45

AVOIDABLE EXTRA EXPENDITURE ON IMPORT OF SUGAR

MINISTRY OF FOOD

PUBLIC ACCOUNTS COMMITTEE 1992-93

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FORTY-FIFTH REPORT

PUBLIC ACCOUNTS COMMITTEE
(1992-93)

(TENTH LOK SABHA)

AVOIDABLE EXTRA EXPENDITURE ON IMPORT OF SUGAR

MINISTRY OF FOOD

Presented to Lok Sabha on 27.4.1993
Laid in Rajya Sabha on 27.4.1993

LOK SABHA SECRETARIAT
NEW DELHI

April, 1993/Chaitra, 1914(S)

PAC No. 1363

Price: Rs. 11.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.

CONTENTS

**Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

PUBLIC ACCOUNTS COMMITTEE
(1992-93)

CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS

Lok Sabha

2. Shri Girdhari Lal Bhargava
3. Shri Nirmal Kanti Chatterjee
4. Shri Z.M. Kahandole
5. Shri Vilas Muttemwar
6. Shri D.K. Naikar
£7. Shri Arvind Netam
8. Shri Kashiram Rana
9. Shri R. Surender Reddy
10. Shri Pratap Singh
11. Shri Ramashray Prasad Singh
12. Shri N. Sundararaj
*$13. Shri K.V. Thangka Balu
14. Kumari Uma Bharati
15. Prof.(Dr.) Sripal Singh Yadav

Rajya Sabha

£16. Dr. Abrar Ahmed
17. Shri R.K. Dhawan
18. Shri J.P. Javali
19. Shri Murasoli Maran
20. Shri Viren J. Shah
21. Shri Ish Dutt Yadav
22. Shri Ram Naresh Yadav

SECRETARIAT

1. Shri G.L. Batra — *Additional Secretary*
2. Smt. Ganga Murthy — *Deputy Secretary*
3. Shri K.C. Shekhar — *Under Secretary*

---

* Elected w.e.f. 23 July, 1992 *vice* Shrimati Krishna Sahi ceased to be a member of the Committee on her appointment as a Minister.

£ Ceased to be members of the Committee consequent upon their appointment as Minister *w.e.f.* 18 January, 1993.

$ Ceased to be a member of the Committee consequent upon his appointment as Minister *w.e.f.* 19 January, 1993.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-fifth Report on Paragraph 13.3 of the Report of the Comptroller & Auditor General of India for the year ended 31 March, 1991, Union Government (Civil) (No. 1 of 1992) on Avoidable Extra Expenditure on Import of Sugar.

2. The Report of the C&AG of India for the year ended 31 March, 1991 Union Government (Civil) (No. 1 of 1992) was laid on the Table of the House on 5th May, 1992.

3. The Committee have found that inspite of the fact that the Chief Director (Sugar) on account of the very precarious stock position had stressed in his note dated 19th May, 1989 the need for import of sugar for arrival from the months of July/August, 1989, it took more than three months for the Government to accord approval for import of two lakh tonnes of sugar in August 1989 and an additional quantity of one lakh tonnes in two instalments in September and October, 1989. Keeping in view the prevailing very difficult stock position the Committee have not found any explanation for the lack of urgency displayed in the matter of according approval by the concerned authorities. The Committee have also been surprised to note that STC being the canalising agency had expressed its inability to make the import in question and the Ministry of Commerce were of the view that STC should not be entrusted with the transaction.

4. The Ministry of Food floated a tender inquiry on 23 August, 1989 which proved infructuous because of the failure of the telex machine belonging to the Food Corporation of India during the crucial hour by which the offers were to be received. The second tender enquiry had, therefore, to be floated on 29 August, 1989. Inspite of the fact that STC had no dealings with the unregistered suppliers in the past, quotations were invited both from the parties registered with STC as well as those who were unregistered stipulating delivery by 10th October, 1989. The Purchase Committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, whose offers were valid till 31 August, 1989. Despite the fact that the offers of the registered parties were valid only upto 31 August, 1989 the Ministry of Food, under specific orders of the then Food Minister decided on that date to call the unregistered suppliers for discussions on 1st September, 1989 in view of the substantial difference in rates between the tenders from the registered and unregistered suppliers. The Committee have deemed it very unfortunate that the offers of the registered suppliers valid till 31st August, 1989 expired thus rendering the second tender inquiry also futile. A third tender inquiry was floated inviting the offers by 19 September, 1989 for delivery

of sugar by 20 October, 1989. Finally, orders were placed in September, 1989 for import of 2.18 lakh tonnes of sugar on six registered parties at rates ranging between US $517.80 and 520 per tonne. The Committee have been further surprised to note that the inadequate planning on the part of the Ministry of Food compelled them to float the fourth tender for procurement of an additional quantity of merely 24,000 tonnes of sugar in early October, 1989. As a result of this inquiry separate orders for delivery of 24,000 tonnes of sugar were placed in October, 1989 at the rates of US $519 per tonne for delivery by 20 October, 1989.

5. The Committee have noted that the average rates for which the orders were placed against third and fourth enquiries were higher by US $11.74 per tonne over the average rates quoted in the second tender inquiry. The Committee have taken a very serious view of the extra avoidable expenditure of Rs. 4.61 crores incurred in the procurement of 2.42 lakh tonnes of sugar as a result of the third and fourth inquiries which could have been avoided by timely, careful and judicious action on the part of the Ministry of Food. The Committee have been constrained to observe that if earnest steps were taken for import of sugar immediately after 19.5.1989 when the need for such import was emphasized by the Chief Director (Sugar), the colossal extra expenditure incurred in the import of 2.42 lakh tonnes of sugar which seems to be virtually a blind purchase could have been avoided.

6. The Committee have deprecated the casual approach adopted by the Ministry of Food in importing sugar after declaring the sugar availability position to be precarious. They are of the definite view that if proper precautions had been taken by the concerned authorities in the Ministry of Food at all stages of the import deals, the huge resultant extra infructuous expenditure could have been safely avoided. The Committee have strongly disapproved and deprecated the lack of planning, concerted and coordinated approach displayed by the Ministry of Food in the import in question. The Committee have emphasized that in view of the seriousness of the matter, a high level probe by an independent agency may be made into the entire question of delayed import of sugar and the financial loss that has occurred with a view to fix responsibility.

7. The Public Accounts Committee (1992-93) examined audit paragraph 13.3 at their sitting held on 19 November, 1992. The Committee considered and finalised the Report at their sitting held on 29 March, 1993. Minutes of the sitting form Part II* of the Report.

*Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

8. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix-III to the Report.

9. The Committee would like to express their thanks to the officers of the Ministry of Food for the co-operation extended by them in giving information to the Committee.

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

NEW DELHI;
April 19, 1993
Chaitra 29, 1915(S)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

REPORT

AVOIDABLE EXTRA EXPENDITURE ON IMPORT OF SUGAR

1.1 The Report is based on Paragraph 13.3 of the C&AG Report, No.1 of 1992 for the year ended 31st March, 1991, Union Government (Civil) which is appended as Appendix-I.

Introductory

1.2 In the note dated 19.6.1989 prepared by the Chief Director (Sugar), Department of Food, the sugar budget prepared for the year 1988-89 was as under:

			(Lakh tonnes)
(i)	Effective carry-over stock as on 1.10.1988		22.49
(ii)	Estimated production		88.68
(iii)	Total availability		111.17
(iv)	Estimated carry-over stock required at the beginning of 1989-90 season		20.70
(v)	Availability for distribution during 1988-89		90.47
(vi)	Less committed exports		0.45
(vii)	Net availability		90.02
(viii)	Requirement:		
	Levy	42.50	
	Free sale	57.34	
		99.84	99.84
(ix)	Shortfall		(−) 9.82
(x)	Effective carry-over stock (20.70—9.82)		10.88"

1.3 The carry over stocks maintained in the past for requirements of initial months had been as under:

"As on 1st October	Lakh tonnes
1986-87	20.60
1987-88	27.12
1988-89	25.32"

1.4 It was stated in the same note that the stock position at the beginning of 1989-90 season would be very precarious. With a view to augment the availability of sugar for domestic consumption for maintaining sugar prices at reasonable levels, it was suggested as follows in the said note:

"We may consider import of a minimum quantity of 10 lakh tonnes for arrival from the months of July/August, 1989 onwards. The above quantities so arrived will be helpful not only for maintaining the releases during the remaining period of 1988-89 season but would also improve the availability during the initial months of the next season. It is expected that the effective intervention by the Government by sale of imported sugar would also stabilise the sugar prices as was achieved during the years of 1985-86 and 1986-87 and upto middle of 1987-88".

Approvals for import of sugar

1.5 In view of the decline in sugar production in the country from April, 1989, Government approved import of two lakh tonnes of sugar in August, 1989 and an additional quantity of one lakh tonnes, in two instalments in September and October, 1989.

1.6 After the proposal of the Department of Food for import of 2 lakh tonnes of white sugar was approved by the Ministry of Finance, a purchase Committee under the Chairmanship of Shri B.B. Mahajan, Secretary (Food) was constituted for finalisation of imports as also to evolve suitable procedures for floating and evaluation of tenders received. The other members of the Committee included:

1. Shri R.K. Mathur,
   Additional Secretary & F.A.,
   Department of Food.
2. Shri S. Kanungo,
   Additional Secretary,
   Department of Economic Affairs.
3. Shri D.K. Mittal,
   Joint Secretary (Sugar),
   Department of Food.
4. Shri Laljeet Singh,
   Chief Commercial Manager,
   Food Corporation of India.
5. Shri A.B. Nagrare,
   Chief Director (Sugar),
   Directorate of Sugar.

Special Invitee

Shri R.S. Bakshi,
Executive Director,
State Trading Corporation.

The role of this Committee was recommendatory in nature.

1.7 The Committee desired to know the position about the production and consumption of sugar during the year 1987-88. The Secretary, Ministry of Food stated as follows:

"We started the sugar year on the first of October. We had a carry over on the first of October, 1987 of 25.32 lakh metric tonnes of

> sugar. During the year, we produced 91.1 lakh tonnes and the consumption was 93.33 lakh tonnes. . . on 1st October, 1988, we had an opening stock of 25.32 lakh tonnes. This was the year when production started falling.... In 1988-89, ending 30th September, 1989 the production aggregated to 87.52 lakh tonnes about four lakh tonnes short. But the consumption went up from 93.33 lakh tonnes to 99.19 lakh tonnes".

1.8 Asked whether there was any import of sugar during the preceding years, the representative of the Ministry of Food stated as follows:

> "A major quantity was imported in 1984-85, 1985-86 and 1986-87. Nearly 35 lakh tonnes were imported. In 1987-88, the production increased to 91.10 lakh tonnes and the carry over stock at the beginning of the season was 27.12 lakh tonnes. There was a sufficient fall in stocks—25.32 lakh tonnes in 1988-89 season. Actually, in 1988-89, our production level was increasing upto the month of March. However, it started declining after April. In May, 1988, our production level was 6.29 lakh tonnes which slipped to only 2 lakh tonnes in 1989. Again in June, 1988 we produced 1.54 lakh tonnes and reduced to 0.47 lakh tonnes in June, 1989. In July, 1988, it was 0.49 lakh tonnes and it reduced to 0.44 lakh tonnes in July 1989".

1.9 Asked if these stocks were really available, the representative of the Ministry of Food stated during evidence as follows:

> "It is there. As on 1st October, 1989, I was having a stock of 25.32 lakh tonnes. And the production was 87.52 lakh tonnes. The total availability was 112.84 lakh tonnes. Out of this, I have consumed 99.19 lakh tonnes which gave me a carry over stock of 13.65 lakh tonnes. For the month of October, it was just sufficient to maintain the lease because that was the festival period. In October, 1989, the releases amounted to 10.32 lakh tonnes".

1.10 Asked as to what would have been the stock on 31st October, 1989 if there were no imports and released 10.32 lakh tonnes of sugar, the witness stated as follows:

> "Two lakh tonnes. In October, 1989, we produced 1.60 lakh tonnes and in November, 1989 it was 9.80 lakh tonnes. In October, 1988, it was only 0.64 lakh tonnes. The position was from hand to mouth".

1.11 The Committee desired to know the reasons for delay in according approval to the import of sugar in August, September and October, when the need for such import was clearly emphasized by the Chief Director (Sugar) in his note of 19.5.1989. The Secretary, Ministry of Food stated as follows:

"The first recommendation regarding import that the Ministry of Food made was to the Committee of Secretaries. At the end of May they said that their assessment was that there was a gap which is going to emerge in the availability of sugar in the rest of the sugar season and so we need to bridge the gap of about seven lakh tonnes from the import. This note came up before the Committee of Secretaries in the beginning of June. At that time, it was decided that the matter may be taken up with the Ministry of Finance for allocation of foreign exchange. Our recommendations from the Ministry of Food, duly approved by the Food Minister went to the Ministry of Finance in the middle of June, saying that they may allocate foreign exchange for the import of seven lakh tonnes of sugar, because of the decline in sugar production in the year 1988-89. This would have enabled us to control the price of sugar and the availability of sugar would have been ensured for the people. Finance Ministry responded to the Food Ministry only in the end of the first week of August. In between, I was told that the Food Minister wrote a demi-official letter to the Finance Minister and they met personally also. After that the Finance Ministry indicated that they would be in a position to allocate foreign exchange for importing about two lakh tonnes of sugar, since they had a serious problem of foreign exchange. They advised us that FCI should negotiate a Banker's facility through their bankers for the required foreign exchange".

1.12 Subsequently, on receipt of a further letter from the Ministry of Finance, the matter was taken for reconsideration by the Committee of Secretaries and in the meeting that was held in the 2nd week of August, it was decided that rather than going in for inputs sugar should be placed on the Open General Licence with the reasonably low level of duty. Further, the Committee of Secretaries held the view that 'If import is available on OGL with the reasonable level of duty it will induce a suitable adjustment in the local market prices'. However, the Food Department was of the view that this may create difficulties.

1.13 Asked about the nature of the aforesaid difficulties, the witness explained:

"From our point of view, if we wish to import sugar for P.D.S. it is better to import directly and the Government becomes the proper agency for import. If we import sugar for open market sales, then, naturally there is no particular advantage in importing it through the Government agency, like FCI and OGL imports can be permitted".

1.14 The Committee asked as to how far it would have been a better course to permit import, through the OGL System with overall control. The Secretary, Ministry of Food stated:

"If you import through OGL — once you place the item on the OGL — it is rather difficult to keep a check on total outgo of foreign exchange and any trader anywhere in the country, up-country at the ports. etc. can place orders immediately and they can bring the commodity in. OGL would have only run into a problem in the Finance Ministry. If it is done, then, uncontrolled outgo of foreign exchange should have taken place."

1.15 The Department of Food felt that allowing import of sugar on OGL by private trade with reduction in custom duty was not likely to solve the problem and according to them at the then level of international prices, the landed cost of sugar would have exceeded the prevailing free market prices of sugar in India. This would have meant that there would have been little import of sugar on private account, and it would not have been possible for the Government to maintain a reasonable level of free sugar during the festival months of October and November, 1989 and the psychological impact this would have generated. In the wake of this, Ministry of Food had requested for import of 5 lakh tonnes of sugar.

1.16 In a note subsequently furnished by the Ministry of Food, the various steps taken by them since the need for imports was first emphasized by the Chief Director (Food) have been summarized as follows:

5.6.89	—	The former FCM addressed a letter to the former Prime Minister intimating about the need to import 5 lakh tonnes of sugar so as to contain the prices of freesale sugar in the open market and also keeping in view the anticipated requirements.
8.6.89	—	A note was submitted to the Committee of Secretaries proposing import of 7 lakh tonnes of sugar. However, the Committee of Secretaries suggested that the Ministry of Finance may be approached directly for the purpose.
19/20.6.89	—	A proposal to release foreign exchange for import of 7 lakh tonnes of sugar was sent to the Ministry of Finance.
4.7.89	—	A letter was addressed by Secretary (Food) to Finance Secretary seeking early approval to the proposal for import of sugar.
7.8.89	—	Ministry of Finance approved the import of sugar including raw sugar within the ceiling of 5 lakh tonnes during that financial year. On the same date, a letter was received from Finance Ministry to reconsider the matter at the level of Committee of Secretaries (COS).

8.8.89	—	A note was sent to Committee of Secretaries (COS) for import of 5 lakh tonnes. it was also stated that the Ministry of Finance would be requested to waive customs duty and provide subsidy of Rs. 75 crores on this import. The Committee of Secretaries decided that the import of sugar should be on OGL with a suitable duty.
11.8.89	—	Former FCM wrote a letter to PM and again requested that clearance for import of 5 lakh tonnes of sugar alongwith waiver of customs duty and subsidy of Rs. 75 crores may be allowed.
17.8.89	—	FCM discussed the above matter with the Finance Minister.
21.8.89	—	Finance Ministry decided that import of sugar by the Food Department would be restricted to 2 lakh tonnes and the entire import would be against Banker's Acceptance Facility (BAF).

Inability expressed by the State Trading Corporation to make the Import

1.17 It is seen from the audit paragraph that the State Trading Corporation (STC) had expressed its inability to make the import within the months specified.

1.18 On a query from the Committee regarding the inability of STC to undertake import of sugar, the Chief General Manager, STC, explained that in the first week of August they had no allocation of funds and that it would not have been possible for them to import by end October as they had a set procedure to follow. He further clarified:

> "In the Ministry of Commerce on 7th August, a decision was taken that STC will not handle this job... We had indicated that within the stipulated time, we would not be able to import because we require certain deviations in the guidelines to do so and we had not received any such guidelines. We have to float tenders. We have to invite offers and we have to ask for PBG etc. This procedure involves time and to deviate from the set procedure, certain guidelines are necessary".

1.19 Asked as to what exactly the Ministry of Commerce has said, the Secretary (Food) stated as follows:

> "I will read out the letter from Special Secretary to the Secretary, Department of Food, It says 'Kindly refer to the letter dated 3rd August, 1989 from our Director... the Ministry of Commerce is of the view that STC should not be entrusted with the transactions if and when it materialises. As in the case of purchase of rice, this transaction can best be handled by the Department of Food and Civil Supplies themselves".

1.20 The Committee desired to know whether the imports effected during 1984-85 to 1988-89 were channelised through STC or made directly by the Department of Food. The Ministry of Food in a written note have stated:

> "STC was the canalising agency for import of sugar and accordingly imports were effected through STC during the years 1984-85 to 1988-89. The Department of Food had not directly imported any quantity during the aforesaid period".

1.21 The Committee desired to know the reasons and the factors which weighed with the Ministry of Commerce in expressing the aforesaid view together with the comments of the Department of Food thereon. In the note the Ministry of Food have stated as follows:

> "Ministry of Commerce has stated that based on the position explained by STC in para 3 of their letter dated 3rd August, 1989 the matter was considered in their Ministry at the appropriate level and a conscious view was taken that STC should not be entrusted with this transaction if and when it materialised.
>
> We have no comments to offer".

Floating of Tenders

1.22 The Department floated an inquiry on 23 August 1989 which proved infructuous because the telex machine which was to receive the offers was out of order during the crucial hour by which the offers were to be received.

1.23 The Committee asked as to how the Ministry would justify the failure of the telex machine at a crucial hour.

The Secretary, Ministry of Food stated as follows:

> "There was an exchange of views between the Special Secretary in the Commerce Ministry and Secretary, Food Ministry and it was said that since FCI had some difficulty in receiving offers on its telex machine in the first tender, therefore, STC is hereby permitted to use their Telex machine for receiving the offers on behalf of FCI".

1.24 Asked as to whose machine was the first one the Committee were informed that it was FCI's machine. The Committee enquired about the specific reasons for the failure of the FCI's machine. The Secretary, Ministry of Food stated as follows:

> "They had put a sealed lock to see that nobody tampers with the received messages. When they first floated the tenders on 23.8.89, 25th August was the date the outcome of the tenders was to be assessed. In the morning when they opened the seal they found that the roll of paper had got exhausted sometime during the night. About 8 to 10 messages had come and thereafter the machine was jammed. It was locked up at night and they

discovered it only in the morning when the Telex room was opened. Then they felf that some of the people may have been unsuccessful in communicating their messages".

Second Tender Enquiry

1.25 A second tender enquiry was floated on 29th August 1989 inviting quotations from the parties which were registered with STC as well as unregistered parties, stipulating delivery by 10th October 1989. The rates offered by registered parties ranged between US $ 504 and 515 per tonne whereas those offered by unregistered parties ranged between US $ 445 and 480 per tonne. Since the unregistered parties did not indicate that they would supply sugar by the scheduled date and that the bid bond as required under the terms of tender enquiry would be furnished, their tenders were ignored.

1.26 The Committee enquired whether STC normally entered into negotiations both with the registered and unregistered parties. The Ministry of Food in a note have stated as follows:

> "STC has clarified that STC was not dealing with the unregistered suppliers and, therefore, there was no question of having any negotiation with them".

1.27 In response to a query as to the level at which, the tenders of the unregistered parties had been initially ignored.

1.28 The Ministry of Food in their post evidence note have stated:

> "In the third meeting of the Purchase Committee on 31 August 1989 to consider the offers received against the second tender enquiry, floated on 29 August, 1989, it was observed by the Committee that 15 tenders were received comprising 9 tenders from registered parties with STC and 6 tenders from unregistered parties. As per tender enquiry, the unregistered parties were required to submit bid bond of 3 per cent of the value of the contract and since no bid bonds were received from the unregistered parties, the Committee decided to ignore the offers received from the unregistered parties".

1.29 Asked whether in the imports handled by STC, the bidders were required to furnish bid bonds to STC, the Ministry of Food stated as follows:

> "STC has clarified that in the case of imports handled by State Trading Corporation (STC) tenders were being invited only from registered suppliers and they were not required to submit bid bonds to STC".

1.30 Though the Purchase Committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, the Department, however decided on 31st August, 1989 that since the difference in rates between the tenders from registered and unregistered suppliers was substantial, the letter should be called for negotiations. During negotiations, the unregistered suppliers were asked to furnish bid bond at 3 per cent of the value of their offer, but they did not agree. In the meanwhile, offers of the registered suppliers valid 31st August 1989 expired and thus the second tender enquiry also did not prove fruitful.

1.31 The Committee enquired as to why the Ministry did not heed advice of the Purchase Committee not to negotiate with unregistered suppliers. The Ministry of Food stated as follows:

> "The range of price quoted by the 7 registered suppliers whose offers were considered accepted by the Purchase Committee was $ 504 to 515 PMT, with an average price of $ 508.08 PMT.
>
> Against the above quotation of the registered parties, the unregistered suppliers had quoted prices varying between $ 445 to 480 PMT.
>
> Considering the wide differential in the price quoted by the unregistered suppliers as also the long validity period indicated by some of them, the Department decided to examine the offers received from the unregistered suppliers also. This would have saved the country foreign exchange of $ 96.96 lakh for the total quantity of 2.02 lakh tonnes on sugar to be imported, assuming a price differential of about $ 48 PMT.
>
> It would be evident from the above that the Ministry had not gone solely by the advice of the Purchase Committee and instead decided to call the unregistered parties on 1.9.1989 for negotiations with a view to effect economy in the import of sugar and also to save the much needed foreign exchange.".

1.32 The Committee enquired as to why the unregistered suppliers were invited for negotiations on 1 Septermber, 1989 when the validity of tenders was only upto 31st August, 1989. The Secretary, Ministry of Food informed the Committee as follows:

> "I have gone through the record and apparently the Committee ignored the bid of the unregistered suppliers and made a recommendation to place orders only on the seven registered suppliers who had quoted. The then Food Minister observed on the file that CIF price quoted by the unregistered suppliers are lower than registered ones and therefore, we may be able to effect some savings if we try to enter into negotiations..... There is specific written order that by negotiating with the unregistered suppliers, we may be able to effect some savings".

1.33 The Committee further enquired whether in the normal course such offers in the absence of bid bonds could be considered or just thrown in the waste paper basket. The Secretary, Ministry of Food stated:

> "They should have been thrown in waste paper basket but this was not done in this case".

1.34 During negotiations, the unregistered suppliers were asked to furnish bid bond at 3% of the value of their offer but they did not agree. Meanwhile offers of the registered suppliers valid only till 31 August 1989 expired and thus the second tender inquiry also proved infructuous. The Committee desired to know whether any steps were taken to get some extension of time from the registered parties so as to keep their offers alive.

The Ministry of Foods stated as follows:—

> "In terms of the second tender enquiry, the offers were required to be received by 900 hrs. (IST) and to be valid for acceptance upto 2100 hrs. (IST) on 31 August 1989. The Purchase Committee met on 31 August 1989 at 12.30 PM and formulated its proposals. Based on those proposals, the Department of Food was required to obtain the approval of the Minister of Food & Civil Supplies and then the Ministry of Finance for according necessary clearance for foreign exchange involved in the imports. Since it was decided to explore the possibility of effecting imports from the unregistered parties by negotiations, with a view to save foreign exchange, the registered suppliers whose price quotation had been significantly higher were not asked to extend the validity of their offer beyond 31.8.1989".

Third Tender Enquiry

1.35 Offers were again invited by 19th September 1989 (third enquiry) for delivery of sugar by 20th October, 1989. The delivery period which in the second inquiry was 42 days, was narrowed down to 30 days in the third inquiry. The offers received from seven registered suppliers ranged between US $ 517.80 and 526 per tonne (as against US $ 504 and 515 in the earlier bid). The offers of unregistered parties ranged between US $ 454.50 and 527 per tonne but they were ignored as they did not submit bid bonds. The department approved on 19th September 1989 the purchase of only 1.55 lakh tonnes of sugar at rates ranging between US $ 517.80 and 520.80 per tonne from four parties with an option to purchase another 50,000 tonnes if the prices fall. The quantity was reduced because the Department felf that the price could fall. Ministry of Finance, however, considered the import of 1.84 lakhs tonnes of sugar to be necessary to meet the requirement in November 1989 for import of 2.18 lakh tonnes on six registered parties at rate ranging between US $ 517.80 and 520 per tonne.

1.36 The Committee desired to know the basis for approving only 1.55 lakh tonnes of sugar on 19th September, 1989 and whether it was based on a study of the London Sugar Market. The Ministry of Food stated as follows:—

> "Against the Third Enquiry, the Purchase Committee had recommended the purchase of 1.84 lakh tonnes of sugar at a price range of US $ 517.80-521 PMT.

Ministry had observed that the London Daily Price (LDP), which had shown a fluctuating trend during August, 1989 had started declining in September, 1989. The L.D.P., which was \$493.50 PMT on 31.8.89, declined to \$428 PMT on 8.9.89. There had been further decline, to \$421 PMT on 15.9.89. The prices quoted by the tenderers were also somewhat higher than the previous tender. In view of this, it was decided that, for the present, we may contract for 1.55 lakh tonnes only. In the meantime, if the prices fall below the level prevalant at that time, the Government may buy the balance quantity of 50,000 tonnes. However, Ministry of Finance advised that the offers of delivery of full 1.84 lakh tonnes should be accepted.

No specific study of the London Sugar Market, as such, was made in the Ministry at that time".

1.37 According to the Ministry of Food, no specific study on the London Sugar Market as such was made in the Ministry at that time. The Committee enquired as to how could the Ministry monitor without such a study. The Secretary of the Ministry of Food stated as follows:

"I agree that this particular reply literally mean that. But what was probably intended to be conveyed was that there was no indepth study about the behaviour of the London Sugar Market over a period of time".

Fourth Enquiry

1.38 In response to a fourth enquiry floated in October 1989, 7 offers were received from registered parties and 11 offers from unregistered parties. Offers from unregistered parties were ignored either because they had not submitted bid bonds or had not confirmed delivery of shipments in India by 20th October 1989. Only three registered parties had offered supplies by 20th October 1989, and they had quoted rates between US \$ 519 and 520 per tonne. Orders for delivery of further quantity of 24,000 tonnes were placed on 8th October 1989 at the rate of US \$ 519 per tonne for delivery by 20th Ocotber 1989.

1.39 The Committee desired to know as to why the Ministry of Food did not clear this 24,000 tonnes along with the Third enquiry and rather decided to float another enquiry after two weeks. The Secretary, Ministry of Food stated as follows:—

"When the present quantity was not sufficient, a case was made out for this additional quantity. So, this permission came from the Minstry of Finance".

Avoidable Extra Expenditure

1.40 According to the audit paragraph the average rates for which the orders were placed against third and fourth enquiry was higher by US \$ 11.74 per tonne over the average rates received in the second tender inquiry and avoidable extra expenditure of Rs. 3.85 crores was thereby incurred on the import of 2.02 lakhs tonnes of sugar.

1.41 A statement showing London Daily Prices (LDP) of sugar (white) from 1.8.1989 to 31.10.1989 is appanded at Appendix-II.

1.42 The Committee desired to know the differences in cost of sugar during September-October, 1989 *vis-a-vis.*, the London market prices both in terms of Rupee and the Dollar. In a note subsequently furnished the Ministry of Food stated:—

> "Taking the weighted average of the contracted quantity and the rate thereof, the cost of sugar CIF Indian ports for September, 1989 works out to US $ 519,91478/MT or Rs. 8660.98/MT at a conversion rate of Rs. 16.67 per US Dollar.
>
> In October, 1989 a quantity of 24,000 MT was contracted at the rate of US $519.0/MT and at the conversion rate of US $1=Rs. 16.67, this works out to Rs. 8651.73/MT. Based on the above, the cost of sugar during September-October, 1989, Vis-a-Vis, the London Market Prices are as follows:—

Month	Cost of sugar (MT) Ex-Indian ports		Average London Daily Price (Spot Price)	
	IN US DOLLAR	IN INDIAN Rs.	In US DOLLAR	IN INDIAN Rs.
September 1989	519.92	8667.8	436.24	7272.12
October. 1989	519.00	8652.0	396.93	6616.82

> London Daily Price (LDP) is a spot price Ex-any of the European ports for delivery within ten days. For LDP to be comparable, freight, insurance etc. will have to be added. The actual freight could also depend upon the urgency with which the shipment is required".

1.43 The Committee enquired about the general difference between the FOB and the CIF price evidence as follows:—

> "We have checked up our record. At that time, the difference was about 45 US dollars".

1.44 The witnesses further stated that as regard insurance etc. it could be one more dollar.

1.45 The Committee pointed out that if calculations were made by adding 45 dollars as the CIF cost to the average London Daily Price in September and October, 1989 the avoidable extra expenditure would be much more than Rs. 3.85 crores as stated in the audit paragraph. The

Secretary, Minstry of Food stated as follows:—

> "What you have siad had struck us also when we were going through our papers but gap between the LDP plus the freight and insurance and the price at which orders were actually placed is very wide. The only explanation that can be given is that they had sought the delivery in a time frame which was just about a month from the placement of firm orders of 19th September so that sugar could arrive in time for the festival season".

1.46 The Committee desired to know whether the Ministry on receipt of the offers made any specific study of the London Sugar Market so as to ascertain the daily tonnage transactions for purchase and sale of sugar, taking place. The Ministry of Food stated as follows:—

> "In the tender enquiry floated for the purchase of import of sugar, a mention was made of the specific date by which the tenders were required to be submitted by the parties. The parties were also required to indicate the period upto which their offers would be valid. After receipt of the offers, these were considered by the purchase Committee and the decision had to be finally approved by the Minister of Food & Civil Supplies and the Ministry of Finance.
>
> Keeping in view the overall time available and the formalities to be completed, no detailed study could be carried out in respect of the London Sugar Market. However, the Food Ministry was aware of the prevailing f.o.b. Sugar Export prices represented by the London Daily price quotations at the stage of consideration of the offers received by it."

1.47 The Committee pointed out that the orders were placed in September 1989 for import of 2.02 lakh tonnes of sugar and other orders for import of further quantity of 24,000 tonnes were placed on 6th October, 1989 for immediate delivery. The Committee desired to know the reasons for wide disparity in prices of sugar than prevailing at the London Market and the prices for which both these sets of ordrs were placed. The Secretary, Ministry of Food stated during evidence as follows:—

> "Sir, my impression is that even for a deal on the Lodon Market for a particular cargo of sugar, you have to normally allow time for some movement because London itself does not produce any sugar. It is either Brazilian sugar or Thai sugar. The traders will have to book the quantity from one or the other supplier of the sugar and then they will indent a vessel, that such and such vessel should call at this port. It is not that the ships are waiting. When we have had to purchase, normally, we allow three months time for placement of the contract, opening of the IC etc. and then about 5-6 weeks sailing time to arrive at Indian ports. Normally,

there would be a gap, in my view, of a minimum of about 6-9 weeks by which time we should expect the cargo to arrive at Indian ports.

In this case, apparently, I believe that the market had become aware that India is in dire need of some sugar and they were fairly certain that some sort of business may come. So probably, some quantities they had tried to earmark which could be shipped to India.....My personal view is that this gap was too wide and probably it may not have been that imperative to go in for the purchase at that time frame. We were just going to start the new sugar season in October.

1.48 To a quary as to what was the sugarcane forecast at that time the Chief Director (Sugar) Ministry of Food stated that it was a good crop.

1.49 The Committee desired to know the remedial steps taken by the Ministry to revamp and streamline the planning process for such imports so as to obviate the chances of avoidable extra expenditure incurred in the instant case. The Ministry of Food stated as follows:—

"Sugar is an agro-based industry and depends upon the vagaries of weather and other conditions which affect the plantation production of sugarcane. Government have taken various measures to improve production lavel in the country in order not only to meet the internal demand but also to generate sufficient surplus to export sugar to earn the much needed foreign exchange. In the event of any future requirement for import of sugar, the Ministry of Food will take all possible steps to arrange the imports in the most cost effective economical and timely manner."

Delayed supply of sugar

1.50 According to the audit paragraph the contract did not specify the rate of discount to be charged on delayed supplies. 8 vessels arrived late than the scheduled date of delivery. Department claimed discount totalling US $ 8.05 lakhs from four suppliers. Force Majaure was invoked by suppliers on supplies received in 6 vessels. The Food Corporation of India had the performance bank guarantee of four parties from whom discount for delayed supplies was recoverable but three parties had gone for arbitration before the Refined Sugar Association as per provision in the contract.

1.51 The details about the scheduled date of delivery of sugar and actual dates on arrival of the 9 vessals are as follows:—

S. No.	*Name of vessel*	*Quantity (tonnes)*	*Scheduled date of delivery*	*Actual date of arrival*	*Number of days by which delayed*
(A)	*M/s. Anglo Chemicals Commodities*				
1.	M.V. BUIYIN	12,450	20.10.89	23.10.89	3
2.	M.V. SHI EENG	12,000	20.10.89	24.10.89	4
3.	M.V. PBOR ANN	12,000	20.10.89	23.10.89	3
(B)	*M/s. Sucden Kerry International*				
4.	M.V. LADY	12,100	20.10.89	30.10.89	10
(C)	*M/s. Gill & Duffus*				
5.	M.V. CANG CEING	12,000	20.10.89	26.10.89	6
6.	M.V. CONCH	15,000	20.10.89	5.11.89	16
(D)	*M/S. S.A. Sucre Exports*				
7.	CHIFENG KOC	11,000	20.10.89	31.10.89	11
8.	LYDIA-II	13,000	20.10.89	30.10.89	10
	Total:	99.550 MT			

1.52 The Committee enquired as to how far the delayed receipt of sugar had effected the country's urgent requirements. The Ministry of Food in a note explained as follows:

> "The estimated stock position of sugar in the country for the month of September-October 1989 was very critical. The imported sugar had also to be moved from the ports to the consuming detinations, etc. In view of this, the entire effort was to augment availability of sugar during the month of October for meeting the requirement during the festival weeks in end October and the initial period of November, 1989. Keeping this in view, the scheduled arrival date in the country was indicated as 20 October, 1989. Any delay in arrival of ships thereafter would have undermined Government's efforts to ensure adequate availability of

sugar in the country. It can be said that timely arrival of the imported sugar would have eased the supply and price situation at least in the area adjoining the concerned ports."

1.53 The Audit Para reveals that the contracts did not specify the rate of discount to be charged on delayed supplies. The Committee sought clarification from the Ministry of Food in this regard. The Ministry of Food Stated as follows:—

"Shipment within the contract delivery period was the essence of the contract and therefore for any delay in the receipt of the shipment after the stipulated delivery period at the Indian port, some penalties/discount were required to be imposed. Keeping this in view, clause 3 of the contract had stipulated as under:— "Sellers shall arrange shipment of the entire quantity so as to reach Indian ports basis coast as per clause 4(i) not later than 20th October, 1989. Date of tendering notice of readiness of the vessel as per clause 13(vii) here of shall be the date of delivery period. Shipment within contract delivery period is of the essence of this contract. In case of any delay in reaching the shipment after delivery period at Indian port, it is clearly understood that except for the reasons of force majaure the seller will be deemed to be in contractual default and the buyer will have the absolute right to cancel the contract at the cost and risk and responsibility of the seller and claim the damages cost, losses, expenses etc. from the seller or to extend the delivery period at a discount as may be mutually agreed to between the Buyer and the Seller.

8 vessels arrived after the scheduled date of delivery i.e. 20th October, 1989. The bank guarantee in respect of 8 vessels representing 4 parties have been encashed to the extent of US $ 8.05 lakh. Out of the 4 parties, no protest has been received so far from M/s Gill and Duffus, whose performance bank guarantee to the extent of US $ 3.12 lakh in respect of 2 vessels were encashed for the delay, and thus this money stands recovered. As regards the remaining three parties, they have instituted arbitration proceedings before the Refined Sugar Association London as per the terms of the contract and the matter is sub-judice. The Government is of the opinion that a discount of US $ 1 per MT per day of delay in very reasonable".

1.54 The Committee enquired whether time was made the essence of the contracts and if so, desired to know the details about the penalties which were specified to be levied for delays in deliveries. The Committee also asked about the basis for invoking the Force Majeure clause. In a note the Ministry of Food stated as follows:

"Yes, Sir, Clause 3 of the contract provides that in case of any delay in reaching the shipment after the delivery period at Indian port, it is clearly understood that except for the reasons of Force Majeure, the sellers will be deemed to be in contractual default and the buyer will have the absolute right to cancel the contract at the cost and risk and responsibility of the seller and claim for damages cost, losses, expenses etc. from the seller or to extend the delivery period at a discount as may mutually agreed to between the buyer and the seller.

Clause 15 the contract stipulates that as per the Rules of the Refined Sugar Association of London force majeure can be invoked".

1.55 If time was made essence of the contract, the Committee invited the comments of the Ministry over the fact whether the contract would not get rescinded by fault of delivery, thereby preventing suppliers from invoking clause of force majeure and demanding full payment. The Ministry of Food stated as follows:

"Time was the essence of the contract. Clause 3 of the contract stipulated that in case of any delay in reaching the shipment after delivery period at Indian ports, it is clearly understood, except for the reasons of force majeure, the seller would be deemed to be in contractual default and the buyer will have the absolute right to cancel the contract at the cost, risk and responsibility of the seller and claim for damages, cost losses, expenses etc. from the sellers or to extend the delivery period at a discount as may be mutually agreed to between the buyer and the sellers. thus, the Government had the option to accept the deliveries which had arrived late and impose suitable discount as may be mutually agreed between the buyer asnd the sellers. In view of this provision of the contract and keeping the public interest in mind and the need to augment supply of sugar for internal consumption, Government decided to accept the deliveries which had come late and impose suitable discount for late arrivals".

1.56 The Committee desired to know the latest position about the arbitration proceedings pending before the Refined Sugar Association London. The Ministry of Food stated as follows:—

"Submission of the claimants & our defence to the R.S.A. London have already been completed. We have received intimation from the RSA London through telex that the awards in the arbitration are available to be taken up after mid-day on 30th December, 1992. The fee and costs of the Association have amounted to GBP 28959.0 and upon receipt of our cheque for this amount after Mid day on 30.12.92 the award will be handed over. Meanwhile the award relating to M/s S.A. Sucre export has been received as per which we have to pay by way of refund to the sellers US $ 309442.99 alongwith interest from 23.8.1990 besides cost of arbitration. Earlier FCI had encashed the performance bank guarantee bond of this party to the extent of US $ 343549.41".

1.57 According to the note dated 19.5.1989 prepared by the Chief Director (Sugar), Department of Food, against the estimated production of 88.68 lakh tonnes of sugar during the year 1988-89, the estimated total requirement of the commodity during the year was of the order of 99.84 lakh tonnes. They carry over stocks of sugar maintained in the past for meeting the requirements of initial months have been of the order of 20.6. lakh tonnes, 27.12 lakh tonnes and 25, 32 lakh tonnes as on Ist October 1986-87, 1987-88 and 1988-89 respectively. It was indicated in the same note that due to the shortfall of 9,32 lakh tonnes of sugar during the year 1988-89, the effective carry over stock for the new year would only be 10.88 lakh tonnes. The note clearly stated that the stock position at the beginning of 1989-90 season would be very precarious. With a view to maintain the releases during the remaining period of 1988-89 season and also to improve the availability of sugar during the initial months of the next season (1989-90), the Chief Director (Sugar) in his above referred note had emphasized the need for import of a minimum quantity of 10 lakh tonnes of sugar for arrival from the months of July/August, 1989 onwards. The facts narrated in the succeeding paragraphs clearly establish lack of a serious and concerted approach on the part of the Governemnt in effecting the necessary import of sugar which had been then visualised for meeting the country's urgent requirement.

1.58 In spite of the fact that the Chief Director (Sugar) on account of the very precarious stock position had stressed in his note dated 19th May, 1989 the need for import of sugar for arrival from the months of July/August 1989, it took more than three months for the Government to accord approval of two lakh tonnes of sugar in August 1989 and an additional quantity of one lakh tonnes in two instalments in September and October, 1989. Keeping in view the prevailing very difficult stock position the Committee cannot find any explanation for the lack of urgency displayed in the matter of according approval by the concerned authorities. The Committee trust that if timely approval was accorded apart from taking advantage of the prevailing prices of sugar in the international market the import of sugar could have been effected with greater planning and better co-ordinated with the domestic availability.

1.59 The Committee note that the State Trading Corporation (STC) was the canalising agency for import of sugar and accordingly all imports of sugar during the period 1984-85 to 1988-89 were effected through it. They are surprised to note that STC being the canalising agency had expressed its inability to make the import in question and the Ministry of Commerce were of the view that STC should not be entrusted with the transaction. The Sugar was required to be imported by 10 October, 1989 and the STC was informed about the decision of the Government.

1.60 The Chief General Manager, STC informed the Commitee that in view of their set procedures, STC could not import sugar within the stipulated time. Apparently as between end July 1989 and 10th October, 1989, clearly more than 2 months were available the Committee could get no convincing explanation from the STC which till then had been canalising agency to undertake the import considered urgent in view of the precarious stock position. What is even more disturbing to the Committee is the view taken by Ministry of Commerce in support of this move. The Committee clearly believe that both the Ministry of Commerce and the STC had failed to discharge their responsibility of effecting import of sugar in a difficult domestic situation.

1.61 The Ministry of Food floated a tender inquiry on 23 August, 1989. It is disquieting to note that this inquiry proved infructuous because of the failure of the telex machine belonging to the Food Corporation of India during the crucial hour by which the offers were to be received. The Committee are not at all satisfied with the reply of the Ministry that they had put a sealed lock to ensure that nobody tampered with the received messages and in the morning of 25th August when they opened the seal they found that the roll of paper had got exhausted sometime during the night. The Committee are of the opinion that this is clearly reflective of negligent handling of a crucial situation if not worse.

1.62 The second tender enquiry had, therefore, to be floated on 29 August, 1939. In spite of the fact that STC had no dealings with the unregistered supplies in the past, quotations were invited both from the parties registered with STC as well as those who are unregistered. Stipulated delivery by 10th October, 1939. The rates offered by registered parties ranged between US $ 504 and 515 per tonne whereas those offered by unregistered parties ranged between US $ 445 and 430 per tonne. As per tender enquiry, the unregistered parties were required to submit bid bond of 3 per cent of the value of the contract and since no bonds were received from the unregistered parties the Purchase Committee, specifically constituted for the purpose and chaired by the then Secretary (Food) at its meeting held on 31 August, 1989 decided to ignore the offers received from the unregistered parties. The Purchase Committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, whose offers were valid till 31 August, 1989. Despite the fact that the offers of the registered parties were valid only upto 31 August, 1989, the Ministry of Food, under specific orders of the then Food Minister decided on that date to call the unregistered suppliers for discussions on 1st September, 1989 in view of the substantial difference in rates between the tenders from the registered and unregistered suppliers. During negotiations, the unregistered suppliers were asked to furnish bid bond at 3 per cent of the value of their offer, but they did not agree. On a query from the Committee during evidence as to whether in the normal course offers from the unregistered parties in the absence of bid bonds could be considered, Secretary (Food) specifically stated "They should have been thrown in waste paper basket but this was not done in this case." The Ministry of Food also did not take steps to seek extension of time from the registered parties so as to keep their offers valid for some more days. The Committee are deeply concerned to note that inspite of the fact that STC, the canalising agency for such imports had never dealt with the unregistered parties in the past, the unusual decision of negotiating with such parties and that too when their offers were not accompanied with the requisite bid bond, was taken on 31 August, 1989, the day on which the offers from the registered parties were also to expire. The Committee deem it very unfortunate that under the aforesaid circumstances the offers of the registered suppliers valid till 31st August, 1989 expired thus rendering the second tender inquiry also futile.

1.63 According to the Ministry of Food, the total availability of sugar during the year 1988-89 was 112.34 lakh tonnes, out of which 99.19 lakh tonnes of sugar had been consumed during that year. Thus as on 1st October, 1989 there was a stock of only 13.65 lakh tonnes of sugar, which according to the Ministry was just sufficient to meet the required release of 10.32 lakh tonnes during that month making the sugar position very precarious. Against such a difficult situation both the tender enquiries floated on 23 and 29 August, 1989 proved infructuous due to lack of perception and proper planning. The Committee cannot but strongly condemn the role of the Ministry in meeting the urgent domestic requirement of sugar.

1.64 A third tender enquiry was floated inviting the offers by 19 September, 1989 for delivery of sugar by 20 October, 1989. Offers received from seven registered suppliers ranged between US $ 517.80 and 526 per tonne as against such offers ranging between US $ 504 and 515 made in response to the second tender enquiry. Finally, orders were placed in September, 1989 for import of 2.18 lakh tonnes of sugar on six registered parties at rates ranging between US $ 517.80 and 520 per tonne.

1.65 It is further disquieting to note that the inadequate planning on the part of the Ministry Food compelled them to float the fourth tender for procurement of an additional quantity of merely 24,000 tonnes of sugar in early October, 1989. As a result of this inquiry separate orders for delivery of 24,000 tonnes of sugar were placed in October, 1989 at the rate of US $ 519 per tonne for delivery by 20 October, 1989. According to the Ministry of Food, when the quantity of sugar, on order, was not considered sufficient, separate case was made out and the permission of the Ministry of Finance was obtained. The Committee cannot but express their strong displeasure over the inadequate planning and disjointed approach on the part of the Ministry to meet the urgent requirements.

1.66 The Committee note that average rates for which the orders were placed against third and fourth enquiries were higher by $ 11.74 per tonne over the average rates quoted in the second tender inquiry. As the Ministry of Food failed to execute orders in pursuance of the second tender inquiry, according to audit paragraph an infructuous and avoidable extra expenditure of Rs. 3.85 crores was thereby incurred on the import of 2.02 lakh tonnes of sugar. As the sugar actually procured on the basis of the orders placed as a result of the third and fourth inquiries was of the order of 2.42 lakh tonnes, this infructuous and avoidable expenditure would be of the order of about Rs. 4.61 crores. The Committee take a very serious view of this extra avoidable expenditure of Rs. 4.61 crores which could have been avoided by timely, careful and judicious action on the part of the Ministry of Food.

1.67 The orders placed in September and October, 1989 for the procurement of 2.18 lakh tonnes and 24,000 tonnes of sugar, give an average cost of US $ 519.92 (Rs. 8667) and US $ 519 (Rs. 8652) per tonne, of sugar during September, 1989 and October, 1989 respectively. As against this the average London Daily Price (spot price) in September, 1989 and October, 1989 was US $ 436.24 (Rs. 7272.12) and US $ 396.93 (Rs. 6616.82) per tonne, respectively. According to the Ministry of Food, the difference between the FOB and CIF prices in 1989 was about 45 US dollars to which one more dollar could be added for insurance etc. Recalculating the price taking into account 46 dollars as the CIF cost to the average London Daily Price in September and October, 1989, the avoidable extra expenditure which had to be incurred on the procurement of 2.42 lakh tonnes of sugar would actually be many fold more than Rs. 4.61 crores indicated in the preceding paragraph. The Ministry of Food have conceded that keeping in view the overall time available and the formalities to be completed, no detailed study could be carried out in respect of the London Sugar Market. The Secretary, Ministry of Food further conceded during evidence that "My personal view was that this gap was too wide and probably it may not have been that imperative to go in for the purchase at that time frame. We were just going to start the new sugar season in October". Asked about the sugarcane forecast at that time, the Committee were informed by the Chief Director (Sugar) Ministry of Food that it was a good crop. Keeping all the facts in view, the Committee are constrained to observe that if earnest steps were taken for import of sugar immediately after 19.5.1989 when the need for such import was emphasized by the Chief Director (Sugar), the colossal extra expenditure incurred in the import of 2.42 lakh tonnes of sugar which seems to be virtually a blind purchase could have been avoided.

1.68 The Committee find that while considering the proposal of the Minsitry of Food for the import of sugar, the Committee of Secretaries at their meeting held on 9 August, 1989 had felt that the best alternative in the then prevailing circumstances was to place sugar on Open General Licence (OGL) list with a reasonably low level of duty. The Ministry of Food were, however, then of the view that allowing import of sugar on OGL by private trade with reduction of custom duty was not likely to solve the problem. The Committee feel that if the import had been made through OGL, it would definitely have been both cheaper and quicker. The Committee feel

that the better course at that time would have been to permit import through OGL with overall control.

1.69 The sugar on orders in question was required to be supplied by 20 October, 1989. 8 vessels carrying 99,550 MT of sugar arrived later by 3 to 16 days than the scheduled date of delivery. The Ministry claimed discount totalling US $ 8.05 lakhs from four suppliers. Force majeure was invoked by suppliers on supplies received by 6 vessels. Bank guarantees from four parties from whom discount for delayed supplies was recoverable had been encashed but three of the four parties had gone for for arbitration before the Refind Sugar Association as per provision in the contract. Award relating to one party has been received according to which as against the US $ 343549.41 of this party, the Ministry have to pay by way of refund to this party US $ 309442.92, alongwith interest from 23.8.1990 besides cost of arbitration. The Committee would like to know the reasons for this award having gone against the Government. The Committee would also like to know the details of the arbitration awards relating to the other two parties.

1.70 The casual approach adopted by the Ministry of Food after declaring the sugar availability position as precarious and deciding to go in for import is evident from the following:

(i) Initial delay of about three months in according approval to the import of sugar.

(ii) Inability expressed by the STC, the canalising agency for import of sugar to undertake the import in question.

(iii) The first tender inquiry floated on 23 August 1989 proved infructuous due to the failure of the telex machine.

(iv) The second tender inquiry floated on 29 August, 1989 proved infructuous due to the taking of the decision for negotiating with the unregistered parties on 31 August, 1989 the day on which the offers of the registered parties were to expire.

(v) Failure to study the the London Sugar Market.

The Committee are of the definite view that if proper precautions had been taken by the concerned authorities in the Ministry of Food at all stages of the import deals, the huge resultant extra infructuous expenditure could have been safely avoided. The Committee cannot but strongly disapprove and deprecate the lack of planning, concerted and coordinated approach displayed by the Ministry of Food in the import in question. The Committee would emphasize that in view of the seriousness of the matter, a high level probe by an independent agency may be made into the entiré question of delayed import of sugar and the financial loss that has occurred with a view to fix responsibility. The Committee would also emphasize that the matter should be throughly examined by the Ministry of Food with a view to devise the detailed remedial steps required to be taken in the matter of any future imports undertaken by the Ministry so as to ensure that such imports are

made in the most cost effective and timely manner. The Committee would like to know the detailed strategy proposed to be implemented by the Ministry in the future in this regard.

NEW DELHI;
April 19, 1993

Chaitra 29, 1915 (S)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

APPENDIX I

Audit Para 13.3 of the Report of the C&AG for the year ended 31 March, 1991 (No. 1 of 1992) on avoidable extra expenditure on import of sugar

In view of the decline in sugar production in the country from April 1989 Government approved import of two lakh tonnes of sugar in August 1989 and an additional quantity of one lakh tonnes, in two instalments in September and October 1989.

The State Trading Corporation (STC) expressed its inability to make to the import within the months specified.

The Department floated an inquiry on 23rd August 1989 which proved infructuous because the telex machine which was to receive the offers was out of order during the crucial hour by which the offers were to be received.

A second tender inquiry was floated on 29th August, 1989 inviting quotations from the parties which were registered with STC as well as unregistered parties, stipulating delivery by 10th October 1989. The rates offered by registered parties ranged between US $ 504 and 515 per tonne whereas those offered by unregistered parties ranged between US $ 445 and 480 per tonne. Since the unregistered parties did not indicate that they would supply sugar by the scheduled date and that the bid bond as required under the terms of tender inquiry would be furnished, their tenders were ignored.

Though a committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, the Department, however, decided on 31st August, 1989 that since the difference in rates between the tenders from registered and unregistered suppliers was substantial, the latter should be called for negotiations. During negotiation, the unregistered suppliers were asked to furnish bid bond at 3 per cent of the value of their offer, but they did not agree. In the meanwhile, offers of the registered suppliers valid till 31st August 1989 expired and thus second tender inquiry also did not prove fruitful.

Offers were again invited by 19th September 1989 (third enquiry) for delivery of sugar by 20th October, 1989. The delivery period which in the second inquiry was 42 days, was narrowed down to 30 days in the third inquiry. The offers received from seven registered suppliers ranged between US $ 517.80 and 526 per tonne (as against US $ 504 and 515 in the earlier bid). The offers of unregistered parties ranged between US $ 454.50 and 527 per tonne but they were ignored as they did not submit bid bonds. The department approved (on 19th September 1989) the purchase of only

1.55 lakh tonnes of sugar at rates ranging between US $ 517.80 and 520.80 per tonne from four parties with an option to purchase another 50,000 tonnes if the prices fall. The quantity was reduced because the Department felt that the price could fall. Ministry of Finance, however, considered the import of 1.84 lakh tonnes of sugar to be necessary to meet the requirement in November and December 1989. Orders were placed (September 1989) for import of 2.18 lakh tonnes on six registered parties at rate ranging between US $ 517.80 and 520 per tonne.

In response to a fourth enquiry, (October, 1989), 7 offers were received from registered parties and 11 offers from unregistered parties. Offers from unregistered parties were ignored either because they had not submitted bid bonds or had not confirmed delivery of shipments in India by 20th October, 1989. Only three registered parties had offered supplies by 20th October 1989, and they had quoted rates between US $ 519 and 520 per tonne. Orders for delivery of further quantity of 24000 tonnes was placed on 6th October 1989 at the rate of US $ 519 per tonne for delivery by 20th October 1989.

The average rates for which the orders were placed against third and fourth enquiry was higher by US $ 11.74 per tonne over the average rates received in the second tender inquiry and avoidable extra expenditure of Rs. 3.85 crores was thereby incurred on the import of 2.02 lakhs tonnes of sugar.

The contracts did not specify the rate of discount to be charged on delayed supplies. 8 vessels arrived later than the scheduled date of delivery. Department claimed discount totalling US $ 8.05 lakhs from four suppliers. Force majeure was invoked by suppliers on supplies received in 6 vessels. The Food Corporation of India had encashed the performance bank guarantee of four parties from whom discount for delayed supplies was recoverable but three parties had gone for arbitration before the Refined Sugar Association as per provision in the contract.

In the result the department incurred avoidable additional expenditure of Rs. 3.85 crores on supplies which did not arrive by August or September, October 1989 as was considered essential.

The Department stated (October 1991) that they made sincere efforts to import sugar at a lesser price and conserve scarce foreign exchange resources by opening dialouge with unregistered suppliers who had quoted substantially lesser prices. But tender inquiry requiring unregistered suppliers to give bid bonds which they did not give, by opening dealogue with them resulted only in the lapse of offers of registered suppliers and avoidable additional expenditure by inviting fresh bids.

APPENDIX II

Statement showing London Daily Prices (L.D.P.) Sugar (white) from 1.8.1989 to 31.10.1989

Date	August, 1989	September, 1989	October, 1989
1	505.00	486.00	Sun.
2	502.00	Sat.	416.00
3	501.50	Sun.	408.50
4	506.00	487.00	404.00
5	Sat.	467.00	407.00
6	Sun.	454.50	407.00
7	500.00	439.50	Sat.
8	496.00	428.00	Sun.
9	494.00	Sat.	401.00
10	496.50	Sun.	403.50
11	496.00	429.00	394.50
12	Sat.	426.00	393.00
13	Sun.	427.00	396.00
14	502.00	424.00	Sat.
15	491.00	421.00	Sun.
16	486.00	Sat.	395.00
17	487.00	Sun.	396.00
18	491.00	424.00	396.00
19	Sat.	430.00	395.50
20	Sun.	428.50	395.00
21	487.00	429.00	Sat.
22	488.00	428.00	Sun.
23	500.00	Sat.	392.00
24	501.00	Sun.	388.00
25	495.50	433.00	388.50
26	Sat.	432.50	388.50
27	Sun.	428.00	387.50
28	Holiday	427.00	Sat.
29	486.00	412.00	Sun.
30	486.00	Sat.	389.90
31	493.50	—	390.00
Max.	506.00	487.00	416.00
Min.	485.00	412.00	387.50
Ave.	495.00	436.24	396.93

APPENDIX III

Statement of Conclusions/Recommendations

Sl. No.	Para No.	Ministry/Deptt. Concerned	Recommncdations/Conclusions
1	2	3	4
1.	1.57	Ministry of Food	According to the note dated 19.5.1989 prepared by the Chief Director (Sugar), Department of Food, against the estimated production of 88.68 lakh tonnes of sugar during the year 1988-89, the estimated total requirement of the commodity during the year was of the order of 99.84 lakh tonnes. The carry over stocks of sugar maintained in the past for meeting the requirements of initial months have been of the order of 20.6 lakh tonnes, 27.12 lakh tonnes and 25.32 lakh tonnes as on Ist October 1986-87, 1987-88 and 1988-89 respectively. It was indicated in the same note that due to the shortfall of 9.32 lakh tonnes of sugar during the year the 1988-89, the effective carry over stock for the new year would only be 10.88 lakh tonnes. The note clearly stated that the stock position at the beginning of 1989-90 season would be very precarious. With a view to maintain the releases during the remaining period of 1988-89 season and also to improve the availability of sugar during the initial months of the next season (1989-90), the Chief Director (Sugar) in his above referred note had emphasized the need for import of a minimum quantity of 10 lakh tonnes of sugar for arrival from the months of July/August, 1989 onwards. The facts narrated in the succeeding paragraphs clearly establish lack of a serious and concerted approach on the part of the Government in effecting the necessary import of sugar which had been then visualised for meeting the country's urgent requirement.

1	2	3	4
2.	1.58	Ministry of Food	In spite of the fact that the Chief Director (Sugar, on account of the very precarious stock position had stressed in his note dated 19th May, 1989 the need for import of sugar for arrival from the months of July/August 1989, it took more than three months for the Government to accord approval for import of two lakh tonnes of sugar in August 1989 and an additional quantity of one lakh tonnes in two instalments in September and October, 1989. Keeping in view the prevailing very difficult stock position the Committee cannot find any explanation for the lack urgency displayed in the matter of according approval by the concerned authorities. The Committee trust that if timely approval was accorded apart from taking advantage of the prevailing prices of sugar in the international market the import of sugar could have been effected with greater planning and better co-ordinated with the domestic availability.
3.	1.59	Ministry of Food & Ministry of Commerce	The Committee note that the State Trading Corporation (STC) was the canalising agency for import of sugar and accordingly all imports of sugar during the period 1984-85 to 1988-89 were effected through it. They are surprised to note that STC being the canalising agency had expressed its inability to make the import in question and the Ministry of Commerce were of the view that STC should not be entrusted with the transaction. The sugar was required to be imported by 10 October, 1989 and the STC was informed about the decision of the Government.
4.	1.60	Ministry of Food & Ministry of Commerce	The Chief General Manager, STC, informed the Committee that in view of their set procedures, STC could not import sugar within the stipulated time. Apparently as between end July 1989 and 10th October, 1989, clearly more than 2 months were available, the Committee could get no convincing explanation from the STC

1	2	3	4
			which till then had been the canalising agency to undertake the import considered urgent in view of the precarious stock position. What is even more disturbing to the Committee is the view taken by Ministry of Commerce in support of this move. The Committee clearly believe that both the Ministry of Commerce and the STC had failed to discharge their responsibility of effecting import of sugar in a difficult domestic situation.
5.	1.61	Ministry of Food	The Ministry of Food floated a tender inquiry on 23 August, 1989. It is disquieting to note that this inquiry proved infructuous because of the failure of the telex machine belonging to the Food Corporation of India during the crucial hour by which the offers were to be received. The Committee are not at all satisfied with the reply of the Ministry that they had put a sealed lock to ensure that nobody tampered with the received messages and in the morning of 25th August when they opened the seal they found that the roll of paper had got exhausted sometime during the night. The Committee are of the opinion that this is clearly reflective of negligent handling of crucial situation if not worse.
6.	1.62	-do-	The second tender enquiry had, therefore, to be floated on 29 August, 1989. Inspite of the fact that STC had no dealings with the unregistered suppliers in the past, quotations were invited both from the parties registered with STC as well as whose who are unregistered, stipulating delivery by 10th October, 1989. The rates offered by registered parties ranged between US $ 504 and 515 per tonne whereas those offered by unregistered parties ranged between US $ 445 and 480 per tonne. As per tender enquiry, the unregistered parties were required to submit bid bond of 3 per cent of the value of the contract and since no bid bonds were received from the unregistered parties the Purchase Committee, specially constituted for

1	2	3	4
			the purpose and chaired by the then Secretary (Food) at its meeting held on 31 August, 1989 decided to ignore the offers received from the unregistered parties. The Purchase Committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, whose offers were valid till 31 August, 1989. Despite the fact that the offers of the registered parties were valid only upto 31 August, 1989, the Ministry of Food, under specific orders of the then food Minister decided on that date to call the unregistered suppliers for discussions on Ist September, 1989 in view of the substantial difference in rates between the tenders from the registered and unregistered suppliers. During negotiations, the unregistered suppliers were asked to furnish bid bond at 3 per cent of the value of their offer, but they did not agree. On a query from the Committee during evidence as to whether in the normal course offers from the unregistered parties in the absence of bid bonds could be considered, Secretary (Food) specifically stated "They should have been thrown in waste paper basket but this was not done in this case." The Ministry of Food also did not take steps to seek extension of item from the registered parties so as to keep their offers valid for some more days. The Committee are deeply concerned to note that inspite of the fact that STC, the canalising agency for such imports had never dealt with the unregistered parties in the past, the unusual decision of negotiating with such parties and that too when their offers were not accompanied with the requisite bid bond, was taken on 31 August, 1989, the day on which the offers from the registered parties were also to expire. The Committee deem it very unfortunate that under the aforesaid circumstances the offers of the registered suppliers valid till 31st August, 1989 expired thus rendering the second tender inquiry also futile.
7.	1.63	Ministry of Food	According to the Ministry of Food, the total availability of sugar during the year 1988-89 was 112.34 lakh tonnes, out of which 99.19 lakh

1	2	3	4
			tonnes of sugar had been consumed during that year. Thus as on Ist October, 1989 there was a stock of only 13.65 lakh tonnes of sugar, which according to the Ministry was just sufficient to meet the required release of 10.32 lakh tonnes during that month making the sugar position very precarious. Against such a difficult situation both the tender enquiries floated on 23 and 29 August, 1989 proved infructuous due to lack of perception and proper planning. The Committee cannot but strongly condemn the role of the Ministry in meeting the urgent domestic requirement of sugar.
8.	1.64	Ministry of Food	A third tender enquiry was floated inviting the offers by 19 September, 1989 for delivery of sugar by 20 October, 1989. Offers received from seven registered suppliers ranged between US $517.80 and 526 per tonne as against such offers ranging between US $504 and 515 made in reponse to the second tender enquiry. Finally, orders were placed in September, 1989 for import of 2.18 lakh tonnes of sugar on six registered parties at rates ranging between US $517.80 and 520 per tonne.
9.	1.65	-do-	It is further disquieting to note that the inadequate planning on the part of the Ministry of Food compelled them to float the fourth tender for procurement of an additional quantity of merely 24,000 tonnes of sugar in early October, 1989. As a result of this inquiry separate orders for delivery of 24,000 tonnes of sugar were placed in October, 1989 at the rate of US $519 per tonne for delivery by 20 October, 1989. According to the Ministry of Food, when the quantity of sugar, on order, was not considered sufficient, separate case was made out and the permission of the Ministry of Finance was obtained. The Committee cannot but express their strong displeasure over the inadequate planning and disjointed approach on the part of the Ministry to meet the urgent requirements.

1	2	3	4
10.	1.66	Ministry of Food	The Committee note that the average rates for which the orders were placed against third and fourth enquiries were higher by US $11.74 per tonne over the average rates quoted in the second tender inquiry. As the Ministry of Food failed to execute orders in pursuance of the second tender inquiry, according to audit paragraph an infructuous and avoidable extra expenditure of Rs. 3.85 crores was thereby incurred on the import of 2.02 lakh tonnes of sugar. As the sugar actually procured on the basis of the orders placed as a result of the third and fourth inquiries was of the order of 2.42 lakh tonnes, this infructuous and avoidable expenditure would of the order of about Rs. 4.61 crores. The Committee take a very serious view of this extra avoidable expenditure of Rs. 4.61 crores which could have been avoided by timely, careful and judicious action on the part of the Ministry of Food.
11.	1.67	-do-	The orders placed in September and October, 1989 for the procurement of 2.18 lakh tonnes and 24,000 tonnes of sugar, give an average cost of US $519.92 (Rs. 8667) and US $519 (Rs. 8652) per tonne, of sugar during September, 1989 and October, 1989 respectively. As against this the average London Daily Price (spot price) in September, 1989 and October, 1989 was US $436.24 (Rs. 7272.12) and US $396.93 (Rs. 6616.82) per tonne, respectively. According to the Ministry of Food, the difference between the FOB and CIF prices in 1989 was about 45 US dollars to which one more dollar could be added for insurance etc. Recalculating the price taking into account 46 dollars as the CIF cost to the average London Daily Price in September and October, 1989, the avoidable extra expenditure which had to be incurred on the procurement of 2.42 lakh tonnes of sugar would actually be many fold more than Rs. 4.61 crores indicated in the preceding paragraph. The Ministry of Food have conceded that keeping in

1	2	3	4
			view the overall time available and the formalities to be completed, no detailed study could be carried out in respect of the London Sugar Market. The Secretary, Ministry of Food further conceded during evidence that "My personal view was that this gap was too wide and probably it may not have been that imperative to go in for the purchase at that time frame. We were just going to start the new sugar season in October". Asked about the sugarcane forecast at that time, the Committee were informed by the Chief Director (Sugar) Ministry of Food that it was a good crop. Keeping all the facts in view, the Committee are constrained to observe that if earnest steps were taken for import of sugar immediatly after 19.5.1989 when the need for such import was emphasized by the Chief Director (Sugar), the colossal extra expenditure incurred in the import of 2.42 lakh tonnes of sugar which seems to be virtually a blind purchase could have been avoided.
12.	1.68	Ministry of Food	The Committee find that while considering the proposal of the Ministry of Food for the import of sugar, the Committee of Secretaries at their meeting held on 9 August, 1989 had felt that the best alternative in the then prevailing circumstances was to place sugar on Open General Licence (OGL) list with a reasonably low level of duty. The Ministry of Food were, however, then of the view that allowing import of sugar on OGL by private trade with reduction of custom duty was not likely to solve the problem. The Committee feel that if the import had been made through OGL, it would definitely have been both cheaper and quicker. The Committee feel that the better course at that time would have been to permit import through GL with overall control.
13.	1.69	-do-	The sugar on orders in question was required to be supplied by 20 October, 1989. 8 vessels

1	2	3	4
			carrying 99,550 MT of sugar arrived later by 3 to 16 days than the scheduled date of delivery. The Ministry claimed discount totalling US $ 8.05 lakh from four suppliers. Force majeure was invoked by suppliers on supplies received by 6 vessels. Bank guarantees from four parties from whom discount for delayed supplies was recoverable had been encashed but three of the four parties had gone for arbitration before the Refind Sugar Association as per provision in the contract. Award relating to one party has been received according to which as against the US $ 3435 49.41 of this party, the Ministry have to pay by way of refund to this party US $ 309442.92, alongwith interest from 23.8.1990 besides cost of arbitration. The Committee would like to know the reasons for this award having gone against the Government. The Committee would also like to know the details of the arbitration awards relating to the other two parties.
14.	1.70	-do-	The casual approach adopted by the Ministry of Food after declaring the sugar availability position as precarious and deciding to go in for import is evident from the following: (i) Initial delay of about three months in according approval to the import of sugar. (ii) Inability expressed by the STC, the canalising agency for import of sugar to undertake the import in question. (iii) The first tender inquiry floated on 23 August 1989 proved infructuous due to the failure of the telex machine. (iv) The second tender inquiry floated on 29 August, 1989 proved infructuous due to the taking of the decision for negotiating with the unregistered parties on 31 August, 1989 the day on which the offers of the registered parties were to expire. (v) Failure to study the London Sugar Market.

1	2	3	4
			The Committee are of the definite view that if proper precautions had been taken by the concerned authorities in the Ministry of Food at all stages of the import deals, the huge resultant extra infructuous expenditure could have been safely avoided. The Committee connot but strongly disapprove and deprecate the lack of planning, concerted and coordinated approach displayed by the Ministry of Food in the import in question. The Committee would emphasize that in view of the seriousness of the matter, a high level probe by an independent agency may be made into the entire question of delayed import of sugar and the financial loss that has occurred with a view to fix responsibility. The Committee would also emphasize that the matter should be thoroughly examined by the Ministry of Food with a view to devise the detailed remedial steps required to be taken in the matter of any future imports undertaken by the Ministry so as to ensure that such imports are made in the most cost effective and timely manner. The Committee would like to know the detailed strategy proposed to be implemented by the Ministry in the future in this regard.