P.A.C. No. 710

PUBLIC ACCOUNTS COMMITTEE (1978-79)

(SIXTH LOK SABHA)

HUNDRED AND FORTY-FOURTH REPORT

IMPORT OF RAPESEED AND RAPESEED OIL FROM CANADA

(Ministry of Commerce, Civil Supplies and Cooperation

(Department of Civil Supplies and Cooperation)

[Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 72nd Report (Sixth Lok Sabha) on Import of Rapeseed and Rapeseed Oil from Canada]

Presented in Lok Sabha on 26th April, 1979

Laid in Rajya Sabha on 26th April, 1979

LOK SABHA SECRETARIAT
NEW DELHI
April, 1979/Vaisakha, 1901 (S)
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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Forty-Fourth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Seventy-Second Report (Sixth Lok Sabha) on Import of rapeseed and rapeseed oil from Canada commented upon in paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil).

2. On 31 May, 1978 an 'Action Taken Sub-Committee' consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri P. V. Narasimha Rao—*Chairman*
2. Shri Asoke Krishna Dutt—*Convener*
3. Shri Vasant Sathe
4. Shri M. Satya Narayan Rao
4. Shri M. Satyanarayan Rao
6. Shri Kanwar Lal Gupta

(4–6) *Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 21 April, 1979. The Report was finally adopted by the Public Accounts Committee (1978-79) on 24 April, 1979.

4. For facility of reference the conclusions or recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the conclusions or recommendations of the Committee have also been reproduced in a consolidated form in the Appendix to the Report.

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

NEW DELHI;
April 24, 1979
Vaisakha 4, 1901 (*S*)

CHAPTER I

REPORT

1.1. This Report of the Committee, deals with the action taken by Government on the Committee's recommendations and observations contained in their 72nd Report (Sixth Lok Sabha) on Import of Rapeseed and Rapeseed Oil from Canada, commented upon in paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil) relating to the Ministry of Civil Supplies and Cooperation.

1.2. The Committee's 72nd Report was presented to the Lok Sabha on 17 April, 1978 and contained 13 recommendations. Action Taken Notes in respect of all the 13 recommendations and observations have been received from Government and these have been broadly categorised as follows:—

(i) Recommendations or observations that have been accepted by Govesnment:—

Sl. No. 8

(ii) Recommendations or observations which the Committee do not desire to pursue in the light of the replies received from Government:—

Sl. Nos. 1—3, 5, 7 and 9—13

(iii) Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration:—

Sl. Nos. 4 and 6

(iv) Recommendations or observations in respect of which Government have furnished interim replies:—

Nil

1.3. The Committee will now deal with the action taken by Government on two of their recommendations:—

Import of rapseed under the supplementary grant in 1974-75 (*Paragraph* 1.52—*Sl. No.* 4).

1.4. Commenting on the import of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh dollars, the Committee in paragraph 1.52 of the Report had observed as follows:—

"The Committee are perturbed to note that due to sharp decline in the price of mustard oil in 1975, the Eastern States showed their inability to distribute rapeseed oil at Government notified price. The uplifted quantity (6,300 tonnes) was consequently cancelled in February, 1975. The State Trading Corporation also experienced difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. However, this quantity of 6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Committee are not inclined to be satisfied by the explanation given by the Government in this regard and would like the matter to be investigated in depth so as to fix responsibility for the loss suffered due to disposal of 6,300 tonnes of rapeseed. The Committee also fail to understand why Government immediately after the above episode imported another quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh dollars particularly when there was no demand for that at that time. Such being the position, it appears that the whole quantity of 13,416 tonnes was allotted to parties dealing in vegetable products in the eastern region. This indicates that Government had no firm policy for importing rapeseed based on realistic domestic demand or prices then prevailing in the international market. This matter needs to be carefully gone into."

1.5. In their Action Taken Note dated 11 April, 1979, the Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation) have stated:—

"PAC has observed that there was undue delay in the disposal of unlifted quantity of 6,300 tonnes of rapeseed resulting in loss and would like the matter to be investigated, in depth, so as to fix responsibility for the loss suffered due to this delay. This matter has also been examined, in all its aspects, by the Officers' Committee which, in their Report, have, *inter alia,* come to the conclusion that the realisations effected on account of disposal of 6,300 tonnes of rapeseed were, perhaps, the best that could have been achieved, taking into account the efforts made by the STC in the then prevailing circumstances, Government had also not incurred any cash losses in the transactions. PAC has observed that the quantity of 6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Officers' Committee has gone into this aspect and has observed that, excepting for 70 tonnes, which were damaged due to floods and disposed of to soap manufacturers, the entire balance quantity of unlifted rapeseed was sold to vanaspati industry for use in vanaspati manufacture *i.e.* for edible purposes.

The Government have gone into the conclusions reached by the Officers' Committee in this matter and agreed with them. Government feel that the chronology of events leading to the disposal of the rapeseed indicate that STC was making constant efforts towards disposal of the unlifted stocks of rapeseed at the most competitive prices and that STC's efforts in the disposal of the stocks and the prices obtained by it have to be viewed in the context of the speculative nature inherent in the oilseeds/oil business. Considering the attendant circustances and the efforts of STC, Government is of the opinion that there were no malafide motives in the disposal of the unlifted rapeseed stocks and, therefore, any question of fixation of responsibility and consequent action against the Officers associated with these transactions, does not arise."

1.6. The Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation) have also furnished a copy of the report of the Officers' Committee relating to "Import of rapeseed under the supplementary grant in 1974-75". The Officers' Committee have observed:—

"The Canadian High Commission telephoned the Joint Secretary in the Department of Economic Affairs on 5 February, 1975 and indicated that CIDA had located about 5-6 million Canadian dollars worth of rapeseed which the Canadian Government liked to give to India on a grant basis. The Canadian High Commission desired to have a reply on this offer by the next day, *i.e.* 6 February, 1975. Since both the Food Secretary and the concerned Joint Secretary in the Department of Food were out of station and as a decision on the Canadian offer had to be conveyed to the Canadian High Commission the very net day, Shri Baijal had to obtain orders on the Canadian offer to rapeseed from his Secretary and the then Finance Minister. This was done on the basis that the country was generally short of oilseeds and the quantity of 15,000—20,000 tonnes of rapeseed likely to be available on account of this supplementary grant could be easily absorbed. On approval of the proposal by Secretary Economic Affairs and the Finance Minister, Canadian High Commission was informed of the Government's decision accepting the Canadian offer of importing rapeseed. This decision was conveyed telephonically on the 6 February, 1975. A formal offer from Canadian High Commission was received on 26 February, 1975."

1.7. The Committee had noted in their 72nd Report that due to sharp decline in the prices of mustard oil in 1975, the Eastern States had expressed their inability to distribute rapeseed oil at Government notified prices. The unlifted quantity of 6,300 tonnes of rapeseed was subsequently cancelled in February, 1975. The State Trading Corporation had also expressed difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. In the event of such a situation, the Committee had questioned the import of a further quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 5 million Canadian dollars, particularly when there was no demand for that. The Ministry of Commerce, Civil Supplies and Cooperation have referred to the report of the Officers' Committee in this regard. The Officers Committee which inter alia **went into the matter have observed that the Canadian High Commission had intimated the Department of Economic Affairs on 5 February, 1975 that the Canadian Government liked to give to India rapeseed worth 5-6 million Canadian dollars. The Canadian High Commission desire to have a reply on this offer by the next day i.e. 6 February, 1975. Since both the Food Secretary and concerned Joint Secretary in the Deparment of Food were out of station and as a decision on the Canadian oqer had to be conveyed to the Canadian High Commission the very next day, the orders were obtained from the Secretary of the Department of Economic Affairs and the then Finance Minister and conveyed to the Canadian High Commission on 6 Februry, 1975. From the facts narrated above by the Ministry, the Committee find that the whole transaction was rushed through without taking into consideration he overall requirements of rapeseed in the country. Even though the Canadian High Commission had informed the Department of Economic Affairs on 5 February, 1975 about the grant of 5 million Canadian dollars for the purchase of rapeseed and desired to have the reply on this offer by the next day i.e. 6 February, 1975, the Committee do not see any reason why the Canadian High Commission could not be persuaded to keep the offer open till such time as the comments from the concerned Department of Food were made available to the Ministry of Finance. It is also not clear whether the informal offer received on 5 February, 1975 was conveyed by the Ministry of Finance (Department of Economic Affairs) to the Department of Food before it was formally received from the Canadian High Commission on 26 February, 1975. The Committee feel that if this had been done, the gap of**

20 days could have been utilized for reviewing the position for a firm and appropriate decision in te matter, before the receipt of the formal offer. The Committee at this stage can only recommend that in futur while importing edible or perishable items, Government should take the final decision only after considering all pros and cons with the Ministry or Department concerned.

Lack of Co-ordination between various agencies connected with the Import of Rapeseed under the supplementary grant (Paragraph 1.54—*Sl. No.* 6).

1.8. Referring to the lack of functional coordination between various agencies connected with the import of rapeseed under the supplementary grant, the Committee in paragraph 1.54 of the Report had observed:—

"The manner of consideration of the question of import of rapeseed speaks volumes of Government apathy and lack of functional coordination between various agencies connected with the issue. As revealed in evidence, there was a difference of opinion between the Department of Food and Ministry of Finance on the issue of import of rapeseed. The Department of Food had recorded a note on 1 March, 1975 that 'we would have advised the Ministry of Finance (Department of Economic Affairs) against taking any further quantity of rapeseed had they consulted us on the latest offer. Now that they had accepted the offer on their own and effected a *fait accompli* in this regard, their belated reference to us on the subject serves little purpose beyond calling on us to implement the decision, regardless of consequences'. All this proves that the import of rapeseed/rapeseed oil into the country was not made after giving careful thought."

1.9. In their reply dated 11 April, 1979, the Ministry of Commerce, Civil Supplies & Cooperation (Department of Civil Supplies and Cooperation) have stated:—

"The averment made by the PAC that there was then no coordination between the various agencies connected with the import of rapeseed/rapeseed oil, has been examined, in depth, by the Officers' Committee. The Committee has noted that there was a departure in the instant case in that the Department of Food was consulted after the acceptance of the Canadian offer. The Officers' Committee noted that this departure was an isolated instance warranted by the circumstances of the case and it may not be justified to draw generalisation from an isolated instance, particularly considering the fact that the final decision was taken at the Finance Minister's level. However, the Ministry has taken note of the

PCS recommendation with a view to have a better coordination and necessary instructions are being issued accordingly."

1.10. As regards coordination between the various agencies connected with the import of rapeseed the Ministry in their action taken note have stated that it was an isolated instance where the Department of Food was consulted after the acceptance of Canadian offer. The Committee are not satisfied with this explanation. Even if it was an isolated instance, as pleaded, the Committee would like the Government to lay down some guidelines to deal with such exigencies in future.

CHAPTER II

RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 8, Para No. 1.56)

It is seen that the production of mustard and rapeseed has fallen from 22.52 lakhs tonnes in 1974-75 to 15.62 lakhs in 1976-77. The Committee are concerned to note this falling trend in the production of mustard and rapeseed in the country. Obviously, it has resulted in more import of this essential commodity to meet the internal requirements of edible oils. The Committee need hardly emphasize that intensive measures, both short-term and long-term, should be taken to augment the production of mustard, rapeseed and other oil-seeds within the country not only to avoid drain of foreign exchange through imports but also to tide over the chronic shortage of edible oils which the country has to face year after year. The Committee would watch with interest the results achieved through such measures through the annual reports of the Ministry.

— Action Taken —

1. It is a fact that the production of mustard/rapeseed had fallen from 22.52 lakh tonnes in 1974-75 to 15.62 lakh tonnes in 1976-77. Recognizing the imperative need for augmenting the indigenous production of oilseeds so as to place less reliance on imports, the Government had considered various short-term and long-term measures to increase the indigenous production, as a result of which the production of rape/mustard seed rose again to 16.2 lakh tonnes in 1977-78, an increase of 1.0 lakh tonnes. These measures which were mainly sponsored by Department of Agriculture, included the following.

Short-term measures:

(i) Plant protection measures on rapeseed crops on a larger scale than hitherto, through both ground and aerial operations; to control the major pest 'aphis'.

(ii) Application of optimum quantity of fertilizer.

(iii) Strengthening the programme for production and distribution of good quality seeds of improved varieties of oilseeds;

(iv) Fixation of suitable support price for groundnut, rape-mustard, sunflower and soybean with adequate arrangements for carrying out support operations;

(v) Increasing the area under toria crop; a short duration crop which fits in a multiple-cropping pattern;

(vi) Increasing the area under non-traditional oilseeds like sunflower, soybean and oil palm.

Long-term measures:

(i) Expanding the irrigated area under groundnut and mustard;

(ii) Intensification of development work on sesame;

(iii) Strengthening of oilseeds research programme with a view to evolving varieties with substantially high yield and high oil potential.

In addition to the above measures, following measures have also been taken:—

(i) State Governments have been advised to induce the farmers to substitute as far as possible such areas under wheat which receive only one or two irrigations resulting in low returns, with rapeseed/mustard;

((ii) Efforts are being made to harness a potential of 0.50 lakh hectare under rapeseed/mustard cultivation in a phased manner under the command of Rajasthan Canal;

((iii) To encourage spread of rapeseed/mustard seed crip in non-traditional areas as also the spread of new varieties in existing areas, large scale problem-oriented demonstrations and large scale free supply of mini-kits are being adopted.

2. For achieving self-sufficiency in edible oils, the Planning Commission has considered it essential to assume a growth rate of 4.56 per cent for oilseeds. However, fluctuations in annual production of oilseeds continue to persist because at present, barely 5-6 per cent of the area under oilseeds crops is irrigated. As such, the benefits calculated to accrue from the application of superior production technology are diluted by the effects of the adverse seasonal conditions. However, the adoption of superior production technology would go a long way in increasing and stablishing production at higher levels.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies & Cooperation) O.M. No. 19-VP(5)/78 dated 28th December, 1978].

CHAPTER III

RECOMMENDATIONS OR OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendations Sl. Nos. 1, 2, 3, 5 and 7 (Para Nos. 1.49, 1.50, 1.51, 1.53 and 1.55.

1.49. The Committee note that against loan assistance received under the Canadian Development Assistance Programme, 77,500 tonnes of rapeseed were imported from Canada during 1969-70 and 1970-71 for allotment to the State Government in the eastern region, mainly West Bengal, Assam and Bihar, for crushing it and supplying oil through fair price shops. About 79,800 tonnes of rapeseed were imported against the Canadian grant for 1972-73. Thus 1,57,300 tonnes of rapeseed were imported against the loans for 1969-70 and 1970-71 and the grant for 1972-73. The Committee also note that the economics of importing rapeseed oil in preference to rapeseed were not examined all these years by Government and such an examination was done only in June-July 1973 when the Canadian authorities wanted to know whether a part of the grant of Canadian dollars 150 lakhs for 1973-74 would be accepted by India as rapeseed oil. As a result of such an examination it was found in June-July 1973, on the basis of prices than prevailing, that on overall cost basis import of rapeseed oil would have a price advantage of about dollars 121 per tonne (which according to Government would be reduced to dollars 13* if the cost of refining is included) as compared to the net cost of oil (after allowing for credit for export of oilcakes) extracted in India from Imported rapeseed. The Committee observe that during evidence no convincing argument was advanced by the representatives of the Ministry of Civil Supplies and Cooperation for not working out the comparative cost of importing rapeseed and rapeseed oil, till 1973. Rather, the Secretary of the Ministry of Civil Supplies and Cooperation had stated that "as per our records, such a comparative statement of cost was not made at that time." It is all the more surprising that such a study was not undertaken by Government even when an Indian Company had pointed out to the State Trading Corporation in April 1972 that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed. The suggestions of their own business interests than otherwise." The Committee doubt whether this alleged fear of 'motivation' was justified as rapeseed oil was imported later on by STC on Government account and not by any private party.

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*Not vetted by Audit.

1.50. One of the reasons for not asking the Canadian authorities for rapeseed oil instead of rapeseed was that Government was of the view that import of rapeseed took place under grants and that it was not be proper to examine the transactions from the restricted angle of commercial norms.

However, the Canadian authorities themselves enquired whether this country wished to import rapeseed oil as part of the grant of Canadian dollars 150 lakhs for 1973-74. What the Committee regret is that prior to 1973-74, Government had not even made any efforts on their own to ascertain whether rapeseed oil could also be imported against the Canadian assistance. It was as a result of the decision taken during 1973-74 that the country imported for the first time rapeseed oil costing about Canadian dollars 93.6 lakhs while rapeseed costing about Canadian dollars 47.4 lakhs only was imported.

1.51. The other reason advanced was that the import of seed had an inherent advantage in that it helped in the utilisation of idle milling capacity in the country. But the Committee find that between 1965-66 and 1973-74 the highest indigenous production of mustard and rapeseed was 19.76 lakh tonnes in 1970-71 and 19.08 lakh tonnes in 1972-73. Compared to the milling capacity in the country only about 77,500 tonnes of rapeseed were imported during 1969-70 and 1970-71 against the loan assistance. The Committee, therefore, do not agree with the argument that the imported rapeseed helped significantly in the utilisation of the idle milling capacity in the country or in improving the employment potential.

1.53. The Committee have beein informed that use of imported rapeseed oil for manufacture of vanaspati was permitted for the first time in March 1973 and that prior to 1973-74 rapeseed oil was not imported as the industry was not technically equipped to hydrogenerate rapeseed oil because of certain operational and technological problems both at the refining and hydrogeneration stages. But when the Secretary, Ministry of Civil Supplies and Cooperation was asked whether Government had got it confirmed that imported oil could not be used by the vanaspati industry, he could not reply categorically. The Committee are, therefore, not convinced with this plea as well. The Committee are of the opinion that had rapeseed oil been imported from the very beginning, the industry would have equipped itself to use it as there was shortage of indigenous oils in the country during these years. The use of rapeseed oil in vanaspati would have also made the rate of indigenous oils cheaper for direct consumption by the public.

1.55. The Committee need hardly emphasise that the whole matter of import of rapeseed/rapeseed oil against Canadian loan aid/grants needs a thorough probe to determine as to how far the decisions taken were in the best interest of the State. For this purpose, the Committee would recommend the constitution of a Committee of senior officers to go into the matter and report to them within 6 months of the presentation of this Report.

Action Taken

In terms of para 1.55, a Committee of Senior Officers of the Government of India was constituted to go into the matters referred to in paras 1.49 to 1.55 of the PAC Report. The Report of the Officers' Committee has already been submitted to the PAC as directed by it (Annexure).

The issues raised in paras 1.49, 1.50, 1.51 and 1.53 pertaining to the working out of relative economics of import of rapeseed and rapeseed oil, were examined by the Officers' Committee at great length. The Officers' Committee have expressed the view that import of rapeseed, to extract rapeseed oil for direct consumption, was based on a conscious decision of supplementing the requirements of the mustard-oil-consuming population of the Eastern sector specially West Bengal. This social objective would not have been achieved had rapeseed oil been imported instead of rapeseed. Import of rapeseed also contributed to a reasonable degree, to extended utilisation of the otherwise idle milling capacity in the States requisitioning rapeseed stocks, as also increased employment potential. The Officers' Committee is also of the opinion that the costing and economics, though vital components of any transaction, need not be the sole guiding factor in arriving at decisions and that costing in a speculative item like oilseed|oils, could be misleading, considering the time-frame involved between the costing and the actual date of effecting a deal followed by shipment and landing. Such imports have to be reviewed in the broader spectrum of social objectives.

After examining the Officers' Committee's Report, in the light of the observations made in paras referred to above, the Government have accepted the findings of the Committee. The Government is also of the opinion that, in the context of the circumstances then obtaining and having regard to the social objectives in view, the decisions about the import of rapeseed instead of rapeseed oil were taken in the best interests of the State.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation) O.M. No. 19-VP(5)/78, dated 11th April, 1979].

ANNEXURE

REPORT OF THE OFFICERS' COMMITTEE ON THE 72ND REPORT OF PUBLIC ACCOUNTS COMMITTEE RELATING TO IMPORT OF RAPESEED INSTEAD OF RAPESEED OIL FROM CANADA

The Public Accounts Committee in its 72nd Report relating to imported rapeseed and rapeseed oil from Canada, has *inter-alia* recommended:—

> "The Committee need hardly emphasise that the whole matter of import of rapeseed/rapeseed oil against Canadian loan aid/grants needs a thorough probe to determine as to how far the decisions taken were in the best interests of the State. For this purpose, the Committee would recommend the Constitution of a Committee of senior officers".

In pursuance of the above recommendation, a Committee consisting of the following, was constituted:—

1. Shri T. Balakrishnan, Joint Secretary, Department of Civil Supplies and Cooperation.—Convener*
2. Shri C. Venkataraman, Financial Adviser, Ministry of Commerce, Civil Supplies and Cooperation.
3. Shri Suresh Kumar, Joint Secretary, Department of Commerce.
4. Shri S. V. S. Juneja, Joint Secretary, Department of Economic Affairs.

As part of the terms of reference, the Officers' Committee examined in depth the following:—

1. Relative economics of import of rapeseed and rapeseed oil.
2. Disposal of unlifted rapeseed.
3. Import of rapeseed under the Supplementary Grant in 1974-75.

The Officers' Committee had access to the files of the Department of Food as also of the State Trading Corporation. The subject matter presented to the P.A.C. and those contained in the various files of the Department of Food and S.T.C. were examined and discussed in its sittings.

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* Shri T. Balakrishnan, since transferred to Department of Commerce with effect from 13-9-1978 has been appointed as a member of the Officers' Committee and Shri I. M. Sahai Joint Secretary, who has joined the Department of Civil Supplies and Cooperation with effect from 13-9-1978, has been nominated as Convener.

The report is in three parts—part one dealing with the relative economics of import of rapeseed and rapeseed oil; part two dealing with the disposal of the unlifted rapeseed and part three dealing with the import of rapeseed under the supplementary grant.

The Officers' Committee after examining all relative issues and having regard to the social objectives in view, is of the opinion that in the context of the situation then obtaining, the decisions taken in the matter of import of rapeseed/rapeseed oil against Canadian loan/grants were in the best interests of the State.

Signed by (1) Shri Venkataraman (2) Shri Suresh Kumar (3) Shri S. V. S. Juneja (4) Shri T. Balakrishnan (5) Shri I. M. Sahai.

PART-I

Relative Economics of Imports of Rapeseed and Rapeseed Oil

With regard to import of rapeseed/rapeseed oil against Canadian loan aid/grants, the PAC Report has indicated that the relative economics of import of rapeseed and rapeseed oil were not studied by the Government. The main points in PAC's report on this subject are:—

1. that the comparative economics of importing rapeseed oil in preference to rapeseed were not examined by Government till June-July 1973 when the Canadians offered partly rapeseed oil. No convincing argument has been advanced by the Department of Civil Supplies & Cooperation for not working out the comparative costs of importing rapeseed oil and rapeseed til 1973.

2. that it is all the more surprising that such a study was not undertaken by Government even when an Indian Company had pointed out to the State Trading Corporation in April 1972 that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed.

3. that this suggestion of the private firm was ignored as being merely "motivated more by considerations of their own business interests than otherwise". The Committee doubt whether this alleged fear of "motivation" was justified as rapeseed oil was imported later on by STC on Government account and not by any private party.

4. that the Government had not even made any efforts on their own to ascertain whether rapeseed oil could also be imported against Canadian assistance.

5. the argument advanced by the Department of Civil Supplies and Cooperation that the imported rapeseed helped significantly in the utilisation of the idle oil milling capacity in the country or in improving the employment potential is not convincing.

6. that the imported rapeseed oil could not be used by the vanaspati industry as the industry was not technologically equipped is not reasonable. The industry would have geared itself had the oil been provided earlier.

2. Under the Canadian Development Assistance Programme, 77,500 tonnes of rapeseed were imported from Canada during 1969-70 and 1970-71 for allotment to the State Governments in the eastern region mainly West Bengal, Assam and Bihar for crushing it and supplying oil through fair price shops. Similarly, in 1972-73, around 79,800 tonnes of rapeseed were imported against the Canadian grant. Thus, the total imports of rapeseed against loans and grants during the year 1969-70, 1970-71 and 1972-73 were of the order of 1,57,300 tonnes.

Rationale for the import of rapeseed

3. The Officers' Committee noted that imports of rapeseed were specifically designed to meet the oil requirements of the Eastern States and especially of West Bengal. It was also noted that these mustard oil consuming States had a specific preference for pungency and production of such a pungent mustard oil was possible through the traditional technology available, in these and other mustard producing/consuming States of the country. Imported rapeseed oil being of solvent extracted origin, is devoid of this pungency and this is due to the technology of solvent extraction adopted in foreign countries for production of rapeseed oil. Such an imported oil, even if priced lower, would obviously not find favour with the population which prizes this oil for its pungency. Further, unlike raw rapeseed oil produced by the traditional indigenous technology, raw rapeseed oil imported direct from foreign countries, being of solvent extracted origin, is inedible. According to the existing provisions of the Solvent Extracted Oil, Deoiled Meal and Edible Flour (Control) Order 1967, such solvent extracted oils have necessarily to be subjected to a process of refining before being released for direct consumption. It is learnt that refining operation produces an oil which is light in colour (golden yellow to water white), bland in taste and free from flavour/odour-bearing components. In view of this major constraint, the Officers' Committee is of

the view that imported rapeseed oil cannot replace the indigenous mustard oil prized for its pungency and this difference stems from the apparent differentials of technology, which in turn, is linked to the specific food preferences of the end-product. As regards the use of rapeseed oil in vanaspati manufacture, the Officers' Committee noted that this was examined by the then Department of Food in October, 1969. After careful consideration of the various issues involved, it was considered that while soyabean and sunflower oils had an immediate outlet in the vanaspati industry, the position in regard to rapeseed oil, was somewhat different. Mustard/rapeseed oils presented certain operational and technological problems both in refining and hydrogeneration which made it difficult to process. Further, according to available material, the shelf-life of the finished product namely vanaspati produced from such rapeseed oil was also greatly impaired. The underlying reasons for this situation were:—

(a) Mustard/rapeseed oil is apparently the only vegetable oil that supposedly contains a sulphur-bearing compound called allyl-isothiocyanate and the presence of this sulphur-bearing compound render the hydrogenation process difficult as also costlier due to the catalyst being poisoned by the sulphur. This difficulty can, however, be circumvented by subjecting the oil to a preliminary deodorization process to effect removal of sulphur compounds which are volatile. Even so, it would be necessary to have a further deodorization step after the hydrogenation process. The multiplicity of operations naturally add to the processing cost.

(b) Although the characteristic pungent odour of mustard oil is removed during deodorization, vanaspati prepared from such deodorized oil, apparently tends to revert in flavour on storage and acquires an unpleasant taste much different from that of undeodorized oil and thus rendering the product unacceptable to the consumer.

4. Since, usage of rapeseed oil in the vanaspati manufacture came in vogue around March 1973, (only after the technology for processing imported rapeseed oil was standardised by the vanaspati industry), the question of importing rapeseed oil did not become relavant till that stage. The Officers' Committee are, therefore, of the opinion that for supplementing the mustard oil availability in the Eastern States, the alternative available to Government, was to import only rapeseed and not rapeseed oil.

5. The aspect of import of rapeseed and rapeseed oil did again figure, though later, in the discussions in November 1972, between Mr. Eyton of the Canadian High Commission and the then Joint Secretary, Food. As a matter of fact, Mr. Eyton wanted to know the Government's preference

as between rapeseed and rapeseed oil. Mr. Eyton also indicated that in his view import of oil did have the advantage of lower expenditure on freight. The then Joint Secretary, Department of Food, however, mentioned that the Government did not have firm views in the matter. Import of seed had, however, an obvious advantage in that it helped fuller utilisation of surplus crushing capacity lying in the country. In so far as additional freight cost were concerned, these would be off-set by foreign exchange earnings on export of oilcake or deoiled meal obtained from imported seed. It was, therefore, primarily a matter of balancing of advantages and disadvantages.

Relative economics of import of rapeseed and rapeseed oil

6. The Officers' Committee after a study of the files and other papers recognise the fact that the then Department of Food did not work out the relative economics of import of rapeseed and rapeseed oil till around June-July 1973. The Officers' Committee while recording this fact also feel that perhaps such an exercise need not have been undertaken. Considering the end use of the imported material in 1969-70 to 1972-73, there was hardly any option left with the Department to choose between imported rapeseed oil and rapeseed. Further, it may not be apt to generalise with reference to the cost of imported oil that import of oil at any point of time would have been more economical than that of seed. Purchase and processing of seed relative to purchase of oil direct could at times be economical and at times be uneconomical depending on the cost structure prevalent for the relevant oilseed, oil and oilcakes and deoiled meal as also a variety of other factors. This aspect would become clear by illustrative study of the economics of import of rapeseed and rapeseed oil shown in Annexure 4, on the basis of monthwise international prices of rapeseed, rapeseed oil and rapeseed meal during the year 1973 (Annexes 1, 2 and 3). From Annexure 4, it may be noted that while import of oil would have been significantly cheaper than import of seed in the months of May, August, September and October, 1973, import of oil would have been significantly costlier when undertaken in the months of January, February and March and June, 1973. In the month of April and November, 1973, however, the difference was marginal. A more or less similar picture is available from the data shown in Annexures 5, 6, 7 and 8.

7. The Officers' Committee would like to suggest further that imports would have to be viewed not solely on considerations of economics and costing, although as mentioned earlier costing is an important component. Other socio-economic factors would also have to be reckoned with. Import of rapeseed, apart from fitting into this framework of socio-economic objectives of providing an oil similar to mustard oil in taste and flavour,

incidentally also did have the following added advantages:—

(a) It enabled State Governments to influence high open market proces of mustard oil to a considerable extent. Thus, for example, mustard oil prices ruling at Rs. 6 and more per kg. in July 1971 came down to Rs. 4.40 per kg. within two months of the introduction of the scheme.

(b) Allocation of imported rapeseed enabled the oil milling industry—bulk of which was in the small scale sector—to work for a period of 8-9 months during 1971, and thus enabled an extended utilisation of the otherwise edible oil milling capacity. Various oil milling associations in West Bengal as also the State Government of West Bengal pleaded for larger allocations of rapeseed.

(c) Import of rapeseed provided additional employment potential in West Bengal and other Eastern States.

Representation of Indian Molasses Company

8. It is mentioned in the PAC report that the study on the relative economics of import of rapeseed and rapeseed oil was not undertaken by the Government even when an Indian Company pointed out to the STC in April 1972 that considerable saving of foreign exchange could be effected by importing rapeseed oil instead of rapeseed. Discussions for getting rapeseed were going on since November, 1971 and in the beginning of December 1971 (6-12-1971), the Canadian High Commission was informed in oral discussions that India would take rapeseed offered by them. The letter from the Canadian High Commission, containing the formal offer, had already been received on 23-2-1972 and after consulting the Department of Food, the Canadian High Commission was informed of our acceptance on 5-4-1972. While Government did receive the letter dated 8 April, 1972 from Indian Molasses Company Private Ltd., on 12 April, 1972, the formal acceptance of the 1972-73 Canadian offer had already been conveyed on the 5 April, 1972. Since the formal offer for 1972-73 was already accepted, Government had to honour it. A question could be raised as to whether Government could have changed the offer to provide for rapeseed oil instead of rapeseed. This would, however, be a difficult question to answer.

9. It is worth mentioning that the same firm which had advised the Government to import rapeseed instead of rapeseed oil, later through its letter of 25-4-1972 advised that in case the Canadian aid is used for asking large quantities of rapeseed oil, it might not produce sufficient response as the Canadian Crushers liked to hedge their seed supplies and oilcake sales and this approach would tend to jack up the prices. Consequently,

the firm revised its earlier stand and advised Government to buy the rapeseed from Canada and arrange for simple crushing contract with oil millers there. Towards this end, the party offered its services, as a package deal which would include handling, crushing of rapeseed, sale of oilcakes as also handling and shipment of the oil inclusive of the freighting to Indian Ports. Simple crushing of rapeseed would obviously provide rapeseed oil and rapeseed cake. This simple crushing would result in lesser recovery of oil with roughly about 7—9 per cent of the oil retained in the cake. This would, however, depend on the type of expellers used. The Indian firm while agreeing to lend their services, would seem to have had as its objective, the recovery of the rapeseed oil from oilcake and sale of the deoiled meal in the Canadian Market, thereby ensuring a good profit for themselves. The argument advanced before the PAC that the firm's suggestion was 'motivated by considerations of their own business interests', needs to be looked at against the background mentioned above. Although, it is realised that import of oil has the advantage of lower expenditure on freight, but even so, by adopting the process of simple crushing as suggested by the Company, the Government would not only have lost oil to the extent of 7—9 per cent in the cake but also incurred an expenditure in foreign exchange for this process of simple crushing. It is perhaps on these considerations and the social objectives in view that the Government decided the course of action of importing rapeseed.

Use of rapeseed oil in vanaspati

10. The observations in the PAC report were that the Committee was not convinced with the plea that imported rapeseed oil could not be used by the vanaspati industry as the industry was not technologically equipped and that had rapeseed oil been imported from the very beginning, the vanaspati industry would have geared itself to process this oil for vanaspati. As mentioned earlier, processing of mustard/rapesed oil presents certain operational and technological problems both at the refining and hydrogenation stages. This is on account of the presence of certain sulphur-bearing components in the oil. Vanaspati produced from such an oil had also the problem of flavour reversion. This was on the basis of experience gained as a result of grant of brief permission to industry for use of mustard oil in vanaspati manufacture once in 1953 and again in 1957. The Officers' Committee find that on both these occasions the permission was quickly withdrawn as the industry's disposition in using the oil from the quality point of view was not encouraging. Import of rapeseed oil might have been decidedly advantageous for use in vanaspati manufacture had it not been for the constraints just listed.

11. The Canadian Rapeseed Team which visited the country in December 1972 for general discussions, had discussions with the representatives of vanaspati industry and according to the Canadian Rapeseed Team, the

industry indicated that it would be happy to use imported rapeseed oil and though they were not too unfamiliar with the processing techniques involved, they would still be keen to acquaint themselves with the technology that might be necessary for enabling larger use of rapeseed oil for producing a quality vanaspati. As a result of these developments, the use of imported rapeseed oil in vanaspati manufacture was introduced for the first time in March, 1973. The Officers' Committee understands that the Vanaspati industry still faced problems in the larger usage of imported rapeseed oil in vanaspati manufacture on account of technical difficulties in hydrogenation of imported rapeseed oil. The Officers' Committee is also aware of later representations received in this regard from Vanaspati Manufacturers' Association in November, 1973 (*i.e.* almost after eight months of permission for use of rapeseed oil in vanaspati manufacture) indicating that their constituent units were facing many technical difficulties in hydrogenating imported rapeseed oil and despite double deodrization, hydrogenation of the oil continued to present serious problems. The Association requested for requisitioning an expert from a foreign country for rendering technical guidance to vanaspati factories on the subject of processing of rapeseed oil for vanaspati manufacture.

12. It can be seen from the above that by and large, excepting a few stray cases of individual units, the vanaspati industry had serious problems in handling imported rapeseed oil in vanaspati manufacture. In so far as the question of use of imported rapeseed oil prior to March, 1973 is concerned, the Department of Food considered this aspect and it was only in sequel to the encouraging trend of discussion with the representatives of the Canadian Rapeseed Team in December, 1972 and the encouraging feeler from the vanaspati industry in this regard, that the Department introduced rapeseed oil in vanaspati manufacture for the first time in March 1973. This timing almost coincided with the offer of "rapeseed products"' by Canadian Authorities.

Conclusions

13. The Officers' Committee after sifting all available material are of the opinion that:—

(a) Import of rapeseed to extract rapeseed oil for direct consumption was based on a conscious decision of supplementing the requirements of the mustard oil consuming population of the eastern sector and especially West Bengal. This social objective would not have been achieved had rapeseed oil been imported instead of rapeseed.

(b) Incidental to meeting the requirements of an oil akin to mustard oil, import of rapeseed contributed, though not to a significant extent but to a reasonable degree, to extended utilisation of the otherwise idle oil milling capacity in state (e.g. West Bengal) requesting rapeseed stocks as also increased employment potential.

(c) Costing and economics though vital components of any transaction, need not be the sole guiding factor in arriving at decisions.

(d) Costing in a speculative item like oilseeds/oils could be fraught with serious repercussion and at times misleading particularly considering the time frame involved between costing and the actual date of effecting a deal followed by shipment and landing.

(e) Imports of rapeseed and rapeseed oil have to be viewed in the broader spectrum of social objectives and the policy could not be decided upon on the basis of the representation of the Indian firm advocating imports of rapeseed oil in preference to rapeseed on grounds, which in the opinion of the Officers' Committee, could have been motivated by business interests.

(f) The vanaspati industry was handicapped in the use of mustard/rapseed oil in vanaspati manufacture till the technology was by and large available in 1973.

PART—2

DISPOSAL OF UNLIFTED RAPESEED

The Public Accounts Committee in its report has also observed with regard to the disposal of the unlifted stocks of rapeseed imported under the Canadian grant for the year 1973-74:—

(a) The Committee are not inclined to be satisfied by the explanation given by the Government for the losses incurred in the disposal of 6,300 tonnes of rapeseed and would like the matter to be investigated in depth so as to fix responsibility for the losses incurred.

(b) The Committee failed to understand as to why Government immediately after the episode, imported another 13,416 tonnes of rapeseed in March, 1975 against a supplementary grant of 50 lakh Canadian dollars, particularly, when there was no demand for the product at that time.

(c) The Committee observed that the Government had no firm policy for importing rapeseed based on realistic demand and the price then prevailing in the International Market. The manner of consideration of the question of imported rapeseed speaks volumes of apathy and lack of functional coordination between various agencies.

Background

2. During the year 1973-74, Canadian authorities offered 15 million Canadian dollars for import of rapeseed and/or rapeseed products. Against that offer 18,453 tonnes of rapeseed costing 47.4 lakh Canadian dollars and about 13,969 tonnes of rapeseed oil costing 93.6 lakh Canadian dollars were imported. As an earlier years, all expenses for shipping, insurance stowing, trimming etc. were borne by Government of India.

3. As mentioned earlier, rapeseed was imported with the avowed object of providing an oil akin in taste and flavour to indigenous mustard oil particularly to the population of the eastern sector as also to supplement the indigenous availability of mustard oil. According to the scheme envisaged imported rapeseed was given to respective State Governments in the Eastern sector for crushing it in the oil mills located in those States under their supervision and for distributing the oil to the public through the public distribution channels at Government notified prices. The prices at which rapeseed was allotted to State Governments were arrived at from time to time on the basis of the f.o.b. cost, freight, insurance, STC's commission and other incidental charges etc. It may be mentioned that under the terms of the grant agreement, the f.o.b. cost though used for computing the issue price at which the rapeseed was allotted was in fact borne by the Canadian authorities as part of the grant. This scheme which was in operation right from the inception of the Canadian rapeseed imports, was a successful venture particularly as it helped influence the high open market prices of mustard oil to a considerable extent and also enabled and extended utilisation of the otherwise idle oil milling capacity.

4. Under the Canadian grant for 1973-74, 18,543 tonnes of rapeseed were invoiced for import. The details of the quantity and details of shipment and arrival of the consignments are as under:—

Details of rapeseed imported	Name of ship	
	Euthelia	Five Fields
1. Quantity invoiced in tonnes	14,021·59	4,521·46
2. Quantity received in tonnes	13,935	4,518
3. Value in lakh Canadian dollars	33·18	14·18
4. Indian Rupee equivalent in lakhs	274·26	116·83
5. Date of shipment	20-12-1973	24-5-1974
6. Date of arrival	30-1-1974	14-7-1974

5. As against the invoiced quantity of 18,543.05 tonnes, the total quantity received was 18,453 tonnes (13,935 tonnes Ex-Euthalia and 4,518 tonnes ex-Five Fields). Due to dratf problem at Calcutta, part of the consignment of Ex-Euthalia i.e. 8,655 tonnes was off-loaded at Visakapatnam first and transhipped from Visakapatnam to Calcutta. This operation resulted in a transit loss of 157.7 tonnes of rapeseed. In addition, another 70 tonnes of seed got damaged while an additional 302 tonnes was accounted for as handling and driage shortages at Visakapatnam and Calcutta (Annex-9).

Reasons leading to creation of unlifted rapeseed stocks

6. Out of the total stock of 18,453 tonnes of rapeseed, 17,100 tonnes were allotted to seven States as per the following details:

Date of allotment	State	Quantity in tonnes
12-8-1974	Meghalaya	500
16-8-1974	Bihar	2,000
16-8-1974	Tripura	10,000
16-8-1974	Orissa	1,000
16-8-1974	Assam	2,500
15-10-1974	Nagaland	100
20-5-1974	West Bengal	2,000
13-6-1974	West Bengal	2,000
1-8-1974	West Bengal	2,000
16-8-1974	West Bengal	2,000
25-8-1974	West Bengal	2,000
	TOTAL	17,000

The issue price of the imported rapeseed was fixed at Rs. 3,100 per tonne and that of the oil at Rs. 8.10 per kg. at the retail end.

7. Due to sharp decline in the prices of mustard oil in 1975, the Eastern States were not inclined to lift rapeseed, convert it in rapeseed oil and distribute the oil at Government notified price through public distribution system since as a result of the spurt in the international prices of rapeseed, a higher issue price of Rs. 3,100 per tonne of rapeseed had to be fiixed leading to a price of Rs. 8.10 per kg. for rapeseed oil at the retail end. Thus, although 17,100 tonnes of rapeseed were allotted to State Governments in the Eastern States, the total lifting by six States aggregated to 11,631 tonnes of rapeseed.

8. In view of the decline in the prices of mustard oil in 1975, the State Governments requested the Government of India around January 1975 to revise the issue price of imported rapeseed as also that of the rapeseed oil. Around the same period, in a meeting of Secretaries under the Chairmanship of Cabinet Secretary, it was decided that in the event of difficulty being envisaged in the lifting of balance rapeseed stocks by State Governments by 15th February 1975, STC may take steps to effect disposal of the balance unlifted stocks of rapeseed through public tender.

9. In pursuance of the decision, the then Department of Food on 13th February 1975 cancelled all pending allotment orders made to different States in so far as unlifted quantities of rapeseed were concerned. The relevant details are as under :

State	Quantity of rapeseed cancelled in tonnes	Date of cancellation
West Bengal	2,640	13-2-1975
Meghalaya	400	13-2-1975
Assam	2,500	13-2-1975
Orissa	827	13-2-1975
TOTAL	6,367	

Action to liquidate stocks of unlifted rapeseed

10. In the meantime, on 13th February 1975, STC indicated that it had initiated action to liquidate the entire residual stocks of rapeseed on an immediate basis through public auction even though the transaction would result in losses as a result of the slump in the indigenous mustard seed prices and as the stocks had been in storage for a considerable period and it was feared that further storage would affect the quality with a likely possibility of it being declared as unfit for human consumption. Besides heavy carrying costs also necessitated early liquidation of the old stocks. Side by side, new arrivals of imported rapeseed were expected under the supplementary grant. In view of these factors, STC instructed its Calcutta office on 18 February 1975 to take steps for disposal of the residual rapeseed stocks.

11. When approached by STC (*vide* STC's letter dated 13 February), the Department of Food *vide* its letter dated 20 February 1975, did not approve of the proposal for immediate disposal of the residual stocks of rapeseed for the following reasons :

(a) The Stocks were not old and a survey of stocks need be undertaken before initiating action for its disposal.

(b) As the then prevalent indigenous market prices of mustard seed were low and immediate sale would have resulted in a loss of around Rs. 500-600 per tonne, it was preferable to wait for another 2-3 months when the possibility of prices firming up was bright and the stocks could fetch a better price, thus minimising the likely losses.

12. Accordingly, STC advised its Calcutta branch by telex on 22 February 1975 to withdraw action on the disposal of rapeseed till further instructions. Side by side, STC got the sample of rapeseed analysed by an independent surveyor M/s. Italab. The report of M/s. Italab *vide* its letter dated 7 March 1975 indicated that there was no deterioration in the entire consignment of rapeseed except for around 15.5 tonnes. However, the laboratories did not rule out the possibility of the loss of rapeseed deteriorating in quality on account of the ensuing monsoon and suggested expeditious disposal of the material to avoid losses. Accordingly, on 14 April 1975, STC again advised its Calcutta branch to invite tenders for disposal of the residual stocks of rapeseed, the last date for tenders being fixed for 7 May 1975. Although, 25 offers for purchase of rapeseed at prices ranging between Rs. 700 to Rs. 2,200 per tonne were received, these were considered in the context of the then prevailing indigenous prices of mustard seed which ranged between Rs. 2,700 to Rs. 2,900 per tonne. In the meanwhile, STC *vide* its letter dated 26 March 1975, addressed to the Department of Food sought concurrence for disposal of the unlifted quantity of old rapeseed stocks. The Department of Food *vide* its letter dated 5 May 1975, mentioned that disposal of good quality rapeseed at throw-away prices may not be desirable proposition even from the liquidity standpoint and suggested that the disposal could be deferred until August-September 1975. Subsequently, STC informed the Department of Food on 14 May 1975 that as advised on 12 and 13 May 1975 and in pursuance of the decision of meeting held on 15 March 1975 in the Finance Secretary's office, STC was proceeding to dispose the rapeseed stocks using the best commercial judgment. The Department of Food *vide* its letter dated 5 June 1975, amplified that the suggestions indicated in its earlier letter dated 5 May 1975 were in the "nature of suggestions only" and were not designed to abridge in any way the freedom given to STC to sell imported oil seeds/oil exercising their own best commercial judgement" as decided in the meeting held on 15 March 1975 in the Union Finance Secretary's office. The file leading to the meeting of 15 March 1975 in Finance Secretary's office and the minutes thereof are unfortunately stated to be not traceable.

13. The STC after careful consideration of the various offers received against its tender issued in April 1975 and the then prevalent prices of mustard seed as obtaining at Calcutta market instructed Calcutta office through a telex dated 15 May 1975 to give a counter offer of Rs. 2,500 per

tonne to the parties who had responded to the tender notice of April 1975. These efforts, however, did not bear any fruit. STC again advised its Calcutta office on 21 May 1975 to approach the parties with a counter offer of Rs. 2,300 subject to certain conditions. However, these parties failed of Rs. 2,300 per tonne. Only three parties responded to this counter offer to lift the material despite extension facility granted to them.

14. While efforts at disposal of old rapeseed stocks through tender notices of February and May 1975 yielded no results, another 14,223 tonnes of fresh rapeseed arrivved under supplementary grant raising the total stocks to around 21,000 tonnes approximately. In the 21st meeting of the Committee of Management of STC held on 24 June 1975, the subject of disposal of old stocks of rapeseed was considered and it was decided that STC may float another tender enquiry in August 1975 with a floor price was fixed on the basis of suggested floor price of Rs. 2,000 per tonne for the fresh consignment of rapeseed. It was also felt that full advantage should be taken of the signs of firmness in the oil seed market. It was also decided that STC should constitute a committee for disposal of rapeseed stocks at best possible prices and these sale prices would be reviewed by the Head Office at periodical intervals and Branch Office advised accordingly.

15. On the basis of the tender enquiry floated in August 1975, a sale of 1,000 tonnes of rapeseed were effected on 30 August 1975 to M/s. Kusum Products, Calcutta, who responded to the tender at the highest offer of Rs. 1,800 per tonne. This step was taken as other offers received in response to the August 1975 tender, ranged between Rs. 1,800 per tonne. This step was taken as other offers received in response to the August 1975 tender, ranged between Rs. 1,553 and Rs. 1,611 per tonne of rapeseed. This highest offer of Rs. 1,611 per tonne of rapeseed. This highest offer of Rs. 1,800 per tonne was also presumably accepted as fresh stocks of rapeseed were being offered to the vanaspati industry at an issue price of Rs. 1,800 to Rs. 2,000 per tonne. It was also felt that the price realised was much lower than the minimum floor price fixed but considering the dull trend in mustard oil market prices, the local committee accepted the highest offer of Rs. 1,800 per tonne to M/s. Kusum Products Ltd.

16. In addition to the sale of 1,000 tonnes effected within the scope of the tender issued in August 1975, STC effected a further sale of 2,000 tonnes of rapeseed to M/s. Amrit Banaspati, Ghaziabad at Rs. 1,750 per tonne. This sale effected outside the scope of tender issued in August 1975, STC effected a further sale of 2,000 tonnes of rapeseed to M/s. Amrit Banaspati, Ghaziabad at Rs. 1,750 per tonne. This sale effected outside the scope of the tender was noticed on the market rates of Calcutta during that period (Rs. 2,370—Rs. 2,500) and also on the basis of the

realisation on the sales effected to M/s. Kusum Products, Calcutta and providing a reduction of Rs. 50 per tonne for the Ghaziabad offer to cover freight charges.

17. Having liquidated stocks to the extent of 3,000 tonnes, the residual stocks of old rapeseed dwindled to 3,293 tonnes. Recognising that the stocks were getting old with possibility of being rendered unfit for human consumption, STC invited another tender on 19 *September* 1975 but there was no response to this tender enquiry. However, after the last date for submission of the tender, STC received the following three offers:

Sl. No.	Name of the Party	Qty. offered in tonnes	Price offered Rs. per tonne
1	M/s. Kusum Products, Clacutta	1,000	1,400
2.	M/s. Amrit Banaspati, Ghaziabad	3,000	1,250
3.	M/s. Rasoi Vanaspati, Calcutta	1200	1,20

On the basis of these offers and realising that the festival season was to last for a period of 2-3 weeks and the arrivals of groundnut crop would in all probability depress the prices, the then Marketing Manager recommended acceptance of the highest offer of Rs. 1,400 per tonne of M/s. Kusum Products Ltd., Calcutta for a quantity of 1,000 tonnes of rapeseed. This recommendation of the Marketing Manager was substantiated by the Manager (Statistical Division) who also opined that the then declining prices of cottonseed oil would have a sympathetic effect on the prices of rapeseed oil and in case the disposal of the old stocks were not effected then, STC may be left with these stocks for months together. Based on these recommendations, the STC accepted the offer of M/s. Kusum Products Ltd. for 1,000 tonnes of rapeseed at a price of Rs. 1,400 per tonne on 8 October 1975. Later, the very next day, i.e. on the 9th October, 1975 the representatives of M/s. Amrit Banaspati, Ghaziabad, who also bid for the tender, sought an appointment with STC and bid a counter offer of Rs. 1,350 per tonne of rapeseed for the total balance quantity of rapeseed stocks. STC recognising that the tenderer was from an up-country centre, decided that the revised offer of Rs. 1,350 per tonne was reasonable (after providing for a freight element of Rs. 50 per tonne for the up-country market) and accordingly STC conveyed its acceptance of the offer of Rs. 1,350 per tonne to M/s. Amrit Banaspati, Ghaziabad for the sale of balance quantity of rapeseed.

18. The Officers' Committee recognised that at the time of disposal of rapeseed at a price of Rs. 1,350 to Rs. 1,400 in October, 1975, the ruling prices of mustard seed at Calcutta in the range of Rs. 2,330 to Rs. 2,470 per tonne were in fact much lower than the price of mustard seed in August (Rs. 2,600—Rs. 2,650) and in September (Rs. 2,370—2,540), Considering the downward trend in mustard seed prices, it could be expected that the decision for sale of 3,000 and odd tonnes of rapeseed at prices of Rs. 1,350 of Rs. 1,400 were reasonable. Further, STC had also to reckon with the fact that it had already floated enquiries four times, that is in February 1975, May 1975, August 1975 and in September 1975 and all these tenders evoked response from poor to nil. STC did did still have the option to hold on to stocks but this would have perhaps landed it into difficulties particularly on account of the carrying costs which almost accounted for around Rs. 45—50 per tonne per month in the following manner:

	(Rs.. per tonne per month)
Average warehousing charges	Rs. 5·50
Storage and insurance charges	Rs. 1·75
Interest on block capital at 15 per cent.	Rs. 39·00 to Rs.. 46·25

Conclusions

19. From the foregoing analysis, the Officers' Committee is of the opinion that—

(a) The realisations effected on account of the disposal of 6,300 tonnes of rapeseed were perhaps the best that could have been achieved taking into account the efforts made by STC in the then prevailing circumstances.

(b) Had STC decided to hold on to the stocks in anticipation of a better price, this would have added to the inventory costs and perhaps would have rendered the entire operation of disposal of rapeseed more uneconomic.

(c) STC had recourse to this action only because of the downward trend in the indigenous mustard seed and oil prices. Had the oilseed market been buoyant, as it was in the preceding years, the likelihood of STC effecting the disposal through tender system would not have, in all probability, arisen.

(d) The rapeseed imported into the country was as grant in. Out of the issue price of Rs. 3,100 per tonne, the cost of seed accounted for around Rs. 2,000 per tonne, while expenditure on freight and other components was Rs. 1,100 per tonne, since the sales effected were well above this price of Rs. 1,100 per tonne Government had not incurred any cash losses in this transaction.

(e) Excepting for 70 tonnes which was damaged due to floods and disposed off to soap manufacturers, the entire balance quantity of 6,293 tonnes of unlifted rapeseed were disposed off to vanaspati industry for use in vanaspati manufacture for edible purposes.

PART—3

IMPORT OF RAPESEED UNDER THE SUPPLEMENTARY GRANT IN 1974-75

It is mentioned in the PAC report that immediately after the loss suffered in the disposal of 6,300 tonnes of rapeseed, Government contracted for another quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh Canadian dollars. Annex 10 showing the sequence of events leading to acceptance of the grant of 50 lakh Canadian dollars for purchase of rapeseed would set the record straight. The Canadian High Commission telephoned the Joint Secretary in the Department of Economic Affairs on 5 February 1975 and indicated that CIDA had located about 5-6 million Canadian dollars worth of rapeseed which the Canadian Government liked to give to India on a grant basis. The Canadian High Commission desired to have a reply on this offer by the next day i.e. 6 February, 1975. Since both the Food Secretary and the concerned Joint Secretary in the Department of Food were out of station and as a decision on the Canadian offer had to be conveyed to the Canadian High Commission the very next day, Shri Baijal had to obtain orders on the Canadian offer of rapeseed from his Secretary and the then Finance Minister. This was done on the basis that the country was generally short of oilseeds and the quantity of 15,000—20,000 tonnes of rapeseed likely to be available on account of this supplementary grant could be easily absorbed. On approval of the proposal by Secretary, Economic Affairs and the Finance Minister, Canadian High Commission was informed of the Government's decision accepting the Canadian offer of importing rapeseed. This decision was conveyed telephonically on the 6 February 1975.

2. The averment in the PAC report that there was no coordination between the various agencies connected with the import of rapeseed/rapeseed oil under the Canadian grant/loan was also examined by the Officers' Committee. The Officers' Committee noted that the normal practice adopted for finalising acceptance of the Canadian grant/loan aid was to do so only after consultation with the various Departments concerned. The Committee also noted that there was a departure in the instant case in that

the Department of Food was consulted at a latter stage, i.e. when the formal proposal from the Canadian High Commission was received on 26 Februrary 1975. As mentioned earlier, in this particular case, Department of Economic Affairs did not consult the Food Department because of the fact that the concerned Food Secretary as also the Joint Secretary with whom the authority to decide on the issue vested were, was not available on that day and that the Canadians had desired a definte reply on their offer of 5 February 1975, the very next day. The Officers' Committee note that this, though a departure, is an isolated instance warranted by the circumstances of the case and it may not be justified to draw generalisation from an isolated instance, particularly considering the fact that the final decision was taken at the Finance Minister's level.

It may also be mentioned that STC's records show a profit of Rs. 14.20 lakhs in 1975-76 on account of import of rapeseed transactions.

ANNEXURE I

International Rapeseed Prices (US Dollars per Metric Tonne)

Can 42% bulk (e) c.i.f. U.K.

Month	1971	1972	1973	1974	1975	1976	1977	1978
January	..	124	167	335	390	209	293	
February		124	188	354	317	207	306	
March	..	128	185	351	309	216	326	
April	146	135	195	..	314	218	372	
May	138	132	268	363	270	244	374	
June	139	127	268		264	277	342	
July	145	128		327	283	289	290	
August	137	134	325	389	323	270	266	
September	126	142	264	376	292	252	279	
October	132	136	271	473	265	249	292	
November	135	144	270	450	253	256	303	
December	132		338	420	240	267	303	

Source : Various issues of Oil World.

ANNEXURE II

International Rapeseed Oil Prices (US Dollars per Metric Tonne)

Any origin ex-rank Rotterdam

Month	1971	1972	1973	1974	1975	1976	1977	1978
January		245	236	633	769	381	488	
February		237	279		662	385	555	
March	..	245	301		607	393	610	
April	289	252	324	..	624	374	695	
May	291	242	352	614	504	365	724	
June	293	212	427	696	476	388	642	
July	315	205	357	749	556	451	558	
August	311	210	503	812	590	416	550	
September	277	227	446	810	548	443	534	
October	285	231	472	967	488	450	510	
November	290	238	474	930	409	456	538	
December	269	235	..	858	375	475	588	

SOURCE : Various issues of Oil World.

ANNEXURE III

International Rapeseed Meal Prices (US Dollars per Metric Tonne)

34% F.O.B. ex-mill

Month	1971	1972	1973	1974	1975	1976	1977	1978
January		72	167	193	147	128	198	
February		75	172	166	133	133	196	
March		81	147	158	136	132	198	
April	71	83	136	129	134	129	208	
May	68	81	185	139	126	138	196	
June	67	79	233	119	119	154	165	
July	70	80	280	118	119	174	140	
August	71	77	192	120	124	161	124	
September	66	90	143	117	125	169	124	
October	68	107	125	144	128	169	153	
November	63	124	160	148	127	179	160	
December	69	137	209	150	124	187	167	

SOURCE : Various issues of Oil World.

ANNEXURE IV

Month in 1973	Rapeseed oil in US dollar per tonne		
	From Seed	Direct Import	Difference
1	2	3	4
January	392	427	—35
February	439	470	—31
March	470	492	—22
April	514	515	—01
May	630	543	+48
June	555	618	—63
July	N.A.	548	N.A.
August	769	694	+75
September	685	647	+38
October	731	663	+68
November	674	672	02
December	777	N.A.	N.A.

NOTES :

1. Figures of rapeseed, oil and meal taken from Annexes 1, 2 and 3.
2. It is assumed that crushing of one tonne of rapeseed and solvent extraction of the resultant oilcake would yield 0·33 and 0·05 tonnes respectively of expeller and solvent extracted oils and 0·59 tonnes of meal.
3. Solvent extracted oil requires refining and refining charges are at Rs. 1,400 per tonne.

ANNEXURE—V

Month in 1974	Rapeseed oil in US dollar per tonne		
	From Seed	Direct Import	Difference
1	2	3	4
January	793	824	—31
February	N.A.	N.A.	N.A.
March	N.A.	N.A.	N.A.
April .	N.A.	N.A.	N.A.
May	951	805	+46
June .	N.A.	887	N.A.
July	889	940	—51
August	1049	903	+146
September	1020	1001	+19
October	1233	1158	+75
November	1166	1121	+45
December	1084	1049	+35

NOTES : As in Annexure-IV.

ANNEXURE—VI

Month in 1975	Rapeseed oil in US dollar per tonne		
	From seed	Direct import	Difference (2-3)
1	2	3	4
January	1010	960	+50
February	839	853	—14
March	814	798	+16
April	830	815	+15
May	727	695	+32
June	722	667	+55
July	774	747	+27
August	869	781	+88
September	786	739	+47
October	710	679	+31
November	680	600	+80
December	651	556	+85

NOTES: As in Annex.--IV.

ANNEXURE—VII

Month in 1976	Rapeseed oil in US dollar per tonne		
	From Seed	Direct import	Difference
(1)	(2)	(3)	(2-3)
January	695	572	+123
February .	550	576	—26
March .	575	584	—09
April	585	565	+20
May	640	556	+84
June	702	579	+123
July . . .	702	642	+60
August .	672	607	+65
September .	613	634	—21
October	605	641	—36
November . . .	608	647	—39
December	624	666	—42

NOTES: As in Annex.-IV.

ANNEXURE—VIII

Month in 1977	Rapeseed oil in US dollar per tonne		
	From seed	Direct Import	Difference
(1)	(2)	)3)	(2-3)
January	675	679	—04
February	713	746	—33
March	762	801	—39
April	868	896	—18
May	892	915	—23
June	856	833	+23
July	728	749	—21
August	719	741	—22
September	753	725	+28
October	743	701	+42
November	761	729	+32
December	750	779	—29

NOTES : As in Annex.-IV.

ANNEXURE—IX

Statement of Account of Imported Rapeseed under 1973-74 Canadian Grant

	Tonnes	Rate in Rs. per tonne
1. Quantity invoiced	18,543	
2. Quantity received	18,453	
3. Transhipment loss from Vizag to Calcutta	157·7	
4. Handling loss at Calcutta/Vizag . . .	302	
5. Actual quantity available for disposal	17,993	
6. Quantity issued to State Govts. .	11,631	3,100
7. Balance unlifted stock	6,362	
8. *Disposal of unlifted stock* :		
(a) M/s. Kusum Products	1,000	1,800
(b) Do.	1,000	1,400
(c) M/s. Amrit Banaspati .	2,000	1,750
(d) Do.	2,292	1,350
9. Damaged stock	70	
10. *Disposal of damaged stock*		
(a) M/s. Ramesh Aggarwal .	9·4	650
(b) M/s. Bishwanath Soap Works . .	55·7	401—440
(c) Do.	4·9	470

ANNEXURE X

Sequence of events leading to the acceptance of grant of 5 million Canadian dollars for the purchase of rapeseed.

5.2.75.

1.	Shri Robertson of Canadian High Commission telephoned to Shri J. S. Baijal, Joint Secretary, Economic Affairs and indicated that CIDA had located rapeseed worth 5-6 million Canadian dollars which they would like to give to India on a grant basis. He added that Canadian High Commission desired a reply on this offer by next day.
2	Shri Baijal, tried to contact Food Secretary and Joint Secretary, Shri Sampath, but was informed that both were out of station. Shri Baijal then submitted a note to his Secretary and Finance Minister suggesting that Government might accept the offer "since we are generally short of oilseeds, this quantity which may amount to 15,000 to 20,000 tonnes can be easily absorbed".
3.	The note was approved by Secretary, Economic Affairs and Finance Minister.
6.2.75	Shri Baijal informed Shri Robertson of Canadian High Commission on telephone about Government's decision to accept the offer.
26.2.75	A formal offer from Canadian High Commission was received for about 13,000 tonnes of rapeseed.
28.2.75	Shri M. Narasimhan, Additional Secretary, Economic Affairs, wrote to Shri G. C. L. Juneja, Food Secretary, seeking acceptance of the arrangements suggested in Canadian High Commission's letter of 26-2-75.
3.3.75	Shri S. V. Sampath, Joint Secretary, Department of Food, after expressing certain reservation indicated Department of Food's acceptance as the Ministry of Finance had already conveyed its acceptance to Canadian High Commission.
6.3.75	Ministry of Finance conveyed formal acceptance to the Canadian High Commission.

Recommendation

2.37. The Committee note that a one-man delegation of the State Trading Corporation had gone to Canada on 27th August 1973 to negotiate arrangements for import of rapeseed oil on commercial basis and had remained there till 12 September 1973. Canada had authorised the delegation to purchase rapeseed oil against the CIDA grant for 1973-74. Government of India has therefore, authorised this delegation to purchase rapeseed oil within the ceiling of Canadian $ 450-650 per tonne. The delegation after discussing both near and long term purchase possibilities with a wide cross-section of Canadian suppliers with a view to obtaining the most competitive and reliable source of supply in Canada from crushers, thereby eliminating the middlemen brokers finally obtained four firm offers for 23,000 tonnes on c.i.f. basis linked to Chicago price for syoabean oil (the price was provisionally assessed as Canadian $ 445 per tonne for shipment between November 1973 and March 1974. Immediately after return of the delegation, the Regional Manager of the State Trading Corporation at New York was authorised to finalise contracts for 23,000 tonnes of rapeseed oil (against Canadian aid) within the ceiling of Canadian $ 445 per tonne. However while he was negotiating with the suppliers, the President of one of the Canadian Firms visited New Delhi and offered on 28 September 1973, 16000 tonnes of rapeseed oil for delivery between December 1973 and March 1974 at the price of Canadian $ 549.29 per tonne C&F. This price being very high as compared to the then prevailing prices the offer was rejected. Another offer made by the Indian agent of the same company on 16 October, 1973 for 5000—8000 tonnes for shipment in March 1974 at Canadian $ 539.77 per tonne C&F Bombay or Kandla was also rejected on the same ground. On 17 October 1973, the State Trading Corporation gave a counter offer of Canadian $ 475 per tonne. The counter offer was not accepted by the Company. In making comparison of the prevailing international prices of soyabean of $ 516.39 per tonne for December 1973 shipments and $ 497.66 per tonne for March 1974 shipments, the fact that these prices were FAS prices and $ 50 for fobing charge, $ 30 for ocean freight and differential of in price of $ 15 per metric tonne (minus) had to be added to compare with C&F quoted prices was lost sight of. Eventually the purchase of rapeseed oil was entrusted to Canadian International Development Agency on 24 November, 1973.

2.38. The Committee regret that from the very beginning no firm policy was followed in regard to the purchase of rapeseed oil against the grant from Canadian Government. Initially, the purchase of rapeseed oil was made by the Canadian International Development Agency through the Canadian Commercial Corporation, the State Trading Corporation of India acting more or less as handling agent for shipment and distribution inside the country. During August-September 1973 a delegation from the State Trading Corporation of India having gone to Canada to negoliate arrangements for import of rapeseed oil on commercial basis, it was authorised by Canada to purchase rapeseed oil against the aid for 1973-74. Unfortunately the STC could not finalise any deals although its delegation was in Canada and was in direct touch with the suppliers. Though the quotations received by the delegation of the State Trading Corporation from four firms for 23,000 tonnes at $ 445 per C&F India were the same as assessed provisionally by the delegation, yet the delegation, failed to execute the contracts on the spot. The responsibility for the failure lay squarely on the Government which had failed to evolve any satisfactory purchase procedure.

2.39. The Committee have been informed that based on the market report of 10 September 1973, a telex message was sent to the Regional Manager on 18 September 1973 to finalise the deal within the ceiling of 445 dollars per tonne. The Committee are, however, amazed to find that while the Regional Manager of the State Trading Corporation was still negotiating with the suppliers, the President of a Canadian firm was allowed to visit India and offer on 28 September 1973, 16,000 tonnes of rapeseed oil for delivery between December 1973 and March 1974, at the price of 549.29 dollars per tonne C&F. This offer, followed by another offer received on 16 Oct. 1973 from the same firm at the price of 549.77 dollars per tonne C&F. This offer, followed by another offer received on 16 October 1973 from the same firm at the price of 539,77 dollars per tonne were not accepted being very high. In the meantime, the Regional Manager of S.T.C., who was negotiating with the suppliers, also failed to clinch the deal as offers were not available within the ceiling of 445 dollars then. The Committee fail to understand why express instructions were not issued to the Regional Manager to go ahead for making purchases on the spot finding that there was a rising trend in prices.

2.40. In this connection, the Committee would like to point out that the Counsellor, Canadian High Commission in his letter dated 20 Dec., 1973 addressed to the Joint Secretary, Ministry of Finance (Department of Economic Affairs) had pointed out that "unfortunately the STC Director eould not get confirmation from the Government of India to enter into a contract at an attractive price" with a Canadian firm who offered him 5000—8000 metric tons of rapeseed oil at a C&F price of Canadian dollars 452. The Counsellor had also stated that "the only way rapeseed oil was to be procured from Canada was for CIDA itself to take procurement action under its normal tendering procedures. I cautioned the various concerned Government of India officers that CIDA would not be able to procure rapeseed oil as competitively as the STC given the very nature of their tendering procedures. Nevertheless, there seemed to be no alternative and against better judgement convinced CIDA to procure the rapeseed oil on behalf of the Government of India under the 1973-74 food aid allocation for India." The Counsellor had stressed in his letter that "my criticism was levelled generally at Government of India procurement procedures and Canadian Government tendering procedures. The red tape and delays inherent in our respective procedures have cost the Canadian tax payer a great deal of money for nothing under the Indian food aid allocation and I am only hopeful that our respective procedures regarding Canadian food aid can be Streamlined in 1974-75 and future years."

2.41. This failure to procure rapeseed oil by the State Trading Corporation resulted in entrusting the purchase of rapeseed oil back to the Canadian International Development Agency on 24 November, 1973. The Canadian Commercial Corporation concluded three contracts for a total quantity of about 14,000 tonnes of rapeseed oil at prices ranging from Canadian $ 596.71 to 741.76 per tonne C&F India against the aid for 1973-74. Thus the country had to pay heavily for the purchase of rapeseed oil through the CIDA which cost about Rs. 248 lakhs more as compared to the assessed price of Canadian $ 445 per tonne C&F indicated on 14 September, 1973 and about Rs. 138.76 lakhs more as compared to the price of 549.29 dollars per tonne offered on 28 September, 1973. The Committee are of the opinion that in depth study may be made about this loss with a view to fixing responsibility and taking appropriate action.

[Sl. No. 9 to 13. Para Nos. 2.37 to 2.41 of PAC 72nd Report (Sixth Lok Sabha)]

Action Taken

In terms of the observations made by the Committee in para 2.41, an in depth study of the entire deal was got made, the findings of which are given, in the enclosed Note (Annexure). The Ministry is of the opinion that in the context of the situation then obtaining, the decisions taken by the Government in the matter of purchase of rapeseed oil were in its best interests and were arrived at on commercial considerations. No extraneous intentions or *mala-fide* motivations appeared to have been attendant on any of these decisions. In view of these findings, the question of fixation of responsibility and consequent action does not arise.

[Ministry of Commerce, Civil Supplies & Cooperation (Department of Civil Supplies and Cooperation) O.M. No. 19-UP(5)/78 dated 27 March, 1979.]

ANNEXURE

PURCHASE OF RAPESEED OIL, 1973-74

In order to examine the avertments made by PAC, it would be necessary to go through the chronology of events relating to the efforts at purchase of rapeseed oil under the 1973-74 CIDA grants. STC, the import agency on behalf of Government of India was engaged in the commercial purchase, among others, of rapeseed oil from International Markets under free foreign exchange. Side by side, it had also till then been acting, more or less, as a handling agent for Import of rapeseed and rapeseed oil under CIDA grant. Under the free foreign exchange of around Rs. 20

crores released by the Government of India for import of edible oils in 1973-74, STC was negotiating the purchase of palm oil, rapeseed oil, etc. The Canadian High Commission vide its letter of June 20, 1973, suggested to STC that since it was already engaged in the purchase of rapeseed oil it would be interested to initiate dialogue with Canadian supplier of rapeseed oil, and the Canadian High Commission towards this end, invited a two-man mission for in-depth discussion with Canadian suppliers of rapeseed and rapeseed oil and the Canadian Department of Industry, Trade and Commerce, for exploring and evolving long-term supply arrangements for import of rapeseed/rapeseed oil. This proposal of the Canadian High Commission was examined by the STC in the meeting of the Committee of Management held on 24 August 1973 and it approved the visit of its Director Shri B. B. Gujral to Canada, *inter-alia,* for negotiating and concluding arrangements for import of 40,000 tonnes of rapeseed oil under free foreign exchange at a maximum price of dollars 500. Department of Food, while endorsing the visit of Director Gujral to Canada for this purpose, also indicated that it was hardly necessary for a senior officer of that Deptt. to be associated with this Mission. The Government after examining the International price situation, endorsed the purchase of a quantity of around 40,000 tonnes of rapeseed oil, at the best possible price utilising the amount of Rs. 20 crores of foreign exchange still available. This Mission, in pursuance of the letter of CIDA dated the 5th August 1973, was also authorised to enter into contracts for import of rapeseed oil within the scope of the CIDA grant amount of 15 million dollars.

2. Shri B. B. Gujral, hereinafter designated as D(G), visited Canada, beginning 27 August 1973 and reportedly covered a complete cross- section of Canadian rapeseed oil interests and also actual crushers of rapeseed. As a result of these exploratory discussions for both immediate and long-term purchase possibilities, the STC's Branch Manager, New York vide this telex dated 1st September 1973 to S.T.C., New Delhi indicated that a Canadian firm, M/s. Agra Foods was ready to supply 30,000 tonnes of rapeseed oil in shipment lots of 5,000 to 8,000 tonnes with frequency of 65 days and that the first shipment would be priced 422 Canadian dollars f.o.b. or 452 Canadian dollars c.i.f. with November—early December shipment. With regard to further shipments ending July 1974, the price would be according to one of the following two formulae:—

(i) Chicago Board of Trade closing for soyabean oil plus fixed charges like overland freight, etc. to bring to f.o.b. stage, less a discount for quality differential between soyabean oil and rapeseed oil, which according M/s. Agra Foods, was to be not less than 15 Canadian dollars.

(ii) Alternatively, the price to be established by S.T.C. calling world tenders for soyabean oil and then using best c.i.f. price from such tenders and apply the agree discount of not less than 15 dollars for rapeseed oil.

In addition, it was also indicated that the pricing will be determined at least 60 days but not more than 120 days prior to the month of shipment.

3. This offer of purchase of 30,000 tonnes of rapeseed oil in lots of 5,000—8,000 tonnes and valid up to 4 September 1973 (12.00 Noon—New York time) was examined by STC, particularly with regard to the first shipment of 8,000 tonnes for November/December shipment. STC opined that the price per tonne of Canadian dollars 452 c.i.f. for rapeseed oil was rather high, particularly in the context of their recent purchase of soyabean oil at U.S. dollars 460 c.i.f. Bombay for immediate Sept. shipment. STC was also of the opinion that a price of around Canadian dollars 400—425 c.i.f. would be of interest to them. In accordance with the procedure then followed, STC also referred the offer of M/s. Agra Foods for supply of 30,000 tonnes of rapeseed oil in lots of 8,000 tonnes, to the Deptt. of Food and also Deptt. of Economic Affairs for their considered advice. The Deptt. of Food vide its note dated 4 September 1973 to STC, New Delhi gave the following comments:

(a) Neither of the two formulae of pricing was acceptable. Regarding the first one relating to the Chicago Board of Trade (CBOT) prices, the latter were considerably higher than other market prices and it will not be economically advantageous to base the price on CBOT price for each purchase. The second alternative, based on world tendering procedure etc. had its own inherent difficulties and therefore, should be rejected.

(b). The delivery schedules as proposed in the talex from the Branch Manager, New York were too protracted and would not be of much use to meet our requirements.

The above decisions were a sequel to discussions by Joint Secretary, Department of Food with Director (Vanaspati) and the representatives of STC. Secretary, Deptt. of Food, who was later apprised of these decisions also endorsed them.

4. From the foregoing, it would appear that the Deptt. of Food in its note of 4 September 1973 had questioned the pricing formulae suggested by STC. New York, finding them to be unacceptable, and had also found the delivery schedule to be too protracted for a small quantity of 30,000 tonnes of oil. Based on this view, STC had sent a telex message on the same date i.e. 4-9-1973 to its Manager at New Yourk asking him whether he could get the quantity increased or a price basis evolved on some other manner favourable to STC. As regards the price, based on STC's recent purchases for immediate delivery, it was suggested by STC that it should be Canadian Dollars 400 c.i.f. and in no case should exceed Canadian Dollars 425 c.i.f. for the November-December shipment of 5,000-8,000

tonnes of oil. This would have left the STC's officer in New York in no doubt about what he had to do for immediate purchase and the revised formula he had to ascertain for long-term arrangements. In so far as the immediate purchase was concerned, since the suppliers did not agree to the revised price ceiling of dollars 400-425 intimated by STC in its telex, no contract could be finalised.

5. D(G) in his telex reply of 5 September 1973 from Ottawa to Chairman, STC indicated that CIDA had agreed to finance the purchase upto 23,000 tonnes of rapeseed oil valued at 10 million Canadian dollars and that he had negotiated with some suppliers for this quantity on c and f basis, but could not finalise it on account of the falling market. D(G) further stated that while he would finalise the available offers within the next 15 days through STC, New York, CIDA had insisted on India making equal value of commercial purchase of rapeseed oil from Canada under free foreign exchange, preferably before June 1974. The telex message of D(G) also indicated that the representatives of the main suppliers who offered to supply rapeseed oil,.proposed visiting India by end-September 1973 to finalise these contracts. This message of 5 September 1973 was followed up by another telex message of 6 September 1973 wherein D(G) indicated that contracts for supply of 23,000 tonnes of rapeseed oil had been finalised with four major suppliers under CIDA grant for shipment between December 1973 to March 1974 and that negotiations for the further 40,000 tonnes under commercial purchase were completed excepting for the price. This was also confirmed in another message from Branch Manager, London vide his telex dated 7 September 1973 to D(G).

6. On the basis of the advice of the Deptt. of Economic Affairs STC advised D(G) that the Govt. are "uncertain and worried" about the obligation to purchase equal value of rapeseed oil from Canada on commercial basis, especially at time when prices for that purchase were expected to be on the high side and the quantity committed also seemed to be very high. In so far as the purchase under CIDA grants were concerned, in view of the fact that the market had slumped and palm oil was quoted at dollars 400 and below for October shipment, STC asked for immediate comments of D(G).

7. D(G) vide his telex reply dated 7/10 September 1973 to STC, New Delhi, indicated that no commitment has been made by him with regard to purchase of rapeseed oil of equal value from Canada on commercial basis as this was a matter between the two Govts. He also indicated that the availability of rapeseed/rapeseed oil was extremely restricted in Canada, especially because Japan was expected to book 2/3rd of the Canadian crop of rapeseed leaving only a limited export surplus. He also mentioned that it was in the context of these constraints that he could persuade suppliers for offering a maximum quantity of 23,000

tonnes rapeseed oil for shipment by 31 March, 1974 and for CIDA to finance it from their funds. He also indicated that the prices showed sudden steep rise even for future and a supply, if it could be abtained, at less than Canadian dollars 400 c and f per tonne of rapeseed oil for October shipment would be a worthwhile possibility.

8. D(G) also stated in his message of 7/10 Sept. '73 that while there was no commitment at all regarding commercial purchases, he had nevertheless obtained offers for supply of about 35,000—40,000 tonnes during April-December 1974 on long-term basis for which suppliers' representatives were visiting India by end-September '73.

9. On return from his visit to Canada, D(G), in accordance with the procedure then followed; had a meeting on 14 September 1973 with representatives of Ministry of Finance, Department of Economic Affairs and Department of Food to discuss the proposals finalised by him for purchase of 23,000 tonnes of rapeseed oil. The offers of 23,000 tonnes of rapeseed oil under CIDA grant, for shipment between November, 1973 and March 1974 were from the following four suppliers:—

Sl. No.	Name of the Firm	Quantity of rapeseed oil in tonnes	
(1)	M/s. Agra Foods	16,000	
(2)	M/s. Western Canada Seed Processors	4,000	Joint Offer
(3)	M/s. Wheat Pool, Saskatchewan	2,000	
(4)	M/s. Cooperative Oil Mills	1,000	
		23,000	

10. The suppliers had made offers for firm quantities as indicated above. As regards the price, they had agreed to link that export prices to an independent international market indicator, *viz.*, Chicago Board of Trade, Soyabean Oil closing as per the following price formula:—

(1) The FOB Canada price of rapeseed oil could be derived by Chicago Board of Trade (BOT) soyaoil closings (converted into Canadian dollars) on the day of concluding contract plus cost of internal freight terminal charges etc. including fobing premium less a discount differential between soya and rape oils.

(2) Agra Foods had estimated fobing charges at about $ 50 per metric tonne and the differential at about $ 15 per metric tonne. Thus, according to the formula, the rape oil price FOB Canada would have become Chicago BOT closing plus $ 35. The C & F could accordingly be estimated by adding the freight presently about $ 30 per MT.

On the basis of Chicago Board of Trade closing on 10.9.79 for soyabean oil, the average December, 1973—March 1974 rapeseed oil price as derived from the above formula was assessed by the STC to be $ 445 per MT C&F India. The above offers from the Agra Food and the other 3 Canadian suppliers stipulated that the purchase price was to be determined by mutual agreement before the 30 September 1973 in case of M/s Agra Food and the 20 September 1973 in case of other 3 suppliers who had made a joint offer from 7,000 MT.

It would be seen from the above that the price of $ 445 per MT C&F India was the price assessed by the STC and not the price quoted by the Canadian suppliers, who had agreed to the determination of price by mutual agreement had to link their export price with independent international market indicator referred to above.

In view of the position explained above, the observation made by the Committee in Chapter II, para 2.38 of their Report that "the quotations received by the delegation of the State Trading Corporation from four firms for 23,000 tonnes at $ 445 per MT C&F India were the same as assessed provisionally by the delegation", is not borne by the facts as available in the relevant files of the STC and the then Department of Food, in as much as no firm price of $ 445 as such was received from these four suppliers.

The offers at an estimated ceiling price of $ 445 C&F India "arrived at on the basis of the Chicago BOT closing price" were, in view of their reasonableness, recommended by D(G) for acceptance under CIDA grants. It was opined that it should be possible to obtain lower prices in view of the falling trend in the market during the preceding two days.

11. After considering the proposals put forward by D(G), it was decided that the price formula and the price ceiling as suggested by D(G) for purchase of 23,000 tonnes of rapeseed oil for November, 1973 to March, 1974 shipments under CIDA funds at a total estimated value of 10.24 million Canadian dollars, be accepted. Again, as per the procedure laid down, the decision taken in the meeting held on 14th September, 1973 had in turn to be approved by the Committee of the Management (COM) of S.T.C. Accordingly, COM at its meeting held on 17 September, 1973

approved the proposal of import of 23,000 tonnes of rapeseed oil with ceiling price of 445 Canadian dollars S & F and authorised STC's Manager New York, on this. The COM, however, mentioned that the market be watched for some time and for this purpose, the three parties who had agreed to supply 7,000 tonnes and whose offer was valid only upto 20 September, 1973 (as against the fourth party, Agra Foods, whose offer was valid till 30 September, 1973) should be approached for extension. Branch Manager, New York, was informed of the above decisions by a telex message from STC on 18 September, 1973, asking him to obtain extension of time preferably upto 30 September, 1973, and to finalise contracts for 23,000 tonnes at the lowest possible price according to the formula accepted and laid down in the telex message.

12. From the above sequence, it appears that there had been a gap of about four days for conveying the decision to the STC's Manager, New York. It was noticed that the Committee of Management could meet only on 17 September, 1973. It is also to be noted that STC learning from the experience of previous years, has since dispensed with the procedure of operating within a particular level of quotation or to seek the previous concurrence of the Government before finalising its contract. According to the streamlined procedure, a Purchase Committee of the STC Board meets at short notice and assesses each offer for a final decision thereon.

13. In response to STC's message of 18 September, 1973 Manager, New York, vide his telex reply dated 19 September 1973 indicated that the parties concerned (i.e. the three companies who had made the joint offer of 7,000 tonnes) were initially reluctant to extend the offer till 30 September, 1973 on grounds that they had already another demand for oil from other buyer. In the light of this, the Manager, STC agreed to consider their offer on immediate basis, i.e. within the 15-day-period agreed to by them in their original offer of 5 September, 1973. The party then offered a price of 466 Canadian dollars f.o.b. Vancouver. When pressed as to how this figure was arrived at, the supplier indicated that price was based on the spot market price of rapeseed. The Branch Manager then reminded the party of the agreement to tie the price with international indicators plus certain equalisation for fobing premium less differential soyabean oil and rapeseed oil. The supplier, thereupon, agreed to reconsider and to enable him to do so, to extend the time for the negotiations till 1 October, 1973. The STC's Manager, New York, in the telex referred to above, also mentioned that according to the Chicago f.o.b. price, the price per tonne of rapeseed oil for February shipment would be around 430 Canadian dollars. He also indicated that he would be keeping in touch with the suppliers and in case they come within a workable price in terms of the agreed formula, he would, within the scope of authority vested in him, close the deal.

14. In the meanwhile, the President of M/s Agra Foods Limited (which was the fourth party) visited India and offered 16,000 tonnes of rapeseed oil at a price of Canadian dollars 563,41 C & F. The offer was made on 28 September, 1973 and was valid upto 30 September, 1973 5 P. M. The party further indicated that in the context of its hedging position it would be able to offer this tonnage at a reduced price of 549.29 dollars provided the offer was accepted by 28 September, 1973, 5 P. M.

15. In accordance with the procedure laid down, the offer of M/s Agra Foods, personally delivered by its representative to STC, New Delhi, was considered in a meeting held in the STC on the 28 September, 1973, with the Department of Industrial Development, Department of Food and Ministry of Finance (Department of Economic Affairs). The price of 549.29 Canadian dollars, offered by M/s. Agra Foods for supply of quantity of 16,000 MT of rapeseed oil for delivery between December, 1973 and March, 1974 was considered to be very high, as compared to the current prevailing prices. According to Chicago closings for soya-bean oil on 27 September, 1973, which were stated to be dollars 516.39 C&F per M.T. for December, 1973 shipment and dollars 497.66 for March, 1974 shipment, this rapeseed oil offer of M/s. Agra Foods was on the high side. The observations of the Committee that "in making comparison of the prevailing international prices of soyabean of dollars 516.39 per tonne for December, 1973 shipments and dollars 497.66 per tonne for March, 1974 shipments, the fact that these prices were FAS prices and dollars 50 for fobing charges and dollars 30 for ocean freight and differential of in price of dollars 15 per metric tonnes (minus) had to be added to compare with C & F quoted prices was lost sight of", need reconsideration since they are not borne out from facts. The prices of dollars 516.39 for December shipment and dollars 497.66 per MT for March 1974 shipments were in fact c & f prices and not FAS prices, as provided under Canada's International Development Assistance Programme that the rapeseed shall be supplied FAS at the port of loading. M/s. Agra Foods Ltd. in their letter dated 28 September, 1973, addressed to the STC, informed them that Chicago closings on soyabean oil were 19.80 cents per pound for December, 1973 shipments and 19.15 cents per pound for March, 1974 shipments. After converting these into dollars per tonne and adding fobing charges of dollars 50 per MT and ocean freight charges of dollars 30 per MT, the price of soyabean oil for December 1973 shipment works out to dollars 516.39 c. & f. per MT for December shipment and dollars 502.06 for March shipment. From these c & f prices, 15 dollars per MT will have to be deducted on account of differential between the two oils. The c & f prices, based on Chicago closings, for rapeseed oil, would, therefore, work out to dollars 501.39 c & f for December, 1973 shipment and dollars 487.06 c & f for March, 1974 shipment. The offer of the firm at dollars 549.29

per MT c & f vis-a-vis, the above c & f prices, worked out on the basis of Chicago closings, was thus extremely high and was correctly rejected.

16. Although, in that meeting, it was also decided to seek extension of the offer by one more day, i.e. 29 September, 1973, the files do not indicate there having been a review of the earlier decision arrived in the meeting held on 28 September, 1973. The offer of M/s. Agra Foods for supply of 16,000 tonnes of rapeseed oil at a price of Canadian dollars 549.21 thus was allowed to lapse. It may also be mentioned here that in view of the instructions issued to the Regional Manager, New York vide STC New Delhi's telex dated the 18 September, 1973 for purchase of rapeseed oil at or below 445 Canadian dollars C & F that offer also did not materialise, as the suppliers did not agree ultimately to that price.

17. On 16 October, 1973, a fresh offer for a smaller quantity was made by M/s. Agra Foods through their Delhi agents, M/s. Socotra International Private Ltd. The fresh offer of 5,000 to 8,000 tonnes of rapeseed oil made by M/s. Agra Foods, Canada, was for March 1974 shipment at 539.77 Canadian dollars c & f India. It was examined by the inter-Ministerial Committee which decided to accept the offer even though the price was rather on the high side subject to the condition that the freight element would be reduced from 40 to 30 dollars per tonne. However, the STC later on the same evening, on a reassessment based on the oil intelligence report, decided that a price of 475 dollars would be reasonable. This counter-offer, however was not acceptable to the local agents of the Supplier and the business could not materialise. It was subsequently decided that instead of STC, Government of Canada would make the rapeseed oil purchases against CIDA grant (d.o. letter dated 24-10-1973 from Executive Director, STC to Joint Secretary, Department of Food).

18. The foregoing paragraphs relate in detail the chronology of events leading to the suspension on the part of the STC of its efforts to purchase rapeseed oil from Canada under the CIDA grants during August—October 1973. The specific points as under, which have been made in the PAC Report can be examined in that light:—

(A) "The Committee regret that from the very beginning no firm policy was followed in regard to the purchase of rapeseed oil against the grant from Canadian Government....Unfortunately, the STC could not finalise any deals although its delegation was in Canada and was in direct touch with the suppliers......The responsibility for failure lies squarely on the Government which had failed to evolve any satisfactory purchase procedure". (Para 2.38).

19. When purchases of rapeseed oil under CIDA Grants had first started, the Canadian Government, at CIDA's instance had successfully pleaded with the Government of India to agree to these purchases being made by the Canadian authorities themselves. This procedure continued unchanged till August, 1973 when for the first time, in connection with the visit of a STC delegation to Canada for making commercial purchases, the STC was authorised by the Canadian Government to contract for CIDA purchases too. Presumably, the idea was that since the STC was already in the market for certain quantities of rapeseed oil, it might as well go ahead and firm up these imports to an enhanced extent by covering CIDA purchases too. This authorisation from CIDA to the STC's delegation was preceded by discussions held between the representatives of CIDA, Canadian Department of Industry, Trade and Commerce and the Indian High Commission in Canada. However, when it was found that despite the efforts made in August—October, 1973, it was not possible for the STC to reach a mutually acceptable deal either through its delegation in Canada or as a result of the negotiations held in New Delhi subsequently, it was decided to revert to old practice of CIDA itself making these purchases.

20. Thus, it would not be correct to state that from the very beginning, no firm policy was followed in regard to the purchase of rapeseed oil against the grant from Canadian Government. Till August, 1973, the rule was for C.I.D.A. to make these purchases. In this connection, the following extract from the Canadian High Commission's letter dated the 15 January, 1970, addressed to Department of Economic Affairs will be relevant:—

> "CIDA is very much concerned that exploitation may occur on this transaction and would like to take steps to ensure that India receives the most favourable prices. We note in your letter of January 12 that the State Trading Corporation have agreed to undertake the import of this rapeseed, but, before they were aware of such an arrangement, CIDA requested this office to seek your concurrence to an alternative procedure. CIDA would like your authorisation to effect the purchase themselves and they would propose to issue the tenders on a 24-hour basis. This would allow the tender to be issued after closing of the Winnipeg Grain Exchange with the award of contract to be made prior to commencement of trading on the Exchange on the following day. By this device, any exploitation would be avoided and the most favourable prices would be assured".

The Government had then agreed with the views expressed by the Canadian High Commission in regard to purchases to be undertaken by CIDA themselves *vide* Department of Economic Affairs letter dated 20 January, 1970. The extract from Government's reply to the High Commission is as under:

> "We appreciate very much the suggestion that CIDA should effect the purchase of rapeseed on the basis of tenders to be issued by them. This, as you have mentioned, will enable the contract being finalised after the commencement of trading on the following day thus eliminating any possible chance of manipulation of prices. Accordingly, we are prepared to authorise CIDA for this purpose".

21. As regards the letter dated 20 December, 1973 from the Canadian Counsellor in New Delhi to Joint Secretary, Department of Economic Affairs, the plea taken by him are not factual at many places as have already been indicated in the preceding paragraphs. In-so-far as "the red tape and the delays" inherent in the Canadian procedure are concerned, it was as much for the Canadian Government to examine and see as to how could they be removed and the procedure steamlined, in order to make the fullest use of the funds set aside by "the Canadian Tax-payer" for CIDA grants for purchase of edible oil. In so far as the STC is concerned, as against the previous procedure whereby an offer received by STC for purchase of edible oil, had to go through more than one stage of consideration, discussions and decision, the present procedure is much simpler and had already been stated before the PAC by the STC representative (and referred to in Chapter-II, para 2.25 of the Report). All offers received by STC are evaluated and decided upon by a Purchase Committee of the Board of STC, which consists of representatives of STC, the Ministry of Commerce, Civil Supplies and Co-operation and the Department of Economic Affairs. This Committee meets at short notice as when necessary, and takes a decision which, as a rule, is conveyed the same day to the suppliers through the concerned overseas office of the STC.

(B) "The Committee have been informed that based on the market report of 10 September, 1973, a telex message was sent to the Regional Manager on 18 September, 1973 to finalise the deal within the ceiling of 445 dollars per tonne. The Committee are, however, amazed to find that while the Regional Manager of the State Trading Corporation was still negotiating with the suppliers, the President of a Canadian firm was allowed to visit India and offer....... In the meantime, the Regional Manager of State Trading Corporation, who was negotiating, with the suppliers, also failed to clinch the deal

as offers were not available within the ceiling of 445 dollars then. The Committee fail to understand why express instructions were not issued to the Regional Manager to go ahead for making purchases on the spot finding that there was a rising trend in prices." (Para 2.39).

22. It may be recalled that the STC delegation which had gone to Canada in August-September, 1973 was at that time negotiating two separate arrangements for import of rapeseed oil—one for imports within CIDA and the other for imports on long-term commercial basis. In so far as STC, New Delhi, was concerned; on receipt of written offers dated September 5, 1973 amounting to an aggregate of 23,000 tonnes from the four Canadian firms, and also a separate indication from some of them to enter into long-term commitments, it had sent telex replies to these firms on 19-9-1973 stipulating as under:—

(1) In so far as these offers were concerned, they being under CIDA funds, STC had already instructed its New York office to get in touch with these firms in order to finalise the deal. Thus there was no intention on the part of STC New Delhi to start parallel negotiations on the CIDA purchase at that time with the suppliers' representatives in New Delhi.

(2) Regarding purchases on commercial basis, these firms were requested to indicate a convenient date in the last week of September or 1st week of October for their representatives to visit New Delhi for further discussions. Earlier, in his telex dated September 7/10, 1973, Shri Gujral had informed STC Headquarters *inter-alia* that "regarding commercial purchases there is no commitment at all but we have obtained offers for supply of 35,000 to 40,000 MT delivery April-December, 1974 on long-term basis for which representatives of suppliers visiting India by end-September for finalisation."

The implication was that while the purchase under CIDA grants had to be made on an immediate basis, more so since the Canadian Government was so insisting, the negotiations for them were to be continued abroad by the New York Office of STC and thus no steps were taken to under-cut the efforts of the Regional Manager, New York. It was only about the long-term commercial purchases that STC allowed these firms to send representatives to New Delhi on the basis of the spade-work done by STC's delegation to Canada.

23. As regards the precise instructions sent to the Regional Manager, New York on the 18 September, 1973 it would be best to quote extracts therefrom as under:—

> "Ref. offers for 23,000 MT rapeseed oil under CIDA Funds from four Canadian suppliers for shipment between December, 1973 and March, 1974. Try obtain extension preferably upto 30th September for joint offer 7000 MT from three parties namely (1) Western Canadian Seed Processors, (2) Saskechwan Wheat Pool (3) Cooperative Oil Mills. This is to ensure that you are in a position to watch market trend and clinch the deal at the most appropriate time. Accordingly finalise contracts for 23,000 MT including 16,000 MT offered by Agra Foods at lowest possible price according to following formula ....Average C&F price for various shipments under above contract not to exceed Canadian Dollar 445 per MT ...."

These instructions therefore were specific enough in that (1) in view of the erratic market situation then existing regarding prices, it was very much in order to have watched the price trend for some time. To give an instance, in his telex messages sent on 5.9.1973 and 7.9.1973, Shri Gujral had spoken of a "falling market" and of oil market having "slumped", respectively. In the telex message sent on September 7/10, 1973, he spoke of prices having shown "a sudden steep rise for even forward positions." At that time there would have been no indication to the decision-makers in New Delhi as to how the price would behave in immediate future, and the instructions sent to the Regional Manager, New York on the 18th September, 1973 to seek a short extension of time to watch market trend, could not be faulted with, (2) even had STC, New York been told to sign the contract immediately, instead of asking for extension and watching the market trends, it may not have been possible for the Regional Manager, New York to have finalised the deal. It is to be recalled that the suppliers themselves resiled when the New York office of STC approached them in the context of the instructions from the Head Office (as telexed on 18.9.1973). Instead of striking a deal at dollars 445 per tonne, the price assessed by STC, one of the suppliers offered a price of dollars 466 per tonne f.o.b. Vancouver. When it was pointed out that this was against the formula given by the supplier himself, he agreed to reconsider and extended the period of negotiation till 1.10.1973. On the basis of the prices as notified by the Chicago Board of Trade, the appropriate price at that time would have been only about 430 Canadian dollars C&F for February shipment. Thus, in his telex of 19-9-1973, Regional Manager, New York stated that "we will keep in touch with him (the supplier) and if they come up with workable price within our formula, we will close the deal as authorised in

Ananth's message." R. M. had also talked to the main supplier i.e. M/s. Agra Food who, instead of taking any further action to strike the deal, stated that they were sending their officers to U.S. markets for freight rate assessment before which they would not be able to indicate their C&F price. It was subsequently, mentioned in the minutes of an inter-Ministerial meeting held on 28-9-1973 held in the office of Chairman, STC, that M/s. Agra Food had refused to hold further discussions with Regional Manager, New York and instead of it, preferred to send their President to India to negotiate the prices at New Delhi.

24. Under these conditions, despite whatever instructions might have been sent to R. M., New York to finalise the deal, the latter could not have succeeded in doing so, in view of the obvious recalcitrance on the part of the suppliers.

(c) "Thus the country had to pay heavily for the purchase of rapeseed oil through CIDA which cost about Rs. 248 lakhs more as compared to the assessed price of Canadian dollars 445 per tonne C&F indicated on 14 September, 1973 and about Rs. 138.76 lakhs more as compared to the price of 549.29 dollars per tonne offered on 28 September, 1973."

(Para 2.41)

25. In para 2.41, the Committee has observed that the import of rapeseed oil, under CIDA grant, during 1973-74 cost about Rs. 248 lakhs more, as compared to the assessed price of the Canadian dollars 445 per MT C&F indicated on 14 September, 1973 and about 138.76 lakhs more, as compared to the price of 549.29 dollars per MT offered on 28 September, 1973. It ts true that, as a result of contracts ultimately concluded by the Canadian Commercial Corporation, the rapeseed oil purchased through CIDA grants, cost more than the indications of price received earlier. The position regarding the offers made by the four Canadian firms for a quantity of 23,000 MT of rapeseed oil has already been explained in para 10 above. It may be reiterated that the price of dollars 445 per MT C&F India was the price assessed on their own by the STC on the basis of the formula worked out during the visit of STC delegation to Canada, and was not the price quoted by the Canadian suppliers who had offered to supply 23,000 MT, at a price to be determined by mutual agreement and who had also agreed to link their export price with independent international market indicator. The price of dollars 445 per MT was not acceptable to the suppliers, even on 19 September, 1973 when the Regional Manager of the STC, New York, had, on the receipt of instructions from his Head Office, approached them, or later on. In the circumstances, the price of dollars 445 per MT

assessed by STC on 14 September, 1973 cannot, therefore, be considered as actual offer. As it was not actually accepted by the firms, the working out of a "loss" with reference to that figure would not appear to be justified.

26. Furthermore, it has been explained in para 15 of the Note that the offer made by the Canadian firm in New Delhi to supply 16,000 MT of rapeseed oil at a price of dollars 549.29 per MT was not accepted because the price quoted by the firm were considered to be very much excessive, as compared to the then ruling price of soyabean oil as per closings of Chicago BOT prices. Having regard to the circumstances prevailing at that time, the considered view of the inter-Departmental Committee, including STC, was that the prices quoted by the Canadian firm were very much on the higher side, in comparison with the then ruling international prices. The fact that subsequently, when CIDA made purchases, the prices reached even a higher level, could not have been anticipated at that time when the decision to reject the offer was taken. As regards the rising price trends, the attention of the Committee is drawn to the note submitted by the Department of Food (October, 1976) and referred to in Chapter-II, para 2.8 in the PAC Report that "it was purely coincidence that the oil prices suddenly rose in the second half of November, 1973, just when CIDA seems to have gone into the market. This could in no way be held against the correctness of the considered view taken by us in September, 1973 regarding the initial offer received by STC delegation in Canada and the subsequent two offers which were found to be unacceptable both by the STC and the Department of Economic Affairs having regard to the circumstances prevailing at that time." PAC has been pleased to observe that when there was sudden fall in prices of rapeseed oil in August, 1973, it was anticipated that fresh rise might occur in the near future and, in fact, prices started rising from October, 1973. On the other hand, in a normal situation, the rapeseed oil prices would have shown a depression as is expected during the flush season. The price rise subsequently was because of the poorer crop of rapeseed in Canada which resulted in a lesser availability of the seeds for crushing in the Canadian markets. As against an average of around 16 lakh tonnes, the crop was around 12 lakh tonnes in 1973-74. The loss which is stated to have taken place as a result of firming up the purchase of rapeseed oil at prices ranging from Canadian dollars 596.71—741.76 per tonnes C&F was, therefore, purely fortuitous, and a comparison between the prices then prevailing and those which were put forward earlier, would not be tenable particularly as each decision has to be viewed on its own merit in the light of the circumstances then attending and not in relation to subsequent developments.

27. At any point of time, particularly in a highly volatile and sensitive commodity market like the edible oil, one has to go by an intelligent as-

sessment of the situation then existing. Then in-depth study which has been made of this transaction and which has been detailed in the preceding paragraphs shows that such an assessment was made. It was also found that the STC as well as the Government were at all time motivated by purely business considerations in arriving at the best possible deal, and by no extraneous factors. Each offer which was received at various times and forwarded to New Delhi was examined on merits with a view to secure the most competitive terms. This being so, the question of fixation of any responsibility with consequent action, does not arise.

CHAPTER IV

RECOMMENDATIONS OR OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION:

Recommendation (Sl. No. 4, Para No. 1.52)

The Committee are perturbed to note that due to sharp decline in the price of mustard oil in 1975, the Eastern States showed their inability to distribute rapeseed oil at Government notified price. The unlifted quantity (6,300 tonnes) was consequently cancelled in February, 1975. The State Trading Corporation also experienced difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. However, this quantity of 6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Committee are not inclined to be satisfied by the explanation given by the Government in this regard and would like the matter to be investigated in depth so as to fix responsibility for the loss suffered due to disposal of 6,300 tonnes of rapeseed. The Committee also fail to understand why Government immediately after the above episode imported another quantity of 13,416 tonnes of rapeseed in March, 1975 against the supplementary grant of 50 lakh dollars particularly when there was no demand for that at that time. Such being the position, it appears that the whole quantity of 13,416 tonnes was allotted to parties dealing in vegetable products in the eastern region. This indicates that Government had no firm policy for importing rapeseed based on realistic domestic demand or prices then prevailing in the international market. This matter needs to be carefully gone into.

Action Taken

PAC has observed that there was undue delay in the disposal of unlifted quantity of 6,300 tonnes of rapeseed resulting in loss and would like the matter to be investigated, in depth so as to fix responsibility for the loss suffered due to this delay. This matter has also been examined, in all its aspects, by the Officers' Committee which, in their Report, *inter alia,* come to the conclusion that the realisations effected on account of disposal of 6,300 tonnes of rapeseed were, perhaps, the best that could have been achieved, taking into account the efforts made by the STC in the then prevailing circumstances. Government had also not incurred any cash losses in the transactions. PAC has observed that the quantity of

6,300 tonnes was damaged due to heavy rains and floods in the godowns and ultimately these damaged stocks had to be sold to soap manufacturers. The Officers' Committee has gone into this aspect and has observed that, excepting for 70 tonnes, which were damaged due to floods and disposed of to soap manufacturers, the entire balance quantity of unlifted rapeseed was sold to vanaspati industry for use in vanaspati manufacture i.e. for edible purposes.

The Government have gone into the conclusions reached by the Officers' Committee in this matter and agree with them. Government feel that the chronology of events leading to the disposal of the rapeseed indicate that STC was making constant efforts towards disposal of the unlifted stocks of rapeseed at the most competitive prices and that STC5s efforts in the disposal of the stocks and the prices obtained by it have to be viewed in the context of the speculative nature inherent in the oilseeds/ oil business. Considering the attendant circumstances and the efforts of STC, Government is of the opinion that there were no malafide motives in the disposal of the unlifted rapeseed stocks and, therefore, any question of fixation of responsibility and consequent action against the Officers associated with these transactions, does not arise.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation) O.M. No. 19-NP(5)/78 dated 11 April, 1979]

Recommendation (Sl. No. 6, Para No. 1.54)

The manner of consideration of the question of import of rapeseed speaks of volumes of Government apathy and lack of functional coordination between various agencies connected with the issue. As revealed in evidence, there was a difference of opinion between the Department of Food and Ministry of Finance on the issue of import of rapeseed. The Department of Food had recorded a note on 1 March, 1975 that "we would have advised the Ministry of Finance (Department of Economic Affairs) against taking any further quantity of rapeseed had they consulted us on the latest offer. Now that they had accepted the offer on their own and effected a *fait accompli* in this regard, their belated reference to us on the subject serves little purpose, beyond calling on us to implement the decision, regardless of consequences". All this proves that the import of rapeseed/rapeseed oil into the country was not made after giving careful thought.

Action Taken

The averment made by the PAC that there was then no coordination between the various agencies connected with the import of rapeseed/rapeseed oil, has been examind, in dpth, by the Officers' Committee. The

Committee has noted that there was a departure in the instant case in that the Department of Food was consulted after the acceptance of the Canadian offer. The Officers' Committee noted that this departure was an isolated instance warranted by the circumstances of the case and it may not be justified to draw generalisation from an isolated instace, particularly considering the fact that the final decision was taken at the Finance Minister's level. However, the Ministry has taken note of the views of the PAC with a view to have a better co-ordination and necessary instructions are being issued accordingly.

[Ministry of Commerce, Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation) O.M. No. 19-UP(5)/78 dated 11 1979]

CHAPTER V

RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES:

— NIL —

NEW DELHI;
April 24, 1979
Vaisakha 4, 1901 (*S*)

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

APPENDIX

CONCLUSIONS OR RECOMMENDATIONS

Sl. No.	Para No. of the Report	Ministry Department Concerned	Conclusions or Recommendations
1	2	3	4
1	1.7	Commerce Civil Supplies and Cooperation (Department of Civil Supplies and Cooperation)	The Committee had noted in their 72nd Report that due to sharp decline in the prices of mustard oil in 1975, the Eastern States had expressed their inability to distribute rapeseed oil at Government notified prices. The unlifted quantity of 6,300 tonnes of rapeseed was subsequently cancelled in February, 1975. The State Trading Corporation had also expressed difficulty in disposing of these stocks by open auction or tender due to poor response from the purchasers. In the event of such a situation, the Committee had questioned the import of a further quantity of 13,416 tonnes of rapeseed in March 1975 against the supplementary grant of 5 million Canadian dollars, particularly when there was no demand for that. The Ministry of Commerce, Civil Supplies and Cooperation have referred to the report of the Officers' Committee in this regard. The Officers Committee which *inter alia* went into the matter have observed that the Canadian High Commission had intimated the Department of Economic Affairs on 5 February, 1975 that the Canadian Government liked to give to India rapeseed worth 5·6 million Canadian dollars. The

Canadian High Commission desired to have a reply on this offer by the next day i.e. 6 February, 1975. Since both the Food Secretary and concerned Joint Secretary in the Department of Food were out of station and as a decision on the Canadian offer had to be conveyed to the Canadian High Commission the very next day, the orders were obtained from the Secretary of the Department of Economic Affairs and the then Finance Minister and conveyed to the Canadian High Commission on 6 February, 1975. From the facts narrated above by the Ministry, the Committee find that the whole transaction was rushed through without taking into consideration the overall requirements of rapeseed in the country. Even though the Canadian High Commission had informed the Department of Economic Affairs on 5 February, 1975 about the grant of 5 million Canadian dollars for the purchase of rapeseed and desired to have the reply on this offer by the next day i.e. 6 February, 1975, the Committee do not see any reason why the Canadian High Commission could not be persuaded to keep the offer open till such time as the comments from the concerned Department of Food were made available to the Ministry of Finance. It is also not clear whether the informal offer received on 5 February, 1975 was conveyed by the Ministry of Finance (Department of Economic Affairs) to the Department of Food before it was formally received from the Canadian High Commission on 26 February, 1975. The Committee feel that if this had been done, the gap of 20 days could have been utilized for reviewing the position for a firm and appropriate decision in the matter, before the receipt of the formal offer. The Committee at this stage can only recommend that in future while importing edible or perishable items, Government should take the final decision only after considering all pros and cons with the Ministry or Department concerned.

1	2	3	4
2	1.10	Commerce Civil Supplies and Cooperation (Deptt. of Civil Supplies and Cooperation)	As regards coordination between the various agencies connected with the import of rapeseed, the Ministry in their action taken note have stated that it was an isolated instance where the Department of Food was consulted after the acceptance of Canadian offer. The Committee are not satisfied with this explanation. Even if it was an isolated instance, as pleaded, the Committee would like the Government to lay down some guidelines to deal with such exigencies in future.

GMGIPND—L—766 LS—1150