooperative societies under the terms of loans that they would purchase the foodgrains only at the support price and not below that, the MD stated :

"the obligation was that they would deliver to us the foodgrains at the support price. We would not know what they would give to the farmers."

2.36 He further stated that it was not possible for a Corporation like FCI to see that the minimum support price reached every farmer in every village. Asked further whether the cooperative societies could be bound for giving the minimum support price when the FCI advanced them the loan, the witness stated that if there was any clause in the agreement, in this regard, he would verify that. The Secretary, Department of Food deposed that "so far as the sale to the Kacha Arhtiya is concerned . . . . . whether the producer gets the amount (support price) or not, that is not known to us . . . . We are not able to say that. The law is standing in the way". In a subsequent note, the FCI intimated that there is a clause in the agreement with the cooperatives that they are bound to pay in cash to every cultivator from whom they purchase wheat for the Corporation at the prices fixed by the Corporation after applying the prescribed cuts if required and also obtain proper receipt from the cultivator in the prescribed form.

2.37 When enquired whether the Department of Food had carried out any survey at any time to assure itself that the producer got the minimum support price meant for him, the witness answered in the negative.

2.38 The M.D., FCI informed that the system of giving loans to the cooperatives had been stopped. In a written reply furnished after evidence, the FCI while explaining the reasons for stopping the system of giving loans to the cooperatives, stated that prior to 1976, FCI had been giving advances to the State procuring agencies/cooperatives for financing the procurement operation under the State Government guarantee with the condition that the unused advances shall be refunded within a specified period. The State Agencies/Co-ops. had not adhered to the said condition resulting into

blockade of huge amounts of the FCI. FCI had been requesting the State agencies/cooperatives for settling the accounts but in vain. As a result of which the State Government guarantees also expired. The State Government were requested to use their good offices for the settlement of accounts. Despite their efforts, certain accounts had not been finalised till date. This had burdened the FCI with the interest on the amounts blocked which the FCI had to pay to the Banks. In certain cases suits had also been filed against the co-ops. and State agencies. In view of the difficulty faced by the FCI in having the unused advances refunded, FCI in 1976 decided to stop financing the procuring agencies/cooperatives who were procuring independently.

2.39 The Committee asked whether the Government had thought of linking loans with the support purchase operations of the FCI in consultation with the agricultural credit institutions so that when a producer was unable to sell his foodgrains at the minimum support price after holding for a time, the FCI could procure. The Secretary, Department of Food, in evidence stated :

"This has not been conceived as yet as a plausible policy. In fact, I think, Hon. Members are aware that even in USA this sort of system has been started only very recently and my fear is that if this is done, the foodgrains which are lying with the producer, will not be handed them over to the Central Pool later on. He may say "I shall not hand them over". In fact, that is the experience in USA so far and the main point here is that while the farmer should be encouraged to produce more, at the same time the Central Pool must have adequate stocks. The danger is, if you keep it with the farmer or keep it for a few months, you may get back your money or may not get back the money, but the fact remains that the crop will not be in the stocks of the Central Pool."

2.40 As stated earlier there is no uniform purchase policy or programme in the various States. The Committee regret to hear from the Managing Director, FCI that no initiative was taken by the Corporation to bring about uniformity. In some States the Corporation is the sole purchasing agency, in some it acts through State agencies and in some it acts along with others while in some other States it does not make any purchase at all. The procurement policies and arrangements not only differ from State to State but in each State these also differ from time to time. On account of the fluctuations and uncertainties the Corporation is evidently not in a position to plan ahead and make suitable administrative arrangements for its operations, which have now become enlarged. If only the State Food Corporations/Boards of Management were formed as contemplated in the Food Corporations Act, this difficulty would not have been encountered.

2.41 The annual purchase of wheat, rice and coarse grains by the FCI were between 81 lakh tonnes and 115 lakh tonnes during the period 1975-80 and it was between 8 to 12 per cent of the total production. The Corporation was not aware of the extent of the marketable surplus during these years. However, according to the Secretary, Department of Food, the arrivals in the market were 31 per cent of production for wheat and 27 per cent for rice in 1976-77. Relying on this statistics he claimed that excluding coarse grains the purchase of which was not significant, more than half of the marketable surplus of wheat and rice was purchased. The Com-

mittee suggest that there should be a scientific system of ascertaining the surplus and the data should be fairly up to date. A comparison of the purchases with the marketable surplus should be given in the Annual Reports of the FCI. It is necessary for the Corporation to have a decisive intervention in the trading of foodgrains, by stepping up the level of purchase.

2.42 The quantum of the purchase does not impress the Committee. Although the whole of the wheat and a large part of rice procured was under the price support operation, regrettably, the direct purchases from the producer were negligible. The purchases through farmers' cooperatives during the last three years was less than 30 per cent of the total purchases in the case of wheat, whereas it was negligibly small in the case of paddy. During the current year there has been some improvement inasmuch as 7.5 lakh tonnes of paddy was procured from farmers' cooperatives. The Committee need hardly point out that greater efforts are needed to go in for more of direct procurement from the producer or from producer cooperatives rather than through intermediaries so that the benefit could reach the producer fully.

2.43 The Committee are anxious to see that the producer actually gets the minimum support price for his produce. They regret that no survey has been conducted to ascertain how far the primary producer got the benefit of the operations of the FCI. When the purchases are made from the intermediaries it was not ensured that the producer got the price fixed. For instance, in Punjab or Haryana no purchase is made directly by the FCI. The purchases are made through 'katcha artiyas'. The Committee have been informed that the question of abolishing the intermediaries had been taken up by the Central Government from time to time and lately by the Minister of Agriculture himself. However, the Committee note the view expressed before them that it was not legally compulsory for the FCI to procure through the artiyas in Punjab or Haryana. In any case the Committee desire that it should be ensured by the FCI that the payment for the value at the prescribed rate is made to the producer by the artiyas whenever purchases are made through the artiyas.

2.44 Safeguarding the interests of the producer being one of the important obligations of the FCI, especially in the changed context of enhanced agricultural production, the Committee feel that the Corporation should not confine itself to purchase, storage and distribution of foodgrains. The Committee understand that the USA loans on the basis of target price are made directly to the producer on the unprocessed commodity and that if the market price failed to rise above the loan level, the producer could deliver the commodity to the Commodity Credit Corporation discharging their obligation in full. The Committee note that the experience of the FCI in regard to loans advanced in the past on the security of foodgrains without linking it to the price support was not encouraging. The Secretary, Department of Food, expressed his apprehension about quantum of procurement for the Central pool being kept up if the USA practice was adopted. Nevertheless the Committee desire that a beginning should be made at least in the case of small and marginal farmers in concert with the agricultural credit institutions. This will go a long way in obviating distress sales and giving the much needed holding power for the weaker section of the producer. It should not be too difficult to ensure that procurement is made up to the minimum level required, both for buffer and operational stocks.

2.45 At present millers are engaged as contractors for milling the paddy procured by the FCI. In order to avoid double handling the Committee suggest that gradually there could be a tie-up with the millers in the co-operative or public sector in the matter of procurement under price support operation, as in Philippines where the millers are stated to purchase paddy at a price not lower than the Government support price and act as contractors of the National Grain Authority for milling. The Committee desire that instead of waiting for the millers to come forward, the FCI should take the initiative in this regard. Taking into account the incidental expenses the percentage of paddy to be delivered as rice could be fixed and the price paid on the basis of the support price for paddy.

## CHAPTER III DISTRIBUTION

### (A) Nature of operations

3.1 The Corporation arranges issue of foodgrains for the Public Distribution System to the State Governments, Union territories and other agencies on the basis of allocation made by the Govt. of India. In certain States, the Corporation acts as the wholesale agent of the State Governments and procures and sells the stocks and/or issues the stocks allotted from the central pool. It also issues wheat to the Roller Flour Mills as per the allocation advised to it by the Govt. of India. In addition, the Corporation supplies grains to the State Governments for certain special schemes such as 'Food for Work', Generation of additional employment opportunities' in the rural areas and 'Flood and cyclone relief' etc. as per directives of the Govt. of India from time to time.

### (B) Issue to Public Distribution System

3.2 As stated in the Annual Report of the Corporation for the years 1978-79 & 1979-80, while the total purchases made by the Corporation during the year 1978-79 aggregated Rs. 2200 crores as against Rs. 1900 crores in 1977-78 the sales had come down from Rs. 2190 crores in 1977-78 to Rs. 1988 crores in 1978-79. The reduction in sale was attributed lower off-take of foodgrains from the public distribution system during 1978-79.

3.3 Asked about the reasons for lower off-take of foodgrains from public distribution system during 1978-79 and its impact on the FCI, the corporation in a written reply stated :

- (i) The total production of foodgrains in 1977-78 went up significantly to the level of 125.6 million tonnes from 111.5 million tonnes in 1976-77.
- (ii) Index Number of wholesale prices of wheat, rice and cereal group of foodgrains went down during 1978-79 as compared to 1977-78, as in shown below:—

Commodity	(Base 1970-71=100)	
	Year	
	1977-78	1978-79
Cereals . . . . .	161.2	157.4
Wheat . . . . .	156.5	153.9
Rice . . . . .	162.0	160.4

3.4 As regards its impact on the FCI, the Corporation stated that, "the fluctuation in stock-position and off-take of foodgrains from the Central Pool is an usual phenomenon and depends largely on production availability and prices of foodgrains. In view of the decline in Index Numbers of wholesale prices of wheat and rice, all-round better availability,

removal of inter-state movement restrictions, the off-take was lower although sufficient allotments were made to all the States. If the off-take of foodgrains for Public Distribution System during 1978-79 had been maintained at the level of 1977-78, the average stock holding would have come down by about 1.14 lakhs tonnes. Although by holding of large quantities of foodgrain stocks, the FCI has to incur carrying over charges, storage charges, interest charges etc., yet on the other hand, the huge stock with the Corporation have given moral strength to the nation in the time of severe drought conditions".

3.5 Asked whether there was any complaint regarding the delay in supply for the public distribution system from any State Government, the M.D., FCI stated "That goes to the Central Government and not to us. We are not aware of the complaint. We did not have any complaint before the drought of August, 1979. But after the drought started, suddenly demand picked up in the interior. It was (in the) tribal belt-Bihar, Orissa, M.P. where the means of communications are very limited. Therefore, there was difficulty in reaching there and meeting their demand. By and large there have been on complaints".

3.6 The Corporation stated that sometimes it has to keep foodgrains in its storage for as long as 3 to 4 years or even longer. Asked as to what were the reasons for storage of foodgrains for long period and was there no system of releasing stocks for distribution first in first out basis. The Corporation subsequently stated in a written reply that "the general principle for the release of foodgrains by the FCI for distribution is on the basis of the age as well as categorisation of the stocks. However, during the past few years there had been bumper harvests with the result that the Food Corporation of India had to store large quantities much in excess of its storage capacity. Due to the abundant availability of foodgrains in the open market, the off-take of the foodgrains from storage depots for public distribution system had gone down". The Corporation further stated that "though normally efforts are made to issue stocks of foodgrains on the 'first in first out' principle, at times because of operational constraints and condition of stocks, it becomes necessary to deviate from this. In the case of imported, wheat, there are movement problems to the places where the Roller Flour Mills are situated. The principle first in first out in issuing grains is relevant only for ensuring that the stocks which have been in storage for long are issued in the first instance to avoid further deterioration/damage. The age of the stocks may not always determine rate of deterioration (although it will be the most important factor). The priority for the issue/liquidation of the stocks has therefore, to be in respect of the lower category of stocks which are particularly stored in sub-standard godowns as also in the open storages although this may not strictly coincide with the stocks. Since the imported wheat was stored in bins/covered godowns and the condition of stocks was of A & B category, these stocks remained in storage for longer period".

3.7. According to the Annual Report of the Corporation for the year 1978-79, confirmation of stock/stored loaned to/held by the other parties could not be obtained in certain cases as these were under reconciliation. Some of these stocks lying with the third parties were under dispute. The Committee enquired as to how much of the stock under the central operations were held by the third parties and how much of it was under

dispute. A representative of FCI stated in evidence that "this relates mainly to the stocks given by the FCI to the millers for paddy milling. When we give rice or paddy for milling purposes to the millers, a particular out turn is fixed and a particular milling rate is fixed. If 100 tonnes of paddy are given to them, they are expected to give seventy tonnes of rice. If they fail to deliver this, then that becomes a dispute. Several cases are in the court and are under arbitration". The witness added, the total value of stocks held/loaned to the third parties as on 31-3-80 was of the order of Rs. 312.81 lakhs and the value of stocks which had been disputed was Rs.14 lakhs.

### (C) Supplies to Flour Mills

3.8 The Roller Flour Mills in all the States are given separate allotments of wheat from the Central Pool. The FCI directly supplied the allotted quantities of wheat from its depots to the roller flour mills.

In reply of a question a representative of FCI gave the following details about the total quantities of wheat issued by the FCI to the Wheat Flour Mills all over the country :—

Calender year	Total wheat off-take	Off-take to the Roller Flour Mills.
1977 . . . . .	59.77 lakh tonnes	27.46 lakh tonnes (balance 32 lakh tonnes taken by Fair Price Shops).
1978 . . . . .	64.35 lakh tonnes	33.06 lakh tonnes.
1979 . . . . .	71.8 lakh tonnes	29.8 lakh tonnes
1980 . . . . .	86.4 lakh tonnes	36.3 lakh tonnes
(it varied between 45 to 50 per cent)		

3.9 Asked as to what were the restrictions imposed by the FCI on the sale of end products namely maida, Suji etc., the M.D., stated "The FCI does not have any control over the distribution of end-products. The licensing of the roller flour mills is done under the Roller Flour Mills Control Order which is administered by the State Governments on behalf of the Central Government."

3.10 In a written reply after evidence the Corporation informed that restrictions were imposed by the State Governments with regard to pricing and distribution of end products of Roller Flour Mills. However, such restrictions were withdrawn in November, 1976 by the Department of Food. Due to rising trend of prices in September, 1979, restrictions were imposed again by the Department of Food on 12th September, 1979. The State Governments were asked to fix the Ex-Mill prices of Maize, Suji, resultant atta and Bran. Later on, restrictions on resultant atta and Bran were taken out. Whole-meal atta was not brought under this Price Control Scheme. The distribution of these products was done by the State Governments. However, the State Governments of Punjab and Haryana did not fix the prices of these products because the market prices prevailing in the States were lower than the prices fixed at that time.

3.11 Asked whether any restriction was exercised by the Government on the flour mills on the selling price, the Corporation in a written reply

stated that "the Central Government exercises the restriction on the sale prices of end products fixed by the State Governments, as these prices are approved by the Central Government".

3.12 Asked whether there was any restriction on the total off-take by the flour mills, the M.D., FCI stated in evidence:

"The Govt. of India lays down how much allotment should be made to the flour mills. They are allowed to lift only as per the allotment made by the Govt. of India."

He added:

"The Government of India have rationalised the allotment policy considerably now. Before that, the allotment was made in relation to the capacity of the flour mill. But because of the easier availability of wheat in the market, many of them did not lift from the FCI. It was found that roughly about 50 per cent of the capacity was being lifted. When they rationalised the system, about six months ago, the average off take in the last three years was taken into account and that was fixed as the quota they could lift. Now the quota is being allotted on State-wise basis."

3.13 As regards the flour mills not lifting more than 50% because they could get wheat cheaper in the market, the Committee asked about the reasons for this. The M.D., FCI stated "We do not investigate it. The Government of India does the investigation. Availability of the market plus the capacity being in excess of the demand. These are the two reasons."

3.14 Asked whether the Roller Flour Mills could buy from the market instead of lifting the stock from the FCI, the F.D. stated that the flour mills were not allowed to buy from the open market. Only in 1979, they were allowed to buy for two months requirements from the markets directly. There was legal restriction by the Central Government. After 1979, they were not permitted.

3.15 In a note furnished after evidence the Corporation stated that Roller Flour Mills were allowed to purchase wheat in the open market for the period from 19-6-1971 to 31-3-1975 except in 1973, when the permission was withdrawn for some period. Permission was again given to the purchase of wheat to Roller Flour Mills from the open market from 1-4-1979 to 31-7-1979.

3.17 The Committee wanted to know whether there was any Government machinery to enforce the restriction that the flour mills should not buy from the open market, the M.D., FCI stated during evidence: "I do not think there was any".

3.17 Asked further whether it was possible for the FCI to include a condition that if the Flour Mills wanted to buy from FCI, they must buy for all the years and for the requirements from the FCI only and not go to the open market, the M.D. stated in reply, "I will have to think it over".



3.18 To question as to how was it ensured that these flour mills only worked on the wheat allotted by the FCI and had no other sources of getting wheat supply, the witness stated, "we have no mechanism". Asked further whether there was any other mechanism, he stated, "The State Administration through their Inspectors go and check it. There is a State Government Administration which is administering the order."

3.19 The Committee pointed out that the flour mills were getting wheat from Food Corporation at a subsidised price. Subsidy was given by Government on that. If there was no control at all on the end products, the subsidy benefit would go to the flour mills and not to the consumer for whom it was meant. They wanted to know whether the Corporation had ensured that the subsidy benefit instead of being retained by the flour mills, went to the consumer. The M.D., FCI in reply stated, "We have not done that, Sir."

3.20 The Ministry informed that complaints had been received from the roller flour mills regarding sub-standard supply by FCI. However, suitable sampling procedures had been devised and suggested. Asked as to what was the sampling procedure devised and whether the Roller Flour Mills were satisfied with the procedure devised, the Corporation intimated that the sampling procedure regarding the joint sampling by the representatives of FCI and Roller Flour Mills in case of dispute was devised by the Ministry during 1979. The Corporation further stated that the roller flour mills are satisfied with the procedure devised and no complaints regarding this procedure have been received subsequently.

#### (D) Buffer Stock

3.21 The Corporation stated in a written reply that to meet the situation arising out of the crop failure and to maintain the distribution commitments, the Government of India asked the Corporation to maintain buffer stock in addition to the operational stocks required for the normal running of the public distribution system.

3.22 The extent of buffer and operational stock held by the FCI at the end of the last three years is as under :—

Year	(lakh tonnes)	
	Buffer Stocks	Operational Stocks
1977-78	96·11	36·74
1978-79	110·86	32·88
1979-80	77·24	43·75

3.23 The Corporation stated that in recent years no targets of procurement have been fixed by the Central Government. The Committee wanted to know as to how in that event the level of procurement for public distribution system and buffer stocking was determined by the FCI. The M.D., FCI in evidence stated:

"... till 1975-76, targets were fixed by Govt. of India for the purpose of procurement. But after that, the production went up substantially in the country. We switched over to the minimum support approach. So, for the procurement, the question

of fixing the targets did not have the same meaning as stated to be in certain years . . . We worked out an indicative figure of availability of grain for the rabi season and organised operations for the purpose of procurement of grains accordingly. So, to that extent it is correct to say that no targets were fixed as such, so to say . . . . .”.

3.24 Asked whether the reasonableness of the level of stocks had been assessed at any time with reference to the actual needs, the Corporation stated in a written reply that level of stocks with reference to actual needs has continuously assessed by the Corporation as well as by the Department of Food. The quantum of foodgrains and their composition in terms of wheat and rice was also adjusted depending upon the stock level of various foodgrains. As regards size of buffer stocks, it was also assessed from time to time by the Government keeping in view the fluctuations in production and requirements of foodgrains. Initially the Government based on the estimates of production consumption and considering the constrains of finance, storage, turnover etc., decided that in the 4th Plan period buffer stock of 5 million tonnes of cereals would be created. Subsequently however with the successive increase in the production and continuing improvement in the stock, it was decided to increase the targets from 5 to 7 million tonnes. This level of buffer stock was again raised to 12 million tonnes in 1976. At that time it was decided that in addition to buffer stocks, operational stocks would be as under:—

As on	Million tonnes
First April . . . . .	3.5 to 3.8
First July . . . . .	8.2 to 8.8
First October . . . . .	5.5 to 6.0
First January . . . . .	4.8 to 5.5

This level of buffer stock has again now been raised to 15 million tonnes for the 6th Plan period.”

3.25 The M.D., FCI informed the Committee that the Corporation was also taking up the export of rice at the present moment for earning foreign exchange. The Committee asked whether the FCI had ever thought of selling the extra buffer in the home market rather than exporting it outside, the M.D., FCI stated. “So long as the rationing system is there, the open market sale of grain will only mean that our grain is going to some trader. Therefore, if the trader buys it, there is no control on it. In a situation where the market prices are higher than the issue price which is laid down by the Government of India open sales are not going to achieve any desired end. On the other hand, there is a demand to give more to the public distribution system.”

3.26 Asked whether the Corporation had worked out the economics of holding excessive stock *vis-a-vis* issuing the foodgrains at slightly lower price, the M.D., FCI stated, “we were not holding excessive stock earlier”. A representative of FCI added, “This position arose in 1976 when we had imports and large indigenous procurement. The stock level was very high and we had problem of storing. This problem was brought to the notice

of the Government. We had to study the economics of holding these large stocks vis-a-vis issuing them at slightly lower price and as a result of that study the Government felt that the issue price from the public distribution system and also the roller flour mills should be the same.

#### (E) Internal Distribution

3.27 In addition to handling the foodgrains on behalf of the Government of India, the FCI has also been undertaking issue of Central Pool stocks to the Fair Price Shops as wholesale selling agent of the State Government in the States of West Bengal, Andhra Pradesh, Madhya Pradesh, Rajasthan and Kerala. (In West Bengal the Corporation is also undertaking procurement on behalf of the State Government.)

3.28 The supply of foodgrains direct to Fair Price shops is also being done by the FCI in Delhi and in some selected cities of U.P.—Kanpur, Allahabad, Varanasi, Bareilly, Meerut and Agra. The Corporation is charging certain incidentals towards the extra expenses incurred by it in connection with handling of foodgrains for this work in all the States except in Delhi and U.P. In case of U.P. and Delhi, stocks are issued as per Central issue price only without charging any extra incidentals.

3.29 In evidence, the M.D., FCI state *inter alia* “we have now impressed upon the State Governments that they should take over the responsibility of distribution themselves”.

3.30 Asked further whether it was obligatory on the part of FCI to perform this service, the M.D. stated:—

“It is ancillary. So far as West Bengal Government is concerned in 1966, they entered into an agreement with the FCI for handling the procurement-cum-distribution work through the FCI. We had served a notice on the West Bengal Government in 1977 saying that we would like to terminate the contract because of the change in the pattern because every State Government has been adopting the creation of the Civil Supply Corporation. We said, connected with the patterns existing in other States, the West Bengal Government should do the distribution work themselves. The position in Rajasthan is that we allow the shopkeepers to come and draw grains from us. In West Bengal, and other areas where we distribute foodgrains, it is transported by the FCI. In U.P. in the Kaval cities Bareilly and Meerut also we distribute but elsewhere the State Government formally lifts from our godowns but delivery is taken by the shopkeepers coming with them. This has been going on for a long time. We are doing the distribution work also in Madhya Pradesh. In Andhra Pradesh also we were doing but we have been recovering the costs of our operations in all these States. In the distribution work no losses are incurred by the Corporation, excepting that in Delhi where we don't recover our costs”.

3.31 In reply to a question as to what was the FCI charging for issuing foodgrains to a fair price shop dealer for example in Rajasthan. The M.D., FCI stated:—

“For example the central issue price is Rs. 130/- another Rs. 2/- is added in respect of the extra charges incurred by the Corporation.

Then in the price of Rs. 132/- administrative charges of the State Govt. are added before the grain is taken by the retailer. The retailers add their own margins before releasing the grain to the consumer."

3.32 Asked further as to what extent entrustment of such functions to the FCI had detracted from its primary duty. The M.D., FCI stated:—

"So far as the State Operations are concerned... except for West Bengal, we have not set up a separate establishment for discharging the functions. In other places, we have not sanctioned separate staff for the purpose of this work. But, I must not say it is wholly correct because in Madhya Pradesh and at a few other places, we have opened small Depots. It is covered by the cost that we are incurring under the charge of the State Govt. To some small extent it may be detracting from the functions of the Corporation but not as a whole financially. But also it is not our main function. The Board of Directors of the Corporation is anxious to hand over the distribution work to the State Government and see to it that they concentrate on the procurement, development storage, preservation and All-India policy coordination rather than on the local supplying network which at present under the public distribution system is very much the responsibility of the State Government."

3.33 During examination of the Ministry, the Committee desired to know as to what was the assessment of the Government in regard to the need for the FCI to undertake responsibilities on behalf of the State Governments and engage in any commercial operations. The Secretary, Department of Food stated:

"We won't take a rigid view of the matter. It depends on the situation obtaining from time to time. In the past the FCI had taken up the work on behalf of the State Governments in many places. The idea at that time was firstly that some staff of the FCI could be more fully utilised; secondly many of the State Governments were not still ready with their organisations etc. to undertake this work. Many of them are not in the stage of development to take up the work of procurement or distribution. Therefore as and when some of the States started becoming more and more developed, they have started doing the work on their own..... So, the State had to be helped in the earlier stages on the concept of State trading in foodgrains and the FCI staff had to be fully utilised. The FCI had taken to this work".

3.34 In their 12th Report (1971-72), the Committee on Public Undertakings observed that the Food Corporation should not be saddled with duties and responsibilities of internal distribution which should appropriately be discharged by the State authorities who had detailed knowledge and experience of local requirement. The Committee pointed out that in spite of the above recommendation, FCI was still being saddled with the responsibility of internal distribution. The Secretary, Department of Food stated:—

"I do not know what evidence was given at our meeting there. At that time the FCI was making some little profit out of the

transactions. It was marginal. The FCI was helping the states. Why should that profit be lost. . . . . States like Madhya Pradesh, Rajasthan, Andhra Pradesh etc. wanted it."

3.35 The Committee observed that if the FCI was making a profit on internal distribution, why not the entire distribution system including issue to the ration shops be taken over by them. The Secretary, Department of Food stated:

"I do not agree that the FCI should go in for this activity of internal distribution. . . . The FCI should not be allowed to chew more than it can digest. Otherwise, it would become too much work for the FCI. If they are asked to extend their operations further and further in the interior areas that will lead to the cost element further going up."

3.36 Asked as to what were the economics of rendering extra services, the Department of Food in a written reply after evidence stated inter alia:

"The stocks distributed by the FCI as the agent of the State Governments are issued at the Ex. FCI godown issue prices fixed by the State Governments concerned. In the case of Central stocks, the issue price fixed by the State Governments takes into account the margins allowed to the Corporation as the wholesale selling agents towards the extra cost incurred by it. The margins/incidentals allowed to the Corporation vary from the State to State and depend on the extra services rendered in each State".

(F) **Issue and Retail prices**

3.37 The present central issue prices of foodgrains have been stated as under:—

	(Rs./Quintal)	
	Upto 31-12-1980	From 1-1-1981
<i>Rice</i>		
Common	150-00*	165-00
Fine	162-00*	177-00
Superfine	172-00*	192-00
<i>Wheat</i>	130-00	130-00
<i>Coarsegrain</i>		
Jowar	96-00	106-00
Bajra		
Maize & Ragi		
<i>Milo</i>	70-00	70-00

3.38 The Corporation informed in subsequent note that the issue price of wheat for public distribution has been revised to Rs. 145/- per qtl. and for Roller Flour Mills for production of wheat products at Rs. 155/- per qtl. with effect from 1.4.1981.

\*Rs. 2/- extra per quintal for parboiled rice.

3.39 The M.D., FCI stated in evidence before the Committee that there was difference between the Central issue price and the State Govt. retail price which varied from State to State. He gave the details of such difference as under:

State		Difference between FCI Issue price and State Retail price.
<i>WHEAT</i>		
Orissa . . . . .		Rs. 19/- (extra)
Gujarat . . . . .		Rs. 5/- (extra)
Rajasthan . . . . .		Rs. 11/- (extra)
Andhra Pradesh . . . . .		Rs. 13/- (extra)
West Bengal . . . . .		Rs. 15/- (extra)
Punjab . . . . .		Rs. 6.50 (extra)
<i>RICE</i>		
Orissa . . . . .	Common variety	Rs. 28/- (extra)
	Fine variety	Rs. 31/- (extra)
	Superfine	Rs. 31/- (extra)
Gujarat . . . . .	Common variety	Rs. 20/- (extra)
Andhra Pradesh . . . . .	Common variety	Rs. 21/- (extra)
	Fine variety	Rs. 21/- (extra)
	Superfine	Rs. 22/- (extra)
W. Bengal . . . . .	Common variety	Rs. 19/- (extra)
	Fine variety	Rs. 19.39 (extra)
	Superfine	Rs. 19.76 (extra)
Punjab . . . . .	Superfine variety	Rs. 10/- (extra)
U.P. . . . .	Common variety	Rs. 15/- (extra)

3.40 A representative of FCI informed that the difference between FCI issue price and State Government Retail price was represented by transportation charges, State administration charges etc. and the margin charged by the FCI was Rs. 2/-. The Committee desired to know whether the FCI could exercise any control on the margin which the State Government kept between the issue price and the retail price, the M.D., FCI replied in negative. Asked whether under the present arrangement it could be said that the interests of the consumers were protected a representative of the Ministry stated in evidence:

“The pattern and quantum of the distribution costs varied widely from State to State. In 1977 the Government—the Department of Food—tried to see whether some kind of homogeneity if no uniformity could be brought about in the pattern and the quantum of the distribution costs, which the State Governments have been levying for undertakings the supply to the consumer. They set up a Committee under the Chairmanship of the Food Secretary which consisted of not only our departmental people but also representatives from two surplus States and two deficit States. That Committee went into the entire matter and they

came to the conclusion that for both wheat and rice the State Governments should limit their distribution cost to a figure of Rs. 10/- per quintal. This was suggested as the maximum that the State Government should levy. The Committee's recommendation as also the rationale behind this recommendation had been forwarded to all the State Governments and the Union Territories. Then we began receiving the feed back reports from them, each State Government began justifying the charges levied by them for one reason or another. . . . We again wrote to all the State Ministers of Agriculture in the latter part of 1977 suggesting that in the interests of the consumers there should not be such a wide varying pattern, especially when the Central Government have fixed a uniform price for the entire country and this point was emphasised in very clear cut and explicit language to all the State Governments. There the matter lies. We can take advantage of the proceedings of the Committee today to reiterate the point that there should not be a widely varying pattern in computing their distribution costs by the State Governments".

3.41 Asked whether the FCI or the Food Ministry had any control in fixing the final price for the retailer after the release of the issue stocks, a representative of Department of Food stated that they had no control in legal sense.

3.42 The Ministry informed in a note that consumers complaints regarding sub-standard supplies through Fair Price Shops had been examined and spot instruction were given for rectifying the discrepancies. Asked about the action taken by the FCI where it was found on inspection that the foodgrains supplied were actually sub-standard the Corporation stated in a written reply that the Fair Price Shops were under the administrative control of the State Governments concerned. Consumers complaints regarding substandard supply through Fair Price Shops were examined by the appropriate department of the State Government for suitable action.

3.43 Till 1975-76 targets were fixed by Government for the purpose of procurement under compulsory levy. After switching over to minimum support approach consequent on enhanced production and availability of foodgrains targets became irrelevant. The Committee presume that the FCI is committed to purchasing all the grains offered at the minimum price fixed. The purchase arrangements thus need a change if the producer is to be assured of minimum price. The buffer stocks to be maintained by the Corporation also demand suitable storage capacity and scientific preservation techniques being employed. The Committee trust that the FCI would measure up to the new challenges.

3.44 The annual level of buffer and operational stocks varied from 77.24 lakh tonnes to 110.80 lakh tonnes and from 32.88 lakh tonnes to 43.25 lakh tonnes respectively during the years 1977-80. The Corporation mainly arranges issue of foodgrains for the Public Distribution System and of wheat to the Roller Flour Mills as per allocations made by the Government. The Committee note that sometimes stocks are held for 4 years and even longer. In view of heavy carrying cost of stocks, the Committee suggest that where the buffer stocks are held beyond a reasonable level the excess could be disposed of by sale in the open market or the issue price for

the Public Distribution System slightly lowered so that offtake can be more. Having regard to all relevant factors the level of buffer stocks should be carefully determined from time to time. The economics of holding excessive stock vis-a-vis the course suggested by the Committee should be worked out and suitable action taken on that basis from time to time.

3.45 At present internal distribution of foodgrains issued from the Central Pool is regarded as the responsibility of the States. The FCI, however, undertakes distribution as wholesale selling agents in West Bengal, Andhra Pradesh, Madhya Pradesh, Rajasthan and Kerala. In certain places, the Corporation undertakes retail distribution to the fair price shops also. The Committee feel that in view of the commitment of the FCI to serve the interests of the consumer it could undertake the distribution function fully if only there could be a network of State Food Corporations/ State Boards of Management as contemplated by the Act. Till such a network is developed, it is prudent for the Corporation to confine itself to the procurement for the Central Pool and issue to the States leaving it to them to organise the distribution.

3.46 The Committee are distressed to note that in some States the retail price fixed by the States for the ultimate sale of foodgrains to the consumer from the Public Distribution System is much higher than the price at which the grains are issued from the Central Pool to the States. The difference was as high as Rs. 19 in Orissa, Rs. 15 in West Bengal, Rs. 13 in Andhra Pradesh and Rs. 11 in Rajasthan per quintal of wheat and Rs. 28 in Orissa, Rs. 20 in Gujarat, Rs. 19 in West Bengal and Rs. 15 in U.P. per quintal of rice. In some States the retail price seems closer to the open market price allowing for the quality variations. The Committee have been informed that neither the FCI nor the Central Government has control over the retail price fixed by the States. The attempts of the Government to bring about certain homogeneity if not uniformity and to peg the margin between the issue price and the retail price down to Rs. 10 seem to have failed. Thus, although the procurement price and issue price of Central Pool are uniform there is wide disparity in the final retail price that the consumer pays. It cannot, therefore, be claimed that the operation of the FCI fully serves the interests of the consumer. It is very unfortunate that the consumer subsidy of the order of Rs. 300 crores and the buffer stock carrying cost of about Rs. 260 crores paid annually from the Central Exchequer did not achieve the purpose. The Committee strongly feel that the whole sale and retail margin should be the minimum possible. The States should be persuaded to ensure this.

3.47 The Roller Flour Mills in all the States are given separate allotments of wheat from the Central Pool stock held by the FCI. The annual offtake by the mills ranged from 27 lakh tonnes to 36 lakh tonnes during the period 1977-80. This worked out to about 40 to 50 per cent of the total issues of wheat from the Central Pool. Despite such substantial issues to the mills, it is surprising that the FCI or the Central Government does not have much of a control on the pricing and distribution of the end products of the mills viz. maida, suji and atta. It should be noted that wheat is issued at a subsidised price and the Central Government bears the subsidy. It is common knowledge that the benefit of the subsidy goes largely to the mills rather than to the consumer for whom it is meant. The Committee would, therefore, suggest a critical study of the position to take



**suitable action to ensure that the consumer actually derives the benefit. Further, it should be made a rule that if the mills wanted to buy from the FCI, they must buy for all their requirements from the Corporation only so that no alibi could be given for charging higher prices for the end products and rigid control could be exercised on their distribution and price. Such a control is necessary in the prevailing situation. The Committee welcome the recent decision of the Government to charge Rs. 10 more to the Flour Mills for the supply of wheat to them. If it is not possible to have a strict check on distribution and price of end products, the mills should be charged economic price for wheat supplies.**

## CHAPTER IV

### STORAGE

#### (A) Storage Capacity

4.1 As on 31 March, 1980 the Food Corporation of India was having an owned storage capacity of about 7.59 million tonnes (covered) and 1.29 million tonnes (CAP), total about 8.88 million tonnes. Besides its own godowns, the Corporation is also making use of the storage capacities hired from other public sector agencies viz. CWC, SWC, State Governments and the private parties. The total covered storage capacity, owned and hired, increased from 92.06 lakh tonnes to 161.81 lakh tonnes from 1975-76 to 1979-80. In addition open storage space capacity, owned and hired, increased from 19.92 lakh tonnes to 67.48 lakh tonnes.

The break up for the year 1979-80 is as follows :—

(In lakh tonnes)

#### *Covered Accommodation*

Owned by FCI . . . . .	75.87
<i>Hired :</i>	
State Government . . . . .	7.81
CWC . . . . .	9.80
SWC . . . . .	10.09
Others . . . . .	58.24
<b>Total . . . . .</b>	<b>161.81</b>

#### *CAP*

Owned . . . . .	12.88
Hired . . . . .	54.60
<b>G. Total . . . . .</b>	<b>229.29</b>

4.2 The Corporation stated in a note that with the increased production and procurement, acute shortage of space had been experienced in the recent years especially in some of the surplus State like Punjab, Haryana, Andhra Pradesh etc. with the result that the Corporation had to resort to storage of foodgrains in open under CAP, both owned and hired.

4.3 The maximum stock held by the Corporation during each of the last five years was stated to be as under :—

(lakh tonnes)

Year	Total wheat	Total rice (including paddy in rice terms)	Total
1975-76 . . . . .	57.04	36.10	93.14
1976-77 . . . . .	97.74	55.81	153.55
1977-78 . . . . .	74.89	60.51	135.40
1978-79 . . . . .	53.50	91.68	145.18
1979-80 . . . . .	39.51	81.91	121.42

4.4 The Committee pointed out that the total storage capacity of 299.28 lakh tonnes (covered and CAP) owned and hired in 1979-80 was more than the total purchases and the stock at the end of the year. This *prima facie* indicated that the storage space was more than adequate. They enquired whether there was imbalance in the availability of storage space and if so, how the FCI proposed to correct this imbalance. The Corporation stated in a written reply that the imbalance in the utilisation of the storage capacity constructed/acquired had been due to :

- (i) Unpredictable drought conditions in most parts of the country during 1979-80 coupled with the enhanced issued for "Food for Work Programme".
- (ii) Inability of the railways to move the foodgrains from Punjab, Haryana, U.P. and Rajasthan to the desired extent and to the centres in need of grains.
- (iii) Increased off-take on account of Public Distribution System leading to appreciable reduction in the over all stock level of foodgrains.

4.5 On the other hand it is stated the Corporation had inadequate available storage space particularly in the producing States of Punjab, Haryana, Rajasthan, Andhra Pradesh. In the coastal areas/ports where large storage capacity had been constructed due to continued imports, over the years the capacity became surplus to some extent due to complete stoppage of imports.

4.6 The FCI has stated that in order to rectify the imbalance it proposed to streamline the utilisation of the available storage capacity by increasing the movement ex-North to the deficit states like East Zone so that the utilisation of covered spaces could be improved. Efforts were also being made to debire private capacity to the extent possible.

**(B) Utilisation of capacity**

4.7 The utilisation of the storage capacity at the end of each year during the last five years was as follows :—

Year	Percentages
1975-76 . . . . .	85
1976-77 . . . . .	87
1977-78 . . . . .	67
1978-79 . . . . .	76 (Peak utilisation 81%)
1979-80 . . . . .	70.4

4.8 The Department of Food stated in a note that the utilisation of storage capacity, both owned and hired, depended to a great extent on the procurement and distribution policy of the Government of India and the State Governments availability of the infra-structure like transport, labour etc., and the necessity of keeping stocks in over two thousand centres spread all over the country. The Corporation had to maintain adequate covered storage capacity in various places not only for catering to the public distribution system but also for maintaining buffer stocks. The Corporation had to plan in advance storage capacity for procurement operations taking into account the peak arrivals. Owing to fluctuations in the actual procurement the entire storage capacity may not be utilised. In view of these reasons, unlike in production enterprises, the capacity utilisation of the storage godowns could not be at optimum levels at all times.

4.9 Asked about the steps taken by the FCI to improve storage capacity utilisation, the FCI in a written reply that with a view to obtain gainful utilisation of the capacity a decision had been taken to dehire/release the surplus capacity hired from various sources under non-guarantee which had been earlier hired in emergent conditions. The Executive Committee took a decision to dehire CAP complexes/Air strips on priority basis. A capacity of about 16 lakh tonnes was estimated to be de hired during 1980-81 and 12 lakh tonnes during 1981-82.\*

4.10 Asked further whether FCI let out on hire owned storage spaces temporarily to the extent not used by them, the Corporation stated in a written reply "normally our owned storage space is not let out to other agencies but during the last year due to under-utilisation in some other regions, we have hired out FCI's storage spaces to the State Government, Modern Bakeries and CWC in the States of West Bengal, Orissa and Haryana. Further with a view to obtain gainful utilisation of the vacant ARDC capacity rendered due to movement constraints stoppage of imports etc., the Corporation had on November, 1980 hired out about 1.5 lakh MT to the public agencies bringing a saving of Rs. 3.9 lakh in monthly rents.

\*At the time of factual verification, the FCI informed that against the target of 16 lakh tonnes, a capacity of 5.22 lakh tonnes covered and CAP has been de hired till Feb., 1980.

**(C) Cost of Storage**

4.11 According to the FCI, the average cost of storage in the covered godowns in respect of owned hired accommodation was as under :—

(In rupees per quintal per month)

Year	Owned	Hired	Overall Average
1979-80 . . . . .	0.26	0.32	0.30
1980-81 (R.E.) . . . . .	0.29	0.36	0.33
1981-82 (B.E.) . . . . .	0.32	0.42	0.36

4.12 The Corporation stated that in respect of the owned accommodation, the average cost has been worked out assuming 100% capacity utilisation. The cost for the Corporation's own godowns include apart from other charges notional interest at 6% on the capital investment.

**(D) Storage Loss**

4.13 According to FCI, the quantities and values of the storage losses of foodgrains and their percentage on the quantities sold, for the last five years were as under :—

Year	Qty. (lakh tonnes)	Value (Rs. Crores)	%age on Qty. sold
1975-76 . . . . .	0.26	3.43	0.3
1976-77 . . . . .	0.68	9.72	0.7
1977-78 . . . . .	1.25	16.79	0.9
1978-79 . . . . .	1.00	15.85	1.0
1979-80 . . . . .	2.03	31.51	1.46

4.14 The main factors responsible for the increase in storage losses *inter alia* were stated to be :—

- (i) Cyclones and floods on account of unprecedented rains; and
- (ii) Longer period of storage in view of buffer commitments.

4.15 According to the FCI, the following quantities of foodgrains were damaged due to rains, floods, cyclone etc. and rendered unfit for human consumption during the last four years :—

Year	Qty. tonnes damaged	Assessed value of loss (Rs. lakhs)
1976-77 . . . . .	44126	368.90
1977-78 . . . . .	46895	324.46
1978-79 . . . . .	100657	849.93
1979-80 . . . . .	69896	570.81
(Prov.)		

4.16 The Corporation stated that one of the major reasons leading to the above levels of the damaged stocks has been that from 1976 onwards the

Corporation had to resort to large scale CAP storage, due to the serious paucity of storage space progressively encountered with increased levels of procurement. Besides, the weather conditions have also been unpredictable and erratic in some of the years. Some of the major CAP complexes as a result have suffered damages due to cyclones, storms and floods in different parts of the country.

4.17 In reply to a question, the Corporation stated that the longest period for which the foodgrains were under the open storage (CAP) was four years.

4.18 The FCI has informed that during the last three years i.e. 1977-78, 1978-79 and 1979-80 (upto Dec. 1979), there had been 147 cases of thefts, fire, misappropriation, cyclone etc. involving in amount of Rs. 46.50 lakhs as per break-up given below :—

(Rs. in lakhs)									
Year	Thefts	Fire	Mis- appro- priation	Cheat- ing	Cyclone	Short- ages	Missing	Total cases	Amount involved Rs.
1977-78	16	2	2	1	1	2	—	24	8.38
1978-79	95	3	2	—	—	—	1	101	33.05
1979-80 (upto Dec. 1979)	14	8	—	—	—	—	—	22	5.07
<b>Total</b>	<b>125</b>	<b>13</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>147</b>	<b>46.50</b>

4.19 Out of 147 cases majority of cases related to thefts (125) involving an amount of Rs. 23.51 lakhs. In regard to 38 cases of thefts, the FCI has stated "FIR lodged. Results of Department enquiry/police investigation in progress/awaited". In regard to 83 cases of thefts, it has been stated that thefts occurred due to the fact that the Charrah CAP storage (in West Bengal) and the Kalyan Air Strip (in Maharashtra) had been surrounded by bad characters who came out in the darkness with lethal weapons and attacked the CAP storage/Air strip. According to the FCI, the thefts are reported to have been eliminated by inducting CRPF/SRP.

There was only one case of cyclone involving a loss of Rs. 4.68 lakhs.

4.20 Asked about the extent of these damages at railways sidings during the last three years, the Corporation stated a written reply that the accounts of losses to the foodgrains were compiled region-wise for the entire quantity damaged whether in transit at good-shed sidings or in FCI's storage premises and no separate figures of damages at railway siding only available.

4.21 Enquired about the extent to which the loss on account of damages at the railway sidings could be recovered from the railways, the Corporation stated that there were two types of sidings (i) within the FCI's depots premises and (ii) at the railway goods-shed. For any damage to stocks at

the goods shed sidings only, the railway could be held responsible. Such claims formed part of the total claims for transit losses including damaged stocks lodged with the railways.

4.22. The Committee pointed out that according to the letter issued by the Ministry of Agriculture (Deptt. of Food) on 25th April, 1980 the Corporation was required to prescribe limits for storage losses on account of factors like loss in weight, deterioration of stocks etc. to be debited to Central subsidy and get them approved by the Govt. latest by 30th September, 1980. They enquired whether limits for storage losses had been fixed. The M.D., FCI stated in evidence, that no norms could be set for these losses. The M.D. added :

“We represented to the Government on this. In fact we had written back to the Govt. also and pointed out that some of these suggestions may kindly be reconsidered by the Govt. They say unless and until each loss is properly accepted by the Corporation, this subsidy will not be paid to the Corporation”.

4.23. During the examination of Deptt. of Food, the Committee pointed out that according to FCI it was not possible to fix any limit for storage loss. They asked as to what were the comments of the Ministry in this regard. The Secretary, Deptt. of Food stated that there were certain practical difficulties in fixing storage norms. There was no doubt about it. He added :

“It is a very difficult proposition—In April 1980 that letter was issued. I am in the process of discussion on the matter on a letter written by the M.D., FCI. . . . If for example, it is said that norms have been fixed for losses in Warehousing Act/Rules and you follow those norms, then it will lead to a more financial loss. I would like that the Committee would give more time on this. It is not that simple.”

#### (E) Additional Storage Construction

4.24. The Corporation stated that the targets of construction of godowns by the FCI for the periods 1974-79 and 1978-83 were 27.00 lakh tonnes and 41.15 lakh tonnes respectively. The year-wise construction of godowns from 1975-76 to 1979-80 were as follows :—

Year	Capacity constructed (thousand tonnes)
1974-75	197.46
1975-76	116.25
1976-77	346.67
1977-78	753.88
1978-79	641.00
1979-80	450.00

4.25. Against a target of 41.15 lakh tonnes of storage capacity during 1978-83, the capacity actually constructed during the years 1978-79 and 1979-80 was 10.91 lakh tonnes.

Asked about the reasons for slow progress of storage construction work, the Corporation explained the following difficulties :

- (i) Since all the new godowns centres are to be provided with railway siding facilities and as the railway had recently insisted on the provision of facility for full rake siding, the planning had got rather protracted.
- (ii) The land acquisition proceedings particularly, where private ownership are concerned had been rather protracted and even leading to litigation in courts in certain cases.
- (iii) Sporadic shortages and unprecedented steep escalation in cost of essential building materials affecting the pace of progress.

4.26. The Ministry stated in a note that the Corporation had undertaken a storage construction programme of 2.8 million tonnes of storage capacity at an estimated outlay of Rs. 161 crores with the assistance from the World Bank in June, 1978. The project was scheduled for completion by the end of 1982-83. Asked whether the progress of construction had been according to schedule, the Corporation stated in a written reply that under the Second Foodgrains Storage Project the break-up of the storage capacity to be constructed with the assistance of the World Bank was as under :—

(a) Conventional Godowns . . . . .	23·00 lakh tonnes
(b) Flat Bulk Warehouses . . . . .	4·20 lakh tonnes
(c) Multifunctional Port Installations . . . . .	0·90 lakh tonnes
<b>TOTAL . . . . .</b>	<b>28·10</b>

4.27. Against the programme indicated above, a capacity of 7.75 lakh tonnes of conventional godowns had been realised upto September 80 while works on buffer godowns were in various stages of progress in as many as 27 centres. The progressive expenditure made on this project was around Rs. 48 crores upto November 80.

4.28. The Corporation stated that despite problems connected with land acquisition, construction materials etc. the programme would be substantially completed within the scheduled period.

4.29. The Committee suggested that in future FCI should construct godowns only at the rail-heads so that wagons could be moved through sidings to the godowns and handling operations could go on under all conditions of weather. The Managing Director, FCI stated in evidence that their policy was to go for all rail fed construction but there was a problem in some of the heavy congested areas. He added, "the Railways are insisting that we should construct only full train sidings and not even half-train sidings. All the godowns that we have constructed under the World Bank Project are all fully rail-fed godowns . . ."

4.30 Storage of foodgrains has assumed enormous importance in the context of the enhanced agricultural production in recent years and the need to maintain huge buffer stocks for balancing the supply without being



affected by the level of production which still largely depends on the vagaries of the weather. Though there is adequate storage space available at present, a large part of it is hired. As the cost of hiring is stated to be higher than that of owned accommodation, it is necessary to relinquish the hired private accommodation. The Committee, however, note that the construction of godowns by the FCI is proceeding at a slow pace. This should be speeded up. Incidentally, the Committee desire that in future godowns should be constructed as far as possible at the rail heads so that railway wagons could be moved through sidings to the godowns and handling operations could go on under all conditions of weather.

4.31 The average utilisation of storage space was as low as 70.4 per cent during 1979-80. This has undoubtedly caused an avoidable increase in the overhead costs of the Corporation. Storage losses touched an all time high of 2.03 lakh tonnes valued at Rs. 31.51 crores during the year 1979-80. A number of cases of theft and misappropriation have also been reported. The Committee desire that proper precaution should be taken against losses and damages and the stock should invariably be held in covered accommodation and well guarded.

4.32 There is reportedly imbalance in the availability of storage space. The FCI has storage space at places more than what is needed and at other places inadequate space. This imbalance should be corrected early on a planned basis under a time-bound programme. This again is tied up with the question of uniformity in procurement policies and distribution arrangements in all the States.

4.33 The Committee would suggest that for ensuring a scientific and safe storage of foodgrains and monitoring the utilisation of the godowns as well as undertaking construction/renovation programmes, 'storage' should be treated as a distinct activity of the FCI and it should be put under the charge of a competent and well qualified Executive. He could be a functional Director of the Board of the Corporation.

## CHAPTER V

### COSTS AND SUBSIDY

#### A. Costs

5.1 The purchases and issues are made at the prices fixed by Government. The incidental expenditure incurred by the Food Corporation of India for handling foodgrains for the public distribution system broadly comprise the procurement incidental born at the time of procurement and incidentals incurred on the movement, storage and distribution of the grains. The Corporation is also maintaining buffer stocks of foodgrains and incurs the carrying charges on them.

5.2 The following tables indicate the average procurement costs of wheat and rice incurred by the Corporation including the charges paid to other agencies (All India) from 1977-78 to 1980-81 as furnished by the FCI :—

(i) <i>Wheat</i>	Rate : Rs./Qtl.			
	1977-78	1978-79	1979-80 (RE)	1980 81 (BE)
1. Obligatory charges (Mandi charges, cost of gunnies and sales tax) . . . . .	11.76	11.97	13.34	14.07
2. Storage & Interest charges . . . . .	2.07	2.38	2.08	2.50
3. Handling charges (Mandi labour & forwarding charges & internal movement etc.) . . . . .	2.76	3.33	3.87	3.06
4. Establishment charges . . . . .	0.96	1.05	1.05	1.01
5. Others (Misc. items), Bank Commission etc. . . . .	0.07	0.09	—	—
<b>TOTAL :</b>	17.62	18.82	20.34	20.64
(ii) <i>Rice</i>				
1. Obligatory charges (Mandi charges, cost of gunnies & Sales Tax) . . . . .	5.91	7.55	9.12	9.19
2. Storage & Interest charges . . . . .		0.95	0.15	0.15
3. Handling charges (Mandi labour & forwarding charges & Internal movement etc.) . . . . .	1.54			
4. Establishment charges . . . . .	0.40	0.40	0.86	0.92
5. Others Misc. Items (Bank Commission etc.) . . . . .	—	—	0.39	0.45
			0.09	0.09
<b>TOTAL :</b>	7.85	8.90	10.61	10.80

5.3 The average storage, movement and distribution costs (Distribution incidentals) per quintal of sales with item-wise break-up incurred by the FCI from 1977-78 to 1980-81 were as under:—

	Rs./Qtl. of Sales			
	1977-78	1978-79	1979-80 (RE)	1980-81 (BE)
<i>Storage Distribution and Movement etc.</i>				
Freight . . . . .	4.17	8.37	8.92	10.24
Interest . . . . .	4.65	8.70	5.54	5.54
Transit & Storage Loss . . . . .	1.27	3.05	2.19	2.46
Storage charges . . . . .	0.89	1.80	1.67	2.00
Handling expenses at the go-downs . . . . .	1.31	1.49	1.46	1.46
Administrative Overheads . . . . .	2.54	1.67	1.60	1.71
<b>TOTAL :</b> . . . . .	<b>14.83</b>	<b>25.08</b>	<b>21.38</b>	<b>23.41</b>

Note : The figures for 1978-79, 1979-80 (RE) and 1980-81 (BE) are based on allocation of common costs between distribution and buffer stocks operations and as such are not comparable with the figures of earlier years. The comparable distribution costs for 1978-79 on the earlier basis would be Rs. 14.34 per quintal.

5.4 Asked as to what efforts had been made by the FCI to reduce the obligatory charges the Corporation intimated that the Government of India had set up an Expert Committee to examine the ways and means of reducing the cost of buffer stocks of foodgrains. The Committee made the following recommendations :—

- (i) Mandi charges should not be fixed ad valorem but at a fixed rate per quintal.
- (ii) The market fee should be fixed at a level not higher than to Re. 1/- per quintal for wheat and 66 paise per quintal for quintal in the case of paddy.
- (iii) Since the Kacha Arhtiyas are required to render service to the sellers, their commission should form part of the procurement price and it should not be charged from the buyers. If this is not possible at least the commission should be restricted to Re. 1/- per quintal for wheat and 66 paise per quintal for paddy.
- (iv) The agency of pucca Arhtiyas which is not obligatory should be eliminated. If the State Govt. wish to employ Pucca Arhtiyas, their commission should not be chargeable from the FCI as part of procurement incidentals for the stocks/surrendered for the Central Pool.
- (v) Since any tax on foodgrains affects the poorer and weaker sections of the society most adversely, the purchase tax/sales

tax on foodgrains should be brought down from the present level of 4% by/or 2%.

- (vi) The establishment charges levied by the State Governments and their procuring agencies, which have been rising over the years, would bear reduction in view of the successive increase in the overall quantum of purchases of foodgrains. The establishment charges could be restricted to 50 paise per quintal of wheat and rice.

5.5 In a subsequent note, the Corporation informed that this is a matter for consideration by the Department of Food.

5.6 The Corporation has given the break-up of these procurement incidentals and handling cost for 1974-75 and 1980-81 (B.E.) as under :—

	(Rs./quintal)			
	1974-75		1980-81 (B.E.)	
	Wheat	Rice	Wheat	Rice
Procurement incidentals . . . . .	8.94	7.21	20.64	10.80
Handling cost . . . . .	14.57	14.57	23.41	23.41
<b>TOTAL :</b> . . . . .	<b>23.51</b>	<b>21.78</b>	<b>44.05</b>	<b>34.21</b>

5.7 Asked about the reasons for huge increases in the procurement and handling charges incurred by the Corpn. from Rs. 23.51 per quintal for wheat and Rs. 21.78 for rice in 1974-75 to Rs. 44.05 for wheat and Rs. 34.21 for rice in 1980-81 (B.E.), the Corporation stated in a written reply that the procurement incidentals for wheat for 1974-75 was Rs. 8.94 per quintal when substantial purchases of wheat were made through traders' levy. For levy stocks collected by the State Governments and surrendered to Central Pool during 1974-75, mandi charges, establishment cost, interest charges and purchase tax amounting to Rs. 8.95 per quintal were not payable as these charges were not actually incurred. The purchases made in the subsequent years were not through traders' levy and all these charges were therefore, incurred in these years. The incidental charges payable to the state agencies were settled by the Government of India on the basis of the various elements of costs incurred by them. The increase in procurement incidentals for rice from Rs. 7.21 per quintal in 1974-75, to Rs. 10.80 per quintal in 1980-81 (B.E.) was mainly due to increase in gunny cost.

5.8 The handling cost for public distribution system estimated for 1980-81 (B.E.) at Rs. 23.41 per quintal of sales was on the revised basis of allocation of common costs between the distribution and buffer operations as indicated by the Government of India. The handling cost for 1980-81 (B.E.) worked out on the basis of the earlier method of allocation of common cost would come to Rs. 15.66 per quintal. According to FCI, there had not been any appreciable increase in the handling cost incurred during 1980-81 (B.E.) vis-a-vis 1974-75.

5.9 According to FCI, the average procurement incidentals incurred on procurement of wheat and paddy/rice by the FCI on its direct procurement and those payable to State Governments and their agencies during 1976-77 to 1980-81 were as under :—

	(Rs./quintal)			
	1977-78	1978-79	1979-80	1980-81
<b>I. For FCI's own procurement.</b>				
(i) Wheat . . . . .	13.81	13.90	14.58	16.71 (R.E.)
(ii) Paddy . . . . .	—	11.90	14.40	16.62 (R.E.)
<b>II. For procurement made by the State Govts. and their agencies and procurement for the Central Pool.</b>				
(i) Wheat . . . . .	18.50	20.16	20.10	23.51 (R.E.)
(ii) Paddy . . . . .	—	15.54	17.86	20.85 (B.E.)
(iii) Rice . . . . .	7.85	8.90	10.13	9.91 (R.E.)

5.10 Whereas the procurement incidentals incurred by the FCI on its direct procurement of wheat and paddy for Central Pool during 1978-79 to 1980-81 ranged from Rs. 13.90 to Rs. 16.71 and from Rs. 11.90 to Rs. 16.62 respectively, the procurement incidentals paid to State Governments and their agencies for the stocks of wheat and paddy ranged from Rs. 20.16 to 23.51 and Rs. 15.54 to Rs. 20.85 (BE) respectively. The Committee asked about the reasons for the higher incidentals of the State Governments and their agencies. The M.D., FCI in evidence stated that in the case of mandi labour, forwarding charges and a few other items, there was a difference of the order of Rs. 2/- per quintal. Other statutory levies were common for both.

5.11 The Corporation stated in a subsequent note that in regard to wheat, the figures of the procurement incidentals payable to the State Governments and their agencies and the procurement incidentals incurred by FCI on its direct procurement are not strictly comparable. The incidentals allowed to other procuring agencies include their establishment cost, interest charges, storage charges, bank commission etc. These elements of charges incurred by the FCI on its own procurement are included in its distribution activities separately. The gunny cost and the purchase tax are obligatory/compulsory charges applicable equally for all the agencies and the question of comparability for these items need not arise.

5.12 The variation between the procurement charges incurred by the FCI and those paid to the State Governments are on account of the variation in the rates of labour contracts, internal movement charges etc. The variation is also due to the areas/mandis from where the procurement is made by the FCI as compared to the State Government/agencies.

5.13 In reply to a question, the Corporation furnished the following details of the difference item-wise) in the procurement cost of wheat and rice from State to State for the year 1978-79 :—

WHEAT

S.No.	Procurement Incidentals	Rate Rs./ Quintal					
		Punjab		Haryana		Uttar Pradesh	
		FCI	other Agencies	FCI	Other Agen- cies	FCI	Other Agen- cies
1.	Mandi Charges	3.94	4.33	5.06	4.73	1.16	1.12
2.	Mandi labour	0.46	1.15	0.58	1.15	0.42	1.30
3.	Temporary storage charges	—	0.75	—	0.75	—	0.15
4.	Forwarding charges and Internal Movement	1.66	2.25	2.24	2.25	0.50	1.86
5.	Establishment charges	—	1.15	—	1.15	—	2.00
6.	Internal charges	—	2.63	—	2.63	—	1.65
7.	Gunny Cost	4.37	5.00	4.82	4.50	4.41	4.42
8.	Purchase/Sales Tax	4.13	4.14	5.19	4.50	4.42	3.50
9.	Bank Commission	—	—	—	—	—	0.10
10.	Other/depreciation and dead stock articles	—	—	—	—	—	0.40
TOTAL		14.56	21.40	17.89	21.66	10.91	16.50

(Rate Rs. per quintal)

Rice	Punjab	Haryana	U.P.
1. Purchase Tax . . . . .	—	—	5.40
2. Forwarding charges & internal Movement . . . . .	0.92	1.16	0.83
3. Storage charges . . . . .	—	—	0.35
4. Administration charges . . . . .	0.75	1.25	2.00
5. Gunny . . . . .	5.35	5.62	4.25
<b>TOTAL :</b> . . . . .	<b>7.02</b>	<b>8.03</b>	<b>12.83</b>

5.14 Asked about the main reasons for the difference in the procurement cost of wheat and rice in the States, the Corporation stated in a written reply as under :—

- (i) The procurement charges for rice are lower than those of wheat. This is so because the wheat is procured directly from the mandies and all the elements of cost from the mandi stage to bring the stocks to the FCI godowns/rail heads namely, the mandi charges, mandi labour, internal movement, temporary storage, interest charges, etc. are included in the procurement incidentals. On the other hand, the rice is purchased from the millers under Levy Orders, issued by the State Governments at the procurement prices declared by the Govt. of India. Levy prices for rice include the element of mandi charges, mandi labour and other charges leviable at the paddy stage.
- (ii) Also for wheat purchases, the purchase/sales tax applicable is payable and included in the procurement incidentals, whereas in some States purchase/sales tax is payable at the paddy stage and is included in the levy procurement price. The element of purchase/Sales Tax, therefore, does not appear as a separate charge for rice.

5.15 The Committee observed that the procurement and handling cost for foodgrains procured through the State Governments were higher than the cost of the FCI and admittedly there was no compulsion on the FCI or the State agencies procuring for the Central Pool to effect economy on overheads as the entire expenditure incurred was reimbursed as consumer subsidy by the Centre. They desired to know whether there was no in-built incentive for economy in operations, the Secretary, Department of Food answered in the affirmative.

5.16 Asked how it could be ensured that the subsidy was restricted to the minimum that was necessary, the witness stated, "the whole scheme is such that the corporation is supposed to work on a no profit no loss basis".

5.17 The Committee pointed out that in one of the reports submitted by the Committee appointed by the Government of India to examine ways and means of reducing the costs, it was observed that the procurement incidentals charged by the State Government formed about 17% of the procurement price of wheat. These high incidentals showed that some of

the surplus States were resorting to various fiscal levies which were tantamount to internal export duties to mobilise resources at the cost of the Central Government and the consumers in other States. They enquired what action had been taken by the FCI in this regard. The M.D., FCI in evidence stated :

“We do not come into the picture. It is for the Govt. of India to persuade the State Governments. . . . . we have no *locus standi* . . . . . we are only the vehicles for paying the administrative charges.”

He added :

“These charges are determined by the Govt. of India in consultation with the State Govts. Meetings are held by the Govt. of India with the Governments of Punjab and Haryana. Naturally we are also consulted and we give our views on them, but then it is mainly for the Govt. of India.”

5.18 During the examination of Department of Food, the Committee enquired whether Government had studied the impact of imposition of fiscal levies by surplus States and taken up with the Govts. concerned. The Secretary Department of Food stated that :—

“There are two areas in which these fiscal levies come. One is the system of market levies in the regulated markets. The other is the sales tax. By the rules framed under State Acts, market commodity fees are levied in the regulated markets. The Government of India have taken up the issue with the two States of Punjab and Haryana that these mandi charges should not be excessive. There is an increase of Mandi charges by some other State Governments . . . . The Mandi charges are borne by the purchasing agencies, those who procure. Whoever goes to mandi to purchase has to pay that charge. This market fee was increased from two to three per cent. The traders themselves went to the Court, and the Supreme Court finally struck down the increase because the fee has to be commensurate with the services rendered. Frankly speaking the Central Government has no control over this fee that is levied under the State Act. Then comes the sales tax. Sales tax again is imposed by State legislation; they can levy any amount under their own Act. But in 1976 an amendment was made in the Central Sales Tax Act by which Sales tax leviable in respect of wheat, paddy and rice could not exceed four percent. . . . .”

#### (B) Administrative overheads

5.19 The total administrative overheads (including staff cost) incurred by the Corporation during 1977-78, 1978-79, 1979-80 and those estimated for 1980-81 (R.E.) and 1981-82 (B.E.) are as under :—

Year	Staff strength	Staff cost	(Rs. Crores)	
			Other Admn. cost	Total
1977-78 . . . . .	67,283	57.56	8.63	66.19
1978-79 . . . . .	73,699	65.16	8.44	73.60
1979-80 . . . . .	73,640	71.64	9.33	80.97
1980-81 (R.E.) . . . . .	73,428	74.74	9.46	84.20
1981-82 (B.E.) . . . . .	73,428	78.50	9.40	87.90



5.20 The Ministry has stated that *inter alia* the following economy measures have been taken by the FCI to reduce the administrative expenses :—

- (i) A ban on overtime work imposed in all the offices and no overtime work is to be resorted to except for operational and other unavoidable exigencies.
- (ii) The procedure for the re-imbusement of medical expenses had been streamlined and tightened.
- (iii) The level of officers who would be entitled to travel by Air had been raised.
- (iv) Display of provisional advertisement had been completely stopped.
- (v) A 20% cut has been made in the office and residential telephone.
- (vi) A system of reporting the details of the actual expenses incurred every month by the Regions/zones has been introduced and a close watch is being kept on the trend of expenses.

5.21 The staff strength of the Food Corporation of India (both sanctioned strength and staff in position) during the last five years was as under :—

Year	Sanctioned strength	Staff in position
As on 31-3-1976 . . .	69,296	51,475
As on 31-3-1977 . . .	78,047	63,057
As on 31-3-1978 . . .	91,776	67,283
As on 31-3-1979 . . .	94,544	73,699
As on 31-3-1980 . . .	85,676	73,640

5.22 Asked about the justification for the increase in staff strength in 1978-79 over the position in 1977-78 especially in view of the reduction in sales, the Corporation stated in a written reply that the increase was mainly due to the increase in the storage capacity, maintenance of large buffer stocks and for looking after the procurement, preservation and issue operations of the Corporation.

5.23 The Committee enquired about the reasons for having sanctioned strength much more than the actual strength. The M.D., FCI stated in evidence, "In December 1978 the M.D. passed an order. No recruitment is to be made at entry level. So, we are not allowed to fill the posts". He further stated that these problems had been studied by the internal officers' committee and it was felt the FCI could curtail filling up of posts as per the requirements.

5.24 In reply to another question the Corporation stated in writing that "action is, however, being taken to issue proper sanction to adjust the staff strength according to the requirement of each region".

5.25 The staff cost per tonne the volume of operations in the Corporation has been stated as under :—

Year	(Rs. per tonne)
1976-77 . . . . .	17.36
1977-78 . . . . .	18.72
1978-79 . . . . .	21.52

5.26 Asked about the reasons for increase in staff cost per tonne from Rs. 17.36 in 1976-77 to Rs. 21.52 in 1978-79, the Corporation stated in a written reply as under :—

“The staff cost comprises the salaries, wages and allowances, contribution and welfare expenses of the staff employed. The staff cost per tonne has been worked out by dividing the total expenditure on account of staff salaries etc. by the volume of operations represented by half of purchases and sales plus mean stocks handled during the year. The staff cost per tonne of the volume of operations worked out in this manner is only a rough and ready method of assessing staff cost over a period of time. This does not however take into account the nature of the operations, pattern of procurement, and the comparative administrative effort involved in performing the different operations. In 1978-79, the purchases of paddy by the Corporation were 26.22 lakh tonnes against 10.40 lakh tonnes only in 1977-78. Thus, the purchases of paddy (for which the effort involved was much larger) was about 2½ times in 1978-79 as compared to 1977-78. It is also to be stated that irrespective of the quantity of grains stored or handled, a certain level of staff for manning the storage godowns would always be necessary. Again, the Corporation has been constructing and hiring more of covered godowns and transferring the stocks from the open storages to the covered godowns. The manpower requirement for the covered storage is larger than the open storage”.

5.27 The Committee pointed out that the staff was surplus was clear from the fact that the volume of operations handled in terms of tonnes per employee had come down from 462 in 1976-77 to 411 in 1978-79. They asked about the reasons for this fall. The Corporation stated :

“The quantity handled per employee depends on staff strength and the volume of operations. The volume of operations is defined as ‘half of purchases and sales plus mean stock’. While the staff strength during the year increased on account of increased storage capacity with the FCI, the volume of operations especially the sales and the mean stock during the year came down. Since certain level of staff is required to man the storage capacity, the volume of operations handled (tonnes) per employee during 1978-79 was lower than the previous year”.

5.28 In reply to a question the Department of Food stated in a note that the justification for the level of staff is reviewed every year and before the Kharif and Rabi seasons. The staffing norms have also been examined and reviewed by Internal Committees of senior officers for laying down norms for depots, district offices, port offices etc. The staff inspection unit of the Ministry of Finance has also sometime back reviewed the staff strength

of the Head Office and has made recommendations for prescribing staff norms for depots.

**(C) Contract Labour**

5.29. The Corporation has informed that the work of handling of foodgrains is done by (1) Contract Labour, (2) Departmental Labour and (3) Direct Payment System.

The per quintal cost of handling foodgrains stocks by the departmental labour as well as contract labour varies from place to place as per a few instances quoted by the FCI:

Year	Name of the Zone	Name of the Region	Name of Depot	System of handling	Cost per Qtl.(Rs.)
1978-79	East Zone	Orissa	Cuttack	Departmental	1.05
		Orissa	(i) Angul	Contract	0.19
			(ii) Rupsa	Contract	0.21
		West Bengal	JJP	Departmental	1.88
		West Bengal	Mohish-pota	Contract	0.34
		JM (PO) Cal.			
		JM (PO) Cal.	Brooklyn	Departmental	2.96
		"	Narayanapur	Contract	0.56

5.30. In the course of the evidence, the M.D., FCI informed that the departmental labour cost per tonne in the Delhi region in 1978-79 was Rs. 6.32 and the contract labour cost per tonne was Rs. 3.92. In 1979-80 the departmental labour cost was Rs. 6.83, while the contract labour cost was Rs. 4.52. Thus the departmental cost as per the audited accounts was Rs. 2.30 costlier than the contract labour.

5.31. The Committee enquired as to how the FCI ensured that their contractors paid to the contract labour according to what they had quoted in their contract. The M.D., FCI stated in reply:—

“Our tender form does provide the obligation on the contractor to pay the minimum wage. Our tender form also provides that he shall make the contribution on their behalf to the provident fund and meet all the statutory obligations. There is a model tender form and he signs the contract on that basis....we take all reasonable and legally available precaution to see that the contractor fulfils his obligations.”

5.32. Enquired about the comparative economics of engagement of labour contract system *vis-a-vis* departmental labour, the Corporation stated in a written reply that there had been persistent demands from the labour to abolish contract system and to engage labour on departmental basis and also to convert the labour presently working under direct payment system to Departmental labour.

The Corporation further stated that:—

“The work of the FCI fluctuates in volume in different places at different points of time depending on procurement, movement and off-take of foodgrains. In that context, introduction of departmentalisation by its nature is not conducive to the efficient working of the FCI.

Our experience of departmentalisation of labour and abolition of contract labour system so far has been that it has led to indiscipline, defying of working norms and other instructions of Management which has resulted in (i) enormous increase in the labour cost of FCI adding to the handling cost directly; (ii) abnormally low output in most of the depots; and (iii) high proportion of idle labour.....

Under the Direct Payment System the general experience has been that the labourers are ill-disciplined and they could not be controlled. There were instances when the labourers under the Direct Payment System refused to carry out the instructions of the Depot Incharge and worked according to their own convenience, resulting in dislocation of normal operations."

5.33. The Corporation stated that on a comparative study made of the cost of handling under these systems, it was found that the cost of handling under departmental system and under direct payment system had been very high compared to engagement of labour under the contract labour system.

5.34. On the suggestion of the Committee that the Corporation should encourage formation of cooperative societies of workers, the M.D., FCI stated during evidence :

"I have myself talked to them. If you form a co-operative society the leader of the union loses his position. So he does not want to do it. Second reason they say is that they are not literate enough to run the societies properly. So they want direction from somebody else. So the Societies are not being formed."

5.35. In a post evidence reply, the Corporation stated that the workers were being encouraged to form comparative societies with several concessions so that they could take handling contracts in the depots.

#### D. Storage and Transit Losses

5.36. The following storage and transit losses were incurred by the FCI during the years 1977-78 to 1980-81 (R.E.):

Year	Quantity	(Qty. in lakh tonnes) (Value in Rs. Crores)	
		Value	%age of Losses on Purchase & Sales
1977-78 . . . . .	3.01	41.35	1.2
1978-79 . . . . .	3.05	44.23	1.3
1979-80 . . . . .	4.91	72.92	1.99
1980-81 (R.E.) . . . . .	3.48	55.15	1.3

5.37. The main reason for the marked increase in transit and storage losses in 1979-80 are stated to be (i) driage due to long storage in the case of paddy and (ii) increase in volume of off-take of the grains in 1979-80. The issues of wheat had increased from Rs. 984 crores in 1978-79 to Rs. 1130 crores in 1979-80. Similarly the issues of rice had increased from Rs. 380 crores in 1978-79 to Rs. 720 crores in 1979-80. A representative of FCI stated in evidence that the paddy shortage had been very high to the extent of 6 to 7 per cent. The Corporation is reported to have taken several steps to avoid incidence of losses in storage and transit.

5.38. In reply to a question about the total value of loss in transit by rail for the last three years, the FCI informed the Committee in a written reply that it was 1.76 lakh tonnes in 1977-78, 2.08 lakh tonnes in 1978-79 and 2.88 lakh tonnes in 1979-80. The road transit losses were also included in this as no separate account was maintained. A representative of FCI stated before the Committee that the transit losses depended on the volume. As a percentage on quantity moved, during 1977-78, it was 0.96 per cent, in 1978-79, 1.27 per cent and 1979-80 it was 1.47 per cent. In reply to a question about the amount recovered from the Railways, the witness stated that it was to the extent of Rs. 42.95 lakhs in 1978-79 and Rs. 39.32 lakhs in 1979-80.

5.39. The Corporation has intimated that the following amount has been written off on account of transit losses :—

	Qty. written off (in lakh tonnes)
1977-78	0.27
1978-79	0.24
1979-80	0.01

It has been stated that road transit loss is not written off but is required to be made good by the handling and transit contractors.

5.40. Asked whether the FCI had pressed their claims with the Railways for the losses, the M.D., FCI stated in evidence that the FCI was not permitted to file suits against the Railways because there was a decision of the Government that between two public institutions litigation should not be resorted to and as far as possible, arbitration must be pursued. The Railways were entirely protected by the Railways Act.

5.41. According to the letter dated 18th September, 1980 of the Deptt. of Food the FCI was to complete investigation of the remaining pending cases of transit losses pertaining to the earlier years within a year latest by 30th September, 1980. The Committee enquired whether the FCI had investigated those cases. The M.D., FCI in evidence, stated :—

“It is not a one time operation. Investigation is a continuous process. After it is adequately proved, if there is a claim against the Railway, the claim has to be pressed against the Railway. It is not a one time operation. It is a continuous process.”

5.42. The Corporation has stated that it has not been able to obtain “Clear Railway Receipts” from the Railways for the movement of food-grains all over the country. At present nearly 75% of the FCI Traffic

was getting booked under 'said to contain' RRs. This had caused difficulties to the Corporation for fixing responsibility for transit shortages which were not accepted by the Railways on account of the qualified RRs.

However, at the ten stations in Punjab and Haryana (namely) Moğa, Bhogtanwala, Khanna, Jagraon, Nabha, Patiala, Kapurthala, Tarantaran Kaithal and Kurukshetra) the FCI is getting clear RRs to the extent of 79.04% (based on the data between January and Oct. '80) for which 73 Tally Clerks were provided by the Railways at the cost of FCI which worked out to approximately Rs. 58,000/- per month.

5.43. During examination of the Ministry, the Committee pointed out that the practice of the Railways of granting only 'said to contain' Railway Receipts left a loophole which could be exploited even by the officials of the FCI taking no responsibility for shortages. They enquired whether the question of giving clear receipt was taken up with the Railways and if so what were the objections of the Railways and how did the Ministry propose to meet them. In a written reply, the Deptt. of Food stated :—

“The Department of Food and the FCI have been continuously pursuing the matter with the Railway Board with a view to getting clear Railway Receipts for consignments of sponsored foodgrains booked on the Railways. The reaction of the Railway Board has been that as per Railway Rules in force the Railways were not obliged to issue clear RRs. or specify the number of articles in the Railway Receipts in the case of consignments comprising a large number of articles loaded by senders which cannot be readily counted by the station staff.

According to the Railways since the loading of sponsored foodgrains is in rake loads and is spread over a large number of loading stations and the fact that the loading is sporadic and seasonal, the Railways do not consider it feasible to provide additional staff for short durations at different locations to enable proper tallying of bags to issue clear RRs. They have, therefore, suggested the following two courses :

(i) If the FCI are willing to bear the cost of additional staff required for issue of clear RRs., the Railways will have no objection to the same.

or

(ii) The FCI could fix their own seals/padlocks on the loaded covered wagons at the loading points.

The stand of the Railway Board has since been examined by the FCI and the Department of Food. Although it is not mandatory as per Railway statute/that Tally clerks should be posted at all places at the customer's expense, at present the FCI is already paying for 73 Tally Clerks at nominated stations which was agreed upon some years ago. However, either because such clerks were not in position at the loading points or at least on the days when the concerned train rakes were despatched, the issue of clear RRs. has not been 100% even at the instant stations.

Keeping in view this experience as well as the fact that if the Railway's proposal (regarding provision of additional staff) is

accepted it would result in enormous expense, it has been decided that on an experimental basis, the FCI should attempt putting its own seals in addition to the Railway's seals at certain selected loading points.

The FCI has also been directed to intensify surprise checks by special squads as well as through inspections conducted by the concerned zonal as well as Headquarters offices with an eye to pinpoint the problem locations which may be indulging in less loading or less accounting of bags at the destinations and take necessary remedial action."

### E. Subsidy

5.44. The issue prices fixed by Govt. do not cover full costs incurred by the Corporation in the procurement, movement, storage and distribution. The difference between the economic cost of foodgrains and their issue price is re-imbursed to the FCI as subsidy. The Corporation is also carrying buffer stock of foodgrains, on behalf of the Govt. and the carrying charges of these buffer stocks are also re-imbursed by the Govt. to the Corporation.

5.45. The back-up of consumer subsidy and carrying cost of the buffer stocks for 1977-78 to 1980-81 (R.E.) is as under:

	Amount : Rs./crores							
	Rate : Rs./qtl.							
	1977-78		1978-79		1979-80		1980-81	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
(i) Consumer Subsidy	299.95	27.19	295.45	29.78	324.15	24.68	455.7	
(ii) Carrying cost of								
Buffer Stocks	263.00	23.62	262.77	24.58	265.30	25.01	178.02	
Handling gift food-grains	1.05		2.48		5.73			
Net despatch* money earned	(-)-0.08							
<b>Total :</b>	<b>563.92</b>		<b>560.70</b>		<b>595.18</b>		<b>633.72</b>	

Note : \*Minus indicates gain.

5.46. The Corporation has furnished the following information about the consumer subsidy per quintal of wheat and rice separately for the years 1977-78, 1978-79 and 1979-80:

	(Rs. per qtl.)		
	1977-78	1978-79	1979-8
Wheat	31.63	32.72	28.14
Rice	9.21	19.06	17.71

5.47. Asked about the reasons for the increase in the subsidy rates for wheat and rice in 1978-79, the Corporation stated that (i) there was an

increase in the procurement price of wheat by Rs. 2.50 per quintal from Rs. 110.00 per quintal to Rs. 112.50 per quintal in Rabi 1978 and (ii) there was increase of Rs. 8.00 per quintal in the procurement price of paddy (Rs. 12.00 per quintal for rice) in Kharif 1978. The per quintal subsidy on wheat was relatively higher, as the gap between the procurement price and the issue price was wider than rice.

5.48 The increase in carrying charges in 1979-80 as compared to 1978-79 has been stated to be due to the increase in the interest charges and grain shortages especially in paddy and rice due to longer storage.

5.49 The important social obligation of the FCI is to protect the producer and the consumer from exploitation by the trader. The Index of efficiency of the Corporation is the extent to which this obligation has been discharged by it. It is not exactly an edifying spectacle that has emerged out of the examination of the Committee. However, it is equally important to ensure the cost efficiency of the Corporation as the overhead expenses of the Corporation is borne ultimately by the tax-payer. The difference between the final cost of foodgrains to the Corporation and the issue price is reimbursed by the Central Government as consumer subsidy. The carrying charges of the buffer stocks are also reimbursed fully by the Government. The total payment was of the order of Rs. 589 crores representing Rs. 324 crores of consumer subsidy and Rs. 265 crores of carrying cost of buffer stocks during 1979-80. The consumer subsidy per quintal of wheat was Rs. 28.14 and of rice was Rs. 17.71. The carrying cost of buffer stocks was Rs. 25.77. The Committee are concerned that the cost per quintal including the cost of retail distribution appears to exceed 75 per cent of the price paid to the producer. A large part of it is subsidised by the Central Government. Yet the consumer has to pay a heavy price.

5.50 Wheat is now entirely procured under price support operation. The procurement incidentals of the FCI jumped from Rs. 8.95 in 1974-75 to Rs. 20.34 in 1979-80. The Committee have been informed that the cost was less when the procurement was largely made through traders' levy. For levy stocks collected by the State and surrendered to the Central Pool during 1974-75, mandi charges, establishment cost, interest charges and purchase tax were not payable. The Committee note that there is a tendency on the part of the surplus States to impose a variety of fiscal levies in the shape of mandi charges, market fee and sales/purchase tax which load the procurement cost. These vary from State to State. An Expert Committee set up by the Central Government had inter alia recommended that the mandi charges be fixed not ad valorem but as a specific rate per quintal, that the market fee and the katcha artiyas' commission be fixed at a level not higher than Re. 1/- per quintal, and that the purchase/sale tax be reduced from 4 per cent to 2 per cent. The Committee desire that these should be considered for securing the consent of the States in the overall interest of the consumer.

5.51 As mentioned earlier in this Report, the FCI uses the agency of the States for procurement. There is stated to be a difference of about Rs. 2 between the procurement cost of the Corporation and that of the States, the former being lower. There is scope for reduction in the expenses incurred by the States on behalf of the FCI and which are reimbursed in full. The Committee feel that either these should be reimbursed at a fixed rate per quintal



or limited to the average cost of the FCI. The State-wise position may be analysed and appropriate action taken in consultation with the State concerned.

5.52 There is also scope for reduction in the expenses of the FCI through rationalisation of purchase and handling of foodgrains, economising on administrative overheads and cutting down storage and transit losses. The Committee suggest that instructions recently issued to the Corporation in the matter of claiming consumer subsidy and reimbursement of carrying cost of buffer stocks should be rigidly enforced. Admittedly, at present there is no inbuilt compulsion for economy in the operations of the FCI. A system of incentives for economy and disincentives for extravagance should be evolved in consultation with the Comptroller and Auditor General of India. The Committee expect the FCI to function truly on business principles, as laid down in the Act. Incidentally, the Committee suggest that the handling contracts should be taken out of private hands and entrusted to labour cooperatives, failing which the work should be either departmentalised or a system of direct payment to the labourers introduced. The Committee are not in favour of private intermediaries.

## CHAPTER VI

### WORKING RESULTS

#### (A) Profit/Loss.

6.1 The paid-up capital of the FCI was Rs. 237.88 crores as on 31st March 1980. Loans from Government aggregated Rs. 259.74 crores. Bank overdraft was Rs. 2033.58 crores. Apart from Central and State Operations as discussed earlier, the Corporation is also performing certain commercial operations like purchases for the Army, running of processing units, production of Balahar etc. The total purchases during the year 1979-80 were of the order of Rs. 2104.53 crores and sales Rs. 2225.01 crores.

6.2 The working results of the three operations for the years 1975-76 to 1979-80 are as below :

Year	<i>Central operations</i>		
	Volume of operations		Consumers' subsidy including buffer (Rs./lakhs).
	Sales	Average Buffer	
	(Lakh tonnes)		
1975-76 . . . . .	83.72	22.56	29771.72
1976-77 . . . . .	78.37	109.60	45214.25
1977-78 . . . . .	110.31	117.48	56392.40
1978-79 . . . . .	99.21	106.91	56069.66
1979-80 . . . . .	131.35	106.06	59517.74

The Central operations are carried on no loss-no profit basis.

#### *Commercial operations (including State operations)*

	Sales	Profit
	(Lakh tonnes)	(Rs./lakhs)
1975-76 . . . . .	24.29	273.53
1976-77 . . . . .	23.41	209.38
1977-78 . . . . .	26.63	218.58
1978-79 . . . . .	14.82	162.92
1979-80 . . . . .	24.48	78.26

The profit represents the net profit of the FCI before taxation.

6.3 The details of commercial operations furnished by the FCI showed that on procurement and distribution of rice and distribution of Central Pool Stocks of wheat, rice and coarse grains in certain States as agents of the State Governments resulted in loss to the Corporation. Supply of pulses, gram, gram products and animal food to Army Purchase Organisation resulted in loss in all these years except in the year 1977-78. Some of the process plants operated by the FCI also disclosed losses.

6.4 Asked whether all the commercial operations performed by the FCI were strictly covered by the provisions of Food Corporation Act, a representative of the FCI stated : "It is an ancillary function."

### (B) Modern Rice Mills

6.5 The Food Corporation of India initiated a programme of setting up of 24 rice mills of 4 tonnes per hour capacity for processing of paddy. Subsequently one more indigenous rice mill of 2 tonnes per hour capacity was added to the programme in 1971.

6.6 All the 25 Modern Rice Mills were completed and commissioned for milling by the end of 1976-77. The parboiling facilities were available in 20 mills upto 1979-80. At present parboiling facilities are being provided in 3 other mills and 2 mills are meant for raw rice milling only. The capital cost of all the mills at the end of 1979-80 was Rs. 483.27 lakhs.

6.7 The attainable capacity for all the 25 mills is 4,41,000 tonnes per year. The actual quantity of paddy milled in all the 25 mills for the years 1976-77 to 1979-80 was as under:

Year	Quantity of paddy milled	Average capacity utilisation
1976-77 . . . . .	2.19 lakh tonnes	64%
1977-78 . . . . .	1.93 lakh tonnes	44%
1978-79 . . . . .	1.57 lakh tonnes	36%
1979-80 . . . . .	1.05 lakh tonnes	24%

\*against attainable capacity of 3,45,000 tonnes.

6.8 Asked about the reasons for decrease in percentage capacity utilisation, the Corporation stated in a written reply that the total down time in the mills during 1977-78 was 1,10,787 hours which increased to 1,22,686 hours during 1978-79. As such the percentage capacity utilisation decreased from 44% during 1977-78 to 36% in 1978-79.

6.9 In reply to a question as to whether there was non-availability of paddy for these mills at any time, the Corporation stated in a note that there was non-availability of paddy for mills and the total down time for non-availability of paddy in 1978-79 and 1979-80 was as under:

Year	No. of hours mills remain closed	Capacity not utilised
1978-79 . . . . .	10,824 hrs.	32,472 MT 5.7%
1979-80 . . . . .	7,196 hrs.	21,588 MT 3.8%

6.10 Asked about the difficulties in running the rice mills to full capacity, the Corporation stated that the main difficulty was power shortages, power breakdown and labour problems. Sometimes difficulty was also experienced in procuring proper spare parts for repairs of mills from local markets and abroad. The variety of paddy and its quantity also affected production results and input/output ratio of MRMS.

6.11 In reply to a question, the Corporation informed that in 1978-79, the rice mills closed for 28,828 hours on account of power cut resulting in loss of 86,484 MT paddy processing (15.14%). In 1979-80, 36,004 hours

were lost due to power cut thereby 1,08,012 MT paddy processing was lost (19.02%). Further, in 1978-79, 21,924 hours, i.e., 913 mandays were lost as against 7929 mandays available (11.5%). In 1979-80, 44,880 hours were lost, i.e., 1870 mandays, as against 7885 mandays available (23.7%).

6.12 The Committee pointed out that according to the Original Project Report, the return on capital was expected to be 41.37%, 23.78% and 12.06% at 100%, 70% and 50% capacity. The mills, however, incurred total loss of Rs. 12.19 lakhs in 1977-78, Rs. 49.21 lakhs in 1978-79 and Rs. 18.13 lakhs in 1979-80. Enquired about the reasons for the losses suffered by the rice mills, the Corporation stated in a written reply that the main factor for losses was due to underutilisation of capacity which was interlinked with the problems of power shortages, frequent breakdown and labour troubles etc. Some of other reasons were :—

- (i) Increase in staff cost consequent upon revision of pay scales, enhancement of dearness allowance etc.
- (ii) Increase in rates of electricity, fuel, rubber rolls, stores and spares etc.
- (iii) Increase in the handling charges payable to handling contractors.

6.13 Asked as to what measures had been taken by the FCI to improve the working of the mills and what had been its effect on the working results, the Corporation informed that certain steps had been taken to improve the working of the rice mills. According to FCI, as a result to these measures, there was improvement in 1980-81 (April—November) over the corresponding period of 1979-80. The paddy processing figures for these periods were 81,349 and 71,452 tonnes respectively.

### (C) Sundry Debtors

6.14 The outstandings due to the Corporation at the end of March 1980 were as under:

	Amount (In crores of Rs.)
1. Department of Food . . . . .	177.07
2. Department of Agriculture . . . . .	70.33
3. Ministry of Rural Reconstruction . . . . .	136.63
4. Other Deptt. of Government of India . . . . .	9.34
5. Government of India undertakings . . . . .	1.92
6. State Government and State organisations :	
(i) For foodgrains operations . . . . .	35.78
(ii) For fertilizers supplies against Letters of Credits . . . . .	1.42
7. Others . . . . .	20.08
	452.57
Less provision for doubtful debts . . . . .	2.69
Net dues . . . . .	449.88

The analysis of the debts is as given below :

	Amount (In crores of Rs.)
Outstanding for less than 6 months . . . . .	268.84
Outstanding for more than 6 months . . . . .	183.73
	452.57

6.15 According to FCI, the outstandings of the State Governments and organisations were Rs. 42.68 crores as at the end of November, 1980.

6.16 Asked about the reasons for the large amounts of outstandings of the State Governments particularly of Governments of Bihar and Maharashtra in whose cases the outstandings stood at Rs. 14.19 crores and Rs. 8.53 crores respectively as on November, 1980, the Corporation stated in a note that the State Governments disputed the outstandings and had also put forth their own counter claims. The Government of India has constituted committees to settle the disputes in regard to Bihar, Maharashtra and West Bengal. The Committee had already submitted its report in respect of West Bengal and Maharashtra. While decision of Government of India had been communicated in respect of West Bengal, the decision of Government of India was still awaited in respect of Maharashtra Committee Report.

6.17 The Corporation has further stated that considering the difficulties which were being experienced by the Corporation in realisation of the outstandings, the Corporation persuaded the Government of India to introduce a uniform system of pre-payment for realisation of the cost of grains supplied to all the State Governments. The system came into effect from 1-5-1975. The dues from the State Governments as on 1-4-1975 stood at Rs. 81.92 crores. With the introduction of the pre-payment system, the current outstandings as on 31-3-1979 and 31-3-1980 stood at Rs. 31.27 crores and Rs. 35.18 crores.

6.18 In reply to a question the Corporation furnished the following details of the outstandings of Rs. 22.78 crores recoverable from 'others' as on 31.3.1979:

Other parties	Food A/c.	Fertilizer A/c.	Total
	(Rs. in lakhs)		
(a) Roller Flour Mills . . . . .	159.25	—	159.25
(b) Rice Mills . . . . .	338.52	—	338.52
(c) Other parties . . . . .	546.98	1233.10	1780.08
Total : . . . . .	1044.75	1233.10	2277.85

6.19 The Corporation stated that amount of Rs. 12.33 crores under fertilizer account and representing the cost of fertilizers had since been recovered and efforts were being made to liquidate outstandings dues under Food A/c.

## (D) Monitoring

6.20 The Committee desired to know about the system of Central monitoring in the FCI for having complete control over procurement, stocks, movement and issues on a continuous basis in order to correct imbalances, if any, without any loss of time. The M.D., FCI in evidence stated:

“We have more than one organised system of control. We have in the Head Office a Control Room. It receives the information of various types. Similarly, in the zonal offices also, there are control rooms which are functioning for the purpose of collecting information. The Control Room has been in operation for many years and in each of these offices, one officer has been nominated for the purpose of coordinating all the information and despatching it to the higher levels.”

6.21 Asked about the method of information to these offices, the witness stated:

“So far as procurement is concerned, the daily requirements of procurement are received by telex and telegram in the Control Room during the season and afterwards the periodicity is reduced. Then, in the case of stocks, we get fortnightly telexes and telegrams from the Regional Managers indicating the total stock position. In the case of issues, we have fortnightly telexes and telegram received from the zonal offices. We have also the storage capacity figures which are given every month by the Regional Managers on a monthly basis. In addition, we have staff matters. We have a monthly report from each regional office of the sanctioned staff strength.”

## E. Annual Accounts

6.22 Section 35 of the Food Corporation Act, 1964 lays down that a Food Corporation shall, as soon as possible after the end of each year, submit to the Central Government an annual report on the working and affairs of the Corporation and the Central Government shall, as soon as may be after the receipt of such report, cause such report and the audit report together with any comments thereon or supplement thereto by the Comptroller and Auditor General of India to be laid before both Houses of Parliament.

6.23 The accounts of the FCI for the years 1978-79 and 1979-80 had not been placed before Parliament till 30-1-1981\*. The Committee desired to know as to when the FCI accounts for the year 1978-79 were prepared, when they were placed before the Board of Directors and when they were finalised. The M.D., FCI submitted that the annual accounts of the Corporation for the year 1978-79 were approved by the Board of Directors on the 15th November, 1979 and were sent to the Director Audit within a day or two for obtaining his comments. They got the comments of the Director of Audit in August 1980 and these were now under print and would be transmitted to the Government shortly for placing before the Parliament.

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\*At the time of factual verification, the FCI informed that the Annual Report for the year 1978-79 was placed before the Parliament on 25 February, 1981.

6.24 As regards the accounts for 1979-80, the M.D., FCI, stated that these had been approved by the Board of Directors in December 1980 and had sent to the Director of Audit.

6.25 The Committee are also informed that now the Corporation had a system with the Audit to have concurrent audit to save time. The M.D., FCI assured the Committee that for the year 1980-81 they would try their best to finalise the accounts as early as possible.

6.27 The operations of the FCI fall into three categories viz. Central, State and commercial operations. As already observed by the Committee, on the Central operations there is scope for neither loss nor gain, the difference between the cost of sales and issue price for the public distribution system as well as the actual carrying cost of buffer stock being fully reimbursed by the Government. Though overall there is no loss on the other two operations, the FCI has incurred losses on its operations on behalf of a few States and on the supply of pulses, gram, gram products and animal food to the Army Purchase organisation. Some of the process Plants operated by the Corporation have also disclosed losses. Such losses should not normally arise. The Committee desire that in future the financial results of the three operations should be clearly brought out in the Annual Reports of the Corporation.

6.28 The Committee would like to make a mention of the working of the 25 modern rice mills run by the FCI. The capital cost of the mills was Rs. 483.27 lakhs. The utilisation of these mills during 1977-80 was only to the extent of 24 to 44 per cent of the substantially derated capacity. These mills have incurred losses of the order of Rs. 69.53 lakhs during this period. The Committee desire that the scheme of setting up of the rice mills and the operation of the scheme should be investigated to see whether there was anything conceptually wrong with the scheme as such and if not, what ails these mills. On the basis of the findings appropriate action should be taken.

6.29 The bank overdraft was of the order of Rs. 2033.58 crores as at the end of March 1980. The Committee have indicated earlier the steps that could be taken to improve the ways and means position and reduce the cash credit. It is a matter of concern that the outstanding dues to the Corporation were Rs. 452.57 crores of which Rs. 183.73 crores were more than six months old. There should be stricter credit control.

6.30 There has been undue delay in presenting of Annual Report of the Corporation to Parliament. The reports for the years 1978-79 and 1979-80 have not yet been presented until January 1981. Such delays should be avoided in future. Parliament, which authorises subsidies of the order of Rs. 600 crores annually, would expect the accounts of the FCI in time. The Committee would suggest that Government might consider an amendment to the Food Corporations Act to make it incumbent on the Corporation to finalise the accounts and get them audited within 6 months of the close of a financial year as in the case of a Government Company.

NEW DELHI;

BANSI LAL  
Chairman

April 28, 1981

Committee on Public Undertakings

Vaisakha 8, 1903(S)

## APPENDIX

### *Summary of Conclusions/Recommendations of the Committee on Public Undertakings Contained in the Report.*

Sl. No.	Reference to Para No. in the Report.	Summary of Conclusions/Recommendation
(1)	(2)	(3)
1.	1-27	<p>The Food Corporation Act, 1964 is a comprehensive piece of Union legislation on a concurrent subject. The Act provided for the establishment of Food Corporations for the purpose of trading in foodgrains and other foodstuffs. The Act extended to the whole of India. The Food Corporation of India was set up in January 1965 under the Act. The primary duty of the Corporation was to undertake the purchase, storage, movement, transport, distribution and sale of foodgrains and other foodstuffs. The Corporation was required to act on business principles having regard to the interests of the producer and consumer. The Act enabled setting up of State Food Corporations in consultation with the States. The capital of the State Corporations was to be provided by the Central Government and the Food Corporation of India. The Boards of Directors of the State Corporations were to be appointed by the Food Corporation of India after consultation with the Central Government and State Governments and the Boards were to be guided by such instructions of policy as might be given to them by the Food Corporation of India. The Act also enabled setting up of a Board of Management for a State or two or more contiguous States having no State Food Corporation. The Board of Management was to advise the Food Corporation of India on matters referred to it and perform such other functions as delegated to it by the Corporation. Thus, the structure of the Act clearly visualises the Food Corporation of India to function either by itself or in combination with the State Food Corporations/Boards of Management, as the sole trader in foodgrains in the public sector. This is necessary to realise the avowed objectives of securing for itself a strategic and commanding position in the foodgrains trade all over the country and of bringing about the much needed discipline in the trade. Unless these are realised neither the interests of the producer nor the interests of the consumer could be served well. Unfortunately, after examining the working of the Food Corporation of India the Committee are left with an impression that the Corporation as it is structured at present would not be able to make much of an impact.</p>
2.	1-28	<p>In none of the States, the State Food Corporation has been set up so far. The Boards of Management set up in 1967-68 in two States, viz., Andhra Pradesh and Orissa, were abolished in 1972 and 1976 respectively. Some of the States have set up their own</p>



(1)

(2)

(3)

Food Corporations Warehousing, Corporations, Agro-industries Corporations, Civil Supplies Corporations etc. to handle the business. Thus, there is at present no unified institutional arrangement for the foodstuffs trade in the country. The policies differ from State to State. An idea of extent to which the overall interests of the producer and consumer has suffered could be had from the succeeding sections of this Report. The Committee feel that the States ought to be actively involved in the operation of the FCI. In order to make the operations of the FCI more effective and purposeful a fresh initiative should be taken by the Central Government, to set up the State Food Corporations of the Boards of Management in the States.

3. 1:29

The Act also envisaged constitution of one or more Advisory Committees to advise the Central Government or the FCI in regard to any matter connected with the purposes of the Act. Rules providing for the composition of the Advisory Committees and the terms and conditions of service of members thereof, were to be framed by the Central Government. Surprisingly, no such rules have been framed so far. An All India Committee of representatives of the trade in Foodgrains set up in December 1964 was converted as an Advisory Committee for the FCI in October 1966 much against the wishes of the Corporation. The Advisory Committee consisting mainly of non-official members who represented the trade, could not serve the purpose. It was naturally interested in serving the interest of private trade which the Corporation was expected to discipline. The Committee was, therefore, wound up in November 1968. During the period of 2 years of its existence the Committee held only one meeting. The Corporation goes without an Advisory Committee for more than 12 years now. Thus, there has been no such mechanism as envisaged by the Act to make the Corporation continuously responsive to the interests of the producer and consumer. This shows that the Corporation is not serious to implement the spirit of the Act. The Committee are at a loss to understand how an Advisory Committee consisting mainly of traders came to be appointed for two years in the beginning. By no stretch of imagination could it be presumed that the FCI was to serve the interests of the traders. The Committee desire that the Central Government should frame suitable rules and see that the apex level advisory committees mainly consisting of representatives of the producer and consumer are formed without delay.

4. 1:30

The Board of Directors of the FCI consists of the Chairman and 11 Directors of whom 5 are officials. The Board, however, goes without the Chairman and six non-official Directors whose terms expired in June/September, 1980. The Committee desire that an organisation like FCI having huge turnover and operational dimension should not remain without Chairman and a number of Directors for such a long time. The Board as constituted last did not have on it representatives of consumers' federation of

(1)	(2)	(3)
		council. This deficiency should be made good while filling up the vacancies.
5.	1·31	In the earlier years our country was deficient in foodgrains, but has become by and large self-sufficient in the past 5 years or so. There has, therefore been a shift from the compulsory levy to support purchase operations and building up of a buffer stock to take care of cyclical changes. This has thrown up added responsibilities for the FCI. The Committee are inclined to agree with the Managing Director of the Corporation that the role and structure of the Corporation have to be redefined. The Committee, however, note the view of the Secretary, Department of Food, that the Food Corporations Act, 1964 is flexible enough to accommodate the change that has taken place and that no radical restructuring of the Corporation would be needed. Nevertheless the Committee feel that the matter requires serious consideration. The Committee trust that the inadequacies brought out and suggestions given in this Report would be the basis for such a consideration by the Government.
6.	2·40	As stated earlier there is no uniform purchase policy or programme in the various states. The Committee regret to hear from the Managing Director, FCI that no initiative was taken by the Corporation to bring about uniformity. In some States the Corporation is the sole purchasing agency, in some it acts through State agencies and in some it acts along with others while in some other States it does not make any purchase at all. The procurement policies and arrangements not only differ from State to State but in each State these also differ from time to time. On account of the fluctuations and uncertainties the Corporation is evidently not in a position to plan ahead and make suitable administrative arrangements for its operations, which have now become enlarged. If only the State Food Corporations/Boards of Management were formed as contemplated in the Food Corporations Act, this difficulty would not have been encountered.
7.	2·41	The annual purchase of wheat, rice and coarse grains by the FCI were between 81 lakh tonnes and 115 lakh tonnes during the period 1975-80 and it was between 8 to 12 per cent of the total production. The Corporation was not aware of the extent of the marketable surplus during these years. However, according to the Secretary, Department of Food, the arrivals in the market were 31 per cent of production for wheat and 27 per cent for rice in 1976-77. Relying on this statistics he claimed that excluding coarse grains the purchase of which was not significant, more than half of the marketable surplus of wheat and rice was purchased. The Committee suggest that there should be a scientific system of ascertaining the surplus and the data should be fairly upto date. A comparison of the purchases with the marketable surplus should be given in the Annual Reports of the FCI. It is necessary for the Corporation to have a decisive intervention in the trading of foodgrains by stepping up the level of purchase.

(1)	(2)	(3)
8.	2-42	<p>The quantum of the purchase does not impress the Committee. Although the whole of the wheat and a large part of rice procured was under the price support operation, regrettably, the direct purchases from the producer were negligible. The purchases through farmers' cooperatives during the last three years was less than 30 per cent of the total purchases in the case of wheat, whereas it was negligibly small in the case of paddy. During the current year there has been some improvement inasmuch as 7.5 lakh tonnes of paddy was procured from farmers' cooperatives. The Committee need hardly point out that greater efforts are needed to go in for more of direct procurement from the producer or from producer cooperatives rather than through intermediaries so that the benefit could reach the producer fully.</p>
9.	2-43	<p>The Committee are anxious to see that the producer actually get the minimum support price for his produce. They regret that no survey has been conducted to ascertain how far the primary producer got the benefit of the operations of the FCI. When the purchases are made from the intermediaries it was not ensured that the producer got price fixed. For instance, in Punjab or Haryana no purchase is made directly by the FCI. The purchases are made through 'katcha artiyas'. The Committee have been informed that the question of abolishing the intermediaries had been taken up by the Central Government from time to time and lately by the Minister of Agriculture himself. However, the Committee note the view expressed before them that it was not legally compulsory for the FCI to procure through the artiyas in Punjab or Haryana. In any case the Committee desire that it should be ensured by the FCI that the payment for the value at the prescribed rate is made to the producer by the artiyas whenever purchases are made through the artiyas.</p>
10.	2-44	<p>Safeguarding the interests of the producer being one of the important obligations of the FCI, especially in the changed context of enhanced agricultural production, the Committee feel that the Corporation should not confine itself to purchase, storage and distribution of foodgrains. The Committee understand that in the USA loans on the basis of target price are advanced directly to the producer on the unprocessed commodity and that if the market price failed to rise above the loan level, the producer could deliver the commodity to the Commodity Credit Corporation discharging their obligation in full. The Committee note that the experience of the FCI in regard to loans advanced in the past on the security of foodgrains without linking it to the price support was not encouraging. The Secretary, Department of Food, expressed his apprehension about quantum of procurement for the Central pool being kept up if the USA practice was adopted. Nevertheless the Committee desire that a beginning should be made at least in the case of small and marginal farmers in concert with the agricultural credit institutions. This will go a long way in obviating distress sales and giving the much needed holding power for the weaker section of the producer. It should not be too difficult to ensure that procurement is made upto the minimum level required, both for buffer and operational stocks.</p>

(1)	(2)	(3)
11.	2.45	At present millers are engaged as contractors for milling the paddy procured by the FCI. In order to avoid double handling the Committee suggest that gradually there could be a tie-up with the millers in the cooperative or public sector in the matter of procurement under price support operation, as in Philippines where the miller are stated to purchase paddy at a price not lower than the Government support price and act as contractors of the National Grain Authority for milling. The Committee desire that instead of waiting for the millers to come forward, the FCI should take the initiative in this regard. Taking into account the incidental expenses the percentage of paddy to be delivered as rice could be fixed and the price paid on the basis of the support price for paddy.
12.	3.43	Till 1975-76 targets were fixed by Government for the purpose of procurement under compulsory levy. After switching over to minimum support approach consequent on enhanced production and availability of foodgrains targets became irrelevant. The Committee presume that the FCI is committed to purchasing all the grains offered at the minimum price fixed. The purchase arrangements thus need a change if the produce is to be assured of minimum price. The buffer stocks to be maintained by the Corporation also demand suitable storage capacity and scientific preservation techniques being employed. The Committee trust that the FCI would measure up to the new challenges.
13.	3.44	The annual level of buffer and operational stocks varied from 77.24 lakh tonnes to 110.80 lakh tonnes and from 32.88 lakhs tonnes to 43.25 lakh tonnes respectively during the years 1977-80. The Corporation mainly arranges issue of foodgrains for the Public Distribution System and of wheat to the Roller Flour Mills as per allocations made by the Government. The Committee note that sometimes stocks are held for 4 years and even longer. In view of heavy carrying cost of stocks, the Committee suggest that where the buffer stocks are held beyond a reasonable level the excess could be disposed of the sale in the open market or the issue price for the Public Distribution System slightly lowered so that offtake can be more. Having regard to all relevant factors the level of buffer stocks should be carefully determined from time to time. The economics of holding excessive stock <i>vis-a-vis</i> the course suggested by the Committee should be worked out and suitable action taken on that basis from time to time.
14.	3.45	At present internal distribution of foodgrains issued from the Central Pool is regarded as the responsibility of the States. The FCI, however, undertakes distribution as wholesale selling agents in West Bengal, Andhra Pradesh, Madhya Pradesh, Rajasthan and Kerala. In certain places, the Corporation undertakes retail distribution to the fair price shops also. The Committee feel that in view of the commitment for the FCI to serve the interests of the consumer it could undertake the distribution function fully if only there would be a network of State Food Corporations/State Boards of Management as contemplated by the Act. Till such a network is developed, it is prudent for the Corporation to confine itself to the procurement for the Central Pool and issue to the States leaving it to them to organise the distribution.

(1)	(2)	(3)
15.	3-46	<p>The Committee are distressed to note that in some States the retail price fixed by the States for the ultimate sale of foodgrains to the consumer from the public Distribution System is much higher than the price at which the grains are issued from the Central Pool to the States. The difference was as high as Rs. 19 in Orissa, Rs. 15 in West Bengal, Rs. 13 in Andhra Pradesh and Rs. 11 in Rajasthan per quintal of wheat and Rs. 28 in Orissa, Rs. 20 in Gujarat, Rs. 19 in West Bengal and Rs. 15 in U.P. per quintal of rice. In some States the retail price seems closer to the open market price allowing for the quality variations. The Committee have been informed that neither the FCI nor the Central Government has control over the retail price fixed by the States. The attempts of the Government to bring about certain homogeneity if not uniformity and to peg the margin between the issue price and the retail price down to Rs. 10 seem to have failed. Thus, although the procurement price and issue price of Central Pool are uniform there is wide disparity in the final retail price that the consumer pays. It cannot, therefore, be claimed that the operation of the FCI fully serves the interests of the consumer. It is very unfortunate that the consumer subsidy of the order of Rs. 300 crores and the buffer stock carrying cost of about Rs. 260 crores paid annually from the Central Exchequer did not achieve the purpose. The Committee strongly feel that the whole sale and retail margins should be the minimum possible. The States should be persuaded to ensure this.</p>
16.	3-47	<p>The Roller Flour Mills in all the States are given separate allotments of wheat from the Central Pool stock held by the FCI. The annual offtake by the mills ranged from 27 lakh tonnes to 36 lakh tonnes during the period 1977-80. This worked out to about 40 to 50 per cent of the total issues of wheat from the Central Pool. Despite such substantial issues to the mills, it is surprising that the FCI or the Central Government does not have much of a control on the pricing and distribution of the end products of the mills viz. maida, suji and atta. It should be noted that wheat is issued at a subsidised price and the Central Government bears the subsidy. It is common knowledge that the benefit of the subsidy goes largely to the mills rather than to the consumer for whom it is meant. The Committee would, therefore, suggest a critical study of the position to take suitable action to ensure that the consumer actually derives the benefit. Further, it should be made a rule that if the mills wanted to buy from the FCI, they must buy for all their requirements from the Corporation only so that no alibi could be given for charging higher prices for the end products and rigid control could be exercised on their distribution and price. Such a control is necessary in the prevailing situation. The Committee welcome the recent decision of the Government to charge Rs. 10 more to the flour mills for the supply of wheat to them. If it is not possible to have a strict check on distribution and price of end products the mills should be charged economic price for wheat supplies.</p>

(1)	(2)	(3)
17.	4-30	Storage of foodgrains has assumed enormous importance in the context of the enhanced agricultural production in recent years and the need to maintain huge buffer stocks for balancing the supply without being affected by the level of production which still largely depends on the vagaries of the weather. Though there is adequate storage space available at present, a large part of it is hired. As the cost of hiring is stated to be higher than that of owned accommodation, it is necessary to relinquish the hired private accommodation. The Committee, however, note that the construction of godowns by the FCI is proceeding at a slow pace. This should be speeded up. Incidentally, the Committee desire that in future godowns should be constructed as far as possible at the rail heads so that railway wagons could be moved through sidings to the godowns and handling operations could go on under all conditions of weather.
18.	4-31	The average utilisation of storage space was as low as 70.4 per cent during 1979-80. This has undoubtedly caused an avoidable increase in the overhead costs of the Corporation. Storage losses touched an all time high of 2.03 lakh tonnes valued at Rs. 31.51 crores during the year 1979-80. A number of cases of theft and misappropriation have also been reported. The Committee desire that proper precaution should be taken against losses and damages and the stock should invariably be held in covered accommodation and well guarded.
19.	4-37	There is reportedly imbalance in the availability of storage space. The FCI has storage space at places more than what is needed and at other places inadequate space. This imbalance should be corrected early on a planned basis under a time-bound programme. This again is tied up with the question of uniformity in procurement policies and distribution arrangements in all the States.
20.	4-33	The Committee would suggest that for ensuring a scientific and safe storage of foodgrains and monitoring the utilisation of the godowns as well as undertaking construction/renovation programmes, 'storage' should be treated as a distinct activity of the FCI and it should be put under the charge of a competent and well qualified Executive. He could be a functional Director of the Board of the Corporation.
21.	5-49	The important social obligation of the FCI is to protect the producer and the consumer from exploitation by the trader. The index of efficiency of the Corporation is the extent to which this obligation has been discharged by it. It is not exactly an edifying spectacle that has emerged out of the examination of the Committee. However, it is equally important to ensure the cost efficiency of the Corporation as the overhead expenses of the Corporation is borne ultimately by the tax-payer. The difference between the final cost of foodgrains to the Corporation and the issue price is reimbursed by the Central Government as consumer subsidy. The carrying charges of the buffer stocks are

(1)	(2)	(3)
		also reimbursed fully by the Government. The total payment was of the order of Rs. 589 crores representing Rs. 324 crores of consumer subsidy and Rs. 265 crores of carrying cost of buffer stocks during 1979-80. The consumer subsidy per quintal of wheat was Rs. 28-14 and of rice was Rs. 17-71. The carrying cost of buffer stocks was Rs. 25-77. The Committee are concerned that the cost per quintal including the cost of retail distribution appears to exceed 75 per cent of the price paid to the producer. A large part of it is subsidised by the Central Government. Yet the consumer has to pay a heavy price.
22.	5-50	Wheat is now entirely procured under price support operation. The procurement incidentals of the FCI jumped from Rs. 8.95 in 1974-75 to Rs. 20-34 in 1979-80. The Committee have been informed that the cost was less when the procurement was largely made through traders' levy. For levy stocks collected by the State and surrendered to the Central Pool during 1974-75, mandi charges, establishment cost, interest charges and purchase tax were not payable. The Committee note that there is a tendency on the part of the surplus States to impose a variety of fiscal levies in the shape of mandi charges, market fee and sales/purchase tax which load the procurement cost. These vary from State to State. An expert Committee set up by the Central Government had <i>inter alia</i> recommended that the mandi charges be fixed not <i>ad valorem</i> but as a specific rate per quintal, that the market fee and the katcha artiyas' commission be fixed at a level not higher than Re. 1/- per quintal, and that the purchase/sale tax be reduced from 4 per cent to 2 per cent. The Committee desire that these should be considered for securing the consent of the States in the overall interest of the consumer.
23.	5-51	As mentioned earlier in this Report, the FCI uses the agency of the States for procurement. There is stated to be a difference of about Rs. 2 between the procurement cost of the Corporation and that of the States, the former being lower. There is scope for reduction in the expenses incurred by the States on behalf of the FCI and which are reimbursed in full. The Committee feel that either these should be reimbursed at a fixed rate per quintal or limited to the average cost of the FCI. The State-wise position may be analysed and appropriate action taken in consultation with the State concerned.
24.	5-52	There is also scope for reduction in the expenses of the FCI through rationalisation of purchase and handling of foodgrains, economising on administrative overheads and cutting down storage and transit losses. The Committee suggest that instructions recently issued to the Corporation in the matter of claiming consumer subsidy and reimbursement of carrying cost of buffer stocks should be rigidly enforced. Admittedly, at present there is no imbuilt compulsion for economy in the operations of the FCI. A system of incentives for economy and disincentives for extravagance should be evolved in consultation with the Comptroller and Auditor General of India. The Committee expect the FCI

- | (1) | (2)  | (3)  |
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|     |      | to function truly on business principles as laid down in the Act. Incidentally, the Committee suggest that the handling contracts should be taken out of private hands and entrusted to labour cooperatives, failing which the work should be either departmentalised or a system of direct payment to the labourers introduced. The Committee are not in favour of private intermediaries.  |
| 25. | 6-27 | The operations of the FCI fall into three categories viz. Central, State and commercial operations. As already observed by the Committee, on the Central operations there is scope for neither loss nor gain, the difference between the cost of sales and issue price for the public distribution system as well as the actual carrying cost of buffer stock being fully reimbursed by the Government. Though overall there is no loss on the other two operations, the FCI has incurred losses on its operations on behalf of a few States and on the supply of pulses, gram, gram products and animal food to the Army Purchase Organisation. Some of the process Plants operated by the Corporation have also disclosed losses. Such losses should not normally arise. The Committee desire that in future the financial results of the three operations should be clearly brought out in the Annual Reports of the Corporation. |
| 26. | 6-28 | The Committee would like to make a mention of the working of the 25 modern rice mills run by the FCI. The capital cost of the mills was Rs. 483.27 lakhs. The utilisation of these mills during 1977-80 was only to the extent of 24 to 44 per cent of the substantially derated capacity. These mills have incurred losses of the order of Rs. 69.53 lakhs during this period. The Committee desire that the scheme of setting up of the rice mills and the operation of the scheme should be investigated to see whether there was anything conceptually wrong with the scheme as such and if not, what ails these mills. On the basis of the findings appropriate action should be taken.   |
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| 28. | 6-30 | There has been undue delay in presenting of Annual Report of the Corporation to Parliament. The reports for the years 1978-79 and 1979-80 have not yet been presented until January 1981. Such delays should be avoided in future. Parliament, which authorises subsidies of the order of Rs. 600 crores annually, would expect the accounts of the FCI in time. The Committee would suggest that Government might consider an amendment to the Food Corporations Act to make it incumbent on the Corporation to finalise the accounts and get them audited within 6 months of the close of a financial year as in the case of a Government Company.   |