TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)

SIXTY FOURTH REPORT

(Presented on 25th February, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2009

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SIXTY FOURTH REPORT

On

Oil Palm India Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March 2006 (Commercial)

237/2009.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011) having been authorised by the Committee to present the Report on their behalf, present this Sixty Fourth Report on Oil Palm India Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial) was laid on the Table of the House on 28-3-2007. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 21-1-2009.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraph included in this Report.

The Committee wish to express their thanks to the officials of the Agriculture Department of the Secretariat and Oil Palm India Limited, for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Agriculture Department and Finance Department and the officials of Oil Palm India Ltd., who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
25-2-2009.

Chairman,
Committee on Public Undertakings.

REPORT

OIL PALM INDIA LIMITED

AUDIT PARAGRAPH

The Company had been engaged in the production and sale of crude palm oil and other palm oil products, the prices of which were subject to periodical revision. The tender conditions for sale of products provided that the successful bidder selected on the basis of tenders shall be issued a sale letter/confirmation of tender specifying the quantity to be sold and price applicable. The successful bidder had to pay in advance the full price of materials with other levies immediately on receipt of the confirmation from the Company and arrange to lift the tendered quantity within 7 days of receipt of the confirmation.

It was noticed in audit that neither the tender document nor the letter of confirmation of tender contained any provision to make good the probable revenue loss due to price fluctuation in the event of unreasonable delay on the part of customers in making the payment and lifting of materials. Even though the payment was to be made in advance as stipulated in the tender, it was observed that in actual practice it was made only at the time of lifting the goods from the Company. In 34 out of 88 tenders during the period.

2002-2005 the customers took time ranging from two weeks to six months for lifting the goods and making payment. The Company was also not charging the revised prices in respect of bidders who delayed the lifting of materials. In 16 out of the 34 cases mentioned above the revenue loss due to non-application of revised prices to customers who delayed lifting of materials during the three years ended 31st March 2006 worked out to Rs.43.06 lakh.

The Management stated (June 2006) that for receiving confirmation and arranging for advance payment and transport, the customers required more than ten days. Hence removal of stock cannot be enforced within seven days of confirmation.

The reply is not tenable since customers should not be allowed undue benefit at the cost of the Company by taking delivery of materials during periods when the Company could have made higher realisation. Further, in Plantation Corporation of Kerala Limited another State PSU, where the market price was under wide fluctuations, a protective clause to add increase in lot price had been included in the contracts.

Thus, non-incorporation of suitable provision in the tender to safeguard the interest of the Company in respect of delayed payment and lifting of goods by customers resulted in revenue loss of Rs.43.06 lakh.

The matter was reported to the Government/Company in June 2006; their reply is awaited (August 2006).

[Audit Paragraph 4.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial)].

Notes on the Audit Paragraph furnished by Government is given in Appendix II

The Committee wanted to know why the Company was permitting tenderer to make delayed payment and allowing them to lift the palm oil weeks and months after receiving confirmation of the tender even though the tender conditions stipulated that the successful bidder should pay in advance the full price of materials immediately on receipt of confirmation and lift the palm oil within 7 days. The witness stated that it was difficult to lift 100 to 200 tons of the oil within 7 days and to raise Rs.20 to 50 lakh within that time for advance payment. The Committee pointed out that due to fluctuation in prices, and because the company was not including a protective clause to obtain higher price in case of price rise, the Company was incurring loss while the tenderers were making profit, and the loss in 16 out of 34 cases during the three years ended 31st March 2006 was Rs.43.06 lakh. The witness replied that only one transaction had taken 172 days and there was delay of more than 1 month in lifting the tendered quantity in only 15 cases. When the Committee enquired about the revised Government order permitting upto 2 weeks time to lift the tendered quantity of palm oil, the witness explained that even two weeks time was insufficient. The Board had written to Government to reconsider and modify the order. He further stated that due to customs duty concessions, a lot of palm oil was being imported in North India and hence tenderers from there were not participating in the tender. There were only one or two participants from within the State, and strict enforcement of tender conditions, would discourage them. The 34 cases pointed out by Audit related to 3 tenderers and if they withdrew the Company would be forced to accept lower selling price. The Committee remarked that if necessary, the tender conditions should be suitably amended. To a question regarding the oil extraction plant, the witness informed that preliminary work on setting up the plant had started.

Conclusion/Recommendations

The Committee finds that during the three years ended 31st March 2006, the Company incurred a revenue loss of Rs 43.06 lakh by allowing undue benefit at the cost of the Company due to non-incorporation of suitable provision in the tenders to safeguard the Company's interest in case of delayed payment and lifting of goods by customers. The Committee also notices that the

Company was thus favouring the bidders by permitting them to lift the goods after periods ranging from 2 weeks to 6 months. The Committee recommends that the Company should include a protective clause to add increase in lot price, whenever the market price is under fluctuation. Government should consider and amend the tender condition regarding time allowed for lifting of goods to make it practicable in the present situation. The Committee further recommends that the company should try diversification and strong marketing strategies using the available infrastructure and funds.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
25th February 2009.

Appendix I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl.No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	2	Agriculture	The Committee finds that during the three years ended 31st March 2006, the Company incurred a revenue loss of Rs. 43.06 lakh by allowing undue benefit at the cost of the Company due to non-incorporation of suitable provision in the tenders to safeguard the Company‘s interest in case of delayed payment and lifting of goods by customers. The Committee also notices that the Company was thus favouring the bidders by permitting them to lift the goods after periods ranging from 2 weeks to 6 months. The Committee recommends that the Company should include a protective clause to add increase in lot price, whenever the market price is under fluctuation. Government should consider and amend the tender condition regarding time allowed for lifting of goods to make it practicable in the present situation. The Committee further recommends that the company should try diversification and strong marketing strategies using the available infrastructure and funds..

APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PRAGRAPH

Action taken Statement on Recommendation No. 4.2 in the Report of the Comptroller & Auditor General of India for the year ended 31-3-2006

Sl. No.	*Department Concerned*	*Para No. and title*	*Recommendation*	*Action Taken*
(1)	(2)	(3)	(4)	(5)
1	Agriculture	4.2 loss of revenue	Non incorporation of suitable provision in the tender to safeguard the Company's interest in respect of delayed payment and lifting of goods by customers resulted in revenue loss of Rs. 43.06 lakhs. The Company had been engaged in the production and sale of crude palm oil and other palm oil products, the price of which were subject to periodical revision. The tender conditions for the sale of products provided that the successful bidder selected on the basis of tenders shall be issued a sale letter /confirmation	Government examined the recommendation of the Comptroller and Auditor General and directed the Managing Director, Oil Palm India Limited to introduce the following clause in the tenders: "An advance payment of 25% of the total price from the successful bidder may be obtained within two weeks from the acceptance of the Tender (ie., before executing agreement). This amount will be adjusted in the final payment due from the bidder. A specific time (two weeks) for the removal of stocks after the due date of confirmation orders issued, may be stipulated. If the stocks were not removed within this time the selling officer will impose a penalty

(1)	(2)	(3)	(4)	(5)
			of tender specifying the quantity to sold and price applicable. The successful bidder had to pay in advance the full price of materials with other levies immediately on receipt of the confirmation from the Company and arranged to lift the tendered quantity within 7 days of receipt of the confirmation. It was noticed in audit that neither the tender document nor the letter of confirmation of tender contained any provision to make good the probable revenue loss due to price fluctuation in the event of unreasonable delay on the part of customers in making the payment and lifting of materials. Eventhough the payment was to be made in advance as stipulated in the tender it was observed that in actual practice it was made only at the time of lifting the goods from the company. In 34 out of 88 tenders during the period 2002-2005 the customers took time ranging from	at 0.1% of the total selling price. This amount will be recovered from the above advance payment of the successful bidder". But the Managing Director, Oil Palm India Limited furnished the following opinion in the matter and has requested to keep in abeyance the directions of Government until the number of bidders participating in the tenders, which is very low at present (1 or 2), increases. The observations contained in the report of the C & AG is mostly presumptive. The conclusion that the materials sold at earlier prices could also be sold at higher prices obtained later is only hypothetical. The prices are quoted under the terms and conditions of the tender. If these conditions are modified, it will cause disadvantage to the buyers and naturally they will modify their price also. The audit has not taken into consideration the impact of revised tender conditions on the prices. the presumption of the C& AG that the

two weeks to six months for lifting the goods and making payment. The company was also not changing the revised prices in respect of bidders who delayed the lifting of materials. in 16 out of 34 cases mentioned above the revenue loss due to non-application of revised prices to customers who delayed lifting of materials during the 3 years ended 31st March 2006 worked out to Rs. 43.06 lakhs.

The Management stated (June 2006) that for receiving confirmation and arranging for advance payment and transport, the customers required more that 10 days. Hence removal of stock cannot be enforced within seven days of confirmation.

The reply is not tenable since customers should not be allowed undue benefit at the cost of the company by taking delivery of materials during periods when the company could have made higher realization. Further, in Plantation Corporation of Kerala Ltd. another buyers will pay the same price even after the alteration of the terms and conditions of sale may not be acceptable to the buyers as the market for oil is very volatile due to the interactions of various factors of the market, such as supply demand, import of oil, price of other oil weather etc. Hence the alleged loss of Rs. 43.06 lakhs is only national and may not be considered as real.

The company has been selling Crude Palm Oil (CPO) by floating weekly, fortnightly and monthly tenders for the specified lots of products depending upon the availability of stock and anticipated production in each month. As per the approved sale policy of the Company, the buyers have to pay full price with tax in advance and remove the allotted quantity from the company premises.

Each tender involves an amount or Rs. 75 lakhs and parties have to arrange the fund for advance payment for releasing the stock. Besides, the parties have to arrange transport to their destination, which is around 500 to 1500 KMs away

(1)	(2)	(3)	(4)	(5)
			state PSU where the market price was under wide fluctuations, a protective clause to add increase in lot price had been included in the contracts. Thus, non-incorporation of suitable provision in the tender to safeguard the interest of the company in respect of delayed payment and lifting of goods by customers resulted in revenue loss of Rs. 43.06 lakhs. The matter was reported to the Government/Company in June 2006. Their reply is awaited (August 2006).	from the factory site. The customers have to transport the stock by overcoming national bandhs, harthals, and Public Holidays and other obstructions that are likely to occur during the course of the period, which hinder the transport of the material from the factory to their site. Considering the above constraints faced by customers, the delivery period is not strictly enforced. For receiving confirmation, arranging advance payment and arranging transport will take more than 10 days and hence removal of stock cannot be enforced within days of confirmation. For all practical purposes, this cannot be insisted also. The auditors had analysed the price increase which has occurred during the course of the period of audit (2002-2005) and worked out with the partial data and highlighted the revenue loss of Rs. 43.06 lakhs specifying it as undue benefit of the buyers. In this context, it may be noted that during the course of

2002-2005, the price of the CPO have shown increase and decrease depending upon the Indian market rate. Out of this, only the rise in price have been considered by the audit for highlighting the revenue loss.

As large quantity of crude palm oil being imported now, the number of biddeers participating in the tenders are coming down. There was only one bidder on several occasions. The stock of oil at the Company's factory has reached almost to the full storage capacity. During the peak season, the production is about 100 MTs per day and the Company was inviting tenders for 200 MTs at a time during this period. At the present rate, the total tender price for one tender is about Rs. 75-80 lakhs. introducing a clause in the tenders demanding 25% as deposit and restricting the period of delivery at this time may prevent even the small number of bidders from participating in the tender. This will adversely affect the marketability of the product and the profitability of the Company.

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(1)	(2)	(3)	(4)	(5)
				The tender contracts of Oil Palm India Ltd. and Plantation Corporation of Kerala Limited is not comparable since in the PCK ltd., the price of latex is fixed based on the price published in Newspapers/Rubber Board. No tenders are invited for the purpose by PCK Ltd. For Crude Palm Oil, no such market rates are published and hence the sale through tender is adopted in Oil Palm India Limited.