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STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION
(2006-2007)

FOURTEENTH LOK SABHA

MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION
(DEPARTMENT OF FOOD AND PUBLIC DISTRIBUTION)

{Action Taken by the Government on the recommendations/observations contained in the Twelfth Report of the Committee on Demands for Grants (2006-2007) of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution)

FIFTEENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

November, 2006 /, Kartika,1928 (Saka)

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Presented to Lok Sabha on …06.12. 2006
Laid in Rajya Sabha on …06.12. 2006

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

November, 2006 /, Kartika, 1928 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION – 2006-07

Shri Devendra Prasad Yadav - Chairman

MEMBERS

LOK SABHA

2. Shri Govinda Aroon Ahuja
3. Shri Alakesh Das
4. Shri Atma Singh Gill
5. Shri Abdul Mannan Hossain
7. Shri Baliram Kashyap
8. Shri Avinash Rai Khanna
9. Shri W. Wangyuh Konyak
9. Shri Parsuram Majhi
10. Shri Sadashivrao Dadoba Mandlik
11. Shri Harikewal Prasad
12. Shri Munshi Ram
13. Shri Daroga Prasad Saroj
14. Adv. P. Satheedevi
15. Shri Chandrabhan Singh
16. Shri Ramakant Yadav
17. Smt. V. Radhika Selvi
18. Vacant
19. Vacant
20. Vacant
21. Vacant

RAJYA SABHA

22. Shri T.S. Bajwa
23. Smt. Mohsina Kidwai
24. Shri Shantaram Laxman Naik
25. Shri Thanga Tamil Selvan
26. Shri Kanjibhai Patel
27. Shri Rajniti Prasad
28. Shri Nabam Rebia
29. Shri Matilal Sarkar
30. Shri Ram Narayan Sahu
31. Vacant

SECRETARIAT

1.	Dr. (Smt.) Paramjit Kaur Sandhu	-	Additional Secretary
2.	Shri P.K. Bhandari	-	Joint Secretary
3.	Shri R.S. Kambo	-	Deputy Secretary
4.	Shri B.S. Dahiya	-	Under Secretary
5.	Shri Rakesh Bhardwaj	-	Committee Officer

INTRODUCTION

I, the Chairman of the Standing Committee on Food, Consumer Affairs and Public Distribution (2006-2007) having been authorised by the Committee to submit the Report on their behalf, present this Fifteenth Report on Action Taken by the Government on the recommendations/observations contained in the Twelfth Report of the Committee (14th Lok Sabha) on Demands for Grants (2006-2007) of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

2. The Twelfth Report was presented to Lok Sabha and laid in Rajya Sabha on 22 May, 2006. The Government furnished their replies indicating Action Taken on the recommendations contained in the Report on 8th September, 2006.

3. This Report was considered and adopted by the Committee at their sitting held on 10th November, 2006. Minutes of the sitting form Part –II of the Report.

4. An analysis of the action taken by the Government on Recommendations/observations contained in the Report is given in Appendix- II.

NEW DELHI
<u>13 November, 2006.</u>
22 Kartika,1928 (saka)

DEVENDRA PRASAD YADAV,
Chairman,

Standing Committee on Food, Consumer Affairs and Public Distribution.

CHAPTER -I

REPORT

This Report of the Standing Committee on Food, Consumer Affairs and Public Distribution deals with the Action Taken by the Government on the Observations/Recommendations contained in the Twelfth Report (14th Lok Sabha) on "Demands for Grants (2006-2007)" pertaining to the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

1.2 The Report was presented to Lok Sabha and laid on the Table of Rajya Sabha on 22nd May, 2006. It contained 26 recommendations/observations. Action Taken Notes in respect of all the 26 observations/recommendations contained in the Report have been received and these have been categorized as follows:-

(i) Recommendations/observations which have been accepted by the Government :

Serial Nos.- 1, 4, 6, 7, 8, 11,12,13, 15, 20, 21, 24, 25 and 26.
(Paragraph Nos. - 1.13, 2.70, 2.72, 2.73, 2.74, 2.77, 2.78, 3.21, 3.23, 4.31, 5.34, 5.37, 6.24 and 6.25)

(Chapter –II , Total 14)

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the replies received from the Government

Serial Nos. 10, 14, 16, 18, 19 and 23.
(Paragraph Nos- 2.76, 3.22, 3.24, 3.26, 4.30 and 5.36)

(Chapter –III , Total 6)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Serial Nos. 2, 3, 5, 9 17 and 22.
(Paragraph Nos. -2.68, 2.69, 2.71, 2.75, 3.25 and 5.35)

(Chapter – IV, Total 6)

(iv) Recommendations/observations in respect of which the final replies of the Government are still awaited

-Nil-

(Chapter – V, Total Nil)

1.3 The Committee desire that the final replies in respect of the Observations/Recommendations for which only interim replies have been received from the Government be furnished to the Committee expeditiously.

1.4 The Committee strongly emphasize that utmost importance be accorded to the implementation of Observations/Recommendations accepted by the Government. In case where it is not possible for the Government to implement the recommendations in letter and spirit for any reason, the matter be reported to the Committee in time with reasons for non-implementation.

1.5 The Committee will now deal with action taken by the Government on some of their recommendations.

A. Even Distribution of Plan Expenditure

Recommendation (Serial No. 1, Para No. 1.13)

1.6 The Committee had emphasised the need to spread the expenditure evenly in all the quarters of the year in their earlier report and expressed their unhappiness over the non-compliance of the financial rules in the matter.

1.7 The Ministry in their Action Taken Notes while admitting that the quarterly expenditure of Plan Rules was not uniform have stated that they were engaged in close monitoring of the expenditure at all stages for achieving optimal utilization of budgetary provisions and to ensure that expenditure is spread evenly.

The Ministry has also informed that the modified Cash Management System has been introduced and a system for working out monthly expenditure plan for the Financial year 2006-07 has been introduced wef. April 2006. According to them the Monthly Expenditure Plan would form the basis of Quarterly Expenditure Allocation.

1.8 The Committee cannot but reiterate the need for even spreading of expenditure over the four quarters of the year to ensure the proper utilization of the budgeted allocations. Now, that the Ministry has introduced the modified Cash Management System wef. April 2006, the Committee hope and trust that the Plan expenditure will be distributed evenly. The Committee would like to be informed of the progress of the system.

B SUBSIDY TO APL POPULATION

Recommendation (Serial No. 2, Paragraph 2.68)

1.9 Taking note of the fact that an element of subsidy was involved in food grains supplied to beneficiaries of Above Poverty Line (APL) families, the Committee had desired that there was a need to bar APL population from receiving subsidized foodgrains. The Committee had also recommended that there was a need to reduce allocation of foodgrains for APL category especially wheat and also revise the rate in a such way, that there was hardly any gap between ruling market prices and wheat supplied to APL beneficiaries. The Committee had desired to be apprised of the action taken by the Government in this regard.

1.10 The Ministry in their Action Taken Reply stated that the suggestion made by the Parliamentary Standing Committee of the Ministry has been examined. This Department reiterates its earlier stand that completely excluding the APL population from the TPDS would adversely affect the population in several major States as well as the North Eastern States, where the APL off-take is sizable.

According to them, the Government had, inter-alia, decided on 6.1.2006 to reduce allocation of foodgrains for APL households to 20 Kg. per family per month from the earlier allocation of 35 Kg. per family per month, or the off-take during 2004-05, whichever is lower. It was also decided that APL Central Issue Prices (CIPs) of foodgrains, which were last fixed in July 2001, to be revised upwards by Rs. 85 per quintal and Rs. 95 per quintal for wheat & rice respectively. However, keeping in view the representations from some State

Governments, Political parties and Public sentiments, the implementation of the decision taken on 6.1.2006 has been postponed for the time being.

However, Department of Food & Public Distribution has rationalized the allocation of wheat under the Above Poverty Line (APL) category to each State's average offtake for the last three years or the last year's offtake, whichever is lower. A 25 % cut of wheat allocation for APL households has also been imposed in respect of rice-consuming States and Delhi.

1.11 The Committee note that the Government have not accepted the recommendation of the Committee to bar APL population from TPDS as it would adversely affect the population in several major States where APL offtake is sizeable. The Committee do not subscribe to this view of the Government in this regard. The Committee feel that food subsidy have been designed, for the poor and the vulnerable section of the society, which cannot afford to buy the foodgrains from the open market. Further, APL population neither require nor need subsidy at BPL level to sustain their livelihood. The Committee note that on one hand, the Government have resorted to large scale import of wheat in order to replenish the dwindling stocks so as to maintain supply chain and thereby manage and operate TPDS and other welfare schemes, on the other hand, the Government continue to fritter away the foodgrains to undeserving APL population which has a substantial amount of subsidy involved therein.

The Committee note that Government with a view to restrict food subsidy bill have taken steps for Slashing down the foodgrains quota of APL population and at the same time recommended revision of Central Issue Price of foodgrains upwardly for APL population. However, this decision of the Government has been held in abeyance for the time being. The Committee apprehend that the decision to defer the implementation of the decision of the Government, to restrict allocations of foodgrains to APL population by reducing the eligible monthly quota and rise in Central Issue Price have been taken on consideration other than sound economic sense to benefit less deserving section of the Society. The Committee have been informed that there has been mis-match between BPL estimation by the Union Government and the State Governments. As a result of which the State Governments have to incur a heavy subsidy Bill to cover BPL population which have been left out in this exercise. Reiterating their earlier observation, the Committee strongly recommend that APL

population be barred from the purview of TPDS in respect of foodgrains. At the same time, the foodgrains saved by excluding APL population, be made available to BPL beneficiaries. The Committee would also like the Government to reassess the number of BPL beneficiaries so that the States do not have to foot extra bill to feed them and the existing system may be allowed to continue till the process of reassessment is completed and implemented.

C FOOD SITUATION IN THE COUNTRY

Recommendation (Serial No. 3, Paragraph 2.69)

1.12 The Committee while noting that the food situation in the country was far from satisfactory had observed that the food situation in the country was so alarming that Government had to take a decision to import 10 lakh tonnes of wheat in April/May, 2006 and another 30 lakh million tonnes approved to be imported later on during the year. Such being the scenario, the Government may find difficult to replenish their dwindling buffer stocks, operate and manage Public Distribution System replenish their dwindling buffer stocks. The Committee, had therefore, recommended that Government had a relook at their food policy, afresh in the interest of farmers and consumers alike.

1.13 The Ministry in their Action Taken Reply stated that the production of wheat which was 76.37 million tonnes in 1999-2000 declined to 68.64 million tonnes in crop year 2004-05 against a target of 72 million tonnes. Due to less than targeted production in crop year 2004-05 as well as high open market prices and higher private participation in RMS 2005-06, the procurement of wheat in that year was only 147.83 lakh tonnes which was 20 lakh tonnes less than the procurement of wheat in RMS 2004-05. The offtake of wheat in 2005-06 was 161 lakh tonnes and due to less procurement and higher offtake the stocks of wheat were 20 lakh tonnes less than the buffer stock as on 1st January, 2006.

To augment stocks of wheat in the Central Pool and also to keep a check on open market prices of wheat, the Government took the decisions to import 5 lakh tonnes of wheat in February, 2006.

The production of wheat in crop year 2005-06 was 69.48 million tonnes against a target of 75.53 million tonnes. Due to less than targeted production of wheat in crop year 2005-06 as well as high open market prices, negative market sentiments due to low stocks of wheat in Central Pool and higher private participation in RMS 2006-07, the procurement of wheat was only 92.2 lakh tonnes in RMS 2006-07. To make up the shortfall of wheat in the Central Pool the Government took a decision in April, 2006 to import further 30 lakh tonnes of wheat.

The Government is also considering a few other proposals to save wheat such as allocation of coarse grains in place of wheat, etc. Once these proposals are implemented there will be sufficient stock of wheat to meet the requirements under TPDS and welfare schemes as well as to maintain the prescribed buffer norm as on 1st April, 2007.

As far as rice is concerned, there has been record procurement in KMS 2005-06 of 273.8 lakh tonnes (as on 27.07.2006) compared to 236.9 lakh tonnes in the corresponding period in KMS 2004-05. In addition to this 11.4 lakh tonnes of coarse grains have also been procured (as on 27.7.2006) compared to 7.8 lakh tonnes in the corresponding period in KMS 2004-05.

In the RMS 2006-07, the targeted quantity of wheat could not be procured even after proving an incentive of Rs. 50 per qtl. due to much higher open market prices. In order to ensure that there is no shortfall in procurement of qualities of foodgrains required for the TPDS and Welfare Schemes, the Department of Food and Public Distribution has formulated a proposal to purchase wheat during RMS 2007-08 at a procurement price higher than MSP.

1.14 The Committee is unhappy to note that although there was a marginal decrease in the production of wheat during 2005-06 as compared to 2004-05, the procurement decreased alarmingly forcing the Government to import huge quantities (35 lakh tonnes) of wheat to replenish the stocks in central pool to augment the buffer stocks. The Committee note that the low procurement of wheat was due to high prices of wheat in open market as compared to those being offered by the Government. In this context the Committee would like to emphasise that Government should encourage staggered procurement of goodgrains linked with proper pricing especially for the benefit of small and marginal farmers. The Committee, therefore, reiterate their recommendation and desire that the Government should have a look at their procurement policy afresh in the interest of both the farmers and consumers alike. The Committee, is, however, satisfied to note the increase in procurement of rice as well as coarse grains during the year 2005-06 as compared to 2004-05. The Committee still desire that efforts need to be stepped up.

D BAN ON FORWARD/FUTURE TRADING OF WHEAT

Recommendation (Serial No. 5 Para no. 2.71)

1.15 Taking note of the fact that the prices of wheat were showing an upward trend and hardening day by day and the speculative trading indulged into had affected the prices of wheat, the Committee were of the view that the future/forward trading in wheat had a deleterious effect on the retail prices of wheat. The future/forward trading in wheat, which was conceived for the benefit of farmers, had not yielded desired results for them and in fact the speculation in wheat price had affected the consumer at large. The Forward Market Commission had failed to monitor the future price of wheat. The decision of the Government to import wheat had emitted negative signal in regard to stock of wheat in the country. The Committee were of the view that with the permission to undertake forward/future trading in wheat, the price of wheat have skyrocketed in the retail market, without realizing the commensurate benefits to the farmers. The Committee, therefore, recommended that Government should ban forward/future trading in wheat so as to contain the prices of wheat in open market. The Committee desired to be apprised of the action taken by the Government in this regard.

1.16 The Ministry in their Action Taken Reply stated that production of wheat was 69.48 million tonnes in crop year 2005-06 (as per the fourth advance estimate) against a target of 75.53 million tonnes. Due to lower than targeted production in crop year 2005-06 as well as higher private participation in purchase of wheat in RMS 2005-06 and negative market sentiments due to low stocks of wheat in Central Pool, the open market prices had shown a rising trend from December, 2005. Regarding forward trading in wheat, the nodal Ministry for the same which is the Department of Consumer Affairs has informed as under:

"Future contracts in wheat are presently traded on the three National Exchanges viz. the National Multi Commodity Exchange (NMCE), Ahmedabad, the National Commodity and Derivatives Exchange (NCDEX), Mumbai and the Multi Commodity Exchange (MCX), Mumbai. Wheat futures trading commenced in NMCE w.e.f. 13th December, 2003. NCDEX Mumbai, w.e.f. 6th July, 2004 and MCX Mumbai w.e.f. 2nd September, 2004. At present, major part of trading in wheat is taking place at NCDEX and the other two Exchanges have negligible share.

It is true that prices of wheat both in spot and futures markets have hardened during the first quarter of this year. The main reasons for comparatively higher futures prices are lower production estimates and lower arrivals this year in Mandis as compared to the last year. During 2004-05, the production of wheat was 68.64 million tones, which was 3.47 million tonnes less as compared to 2003-2004. The target for wheat production for 2005-06 was 75.53 million tonnes. However, the second advance production estimates (as on 22.2.2006) and third advance production estimates (as on 5.5.2006) have placed the production at a lower level of 73.06 million tonnes and 71.54 million tones, showing successive shortfall in both the estimates. It is learnt that the private trade estimates the production below the targeted level.

Futures trading largely reflect the wholesale price of the commodities. So far, no specific study has been made to assess the impact of futures prices on retail prices of the commodity. Futures markets, however, give an advance forecast of the prices. The forecast gets reflected in the wholesale prices of the commodities. The wholesale prices have an impact on the retail prices. In an efficient distribution system, the impact on wholesale prices and retail prices should have an appropriate relationship. The reason for higher futures prices quoted for December, 2006 contract at MCX and NCDEX is that the futures prices being quoted at these Exhanges factor in various components such as expected price, (based on demand and supply scenario), cost of carrying the goods, international trade etc. The cost of carry is equivalent to the interest cost, storage charges and other incidental expenses in carrying (holding) the good over a period of time (i.e. till the maturity of the contract).

Forward Markets Commission (FMC) which is the Regulator for commodity futures trading under the provisions of Forward Contracts (Regulation) Act, 1952 has been keeping a close watch on the futures trading in wheat. Detailed formats have been prescribed through which the Exchanges are required to submit the trading details every day at the close of the trading. FMC has prescribed a daily maximum price band of 4% followed by a cooling off period of fifteen minutes and thereafter a further increase/decrease of 2% is permitted. The open position details of members and clients with a high value of trade are also monitored closely. FMC has also imposed a limit on open position in wheat contracts separately for members and clients with a high value of trade are also monitored closely. FMC has also imposed a limit on open position in wheat contracts separately for members and clients and margin money in the range of 5 – 5.23%. To avoid squeeze and cornering by the buyers, wheat contracts have provisions for seller's options with regard to physical delivery. The trading details in the commodity Exchanges including for wheat are deliberated in the weekly meetings chaired by Chairman. FMC. The large client participation in wheat futures contracts (in the mongh of April/May the average client participation has been more than 6000 from across 500 centers.) is indicative of transparent price discovery.

Futures trading enable the various stakeholders such as producers. Processors, exporters etc. to shift the risk involved in their activities arising out of adverse price fluctuations through hedging to those who are willing to assume it in the hope of making some profit. Futures trading also render services to the farmers/cultivators. Hedging facilities would enable those farmers who grow commodities in very large quantities to hold on to their crops or stocks, spread out the sales of such stocks over a period of time and thereby realize a better average price for their produce. A futures market provides to the farmer at time of sowing an advance indication to the expected levels of prices of different commodities during the marketing period, thereby enabling him to undertake proper crop planning. Smaller farmers presently do not gain directly form the futures trading but their realization increases due to efficient and transparent price discovery. This has been evident in the past two years in many commodities.

In view of the above, it is submitted that futures trading in wheat and other essential items need not be banned.

1.17 Taking note of hardening of wheat prices in the market, the Committee had recommended that Government should ban forward/future trading in wheat so as to contain the prices of wheat in open market. The Committee had also urged that the essential items of mass consumption need not be included in the list for which forward/future trading be permitted. The Ministry in their Action Taken Notes have outlined the various steps taken by the Regulator – the Forward Market Commission and the Commodity Exchanges - MCX and NCDEX in the matter. Inspite of action by these agencies, the prices of wheat in future market have risen disproportionately. Sadly, the purpose for which the future/forward market was permitted to trade in foodgrains including wheat has not yielded the desired result, especially to small farmers. However, consequent upon the rise in future/forward price of wheat, the end retail prices have also risen. As a result of which, on one hand the farmers have not been able to reap the benefit of future trading and on the other hand, the consumer is made to pay high price, on account of speculation and other market manipulations. Reiterating their earlier recommendation, the Committee recommend that Government should reconsider their decision and ban the forward/future trading in wheat and other essential items of mass consumption.

E TARGETED PUBLIC DISTRIBUTION SYSTEM

Recommendation (Serial No. 7 Paragraph 2.73)

1.18 The Committee learnt from the Press that a large scale of diversion of PDS foodgrains in North Eastern States had been detected and the committee's examination revealed that 100% diversion of wheat meant for PDS had been diverted to open market in the State of Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. Taking a serious note of the fact that the very objective of PDS would be defeated if the foodgrains meant for PDS did not reach the targeted group and instead were diverted to open market, the Committee had recommended that the Ministry should evolve a foolproof mechanism in a time bound manner to check the diversion of foodgrains. The Committee would also await the response of the State Governments in this regard.

While noting that the management and operation of Public Distribution System in the country was the joint responsibility of Central and State Government concerned, the Committee had recommended that in the event of off-take being more than 60-65% there should be a joint special audit by the officials of FCI and State Government concerned. The Committee had also emphasized that diversion of subsidized foodgrains needed to be tackled with utmost seriousness and criminal liability be invoked, for such offence. The Committee desired to be apprised of the action taken by the Government in this regard.

1.19 The Ministry in their Action Taken Reply stated that the Government has taken a serious view on the reports of diversion of foodgrains in the States. The Government organized five Regional Conferences at five regions for strengthening TPDS in the region during last financial year. Besides discussing various issues, all State and UT Governments were advised to take all necessary steps to strengthen TPDS. It was also stressed that Vigilance Committees be constituted at all levels for monitoring of TPDS and functioning of fair price shops. A special meeting of the Ministers / Secretaries of the States wherefrom the diversions have been reported was held under the Chairmanship of the Hon'ble Minister of Agriculture, Consumer Affairs, Food & Public Distribution and all the States/UTs have been directed strongly to curb the instances of diversion and to take all steps for strengthening of the TPDS. Consequent upon the Meeting, an action plan has been prepared on curbing leakage/diversion of foodgrains under TPDS as recommended in the above Conferences. A concurrent evaluation study covering six States has also been given to NCAER to evaluate the performance of TPDS.

Regarding the issue of joint audit by the officers of the FCI and the State Governments for States where off-take is more than 60-65%, it may be stated that it is not desirable to conduct such joint special audits. Foodgrains are allocated @ 35 Kg per ration card and the endeavour of the Department has been to ensure that State Governments lift all the allocation of foodgrain and distribute to the beneficiaries. Higher off-take of foodgrains does not necessarily mean it is being diverted. To ensure correct distribution, the Department has given to NCAER a concurrent evaluation of the TPDS in six States.

Further, all the State Governments have been requested to furnish information quarterly in proforma on action taken under Clause 8 & 9 of the PDS (Control) Order, 2001 wherein the States are required to furnish information on the number of inspections made, number of raids conducted, number of persons arrested/prosecuted/convicted, number of licenses suspended/cancelled, show-cause notice issued, value of goods seized. Information thus received would be compiled and used for monitoring purpose.

1.20 The Committee note that the diversion/leakage of foodgrains and strengthening of TPDS was discussed at various meetings and conferences held from time to time. In these meetings, the States/UTs were directed to curb the instances of diversion and take adequate steps for strengthening of TPDS. Subsequently, an action plan prepared for curbing leakage/diversion of foodgrains under TPDS. NCAER was also directed to conduct concurrent evaluation study covering six States where major diversion/leakage of foodgrains is taking place. The Committee are not at all satisfied with the action taken by the Government in the matter. It is worthwhile to mention that earlier also studies were conducted by ORG Marg and PEO of Planning Commission. They have studies the subject in greater detail and came out with recommendations, which the State Governments were required to implement in letter and spirit. However, the State Governments have not been able to take result-oriented steps. As a result of which, the leakage/diversion of foodgrains is going on unabated. It is in this context, the Committee recommend that the concept of "food coupons" as vogue in Kerala be introduced in the other parts of country so as to eliminate the various ills affecting the proper implementation of TPDS. At the same time, the Committee would also like to be apprised of evaluation study conducted by NCAER and the follow up action taken thereon.

The Committee note that the State Governments have been asked to furnish information quarterly under Clause 8 and 9 under PDS (Control) Order, 2001. The Committee would like to be apprised of the information received from the concerned State Governments in this regard.

F HILL TRANSPORT SUBSIDY (HTS) SCHEME

Recommendation (Serial No. 9 Paragraph 2.75)

1.21 The Committee noted that Hill Transport Subsidy Schemes was introduced for predominantly hilly States for opening of godowns by FCI at Principal Distribution Centres for reimbursement of the transportation cost upto these centres. The Committee had been informed that the Government of India had requested the Central Vigilance Commission on 27.5.2005 to conduct an enquiry into the alleged irregularities in implementation of the Hill Transport Subsidy Scheme in Arunachal Pradesh. They had also informed that the matter had been referred to the CBI for investigation. No report has been submitted by CBI so far. The Committee desired that the enquiry by CBI be expedited and they be apprised of the findings of CBI and the action taken by the Government on the recommendations of CBI.

1.22 The Ministry in their Action Taken Reply stated that CBI, vide their letter dated 14.6.2006 has informed that they have not yet initiated any enquiry into the matter due to the pendency of PIL, on the subject, in the Guwahati High Court.

1.23 The Committee express their displeasure at the way the matter regarding enquiry into alleged irregularities in implementation of HTS scheme in Arunachal Pradesh is being dealt with by the Government. The Committee believe that the Government is not at all serious in the matter as any enquiry is yet to be initiated by CBI who have been entrusted the job of investigation in the irregularities. The Committee, therefore, reiterate their earlier recommendation and desire that enquiry by CBI be taken up expeditiously in the matter, if need be by getting the stay vacated at the earliest. The Committee would like to be apprised of the findings of CBI and action taken thereon by the Government of the recommendations of CBI.

G DIVERSION OF FOOD GRAINS

Recommendation (Serial No. 11 Paragraph 2.77)

1.24 The Committee noted with concern that over 36 percent of the budgetary subsidy was siphoned off by the supply chain and another 21 percent reaches the APL households. The Committee also noted that Government had brought to the notice of State Governments the recommendations made by Operation Research Group (ORG) and Programme Evaluation Organization (PEO) of Planning Commission on the issue of diversion of foodgrains and removal of ghost ration cards as foodgrains against them were being distributed from Fair Price Shops (FPSs). It had also been suggested that doorstep delivery of foodgrains may be taken into consideration. The Committee had, therefore, strongly recommended that the suggestion of removal of ghost ration cards should be got implemented strictly so as to stop the leakage/diversions of foodgrains.

1.25 The Ministry in their Action Taken Reply stated that paragraph 2(8) of the Annexure to the PDS (Control) Order, 2001 states that elimination of bogus ration cards as well as bogus units in the ration cards shall be a continuous exercise by the State Governments to check diversion of essential commodities. The issue was discussed in the recently held Regional Conferences and the participating States were requested to take immediate necessary action to overcome the problem. Consequent upon the Regional Conferences, States like Andhra Pradesh and Karnataka have taken up review in right earnest and set right lot of inclusion and exclusion errors with a view to identify the correct beneficiaries.

The issue of door step delivery was also discussed in the said meetings. It was decided that the door step delivery mechanism should be encouraged and all the States/UTs were requested to take immediate action for the introduction of door step delivery. Governments of Himachal Pradesh and Andhra Pradesh are already taking door step delivery quota at FPS level.

1.26 The Committee are satisfied to note that the advice of the Committee for removal of ghost (bogus) ration cards and door step delivery of foodgrains has been taken up with the States/UTs. It has also been brought to the notice of the Committee that process of removal of ghost ration cards has been initiated by Andhra Pradesh and Karnataka. The Committee has also been informed that doorstep delivery quota at FPS level is already being undertaken by Himachal Pradesh and Andhra Pradesh. The Committee, however, further desire that other States may be persuaded to strictly implement the above measures (i.e. removal of ghost ration cards and doorstep delivery of foodgrains) to check the leakage/diversion of foodgrains in a time bound manner. The Committee would like to be apprised of the action taken in the matter.

H Out standing dues against various Central Ministries/State Governments and their agencies.

Recommendation (Serial No. 13 Paragraph 3.21)

1.27 The Committee were deeply concerned to note that outstanding dues of Food Corporation of India (FCI) against various Central Ministries were constantly on rise. The Committee were of the view that since interest accrued on account of delayed payment was loaded on Food Subsidy Bill of the Government, it was imperative that Government found ways and means to liquidate their outstanding. The Committee, therefore, recommended that FCI should follow the principle of "cash and carry" while allocating foodgrains to Central Ministries/State Governments etc. for running/operating Welfare Schemes including Public Distribution System and also liquidate the outstandings fully at the earliest.

1.28 The Ministry in their Action Taken Reply stated that the matter is being continuously pursued at the highest level with the concerned Ministries/ Departments/ State agencies and also with the Ministry of Finance for expeditious liquidation of the outstanding dues of the FCI. In pursuance of the decision taken in the Cabinet Meeting held on 16.03.2006, the Ministry of Finance, Department of Economic Affairs have been requested to issue Special Securities to the Food Corporation of India (FCI) to the extent of Rs.16,200 crore for liquidation of the outstanding dues of the Ministry of Rural Development for foodgrains supplied by FCI for SGRY schemes etc. till 30.04.2005. For settlement of the remaining dues and future claims of the FCI, the matter has separately been taken up with the Ministry of Rural Development at the level of the Minister.

1.29 The Committee in their earlier report did not approve of the partial settlement of outstanding dues of FCI and recommended to find ways and means to liquidate their outstanding. The Ministry in their action taken notes have reiterated the issue of special securities to FCI to the extent of Rs. 16,200 crore only. The Committee reiterate their earlier recommendation to liquidate the outstanding in full instead of a partial liquidation. The Committee, however, further desire that the FCI should take stringent measures against various Ministries/Departments for liquidation of the outstanding dues. The Committee also reiterate its earlier recommendation and desire that FCI should henceforth follow the principle of "cash and carry" while allocating foodgrains to Central Ministries/State Governments etc. for running/operating Welfare Schemes including Public Distribution System.

I PROXY LABOUR IN FCI

Recommendation (Serial No.17 Paragraph 3.25)

1.30 Taking note of partial implementation of the suggestion of the Committee to curb proxy labour, the Committee in their 9th Report had recommended that all their four suggestions to regulate the Attendance system in FCI should be implemented in letter and spirit uniformly across all the Regions/States and not selectively. The Committee were at loss to understand as to why the Government had not been able to implement their suggestions to curb proxy labour through out the country, when it could be done in some of the States. The Committee while reiterating their earlier recommendation had desired that their suggestions to regulate the Attendance system in FCI be implemented throughout the country without any reservation. The Committee desired to be apprised of the action taken in this regard.

1.31 The Ministry in their Action Taken Reply stated that To implement the Recommendations of the Standing Committee on curbing the proxy labour following steps have been taken by the FCI :-

(i) The process of implementing Attendance by putting signature or thumb impression has already been implemented in the FCI Depots located in the regions of Karnataka, Kerala, Tamil Nadu, Haryana, Rajasthan, Maharashtra (Mechanical Devices installed in all 7 depots), Himachal Pradesh, Punjab, Uttranchal, Gujarat, Nagaland and Manipur (N&M). This step is implemented partially in Uttar Pradesh (in 24 out of 32 Depots), West Bengal (in 11 out of 23 depots), Madhya Pradesh (in 1 Depot), Chattisgarh (in 2 Districts) and Assam. In Assam, J&K and Bihar the labour unions/workers are opposing the implementation of this system. Efforts are being made to persuade the unions and the workers to cooperate in this regard.

(ii) Mechanical Entry Device has been installed in Delhi, Rajasthan and Maharashtra. This recommendation has been implemented partially in Punjab, Uttar Pradesh, Uttranchal, Gujarat, A.P., Karnataka, West Bengal, Orissa and Bihar. Apart from this, tenders are called for installing Mechanical Entry Devices in Haryana, J&K, Madhya Pradesh, Kerala, Chhatisgarh, Tamil Nadu, Jharkhand. However, administrative/law and order problems are being faced at Assam, Nagaland & Manipur and Meghalaya.

(iii) Further, payment of wages to all workers through cheque as per the provisions of Income Tax Act has been introduced in all the regions except J&K. In J&K Region workers are not accepting cheque on the plea that they are illiterate and cannot operate bank accounts. Sincere efforts are being to provide facilities to these workers.

(iv) A system regarding signing of daily work output slip by each labour at the end of day and countersigned by the Mondal/Sardar/Shed Incharge has been introduced in Kerala, Rajasthan, Gujarat, J&K, Haryana, Karnataka, Meghalaya and Uttranchal Regions. This system has also been implemented partially in Madhya Pradesh, Tamil Nadu and West Bengal Regions.

(a) In Punjab, Himachal Pradesh, AP, Maharashtra, Jharkhand, Bihar, Assam, Nagaland and Manipur work slips are being signed by Sardar & Mondal only.

(b) This system is not yet implemented in Uttar Pradesh, Chhatisgarh, Orissa and Delhi regions due to labour resistance.

1.32 The Committee find that the suggestions of the Committee to curb 'proxy labour' in the FCI has not been implemented in letter and spirit, uniformly across all the Regions/States. The Labour Unions/workers have been blamed for the inability to implement attendance system of putting signature or thumb impression in the FCI Depot. Administrative/Law and Order problems have been cited as reasons for not putting in place the Mechanical Entry Devices in some of the States. Further, illiteracy among the workers have been stated to be reasons for not implementing the recommendation of payment of wages to workers by cheque. Further, countersign by Mondal/Sardar/Depot Incharge has not been put in place of a number of States due to labour resistance. It is beyond the comprehension of the Committee as to why the Government has not been able to implement the suggestions of the Committee in the whole country, when it could be done in some States/Regions. The Committee view it very seriously and again reiterate its earlier recommendation and desire that for abolishing system of proxy labour in FCI, the suggestions made by the Committee in its earlier Report be observed and implemented without any reservation.

J ESTABLISHMENT COST OF CENTRAL WAREHOUSING CORPORATION (CWC)

Recommendation (Serial No. 20 Paragraph 4.31)

1.33 The Committee noted that the profit of the Corporation came down to 22.43 crore in 2003-04 as compared to 43.29 crore during 2002-03. The reasons for decline in profit were stated to be heavy expansion and introduction of new accounting standards. The Committee were concerned over the state of affairs in the Corporation and had desired that they should take measures to reduce the establishment costs and to enhance its profits. The Committee desired to be apprised of the steps taken in the matter.

1.34 The Ministry in their Action Taken Reply stated that in order to reduce the establishment cost and to enhance its profit, the Corporation had re-introduced SVRS 2005 for all Groups in Engineering Cadre and only for B, C and D in other cadres. The request of 283 employees have been accepted for SVRS. Further, the Corporation has merged RO, Kochi with RO, Chennai and also reduced its Construction Cells to six. These measures would reduce the establishment cost and enhance its profit. However, the actual impact would be known in due course of time.

The percentage of establishment cost to total cost has shown a decline as compared to the previous years as given below:

Year	% of Establishment Cost
1999-2000	65.39
2000-2001	61.71
2001-2002	60.35
2002-2003	56.79
2003-2004	59.18
2004-2005	56.84

The profitability of the Corporation has also shown an upward trend and increased from Rs.22.43 crores in the year 2003-04 to Rs.41.30 crores in the year 2004-05 and expected to achieve Rs.63.72 crores in the year 2005-06.

1.35 The Committee note that the establishment cost of Central Warehousing Corporation which was in the vicinity of 65% has come down to 56% over the years. During the year 2004-05, the percentage of establishment cost was 59.18%, which has now declined to 56.84% in the year 2004-05. The Committee note that Government have taken certain steps like merging of RO, Kochi with RO, Chennai and restructuring of its construction cells. The Committee are of the view that no organisation can sustain itself, if the establishment cost is as high as 65% to 56%. The Committee is further of the view that when FCI can sustain itself by expanding 3 to 4% on their establishment, there is no reason as to why this cannot happen in CWC since the business profiles of these two organisations are somewhat similar. The Committee have taken note of measures for reducing establishment cost of CWC but feel that these are still not sufficient to yield the desired results. The Committee, therefore, reiterate their earlier observation and recommend that Government should find ways and means, including undertaking an exercise by leading management institutions like ASCI, Hyderabad, for restructuring and reorienting the policy, plan and programme of CWC. The Committee hope and trust that the scientific study, should also suggest measures to contain the establishment cost to a barest minimum level of 3 to 4% of its total costs.

K CANE PRICE ARREARS

Recommendation (Serial No. 22 Para no. 5.35)

1.36 Expressing concern over the fact that more than Rs.1050 crore of cane arrears pertaining to 2005-06 sugar season are still outstanding, the Committee were pained to note that although the payment of sugarcane is required to be made within 14 days of supply of cane, it is seldom done. The Committee were concerned to note that cane arrears pertaining to sugar season 2003-04 and earlier are still outstanding and yet action has not been taken against sugar mills to recover the cane price arrears alongwith interest @ 15% as per the provisions of Sugarcane (Control) Order,1966. The Committee would, therefore, like to be apprised of the details of sugar mills which are still to liquidate their outstanding arrears against the farmers and the reasons for not paying the outstanding arrears alongwith interest. The Committee while emphasizing that there was a need to protect and promote the interest of farmers in such a manner that they continue to cultivate sugarcane, without any hindrance, for which, the farmers need to be paid remunerative price immediately on the delivery of his agriculture produce. The outstandings by sugar entrepreneurs act as an disincentive to grow sugarcane. In order to preserve the interest of farmers in cultivation of sugarcane, the Committee had recommended that all the incentives/aid/assistance given to a sugar mill should be contingent upon liquidation of cane arrears by the mill. In the event of default on this account, such aid/assistance should be held in abeyance.

1.37 The Ministry is their Action Taken reply stated that a statement indicating the details of sugar season-wise, State-wise and sugar mill-wise position of cane price arrears along with the reasons for pending cane price arrears is enclosed.

The recommendation of the Standing Committee is that all the incentives/ aid/ assistance given to a sugar mill should be contingent upon liquidation of cane price arrears by the mill and that in the event of default on this account, such aid/assistance should be kept in abeyance is highly appreciable and the Central Government, in principle, agree with the views of the Committee. However, there are practical difficulties in implementing this recommendation. Usually, the cane price arrears build up in the years of low sugar prices, e.g. in 2002-03 sugar season when the open market prices of non-levy sugar prices declined almost to the level of levy sugar prices, the Government created a buffer stock of 20 lakh tonnes to mitigate the difficulties of sugar factories and help them to pay cane price arrears to sugarcane growers. As per the Sugar Development Fund Rules, 1983, the buffer stock subsidy is to be exclusively utilized for payment of cane price including cane price arrears. Had the proposed condition imposed on sugar factories, then it would not have been possible for the Government to pay the buffer subsidy to sugar mills and sugarcane growers would have suffered. Similarly, the assistance from Sugar Development Fund is extended to sugar factories for modernization, expansion of capacity, cane development, setting up of cogeneration and ethanol manufacturing facilities with the purpose of improving their financial viability so that they can give remunerative cane price to the sugarcane growers. In view of such practical difficulties, the implementation of this recommendation of the Committee may lead to unexpected and undesirable consequences.

As on 31st May, 2006, the percentage of cane arrears was only 2.6% as against 25.8% on 31st May, 2003 and 14.6% on 31st May, 2004.

1.38 The Committee have taken note of reasons for huge cane arrears of earlier sugar seasons. Some of the reasons assigned for outstandings includes drought or critical financial conditions, matter being subjudice, closure of sugar mills permanently and poor liquidity. The Committee are of the firm view that all these reasons act as a disincentive for a sugarcane grower to retain his interest in the cultivation of sugarcane. The Committee feel that perhaps concerted efforts were not made by the sugar entrepreneurs in the matter and the arrears allowed to be piled up year after year. Sadly, none of the State Government has invoked the provision of Sugarcane (Control) Order, 1996 under which the recovery of cane price arrears alongwith interest @ 15% is levied in the event of delay of payment beyond 14 days. Reiterating their earlier observation, the Committee recommend that all the incentive/aid/assistance given to a sugar mill should be contingent upon liquidation of cane arrears. In the event of default on this account such aid/assistance should be held in abeyance and if need be used for direct liquidation of farmers' arrears who supplied sugarcane to the mills.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Serial No. 1 Para no. 1.13)

The Committee are deeply concerned to note uneven utilization of budgetary allocation under Plan & Non-Plan budget during 2005-06. For instance the actual plan expenditure for the first quarter was 1.43% which rose to 37.80% in the last quarter. The Committee are also unhappy to note the decline in the percentage utilization of plan funds during 2005-06 as compared to 2004-05. It was 95.15% during 2004-05 which declined to 49.20% in 2005-06. The reasons for uneven spread were stated to be the late approval of the Village Bank Scheme. The Committee in their earlier reports had been impressing upon the need to spread the expenditure evenly during the year but it seems that the recommendations of the Committee have not been taken seriously. The Committee are also unhappy to note that even the financial rules of the Government which clearly stipulate spreading of expenditure evenly over the four quarters and bars the rushing of utilization in the last quarter, have also been ignored. The Committee, also, strongly recommend that the Government should ensure spreading of expenditure evenly over all the four quarters of the year.

Reply of the Government

At the outset, the Department would like to assure the Committee that the observations conveyed on the subject of budgetary utilisation have been duly noted. The Committee has rightly observed in para 1.19 that the plan funds utilisation during the Ist quarter of 2005-06 was 1.43% only, with reference to RE. The provision of Plan Funds for the year 2005-06 was Rs. 93.87 crore at BE stage and Rs. 60.00 crore at RE stage. The total expenditure incurred upto 31/3/2006 under plan funds is Rs. 58.03 crore against RE of Rs. 60.00 crore i.e. utilisation of 96.72%. Thus, the plan funds' utilisation in 2005-06 is higher by 1.57% as compared to the plan funds utilisation during 2004-05.

It is, further submitted that the reasons for uneven spread of Plan expenditure, in the last quarter of 2005-06 were mainly due to the fact that the main scheme "Village Grain Bank Scheme " having a budgetary allocation of Rs. 20.20 crore (inclusive of funds for NE Region) in RE, was revised and was finally approved by Govt. in February, 2006. Also, the Re-appropriation of Rs. 11.88 crore under the scheme " Construction of Godowns by FCI etc." required the approval of Ministry of Finance and was finally obtained on 2.1.2006. The quarterly utilisation of non-plan funds in 2005-06 was, largely, uniform. The overall utilisation of non-plan funds upto 31st March, 2006 was Rs. 23467.33 crore against RE of Rs. 23719.53 crore, i.e. 98.94%.

It is submitted that though the quarterly utilization of Plan funds was not uniform on account of the above explained reasons, the Department has been engaged in close monitoring of the expenditure at all stages, in keeping with the recommendations of the Committee and financial instructions/guidelines of the Government, for achieving optimal utilization of budgetary provisions and to ensure that expenditure is spread evenly.

The modified Cash Management System has been introduced by Ministry of Finance w.e.f.1/10/2005 and the Department of Food & Public Distribution is among the Departments where the modified cash management system has been introduced which, inter-alia, provides for Monthly Expenditure Plan. These instructions were issued to all concerned (copy annexed). Further, a system for working out Monthly Expenditure Plan for the financial year 2006-07 has been introduced w.e.f. April, 2006. Monthly Expenditure Plan would form the basis of Quarterly Expenditure Allocation, beyond which the Ministry would not issue cheques without prior consent of Ministry of Finance.

Instructions have been issued to all concerned to take note of the recommendations of the Committee and to ensure that the expenditure is incurred in accordance with the Monthly Expenditure Plan.

[Ministry of Consumer Affairs, Food and Public Distribution

(Department of Food and Public Distribution)

F.No. I-34/5/2004-05 Budget dated 16.6.2006]

Comments of the Committee

(Please see para 1.8 of Chapter I of the Report)

Recommendation (Serial no. 4 para no. 2.70)

The Committee note that reforms in agriculture sector which inter-alia, envisages removal of all controls on foodgrains viz licensing, stock limits and restriction on inter-state movement has not yielded the desired results. This policy of Government further contemplates that any dealer can freely buy stock, sell, transport, distribute, dispose, acquire, use or consume any quantity of wheat. The Committee find that Multinational Companies and private traders have entered into the market in a big way and procured wheat from the market in excess of their requirement, leading to profiteering, hoarding and blackmarketing of wheat. The Committee are of the view that the liberal policy of the Government of free trade and movement of agriculture produce been negated and undue advantages taken by private traders and Multinational Companies. The Committee, therefore, recommend that Government should examine whether any reasonable quantitative restriction on such Multinational Companies and private traders can be placed. It is pertinent to mention that the State of Uttar Pradesh have already imposed quantitative limits on procurement of wheat by multinational companies during the current year. The Committee feel when the State Government of UP can impose such reasonable restrictions on private traders to procure wheat, in the interest of consumers, the Central Government and other State Governments can also put similar ceiling on them. The Committee would like to be apprised of the action taken by the Government in this regard.

Reply of the Government

After the promulgation of the Removal of (licensing, requirements, stock limits and movement restrictions) on Specified Foodstuffs Order, 2002, the Central Government ahs maintained a cautious watch on the availability and prices of foodgrains and suitable remedial measures have been taken whenever considered necessary.

To remove the availability of wheat so as to met the requirements of TPDS/OWS and buffer norms, a decision to import 3.5 million tons of wheat has been taken. Further, to improve the availability in the open market and keep in check the prices of wheat, decision has also been taken to permit import of wheat under OGL at %% duty.

In terms of the order issued in 2002, the State Governments still retain powers to issue control orders to regulate the availability and prices of foodgrains through imposition of licensing, stock limits etc. under the Essential Commodities Act, 1955. States/UTs are also implementing the prevention of Black Marketing Act, 1980 to check unethical trade practices like hoarding, black marketing etc.

The Government of Uttar Pradesh has not imposed any quantitative restrictions on procurement of wheat by Multinational Companies from purchasing wheat in the State. The State Government has reported that during the Rabi Marketing Season 2006-07, the ITC was authorised to purchase 2.00 lakh MT of wheat only at the MSP or higher rate under the Bulk Purchase Scheme on the condition that wheat so purchased would be utilised in their processing units and not to be exported. The ceiling of wheat purchase was subsequently raised to 5.00 lakh MT.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 2 (LS) 1/2005-PY.III (Pt.)
dated 28.8.2006]

Recommendation (Serial No. 6 Para no. 2.72)

The Committee find that a large number of Multinational Companies are purchasing huge quantity of wheat over and above the price of MSP fixed by the Government. It is pertinent to mention that wheat is already placed under OGL but its import attracts an import duty @ 50%. The Committee apprehends that the wheat procured by Multinational Companies and private traders is offloaded to roller flourmills and other manufacturers of wheat and wheat products at a much higher price. The Committee is not against the procurement of wheat by Multinational Companies and private traders per se. However, the Committee would like to caution the Government that the activities of multinational companies and private traders need to be monitored. This action of the Government may act as a deterrent to these companies not to jack up the prices of wheat artificially. The Committee also recommend that Government should permit the manufacturers of Atta, Maida, suji and other wheat products at international prices at zero duty basis and on the same terms and conditions of import as applicable to Government of India. The Committee find that Government have already received representations in this regard. The Committee would like to emphasize that Government should permit the import to such manufacturers so that the prices of wheat in the market is not jacked up artificially.

Reply of the Government

The Government has already allowed import of wheat by private traders at a reduced duty of 5%.

Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No.156 (4)/2006-PY-I, dated 31st July, 2006

Recommendation (Serial No. 7 Para no. 2.73)

The Committee have learnt from the Press that a large scale of diversion of PDS foodgrains in North Eastern States has been detected. According to the Government, a recent study conducted by Operation Research Group (ORG) on evaluation of Targeted Public Distribution System (TPDS) in the country has revealed diversion of foodgrains in most of the States. The committee's examination also reveals that 100% diversion of wheat meant for PDS has been diverted to open market in the State of Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. The Ministry has asked all the State Governments to prepare a time bound action plan to stop such diversion within six months and submit a report for being placed before the Parliament. The Ministry has also circulated the reports submitted by ORG Marg and PEO amongst all States for seeking their comments to check diversion of foodgrains. The Committee takes serious view of the fact that the very objective of PDS is defeated if the foodgrains meant for PDS do not reach the targeted group and instead are diverted to open market and recommend that the Ministry should evolve a foolproof mechanism in a time bound manner to check the diversion of foodgrains. The Committee would also await the response of the State Governments in this regard.

The Committee note that the management and operation of Public Distribution System in the country is the joint responsibility of Central and State Government concerned. Whereas procurement and allocation of foodgrains is the responsibility of Central Government, the State and their agencies are responsible for the distribution of foodgrains in one's State. In order to prevent diversion of foodgrains, the Committee recommend that in the event of off-take being more than 60-65% there should be a joint special audit by the officials of FCI and State Government concerned. The Committee would like to emphasise that diversion of subsidized foodgrains need to be tackled with utmost seriousness and criminal liability be invoked, for such offence. The Committee would like to be apprised of the action taken by the Government in this regard.

Reply of the Government

The Government has taken a serious view on the reports of diversion of foodgrains in the States. The Government organized five Regional Conferences at five regions for strengthening TPDS in the region during last financial year. Besides discussing various issues, all State and UT Governments were advised to take all necessary steps to strengthen TPDS. It was also stressed that Vigilance Committees be constituted at all levels for monitoring of TPDS and functioning of fair price shops. A special meeting of the Ministers / Secretaries of the States wherefrom the diversions have been reported was held under the Chairmanship of the Hon'ble Minister of Agriculture, Consumer Affairs, Food & Public Distribution and all the States/UTs have been directed strongly to curb the instances of diversion and to take all steps for strengthening of the TPDS. Consequent upon the Meeting, an action plan has been prepared on curbing leakage/diversion of foodgrains under TPDS as recommended in the above Conferences. A concurrent evaluation study covering six States has also been given to NCAER to evaluate the performance of TPDS.

Regarding the issue of joint audit by the officers of the FCI and the State Governments for States where off-take is more than 60-65%, it may be stated that it is not desirable to conduct such joint special audits. Foodgrains are allocated @ 35 Kg per ration card and the endeavour of the Department has been to ensure that State Governments lift all the allocation of foodgrain and distribute to the beneficiaries. Higher off-take of foodgrains does not necessarily mean it is being diverted. To ensure correct distribution, the Department has given to NCAER a concurrent evaluation of the TPDS in six States.

Further, all the State Governments have been requested to furnish information quarterly in proforma on action taken under Clause 8 & 9 of the PDS (Control) Order, 2001 wherein the States are required to furnish information on the number of inspections made, number of raids conducted, number of persons arrested/prosecuted/convicted, number of licenses suspended/cancelled, show-cause notice issued, value of goods seized. Information thus received would be compiled and used for monitoring purpose.

Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)

F.No. 18/1/2006-PD-II dated 12th July 2006]

Comments of the Committee

(please see para no. 1.20 of Chapter I of the Report)

Recommendation (Serial No. 8 Para no. 2.74)

The Committee note that the Ministry has appointed Area Officers for different States / UTs for regular and effective monitoring of the PDS. The Area Officers are required to visit their allocated States at least once in quarter and conduct review of PDS. The Committee's examination reveals that during 2005-06, no visits were made by Area Officers in States / UTs such as Andaman Nicobar Islands, Delhi, Goa, Lakshadeep, Manipur, Nagaland, Orissa, Tripura, Uttaranchal and U.P. The Area Officers did not visit even once in three years in the States of U.P., Tripura and Goa. Accordingly to the Ministry, Area Officers could not visit all the States due to exigencies of work. The Committee are dismayed that no visits were made during the last three years in some States. The Committee view it as an indication of lackadaisical approach of the Ministry and the Area Officers so appointed. The Committee had in their sixth Report (14th Lok Sabha) recommended that the services of the Officers of Subordinate Offices and the Officers in the Department be pressed into service to review and monitor the working of PDS in a given State. But it seems the recommendation of the Committee has not been implemented by the Ministry. The Committee express their displeasure and reiterate their earlier recommendation. They would like to be apprised of the action taken in the matter

Reply of the Government

The Area Officer Scheme was launched on 21st February, 2000 in Department of Food and Public Distribution with the main objective of providing mechanism to coordinate with the States/UTs for regular and effective review and monitoring of PDS in the States/Uts. However, the Scheme was not meant to take over the entire monitoring of TPDS. The Scheme was not found very effective and it was decided to keep it in abeyance in July, 2004. Subsequently, the Parliament Standing Committee viewed that enforcement machinery have to be stepped up, criminal liability clause under PDS (Control) order has to be invoked and Area Officer visit may be made compulsory for effective implementation of PDS. Acting on the suggestion of the Committee, the

Department reviewed the Scheme and decided to make another effort through Area Officers to improve the implementation of the TPDS.

The Committee's recommendation for inclusion of Officers of sub-ordinate offices has been implemented and allotment of State(s) to CD (Sugar) as Area Officer is under consideration. All officers at the level of Director/Deputy Secretary in the Department of Food have already been designated as Area Officers with strict instructions to visit their allotted States once in a quarter.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 18/1/2006-PD-II dated 12th July, 2006]

Recommendation (Serial No. 11 Para no. 2.77)

The Committee note with concern that over 36 percent of the budgetary subsidy is siphoned off by the supply chain and another 21 percent reaches the APL households. The Committee also note that Government has brought to the notice of State Governments the recommendations made by Operation Research Group (ORG) and Programme Evaluation Organization (PEO) of Planning Commission on the issue of diversion of foodgrains and removal of ghost ration cards as foodgrains against them are being distributed from Fair Price Shops (FPSs). It has also been suggested that doorstep delivery of foodgrains may be taken into consideration. The Committee, therefore, strongly recommend that the suggestion of removal of ghost ration cards should be got implemented strictly so as to stop the leakage/diversions of foodgrains.

Reply of the Government

Paragraph 2(8) of the Annexure to the PDS (Control) Order, 2001 states that elimination of bogus ration cards as well as bogus units in the ration cards shall be a continuous exercise by the State Governments to check diversion of essential commodities. The issue was discussed in the recently held Regional Conferences and the participating States were requested to take immediate necessary action to overcome the problem. Consequent upon the Regional Conferences, States like Andhra Pradesh and Karnataka have taken up review in right earnest and set right lot of inclusion and exclusion errors with a view to identify the correct beneficiaries.

The issue of door step delivery was also discussed in the said meetings. It was decided that the door step delivery mechanism should be encouraged and all the States/UTs were requested to take immediate action for the introduction of door step delivery. Governments of Himachal Pradesh and Andhra Pradesh are already taking door step delivery quota at FPS level.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 18/1/2006-PD-II dated 12th July, 2006]

Comments of the Committee :

(please see para no. 1.26 of Chapter I of the Report)

Recommendation (Serial No. 12 Para no. 2.78)

The Committee note that fifty eight percent of the subsidized foodgrains issued from the Central Pool do not reach the BPL families because of identification errors, non-transparent operation and un-ethical practices in the implementation of the TPDS. Taking in to account all the inefficiencies in the PDS, Government of India spent Rs. 3.65 through budgetary food subsidy to transfer Rs. 1 to the poor, thus the objective of TPDS of benefiting the poor households and reducing the quantum of budgetary food subsidy have not been realized meaningfully so far. Further the cost of handling of foodgrains by public agencies is also very high. This does indicate that the strategy to move from a universal PDS to TPDS was inappropriate. The Committee is therefore, of the view that successful implementation of targeted welfare programme requires major systemic reforms. It is, therefore, recommended that Government should find ways and means of reducing the cost of transferring grains through PDS. Because of the very high cost in public transfer, the budgetary subsidy of Rs.3061 crore in 2003-04 is worth only Rs.1990 crore to the BPL families. The Committee feels that the diversion of the foodgrains from Fair Price Shops (FPSs) to the open markets is a very serious matter which needs to be looked into urgently. The Committee note that one of the major reasons for diversion of foodgrains has been due to very less margin for the fair price shops owners whereby a dealer is tempted to indulge in malpractice. The committee, therefore, desire that matter be taken up with State Governments to increase the margin for FPSs owners so as to curb malpractice like adulteration, under measurement and diversion of foodgrains meant for PDS to open market. The Committee, desire that they be apprised of the action taken by the Government in this regard.

Reply of the Government

The PEO Report of Planning Commission has made the observation as pointed out by the Committee. The issue was discussed in recently held Five Regional Conferences and also in the Food Ministers/Food Secretaries Conference held on 29.03.2006 under the Chairmanship of the Hon'ble MOCAF&PD. The participating States and other agencies were requested to take necessary steps to overcome the problem.

The Participating States/UTs were also requested to take necessary action to increase the number of commodities for sale through the FPSs, apart from the PDS items to make the Fair Price Shops(FPSs) more viable.

The scheme of Decentralized Procurement of foodgrains was also introduced by the Government in 1997-98 with a view to effecting savings in the form of reduction in the outgo of food subsidy, enhancing the efficiency of procurement and PDS and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers. Under the decentralized procurement scheme, the State Government itself undertakes direct purchase of paddy and wheat on behalf of Government of India for contribution in the Central Pool. The quantity of foodgrains procured by the State Government under DCP is utilized against the allocation made to them under TPDS and other welfare schemes. If stocks of foodgrains procured by a State falls short of the allocation, the Central Government, through FCI meet the deficit. Similarly the excess stock of foodgrains purchased by the State Government are handed to the FCI in the Central Pool account. Till date 11 States viz. West Bengal, Uttar Pradesh, Madhya Pradesh, Chattisgarh, Uttaranchal, Andaman and Nicobar Islands, Orissa, Tamil Nadu, Gujarat, Karnatake and Kerala have adopted this scheme.

The issue of increase of margins for FPS owners to curb mal practices like adulteration, under measurement, diversion of foodgrains meant for PDS into open market has been examined and it was decided to do away with any capping of the retail price of foodgrains. The State Governments/UTs fix the commission and the transportation cost etc. keeping in view the local conditions. It is also pertinent to mention here that increase in the margins of FPS owners may lead to price rise and may not be desirable.

The issue was also discussed in the recently held Five Regional Conferences and also the Food ministers/Food Secretaries Conference held on 29.03.2006 under the Chairmanship of MOCAF&PD and requested the participating States to take necessary action on the above line.

Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 18/1/2006-PD-II dated 12th July, 2006

Recommendation (Serial No.13 Para no 3.21)

The Committee are deeply concerned to note that outstanding dues of Food Corporation of India (FCI) against various Central Ministries are constantly on rise. FCI has total Rs.25,656.35 crore as outstanding dues against various Central Ministries as on 28.02.2006. The Committee note that Government have approved the issue of Special Securities to an extent of Rs.16,200 crore towards partial settlement of the dues. The Committee do not approve of partial settlement of dues. The Committee are of the view that since interest accrued on account of delayed payment is loaded on Food Subsidy Bill of the Government, it is imperative that Government should find ways and means to liquidate their outstanding. The Committee, therefore, recommend that FCI should follow the principle of "cash and carry" while allocating foodgrains to Central Ministries/State Governments etc. for running/operating Welfare Schemes including Public Distribution System and also liquidate the outstandings fully at the earliest.

Reply of the Government

The matter is being continuously pursued at the highest level with the concerned Ministries/ Departments/ State agencies and also with the Ministry of Finance for expeditious liquidation of the outstanding dues of the FCI. In pursuance of the decision taken in the Cabinet Meeting held on 16.03.2006, the Ministry of Finance, Department of Economic Affairs have been requested to issue Special Securities to the Food Corporation of India (FCI) to the extent of Rs.16,200 crore for liquidation of the outstanding dues of the Ministry of Rural Development for foodgrains supplied by FCI for SGRY schemes etc. till 30.04.2005. For settlement of the remaining dues and future claims of the FCI, the matter has separately been taken up with the Ministry of Rural Development at the level of the Minister.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 197(3)/2006-FC A/Cs
dated 29th June, 2006]

Comments of the Committee:

(please see para no. 1.29 of Chapter I of the Report)

Recommendation (Serial No. 15 Para no. 3.23)

The Committee note that there is adequate storage capacity held by FCI, CWC, and SWCs in all the major States in the country except the North Eastern States and Jammu and Kashmir. North Eastern States are the most disadvantaged States in terms of miniscule level of infrastructure, communication and rail/road network. The Committee are pained to note that physical and financial targets set during the financial years 2005-06 for the region, in respect of, food storage construction programme, were not achieved. Total percentage of achievement in respect of physical target set was nil. Inadequacy of storage capacity in North East States and Jammu and Kashmir poses a serious threat to running of efficient Public Distribution System. The Committee, therefore, strongly recommend that FCI should gear up their efforts in stepping up the construction of godowns in North Eastern Regions on a priority basis so that benefits of public distribution system percolate down to people living there.

Reply of the Government

Storage Construction Programme under Plan Scheme

During 2005-06, a capacity of 39,580 MT was targeted for completion. Against a target of 39,580 MT, a capacity of 22,510 MT was realized as per the details given below:-

Sl.No.	Name of Centre	Capacity realized
1.	Leh (J&K)	10,000 MT
2.	Badgaon (J&K)	1,250 MT
3.	Tumkur (Karnataka)	5,000 MT
4.	Salem (Tamilnadu)	3,340 MT

5.	Lunglei (Mizoram)	2,920 MT
Total		22,510 MT

There was an overall shortfall of 17,070 MT capacity which includes 7500 capacity in area other than NE and J&K (5000 MT at Tumkur/Karnataka and 2500 MT at Kelong/HP). However, reason for shortfall of capacity in NE and J&K region is as under:

<u>Badgaon/J&K/1250 MT and KUPWARA/J&K/5000 MT</u> : The work has been entrusted to SICOP – an undertaking of J&K Govt. on deposit work basis. The progress of work has suffered badly due to heavy snowfall and closer of roads. The works are targeted to be completed by October,2006.

<u>LAWNGTLEI/MIZORAM/3340 MT</u> : The work has been entrusted to CWC on deposit work basis. The progress of work has suffered due to difficult site conditions and slow progress of contractor of CWC. The work is targeted to be completed by June,2006.

Further, the work at the following centres in NE Region are in progress :-

Sl.No.	Name of Centres	Capacity
1.	Senchowa/Assam	1670 MT
2.	Chandarpur/Tripura	5000 MT
3.	Bualpui/Mizoram	5000 MT
4.	Chaulkhowa/Assam	4170 MT

Tender for Badarpurghat/Assam for a capacity of 5000 MT is being re-invited.

The above mentioned works are targeted to be completed during 2006-07.

CONSTRUCTION OF STORAGE GODOWNS BY THE STATE GOVERNMENTS OF NORTH EAST REGION AND JAMMU & KASHMIR

A decision has been taken in consultation with the Planning Commission to make changes in the existing Plan Scheme for construction of godowns by FCI. Earlier, under the scheme the funds were released to the FCI as equity, now as per the revised provisions, funds will also be released to the Central Warehousing Corporation and State Governments of North East Region and Jammu & Kashmir as grant in aid. The proposals have been received from the State Governments of North Eastern Region and Jammu & Kashmir which is at various stages of examinations in the FCI. The Department in consultation with FCI has finalized the following proposals for construction of godowns :-

Name of the State/Centre	**Proposed Capacity**	**Estimated Costs**
Lethpora/J&K	6160 MTs	Rs.3.41 crore
Champai/Mizoram	3000 MTs	Rs.1.74 crore
Serchip/Mizoram	3000 MTs	Rs.1.74 crore

[Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution
F. No.8-2/2006-FC-II dated 1st August, 2006]

Recommendation (Serial No 20 Para no. 4.31)

The Committee note that the profit of the Corporation came down to 22.43 crore in 2003-04 as compared to 43.29 crore during 2002-03. The reasons for decline in profit are stated to be heavy expansion and introduction of new accounting standards. According to the Corporation, they have diversified their investment for the development of infrastructure, and have set up railside warehouses at 22 locations and introduced a Special Voluntary Retirement Scheme for its employees to reduce establishment cost. The Committee are concerned over the state of affairs in the Corporation and desire that they should take measures to reduce the establishment cost and to enhance its profits. The Committee would like to be apprised of the steps taken in the matter.

Reply of the Government

In order to reduce the establishment cost and to enhance its profit, the Corporation had re-introduced SVRS 2005 for all Groups in Engineering Cadre and only for B, C and D in other cadres. The request of 283 employees have been accepted for SVRS. Further, the Corporation has merged RO, Kochi with RO, Chennai and also reduced its Construction Cells to six. These measures would reduce the establishment cost and enhance its profit. However, the actual impact would be known in due course of time.

The percentage of establishment cost to total cost has shown a decline as compared to the previous years as given below:

Year	% of Establishment Cost
1999-2001	65.39
2000-2001	61.71
2001-2002	60.35
2002-2003	56.79
2003-2004	59.18

2004-2006	56.84

The profitability of the Corporation has also shown an upward trend and increased from Rs.22.43 crores in the year 2003-04 to Rs.41.30 crores in the year 2004-05 and expected to achieve Rs.63.72 crores in the year 2005-06.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 1-2/2006-SG dated 22nd June, 2006]

Comments of the Committee:

(please see para no. 1.35 of Chapter I of the Report)

Recommendation (Serial No. 21 Para no. 5.34)

The Committee are deeply concerned to note the number of claims settled on account of reimbursement of internal transport charges is mere 19 during 2005-06 as compared to 418 during 2003-04 and 392 during 2004-05. The Committee also note that 162 claims were settled against ocean freight and handling and marketing charges during 2005-06 whereas no claims on this account were settled during 2003-04 and 2004-05. Total expenditure on both these heads has been Rs. 18.50 crores only against Budget Estimates of Rs. 90.00 crores. The Committee view this seriously and recommend that efforts should be made to settle more claims so that huge amount blocked under these heads is not required to be surrendered. The Committee would also like be apprised of the reasons for not settling any claim against ocean freight and handling and marketing charges during 2003-04 and 2004-05. The Committee also recommend that the cumbersome procedural formalities which are gone into, for clearance/settlement of claims should be entrepreneur friendly and be made simple, so that the claims are settled expeditiously.

Reply of the Government

As mentioned in this para it is submitted that 19 claims on account of 're-imbursement of internal transport and freight charges' and 162 claims on account of 'neutralization of ocean freight and handling & marketing charges' were settled upto December,2005. However, as on 31.3.2006, the number of claims settled by the Department is 44 and 270 respectively. Against the budgetary provision of Rs.90 crores, a total of Rs. 37.44 crores was spent upto March,2006.

As per rules and procedure prescribed for settlement of the claims, certain specific documents and certificates from relevant authorities are required. In a large number of cases the claims could not be settled due to incomplete documentation, absence of required certifications in the claims as also claims for the same Release Order (R.O) being received in part, delayed/incomplete reply to clarification sought and non fulfillment of other procedural aspects for settlement of claims.

A decision to settle claims against ocean freight and handling & marketing charges was taken only in 2004-05. The concurrence of Ministry of Finance was obtained in July,2005. Therefore, claims on this account could not be settled in 2003-04 and 2004-05.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 6-1/2006 SPF dated 2nd June, 2006]

Recommendation (Serial No. 24 Para no. 5.37)

The Committee is concerned to note the low disbursal of funds from Sugar Development Fund (SDF) on account of loans to sugar mills for bagasse based cogeneration power projects as well as loans for production of anhydrous alcohol/ethanol. Out of Rs.100 crore allocated for loan to sugar mills for bagasse based cogeneration power projects during 2005-06 only Rs.12.32 crore were disbursed. Similarly, out of Rs.40.00 crore allocated as loans for production of anhydrous alcohol/ethanol during 2004-05 and Rs.75.00 crore during 2005-06 only Rs.19.48 could be disbursed during 2004-05 whereas no disbursement was made during 2005-06 on this account. The Committee take a serious view and recommend that the disbursal of funds from SDF be increased so that the sugar mills could use the amount for their development. They would like to be apprised of the reasons for no disbursement of funds during the year 2005-06.

Reply of the Government

An amount of Rs. 62.73 crores was disbursed during 2005-06 to sugar mills for bagasse based cogeneration power projects. Similarly for production of anhydrous alcohol/ethanol an amount of Rs. 7.23 crores was disbursed during 2005-06.

The lower actual expenditure was on account of sugar factories, who had been sanctioned loan but were not able to complete all prescribed formalities and furnish required documents for disbursement of the loan before the end of financial year. There were also fewer applications for the loans than what were expected. The lower expenditure was on account of the inability of the sugar factories to furnish securities for the loan in time. During the period 2005-06 a sum of Rs.47.02 crores was sanctioned to 5 sugar mills for co-generation projects and Rs.10.02 crores was sanctioned to two sugar mills for production of ethanol. These amounts could not be disbursed as prescribed terms & conditions and required documentation could not be completed. In case of ethanol less number of applications were received and therefore less amount was disbursed. The Government is, however, taking steps for blending of ethanol upto 5% in all states in the first phase which would be increased to 10% in the second phase.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 3-1/2006-SDF dated 14^{th} June, 2006]

Recommendation (Serial No. 25 Para no. 6.24)

The Committee are concerned to note that only 60-63% of edible oil requirement of the country is met indigenously and the remaining bout 40% is met through imports resulting in huge outgo of precious foreign exchange. Sadly, in spite of rise in import duty on edible oils over the years, the imports have shown a rising trends. The Committee have taken note of the measures taken to increase the production of edible oils both from primary and secondary sources. The production of oilseeds from primary sources have risen from 148.39 lakh tonnes in the year 2002-03 to 261.03 lakh tonnes in 2004-05 but it is still short of the total requirement of the country but production from secondary sources has remained static ranging in the vicinity of 19 lakh tonnes for the last two years. To bridge the gap between demand and supply of edible oils, the rise in production and productivity is imperative. The Committee, therefore, recommend that there is a need to review and restructure Centrally Sponsored Scheme "Integrated Scheme for Oilseeds, Pulses, Oil Palm and Maize (ISOPOM) as neither the production nor the productivity of oilseeds have shown a rising trend. The Committee recommend that other ways and means should also be explored to increase the production and productivity of traditional oilseed crops. To reduce the dependency on imported edible oils, result oriented action should be taken to promote and popularize the use of non-traditional secondary source of edible oils.

Reply of the Government

The subject matter primarily relates to production and productivity of oilseeds, which lies within the purview of Ministry of Agriculture. According to Ministry of Agriculture:-

"As regards to the recommendation of the Committee to restructure ISOPOM, it may be mentioned that since the ISOPOM has already been restructured by merging the four erstwhile schemes of Oilseeds Production Programme, National Pulses Development Project, Oil Palm Development Programme and Accelerated Maize Development Programme during Xth Plan on the advise of Planning Commission and being implemented w.e.f. 2004-05 in the country, there is no need for further restructuring of the scheme at this stage. Due to the efforts of Govt. of India through ISOPOM the production of oilseeds has been 243.54 lakh tonnes in 2004-05. As per 3rd advance estimates of Govt. of India, the production of oilseeds has been 266.97 lakh tonnes during 2005-06. However, due to significant rise in per capita consumption of edible oils in recent years, total demand in the country has risen at a very high rate and has created a big gap between domestic production and consumption, which is being filled by imports.

Govt. of India is making efforts to promote the production and popularization of the use of non-traditional secondary sources of edible oils such as rice bran, tree borne oilseeds etc. A Central Sector Scheme of Integrated Development Tree Borne Oilseeds is being implemented through National Oilseeds and Vegetable Oils Development (NOVOD) Board. Under the scheme, assistance is provided for nursery raising, model plantation, installation of pre-processing and post-processing facilities capacity building , need based research etc. development of tree borne oilseeds like neem, wild apricot simarouba, cherua, jojoba, kokum, tung, mahua etc."

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 6/2/2006-EXP. Dated 7th June, 2006]

Recommendation (Serial No. 26 Para no. 6.25)

The Committee are concerned to note that the number of inspections carried out by the officials of DVVO&F as well as number of samples analyzed have been on the decline. For instance, the number of samples examined in the year 2000 were 16, 289, which declined to 15,650 in the year 2003. Similarly, the number of samples found to be adulterated was 1693 and 1578, during the period under reference. The Committee are of the view that in a huge country like India, where the main cooking medium is edible oil, the number of samples drawn are very low as adulteration in edible oils is rampant in the country. The Committee, therefore, recommend that to check the widespread adulteration in edible oils apart from drawing large number of samples from all parts of the country and exemplary punitive action be taken against the culprits.

The Committee find that DVVO&F is charged with regulatory, developmental and advisory functions in respect of all matters relating to vegetable oils, particularly edible oils and vanaspati. The Committee are concerned to note that the prime reasons for decline in number of inspection by DVVO&F officials, is shortage of manpower. The Committee do not approve this. The Committee recommend that Government should make good the shortage of manpower at the earliest and if need be, this function of DVVO&F be outsourced, for the sake of protecting the health of citizen. The Committee also desire that the regulatory function of DVVO&F be de-linked from it and performed by an independent autonomous authority outside Government control and DVVO&F should confine itself to matter of policy, developmental and advisory role. The Committee would like to be apprised, of the action in the matter.

Reply of the Government:

The subject matter relating to adulteration of edible oils primarily relates to Ministry of Health, Directorate General of Health Services (PFA). The matter has been taken up with that Ministry. According to Ministry of Health:-

"The implementation of the PFA Act, 1954 & Rules framed thereunder vest with the Food (Health) Authorities of the States/U.Ts. The enforcement staff of the concerned State/UT draws the samples of commonly used food commodity suspected to be adulterated/misbranded. As such, the total number of food samples examined during the year 2000 were 82701 and 8877 food samples were found adulterated, whereas in 2003, the total number of food samples examined were raised to 99071 and samples found to be adulterated were 10928 (information from the State of Tamil Nadu is still awaited).

However, the concern of the Committee to draw large number of samples of edible oils is being sent to all Food (Health) Authorities of the States/U.Ts. for compliance".

The Directorate of Vanaspati, Vegetable Oils & Fats (DVVO&F) of the Ministry of Consumer Affairs, Food & Public Distribution is the only specialized organization in the field of vegetable oils and fats and vanaspati at the Government level (both Central and State). Therefore, it may not be desirable to de-link regulatory functions from DVVO&F.

In addition to the action initiated by the Ministry of Health towards compliance with the directives of the Standing Committee, the Directorate of VVO&F has also intensified efforts for drawal of maximum number of samples.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 6/2/2006-EXP. Dated 7th June, 2006**]**

CHAPTER III

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

Recommendation (Serial No. 10 Para no. 2.76)

The Committee was concerned to note that during the last three years 3.08 lakh MTs of foodgrains valuing Rs.197.56 crores got damaged and declared unfit for human consumption. As such, FCI did not distribute these foodgrains, when these were fit for consumption thereby incurring huge loss to the country. The Committee feel that the matter is being approached in a very casual manner b y the government. The Committee, therefore, recommend that utmost care should be taken to ensure that the foodgrains are distributed when these are fit for human consumption and not allowed to be rotten in the godowns thereby avoiding huge loss on this account.

Reply of the Government

The recommendation of the committee to take utmost care in storage & preservation of stock has been noted for compliance by the FCI.

It is further clarified that the actual loss suffered in the disposal of damaged foodgrains is Rs.79.00 crores instead of Rs.197.56 crores because on sale of these damaged foodgrains an amount of Rs.118.56 crores has been realized. It may be noted that total sales of foodgrains by FCI during these three years was 1332.92 lakh MTs which as compared to 3.08 lakh MT of damaged foodgrains comes to only 0.25% which is negligible. As per extant procedure, FCI already ensures that the foodgrains are distributed as per the principle of first in first out (FIFO) so that damage to foodgrains due to prolonged storage is avoided. Detailed procedures have also been prescribed to minimise damage to stocks during storage.

However, further guidelines are being issued by this Department, in consultation with FCI, to prevent damage to foodgrains during storage, transit, releases etc.

[Ministry of Consumer Affairs, Food and Public Distribution

(Department of Food and Public Distribution)

F.No.6/1/2006-PY-IV dated 26th July, 2006]

Recommendation (Serial No. 14 Para no. 3.22)

The Committee note that the establishment cost of FCI has shown a declining trend. In the Financial year 2005-06, Rs. 1455.73 crore was incurred on meeting Establishment Cost as compared to Rs. 1902.25 crore during the Financial year 2004-05. The Committee, however, feels that there is still scope to further reduce this cost. The Committee find that the Establishment Cost of FCI is loaded on the Food Subsidy Bill of the Government. Since food subsidy is basically meant for poorest section of the society, the inclusion of Establishment Cost over Food Subsidy Bill does not reflect the correct picture of food subsidy. The Committee, therefore, recommend that ways and means should be devised to further reduce the Establishment Cost. At the same time, FCI should not load Establishment Cost over Food Subsidy Bill, but be shown separately, from the Food Subsidy.

Reply of the Government

The Food Corporation of India (FCI) is the implementation arm for the foodgrains policies of the Government of India. For this purpose FCI needs to have appropriate establishment and man-power. As far as food subsidy is concerned, it is stated that food subsidy is the difference between the economic cost of foodgrains and the issue price. The economic cost of foodgrains includes the basic acquisition price, viz., MSP, taxes, other procurement incidentals, and cost of storage, freight, interest and establishment. As may be seen in the statement below, the establishment cost forms only a small portion of the economic cost. As the establishment cost is an integral part of economic cost, it would not be appropriate to separate this from the food subsidy bill. However, the establishment cost is separately shown in the Performance Budget and Annual Accounts of the Corporation.

It is also pertinent to note that even in States where decentralised foodgrain operations are carried out, the respective States include the related establishment and administrative charges in their claims for Subsidy.

Establishment Cost of FCI vis-a-vis Food Subsidy and Volume of Operations

Year	Establishment Costs (Rs. Crore)	Food Subsidy Incureed (Rs. Crore)	Establishment Cost as a % of Food Subsidy	Volume of operations (Lakh MT)	Establishment Cost per MT of Volume of operations (Rs./MT)	% change over previous year	% change over 2000-01
2000-01	1191	10334	11.53	718.96	165.66		
2001-02	1271	18006	7.06	1037.61	122.49	-26.06	-26.06
2002-03	1380	25322	5.45	1398.86	98.65	-19.46	-40.45
2003-04	1365	21587	6.32	1431.76	95.34	-3.36	-42.45
2004-05	1545	20774	7.44	1391..56	111.03	16.46	-32.98
2005-06 (RE)	1456	22422	6.49	1311.79	110.99	-0.03	-33.00

The FCI's manpower is engaged in the procurement storage, movement and distribution of foodgrains. As these activities benefit the producers and consumers, the establishment cost of the FCI is also reimbursed in the form of food subsidy.

The steps are being taken to further reduce establishment cost. Internationally renowned consultancy firm M/s Mckinsey & Co. has been engaged to improve FCI's efficiency including in the field of staff rationalization. An exhaustive exercise has already been undertaken for rationalization of staff. On completion of the same, it is expected that expenditure on establishment cost shall further decrease.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F. No.8-2/2006-FC-II dated 1st August, 2006]

Recommendation (Serial No. 16 Para no. 3.24)

The Committee are un-happy to note that Government is not taking the recommendation of the Committee with seriousness it deserves. The Committee in its earlier report stressed maximum utilization of owned capacity and minimize dependency on hired capacity. Inspite of this suggestion, it has been noted that the percentage of utilization of hired capacity is on the rise with respect to owned godowns. The Committee express their deep anguish over under utilisation of owned capacity. Further, now present stock of wheat and rice has fallen short as against the prescribed buffer norms and country is on the threshold of turning net importer of commodity (mainly wheat). Under these circumstances, Committee strongly recommend that FCI, should go in for de-hiring of hired godowns as enough space is owned by it. In de-hiring process, priority should be given to dehire the private godowns followed by godown of other public agencies. Secondly, Committee also desire that FCI should give on rent its own godowns for storage of various commodities which will help in generating revenue.

Reply of the Government

The position of availability and requirement of storage capacity for foodgrain stocking is reviewed on month to month basis and the capacity considered surplus is immediately dehired/released by the FCI. In this process, during the years 2002-03 to 2005-06, huge surplus storage capacity has been dehired/released by FCI as will be seen as under:-

(Fig in lakh MTs)

Year	Covered	CAP	Total
31.3.2002	151.60	55.85	207.45
31.3.2003	137.70	28.78	166.48
Capacity dehired during 2002-03	**(-) 13.90**	**(-) 27.07**	**(-) 40.97**
31.3.2003	137.70	28.78	166.48
31.3.2004	108.50	13.64	122.14
Capacity dehired during 2003-	**(-) 29.20**	**(-) 15.14**	**(-) 44.34**

04			
31.3.2004	108.50	13.64	122.14
31.3.2005	104.61	4.13	108.74
Capacity dehired during 2004-05	**(-) 3.89**	**(-) 9.51**	**(-) 13.40**
31.3.2005	104.61	4.13	108.74
31.3.2006	99.05	5.09	104.14
Capacity dehired during 2005-06	**(-) 5.56**	**(+) 0.96**	**(-)4.60**
Capacity dehired during 2002-03 to 2005-06	**52.55**	**50.76**	**103.31**

Instructions for optimum utilisation of FCI owned godown storage capacity already exist and these are reiterated among the field staff from time to time for their strict compliance.

FCI has already taken action in the direction of hiring out of surplus storage capacity. During the year 2005-06, surplus capacity of 5, 74,256 MTs in different States has been rented out by FCI and the rent earned is Rs.6.34 crores (approximately). Details of capacity rented out and earning thereon are as under:-.

REGIONWISE RENT OUT OF SURPLUS STORAGE SPACE & SAVING UPTO 19.5.06						
Sl.No.	Name of Region	Surplus capacity identified	Capacity rented out (in MTs)	Rate of rent (in Rs. Per sq.ft.)	Amount saving/ progressive rent	As per Report for the month of
1	Kerala	nil	nil	7.43	1,68,426.00	March,06
2	Maharashstra	1,81,000	33,000	5.00 1.50	1,03,46,645.30	Mar'06
3	Gujarat	136000	50000	2.25	7,91,127.00	Mar'06
4	Madhya Pradesh	19,837	19,837	1.50	22,77,041.00	Mar-06
5	U.P.	2.99 lakh	107810 MT covered	14.60 MT 0.80 MT	1,32,96,617.20	March,06
			21120 MT CAP	0.50		

				0.18		
6	Uttaranchal	2500 MTs	833	0.80	8,94,600.00	Dec.2005
7	Andhra Pradesh	7,57,560	1,42,148	4.15 per bag	3,39,22,239	Mar-06
				1.75/1.50		
8	Haryana	nil	nil	nil	24,689.00	Jan. 2006
9	Rajasthan	1,19,670	1,89,508	1.50 per sq.ft	16,30,535	Mar-06
10.	Punjab	1,07,215	10,000		nil	
Total		13,23,782	5,74,256		6,33,51,919.50	
*Capacity rented out in the month of April 2006						

[Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution
F. No.8-2/2006-FC-II dated 1st August, 2006]

Recommendation (Serial No. 18 Para no. 3.26)

The Committee note that there is a proposal to allow an incentive of Rs. 10 per farmers for direct procurement of wheat in FCI Depots. The Committee find that this proposal has been approved by the Government subject to condition that there is a saving of more than Rs. 10 per quintal in terms of reduced costs for transportation and handing expenses, artiya charges etc. The Committee recommend that the proposal should be implemented at the earliest and they be apprised of the action taken by Government in this regard.

Reply of the Government

This Department has approved the proposal of FCI to allow an incentive of Rs. 10 now already written to FCI to approving the incentive of Rs. 10 per qtl. to farmers for direct procurement of wheat in FCI Depot subject to the condition that No objection should be taken from the State Govts. For direct procurement of wheat in FCI depots (where such depots have not already been declared as mandis). A letter has also been written to the Govt. of Punjab to expedite the no objection sought by FCI to induce the farmers to bring their produce for direct procurement by FCI.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 156(4)/2006-PY-I, dated 31st July, 2006]

Recommendation (Serial No. 19 Para no. 4.30)

The Committee note that the capacity utilization of CWC for owned, hired and open and plinth are 63%, 85% and 67% respectively. The rent paid by CWC for the last three years i.e. 2002-03, 2003-04 and 2004-05 is Rs.22.17 crore, Rs.21.11 crore and Rs.23.23 crore respectively. The Committee observe that on the one hand, the capacity utilization of CWC in respect of its own warehouses is only 63% and a substantial amount, on the other hand, is spent on hiring of warehouses. It clearly reflects lack of planning and improper management on the part of CWC. The Committee recommend that CWC should dehire the hired godowns and make maximum use of owned warehouses. The Committee are happy to learn that CWC have entered into MOU with Railways for setting up of Railside Warehousing Complex (RWCs) at various strategic locations during 2006-07. The Committee would like to be apprised of the latest status of each of the RWCs. The Committee are also unhappy to note that bad debts written off during the year 2004-05 increased to Rs.4,32,525/- from Rs.17,009/- during the year 2003-04. The Committee would like to be apprised about the reasons for huge jump in the written off bad debts and would like the Ministry to keep a watch on this trend.

Reply of the Government

The occupancy pattern of the warehouses as on 1.5.2006 goes on to show that CWC is operating 516 Warehouses with 102.43 lakh MT capacity with occupancy of 91%, having 91.11 lakh MT stocks.

The break up of occupancy of constructed warehouses and hired warehouses is as follows :

66.64 (C) 86%

35.79 (H) 95%

So far as the hiring of warehouses are concerned, while it is correct that the rental paid did show a slight increase during 2004-2005 viz a viz 2003- 2004; the fact of the matter is that there is no lack of planning in this regard as the warehouses are hired after due diligence, availability of business at the particular center and need of the depositors. Besides, as the mixed storage of commodities can not be resorted to e.g. sugar and foodgrains, fertilizer and foodgrains, cement and foodgrains; there are instances when the constructed warehouses could not be fully utilized but hiring had to be resorted to, to meet the demand of storage of a particular commodity.

The hiring / dehiring of godowns is a continuous process. Nevertheless the CWC on account of unviability/ decrease in utilization / need having been over, dehired 2.58 lakh MT and 2.18 lakh MT of hired capacity during 2003-04 and 2004-2005.

follows :

S.N0. A.	**CENTRES**	**GM/ DRM**	**PARTICULARS**
1	Bangalore-II	South Western Rly Hubli/ Bangalore	Construction of 15,500 MT in full swing – completion expected by May 2006 end. However, 28 wagons carrying wheat belonging to I.T.C. has been unloaded as transit cargo in the sheds and delivered after a period of one week.
B.			
1	Nishatpura (Bhopal)	West Central Rly. Jabalpur/ Bhopal	Construction of 16,700 MT in progress – completion expected by August, 2006.

2	Shakurbasti (Delhi)	Northern Rly Delhi/ Delhi	Construction of 19,900 MT started – completion expected by August, 2006.
3	Sanathnagar (Hyderabad)	South Central Rly Secunderabad/ Hyderabad	Construction of 13,200 MT started. Completion likely by Oct., 2006.
4	Ghaziabad	Northern Rly Delhi/ Delhi	Construction started on 8.2.06. Project expected to completed by Dec. 2006.
5	Alamnagar (Lucknow)	Northern Rly Delhi/ Lucknow	Construction of 17,000 MT capacity started. – Completion expected by October, 2006
6	Roza (Shahjahanpur)	Northern Rly Delhi/ Moradabad	Construction of 18,400 MT capacity started. – Completion expected by October, 2006.
7	Nasik Road.	Central Rly Mumbai/ Bhusawal	Work started after signing of agreement with Railways. Projected completion expected by May'2007.
8	Badnera (Amravati)	Central Rly Mumbai/ Bhusawal	Work awarded after signing of agreement with Railways. Projected completion expected by May'2007.
9	Kandla	Western Rly. Mumbai/	Agreement signed on 16th May, 2006. Cost estimates received. PR shall be put up for approval of Executive Committee after which tenders shall be called for.
10	Saswad Rd. (Pune)	Central Rly. Mumbai/ Pune	The decision for dismantling & reconstruction of quarters coming in the godown area awaited from Railways after which the agreement shall be in a position to be signed, paving way for tender to be called for construction.

11	Yamuna Bridge (Agra)	North Central Rly. Allahabad/ Agra	Approval of the revised plan awaited from North Central Railway Allahabad which shall pave way for signing of agreement.
12	Naini (Allahabad)	North Central Rly Allahabad/ Allahabad	REVISED PLAN SUBMITTED HAS BEEN APPROVED BY NORTH CENTRAL RAILWAY ALLAHABAD. SIGNING OF AGREEMENT BEING FINALIZED.
13	Koodalnagar (Madurai)	Southern Rly Chennai/ Madurai	Plan approved by Railways. The agreement shall be signed by middle of 2006 paving way for further construction.
14	Dankuni (Kolkata)	Eastern Rly Kolkata/ Howrah	Location to be finalized after joint visit to the site, before submission of plan seeking approval of Eastern Railway.
15	Itarsi (Bhopal)	West Central Rly. Jabalpur/ Bhopal	Agreement signed on 2.5.05 at the level of DRM Bhopal has been re-signed on 27.2.2006 at the instance of GM's office. Approval of the Plan sought for, from DRM Bhopal awaited.
16	Sambalpur	East Coast Rly. Bhubaneshw ar/ Sambalpur	On the advice of CCM Bhubneshwar office, DRM Sambalpur has written to CWC on 20.2.2006 to go ahead with the planning to be done after visiting the site.
17	Hatia (Ranchi)	South Eastern Rly Kolkata/ Ranchi	Approval of plan submitted on 11.6.2004 still awaited.
18	Malda (West Bengal)	Eastern Rly Kolkata/	The location and land needs to be finalized after a joint visit along with respective

		Malda	Railway Officials.
19	Mancheswar (Bhubaneswar)	East Coast Rly. Bhubaneswar / Sambalpur	Potential existing; further plan can be drawn up only after freezing of plan of closure of BBSR Railway siding by Railways once Mancheshwar R.W.C. comes into operation.
20	Manmad	Central Rly Mumbai/ Bhusawal	Plan submitted to Central Rly. Approval awaited.
21	Burdwan	Eastern Rly Kolkata/ Asansol	The location and land needs to be finalized after a joint visit along with respective Railway Officials.
22	Kalamboli	Central Rly., Mumbai/ Mumbai	Potential has been assessed. A Railway over bridge shall have to be constructed by Railways to overcome the problem of approach to the site. This needs affirmation along with land availability.

The management of the Corporation considered prudent to write off all those outstanding dues from the companies which have been referred to bifr. These amounts were outstanding for more than five years and the recovery of the same was very remote, therefore, in accordance with the accounting standard issued by chartered accountants of india, the corporation had written off these amounts.

Ministry of Consumer Affairs, Food and Public Distribution

(Department of Food and Public Distribution)

F.No. 1-2/2006 SG dated 22nd June, 2006

Recommendation (Serial No. 23 Para no.5.36)

The Sugar Development Fund (SDF) was created for the financing of activities for the development of sugar industry. The Committee note that during the period 1982-83 to 30.9.2005 an amount of Rs.415206.00 thousands were collected as cess, out of which Rs. 325600.00 thousands only were transferred to Sugar Development Fund. An amount of Rs.307230.00 thousands were disbursed for the development of sugar industry. The Committee take this seriously. They are of the views that the purpose for which this SDF was created will be defeated if the amount is not disbursed. They, therefore, recommend that the maximum amount be disbursed for the development of sugar factories.

Reply of the Government

The Sugar Development Fund Act, 1982, provides that an amount equivalent to the proceeds of the duty of excise levied and collected under the Sugar Cess Act, 1982 reduced by the cost of collection as determined by the Central Government, together with any money received by the Central Government for the purpose of this Act, shall after due appropriation made by Parliament by law, be credited to the Fund. Under the Sugar Cess Act, 1982, a Cess of Rs. 14.00 per quintal is being collected on all sugar produced by any sugar factory in India.

During the period 1982-83 to 2005-06 an amount of Rs.4306.73 Crores has been collected as cess out of which an amount of Rs. 3506.00 crores has been transferred to Sugar Development Fund. A sum of Rs.3225.00 crores has been disbursed.

Under the Sugar Development Fund Act, the Fund has to be utilized by the Government of India for the following:

(a) Making loans for facilitating the rehabilitation and modernization of any sugar factory or any unit thereof including potentially viable sugar undertaking.

(b) Making loans for undertaking any scheme for development of sugarcane in the area in which any sugar factory is situated, including to a potentially viable sugar undertaking.

(c) Making grants for the purpose of carrying out any research project aimed at the promotion and development of any aspect of Sugar Industry.

(d) Defraying expenditure on internal transport and freight charges on export shipment of sugar.

(e) Making loans to any Sugar Factory having an installed capacity of 2500 Tonnes Crushing Per Day or higher and approved financial assistance from a Financial Institution or Scheduled Bank to implement a project of bagasse-based co-generation of power.

(f) Making loans for production of anhydrous alcohol or ethanol from alcohol or molasses.

(g) Defraying expenditure for the purpose of building up and maintenance of Buffer Stock with a view to stabilizing price of sugar.

(h) Defraying any other expenditure for the purpose of the Act.

The disbursal of fund depends on the number of complete and eligible applications received and also completion of other required formalities and proper documentation. It has always been the endeavor of the Government to help the sugar industry.

Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 3-1/2006-SDF dated 14th June, 2006

CHAPTER IV

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

Recommendation (Serial No. 2. Para no. 2.68)

The Committee find that an element of subsidy is involved in food grains supplied to beneficiaries of Above Poverty Line (APL) families. The wheat supplied to APL families is @ 6.10 per kg., whereas the prevailing open market rate of wheat is Rs.8.50 per kg. Diversions of APL foodgrains in open market makes a good business and commercial sense and it is a bonanza for black – marketers to divert the wheat issued under APL. Taking note of the fact that it is the commitment of the Government to target food subsidy towards poor household, there is a need to bar APL population from receiving subsidized foodgrains. At the same time, the Committee also recommend that there is a need to reduce allocation of foodgrains for APL category especially wheat and also revise the rate in a such way, that there is hardly any gap between ruling market prices and wheat supplied to APL beneficiaries. The Committee would like to be apprised of the action taken by the Government in this regard.

Reply of the Government

The suggestion made by the Parliamentary Standing Committee of the Ministry has been examined. This Department reiterates its earlier stand that completely excluding the APL population from the TPDS would adversely affect the population in several major States as well as the North Eastern States, where the APL off-take is sizable.

The Government had, inter-alia, decided on 6.1.2006 to reduce allocation of foodgrains for APL households to 20 Kg. per family per month from the earlier allocation of 35 Kg. per family per month, or the off-take during 2004-05, whichever is lower. It was also decided that APL Central Issue Prices (CIPs) of foodgrains, which were last fixed in July 2001, to be revised upwards by Rs. 85 per quintal and Rs. 95 per quintal for wheat & rice respectively. However, keeping in view the representations from some State Governments, Political parties and Public sentiments, the implementation of the decision taken on 6.1.2006 has been postponed for the time being.

However, Department of Food & Public Distribution has rationalized the allocation of wheat under the Above Poverty Line (APL) category to each State's average offtake for the last three years or the last year's offtake, whichever is lower. A 25 % cut of wheat allocation for APL households has also been imposed in respect of rice-consuming States and Delhi.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No.156 (4)/2006-PY-I dated 31st July, 2006]

Comments of the Committee

(please see para no. 1. 11 of Chapter I of the Report)

Recommendation (Serial No. 3 Para no. 2.69)

The Committee note that the food situation in the country is far from satisfactory. On one hand there has been a marginal decline in the production of wheat, from a level of 72.15 million tonnes in 2004-05 to 71.54 million tonnes during 2005-06, the procurement of wheat for crop year 2005-06 declined to 70 lakh tonnes from a figure of 90 lakh tonnes obtained during last year. There has been a decline in stock of wheat, below the buffer norm. For instance, the stock of wheat in the Central Pool as on 1.2.2006 was 61.68 lakh tonnes, as against buffer norms of 82 lakh tonnes. Similarly, as against buffer norm of 40 lakh tonnes as on 1.4.2006, the actual stock of wheat was 20.09 lakh tonnes. Further the prices of wheat started showing a sharp increase from December, 2005 with the annual rate of inflation of wheat going over 10% in January, 2006. The food situation in the country been so alarming that Government had to take a decision to import 10 lakh tonnes of wheat in April/May, 2006 and another 30 lakh million tonnes approved to be imported later on during the year. Such has been the scenario that Government may find difficult to operate and manage Public Distribution System and replenish their dwindling buffer stocks. The Committee, therefore recommend that Government should have a relook at their food policy, afresh in the interest of farmers and consumers alike.

Reply of the Government

The production of wheat which was 76.37 million tonnes in 1999-2000 declined to 68.64 million tonnes in crop year 2004-05 against a target of 72 million tonnes. Due to less than targeted production in crop year 2004-05 as well as high open market prices and higher private participation in RMS 2005-06, the procurement of wheat in that year was only 147.83 lakh tonnes which was 20 lakh tonnes less than the procurement of wheat in RMS 2004-05. The offtake of wheat in 2005-06 was 161 lakh tonnes and due to less procurement and higher offtake the stocks of wheat were 20 lakh tonnes less than the buffer stock as on 1st January, 2006.

To augment stocks of wheat in the Central Pool and also to keep a check on open market prices of wheat, the Government took the decisions to import 5 lakh tonnes of wheat in February, 2006.

The production of wheat in crop year 2005-06 was 69.48 million tonnes against a target of 75.53 million tonnes. Due to less than targeted production of wheat in crop year 2005-06 as well as high open market prices, negative market sentiments due to low stocks of wheat in Central Pool and higher private participation in RMS 2006-07, the procurement of wheat was only 92.2 lakh tonnes in RMS 2006-07. To make up the shortfall of wheat in the Central Pool the Government took a decision in April, 2006 to import further 30 lakh tonnes of wheat.

The Government is also considering a few other proposals to save wheat such as allocation of coarse grains in place of wheat, etc. Once these proposals are implemented there will be sufficient stock of wheat to meet the requirements under TPDS and welfare schemes as well as to maintain the prescribed buffer norm as on 1st April, 2007.

As far as rice is concerned, there has been record procurement in KMS 2005-06 of 273.8 lakh tonnes (as on 27.07.2006) compared to 236.9 lakh tonnes in the corresponding period in KMS 2004-05. In addition to this 11.4 lakh tonnes of coarse grains have also been procured (as on 27.7.2006) compared to 7.8 lakh tonnes in the corresponding period in KMS 2004-05.

In the RMS 2006-07, the targeted quantity of wheat could not be procured even after proving an incentive of Rs. 50 per qtl. due to much higher open market prices. In order to ensure that there is no shortfall in procurement of qualities of foodgrains required for the TPDS and Welfare Schemes, the Department of Food and Public Distribution has formulated a proposal to purchase wheat during RMS 2007-08 at a procurement price higher than MSP.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No.156 (4)/2006-PY-I, dated 31st July, 2006]

Comments of the Committee

(please see para no. 1. 14 of Chapter I of the Report)

Recommendation (Serial No. 5 Para no. 2.71)

The Committee find that the prices of wheat is showing an upward trend and hardening day by day. In the principal wheat markets of Hapur, Karnal and Delhi, the prevailing rate of wheat was between Rs.800/- to 850/- per qntl; during the month of April-May, 2006 as against Rs. 625/- to 675/- ruling last year during the same period. There has not been any major down fall in the production of wheat. At the same time, the speculative trading indulged into have affected the prices of wheat. For instance, the future price of wheat on MCX and NCDEX quoted for November-December, 2006 series is Rs.1050/- per qntl. The Committee are of the view that the future/forward trading in wheat has a deleterious effect on the retail prices of wheat. The future/forward trading in wheat, which was conceived for the benefit of farmers, has not yielded desired results for them and in fact the speculation in wheat price has affected the consumer at large. The Forward Market Commission, which is responsible for protecting the interest of farmers, under which, remunerative prices to farmer is ensured, have failed to monitor the future price of wheat. Inspite of limits on open position, price limits, up front margin prescribed to control unbridled speculation in the market and to contain monopolistic condition in future market, there has not been any let up in the price of wheat. The decision of the Government to import wheat has emitted negative signal in regard to stock of wheat in the country. The Committee are of the view that with the permission to undertake forward/future trading in wheat, the price of wheat have skyrocketed in the retail market, without realizing the commensurate benefits to the farmers. The Committee, therefore, recommend that Government should ban forward/future trading in wheat so as to contain the prices of wheat in open market. Even otherwise, essential items of mass consumption need not be included in the list for which forward/future trading should be permitted. The Committee would like to be apprised of the action taken by the Government in this regard.

Reply of the Government

The production of wheat was 69.48 million tonnes in crop year 2005-06 (as per the fourth advance estimate) against a target of 75.53 million tonnes. Due to lower than targeted production in crop year 2005-06 as well as higher private participation in purchase of wheat in RMS 2005-06 and negative market sentiments due to low stocks of wheat in Central Pool, the open market prices had shown a rising trend from December, 2005. Regarding forward trading in wheat, the nodal Ministry for the same which is the Department of Consumer Affairs has informed as under:

"Future contracts in wheat are presently traded on the three National Exchanges viz. the National Multi Commodity Exchange (NMCE), Ahmedabad, the National Commodity and Derivatives Exchange (NCDEX), Mumbai and the Multi Commodity Exchange (MCX), Mumbai. Wheat futures trading commenced in NMCE w.e.f. 13th December, 2003. NCDEX Mumbai, w.e.f. 6th July, 2004 and MCX Mumbai w.e.f. 2nd September, 2004. At present, major part of trading in wheat is taking place at NCDEX and the other two Exchanges have negligible share.

It is true that prices of wheat both in spot and futures markets have hardened during the first quarter of this year. The main reasons for comparatively higher futures prices are lower production estimates and lower arrivals this year in Mandis as compared to the last year. During 2004-05, the production of wheat was 68.64 million tones, which was 3.47 million tonnes less as compared to 2003-2004. The target for wheat production for 2005-06 was 75.53 million tonnes. However, the second advance production estimates (as on 22.2.2006) and third advance production estimates (as on 5.5.2006) have placed the production at a lower level of 73.06 million tonnes and 71.54 million tones, showing successive shortfall in both the estimates. It is learnt that the private trade estimates the production below the targeted level.

Futures trading largely reflect the wholesale price of the commodities. So far, no specific study has been made to assess the impact of futures prices on retail prices of the commodity. Futures markets, however, give an advance forecast of the prices. The forecast gets reflected in the wholesale prices of the commodities. The wholesale prices have an impact on the retail prices. In an efficient distribution system, the impact on wholesale prices and retail prices should have an appropriate relationship. The reason for higher futures prices quoted for December, 2006 contract at MCX and NCDEX is that the futures prices being quoted at these Exhanges factor in various components such as expected price, (based on demand and supply scenario), cost of carrying the goods, international trade etc. The cost of carry is equivalent to the interest cost, storage charges and other incidental expenses in carrying (holding) the good over a period of time (i.e. till the maturity of the contract).

Forward Markets Commission (FMC) which is the Regulator for commodity futures trading under the provisions of Forward Contracts (Regulation) Act, 1952 has been keeping a close watch on the futures trading in wheat. Detailed formats have been prescribed through which the Exchanges are required to submit the trading details every day at the close of the trading. FMC has prescribed a daily maximum price band of 4% followed by a cooling off period of fifteen minutes and thereafter a further increase/decrease of 2% is permitted. The open position details of members and clients with a high value of trade are also monitored closely. FMC has also imposed a limit on open position in wheat contracts separately for members and clients with a high value of trade are also monitored closely. FMC has also imposed a limit on open position in wheat contracts separately for members and clients and margin money in the range of 5 – 5.23%. To avoid squeeze and cornering by the buyers, wheat contracts have provisions for seller's options with regard to physical delivery. The trading details in the commodity Exchanges including for wheat are deliberated in the weekly meetings chaired by Chairman. FMC. The large client participation in wheat futures contracts (in the mongh of April/May the average client participation has been more than 6000 from across 500 centers.) is indicative of transparent price discovery.

Futures trading enable the various stakeholders such as producers. Processors, exporters etc. to shift the risk involved in their activities arising out of adverse price fluctuations through hedging to those who are willing to assume it in the hope of making some profit. Futures trading also render services to the farmers/cultivators. Hedging facilities would enable those farmers who grow commodities in very large quantities to hold on to their crops or stocks, spread out the sales of such stocks over a period of time and thereby realize a better average price for their produce. A futures market provides to the farmer at time of sowing an advance indication to the expected levels of prices of different commodities during the marketing period, thereby enabling him to undertake proper crop planning. Smaller farmers presently do not gain directly form the futures trading but their realization increases due to efficient and transparent price discovery. This has been evident in the past two years in many commodities.

In view of the above, it is submitted that futures trading in wheat and other essential items need not be banned.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No.156 (4)/2006-PY-I, dated 31st July, 2006]

Comments of the Committee:

(Please see para no. 1.17 of Chapter I of the Report)

Recommendation (Serial No. 9 Para no. 2.75)

The Hill Transport Subsidy Schemes was introduced for predominantly hilly States for opening of godowns by FCI at Principal Distribution Centres for reimbursement of the transportation cost upto these centres. The Committee has been informed that the Government of India has requested the Central Vigilance Commission on 27.5.2005 to conduct an enquiry into the alleged irregularities in implementation of the Hill Transport Subsidy Scheme in Arunachal Pradesh. They have also informed that the matter has been referred to the CBI for investigation. No report has been submitted by CBI so far. The Committee desire that the enquiry by CBI be expedited and they be apprised of the findings of CBI and the action taken by the Government on the recommendations of CBI.

Reply of the Government

CBI, vide their letter dated 14.6.2006 has informed that they have not yet initiated any enquiry into the matter due to the pendency of PIL, on the subject, in the Guwahati High Court.

[Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
F.No. 2.(LS)/1/2005-PY.III dated 3rd July, 2006]

Comments of the Committee

(please see para no. 1.23 of Chapter I of the Report)

Recommendation (Serial No. 17 Para no. 3.25)

Taking note of partial implementation of the suggestion of the Committee to curb proxy labour, the Committee in their 9th Report had recommended that all their four suggestions to regulate the Attendance system in FCI should be implemented in letter and spirit uniformly across all the Regions/State and not selectively. The Committee are at loss to understand as to why the Government has not been able to implement their suggestions to curb proxy through out the country, when it could be done in some of the States. The Committee reiterating their earlier recommendation, desire that their suggestions to regulate the Attendance system in FCI should be implemented throughout the country without any reservation. The Committee would like to be apprised of the action taken in this regard.

Reply of the Government

To implement the Recommendations of the Standing Committee on curbing the proxy labour following steps have been taken by the FCI :-

(i) The process of implementing Attendance by putting signature or thumb impression has already been implemented in the FCI Depots located in the regions of Karnataka, Kerala, Tamil Nadu, Haryana, Rajasthan, Maharashtra (Mechanical Devices installed in all 7 depots), Himachal Pradesh, Punjab, Uttranchal, Gujarat, Nagaland and Manipur (N&M). This step is implemented partially in Uttar Pradesh (in 24 out of 32 Depots), West Bengal (in 11 out of 23 depots), Madhya Pradesh (in 1 Depot), Chattisgarh (in 2 Districts) and Assam. In Assam, J&K and Bihar the labour unions/workers are opposing the implementation of this system. Efforts are being made to persuade the unions and the workers to cooperate in this regard.

(ii) Mechanical Entry Device has been installed in Delhi, Rajasthan and Maharashtra. This recommendation has been implemented partially in Punjab, Uttar Pradesh, Uttranchal, Gujarat, A.P., Karnataka, West Bengal, Orissa and Bihar. Apart from this, tenders are called for installing Mechanical Entry Devices in Haryana, J&K, Madhya Pradesh, Kerala, Chhatisgarh, Tamil Nadu, Jharkhand.

However, administrative/law and order problems are being faced at Assam, Nagaland & Manipur and Meghalaya.

(iii) Further, payment of wages to all workers through cheque as per the provisions of Income Tax Act has been introduced in all the regions except J&K. In J&K Region workers are not accepting cheque on the plea that they are illiterate and cannot operate bank accounts. Sincere efforts are being to provide facilities to these workers.

(iv) A system regarding signing of daily work output slip by each labour at the end of day and countersigned by the Mondal/Sardar/Shed Incharge has been introduced in Kerala, Rajasthan, Gujarat, J&K, Haryana, Karnataka, Meghalaya and Uttranchal Regions. This system has also been implemented partially in Madhya Pradesh, Tamil Nadu and West Bengal Regions.

(a) In Punjab, Himachal Pradesh, AP, Maharashtra, Jharkhand, Bihar, Assam, Nagaland and Manipur work slips are being signed by Sardar & Mondal only.

(b) This system is not yet implemented in Uttar Pradesh, Chhatisgarh, Orissa and Delhi regions due to labour resistance.

[Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution
F. No.H-11013/1/2006-FC.3 dated 12th July, 2006]

Comments of the Committee

(Please see para no. 1. 32 of Chapter I of the Report)

Recommendation (Serial No. 22 Para no. 5.35)

The Committee are concerned to note that more than Rs.1050 crore of cane arrears pertaining to 2005-06 sugar season are still outstanding (moreover, more than Rs.250 crore of cane price arrears pertaining to sugar season 2003-04 and earlier are still outstanding). Sugar mills in all the sectors, i.e. public, private and cooperative sector are in default. The Committee are pained to note that although the payment of sugarcane is required to be made within 14 days of supply of cane, it is seldom done. The Committee are concerned to note that cane arrears pertaining to sugar season 2003-04 and earlier are still outstanding and yet action has not been taken against sugar mills to recover the cane price arrears alongwith interest @ 15% as per the provisions of Sugarcane (Control) Order,1966. The Committee would, therefore, like to be apprised of the details of sugar mills which are still to liquidate their outstanding arrears against the farmers and the reasons for not paying the outstanding arrears alongwith interest. The Committee would like to emphasize that there is a need to protect and promote the interest of farmers in such a manner that they continue to cultivate sugarcane, without any hindrance. For achieving this objective, the farmers need to be paid remunerative price immediately on the delivery of his agriculture produce. The outstandings by sugar entrepreneurs act as an disincentive to grow sugarcane. In order to preserve the interest of farmers in cultivation of sugarcane, the Committee recommend that all the incentives/aid/assistance given to a sugar mill should be contingent upon liquidation of cane arrears by the mill. In the event of default on this account, such aid/assistance should be held in abeyance.

Reply of the Government

A statement indicating the details of sugar season-wise, State-wise and sugar mill-wise position of cane price arrears along with the reasons for pending cane price arrears is enclosed.

The recommendation of the Standing Committee is that all the incentives/ aid/ assistance given to a sugar mill should be contingent upon liquidation of cane price arrears by the mill and that in the event of default on this account, such aid/assistance should be kept in abeyance is highly appreciable and the

Central Government, in principle, agree with the views of the Committee. However, there are practical difficulties in implementing this recommendation. Usually, the cane price arrears build up in the years of low sugar prices, e.g. in 2002-03 sugar season when the open market prices of non-levy sugar prices declined almost to the level of levy sugar prices, the Government created a buffer stock of 20 lakh tonnes to mitigate the difficulties of sugar factories and help them to pay cane price arrears to sugarcane growers. As per the Sugar Development Fund Rules, 1983, the buffer stock subsidy is to be exclusively utilized for payment of cane price including cane price arrears. Had the proposed condition imposed on sugar factories, then it would not have been possible for the Government to pay the buffer subsidy to sugar mills and sugarcane growers would have suffered. Similarly, the assistance from Sugar Development Fund is extended to sugar factories for modernization, expansion of capacity, cane development, setting up of cogeneration and ethanol manufacturing facilities with the purpose of improving their financial viability so that they can give remunerative cane price to the sugarcane growers. In view of such practical difficulties, the implementation of this recommendation of the Committee may lead to unexpected and undesirable consequences.

As on 31st May, 2006, the percentage of cane arrears was only 2.6% as against 25.8% on 31st May, 2003 and 14.6% on 31st May, 2004.

Ministry of Consumer Affairs, Food and Public Distribution
(Department of Food and Public Distribution)
File No. 7-2/2006-Stat.II dated: 5th September, 2006

Comments of the Committee

(Please see para no. 1.38 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH THE REPLIES OF THE GOVERNMENT ARE STILL AWAITED

NIL

NEW DELHI
13 November, 2006.
22 Kartika,1928 (saka)

DEVENDRA PRASAD YADAV,
Chairman,

Standing Committee on Food, Consumer Affairs and Public Distribution.

MINUTES OF THE SEVENTH SITTING OF THE STANIDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION (2006-2007) HELD ON FRIDAY, 10th NOVEMBER, 2006.

The Committee sat from 1530 hours to 1600 hours in Committee Room 'D', Parliament House Annexe, New Delhi.

Present

Shri Devendra Prasad Yadav - Chairman

MEMBERS

LOK SABHA

2. Shri Alakesh Das
3. Shri Atma Singh Gill
4. Shri Baliram Kashyap
5. Shri Sadashivrao Dadoba Mandlik
6. Shri Harikewal Prasad
7. Shri Munshi Ram
8. Adv. P. Satheedevi
9. Shri Chandrabhan Singh
10. Shri Parshuram Majhi
11. Smt. V. Radhika Selvi
12. Shri Daroga Prasad Saroj

RAJYA SABHA

13. Shri T.S. Bajwa
14. Shri Shantaram Laxman Naik
15. Shri Rajniti Prasad
16. Shri Matilal Sarkar

SECRETARIAT

1. Shri R.S. Kambo - Deputy Secretary
2. Shri B.S. Dahiya - Under Secretary
3. Shri Jagdish Prasad - Assistant Director

2. At the outset, the Hon'ble Chairman welcomed the Members to the sitting of the Committee. The Committee then took up Draft Report on Action Taken by the Government on the recommendations/observations contained in the 12th Report of the Standing Committee on Food, Consumer Affairs and Public Distribution on Demands for Grants (2006-07) pertaining to the Department of Food and Public Distribution for consideration and adopted the same with some minor modifications/ amendments.

3. The Committee authorized the Chairman to finalise the Draft Report in the light of consequential changes and present the same to Parliament on their behalf in the ensuing Winter Session of Parliament.

The Committee then adjourned.

APPENDIX II

(Vide Introduction of the Report)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWELFTH REPORT OF THE COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION (FOURTEENTH LOK SABHA)

(*i*) Total Number of Recommendations 26

(i) Recommendations/observations which have been accepted by the Government :

Recommendation Nos. 1, 4, 6, 7, 8, 11, 12, 13, 15, 20, 21, 24, 25 and 26.

Total	14
Percentage	54

(ii) Recommendations/observations which the Committee do not desire to pursue in view of the replies received from the Government

Recommendation Nos. 10, 14, 16, 18, 19 and 23.

Total	6
Percentage	23

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Recommendation Nos. 2, 3, 5, 9 17 and 22.

Total	6
Percentage	23

(iv) Recommendations/observations in respect of which the replies of the Government are still awaited

-Nil-

Total	Nil
Percentage	