P.A.C. No. 199

PUBLIC ACCOUNTS COMMITTEE (1968-69)

(FOURTH LOK SABHA)

FORTY-THIRD REPORT

[Appropriation Accounts (Civil) 1966-67, and Audit Report (Civil), 1968 relating to the Ministry of Food, Agriculture, Community Development and Co-operation (Department of Food)

LOK SABHA SECRETARIAT
NEW DELHI

January, 1969/Pausa, 1890 (Saka)

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PAGE	PARA	LINE	FOR	READ
1	1.4	Line 6 of item (iii) of statement	Delete	1963-64, 1964-65 2965-66, 1966-67 .
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51	"	6 of item 3 under recommendations	addtional	additional
51	"	4 of item 4 under "Action Taken"	qota	quota
60	Appendix V	1 of heading	price	prices
65	1.10	2	94:49	94.49
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66	-do-	12	insert the word "to" between the words "Railways" and "reviewed"	
68	1.34	2.	Insert the word "of" between the words "rent" and "godowns".	

P.T.O.

PAGE	PARA	LINE	FOR	READ
69		2	1:2	1.2
69	last figures under column 2 against Sr. No. 12		.23	2.23
70	3.10	3	opinion	option
71	4.10	10	7:94	7.94

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(1968-69)

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Shri K. Seshadri—*Under Secretary.*

*Declared elected on 19th August, 1968 *vice* Shri M. M. Dharia who resigned from the Committee.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-third Report on Appropriation Accounts (Civil), 1966-67 and Audit Report (Civil), 1968.

2. The Appropriation Accounts (Civil), 1966-67 and Audit Report (Civil), 1968 were laid on the Table of the House on the 3rd April, 1968. The Committee examined the paragraphs relating to the Ministry of Food, Agriculture, Community Development and Cooperation (Department of Food) at their sittings held on the 3rd July (AN) and 4th July (FN), 1968. The Minutes of these sittings form part of the Report (Part II) *.

3. The Committee considered and finalised the Report at their sitting held on the 25th January, 1969.

4. A statement showing the summary of the main conclusions|recommendations of the Committee is appended to the Report (Appendix VII). For facility of reference these have been printed in thick type in the body of the Report.

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

6. The Committee would also like to express their thanks to the officers of the Department of Food, for the co-operation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI;
February 6, 1969.
Magha 17, 1890 (*Saka*)

M. R. MASANI,
Chairman,
Public Accounts Committee.

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1

MINISTRY OF FOOD, AGRICULTURE, COMMUNITY DEVELOPMENT AND CO-OPERATION

(DEPARTMENT OF FOOD)

Audit Report (Civil), 1968.

SCHEME FOR THE PURCHASE OF FOODGRAINS

Audit paragraph.

The State Trading Scheme for the purchase of foodgrains introduced in 1943-44 continued during the year 1966-67.

1.2. The scheme which showed a profit of Rs. 56 crores during 1965-66 resulted in a loss of Rs. 93.28 crores during 1966-67—the net cumulative loss to end of 1966-67 being Rs. 235.90 crores.

1.3. Proforma accounts of the scheme for 1966-67 prepared by the Ministry are incorporated at Appendix I to this report.

1.4. A broad analysis of the transactions during the year 1966-67 and the previous three years is given below:—

(In crores of rupees)

	1963-64	1964-65	1965-66	1966-67
(i) Value of purchases . .	235·89	364·84	378·06	589·08
(ii) Value of sales . .	240·05	352·18	448·85	491·34
(iii) Loss (—)/Profit (+) in the Scheme—				
(a) Loss (—)/ Profit (+) on transactions (excluding value of grain lost in transit and in distribution) .	1963-64	1964-65	1965-66	1966-67
	(—) 21·00	(—)18·40	(+)69·83	(—)78·36
(b) Other Losses . .	(—)1·06	(—)1·52	(—)1·32	(—)2·27
(c) Indirect expenses .	(—)6·11	(—)6·66	(—)6·37	(—)7·77
(d) Interest on Captial	(—)5·71	(—)7·36	(—)6.14	(—)4.88
TOTAL . .	(—)33·88	(—)33·94	(+)56·00	(—)93·28

[Paragraph No. 82, Audit Report (Civil), 1968]

1.5. The Committee pointed out that the total cumulative losses on the scheme from its inception to the end of 1966-67 amounted to Rs. *235.90 crores. The loss during the year 1966, 67, according to the proforma accounts, was Rs. 93.28 crores and if to this, the net debit balance in the proforma insurance fund was added, the total loss during the year worked out to Rs. 94.49 crores. The Committee enquired whether the reasons for such heavy losses had been investigated and whether there was any scope for curtailing these losses. The Secretary, Department of Food, stated that the general policy in regard to the scheme was to work it on a no-profit no-loss basis. Over the years, due to the policy of Government of subsidising foodgrains and selling them to vulnerable sections of the population below economic cost, losses had accumulated. In the year 1965, there was a revision of policy and Government decided that subsidy on the distribution of foodgrains should be gradually withdrawn. Pursuant to this decision, the issue prices of food-grains were raised with effect from 1st January, 1965 and again with effect from 15th November, 1965. These upward revisions of issue prices were expected to eliminate the losses in the scheme and result in a profit, but the devaluation of the rupee reversed the process. "The economic Cost of imported wheat which was Rs. 42.85 before devaluation became Rs. 66.39 per quintal. The price of coarse rice which was calculated on a pooled basis with indigenous rice jumped from Rs. 70.74 before devaluation to Rs. 89.68 per quintal. The cost of milo, which used to be about Rs. 38.72 per quintal before devaluation, increased to Rs. 54.46 per quintal." Devaluation was the major factor which was responsible for the loss during 1966-67, the other being the increase in the price of locally procured grains, due to Government's policy of ensuring an incentive price to the farmer. In a note subsequently submitted to the Committee, the Department have stated that the loss on account of devaluation was about Rs. 129.90 crores. "According to the proforma accounts, the loss for the year 1966-67 is Rs. 93.28 crores. Thus, but for devaluation, the scheme would have reflected a profit of nearly Rs. 36.62 crores for 1966-67".

1.6. Explaining the developments in regard to Government's policy of subsidisation, the witness stated that, to reduce the quantum of subsidy, upward revisions in issue price were made gradually till the end of 1967. From 1st January 1968, the subsidy was completely abolished in the case of indigenous foodgrains and imported wheat. "The subsidy now exists only in the case of imported rice and imported milo. The quantum of subsidy in the case of imported rice is estimated to be about

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*Rs. 237·11 Crores after taking into account the debit balance in the proforma—insurance Fund.

†Rs. 39 per quintal, while in the case of imported milo, it is estimated at about Rs. 7 per quintal. For the year 1967-68, the subsidy on imported foodgrains is estimated to be about Rs. 105.78 crores. For the financial year 1968-69, the total subsidy on the distribution of imported foodgrains as shown in the Budget estimates is Rs. 1.63 crores."

1.7. The Committee drew the attention of the witness to the following position in regard to grains sold and losses incurred in 1966-67:—

	Quantity sold (in lakhs of tonne)	Loss (exclusive of interest and indirect charges) incurred (in crores rupees)
Wheat	68·73	23·18
Rice	9·16	34·29
Other grains . . .	20·67	23·16

1.8. The Committee enquired why the loss in respect of rice was much higher than for other grains. The witness stated that the loss was higher in the case of rice, due to three reasons. One was devaluation, the second the sharp rises in the international prices and the third, payment of higher procurement prices within the country itself.

1.9. The figures of loss per quintal incurred on various varieties of rice during the three years ending 1966-67 as furnished by Government, are reproduced in Appendix II.

1.10. The Committee note that the State Trading scheme in foodgrains resulted in a loss of Rs. 94.49 crores in 1966-67, out of which Rs. 23.18 crores was the loss on wheat, Rs. 34.29 crores on rice, and Rs. 23.16 crores on other grains. While the Committee note that the main reason for these losses was devaluation, which necessitated subsidising of imported grains on a larger scale than before, they would like to draw the attention of Government to the recommendations made in para 4.55 of their 27th Report (Fourth Lok Sabha) where they had suggested that Government should critically review the entire functioning of State Trading in foodgrains and in particular the grant of subsidy on rice and other foodgrains in the light of the requirements of the country and the accumulated losses suffered so far in respect of each type of foodgrains. The Committee understand that their recommendations are still under the consideration of Government. They would like Government to expedite their decision in the matter.

†The subsidy estimated at the time of presentation of budget for 1968-69 was Rs. 23 per quintal vide page 71 of the Explanatory Memorandum on budget 1968-69.

1.11. The Committee pointed out that storage and transit losses amounting to 34,523 tonnes and 53,703 tonnes were awaiting regularisation|adjustment at the end of 1966-67 as against similar losses of 22,825 tonnes and 52,653 tonnes at the beginning of the year. They asked whether the losses had increased and if so why. The witness stated that an indication whether these losses were increasing or decreasing would be available from the following figures of percentage losses during the last few years.

S. No.	Name of Region	Year	Quantity Stored* (in tonnes)	Quantity lost* (in tonnes)	Percentage of loss
1	Western . .	1965-66	29,67,381	4,914	0·165
		1966-67	28,80,954	4,928	0·17
		1967-68	18,64,580	1,993	0·106
2	Southern . .	1965-66	14,155	1,611	11·02
		1966-67	5,401	53	0·98
		1967-68	4,751	30	0·63
3	Northern . .	1965-66	7,56,758	420	0·05
		1966-67	2,24,408	719	0·32
		1967-68	Nil	Nil	Nil
4	Eastern .	1965-66	9,82,262	2,470	0·25
		1966-67	12,09,300	441	0·04
		1967-68	9,04,183	731	0·08

1.12. The overall position regarding quantity of foodgrains stored and that lost for the three years ending 1967-68 was as follow:—

	Grains stored*	Grains lost	% of Loss
	(in tonnes)		
1965-66	47,20,556	9,415	0·20
1966-67	43,30,063	6,141	0·14
1967-68	27,73,519	2,754	0·01

The Committee drew attention to the data given in the Audit paragraph about storage losses in respect of rice and wheat. The quantity of rice lost was 20,546 tonnes while the Loss in respect of wheat was 13,704

*Figures as supplied by the Department of Food and amended by Audit.

tonnes. The quantities of these grains handled were 7,91,753 tonnes and 69,36,527 tonnes respectively. The Committee asked why the storage losses in respect of rice were so high in relation to the losses in respect of wheat. In a note, the Department have stated that although during the year 1966-67, "the quantity of rice purchased was less than (the quantity of) wheat, as this was a drought year, despatches (of imported grains) had to be made from the ports directly to the State Governments and other consignees with the result that very little of these grains came to be stored in the Government storage depots. Consequently the bulk of the rice stored in the Government godowns was of the indigenous variety. As the moisture content of indigenous rice (16%) is comparatively higher as compared to imported foodgrains (14%), the loss in driage due to storage has been more in the case of rice than in the case of wheat."

1.13. The Committee find that storage losses in respect of rice have been much higher than similar losses in respect of wheat. During 1966-67, the loss in storage in respect of rice was about 2.5% of the quantity stored, against a loss of 0.2% in respect of wheat. While the Committee note Government's explanation that the higher percentage of loss was due to higher moisture content of indigenous rice and the relatively larger quantities of that grain stored, they feel that the matter needs further study by Government, with a view to devising effective measures to reduce the losses.

1.14. In regard to transit losses, the following data about the losses incurred during the three years ending 1967-68 was furnished to the Committee:—

	Year	Quantity transported in tonnes	Quantity lost in tonnes	%age of loss
Wheat . . .	1965-66	36,10,979	27,197	0·7
	1966-67	29,72,372	18,564	0·6
	1967-68	24,53,393	7,021	0·3
Rice . . .	1965-66	5,71,712	2,397	0·4
	1966-67	2,03,597	917	0·4
	1967-68	1,99,542	1,091	0·5

Explaining the overall position in regard to transit losses, the Secretary of the Ministry informed the Committee that the percentage for transit losses were 0·29 in 1965-66, 0·49 in 1966-67 and 0·27 (provisional) for 1967-68. The loss in the year 1966-67 was relatively higher because in that year, due to scarcity conditions, Government had to handle about 10 million tonnes of foodgrains. "Because of the requirement of urgent movements to the States during this period we had to resort unfortunately to loading in open wagons which we would not normally do.... we had to do it especially when the Railways were not in a position to provide covered wagons for the entire quantity."

1.15. The Committee drew the attention of the Department to reports in the Press about damages to foodgrains transported by open wagons due to rains and enquired what the position was. The Secretary, Department of Food stated that the question of damages to foodgrains transported from Punjab to Calcutta had been taken up with the Railways. He added: "The position that confronted us in Punjab this year was unprecedented. Expecting a bumper crop in Punjab we made our preparations right from the middle of March for storing and moving grain from Punjab. The State Government as well as our experts estimated the arrivals to be 3-4 lakh tonnes per month in the Punjab-mandis but to the surprise of all of us, between 15th May and 15th June nearly 1 million tonnes of wheat descended like an avalanche in Punjab mandis. There were not enough covered wagons and the Railways could not provide more covered wagons. Monsoon does not generally come to the North till the end of June or middle of June and we had to take the risk of moving some grain in open wagons. So much grain was moving out of Punjab that the turn-round of not only wagons but even of tarpaulins was not as much as was expected, with the result that they were not even able to provide tarpaulins to cover the open wagons. It is unfortunate, but what I said explains the difficult position we were in". In response to a further question, the Director General, Food, informed the Committee that "as soon as reports started appearing in the Press, I was personally deputed to Calcutta to make an assessment of what the actual damage might have been....The total quantity that was transported to Calcutta from Punjab during (this) month was 1,60,000 tonnes. The total quantity that was affected by rain in open wagons was of the order of 18,000 to 20,000 tonnes. I say 'affected' because about 16,000 tonnes were absolutely superficially dampened . . . The grain was screened, checked and was found to be perfectly in sound condition. It is only in respect of the balance of about 4,000 tonnes that there was expectation of heavy damage."

1.16. The question of damage caused to foodgrains transported in open wagons in May-June, 1968 also figured in the replies given by Government to Starred Question No. 32 in Lok Sabha (Answered on 23rd July, 1968) and Starred Question No. 126 in Rajya Sabha (Answered on 26th July, 1968). From the replies given by Government, the following position emerges:—

(i) The requirement of wagons of the Food Department was "for carrying 15,000–19,000 tonnes of wheat per day." The indent was for covered wagons.

(ii) "Considering the huge quantities to be moved, some use of open wagons was inevitable. Acute labour shortage at several destination points, however, held up unloading, and the turn-round of wagons and tarpaulins was, therefore, seriously slowed down. In the circumstances, despatch of grain in some open wagons without tarpaulins was resorted to as an additional emergency measure on a very temporary basis."

(iii) "The wagons without cover . . . . . were about 3,000, as against the total number of 30,000 that were moved."

(iv) "When it came to notice that tarpaulins would be available from the Defence Department, immediately initiative was taken by the Food Department" and the Ministry of Defence also helped in making the tarpaulins available.

(v) "The total quantity of foodgrains which got damaged due to wet conditions is about 1,900 odd tonnes all over India, during this particular period. In the Bengal area alone, it was about 900 tonnes." However, investigations to assess the total extent of damage were still in progress and "it is not possible to indicate the total extent of damage to foodgrains till the process of drying and salvaging is completed."

1.17. In a note subsequently sent to the Committee, the Department of Food have indicated the overall position of loss of grains transported by open wagons as follows:

"In 1967, 2.47 million tonnes of foodgrains were transported in open wagons. The quantity so transported in 1968 (January to August) was 1.4 million tonnes. This was done on account of inability of the Railways to provide covered wagons for the entire traffic which totalled 8.8 million tonnes in 1967 and 6.3 million tonnes in first eight months of 1968 . . . . In 1967, 987 tonnes of foodgrains carried in open wagons were lost. The loss in 1968 (January to August) was 6,673 tonnes which was much higher than the loss in 1967". Indicating the remedial measures taken, the Department have stated that "according to instructions issued from time to time by the Railway Board, the open wagons carrying foodgrains should be properly covered with tarpaulins, which should be tied very securely and checked *en route* and should be duly escorted right up to the destination."

1.18. The Committee enquired why, if Government had difficulty in coping with the heavy volume of arrivals of foodgrains and their transportation, the matter was not left to be handled by Trade. The Secretary, Department of Food replied: "If we had left it to the trade, the farmer in Punjab would have been completely exploited." He added that Government "procured 92 per cent of the entire market arrivals and Rs. 132 crores have been paid to Punjab farmers during a period of five to six weeks". In response to a question whether, in view of the difficulty in procuring wagons, the road transport services were used, the witness replied in the affirmative.

1.19. The Committee enquired about the procedure followed in investigation of the losses incurred in handling and distribution. The Department have stated in a note that all cases of losses are thoroughly investigated at the appropriate level to ascertain whether "the loss is due to non-observance of rules or defective or inadequate supervision." In the case of transit losses, the possibility of claims being made against the carriers is also examined. Powers of writes-off given to the officers at various levels are exercised, only after it is established that losses are "due to operational reasons". All cases of loss above Rs. 10,000 in each case of transit loss and Rs. 5,000 in each case of storage loss, are required to be reported to Government. The Ministry consult the Finance wing before according sanction for write-off in all cases exceeding Rs. 25,000. "If in the course of examination, the Ministry is not satisfied about the reasons given for the loss, such cases are referred to the Regional Director (Food) for special investigation by a Committee consisting of two or three independent officers of the Regional Directorate."

1.20. The Committee note that large quantities of foodgrains transported by Government are moved in open wagons. The quantum of such movement in 1967 was 2.47 million tonnes, or 25% of the total quantity moved, and 1.4 million tonnes in the first eight months of 1968, or 22% of the grains moved. The loss involved in such movements in the first eight months of 1968 was substantial and amounted to 6,673 tonnes, of which about 1,900 tonnes alone were lost due to exposure to rains.

1.21. The Committee had examined last year the performance of the Railways in the Third Plan and had pointed out in their 22nd Report (Fourth Lok Sabha) that, as against the target capacity of 249 million tonnes of orginating goods traffic to be created at an additional cost of Rs. 1325 crores, the actual capacity developed at an expense of Rs. 1,686 crores was 225 million tonnes (approx.) of orginating traffic while the actual movement in the last year of the Third Plan was only 203 million tonnes. It would thus appear that, while there is spare capacity available on the Railways, it is the lack of an adequate number of covered wagons which acts as a constraint on the safe movement of foodgrains. The Committee would like the Railways to review carefully, in consultation with the Department of Food, the rail transport required for the

movement of foodgrains from surplus to deficit States in the light of the recent increases achieved in food production in the country.

1.22. In planning for transport facilities for the movement of foodgrains the Committee would like Government to take note of the great improvement made in road transport in the country, so as to make increasing use of it in the interests of expeditious transport of foodgrains.

1.23. When the use of open wages for carrying foodgrains becomes inescapable due to the non-availability of closed wagons and heavy movements arising from sudden large arrivals of foodgrains in the markets, the Committee would like to stress that the foodgrains should be adequately protected both against the vagaries of weather and pilferage. Government should also consider whether, on occasion when market arrivals are heavy, movement by road should be encouraged and movement by rail could be so spaced out, through provision of local storage facilities, as to facilitate the use of closed wagons as they become progressively available.

1.24. Taking note of the decreasing handling operations on Government side, the Committee asked what progress had been made in the transfer of work to the Food Corporation and in the reduction of staff in the Department of Food. The following position in regard to the transfer of work to the Corporation was indicated to the Committee.

(i) *Depots transferred.*

Region	No. of centres owned by Food Department transferred.		Date from which transferred.
Southern Region .	16	Madras Mysore Kerala Andhra Pradesh	1-4-1965
Northern Region	22	Rajasthan	1-1-1966
		Punjab	1-4-1966
		Uttar Pradesh Delhi	1-11-1966
Western Region .	4	Madhya Pradesh	15-11-1966
Eastern Region .	20	Orissa	1-1-1966
		Bihar	26-12-1967
		Assam	19-8-1968
		West Bengal	16-9-1968

(ii) *Transfer of procurement works*:

The bulk of the work of procurement before the constitution of the Food Corporation was being done by the Central Government through the State Governments. There were Central procurement units only at Bilaspur, Cuttack and Chandigarh and these were transferred to the Corporation with effect from 15-11-1966, 1-1-1966 and 1-4-1966 respectively.

(iii) *Transfer of clearance and handling operations*:

The clearance and handling work at all ports in Kerala and at Tuticorin, Mangalore and Karwar have so far been transferred. Further action is under way to transfer the rest of the major and minor ports under the charge of the Regional Director (Food) Madras. The only areas which are not being handed over are the port areas at Bombay and Calcutta. During evidence, the Secretary, Department of Food indicated, these were not being handed over, as also the interior depots attached to these ports, as "they are difficult areas", which the Food Corporation is "not.... fully geared up", to handle.

1.25. The Committee enquired about the extent of economy achieved in the expenditure of the Food Department with the transfer of these items of work. The Department indicated the total number of posts reduced in the Regions as well as Headquarters as under:

(a) Year		No. of posts reduced	
		Gazetted	Non-gazettee
1965-66 . . .		57	3699
1966-67 . . .		78	3597
1967-68 . . .		20	1346
	TOTAL	155	8642
(b) *Food Department Headquarters*			
1965-66 . . .		—	50
1966-67 . . .		4*	7
1967-68 . . .		7@	7
	TOTAL	11	64

(*—@: 1 Gazetted post was also down graded in addition.)

1.26. The Committee enquired why, if there had been reduction in posts, the expenditure of the Department under the head 'Pay of officers', 'Pay of Establishment' and 'Allowances and Honoraria' as given in the table below did not reflect the economies achieved.

(Figures in Lakhs of rupees)

	1965-66	1966-67	1967-68
Regional Establishment	327·94	322·84	316·10
Headquarters	34·01	35·64	36·46

1.27. The Department have explained in a note that "the saving in expenditure 'Regional Establishments' is not in proportion to the number of posts reduced. Similarly, the expenditure under Headquarters registered an increase in 1966-67 as compared to that in 1965-66. This is due to the fact that simultaneously with the transfer of work to the Food Corporation of India, the Department also took over additional responsibilities e.g., departmentalisation of clearance operations at ports, departmentalisation of mechanised discharging operations, scarcity relief operations. This necessitated creation of additional posts both in the Regions and at the Headquarters. The savings were further reduced considerably by factors like periodical increases in dearness allowance, annual increments to staff etc. . . ."

1.28. In reply to a question whether, with a view to assessing the comparative position, the expenditure incurred by the Food corporation on the work transferred to it could be worked out, the Department have stated that it would not be possible to do so, as the Corporation had, besides taking over procurement, storage and handling work previously done by the Food Department, also undertaken procurement in areas not covered by the Food Department. The Committee enquired whether the Staff Inspection Unit of the Ministry of Finance had made any assessment of the reduction in work load in the Food Department. The Department have stated in a note that the Staff Inspection Unit studied the work load in the office of the Regional Director, Food, Western Region in July-August, 1967, and as a result, 3 gazetted posts and 82 non-gazetted posts were abolished. The Unit also examined the work load in the Docks Office and Engineering Unit Bombay in March-July, 1968. They suggested a reduction of 107 non-gazetted posts in Docks Office and 1 gazetted and 77 non-gazetted posts in the Engineering Unit. The recommendation "is being implemented".

1.29. Referring to the data given in the proforma accounts about indirect expenditure, the Committee pointed out that in 1966-67, they aggregated to 7.77 crores as against Rs. 57.58 crores in the preceding 22 years. The Department have stated in a note that "the expenditure figures do not conform to any pattern as in some cases the expenditure incurred in an earlier year comes up for adjustment in the subsequent year. It is, therefore, difficult to state the reasons for variation."

1.30. A statement of indirect expenses as furnished by the Department appears at Appendix III.

1.31. The Committee note therefrom that, apart from expenditure on staff, the other major item of indirect expense is rent of godowns. The figures of rent in relation to quantity stored by the Department for the three years ending 1966-67 are given below:

	1964-65	1965-66	1966-67
Quantity stored in tonnes .	60,92,374	47,20,556	43,30,063
Rent of Godowns in rupees .	1,26,74,977	68,36,148	92,04,620

1.32. The expenditure on rent bore no relation to the quantity stored and in fact, in 1966-67, increased, in spite of reduction of the quantity of foodgrains stored.

1.33. The Committee note that there has been a progressive transfer of procurement, clearance and handling work from the Food Department to the Food Corporation. In para 4.33 of their 27th Report (Fourth Lok Sabha) the Committee had taken note of this position and stressed the need to maintain a close watch over the establishment expenditure of the Food Department to achieve maximum possible economies. In para 4.56 of that Report the Committee had also suggested that every effort should be made to avoid an over-lapping of functions between the Food Corporation of India and the Department of Food. The Committee now observe that, while there has been some reduction in posts in the Food Department, the establishment expenditure has not been substantially reduced in the Regions and in fact has gone up at Headquarters. While the Committee note the Department's explanation that this is due to the creation of posts to cope with additional items of work, apart from factors like increase in dearness allowance, they would like Government to transfer the functions of the Food Corporation of India still performed by the Food Department to the Corporation and reduce the number of posts in the Food Department. The Committee would also like Government to undertake a comprehensive study of the workload in the Food Department both at Headquarters and in the Regions to effect maximum economies possible by job analysing the work through the staff inspection Unit of the Ministry of Finance who have already conducted some studies in this respect. For any additional work-

load a minimum number of posts might be kept on a purely temporary basis whose retention may be considered every six months in the light of actual work involved.

1.34. The Committee observe that one of the major items of 'indirect expenses' on the scheme is on account of rent of godowns. This, however, does not bear any relationship to the storage position as reflected in the quantity of grains stored by the Department. While the quantity of foodgrains stored declined from 47 lakh tonnes in 1965-66 to 45 lakh tonnes in 1966-67, the expenditure on rent, which was Rs. 68 lakhs in 1965-66 rose to Rs. 92 lakhs in 1966-67. The Committee would like the causes of this increase to be examined by Government. In particular, they would like to know whether, with the progressive transfer of storage work to the Food Corporation and the reduction in the quantities of foodgrains stored by the Department, there has been a progressive release of godown space.

II

DEMURRAGE IN RESPECT OF IMPORTED FOODGRAINS AT INDIAN PORTS

Audit paragraph.

In para 6.95 of their 41st Report (Third Lok Sabha), the Public Accounts Committee had observed (October, 1965) that as the demurrage paid to shipping companies was mostly in foreign exchange, constituting an avoidable drain on the scarce foreign exchange, the Department should examine in detial cases which led to payment of such heavy demurrage charges and take suitable remedial measures in consultation with the Ministry of Transport; cases where demurrage of more than Rs. 10,000 was paid should invariably be examined in future with a view to fixing responsibility.

2.2. Pursuant to the recommendations, the Department issued instructions in February, 1966 to the Regional Directorates (Food), that whether a ship incurred demurrage of more than Rs. 10,000, the case might be examined in detail so as to fix responsibility for the demurrage and that a detailed report covering this aspect should be sent to them without delay in each case.

2.3. A test check of the records of the Pay and Accounts Officer showed that an amount of Rs 1.18 crores being the demurrage in respect of 214 vessels of foodgrains imported during February-December, 1966 was adjusted in the accounts for March, 1967 alone; this included 39 vessels involving also demurrage at loading ports abroad. Of these, 180 cases involve demurrage exceeding Rs. 10,000 each. The Department have stated (December, 1967) that in a majority of cases demurrage incurred was on account of the ships waiting for berths. They have further stated (February, 1968) that, of the above, 37 cases have so far been finalised and that in none of these cases any individual or agency was found to be responsible for the demurrage which was incurred entirely for reasons beyond control. The remaining cases are reported to be still under correspondence with the Regional Directors concerned.

(Paragraph No. 83, Audit Report (Civil), 1968)

2.4. The following were the figures of demurrage paid during the three years ending 1967-68 as intimated to the Committee by the Department:

	1965-66	1966-67	1967-68
	(Figures in lakhs of Rs.)		
(i) Demurrage in respect of foreign vessels	12·20	149·98	79·72
(ii) Demurrage in respect of Indian vessels	0·22	1·91	7·62
	12·42	151·89	87·34

From a reply to Unstarred Question No. 2158 placed on the Table of Lok Sabha on 1st August, 1968, the Committee note that during the three months of 1968-69 ending June, 1968, the demurrage paid to ship-owners amounted to Rs. 49·54 lakhs.

2.5. At the instance of the Committee, the Department also furnished figures of demurrage paid port-wise for the years 1965-66 to 1967-68 as under:

S. No.	Name of Ports	1965-66	1966-67	1967-68
		(Figures in lakhs of rupees)		
(I)	Indian Ports			
1	Bombay	3·61	41·14	16·58
2	Calcutta	2·33	25·42	39·81
3	Madras	1·88	24·45	7·55
4	Kandla	1·61	12·35	7·55
5	Bhavnagar	1·12	9·21	2·52
6	Cochin	0·87	5·94	1·70
7	Vishakhapatnam	0·40	4·13	1·71
8	Other ports	0·60	4·78	2·74
(II)	Foreign Ports (Port Arthur and Vancouvor)	..	0·32	0·08
(III)	Not allocable between foreign and Indian Ports	..	24·15	7·10
	TOTAL :	12·42	151·89	87·34

2.6. The Committee enquired whether Government had worked out the demurrage paid per ton during the three years ending 1967-68. The figures as furnished are given below:

Year	Incidence of demurrage per tonne
1965-66	Rs 0·15 lakhs
1966-67	Rs 1·54 lakhs
1967-68	Rs. 1·03 lakhs

The Committee enquired why the demurrage paid in 1966-67 was so abnormally heavy. The Secretary, Department of Food admitted that the demurrage that year was "undoubtedly very formidable." Explaining the circumstances that led to such heavy demurrage, he said the country was faced with an unprecedented food shortage that year. The food production had slumped from 89 million tonnes to 72 million tonnes and the posts had to cope with heavy arrivals as compared to the preceding years. The average annual imports during the years 1963-65 was of the order of 6.1 million tonnes, but during 1966-67, the import amounted to as much as 10 million tonnes. Such heavy arrivals naturally resulted in detention of ships. The Department also lost a number of man-hours due to labour problems. "For instance, in October, 1966, a thousand hours were lost because of strikes or stoppages of work in Bombay. In Calcutta, 300 hours were lost. In Vizag, there was a continuous go-slow policy."

2.7. Listing the measures taken to augment port handling capacity, the Secretary stated that a team of American experts had visited India in early 1966 to assess the capacity of Indian ports. "They submitted their report and made a number of recommendations for improving the foodgrains handling capacity at our ports. Their own assessment was that if everything moved according to plan, if everybody did their job, we should be able to handle from 1 million tonnes to 1.2 million tonnes a month........in the fair weather season. We implemented most of their recommendations, in fact all of them that were feasible........"

2.8. From a copy of the report of experts team which was furnished by Government, the Committee observe that the team assessed the "capability estimate" of the ports as 1.5 million tonnes though they added that "this achievement would require a degree of excellence in coordination and management beyond the demonstrated ability of agencies in charge." The team, therefore, recommended that "in view of these and other unknown factors......the proposed programme should be scheduled on the basis of a maximum of 1.2 million tonne a month with the recognition that should the situation deteriorate further there is room for expansion." Their estimate of the port facilities and equipment necessary to increase grain handling capacity was as under:—

(i) *For handling 1.2 million tonnes*

4 additional Grain Berths

4 Sets (46) Pneumatic Discharge Machines

13 Bag Stitching Machines

3 Fork-lift trucks

5 Grab buckets (for 3 ton cranes)

7 Inclined Bag conveyors (small, portable)

5 Chute (grain hopper) Rail cars (supplied by Port Trust).

(ii) *For handling 1.5 million tonnes*

12 sets (85) pneumatic discharge machines 2 1200|15| HP tugs

21 bags stitching machines

7 fork lift trucks

1 warehouse 500' x 1205

5 grab buckets for three ton cranes

2 railroad car shunters

15 incline bag conveyours

20 dump trucks.

2.9. A statement furnished by Government showing the action taken on the recommendations of the Team appears at Appendix IV. It would be seen that the recommendations of the team were implemented and that port handling equipment was purchased on the scale recommended by the Team for handling 1.5 million tonnes.

2.10. The total expenditure incurred on the purchase of the equipment was Rs. 147·75 lakhs involving foreign exchange expenditure of Rs. 96.39 lakhs.

2.11. The figures of foodgrains discharged and cleared during 1966 and 1967 (for the period upto October, 1967) were as under:

	Discharged	Cleared
	(In thousand tons)	
April, 1966	1127·4	1127
May, 1966	1095·5	1106·1
June, 1966	1003·4	1044·2

	Discharged	Cleared
	(In thousand tons)	
July, 1966	904·6	931·8
August, 1966	916·6	919·3
September, 1966	808·3	851·2
October, 1966	943·8	906·2
November, 1966	916·5	903·1
December, 1966	801·8	829·3
January, 1967	576·2	574·6
Fubruary, 1967	719·1	705·0
March, 1967	797·2	822·5

The foregoing figures would show that the peak clearance achieved was 1.12 million tonnes.

2.12. The Committee enquired whether Government had studied the specific factors that led to payment of demurrage. The witness stated that 90% of the demurrage was due to ships awaiting for berths and 10 per cent due to slow discharge. While considering this position, he said it was also necessary to take into account the fact that Government had also simultaneously earned 'despatch money' by clearing ships in less than the stipulated time. The following figures of earnings were furnished to the Committee in this connection:

Year	Amount (In lakhs of rupees)
1965-66	68·13
1966-67	112·14
1967-68	119·75

2.13. Explaining the situation that led to 'bunching' of ships at the ports, the witness stated that three factors made it difficult to arrange arrival of ships according to a time schedule. The first factor was that ships were allowed 'lay days', ranging from 10 to 25 days, within which they could present themselves for loading. It was difficult to foresee on which of these days the ship would call at the loading port. The second uncertain factor was the loading time, which varied from 3 to 23 days. The third factor was the speed of the voyage, which varied from four to six weeks depending on the speed and problems encountered en route. "These", he added, "were the three main factors which made it impossible for us to ensure that.... ships.... came to the ports in a particular month to the extent we could handle and....(that they)....were spaced adequately so that no waiting was involved. I would go to the extent of saying that it was impossible for any organisation to ensure that ships came at stated intervals and were conveniently spaced for the reasons I.......... mentioned."

2.14. The Committee enquired whether Government were so completely at the mercy of unpredictable factors and whether it was not possible to devise expedients to reduce demurrage to the minimum. The witness stated that Government "took every possible measure to improve clearance.... The process of examination to see to what extent the grain handling capacity can be improved even further continues. We have already tried in Bombay...... automatic bagging and stitching machines and we have installed some of these...... We have an engineering cell to see to what extent there may be a further measure of mechanisation in our handling of foodgrains, but perhaps that problem may not be pressing as progress in agriculture continues, because we hope that imports will be drastically cut down." From a reply given by Government in the Lok Sabha on 25th July, 1968 to Unstarred Question No. 853, the committee note that import of foodgrains "may be necessary during the years 1969 and 1970", though the assessment of requirements is still to be made. On the question of reassessment of foodgrain handling capacity at ports in view of the improved food situation in the country, Government have stated on 29th August, 1968, in reply to Unstarred Question No. 6349, that "reassessment of foodgrains handling capacity required at various ports and of the need for new mechanical equipment and installation is being made at present. The amount of foreign exchange likely to be spent can be determined only when the Fourth Plan is finalised."

2.15. Taking note of the position of detention of ships at ports, the Committee enquired what coordination existed between the Regional Directors of Food and the port authorities to ensure that foodgrain vessels were promptly berthed. The witness replied that the Regional Directors maintained constant liaison with port authorities through periodical meetings and discussed all problems regarding berthing or delay in clearance. Apart from this, the Director General remained in close touch with the port authorities through frequent visits. Whenever necessary, additional berths for food vessels were asked for from the port authorities and the Department faced no difficulty in getting these extra berths. The Committee enquired whether the Department took steps to avoid bunching of ships at ports, by diverting them to other ports where the position was easier. The Secretary, Department of Food, said: "We exploited every port capacity, both major and minor ports, to the maximum extent possible. Bnt grains are mostly carried in tankers which can be handled in Bombay, Kandla and Madras."

2.16. The Committee drew the attention of the representatives of the Department to the comment in the Audit paragraph that only 37 out of 180 cases of demurrage exceeding Rs. 10,000 had been investigated by the Department. The witness stated: "It is true that the progress in these enquiries has been slower than it should be. The only circumstance I can advance is that during 1966 and in fact during 1967, with the terrific pressure on the Regional Directors of Food in connection with the movement and clearance of foodgrains they were not able to devote adequate time to the question of completing these enquiries more expeditiously. Actually the position as on 2nd July, 1968 is that about 118 out of 180 cases have been finalised. We will take all possible measures to see that these are expedited." In reply to a further question it was stated that in none of the 118 cases investigated "there has been any case of fixing responsibility on any person", as the payment of demurrage was "on account of non-availability of berth." The Committee enquired about the procedure followed in the investigation of demurrage cases. In a note, the Department have explained it as follows:—

"According to the terms of the Charter Party (agreement with the ship owners for engaging the ship), a period called laytime is permitted for discharging the cargo by the receiver which is free of demurrage. From the period counting from the hour and date when a ship arrives at a port, and is ready to discharge the cargo, upto the hour and date it is completely emptied by the receiver, the lay-period mentioned above is deducted and demurrage calculated for the difference. If a berth is not immediately available and a ship has to wait, this waiting period is also counted for calculating the demurrage. If the ship is emptied by the receivers before the expiry of the prescribed laytime, despatch money is earned.

2.17. About a month or so after completion of discharge of vessel, the concerned Regional Director (Food) sends time sheets/statement of facts to our Mission in the U.S.A. or the U.K. for settlement of demurrage claims with the shipowner in respect of foreign flag vessels. In case of Indian vessels these documents are sent to the Department. During the dicharging operations, a constant vigil is exercised by the Officers concerned with the discharge and clearance of cargoes at the ports and all steps are taken by them on the spot with a view to avoiding/minimising the demurrage as far as possible.

2.18. At the time of finalising the time sheet the Regional Director of Food investigates the reasons for the demurrage. In cases where the demurrage is not more than Rs. 10,000 and the Regional Director of Food, after thorough examination, is satisfied that the demurrage incurred was for reasons beyond anybody's control, a certificate to the following effect is furnished by the Regional Director of Food, or the Director or the Joint Director in charge of Port Operations to this Department:—

> 'Certified that no Government official concerned with discharge/clearance, shipowners/agents, handling/clearing contractors etc. is responsible for the ship demurrage incurred by tanker/vessel'.

This certificate when signed by the competent authority is accepted without any further probe by this Department and the demurrage so incurred is treated as unavoidable.

2.19. In cases where the demurrage is above Rs. 10,000 the Regional Director of Food submits a special report in the prescribed proforma after making thorough investigation at his end. This report is to be signed either by the Regional Director of Food himself or the Director/Joint Director in charge of port operations. Such reports are scrutinised in the Ministry and if after a thorough examination of the facts it is found that the demurrage incurred was for reasons beyond anybody's control, the matter is treated as closed.

2.20. The Committee note that the demurrage in respect of foodgrain shipments amounted to Rs. 151·89 lakhs in 1966-67, as against Rs. 12·42 lakhs in 1965-66 and Rs. 87·34 lakhs in 1967-68. While the Committee appreciate the fact that the ports had to cope with very heavy arrival in 1966-67, they would like to point out that the actual clearance ranged from 1 to 1·12 million tonnes, against targeted clearance of 1·2 million tonnes expected to be achieved as a result of the implementation of the recommendations of the U.S. Study Team. The Committee note that, though the Department was working to a target of 1·2 million tonnes, port handling equipment to augment capacity was purchased more or less on the scale considered appropriate by the Study Team for reaching a peak clearance of 1·5 million tonnes. In view of the substantial investment of Rs. 148 lakhs made in these items of equipment (about Rs. 96 lakhs of it in foreign exchange), the Committee cannot stress too strongly the need to ensure that the equipment is put to optimum use.

2.21. The Committee note that 90% of the demurrage paid was due to ships waiting for berths at ports as a result of bunched arrivals. As pointed out by the American expert team, this situation suggests the need for advance "planning of loading dates of chartered ships, so that arrivals are not bunched any more than chance dictates."

2.22. The Committee also observe from the data furnished to them that, of the total demurrage of Rs. 251·65 lakhs paid during the three years ending 1967-68, a sum of Rs. 241·90 lakhs accrued to foreign shipping interests.. The Committee would like in this connection to

draw attention to their observations in para 4.72 of their 27th Report (Fourth Lok Sabha) in which they had stressed the need to press more and more Indian vessels into service for the transport of foodgrains. This would ensure that not only freight but also any demurrage that may become inescapably payable accrues to the country, minimising the drain on scarce foreign exchange resources.

2.23. The Committee note that the investigation of 62 demurrage cases of over Rs. 10,000 relating to the period February-December, 1966, is still pending. They would like these cases to be quickly investigated and any remedial measures necessary, in the light of such examination, to be speedily taken.

III

EXTRA EXPENDITURE IN THE HANDLING AND TRANSPORT OF FOODGRAINS

Audit Paragraph

In September, 1966, the Department authorised the payment of Rs. 1:15 lakhs to a firm 'A' in terms of an arbitral award (May, 1966) arising from disputes in respect of certain agreements entered into with them in 1956-57. By a letter dated 31st March, 1956, the Regional Director of Food, Bombay appointed firm 'A' as contractor for loading, unloading, weighment, etc. of foodgrains at Government godowns in Bombay city, suburban areas and at the rail-heads for a period of one year with effect from 1st April, 1956. Later, with effect from 24th July, 1956, similar work in respect of fertilizers was also entrusted to the firm for the period up to 31st March, 1957. Formal agreements covering the transactions were executed by the Regional Director in December, 1956 in the case of foodgrains and in December, 1957 (nine months after the expiry of the agreement) in the case of fertilizers.

3.2. In terms of the agreements, the Department reserved the rights of extending the period of the agreements by a further period of one year on the same terms and conditions, and of terminating the agreements at any time during their currency without assigning any reasons, by giving 30 days' notice in writing. In exercise of these rights the Department on 31st March, 1957 extended both the agreements for a further period of one year up to 31st March, 1958, pending appointment of a new contractor on the basis of tenders already received in March, 1957. A new contractor 'B' was later, with effect from 6th May, 1957, appointed by the Department. On 16th April, 1957, *i.e.* 2 weeks after the extension of the contracts with firm 'A', a notice of 30 days for the termination of the extended contracts was issued to them and the agreements finally stood terminated with effect from 16th May, 1957.

3.3. The firm disputed the validity of the cancellation, and in January, 1958, sought arbitration. An arbitrator was thereupon appointed in October, 1958. The firm sought revocation of the order of appointment before the High Court of Judicature, Bombay but later withdrew the case in February, 1963. Later, on the resignation of the arbitration in March, 1963, another arbitration was appointed in May, 1963. The firm claimed payment of Rs. 3:15 lakhs including compensation amounting to Rs. 1.65 lakhs on the grounds, *inter alia*, that:

(a) the right of terminating the contract on 30 days' notice was no longer open to the Department, once the right to extend the contracts for a further period of one year had been exercised by them; and

(b) after the cancellation of the contracts, the Joint Director (Food) had, on 2nd November, 1957, issued a certificate to the firm that the firm "had the experience in the line and sufficient control over the labour and on some days they handled more than a lac of bags. Their work on the whole was quite satisfactory.

3.4. The arbitrator, without assigning any reasons, awarded a sum of Rs. 1·05 lakhs in favour of the firm, and in addition, Rs. 10,000 was made payable to the firm as cost of arbitration proceedings, and Rs. 3,100 as share of fees to the arbitrator. The award was accepted by Government on the advice of the Ministry of Law.

[Paragraph No. 85, Audit Report (Civil), 1968]

3.5. The Committee have been furnished with a chronological account of the developments in the case leading to the renewal of the contract and its subsequent termination. The following are the principal developments indicated:

3-1-1957 . .	Question of arrangements to be made on expiry of the contract w.e.f. 31-3-57 taken up by Government with Regional Director of Food.
12-2-1957 . .	*RDF suggested extension of existing contract.
21-2-1957 . .	*RDF asked to test the market before extending the contract.
23-2-1957 . .	Tender enquiry issued by RDF.
10-3-1957 . .	*RDF scrapped the tender, due to the tenderer's revising their quotations and issued another tender enquiry.
16-3-1957 . .	*RDF intimated results of tender enquiry to Government.
27-3-1957 . .	Decision taken to negotiate with parties concerned.
28-3-1957 . .	*RDF told to extend existing contract for one year pending negotiations with tenderers.
1-4-1957 . .	*RDF extended existing contract for one year.
16-4-1957 . .	*RDF undertook negotiations with all tenderers on instructions from Government and also served notice of termination of contract on existing agent.
3-5-1957 . .	Decision taken after negotiations to appoint the lowest tender as the handling agent.

3.6. Taking note of the fact that tender enquiry for the appointment of the handling agent w.e.f. 1-4-1957 was initiated only on 23rd February, 1957, the Committee enquired why tenders were invited so late. The witness stated that the existing contract, which was due to expire on 31-3-1957, gave Government the option of extending it for one more year. The normal procedure in the Department was to test the market before availing of this option. The Regional Director had felt that Government might not be able to get lower rates by going in for tender, but he

*Regional Director, Food.

was, nevertheless, instructed to initiate a tender enquiry. He added: "Since we had all the time the option to go in for extension for a further period of one year, it was not considered as a situation which was desperate." In response to a further question why Government broached the issue of arrangements to be made w.e.f. 31-3-1957 only on 3-1-1957 and not earlier, it has been stated in a note: "Normally, in cases in which Government have reserved the right to extend the contract, a study is made three months before the expiry of current contract of the market conditions, labour rates, prospects of competition........before it is decided to call for fresh tenders or to continue the existing contract. In......(this) case, the Regional Director was asked to make the study nearly 3 months before the expiry of the contract."

3.7. The Committee pointed out that the agreement that was in force upto 31-3-1957 provided for its extension *upto* a further period of one year. This gave Government the option to extend it for a period of less than a year also, if they chose. They enquired whether, in the circumstances of the case, when negotiations for the appointment of new agents had already been decided upon before 31st March, 1957, it was necessary to have extended the existing contract for the full period of the year w.e.f. 31-3-1957. The witness stated that "since negotiations for the contract were going on for some time, we were not quite certain what the final outcome was going to be......Therefore, as a measure of caution the term of the contract was extended for a period of one year. It was clearly advised by the Law Ministry that once the term of the contract was extended......for a shorter period, say two months, then we had no further option to exercise extending the term further." The Committee then pointed out that the result of the tender enquiry initiated was known before the contract with the existing agent expired and that it had also shown that Government would be in a position to secure lower rates. They, therefore, asked whether, in this context, Government specifically considered the question whether the existing contract should be extended for the full term and not for only part of it. In a note on this point, the Department have stated: "At the time the tenders were received in March, 1957, the offer of the lowest tenderer was about 9 per cent lower than the overall cost which would have been incurred by the Department, if the existing contract was extended. There were also indications that still lower rates could be obtained if negotiations were held. It was also considered necessary to get clarification regarding some of the conditions attached to the offer. The financial stability and general suitability of the lowest tenderer had also to be looked into. It was, therefore, decided that the matter should be negotiated on the spot by a team of officers, including a representative of the Ministry of Finance. In the meantime, as the loading and unloading operations could not be allowed to come to a stop, a decision had to be taken to extend the existing contract. Although the contract could have been extended for a shorter period, yet in case the negotiations did not get finalised within that period due to reasons beyond control, it would not have been possible for the Department to extend the contract for any further period in view of the fact that the right of extension conferred on Government by Clause 2 of the Agreement, could be exercised only once. The only course open then would have been to call for fresh tenders and whether these tenders would have been in favour of Government could not be forecast in advance. It was, therefore, considered desirable to extend the contract for one year and later exercise the right of termination of the contract by giving the prescribed period of notice, immediately after the negotiations were over. Thus this point regarding extension of the contract for one year in the first instance was specifically considered."

3.8. The Committee drew the attention of the representative of the Department to the arbitration award, which had gone against Government and enquired about its implications. The witness stated that the arbitrator had awarded a sum of Rs. 1·05 lakhs to the contractor. He added that "there is sufficient justification for our presuming that this Rs. 1·05 lakhs awarded by the arbitrator........had nothing to do with the termination of the agreement." Explaining this position, he stated that the contractor had put in a claim for Rs. 3·15 lakhs before the arbitrator as follows:

	Rs.
(i) Damage for termination of contract . . .	1·5 lakhs
(ii) Damages for allotting a portion of the work to another contractor during currency of contract	0·15 lakh
(iii) Charges for cleaning of wagons (Rs. 0·40 lakhs) and handling of open wagons not provided for in the contract (Rs. 0·39 lakhs)	0·79 lakh
(iv) Compensation for detention and idling of labour due to low arrival of cargo at docks	0·71 lakh
TOTAL . . .	3·15 lakhs

"The arbitrator", he said, "had given an award of Rs. 1·05 lakhs without assigning any reason for which particular item he had given this. Our presumption..........is that this was given to him in respect of cleaning of wagons..........and compensation for detention and idling of labour............ We consulted the Law Ministry. The Law Ministry had said at one stage, before arbitration was gone into, that these two items were such that if we went up for arbitration the award would be against us........" The Committee pointed out to the witness that the arbitrator had given no reasons for his award. Therefore, they enquired how the Department could be sure that the termination of the contract did not weigh with the arbitrator when he gave the award. The witness replied: "This is the presumption" and stated that according to the advice of the Law Ministry, the contractor had a sustainable case in respect of cleaning of wagons and compensation for detention and idling of labour, which were independent of the termination of the contract.

3.9. The Committee drew the attetion of the representative of the Ministry to the fact that after cancellation of the contract, the Joint Director (Food) had issued a testimonial to the contractor, which was cited by the contractor in the case. They enquired whether it was appropriate on the part of the officer to have acted in this manner. The witness said that it was "definitely......not appropriate", but added: "It has not affected our case in any manner, because our case was not that the contractor was inefficient. We terminated the contract on the consideration........that lower rate was available to do the work." In response to a further question, the witness said it was not the practice to issue such testimonials and that instructions would be issued to avoid recurrence of a situation of this nature.

3.10. The Committee feel that tenders for the appointment of agents should have been invited in this case well before the existing contract was due to expire. Government have stated that they had the option to renew the existing contract and that the normal practice is to study the market three months in advance in order to decide whether the option available in such cases should be availed of or not. If this is so, the Committee fail to understand why the Regional Director called for tenders as late as February, about a month before the existing contract was to expire. This brought about a situation in which a decision could not be taken on the appointment of new agents before the expiry of the existing contract. Government were therefore obliged to renew the existing contract and the decision, taken shortly after renewal, to terminate the contract naturally led to a dispute with the contractor.

3.11. The Committee also fail to understand why, when the existing contract gave Government the option for renewal for less than a year, Government chose to renew the contract for the full period of one year from April, 1957. This was unfortunate as Government knew, even before the expiry of the original term of the contract, that some of the parties, who had responded to tender enquiries, had quoted lower rates from April, 1957, onwards. Government's argument that they were negotiating with these parties and that, in the meanwhile, as a "measure of caution" they extended the existing contract for the full period lacks validity, as the negotiations were only for securing "still lower rates."

It was hardly reasonable to have supposed that these negotiations would last one full year.

3.12. The Committee also find it difficult to accept Government's view that the cancellation of the contract had no bearing on the Arbitrator's award, which went against Government, since the Arbitrator gave no reasons for his award.

3.13. The Committee note, after the cancellation of the contract, the Joint Director (Food) issued a testimonial to the contractor which was cited by the contractor in the arbitration proceedings. They understand from Audit that the Regional Director of Food, Bombay, had himself, in a written communication to the Ministry expressed the view (20th October, 1964) that "production of the....document has put the Government in an embarrassing position in the arbitration proceedings". Committee therefore feel that the issue of a testimonial by a senior official after the termination of the contract was improper and desire that clear instructions should be issued to all concerned to avoid a lapse of this nature.

IV

PURCHASE OF HYDROGENATED GROUNDNUT OIL

Audit paragraph

In March, 1963, Government introduced statutory control to regulate the price of vanaspati. This control was later relaxed in May, 1963 when a non-statutory form of control over the price of vanaspati for different zones was introduced. In June, 1964, even this system was discontinued on an assurance from the Industry that they had surplus installed capacity which itself gave rise to a strong in-built competitiveness which largely negatived the need for any external form of price control. Under the revised arrangement, the individual factories were required to regulate their prices for vanaspati so that the margin between the weighted average purchase price of raw oils and prices of vanaspati would not exceed specific margins approved by Government from time to time covering processing and packing costs, and other incidentals.

4.2. The Chief Director of Purchase has been purchasing large quantities of hydrogenated groundnut oil for Defence Services on the basis of tenders invited from trade. It was noticed that the rates paid by the Chief Director of Purchase in respect of contracts placed with various manufacturers during January, 1965 to December, 1965 were within the range of "fair prices" worked out on the basis of the approved margins referred to above. In respect of 16 contracts placed during January, 1966 to June, 1966, however, the rates paid exceeded the "fair prices", resulting in an extra expenditure of Rs. 29·06 lakhs as detailed below:

Month of contract	No. of acceptances of tender	Total quantity purchased (In tonnes)	Rates paid (In Rs. per tonne)	Value of purchases (In lakhs of Rs.)	Fair prices (In Rs. per tonne)	Extra expenditure (In lakhs of Rs.)
January, 1956 .	11	5,775	3,600 to 4,180	214·03	3,233 to 4,056	17·40
June, 1956 .	5	2,600	3,925 to 3,990	120·81	3,506	11·66

4.3. Before accepting the higher rates, no effort was made to negotiate with the Vanaspati Manufacturers' Association of India with a view to secure reduction in the prices. The agreement for voluntary control on the prices of Vanaspati reached by the Directorate of Sugar and Vanaspati with the Association does not, therefore, seem to have served the intended purpose and appears to have belied Government's expectations from the Association.

[Paragraph No. 87, Audit Report (Civil), 1968]

4.4. The Committee were informed that under the system of control over vanaspati prices introduced with effect from May 1963, prices were fixed zonally. There were two components of the prices so fixed. One was the average purchase price of raw oil received by factories in a zone and the other a processing margin, fixed by the Cost Accounts Unit of the Ministry of Finance separately for each zone, to cover processing and packing cost, excise duty, profit etc. The prices so determined were notified from time to time. In June, 1964, the scheme underwent a change. The processing margins were fixed on an all-India basis and the industry was allowed by virtue of an arrangement entered into with them, to regulate the prices on its own, with reference to the prescribed margins and raw oil prices. This was agreed to, as it was thought that, in view of the competitive nature of the industry, there was "little risk of profiteering." However, with rising groundnut oil prices, it was found that producers "did not adhere to the price formula". With effect from September, 1966, therefore, Government decided that they themselves would determine the prices on a zonal basis as before and publicise them. This scheme was given up with effect from September, 1968, when prices of Vanaspati were made subject to statutory control.

4.5. The Committee enquired why in respect of the sixteen contracts referred to in the Audit paragraph, the Army Purchase Organisation paid a sum of Rs. 29.06 lakhs in excess of the fair prices. The Secretary, Department of Food stated that the 'fair prices' "could only be regarded as a very rough guideline" in this case. The 'fair prices' taken by the Army Purchase Organisation, when they placed the contracts in January and July 1966, were those current at that time. They were worked out with reference to the weighted average raw oil prices of the previous fortnight and the approved processing margins fixed by Government. These prices would therefore have had relevance to a contract which provided for immediate or spot delivery. However, the delivery dates stipulated in the contracts placed by the Army Purchase Organisation extended over a period of three months. During this period 'fair prices' were liable to change. The period in which these contracts were placed was also a "year in which there was a shortfall in groundnut production." The market was therefore "rising". "Prices would have reached any level which they did subsequently." At that particular time therefore "when forward contracts were entered into, naturally the industry could not give an assurance, that the prices would be held for ever." The yardstick for determining whether Government paid more than what was due in respect of these contracts would be the 'fair prices' relevant to the period over which delivery was made, not those relating to the period at which the contracts were placed. If, the former prices were taken and compared with the prices actually paid, "one would find that the margin drops down to a very small figure."

4.6. Taking note of the foregoing position, the Committee asked for detailed information about the delivery dates stipulated in the contracts and weighted oil prices and processing margins during the period of the contract. The information furnished by the Department in this regard is given in Appendix V. It would be seen that data about weighted oil prices during the period of the contracts is not available in a number of cases "due to returns not being readily traceable." Based on the information furnished, a statement comparing the fair prices relevant to the period of delivery with the prices actually paid has been complied at Appendix VI. The Committee observe therefrom, that in respect of 3,650 tonnes of Vanaspati (out of a total of 8,375 tonnes purchased) for which information about fair prices is available, the net overpayment works out to Rs. 1,93,900.

4.7. During evidence, the Secretary, Department of Food, also informed the Committee that the application of the fair prices presented two other difficulties. They "made no allowance for such items as octroi or sales tax; nor was any account taken of the cost of sesame oil incorporated in the process of manufacture of vanaspati." The Committee enquired whether before fixing the fair prices, allowance was not generally made for the sesame oil used. In a note the Department have stated that the "price of vanaspati was linked to the overall weighted average purchase price of raw oils used in its manufacture, including sesame oil. When sesame oil was purchased by the factories concerned in any month, it would automatically be reflected in the corresponding price of vanaspati." On the question of Sales tax, Octroi etc., the Department have stated, in reply to a further question, that "the prices stipulated in the contract were exclusive of sales tax on oil hydrogenated. The sales tax was claimed by the contractors on the basis of amounts actually paid by them as sales tax on oil hydrogenated. No other tax was payable in addition to the contracted price."

4.8. Listing the other difficulties in the application of the price formula, the witness stated that the understanding with the industry in regard to prices "was with regard to supplies to general public and not to the Defence Services." The Committee enquired whether any decision was taken either at the time of formulation of the price control scheme or subsequently to exclude purchases for Defence Forces from the purview of the scheme. In a note on this point, the Department have stated that "the price of Vanaspati arrived at in accordance with the understanding reached with the industry in June 1964 was for vanaspati as such *i.e.* standard quality product conforming to the specifications and packing requirements prescribed under the Vanaspati and Oil Products Control Order, 1947 and marketed in accordance with normal commercial practice. To the extent that supplies for Defence differed from such product in regard to specifications, packing and marketing conditions, the prices so arrived at would not be applicable to such supplies." The Committee, however, note from the Audit para that supplies have been made to the Army Purchase organisation during the period January-December, 1965, at prices which were within the range of 'fair prices' fixed for standard quality vanaspati.

4.9. The Committee enquired whether any negotiations took place with the suppliers in this case. The Secretary, Department of Food, stated that even though the Department could have proceeded on the basis of lowest tender enquiry and issued acceptance of tender, the Purchase Officer took two courses of action to get the lower prices. "In the first place, since he expected a much lower price from Gujarat factories, he wrote to the Gujarat Government to induce the factories to give tenders . . . . The second action he took was to call the parties for negotiations. To the extent it was possible, with all the influence and pressure that the organisation could bring on the traders, some reduction was affected." In a note, the Department have stated that as a result the reduction in rates negotiated "there was a saving of Rs. 9,68,000." The Committee, however, note that, in spite of the savings effected, the rates accepted exceeded the fair prices then known to the Department.

4.10. The Committee observe that the prices paid by the Army Purchase Organisation for vanaspati procured under some of the contracts placed in January and July, 1966, exceeded the 'fair prices' that the industry was to charge by virtue of an arrangement that came into force from June, 1964. While the total amount overpaid cannot be determined, in the absence of complete information about the 'fair prices' chargeable for the various lots of supply, the Committee note that, in respect of 3,650 tonnes (out of a total of 8,375 tonnes procured), for which information about 'fair prices' is available, the net overpayment works out to Rs. 1.94 lakhs. The Committee appreciate the fact that these 'fair prices', being based on raw oil prices in the fortnight preceding delievery, could not have been determined while placing contracts for forward delivery over a period of one to three months. This difficulty however, could have been avoided by a stipulation in the contracts that

suppliers would be paid at fair prices to be fixed for the periods during which supplies were due. The Committee are not able to appreciate why this was not done.

4.11. The Committee note that with effect from September, 1968, the prices of vanaspati have been made subject to stotutory control. They hope that Government will ensure that supplies for the Defence Forces are in future made strictly at rates not exceeding the controlled prices.

V

NON-RECOVERY|DELAY IN THE RECOVERY OF EXTRA COST IN REPURCHASE

Audit Paragraph

With a view to cover a demand of 700 tonnes of 'Chana Whole' from Defence Services, the Chief Director of Purchase had to place contracts on various firms, on 4 occasions, in view of successive defaults by different firms to deliver the goods:

Name of the firm	Date of contract	Value of the contract (In lahks of Rs.)	Remarks
1	2	3	4
'A'(Registered)	21st February, 1966	4·28	Firm failed to make supplies. A risk purchase contract was placed on firm'B' on 22nd July, 1966. The security deposit of Rs. 21,418 of firm'A' was forfeited.
'B' (New firm)	22nd July, 1966	4·51	Firm falied to make supplies. A risk purchase contract was placed on firm 'C' on 2nd December, 1966, A demand for the recovery of extra cost (Rs. 2·45 lakhs) placed on firm 'B' was returned undelivered by postal authorities.
'C' (Registered)	2nd December, 1966	6·96	Firm failed to make supplies. The contract was cancelled and the quantity was covered on th Food Corporation of India on 10th October, 1967.

Name of the firm	Date of contract	Value of the contract (In lakhs of Rs.)	Remarks
1	2	3	4
Food Corporation of India	10th October, 1967	6·70	A demand for payment of "general damages" amounting to Rs. 1 61 lakhs was placed on firm 'C' on 24th August, 1967 but the recovery is awaited (November, 1967). The firm disputed the claim and have sought arbitration.

5.2. The following points were noticed in the contract with firm 'B':

(i) The acceptance of the tender was communicated telegraphically on 22nd July, 1966, which was received by the firm. However, the formal acceptance of tender issued to the firm on 4th August, 1966 was returned undelivered by the postal authorities, although a telegram issued by the Chief Director subsequently on 10th August, 1966 calling upon the firm to deposit the security was actually delivered at the same address.

(ii) On 25th August, 1966, the firm wrote to the Chief Director alleging non-receipt of the "detailed order" stating that if the same were not received within 10 days, it would be assumed that the Government had withdrawn the telegraphic acceptance, making Government liable for damages. With this letter, the firm also notified their new address. However, the demand notice for the recovery of extra cost, issued to the firm on 28th December, 1966 at the revised address was returned undelivered by the postal authorities with the remarks "addressee not known and incomplete address". Efforts made to locate the firm through the Registrar of Companies and Civil Authorities proved to be of no avail.

(iii) Based on the firm's offer, the contract provided for supplies from certain stations in Rajasthan although at the time of placing the contract, the Purchase Organisation was aware that export of gram form Rajasthan was banned.

It has been stated by Government (November-December, 1967):

(i) that no case for recovery of extra cost on account of repurchase lies on firm 'B' as, according to the Ministry of Law, the final repurchase at their risk and expense did not materialise.

(ii) that there appears to be "some sort of a collusion" between firms 'A', 'B' and 'C'.

5.3. The case is reported to have been referred to the Central Bureau of Investigation on the 22nd Decembr, 1967.

[Paragraph No. 88, Audit Report (Civil), 1968.]

5.4. The following account of the development in the case was given to the Committee by the Department.

In February, 1966, the Army Purchase Organisation concluded a contract with firm 'A' for supply of gram. The firm failed to make the supply and the contract was therefore cancelled at their risk and cost and another open tender enquiry initiated. These tenders where opened in July, 1966 and firm 'B' which was not registered with the organisation, was found to be the lowest tenderer. Their tender was accepted telegraphically and firm was asked to deposit Rs. 45,150 as security. The firm, however, failed to deposit the security and the formal acceptance order which was sent to them on 22nd July, 1966 was returned undelivered, as also all subsequent communications from the Department.

Tenders were again invited at the risk of 'B' and as a result orders were placed on firm 'C'. This firm also failed to make the security deposit and the contract had therefore again to be cancelled at their risk and cost. Two open tender enquiries issued subsequently had to be scrapped, "one for lack of competition and the other due to some technical flaw in the tender enquiry." In response to a third tender enquiry, 6 parties responded, including firm 'C', but the five others withdrew. Firm 'C' "also changed the station of despatch from Malout (Punjab), which is a free area, to another station in Rajasthan from where export of channa whole is banned. This manipulation made the tender unacceptable. In this process, the period of risk purchase of six months expired and the defaulting parties became legally free from any financial liability."

The Department have stated that "the sequence of events in this case suggests existence of some sort of conspiracy between M/s. 'A' and M/s 'B' in introducing a fictitious firm....(M/s. 'C')....to escape financial liability on the first firm." The case was therefore referred to Central Bureau of Investigation for further examination. The Department also decided at suspend further business with the two firm 'A' and 'C', pending full investigation into the matter.

5.5. The Committee enquired how the Army Purchase Organisation came to place an order on firm 'B', which turned out to be fictitious. The position in this respect has been explained by the Department as follows:

> "Till June, 1965, the purchase of Dals and Animal Grains were restricted to registered suppliers only. This policy was changed in June, 1965 and since then purchases are being made by means of open tender enquiries. The Tender Notices are published in Newspapers and both registered as well as unregistered firms are free to quote against these tender enquiries. This change of policy was made as a result of the observation made by our Associated Finance that they found that most of the tenders were either from Delhi or Kanpur and it appeared that the dealers had formed a combine and therefore asking for open tenders would help the Department in getting lower rates.
>
> The tender of firm 'B . . . . was received in response to an open Tender Enquiry. As this tender happened to be the lowest tender and was also accompained by the required amount of earnest money, it was accepted. At the time the order was placed the bona fides of the firm were not suspected and it could not be foreseen that the firm would turn out to be a bogus one. It was only subsequently when our letters were received back undelivered, that it was suspected that this was a fictitious firm."

5.6. The Committee asked what the findings of the CBI were. They have been informed that the case "is still under investigation."

5.7. On the question of recovery of general damages from firm 'C' referred to in the Audit Paragraph, the Department have stated that "the claim made against the firm was Rs. 1,61,080 and that on this account, the security amount to Rs. 34,775 was forfeited in absentia. This amount was later recovered from their bills. While the recovery of the balance amounting to Rs. 1,26,305 was being made, the firm obtained an interim injunction from the court restraining the Government from making recoveries from their bills till further orders. The court ordered finally that their securities amounting to Rs. 91,843, according to the list given by the firm, shall remain attached till the award was given by arbitrators. As an amount of Rs. 4,353 shown by the firm (in the list of securities with the Department) was actually apportioned against their standing security of Rs. 10,000 (as a registered firm with the Department), the actual amount withheld works out to Rs. 87,490. The case is still under arbitration."

5.8. The Department were asked what remedial measures have been taken in the light of their experience in this case. They have stated: "To avoid recurrence of such cases the tenders particularly those received from unregistered new firms are now thoroughly scrutinised and contracts with such firms are placed only after satisfactory Bank report and documents like Partnership Deed and Income Tax Clearance Certificates have been received. We have also under consideration a proposal to deal with registered suppliers only."

5.9. The Committee note that Government had to purchase the stores in this case at an extra cost of Rs. 2.42 lakhs, owing to successive defaults on the part of three firms on whom the orders were placed one after an other. Government now suspect one of the three firms to be fictitious and a possible collusion between the other two firms, which they have referred to the Central Bureau of Investigation for examination. The Committee would like to be apprised in due course of the results of the enquiry, as also of the arbitration that is stated to be in progress in regard to the question of recovery of general damages of Rs. 1.61 lakhs from one of the firms involved. The Committee regret to note that while placing an order on un-registered firm 'B', there has been a failure to ensure compliance with the requirements of rule 12 of the General Financial Rules according to which, "in selecting the tenders to be accepted, the financial status of individuals and firms tendering must be taken into consideration in addition to all the relevant factors". The Committee trust that responsibility for this failure will be fixed and that, in the light of the experience gained in this case, Government will evolve adequate procedures to ensure that contracts are placed only with firms whose bona fides and reliability can be established beforehand.

VI

EXTRA EXPENDITURE IN THE PURCHASE OF WHOLE URD

Audit Paragraph

Against an advertised tender enquiry issued by the Chief Director of Purchase on 18th November, 1966, the offer of firm 'A' at Rs. 101 per quintal was the lowest. As this firm had quoted this rate f.o.r. places of despatch in Assam as against f.o.r. Military Grain Depot siding, Lucknow, as required in the tender enquiry, they were requested telegraphically on 16th December, 1966 to confirm that the rate was inclusive of railway freight at Military Tariff rate upto Military Grain Depot, Lucknow. Though no reply was received from the firm, a telegraphic acceptance of tender was placed on them for 200 tonnes on 19th December, 1966 (the date up to which the tenders were valid for acceptance) at Rs. 101 per quintal f.o.r. Military Grain Depot siding Lucknow.

6.2. The firm disputed the validity of the contract on the ground that the terms or their offer had been varied in the telegraphic acceptance of tender. Consequently, on the basis of legal advice, the contract was cancelled on 14th March, 1967 without liability on either side. The cancelled quantity was later repurchased at a higher rate of Rs. 147.19 per quintal f.o.r. Military Grain Depot siding, Lucknow. This involved an extra expenditure of Rs. 72,000 (allowing Rs. 10 per quintal towards the freight at Military Tariff rate from places of despatch in Assam to the Military Grain Depot siding Lucknow).

6.3. It has been stated by the Ministry (August, 1967) that the firm 'A' had offered supplies for inspection from various stations of despatch, in lots which were smaller than 300 tonnes for which normally the inspection is arranged at the place of despatch. It is, however, not clear why the firms' tender was not rejected straightaway if relaxation of the procedure was not feasible in this case even in spite of the saving involved, and why offers of the other tenderers available at that time at rates ranging from Rs. 122.50 to Rs. 123 per quintal f.o.r. Military Grain Depot siding were not availed of. If this had been done, an extra expenditure of Rs. 49,000 could have been avoided.

[Paragraph No. 89, Audit Report (Civil) 1968.]

6.4. In a note on the case submitted to the Committee, the Department have explained that "There are two modes of purchases of dals and grains by the Army Purchase Organisation:

(a) Destination pass terms; and

(b) Despatch pass terms.

6.5. Under destination pass terms, the tenderer is required to indicate the stations of despatch and the quantity proposed to be despatched from each station and quote the price inclusive of railway freight on Military Tariff rates upto Military Grain Depot Sidings, Lucknow. The stores are despatched by the contractor from the stipulated stations on Military Credit Notes issued to them by APO. The stores are inspected on their arrival at destination, namely, Military Grain Depot, Lucknow. If the stores are found to be acceptable on inspection, the same are weighed and taken on Government stock. In case of rejection, the contractors are required to remove the rejected stores from the Depot after payment of all dues and railway freight on Public Tariff Rates from the station of despatch upto MGD Sidings Lucknow.

6.6. Under the despatch pass terms, the tenderer is required to quote the price f.o.r. station of despatch and the quantities proposed to be offered for inspection at these stations. The contractor is required to tender the stores for inspection in his godowns before the stipulated date of delivery. The stores are inspected by Defence representatives and if found acceptable, are despatched by Defence Inspectors to places where the stores are required. Under this system, the tenderer is required to offer a minimum quantity of 300 tonnes from one station and 100 tonnes from one godown. These stipulations are included in the terms and conditions of our Tender Enquiry."

6.7. In this particular case, the tender enquiry as well as the proforma attached to the tender enquiry was on destination pass basis, *i.e.* for supplies to be delivered at Military Grains Depot, Lucknow. The quantity stipulated for supply was 500 metric tonnes. The lowest tenderer had, however, quoted f.o.r. 6 different stations of despatch in Assam, *i.e.*, not on "destination pass" term's.

6.8. In reply to a question, how, when the rates quoted by the firm were for supply f.o.r. stations of despatch, the Department construed the rate to be valid for supply at destination and placed an order of acceptance on this basis, the Department have stated: "Since the offer of the firm was in response to a tender enquiry issued on 'destination pass' terms, it could only be considered as destination pass terms." The Department have further stated that the offer of the firm was not clear, in as much as in the tender proforma, "though they had mentioned rates as f.o.r. stations of despatch they had not scored out the words 'FOR MGD SIDINGS LUCKNOW' from the heading of the price column. So their offer could not be taken clearly as f.o.r. Station of despatch, *i.e.*, under despatch pass system. A clarification had therefore to be sought and since the same was not received till the last date upto which the offers were open for acceptance *i.e.* 19-12-66, the firm's offer which was given in response to the 'destination pass' Tender Enquiry, was accepted FOR MGD Lucknow in terms of the Tender Enquiry."

6.9. Asked why, if the lowest tenderer's offer was not in conformity with the terms of the tender enquiry, it was not rejected straightaway and other acceptable offers availed of, the Department have stated:

"As regards rejection of offer straightaway, the firm's offer was not free from doubt. As this firm was a new one and had quoted against our Tender Enquiry for the first time, it was felt that they might have filled in the Tender For incorrectly due to their not having studied the terms and conditions of the Tender Enquiry thoroughly and hence, a clarification was sought from them instead of rejecting the offer. Secondly, the offer of the firm was not only the lowest but also very attractive as compared to the next higher offers. In case this offer was ignored, the supplies required (200 tonnes) would have been purchased at the rate of Rs. 122·50 to Rs. 123·00 per quintal *i.e.* by paying Rs. 21'50 to Rs. 22/- per quintal extra. In view of the considerable economy involved, all efforts were made to avail of this offer in the interest of Government rather than rejecting it straightaway."

6.10. In reply to a further question, what the next acceptable offer was and how much more economical it was, in terms of the total purchase involved, in comparison to the rates at which the material was purchased ultimately after a fresh tender, the Department have indicated the following position:

"If this firm's offer had been ignored the next acceptable offers to cover the quantity of 200 tonnes available at that time (19-12-66) are given below:

Quantity (Tonnes)	Rate	Cost
	Rs. P.	Rs. P.
49	122·50	60,025·00
150	122·55	183,825·00
1	123·00	1,230·00
TOTAL . . .	. .	245,080·00

This quantity of 200 tonnes which the party failed to supply in December, 1966 was ultimately purchased from tenders opened on 27-3-1967 at the rate of Rs. 147.19 per quintal *i.e.* at a total cost of Rs. 2,94,380. The difference between the total cost at which it was available on 19th Decebmer, 1966 and the cost at which it was ultimately purchased in March, 1967, works out to Rs. 49,300. The rates received in tenders opened on 27-3-67, although higher than the rates available in December, 1966, were found reasonable as compared to the then prevailing market rates. Thus the higher rates had to be paid due to the market fluctuations which could not be anticipated."

6.11. The Committee wanted to know what the legal advice given in this case was. The Department have furnished extracts of legal opinion as under:

"The party offered to supply 200 tonnes whole Urd for delivery by 5-1-1967, delivery to be made f.o.r. Bijni, Basugaon, Barpetta. Road, Vangaigaon, Fakirgram and Sepatgram. The offer is dated 11-12-1966. The offer was accepted by telegram dated 19-12-1966.... The acceptance was not in terms of the offer. It was only a counter-offer and this the party has not accepted. As such no valid contract has been concluded. The party's contention is correct."

6.12. The Committee fail to understand how the Department construed the rate quoted by the lowest tenderer for supply at points of despatch as valid for supply at destination point and placed an order on this basis. In the result, the Department could not avail of the next acceptable offer, which would have saved them Rs. 49,300, in comparison to the rate at which the stores were ultimately procured after a fresh tender. The Department's argument that the offer of the lowest tenderer could not be accepted on his terms, but only on the Department's terms, as stipulated in the tender notice, lacks substance, since the Department ought to have known that an acceptance, which was not in terms of the offer could not constitute a contract out could at best be only a counter offer. Moreover, the Department themselves had doubts about the offer and had asked the tenderer to clarify whether his rates would be valid for supply at destination. If the clarification was not forthcoming, the Department should have taken the logical step of placing the order on the next lowest tenderer whose terms coincided with those stipulated in the tender notice. The Committee hope that the Department will take steps to guard against a recurrence of costly lapses of this nature.

M. R. MASANI,

Chairman,

Public Accounts Committee.

NEW DELHI;

January 25, 1969

Magha 5, 1890 (*S*).

APPENDIX I

(*Vide* paragraph 1·3 of Report)

Statement showing the Financial Results of State Trading in Foodgrains for the year 1966-67

(Figures taken from the *pro forma* accounts prepared by the Ministry of Food and Agriculture.)

(A) *Quantity Account* (*in Tonnes*)

	Wheat	Rice	Other grains	Total
1. Opening Stock :				
(i) Book balance (excluding damaged grain and storage losses awaiting write off)	5,19,847	1,71,439	17,752	7,09,038
(ii) Damaged grain . . .	21,768	3,967	979	26,714
1-A. Difference in stock pending adjustment/regularisation :				
(i) Storage Losses . . .	7,453	15,000	372	22,825
(ii) Transit Losses . . .	39,299	13,354	..	52,653
2. Quantity purchased outside India :				
(Number of shipments . . .	511	95	129	735)
(a) Quantity Manifested . .	69,19,792	7,52,947	22,12,033	98,84,772
(b) Grain in voyage . . .	43,523	196	22,836	66,555
(c) Loss in voyage . . .	66,984	10,044	8,080	85,108
(d) Quantity landed . . .	68,96,331	7,43,099	22,26,789	98,66,219
3. Quantity purchased in India . .	40,196	48,654	35,298	1,24,148
4. Quantity sold	68,72,591	9,16,013	20,67,289	98,55,893
5. Loss in distribution	21,476	9,248	821	31,545
6. Closing stock :				
(i) Book balance (excluding damaged grain)	5,51,779	35,315	1,98,674	7,85,768
(ii) Damaged grain . . .	22,630	4,406	13,129	40,165
6-A. Difference in stock pending adjustment/regularisation :				
(i) Storage Losses . . .	13,704	20,546	273	34,523
(ii) Transit Losses . . .	42,714	9,985	1,004	53,703

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(B) Value Account

(In lakhs of Rupees)

Particulars	Wheat	Rice	Other grains	Total
Opening stock (including value of damaged grain and storage losses awaiting write off) .	24,78·72	13,67·22	58·99	38,94·93
Cost including freight incidental and direct charges	3,92,54·25	88,15·73	1,08,37·58	5,89,07·56
Transit losses awaiting adjustment/regularisation	1,47·37	76·12	.	2,23·49
Deduct cost of short landed quantity charged to *pro forma* Insurance Fund	3,58·13	1,08·33	36·72	5,03·18
TOTAL .	4,15,12·21	1,01,50·74	1,08,59·85	6,25,22·

Particulars	Wheat	Rice	Other gains	Total
Sale proceeds . .	3,51,53·90	62,55·70	77,24·16	4,91,33·77
Deduct element of sale proceeds creditable to *pro forma* Insurance Fund .	1,64·94	31·14	30·78	2,26·87
Net sale proceeds . .	3,49,88·96	62,24·56	76,93·38	4,89,06·90
Miscellaneous Receipts .	1,13·96	3·44	17·39	1,34·79
Stock in hand :				
(i) Book balance (excluding value of damaged grain) .	37,64·62	2,72·12	8,06·14	48,42·88
(ii) Damaged grain .	24·57	8·04	22·32	54·93
Difference in stock pending adjustment regularisation :				
(i) Storage Losses .	73·27	1,43·82	0·88	2,17·97
(ii) Transit Losses .	2,28·37	69·90	4·01	3,02·28
Loss . .	23,18·46	34,28·86	23,15·73	80,63·05
TOTAL .	4,15,12·21	1,01,50·74	1,08,59·85	6,25,22·80

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(C) Statement showing cumulative profit/loss from 1943-44 to end of 1966-67.

(In rupees)

Name of Grain		From 1943-44 to 1965-66		Profit (+) Loss (—) during 1966-67		To the end of 1966-67
Wheat	(+)	35,18,15,934	(—)	23,18,45,809	(+)	11,99,70,125
Wheat Flour	(+)	3,80,53,625		Nil	(+)	3,80,53,625
Rice	(—)	83,62,75,934	(—)	34,28,86,276	(—)	1,17,91,62,210
Milo, Corn, etc.	(+)	6,00,93,329	(—)	23,28,54,184	(—)	17,27,60,855
Barley	(—)	1,66,65,070		Nil	(—)	1,66,65,070
Maize	(+)	3,23,13,268	(+)	4,58,642	(+)	3,27,71,910
Paddy	(+)	26,21,756	(+)	3,56,347	(+)	29,78,103
Oats	(+)	1,04,492		Nil	(+)	1,04,492
Gran	(—	6,72,245		Nil	(—)	6,72,245
Bajra	(+)	22,88,764		4,65,968	(+)	27,54,732
TOTAL	(—)	36,63,22,081	(—)	80,63,05,312	(—)	1,17,26,27,393
Ded uct indirect epenses not classified grainwise	(—)	57,58,97,581	(—)	7,77,39,314	(—)	65,36,36,895
Interest on Capital	(—)	48,39,26,387	(—)	4,87,66,893	(—)	53,26,93,280
GRAND TOTAL	(—)	1,42,61,46,049	(—)	93,28,11,519	(—)	2,35,89,57,568

NOTE:—A sum of Rs. 18·29 crores being the instalment for the year 1966-67 for the loss involved on the sale of foodgrains outstanding on the Food Trading Scheme was adjusted by transfer to revenue. The total loss charged to revenue to date amounts to Rs. 123·15 crores leaving a net loss of Rs. 59·48 crores excluding interest on capital.

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APPENDIX II

(*vide* paragraph 1·9 of Report)

Statement showing the Economic Cost, issue price and subsidy/Product per Quintal during 1964-65, 1965-66 & 1966-67.

Year	Date	Economic cost per quintal Rs.	Issue-price per quintal Rs.	Subsidy (—) or Profit (+) per quintal. Rs.
1	2	3	4	5
Commodity—Coarse Rice (Indigenous)				
1964-65	From 1-4-64	56.36 to 64·71	42·87	(—) 13·49 to (—) 21·84
	From 1-1-65	Do.	52·00* to 64·00	(+) 7·64 to (—) 12·71
1965-66	From 1-4-65	65·12 to 75·35	52·00* to 65·00	(—) 1·12 to (—) 32·35
	From 15-11-65	Do.	55·00* to 67·00	(+) 1·88 to (—) 20·35
1966-67	From 1-4-66	74·35 to 87·25	55·00* to 67·00	(—) 7·35 to (—) 32·25
	From 10-6-66	Do.	58·00* to 70·00	(—) 4·35 to (—) 29·25
	From 15-12-66	Do.	68·19* to 90·82	(—) 16·47 to (—) 19·06
Commodity—Medium Rice (Indigenous)				
1964-65	From 1-4-64	58·64 to 63·17	48·23	(—) 10·41 to (—) 14·94
	From 3-1-65	Do.	71·00	(+) 7·83 to (+) 12·36
1965-66	From 1-4-65	66·95 to 71·71	71·00	(+) 4·05 to (—) 0·71

Contd.

*At different rates for various recipient States/Administrations.

Contd. from Pre-page—

1	2	3	4	5
1966-67	From 1-4-66	73·34 to 78·34	71·00	(—) 2·34 to (—) 7·34
	From 10-6-66	Do.	73·00	(—) 0·34 to (—) 5·34
	From 12-12-66	Do.	84·00	(+) 5·66 to (+) 10·66
Commodity Fine III Rice (Indigenous)				
1964-65	From 1-4-64	67·19 to 74·95	53·58	(—) 3·61 to (—) 21·37
	From 3-1-65	Do.	80·00	(+) 5·05 to (+) 12·81
1965-66	From 1-4-65	77·35 to 83·59	80·00	(+) 2·65 to (—) 3·59
1966-67	From 1-4-66	85·50 to 88·21	80·00	(—) 5·50 to (—) 8·21
Commodity Fine I Rice (Indigenous)				
1964-65	From 1-4-64	66·09 to 78·74	66·98	(+) 0·89 to (—) 11·76
	From 3-1-65	Do.	83·00	(—) 4·26 to (+) 16·91
1965-66	From 1-4-65	79·35 to 88·35	83·00	(+) 3·65 to (—) 5·35
1966-67	From 1-4-66	93·53 to 99·82	83·00	(—) 10·53 to (—) 16·82
Fine Rice (Indigenous):	(with effect from 10-6-66 Fine III & I varieties have been merged as Fine rice)			
1966-67	From 10-6-66	85·50 to 99·82	85·00	(—) 0·50 to (—) 14·82
	From 12-12-66	85·50 to 99·82	94·00	(+) 8·50 to (—) 5·82
Commodity Superfine II Rice (Indigenous):				
1964-65	From 1-4-65	69·08 to 78·74	66·98	(—) 2·10 to (—) 11·76
	From 3-1-65	Do.	85·00	(+) 6·26 to (+) 15·92

Contd.

Contd. from Pre-page—

1	2	3	4	5
1965-66	From 1-4-65	77·88 to 87·93	85·00	(+) 7·12 to (—) 2·93
1966-67	From 1-4-66	90·[illegible] to 115·67	85·00	(—) 5·09 to (—)30·67
	From 10-6-66	Do.	90·00	(—) 0·09 to (—)25·67
	From 12-12-66	Do.	100·00	(+) 9·91 to (—)15·77
Commodity Super fine Rice I (Indigenous) :				
1964-65	From 1-4-64	79·13 to 38·59	80·38	(+) 1·25 to (—) 8·21
	From 3-1-65	Do.	100·00	(+)11·41 to (—)20·87
1965-66	From 1-4-65	87·88 to 97·08	100·00	(+) 2·92 to (—)12·12
1966-67	From 1-4-66	97·44	100·00	(+) 2·66
	From 12-12-66	Do.	110·00	(+)12·66

(Information supplied by Deptt. of Food *vide* their reply to point 8(2) of list of points).

APPENDIX III

(*Vide* paragraph 1 . 3 of Report) 1965-66

In direct Expenses on Foodgrains Handled during 1964-65, 1965-66 and 1966-67

Sl. No.	Head of Expenditure	1964-65 Rs.	1965-66 Rs.	1966-67 Rs.
1	Expenditure on staff (DGF & RDs)	3,93,79,315*	3,99,01,023	3,97,47,903
2	Expenditure in India (charged)	7,501	1,08,727	1,31,372
3	Other General incidentals	20,00,844	27,289	2,36,892
4	Miscellaneous foodstuffs	(—)243	6,62,189	869
5	*Expenditure on maintenance* :			
	(a) Rent of Godowns	1,26,74,977†	68,36,148	92,04,620
	(b) Cost of Insecticides	11,58,855	1,95,616	41,679‡
	(c) Repairs to Govt. Godowns	(—)27,61,551	9,03,894	14,61,947
	(d) Other General Misc.	65,46,901	90,18,578	81,08,957
	Departmental charges paid to I.S.M.	56,33,337	40,94,476	65,55,896
7	*Expenditure abroad* :			
	(a) Legal expenses	..	2,58,214	1,18,406
	(b) Cost of Discharging Equipment, etc.	..	1,30,879	45,66,089
	(c) Other general expenses	11,63,752	16,06,631	53,85,399
	(d) Chemicals imported	8,42,017	..	..
	TOTAL	6,66,45,705	6,37,43,664	7,55,60,029

*Includes adjustment of recovery of Rs. 40,932 on account of Regional Organisations.

†Includes adjustment of recovery of Rs.5,34,195 on account of—(i) Storage accommodation Rs. 1,93,538

(ii) Expenditure on maintenance. Rs. 1,61,816

(iii) Rent from Fertiliser Pool. Rs. 1,78,841

‡Differs from the accounts by Rs. 21,79,285 representing the expenditure incurred on purchase of fertilisers.

(Information furnished by Deptt. of Food *vide* their reply to point 8 (iv) of list of points)

APPENDIX IV

(*Vide* paragraph 2·9 of Report)

Recommendations of Eskilledren's Team and Action taken on them

Recommendations	Action taken
1. **Grain handling capacity at major ports during non-monsoon months to be 1·2 million tonnes and in monsoon months 9 lakh tonnes per month** (Details as per attachment 1 and 1-A in the Report)	1. The Report was discussed in a high level meeting of the Food Group on 1st February, 1966, and it was decided that the shipment programme beginning with March will be to the extent of 1·2 million tonnes as recommended by the Team for the non-monsoon months. A statement is enclosed at Annexure 'A' showing the actual programme from March to December, 1965.
2. Additional equipment recommended is in Attachment 3 and 3-A of the Report. It is summed up below:— (i) 12 sets (85) pneumatic discharge machines (ii) 2 1200/1500 HP tugs (iii) 21 bag stitching machines (iv) 7 fork lift trucks (v) 1 Warehouse 500' 120' (vi) 5 grab buckets for three ton cranes (vii) 2 railroad car shunters (viii) 15 incline bg conveyors (ix) 20 dump trucks	2. The recommendations in this regard were examined by an expert group consisting of engineers of Transport Ministry and C.P.W.D. It was decided that the following equipment should be purchased:— (a) *Discharging machines* : 49 might be imported under priority I and 36 machines under priority II. Accordingly 49 machines were imported from USA, 20 machines were received as gift from Switzerland. The remaining 16 machines were not purchased. (b) *Bagging and stitching machines*: 21 bagging and stitching machines were recommended by the Team. The recommendation was accepted and the machines were purchased. (c) *Inclined Bag Conveyors/Fork Lift Trucks*: It was recommended by the experts' group that 15 Fork Lift Trucks should be purchased for loading from wagons at Calcutta, instead of 15 bag conveyors. In addition, 7 Fork Lift Trucks as recommended by the Team, should be purchased—total being 22. Accordingly 22 Fork Lift Trukcks were purchased. (d) *Grabs*: The Team's recommendation of 5 grab buckets for Murmugao was accepted and these were purchased. (e) *Tugs*: These tugs were required for Paradeep and intially it was decided that they would be made available from the other ports by Transport Ministry. However, as the operation of vessel to vessel discharge did not take place due to various reasons, tugs were not ultimately required nor they were available.

	(f) *Wagon Shunters* : The experts' group recommended these to be purchased under priority II after obtaining the specifications from Railways. Ultimately Government did not purchase them.
	(g) *Dumping trucks*: Not purchased as they were not available indigenously.
3. Following additional berths were recommended : Bombay: 2 additional grain berths, viz., 4 for wheat and 1 for milo. Kandla: Already 2 grain berths are being provided and no addition has been proposed. Murmagao: One grain berth has been proposed Calcutta: One addtiional grain berth has been proposed. Vizag: No additional berth provided discharge is limited to 6000, tonnes. If this is increased to 90000 tonnes, one aditional berth would be necessary. Madras: One additional grain berth over and above 3 being made available at present.	3. Food Group meeting on 1-2-1966 discussed this and it was decided that the question would be taken up by Transport and Food Department with the respecive Port Trusts. This was done. Food Department were in constant touch with Transport Ministry and Port Trust and additional berths were provided as and when it was possible, for the Port concerned to do so.
4. Adequate number of wagons.	4. In the Food Group meeting on 1-2-1966 the representative of Railway Board confirmed that wagons to the extent mentioned by the U.S. Team would be available at various ports except at Kandla, where the daily qota might exceed 275 wagons.
5. Use of Paradeep Port for super tankers	5. This question was examined in great detail several times. In the absence of 2 tugs which could not be made available before June, 1967, it was not possible to bring in large sized super tankers at Paradeep Port.
6. Midstream discharge at Bombay	6. Implemented.
7. Increased road clearance at Kandla	7. Implemented. Road movement was stepped up considerably.
8. Off loading at Calcutta in barges/boats	8. This was done whenever necessary.
9. Use Sogar Island for vessel to vessel discharge at Calcutta . . .	9. Was taken up when necessary. *Contd.*

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Recommendation	Action Taken
10. Use of Coasters for Paradeep Port	10. The question of purchasing Liberty type vessels was examined in detail in consultation with ISM. US Government is still to pass the Bill allowing sale of these vessels to other countries. In the meantime the situation has changed and in this context the proposal has been dropped.
11. Transport of foodgrains by coastal vessels from Kandla to other Gujarat Ports.	11. Was taken up when necessary.

[Information furnished by the Deptt. of Food]

ANNEXURE I

(*Vide* item 1 of Appendix IV)

INDIAN FOODGRAINS SURVEY TEAM

Estimate of Indian port grain transshipment and clearance capability

(monthly in tons—non-monsoon period)

Major Ports

	March	April on
Bombay	420,000	420,000
Kandla	150,000	150,000
Mormugao	25,000	25,000
Calcutta	350,000	350,000
Paradeep	(70,000) 1/	(80,000) 1/ (60,000) 2/
Vizag	90,000	90,000
Madras	200,000	20,000
Minor Ports (See attached list)	270,000	270,000
GRAND TOTAL	1,505,000	1,565,000
SAY	1,500,000/3	1,550,000
	1,235,000	1,295,000

NOTES—1/-Included in total for Calcutta.

2/- Bagging operation could commence if various facilities are provided.

3/- For monsoon months reduce capacity of major ports to 850,000 tons per month and minor ports to 50,000 tons per month, *viz.*,

Major Ports

1,235,000X9	=	11,115,000
850,000X3	=	2,550,000
Annual Capability		13,665,000

Minor Ports

270,000X9	=	2,430,000
80,000*X3	=	240,000
		2,670,000
Total		16,325,000
SAY		16,300,000

* = Bhavnagar — 30,000
Navlakhi — 20,000
Cochin — 30,000

Minor Ports

	Tons Monthly (for 9 months)
Gujarat Ports	
Bhavnagar	50,000
Navlakhi	50,000
Okha	10,000
Veraval	10,000
Magdalla	10,000
Bedi	10,000
	140,000
Mysore Ports	
Verwer (Mangalore)	60,000
Cochin (and Kerala Ports)	60,000
Madras Ports	
Tuticorin	10,000
Total	270,000

(Attachment I to Eskildsen's Team Report furnished by Deptt. of Food).

ANNEXURE II

(*Vide* item 1 of Appendix IV)

Recommended levels of Estimate of Port discharge and clearance of foodgrains through Indian Ports in April and May 1966

April and May 1966—(Non-monsoon months)

	Tons Per Month
Major Ports	
Bombay	370,000
Kandla	130,000
Mormugao	20,000
Calcutta	240,000
Vizag	60,000
Madras	170,000
	990,000
Minor Ports	
Gujarat ports	120,000
Mysore ports	40,000
Kerala ports	40,000
Madras (State) ports	10,000
	210,000
GRAND TOTAL	1,200,000

(Attachment Ia to Eskildsen's Team Report furnished by Deptt. of Food.)

ANNEXURE III

(*Vide* item 2 of Appendix IV)

Additional Cargo handling equipment required at the rate of 1,500,000 tons per month.

Bombay

1 set (12) pneumatic discharge machines.

Kandla

1 set (12) pneumatic discharge machines (Additional covered space between sheds).

Mormugao

3 fork lift trucks.

5 Bag stitching machines.

5 grab buckets for three ton cranes.

2 railroad car shunters.

Calcutta

1 set (10) pneumatic discharge machines.

15 inclined bag conveyors.

8 Bag stitching machines.

20 dump trucks.

Alterations to increase existing elevator capacity to 225 tons per hour. (This equipment has been ordered by the Government of India).

Paradeep

2 tugs—1200/1500 horsepower—bollard pull of 18/20 tons.

1 set (15) pneumatic discharge machines (for ships discharge

1 set (12) pneumatic discharge machines (for barge discharge).

8 automatic stitching machines.

4 fork-lift trucks.

1 warehouse 500' x 120'.

Visakhapatnam (*Vizag*)

1 set (12) pneumatic discharge machines.

Madras

1 set (12) pneumatic discharge machines.

Minor Ports

No major equipment and facility requirements.

Recapitualation

12 sets (85) pneumatic discharge machines

2 1200|1500 HP tugs

21 bags stitching machines

7 fork lift trucks

1 warehouse 500 'x 120'

5 grab buckets for three ton cranes

2 railroad car shunters

15 incline bag conveyors

20 dump trucks

(Attachment 3 to Eskildsen's Team Report furnished by Deptt. of Food)

ANNEXURE IV

(*Vide* item 2 of Appendix IV)

Additional Cargo handling equipment required at the rate of 1,200,000 *tons per month*

Major ports

Bombay

2 Additional Grain Berths (total 4 grain and 1 milo berth, in addition to berth 8).

1 Set (12) Pneumatic Discharge Machines.

NOTE: It would be necessary to increase road transport movements sharply or preferably, to put into effect the excellent plan to load minimum of 120 rail cars per day at Berths 7 and 9 (3000 tons per day—approximately 90,000 tons per month on basis of 3 placements per day. Two placements would reduce this total to 60,000 tons per month).

Kandla

5 Chute (grain hopper) rail cars to be provided by Port Trust by usual alteration of rail cars.

1 Set (12) pneumatic Discharge Machines.

Mormugao

1 Grain Berth.

5 Bag Stitching Machines.

3 Fork-lift Trucks.

5 Grab Buckets, suitable for 3 ton cranes.

NOTE: It would appear desirable for the Food Department to obtain the use of the 5,000 ton cargo capacity Defence Ministry Warehouse located at Basco raid road yard.

Calcutta

1 Additional Grain Berth.

1 Set (10) pneumatic Discharge Machines.

8 Bag stitching Machines.

7 Inclined Bag Conveyors (small, portable).

Vizag

No requirements.

Madras

1 Additional Grain Berth

1 Set (12) pneumatic Discharge Machines

Minor Ports

No major equipment and facility requirements

Recapitulation

4 additional Grain Berths

4 Sets (46) Pneumatic Discharge Machines

13 Bag Stitching Machines

3 Fork-lift trucks

5 Grab buckets (for 3 ton cranes)

7 Inclined Bag conveyors (small, portable)

5 Chute (grain hopper) Rail cars (supplied by Port Trust)

NOTE: This estimate does not provide for the replacement of existing pneumatic discharge machines.

(Attachment 3 A to Eskildsen's Team Report furnished by Deptt. of Food).

APPENDIX V

(*vide* paragraph 4-6 of Report)

Statement showing the delivery dates stipulated in the contract, weighted oil price and processing Margins during the period of contract

S. No.	Name of the Factory	Delivery period	Weighted average purchase price of oils of the preceding fortnight Rs./tonne	Processing margin Rs./tonne	Vanaspati price on approve basis Rs./tonne
1	2	3	4	5	6
1	M/s. Bhavnagar Vegetable Products, Bhavnagar	15-1-66			
		21-1-66	N.P.	—	—
		20-2-66			
		31-3-66			
2	M/s. New Saurashtra Vegetable Products, MORVI.	31-1-66	N.P.	—	—
		20-2-66			
		28-2-66			
		31-3-66			
3	M/s. Shre Jagdish Oil Industries, Porbandar	20-2-66	N.P.	—	—
		31-3-66	N.A.	—	—
4	M/s. Madhusudan Vegetable Products Rakhial	15-1-66	2661	753	3414
		31-1-66	2886	753	3639
		20-2-66	N.R.	—	—
		31-3-66	2868	747+43	3658
5	M/s. Ashwin Industries, Samlaya	15-1-66	2752	753	3505
		31-1-66	2702	753	3455
		20-2-66	2779	722+42	3543
		31-3-66	N.P.	—	
6	M/s. Berar Oil Industries, (Oudh Sugar Mills), Akola.	2-3-66	3253	722+49	4024
7	M/s. Mansingka Industries, Pachora	20-2-66	N.P.	—	—
8	M/s. Tata Oil Mills, Bombay	28-2-66	N.P.	—	—
9	M/s. Western India Vegetable Products, Amalner.	31-1-66	3263	753	4016

1	2	3	4	5	6
10	M/s. Tungabhadra Industries, Karnool	25-1-66 10-2-66	3152 3235	753 722+48	3905 3995
11	M/s. Bhavanagar Vegetable Products, Bhavnagar	31-7-66 10-8-66 31-8-66	3133 N.A. 3288	747+47 — 747+49	3927 — 4084
12	M/s. New Saurashtra Vegetable Products, Morvi	31-7-66	N.A.		—
13	M/s. Shre Jagdish Oil Industries, Porbundar.	31-7-66 16-8-66 31-8-66	2970 2936 2936	747+45 747+44 747+44	3762 3727 3727
14	M/s. Madhusudan Vegetable Products, Rakhial.	31-7-66 10-8-66 31-8-66	3102 N.A.	747+47 —	3896 —
15	M/s. Ashwani Industries, Samlava.	31-7-66 10-8-66 31-8-66	3179 N.A. 3261	747+48 — 747+49	3974 — 4057

N.P. : nil or negligible purchases of oil from third-parties.

N.A. : not available due to returns not being readily traceable.

APPENDIX VI

[*Vide* Paragraph 4.6 of Report]

Comparative Statement showing the fair prices of Vanaspati relevant to the period of delivery and the prices actually paid.

S. No.	A/T No.*	Name of the Firm*	Quantity to be supplied in tonnes*		Prices stipulated in the contract Rs. per tonne**	Quantity for which data about fair price is available in tonnes*	Fair price relevant to dates of delivery*	Difference between fair price and contract price per tonne	Total
1	2	3	4		5	6	7	8	9
				Rs.	Rs.		Rs.	Rs.	Rs.
1	3/3/13/66 P.IV dt. 14-1-66.	M/s. Bhavnagar Veg. Prod. Ltd., Bhavnagar.	500	15-1-66	3,600		N.A.	..	..
			500	31-1-66					
			500	20-2-66					
			500	31-3-66					
			2,000						
2	3/4/14/66-P.IV dt. 14-1-66.	M/s. Madhusudan Veg. Prod. Ltd. Rakhial.	100	15-1-66	3,600	100	3,414	(+) 186	(+) 18,600
			100	31-1-66		100	3,639	(—) 39	(—) 3,900
			250	20-2-66		..	N.A.	..	..
			250	31-3-66		250	3,658	(—) 58	(—) 14,500
			700						(+) 200
3	3/5/15/66-P.IV dt. 14-1-66.	M/s. New Saurashtra Vanaspati Co. Morvi.	225	31-1-66	3,600	..	N.A.	..	..
			125	20-2-66		..	N.A	..	..
			275	31-3-66		..	N.A.	..	..
		..	625						

4	3/6/16/66-P.IV dt. 14-1-66.	M/s. Ashwin Industries Samlaya.	100	15-1-66	3,600	100	3,505	(+) 95	(+) 9,500
			100	31-1-66		100	3,455	(+) 145	(+) 14,500
			100	20-2-66		100	3,543	(+) 57	(+) 5,700
			300	31-3-66		..	..	..	..
			600						(+) 29,700
5	3/7/17/66-P-IV dt. 14-1-66.	M/s. Shri Jagdish Oil Industries Pvt. Ltd. Porbunder.	200	20-2-66	3,600	..	N.A.	..	..
			200	31-3-66			N.A.		
			400						
6	3/8/18/66-P.IV dt. 14-1-66	M/s.Tata Oil Mills Co. Ltd.	50	28-2-66	4,1[illegible]	..	N.A.	..	..
7	3/9/19/66-P. IV dt. 14-1-66.	M/s. Western India Veg. Prod. Ltd. Amalner.	100	31-1-66	4,069	100	4,016	(+) 53	(+) 5,300
8	3/11/21/66-P.IV dt. 14-1-66.	M/s. Tungbhadra Industries Ltd. Calcutta.	400	25-1-66	3,955	400	[illegible]	(+) [illegible]	(+) 20,000
			300	10-2-66	3,990	[illegible]	3,995	— 5	(—) 1,500
			700						(+) 18,500
9	3/12/22/66-P.IV dt. 14-1-66.	M/s. Oudh Sugar Mills Ltd., Calcutta.	300	2-3-66	4,14[illegible]	300	[illegible]	(+) 116	(+) 34,800
10	3/16/26/66-P-IV dt. 14-1-66.	M/s. Mausingka Industries (P) Ltd. Pachora.	200	20-2-66	4,1[illegible]		N.A.	..	..
11	3/25/81/66-P.IV dt. 14-1-66.	M/s. New Saurashtra Vanaspati Co. Morvi (Gujrat)	100	28-2-66	3,60[illegible]		N.A.	..	..

*Information furnished by the Ministry of Food, Agriculture, Department of Food vide their advance copies of replies to item No. 8(i), 8(ii) of the List of Points on which the PAC desired information in respect of para [illegible] of Audit Report (Civil), 1966.

**Information furnished by C & A.G.

N.A. Not available.

1	2	3	4		5	6	7	8	9
					Rs.		Rs.	Rs.	Rs.
12	3/74/649/66-P.IV dt. 29-6-66.	M/s. New Saurashtra Vanaspati Co. Morvi.	300	31-7-66	3,945		N.A.	..	..
13	3/75/650/66-P.IV dt. 29-6-66.	M/s. Shri Jagdish Oil Industries (P) Ltd. Porbunder.	200 100 100	31-7-66 16-8-66 31-8-66	3,990	200 100 100	3,762 3,727 3,727	(+) 228 (+) 263 (+) 263	(+) 45,600 (+) 26,300 (+) 26,300
			400						(+) 98,200
14	3/76/651/66-P.IV dt. 29-6-66.	M/s. Bhavanagar Veg. Prod. Ltd. Bhavanagar.	500 100	31-7-66 10-8-66	3,925	500	3,927 N.A.	(—) 2 ..	(—) 1,000 ..
			600						
15	3/77/652/66-P.IV dt. 29-6-66.	M/s. Madhusudan Veg. Prod. Co. Ltd. Pakhial (Ahmedabad).	400 100 200	31-7-66 10-8-66 31-8-66	3,961	400	3,896 N.A. N.A.	(+) 65	(+) 26,000 .. ..
			700						
16	3/78/653/66-P.IV dt. 29-6-66.	M/s. Ashwin Industries Samalaya (Baroda).	400 100 100	31-7-66 10-8-66 31-8-66	3,955	[illegible] [illegible]	[illegible] N.A. 4,057	(—) 19 .. (—) 102	(—) 7,600 .. (—) 10,200
			600						(—) 17,800
			8,375			3,05[illegible]			(+) 1,93,900

APPENDIX VII

Summary of main Conclusions/Recommendations

(referred to in Para 4 of Introduction)

Serial No.	Para No. of Report	Ministry/Department concerned	Conclusions/Recommendations
1	2	3	4
1	1.10	Deptt. of Food	The Committee note that the State Trading scheme in foodgrains resulted in a loss of Rs. 94.49 crores in 1966-67, out of which Rs. 23.13 crores was the loss on wheat, Rs. 34.20 crores on rice, and Rs. 23.16 crores on other grains. While the Committee note that the main reason for these losses was devaluation, which necessitated subsidising of imported grains on a larger scale than before, they would like to draw the attention of Government to the recommendations made in para 4.55 of their 27th Report (Fourth Lok Sabha) where they had suggested that Government should critically review the entire functioning of State Trading in foodgrains and in particular the grant of subsidy on rice and other foodgrains in the light of the requirements of the country and the accumulated losses suffered so far in respect of each type of foodgrains. The Committee understand that their recommendations are still under the consideration of Government. They would like Government to expedite their decision in the matter.
2	2.13	—do—	The Committee find that storage losses in respect of rice have been much higher than similar losses in respect of wheat. During 1966-67, the loss in storage in respect of rice was about 2.5 per cent of the quantity stored, against a loss of 0.2 per cent in respect of wheat. While the Committee note Government's explanation that the higher percentage

1	2	3	4
			of loss was due to higher moisture content of indigenous rice and the relatively larger quantities of that grain stored, they feel that the matter needs further study by Government, with a view to devising effective measures to reduce the losses.
3	1.20	Deptt. of Food	The Committee note that large quantities of foodgrains transported by Government are moved in open wagons. The quantum of such movement in 1967 was 2·47 million tonnes, or 25 per cent of the total quantity moved, and 1·4 million tonnes in the first eight months of 1968, or 22 per cent of the grains moved. The loss involved in such movements in the first eight months of 1968 was substantial and amounted to 6,673 tonnes, of which about 1,900 tonnes alone were lost due to exposure to rains.
4	1.21	Deptt. of Food Ministry of Railways	The Committee had examined last year the performance of the Railways in the Third Plan and had pointed out in their 22nd Report (Fourth Lok Sabha) that, as against the target capacity of 249 million tonnes of originating goods traffic to be created at an additional cost of Rs. 1325 crores, the actual capacity developed at an expense of Rs. 1,686 crores was 225 million tonnes (approx.) of originating traffic, while the actual movement in the last year of the Third Plan was only 203 million tonnes. It would thus appear that, while there is spare capacity available on the Railways, it is the look of an adequate number of covered wagons which acts as a constraint on safe movement of foodgrains. The Committee would like the Railways review carefullty, in consultation with the Department of Food, the rail transport required for the movement of foodgrains from surplus to deficit States in the light of the recent increases achieved in food production in the country.

5	1.22	Deptt. of Food	In planning for transport facilities for the movment of foodgrains the Committee would like Government to take note of the great improvements made in road transport in the country so as to make increasing use of it in the interest of expeditious transport of foodgrains.
6	1.23	—do—	When the use of open wagons for carrying foodgrains becomes inescapable due to the non-availability of closed wagons and heavy movements arising from sudden large arrivals of foodgrains in the markets, the Committee would like to stress that foodgrains should be adequately protected both against the vagaries of weather and pilferage. Government should also consider whether, on occasion when market arrivals are heavy, movement by road should be encouraged and movement by rail could be so spaced out, through provision of local storage facilities, as to facilitate the use of closed wagons as they become progressively available.
7	1.33	—do—	The Committee note that there has been a progressive transfer of procurement, clearance and handling work from the Food Department to the Food Corporation. In para 1.33 of their 27th Report (Fourth Lok Sabha) the Committee had taken note of this position and stressed the need to maintain a close watch over the establishment expenditure of Food Department to achieve maximum possible economics. In para 4.56 of that Report the Committee had also suggested that every effort should be made to avoid an over-lapping of functions between the Food Corporation of India and the Department of Food. The Committee now observe that, while there has been some reduction in posts in the Food Department, the establishment expenditure has not been substantially reduced in the Regions and in fact has gone up at Headquarters. While the Committee note the Department's explanation that this is due to the creation of posts to cope with additional items of work, apart from factors like increase in dearness allowance, they would like Gov-

1	2	3	4
			ernment to transfer the functions of the Food Corporation of India still performed by the Food Department to the Corporation and reduce the number of posts in the Food Department. The Committee would also like Government to undertake a comprehensive study of the workload in the Food Department both at Headquarters and in the Regions to effect maximum economies possible, by job analysing the work through the Staff Inspection Unit of the Ministry of Finance who have already conducted some studies in this respect. For any additional workload a minimum number of posts might be kept on a purely temporary basis whose retention may be considered every six months in the light of actual work involved.
8	1.34	Deptt. of Food	The Committee observe that one of the major items of 'indirect expenses' on the scheme is on account of rent godowns. This, however, does not bear any relationship to the storage position as reflected in the quantity of grains stored by the Department. While the quantity of foodgrains stored declined from 47 lakh tonnes in 1965-66 to 43 lakh tonnes in 1966-67, the expenditure on rent, which was Rs. 68 lakhs in 1965-66, rose to Rs. 92 lakhs in 1966-67. The Committee would like the causes of this increase to be examined by Government. In particular, they would like to know whether, with the progressive transfer of storage work to the Food Corporation and the reduction in the quantities of foodgrains stored by the Department, there has been a progressive release of godown space.
9	2.20	—do—	The Committee note that the demurrage in respect of foodgrain shipments amounted to Rs. 151·89 lakhs in 1966-67, as against Rs. 12·42 lakhs in 1965-66 and Rs. 87·34 lakhs in 1967-68. While the Committee appreciate the fact that the ports had to cope with very heavy arrivals in

			1966-67, they would like to point out that actual clearance ranged from 1 to 1·12 million tonnes, against targetted clearance of 1·2 million tonnes expected to be achieved as a result of the implementation of the recommendations of the U.S. Study Team. The Committee note that, though the Department was working to a target of 1·2 million tonnes, port handling equipment to augment capacity was purchased more or less on the scale considered appropriate by the Study Team for reaching a peak clearance of 1·5 million tonnes. In view of the substantial investment of Rs. 148 lakhs made in these items of equipment (about Rs. 96 lakhs of it in foreign exchange), the Committee cannot stress too strongly the need to ensure that the equipment is put to optimum use.
10	2.21	—do—	The Committee note that 90 per cent of the demurrage paid was due to ships waiting for berths at ports as a result of bunched arrivals. As pointed out by the American expert team, this situation suggests the need for advance "planning of loading dates of chartered ships, so that arrivals are not bunched any more than chance dictates."
11	2.22	—do—	The Committee also observe from the data furnished to them that, of the total demurrage of Rs. 251·65 lakhs paid during the three years ending 1967-68, a sum of Rs. 211·90 lakhs accrued to foreign shipping interests. The Committee would like in this connection to draw attention to their observations in para 4·72 of their 27th Report (Fourth Lok Sabha) in which they had stressed the need to press more and more Indian vessels into service for the transport of foodgrains. This would ensure that not only freight but also any demurrage that may become inescapably payable accrues to the country, minimising the drain on scarce foreign exchange resources.
12	.23	—do—	The Committee note that the investigation of 62 demurrage cases of over Rs. 10,000 relating to the period February—December, 1966, is still

1	2	3	4
			pending. They would like these cases to be quickly investigated and any remedial measures necessary, in the light of such examination, to be speedily taken.
13	3.10	Dep't. of Food	The Committee feel that tenders for the appointment of agents should have been invited in this case well before the existing contract was due to expire. Government have stated that they had the opinion to renew the existing contract and that the normal practice is to study the market three months in advance in order to decide whether the option available in such cases should be availed of or not. If this is so, the Committee fail to understand why the Regional Director called for tenders as late as February, about a month before the existing contract was to expire. This brought about a situation in which a decision could not be taken on the appointment of new agents before the expiry of the existing contract. Government were therefore obliged to renew the existing contract and the decision, taken shortly after renewal, to terminate the contract naturally led to a dispute with the contractor.
14	3.11	—do—	The Committee also fail to understand why, when the existing contract gave Government the option for renewal for less than a year, Government chose to renew the contract for the full period of one year from April, 1957. This was unfortunate as Government knew, even before the expiry of the original term of the contract, that some of the parties, who had responded to tender inquiries, had quoted lower rates from April, 1957, onwards. Government's argument that they were negotiating with these parties and that, in the meanwhile, as a "measure of caution" they extended the existing contract for the full period lacks validity, as negotiations were only for securing "still lower rates." It was hardly reasonable to have supposed that these negotiations would last one full year.

15	3.12	—do—	The Committee also find it difficult to accept Government's view that the cancellation of the contract had no bearing on the Arbitrator's award, which went against Government, since the Arbitrator gave no reasons for his award.
16	3.13	—do—	The Committee note that, after the cancellation of the contract, the Joint Director (Food) issued a testimonial to the contractor which was cited by the contractor in the arbitration proceedings. They understand from Audit that the Regional Director of Food, Bombay, had himself, in a written Communication to the Ministry expressed the view (20th October, 1964) that "production of the . . . .documents has put the Government in an embarrassing position in the arbitration proceedings." The Committee therefore feel that the issue of a testimonial by a senior official after the termination of the contract was improper and desire that clear instructions should be issued to all concerned to avoid a lapse of this nature.
17	4.10	—do—	The Committee observe that the prices paid by the Army Purchase Organisation for vanaspati procured under some of the contracts placed in January and July, 1966, exceeded the 'fair prices' that the industry were to charge by virtue of an arrangement that came into force from June, 1964. While the total amount overpaid cannot be determined in the absence of complete information about the 'fair prices' chargeable for the various lots of supply, the Committee note that, in respect of 3,650 tonnes (out of a total of 8,375 tonnes procured), for which information about 'fair prices' is available, the net overpayment works out to Rs. 7:94 lakhs. The Committee appreciate the fact that these 'fair prices', being based on raw oil prices in the fortnight preceding delivery, could not have been determined while placing contracts for forward delivery over a period of one to three months. This difficulty however, could have been avoided by a stipulation in the contracts that suppliers would be paid at fair prices to be fixed for the periods during

1	2	3	4
			which supplies were due. The Committee are not able to appreciate why this was not done.
18	4.11	Deptt. of Food	The Committee note that with effect from September, 1968, the prices of vanaspati have been made subject to statutory control. They hope that Government will ensure that supplies for the Defence Forces are in future made strictly at rates not exceeding the controlled prices.
19	5 9	—do—	The Committee note that Government had to purchase the stores in this case at an extra cost of Rs. 2·42 lakhs, owing to successive defaults on the part of three firms on whom the orders were placed one after another. Government now suspect one of the three firms to be fictitious and a possible collusion between the other two firms, which they have referred to the Central Bureau of Investigation for examination. The Committee would like to be apprised in due course of the results of the enquiry, as also of the arbitration that is stated to be in progress in regard to the question of recovery of general damages of Rs. 1·61 lakhs from one of the firms involved. The Committee regret to note that while placing an order on un-registered firm 'B', there has been a failure to ensure compliance with the requirements of rule 12 of the General Financial Rules according to which, "in selecting the tenders to be accepted, the financial status of the individuals and firms tendering must be taken into consideration in addition to all the relevant factors." The Committee trust that responsibility for this failure will be fixed and that, in the light of the experience gained in this case, Government will evolve adequate procedures to ensure that contracts are placed only with firms whose *bona fides* and reliability can be established beforehand.
20	6.12	—do—	The Committee fail to understand how the Department construed the rate quoted by the lowest tenderer for supply at points of despatch

as valid for supply at destination point and placed an order on this basis. In the result, the Department could not avail of the next acceptable offer, which would have saved them Rs. 49,300, in comparison to the rate at which the stores were ultimately procured after a fresh tender. The Department's argument that the offer of the lowest tenderer could not be accepted on his terms, but only on the Department's terms, as stipulated in the tender notice, lacks substance, since the Department ought to have known that an acceptance, which was not in terms of the offer could not constitute a contract but could at best be only a counter-offer. Moreover, the Department themselves had doubts about the offer and had asked the tenderer to clarify whether his rates would be valid for supply at destination. If the clarification was not forthcoming, the Department should have taken the logical step of placing the order on the next lowest tenderer whose terms coincided with those stipulated in the tender notice. The Committee hope that the Department will take steps to guard against recurrence of costly lapses of this nature.

GMGIPND—RS I—3027 RS—16-2-69—1250.

Sl. No.	Name of Agent	Agency No.
	DELHI	
24.	Jain Book Agency, Connaught Place, New Delhi.	11
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27
32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66
33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
36.	Hind Book House, 82, Janpath, New Delhi.	95
37.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96
	MANIPUR	
38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
	AGENTS IN FOREIGN COUNTRIES	
39.	The Secretary, Establishment Department, The High Commission of India India House, Aldwych, LONDON, W.C.—2.	59

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