MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

CHAPTER : V

Food Corporation of India

Export of foodgrains

Highlights

The Government of India permitted the Food Corporation of India (FCI) to offer wheat and rice for export to liquidate excess stocks in the central pool. Accordingly FCI issued 19.71 million MT of wheat and 13.53 million MT of rice was issued for export. The economic cost and sale value of the quantity of wheat and rice issued for export were Rs.33,927 crore and Rs.19,792 crore respectively.

(Para 5.1)

The increased procurement of wheat and rice was not justified both from the point of view of production as well as off take and led to heavy accumulation of stocks in central pool. Consequently 33.24 MMT of wheat and rice was issued for export during the period from November 2000 to February 2004.

(Para 5.3)

The Ministry fixed lower export price for wheat due to incorrect adoption of economic cost and higher carrying cost. This resulted in additional subsidy burden of Rs 1608.63 crore.

(Para 5.4.1)

The sale price fixed for export of wheat and rice was on ex-FCI port godown. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. In the process, FCI had to incur Rs.516.36 crore towards freight charges in respect of 22 districts test checked in audit.

(Para 5.4.3)

FCI reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents as directed by the Ministry.

(Para 5.5.2)

The exporters to Bangladesh were given an unintended benefit of Rs.44.25 crore in transportation of foodgrains by rail.

(Para 5.5.3)

The exporters were given undue benefit of Rs.20.20 crore by allowing them to lift the foodgrains after price revision.

(Para 5.5.4)

There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when it was not required, extending undue benefit to exporters, issue of foodgrains at pre-revised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

(Paras 5.6.1 to 5.6.4)

Internal Audit was not entrusted/involved for checking the documentation through out the export operations contributing to many omissions and commissions.

(Para 5.10)

5.1 Introduction

The Food Corporation of India (FCI) was established in the year 1965 and entrusted with the purchase, storage, movement, transport, distribution and sale of foodgrains and foodstuffs. FCI was the nodal agency through which the Government of India (GOI) implemented its food policy, the objectives of which were to

(i) safe-guard the interests of farmers by effective price support mechanism,

(ii) distribute foodgrains and sugar throughout the country at uniform issue prices and

(iii) maintain satisfactory levels of operational and buffer stocks to ensure nation's food security.

The Government of India fixed (October 1998) the norms for the quantity of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy, which ranged from 15.8 Million Metric Tonne (MMT) to 24.3 MMT. As against this, the stock position as on 30 September 2000 was 40.06 MMT. In view of the burgeoning stock position, the Ministry of Consumer Affairs, Food and Public Distribution (Ministry), Government of India, submitted (September 2000) a proposal for consideration of the Cabinet Committee on Economic Affairs (CCEA) for "Revamping of Public Distribution System (PDS) – Measures to improve off take of foodgrains". A Group of Ministers constituted, to consider the above proposal, decided (October 2000), inter-alia, that FCI might be permitted to offer wheat for export at a price equal to economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for 'below poverty line' (BPL) category. The issue of wheat for export commenced in November 2000.

FCI was also permitted to issue rice for exports in December 2000 and wheat for export of wheat products in December 2001.

Accordingly, FCI issued 19.71 MMT of wheat and 13.53 MMT of rice for exports during November 2000 to February 2004. The economic cost and the sale value of the quantity of wheat and rice issued for export (based on the highest sale price obtained in a year) were Rs.33,927 crore and Rs.19,792 crore respectively involving a subsidy burden of Rs 14,135 crore being the difference between economic cost and sales realisation

5.2 Scope of Audit

The objective of the review was to examine the entire scheme of export of foodgrains to ensure whether the financial interest of FCI/Government was safeguarded while liquidating the excess stocks. The review also covered the irregularities as well as deviations from the instructions issued by GOI for export of foodgrains during the period from November 2000 to February 2004. Audit test checked during December 2003 to March 2004 the records relating to exports in 57 District Offices in 16 Regions involving a quantity of 17.23 MMT out of a total of 33.24 MMT of wheat and rice issued for export. The findings of Audit are detailed in the following paragraphs.

5.3 Factors contributing to export of foodgrains:

5.3.1 Heavy accumulation of stocks.

The table below gives the stock levels of wheat and rice as on the first day of January, April, July and October of the years 1998 to 2002 under the Central Pool as against the minimum stock level under Buffer Stocking Policy.

(Quantity in MMT)

Year	**1st January**		**1st April**		**1st July**		**1st October**	
	Rice	**Wheat**	**Rice**	**Wheat**	**Rice**	**Wheat**	**Rice**	**Wheat**
1998	11.49	6.76	13.05	5.08	12.04	16.48	8.96	15.24
1999	11.69	12.70	12.16	9.66	10.56	22.46	7.74	20.31
2000	14.72	17.17	15.72	13.19	14.49	27.76	13.21	26.85
2001	20.70	25.04	23.19	21.50	22.75	38.92	21.45	36.83
2002	25.62	32.42	24.91	26.04	21.94	41.07	15.77	35.64
Minimum stock under buffer norm	8.40	8.40	11.80	4.00	10.00	14.30	6.50	11.60

It could be seen from the above table that the stock levels gradually started piling up from early 1999 and reached a level of 42.25 MMT in July 2000. This included 24.90 MMT with FCI against storage capacity of 27.10 MMT available.

The mounting stocks of rice and wheat with FCI coupled with serious storage problem that was expected to crop up during the khariff procurement season commencing from October 2000 forced the Government of India to take a decision to export foodgrains (October 2000).

The Management confirmed (November 2004) the audit observations.

5.3.2 Reasons for heavy accumulation

The table below gives the details of production, procurement and off-take of wheat and rice from 1998-99 to 2002-03:

Year	Production (MMT)			Percentage increase in production	Procurement (MMT)			Percentage increase in procurement	Procurement as a percentage of production	PDS & Schemes Offtake (*) (MMT)		
	Rice	Wheat	Total		Rice	Wheat	Total			Rice	Wheat	Total
1998-99	86.08	71.29	157.37		11.87	12.65	24.52		15.58	11.71	8.37	20.08
99-2000	89.68	76.37	166.05	5.52	17.31	14.14	31.45	28.26	18.94	12.27	6.24	18.51
2000-01	84.98	69.68	154.66	-6.86	19.59	16.36	35.95	14.31	23.24	10.02	5.22	15.24
2001-02	93.08	71.81	164.89	6.61	21.28	20.63	41.91	16.58	25.42	12.96	8.06	21.02
2002-03	75.72	69.32	145.04	-12.04	16.3	19.03	35.33	-15.70	24.36	17.32	14.19	31.51

(*) Excluding Open Sale and Exports

The Central Pool stock of wheat as of 1 April 1999 was 9.66 MMT against a minimum stock requirement of 4 MMT under the buffer norms. The procurement during the year 1999-2000 (the major part of procurement is done during April-October) was 14.14 MMT. Against this, the off-take for PDS and centrally sponsored schemes during the same period was only 6.24 MMT. As a result, the stock position at the beginning of April 2000 rose to 13.19 MMT, that is, more than thrice the minimum stock requirement under the buffer norm. The production of wheat in the year 2000-2001 was 69.68 MMT as compared to 76.37 MMT in the preceding year. Despite the fall in production and a comfortable buffer at the beginning of the year, the procurement during the year 2000-2001 was 16.36 MMT, as against 14.14 MMT in the previous year. The excess procurement was not justified also from the point of view of PDS off-take, which fell to 5.22 MMT in 2000-01 from 6.24 MMT in the previous year. This resulted in further piling up of stock to 21.50 MMT by 1 April 2001, fives times the buffer norm of four MMT.

Similarly in the case of rice, the stock as of 1 October 1999 was 7.74 MMT against a minimum stock requirement of 6.50 MMT under the buffer norm. The production of rice during the year 1999-2000 (October – September season) was 89.68 MMT as compared to 86.08 MMT in 1998-99. Though the production increased by only 3.60 MMT and despite comfortable buffer stock at the beginning of the season, the procurement during 1999-2000 was increased to 17.31 MMT from 11.87 MMT in 1998-99. The substantial increase in procurement was also not justified from the off-take point of view, as the off-take in 1999-2000 was only marginally higher at 12.27 MMT as against 11.71 MMT in 1998-99. This increased the stock position at the beginning of the next procurement year (October, 2000) to 13.21 MMT, that is, twice the minimum stock of 6.50 MMT under the buffer norm.

Thus, the increase in procurement of wheat in 2000-2001 (April-March) and of rice in 1999-2000 (October-September) was not justified either from the point of view of production (support to the farmer) or from the point of view of off-take (PDS needs). This led to piling up of stocks and the Government of India perforce had to resort to export of wheat and rice.

Deficiencies in the pricing of wheat and wheat products for export are discussed in succeeding paras.

5.4.1 Fixation of lower export price for wheat

The Group of Ministers (GOM) decided (October, 2000) that wheat be offered for export at a price equal to the economic cost minus two years' carrying cost but not lower than the Central Issue Price (CIP) for BPL category. The Ministry adopted Rs.8300 per MT and Rs.2204 per MT, being the estimated economic cost for 2000-01 and the related carrying cost respectively which was worked based on the revised method of allocation of distribution costs suggested by Expenditure Reforms Commission (ERC). On the basis of recommendations of ERC, the issue price of wheat was arrived at Rs.3892, which was stepped up to Rs.4150, that is the BPL price the minimum rate at which the wheat was to be offered for export. As such the wheat for export was issued at Rs.4150 during November 2000 to March 2001.

It was observed that the recommendations of ERC (July 2000) were intended for arriving at the realistic economic cost, which the consumers under PDS ought to pay and did not have approval of the Government of India. Even the subsequent approval of the Government of India (July 2002) was categorical that the revised methodology was to arrive at a realistic economic cost for the consumers under PDS and such not relevant to arrive at the issue price of wheat for export. Further, while taking the decision (October 2000) the relevant available costs were the economic cost of 1999-2000, that is, the costs of immediate preceding year and carrying cost of two years referred would be the carrying costs of 1999-2000 and 1998-99. Accordingly, the issue price based on the criteria decided by the GOM would work out to Rs.6044 per MT (Rs.8875 minus Rs.1445+ 1386) Thus, adoption of issue price of Rs.4150 per MT for export as against Rs.6044 during 2000-01 was not in order.

The export price fixed in 2001-02 was in the range of Rs 4200 to Rs.4300 per MT as against the applicable price of Rs.5841 per MT as per the criteria of GOM and based on the economic cost (2000-01) and buffer carrying cost of the preceding two years (1999-2000 and 2000-01). Similarly, the issue prices in 2002-03 and 2003-04 (September 2003) were also lower. As a result, there was short realization of Rs.1608.63 crore on 168.69 lakh MT of wheat issued for export during the period November 2000 to September 2003. This in turn led to increased subsidy burden on the Government of India on export of wheat to the extent of Rs.1608.63 crore due to adoption of lower economic cost and higher carrying cost.

It was seen from the note submitted to CCEA, that the ERC recommendations for change in the method for working out economic cost and buffer carrying cost was to be finalised in consultation with CAG as was done in 1979 while fixing the economic cost. However, in the instant case, the issue was not referred to CAG.

The Management stated (November 2004) that the revised methodology adopted for working out the economic cost and buffer carrying cost and the fixation of the issue price of wheat for export on the revised basis would need to be commented upon by Ministry. The Ministry's reply was awaited (November 2004).

5.4.2 Incorrect Fixation of price for Wheat Products

The High level Committee (HLC) recommended (August 2001) a price of Rs.4700 per MT for issue of wheat for export of wheat products on the basis of cost details prepared by FCI and offers received from STC and three private parties. FCI projected the sale realisation including byproducts at Rs.6718 per MT whereas the roller flour mills (RFMs) and STC projected it as ranging between Rs.5205 per MT and Rs.6385.50 per MT. The cost of conversion (including profit) proposed by FCI was Rs.750 per MT, while STC and the RFMs quoted from Rs.1000 per MT to Rs.2075 per MT. The HLC, while taking note of these variations worked out the issue price of wheat at Rs.4700 per MT as given below: -

Sale realisation	Rs.6220 per MT
Less Conversion Cost	Rs.1520 per MT
Issue price	Rs.4700 per MT

The Ministry fixed (December 2001) the price at Rs. 4750 per MT after taking into account the escalation in the issue price of wheat from August 2001 to December 2001.

It was observed in Audit that the average of conversion costs quoted by parties considered by HLC worked out to Rs.1254 per MT only whereas the HLC adopted a conversion cost of Rs.1520 per MT. Even after taking into consideration the average of different variables quoted by all the parties as reasonable, the issue price worked out to Rs.4966 per MT against the issue price of Rs.4700 per MT fixed by HLC. On this basis, the extra subsidy allowed for issue of wheat for export of wheat products was Rs.266 per MT. Consequently, the extra subsidy on the quantity of 2.69 lakh MT of wheat, for export of wheat products, issued during January 2002 to February 2004 was worked out to Rs.7.15 crore.

5.4.3 Unfruitful expenditure on transportation

The sale price fixed for export of wheat and rice was on ex-FCI port godown. This facilitated the exporters to lift foodgrains from the godowns of their choice and that too, at the cost of FCI and have them delivered at the port of their choice. As a result the exporters lifted the foodgrains from the godowns of their choice situated in far flung places, irrespective of the fact that sufficient stocks were available in nearby godowns with reference to the designated ports from where export took place. For instance the foodgrains were transported from Raichur in Karnataka to Kandla port in Gujarat and from Punjab to Tuticorin in Tamilnadu. There were also cases of movement from one port town (Chennai) to another port town (Tuticorin) at the cost of FCI. In the process, FCI had to incur freight charges on unwarranted movement of foodgrains from various far-flung godowns in the country to the port town designated by the exporters.

It was observed that the implication of making available the foodgrains from whichever godown the exporters chose and move the foodgrains to the port town of their choice was not examined by the Ministry. FCI spent Rs.516.36 crore on freight charges in this process in respect of 22 districts examined in audit involving movement of 7.2 MMT foodgrains out of a total of 33.24 MMT foodgrains issued for export, which was unwarranted.

The high incidence of freight charges on inland movement also had the effect of reducing the net realization from exports, which fell below the issue rate for BPL category as seen from the table below:

(Figures Rs. per MT)

Commodity	**Max. sale price for export in 2001-02**	**Average inland freight**	**Net realisation from exports**	**BPL issue price**
Wheat	4300	738	3562	4150
Raw rice/ Boiled rice	5650/6000	699	4951/5301	5650

The Management replied (November 2004) that the BPL rates were uniform throughout the country and FCI's foodgrains were moved from the surplus States to the deficit States by payment of freight by FCI at the consignor's end. It also stated that payment of freight by FCI up to port town, which was as per the terms and conditions for issue of foodgrains for export, was an integral part of the export operations and no such inference could be drawn thereon.

The Management's reply is not tenable as permitting the exporters to lift the foodgrains at their discretion and involving heavy freight charges at the cost of FCI was not financially prudent and cannot be justified equating the same with the movement of foodgrains from surplus States to the deficient States in fulfilment of the food policy and to supply foodgrains at uniform prices especially to weaker sections of the country. Further the PDS nominee in Karnataka or Tamilnadu had no justification to demand stock in Punjab when sufficient stocks were available in the nominated depots in their States. The fact that the net realization from export was less than the BPL price has not been denied.

Thus the decision of giving a free hand to the exporters to lift the foodgrains from the godowns of their choice not only resulted in unwarranted movement of foodgrains entailing heavy expenditure on freight charges but also resulted in issuing the foodgrains below BPL rates in violation of instructions of GOM according to which exports were to be effected at BPL rates.

5.5 Deficiencies in sale operations

5.5.1 Exclusion of FCI from export operation

The Management proposed (November 2000) to the Ministry that FCI could undertake the export operations directly or through private parties in case the nominated Public Sector Undertakings engaged middlemen for export operations. The Government while deciding (November 2000) that the export of foodgrains would be undertaken by the three Public Sector Undertakings viz., STC, MMTC and PEC, stated that a view on engaging FCI in export operations would be taken after watching the performance of the three Public Sector Undertakings. However, FCI was not considered for export operations although the other Public Sector Undertakings engaged middlemen for export and private parties were permitted to export foodgrains on their behalf. FCI could have also been entrusted with export operations for attaining/adding economy and efficiency, considering the long experience it had in port operations with adequate manpower for the procurement and distribution of foodgrains.

The Management stated (November 2004) that the Ministry would furnish a suitable reply. Ministry's reply was awaited (November 2004).

5.5.2 Reimbursement of Road Transport Charges without proper documents – Rs.105.27 crore.

The Corporation, while reimbursing road transport charges to the exporters was required to obtain proof of movement of stocks into the port towns as per directions of the Ministry. FCI Headquarters, in turn, directed its field offices to insist on truck chits/goods receipts and cash receipts for freight along with certificates from licensed customs-clearing agents giving details of trucks, commodity, quantity received and payment released on behalf of the party at port towns. However, the field offices reimbursed transportation charges of Rs.105.27 crore without obtaining the prescribed documents duly authenticated in respect of 15.46 lakh MT of foodgrains in eight districts in three regions. As such the directions of the Ministry for reimbursement of transportation charges based on actuals were not complied with and the correctness of the expenditure could not be vouched-safed in audit.

The reply of the Ministry/ Management was awaited (November 2004).

5.5.3 Undue benefit of Rs. 44.25 crore to exporters for foodgrains exported through rail to Bangladesh

The Post Delivery Expenses (PDE) allowed to exporters ranged from Rs.1700 per MT to Rs.3850 per MT in respect of rice and from Rs.1175 per MT to Rs.2850 per MT in the case of wheat and were uniform irrespective of the destination, that is, the distance involved in export of foodgrains to various countries. No exercise was done to arrive at realistic post delivery expenses that the exporters would be incurring. The Government also allowed uniform discount for export by both rail and sea. It was observed that in the case of exports to Bangladesh by rail, the loaded rakes were directly moved from FCI inland godowns to various destinations in Bangladesh. FCI paid the freight charges from its inland godowns to the final destination and recovered the differential rail freight between the actual rail freight incurred and the rail freight from inland godown to the designated Indian rail port at border with Bangladesh, from the exporter. This differential freight recovered from the exporter worked out to approximately Rs.30 per MT.

The allowance towards PDE ranging from Rs.1175 per MT to Rs.3850 per MT was extended in respect of foodgrains issued for export and transported by rail to Bangladesh as against only Rs.30 per MT borne by the exporter. Thus the reimbursement of Rs. 44.25 crore towards PDE, worked out on the basis of the minimum rate of Rs.1175 per MT for wheat and Rs.1700 per MT for rice on a quantity of 0.93 lakh MT of rice and 2.51 lakh MT of wheat directly moved by rail to Bangladesh, was not in order.

The Management stated (November 2004) that the Ministry while deciding to allow uniform discount for export by rail and sea appeared to have approached the subject matter pragmatically considering the distances involved from Indian sea port to farthest countries like Russia, USA, Egypt, Indonesia, South Korea, South African countries, London, Germany, Italy (to name a few) and nearer countries like Srilanka and Bangladesh where lead involved was less. The Management further stated that to allow different PDE to different countries based on distances or linked by rail as well as sea, would result in a spectrum of different discounts (PDE) monitoring of which would be a herculean task. The reply is not valid as in the context of large differential in the rate for Bangladesh between Rs.30 per MT and Rs.1175 per MT, the Ministry should have weighed the cost benefits by notifying the rates, which could have resulted in saving of Rs.44.25 crore in the export of foodgrains by rail.

5.5.4 Loss of Rs.20.20 crore due to issue of foodgrains at pre-revised rates after price revision

In the case of issue of foodgrains for PDS, whenever issue prices were revised, the revised prices were charged for quantities issued from one week prior to the date of revision. However, in the case of exports, the exporters were allowed the benefit of pre-revised lower prices even for quantities lifted after date of price revision. Considering the primary objective of liquidating the surplus stocks on priority, the extension of benefit of pre-revised price to the exporters for quantities lifted after price revision was a deviation from the general principles of prudence followed by the Corporation for domestic issues. Resultantly, FCI suffered a loss of Rs.20.20 crore on account of extending such concession to exporters on a quantity of 8.58 lakh MT of wheat and rice.

The Management stated (November 2004) that the Ministry would offer its comments on this decision. Ministry's reply was awaited (November 2004).

5.5.5 Extension of Export price for lustre lost wheat purchased under Open Market Sales Scheme-(Domestic) (OMSS -D)

Lustre lost wheat was issued for export of wheat products only from October 2002. The District Office, FCI, Ujjain, issued (August 2002) 6613 MT of lustre lost wheat to M/s. Dewas Flour Mills and M/s. Sanghvi Flour Mills under OMSS (D). The issues thus made were only for sale under OMSS (D). Subsequently when the Ministry ratified supply of lustre lost wheat from February 2002 to September 2002 for export of wheat products retrospectively, the wheat issued to the above parties was also categorized as if issues were for export and accordingly export subsidy of Rs.0.95 crore was released to the parties. As the Ministry's ratification was only for those lustre lost wheat stocks issued prior to 1 October 2002 for wheat products export, application of export price to stocks issued under OMSS (D) resulted in extending unintended concession of Rs.95 lakh and as such was irregular.

The field office (Regional Office, Bhopal) of FCI stated (September 2004) that the Region never recommended reimbursement of PDE and inland transportation charges in the instant case but the party directly approached FCI, Headquarters/Ministry and got the approval of the same. The FCI Management simply forwarded (November 2004) the reply without offering any specific remarks. The Ministry's reply was awaited.

5.5.6 Loss due to issue of wheat at reduced rates applicable for lustre lost wheat for exports – Rs.1.11 crore

The District Office, Bikaner, issued 31,738 MT of wheat at the reduced rate of Rs.3,960 per MT applicable to lustre lost wheat though the stocks were not lustre lost as evident from Independent Consignment Certification Officer reports. This resulted in a loss of Rs.1.11 crore being the difference between the rate of good wheat and lustre lost wheat.

The Management stated (November 2004) that reply was awaited from concerned Regional Office.

5.6 Irregularities in the export transactions

5.6.1 Non-recovery of penalties due to engagement of private middlemen by Public Sector Undertakings:

The exporters were required to furnish a Bank Guarantee for the difference between the OMSS (D) price and the export price charged. In the event of failure to fulfill the export obligations and furnish the required proof thereof within the stipulated time, FCI would encash the Bank Guarantee. Thus the Bank Guarantee could be used as a deterrent device against malpractices. The Public Sector Undertakings were, however, exempted from submission of Bank Guarantee and instead they were required to submit an indemnity bond. At the same time, the Public Sector Undertakings were also permitted to engage private parties as agents and middlemen for export operations. As a result, the benefit of exemption from furnishing Bank Guarantee got extended to these private parties also. The indemnity bond furnished by the PSUs was not a suitable substitute for Bank Guarantee as it did not facilitate timely realization of dues in cases of doubtful transactions. Resultantly, FCI failed to levy or collect any penalty from such parties in the absence of Bank Guarantees.

The export documents such as export contracts, invoices, bills of lading and bank realisation certificates were received in the names of the private parties on behalf of the Central and State Public Sector Undertakings. There were several cases of doubtful transactions as discussed in the following paragraphs.

5.6.2 Non-submission of export documents

As per the terms and conditions for issue of foodgrains for export, the exporters were required to submit the following documents after completion of exports: -

- (i) H Form
- (ii) Bill of lading
- (iii) Invoice
- (iv) G.R. form
- (v) Shipping bill
- (vi) Bank Realisation Certificate

These documents were to be submitted within a period of 45 days for wheat and 90 days for rice from the date of issue of foodgrains, failing which the Bank Guarantee furnished by the exporters would be encashed.

It was observed that the exporters did not submit to FCI the entire set of documents, that is, submitted only one or more of the above documents in respect of 9.72 lakh MT of wheat and 0.04 lakh MT of wheat for wheat products and 4.93 lakh MT of rice issued from 23 District Offices in seven Regions of FCI. No export documents were furnished for verification to audit either by the District Office or by the Regional Office in respect of 3.83 lakh MT of wheat and 0.91 lakh MT of rice issued from 18 District Offices in four Regions.

As per the instructions of FCI Headquarters, New Delhi, in cases of lifting of wheat/rice stocks by the parties, for export to Bangladesh through barges, the proof of export was to be substantiated by the documents from the office of Inland Water Transport Corporation, Kolkata. It was observed that in respect of 17178.376 MT of rice issued from Andhra Pradesh region for export through barges, Inland Water Transport Corporation, Kolkatta did not authenticate the documents. However, the unauthenticated documents submitted by the party were accepted in violation of the FCI Headquarters instructions.

5.6.3 Non-submission of original documents

The exporters were required to submit the export documents in original. A test check in Andhra Pradesh region revealed that the exporters did not submit the original documents in respect of export of 2.71 lakh MT of rice and 1.41 lakh MT of wheat. Failure to insist on original documents was not in order as it could lead to possible misuse by the exporters.

5.6.4 Doubtful cases of Export

Considering the ex-FCI godown export rate which was far below the economic cost, the Ministry stated (February 2001) that it was essential for the Corporation to ensure that the rice offered for export was actually exported and was not recycled in the local market. For this purpose, it was directed that a senior officer not below the rank of Senior Regional Manager was required to verify the documents to check forging and to ensure that the rice issued by FCI was only exported. However, the required checks at Senior Regional Manager level were not exercised as is evident from the following:

(i) The dates of shipping bill/bill of lading for export of 19,596 MT of wheat, 715 MT of wheat products and 8,782 MT of rice issued from Karnataka, Andhra Pradesh, Tamilnadu, Punjab and Gujarat regions related to the period prior to lifting of stocks from FCI godowns. The customs authentication of shipping bills was made after the bill of lading date in respect of 8,082 MT of wheat products (South Zone and West Zone)

(ii) The shipping bills submitted by the exporters in respect of 1.36 lakh MT of rice in 26 cases of issues for export from Karnataka, Andhra Pradesh and Haryana regions indicated origins other than the actual origin of the stocks lifted as per the records of FCI.

(iii) The names of the vessels mentioned in the bills of lading and the corresponding shipping bills were different in respect of 8,303 MT of rice issued from Karnataka, Andhra Pradesh and Tamilnadu regions.

(iv) FCI received reports that the exporters of Basmati rice were submitting the export documents, pertaining to Basmati rice, which they had already exported, against the stocks issued by FCI to comply with export formalities. In order to prevent this malpractice, FCI issued instructions (December 2001) to incorporate a clause indicating "non-Basmati/non-scented rice" in all bills of lading. It was observed that the documents submitted for 8,833 MT of rice issued from Tamilnadu (3729 MT) and Karnataka (5104 MT) regions did not have the stipulated clause. Thus the field offices failed to comply with the instructions of FCI headquarters intended to prevent possible misuse of documents by the exporters.

(v) As against 12,795 MT of AP rice issued from Andhra Pradesh Region for exports, the exporters submitted documents in respect of PR 106 variety, which was of Punjab origin.

(vi) In respect of 3,675 MT of rice and 1,025 MT of wheat relating to crop year 2001-02 issued from Andhra Pradesh region, the exporters submitted documents indicating different crop years that is, 2000-01 (175 MT of rice), 2002-03 (3500 MT of Rice) and 2002-2003 (1025 MT of wheat).

(vii) FCI issued boiled rice for exports with a maximum broken percentage of 16 whereas the bills of lading received for 8,065 MT of boiled rice in Tamilnadu and Andhra Pradesh regions indicated the presence of 20 and 25 per cent brokens. This showed that the stocks actually exported in such cases were not FCI stocks.

(viii) The exporters of wheat products were required to export only on CIF basis as per the Ministry's instructions (December 2001). However in respect of 4467 MT of wheat issued for export of wheat products, the export was on FOB basis which was contrary to the instructions of the Ministry.

A few specific instances of submission of doubtful/forged export documents by the exporters are enclosed in the annexure-2 as case studies.

5.7 Non-recovery of Overtime Allowance– Rs.1.72 crore

The terms and conditions governing the sale of foodgrains for exports inter alia provided that FCI depots would observe normal working hours for delivering stocks to the exporters. In exceptional circumstances, when some work was required to be done in extra working hours, FCI would charge exporters all extra expenses as might be applicable. However overtime allowance of Rs.1.72 crore incurred on export operations in 13 District Offices of five Regions was not recovered from the exporters in deviation of the agreed terms.

5.8 Non-collection of sales tax on gunnies – Rs.15 lakh

As per FCI Headquarters instructions, sales tax on gunnies in case of wheat exported in bulk was to be collected from all parties at the rates prevailing in the respective States from where exports took place. FCI, Rajasthan and Punjab regions did not collect the sales tax on gunnies to the tune of Rs.15 lakh on the stocks issued to the exporters.

5.9 Lack of control by FCI in obtaining Railway Receipts in favour of the parties

The stocks despatched to port towns for export should be in the name of the concerned port District Office of FCI. However, several rakes despatched from up North were in the name of the exporters themselves. FCI Headquarters instructed (October 2002) its field offices that the quantities despatched to port towns for export purposes were to be accounted for at the despatching ends and the Railway Receipts were to be obtained in the name of the exporters at the despatching ends themselves. This was not in line with the instructions issued by the Ministry directing FCI to institute suitable mechanism to safeguard against diversion of stocks to the domestic market. It was also directed that the recipient port districts (consignee) should send monthly statements to the respective despatching Districts/Regions (consignors) indicating the receipt of foodgrains for export purposes at the respective port towns. However, the port District Offices of South Zone did not send any such statements to the despatching ends. As a result, FCI could not ensure the receipt of foodgrains rakes despatched from other centres at these port towns nor that the same stocks were actually exported.

5.10 Internal Audit

An independent Internal Audit wing works in FCI right from the Corporate level down to the District Office level. Considering the amount of subsidy involved in export transactions and the complexities in monitoring the transactions such as scrutinizing export contracts, allotments, issues, accountal, verification of export documents and release of bank guarantees, the Corporation could have entrusted the work relating to the verification and reconciliation of the documents at all levels to Internal Audit. FCI did not envisage this internal check system while commencing the export operations (November 2000). Only in May 2002, the HLC decided that all the export transactions were to be audited and reconciled by internal audit. FCI field offices did not implement even this decision and no internal audit report on export transactions was made available to audit except in Andhra Pradesh and Maharashtra regions. Thus, lack of inadequate internal controls and appropriate role for internal audit in reviewing the export transactions resulted in various omissions and commissions referred to above.

5.11 Conclusions:

(i) There was heavy procurement of wheat and rice neither justified from production point of view nor justified from off-take, leading to unnecessary piling up of stocks much in excess of minimum stocks of wheat and rice to be held at the beginning of every quarter in the Central Pool under the buffer stocking policy. Resultantly, the Government of India had to resort to export of wheat and rice with the intention of surmounting storage problems and reducing carrying cost.

(ii) Although the Ministry fixed the issue price of wheat for exports based on the criteria laid down by the Group of Minister constituted for considering the proposal for export of wheat, but the variables adopted, namely, economic cost and carrying cost for arriving at issue price were for the purpose of arriving at the realistic economic cost which the consumers under PDS ought to pay and as such were not relevant for export of foodgrains. In the process the price fixed was lower resulting in short realisation of Rs.1608.63 crore, which led to additional subsidy burden.

(iii) The exporters adopted a policy of pick and choose in lifting foodgrains leading to avoidable inland movement of foodgrains involving heavy freight charges at the cost of FCI. The freight charges incurred in 22 districts examined in Audit worked out to Rs.516.36 crore. The high incidence of freight charges on inland movement also had the effect reducing the net realization from exports which fell below the issue rate for BPL category.

(iv) There were many deficiencies in export operations, besides non-compliance of instructions of the Ministry such as reimbursement of road transportation charges without proper proof of payment, giving allowances when it was not required, extending undue benefit to exporters, issue of foodgrains at pre-revised rates after price revision etc. There were also instances of irregularities, that is, non-recovery of penalties, non-submission of export documents, doubtful cases of exports and non-existence of adequate internal control mechanism.

5.12 Recommendations:

(a) While fixing the export price for foodgrains it is desirable that clear guidelines are laid down defining various terms and conditions unambiguously to avoid extra subsidy burden to the Government of India.

(b) It is desirable that foodgrains for export should be identified as regards variety, quality and location of stocks.

(c) As issue of surplus foodgrains for exports tends to become a regular feature, it is imperative that a proper system is evolved for monitoring export operations. FCI should keep proper checks and balances in place for ensuring compliance of export commitment.

(d) Internal Audit should be entrusted with checking of documentation of export transactions.