

THIRTEENTH REPORT
STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1994-95)

(TENTH LOK SABHA)

INDIAN FARMERS FERTILIZERS COOPERATIVE LTD.
AND KRISHAK BHARATI COOPERATIVE LTD.

MINISTRY OF CHEMICALS & FERTILISERS
(DEPTT. OF FERTILISERS)



Presented to Lok Sabha on..... **30 MAR 1995**
Laid in Rajya Sabha on.....

LOK SABHA SECRETARIAT
NEW DELHI

March, 1995/Chaitra, 1916 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1994-95)

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* Ceased to be Member of the Committee consequent upon retirement from Rajya Sabha w.e.f. 1st July, 1994. Renominated to the Committee w.e.f. 12th July, 1994.

** Nominated to the Committee w.e.f. 21st April, 1994.

*** Nominated to the Committee w.e.f. 18th April, 1994. Expired on 21st September 1994.

\$ Nominated to the Committee w.e.f. 11th April, 1994.

\$\$ Nominated to the Committee w.e.f. 16th November, 1994.

INTRODUCTION

I, the Chairman, Standing Committee of Petroleum & Chemicals (1994-95) having been authorised to submit the Report on the Ministry of Chemicals & Fertilisers (Deptt. of Fertilisers) on Indian Farmers Fertilisers Cooperative Ltd. (IFFCO) and Krishak Bharati Cooperative Ltd. (KRIBHCO).

2. The Committee took evidence of representatives of Indian Farmers Fertilisers Cooperative Ltd. (IFFCO) and Krishak Bharati Cooperative Ltd. (KRIBHCO) on 14 September, 1994 and those of representatives of Gas Authority of India Limited (GAIL) on 29 September, 1994. The Committee also took oral evidence of representatives of Ministry of Petroleum & Natural Gas, Gas Authority of India Limited (GAIL) and Oil and Natural Gas Corporation Ltd. (ONGCL) on 19 October, 1994 and representatives of Ministry of Chemicals and Fertilisers (Department of Fertilisers) on 11 and 12 January, 1995.

3. The Committee considered and adopted the Report at their sitting held on 22 March, 1995.

4. The Committee wish to express their thanks to the officers of the concerned Ministries/cooperatives/other organisations who appeared and placed their considered views before the Committee on the subject.

5. For facility of reference, the recommendations and conclusions of the Committee have been printed in thick type.

SRIBALLAV PANIGRAHI,
Chairman,

*Standing Committee on
Petroleum & Chemicals.*

NEW DELHI;

March 24, 1995
Chaitra 3, 1916 (Saka)

REPORT

PART I—BACKGROUND ANALYSIS

CHAPTER I—OBJECTIVES OF IFFCO & KRIBHCO

A. Setting up of IFFCO & KRIBHCO

Indian Farmers Fertilisers Cooperative Ltd. (IFFCO) was registered as a cooperative society in November, 1967 under the Multi-unit Cooperative Societies Act, 1942. On the enactment of Multi-State Cooperative Societies Act, 1984, the Society was deemed to be registered as a Multi-State Cooperative Society. Presently, IFFCO owns the following 4 plants having a total production capacity of 8.64 lakh tonnes in terms of nitrogen and 3.09 lakh tonnes in terms of P205.

S. No.	Plant	Product	Year of commencement of Production	Installed Capacity on 1.12.93 (in lakh tonnes in terms of nutrients)
1.	Kalol (Gujarat)	Urea	1975	1.82 Nitrogen
2.	Kandla (Gujarat)	NPK	1975	1.20 Nitrogen 3.09 Phosphate
3.	Phulpur (U.P.)	Urea	1981	2.28 Nitrogen
4.	Aonla (U.P.)	Urea	1988	3.34 Nitrogen
TOTAL				8.64 Nitrogen 309 Phosphate

1.2 Krishak Bharati Cooperative Ltd. (KRIBHCO) was registered as a cooperative society on April 17, 1980 under the Multi-Unit Cooperative Societies Act of 1942 and consequent upon enactment of Multi-State Cooperative Societies Act, 1984 it was deemed to be registered as a Multi-State Cooperative Society. Presently KRIBHCO is having its sole fertiliser plant at Hazira (Gujarat) with production capacity of 14.52 lakh tonnes per annum (in terms of Nitrogen) of Urea.

1.3 Prior to incorporation of KRIBHCO the Hazira Plant was conceived by IFFCO and was planned to be jointly owned with National Fertilisers Ltd. However, in order to avoid complexities of dual ownership, a single owner viz. KRIBHCO was incorporated.

B. Objectives of IFFCO & KRIBHCO

1.4 The main objective of both IFFCO & KRIBHCO as provided in their bye-laws is to promote the economic interests of the members of these two Cooperatives. These interests have to be secured by undertaking *inter-alia* the following activities:

- (i) Setting up of plants for manufacture of chemical/bio-fertilisers.
- (ii) Creating transport and storage facility for fertilisers.
- (iii) Production processing and manufacture of insecticides, pesticides, seeds, agricultural machinery and implements.
- (iv) Providing technical consultancy and other services to the member societies and other agencies.
- (v) Setting up of agriculture farms.
- (vi) Setting up of institutes for training of farmers.
- (vii) Providing training to employees of cooperative societies to promote and develop sale of fertilisers and other agriculture production requisites.
- (viii) Promoting and organising other cooperative societies in the field of production/marketing of fertilisers.
- (ix) To set up units for manufacture of cement, sugar, petro-chemicals, electronic items etc.

1.5 During the course of evidence of representatives of IFFCO, the Committee pointed out that IFFCO had been concentrating on running their fertiliser plants. On being asked whether they were satisfied about achieving their objectives as laid down in their bye-laws, Managing Director, IFFCO informed the Committee:

“Basically bye-laws are more general to provide flexibility in case of needs. IFFCO was formed to produce and sell chemical fertilisers in 1967 and there has been consistent shortage of Urea, DAP and NPK in our country. This is the most important thing connected with the farmers. So, we have been concentrating on development and providing of agricultural information to the farmers. None of the people in our country have this kind of field staff 600 trained agricultural graduates. We have field staff who live very near to the villages, very near to the farmers and they are providing them the best available technology. We have 13 agricultural Chairs in 13 agricultural universities and these Chairs do work on transfer of technology from lab to land.”

1.6 When asked about other activities undertaken for the benefit of the farming community, the witness stated:

“We have also been supplying agro-chemicals and seeds to the farmers. We buy seeds from agricultural universities and agro-chemicals from reputed companies and sell to the farmers.”

He further informed:

“We are supposed to work under Multi-State Cooperative Societies Act and under the bye-laws of IFFCO. According to that, we have our systems of directions from the Board. Then, Board has got Executive Committee, Project Sub-Committee and Marketing Sub-Committee. Our meetings take place regularly. We have very strong involvement from the people.”

1.7 Asked further whether present activities of IFFCO are commensurate with the objectives of IFFCO, IFFCO in a written note stated:

“About 33,000 cooperative societies are members of IFFCO which have pooled in their resources to promote IFFCO. IFFCO has ensured reliable quality, supply of chemical fertilisers and is country’s largest supplier of chemical fertilisers. During the year 1993-94 the society has contributed about 13 per cent of the total N and about 19 per cent of the total P205 produced in the country. The distribution of the fertiliser material is channelised mainly through the cooperative network spread across length and breadth of the country. It could thus be said that activities of IFFCO are commensurated with its objectives.”

1.8 On being further asked as to whether any assessment was made about achievement of the various objectives of IFFCO so far and whether some more activities were being planned to be undertaken to achieve the objectives, the IFFCO in written note stated:

“Over the last two and half decades the focus of the Society had been on producing and supplying chemical fertilisers. It has also been supplying other essential agricultural inputs like seeds and agro-chemicals. This has contributed to improvements in agricultural productivity and benefited its members who mainly belong to agricultural sector. In addition, the Society had been consistently declaring dividends to its members and extended other benefits like educating the farmers for raising the crops, use of balanced fertilisers through crop seminars and village adoption etc. In order to encourage the members to patronise IFFCO’s fertilisers, the Society has been extending quantity and patronage rebates on the fertilisers purchased by them. Various programmes taken up under promotional activities have also proved beneficial in introducing latest practices in agriculture. The Society is embarking on an ambitious expansion and diversification programme.

The capacities of the existing plants are proposed to be expanded and new projects are envisaged within the objectives as enshrined to be taken up both within and outside the country in the bye-laws.

In addition to consolidating its position in fertiliser sector, the Society is also enlarging the sphere of activities for an overall realisation of the objectives as enshrined in its bye-laws. The Society is floating a company under the name and style of ‘IFFCO Agro-Chem’ to produce agro-chemicals. A multi-state cooperative Society ‘Indian Farm Forestry

Cooperative (IFFDO)' has been promoted to undertake wasteland development with the financial assistance from CIDA. IFFCO has also been contributing 1 per cent of net profits to Co-operative Education Union of India (NCUI). Thus we feel that IFFCO has adequately achieved its objectives."

1.9 On being enquired whether any time frame had been fixed to take up all the activities mentioned in the objectives, the Committee were informed by IFFCO in a note that it was not possible to fix a time frame for all the activities included in the objectives of the Society. Nonetheless, time frame was being fixed well in advance before any new expansion/diversification programme was taken up for implementation.

1.10 During the course of evidence of the representatives of KRIBHCO the Committee wanted to know the assessment of the society in regard to achieving the objectives detailed in their bye-laws. Managing Director, KRIBHCO informed the Committee as follows:

"Sir, we are neither totally satisfied nor totally dejected about the whole thing. Earlier, we have been told that we cannot go beyond fertilizer products, we could not think of any diversification and other things. We have gone with a lot of proposals but we have been always asked to stick to the fertilisers line. We have got our bye-laws changed..."

1.11 Explaining it further KRIBHCO in a written note informed the Committee that KRIBHCO was engaged in manufacture and marketing of urea and seeds. besides production and marketing of urea and seeds, the Society has been procuring other essential agro-inputs like pesticides, zinc sulphate, decontrolled fertilisers, etc. and selling the same through its own network *i.e.* Krishak Bharati Sewa Kendras. The Society has been organising a number of activities for strengthening of Cooperative System in the country including training to Cooperative Sales personnel, Cooperative Conferences. etc.

1.12 When asked about whether the present activities of KRIBHCO commensurated with the objectives of KRIBHCO the Committee were informed by KRIBHCO in a written note that the activities of KRIBHCO were as per its objectives only.

1.13 On being further asked about the other activities proposed to be undertaken by KRIBHCO so that the objectives of KRIBHCO were fully achieved, the Committee were informed in a written note that KRIBHCO was in the process of expanding its fertiliser/seed production activities and also diversifying into Agro based industries like Medium Density Fibre Board Project, Mushroom Cultivation Project etc. Society was also planning to import decontrolled fertilisers and also undertaking developmental projects in States of Gujarat, Rajasthan and M.P.

1.14 During the course of examination of the administrative Ministry *viz.* Deptt. of Fertilisers (DOF) the Committee wanted to know whether the DOF had made any study/evaluation about achieving the objectives of IFFCO and

KRIBHCO. DOF in a written note informed the Committee that these two organisations were by and large, achieving the objectives as stipulated in their bye-laws.

1.15 In reply to a further question about general assessment of functioning of these two cooperatives and the role of the Ministry with regard to these cooperatives, the Secretary, DOF stated during evidence:

“The Ministry is responsible for the development of the fertiliser sector. We are responsible for the sectoral planning and since IFFCO and KRIBHCO are two industrial undertakings, although in the cooperative sector, we have been given the administrative responsibility in regard to these two organisations. The principal function of these organisations is the production and distribution of fertilisers. In addition to that, of course, they have certain ancillary functions. From the point of view of the national economy, they are very important in the sense that they have 20 per cent of the urea production capacity with them and about 11 per cent of phosphatic production in the country. By way of general assessment I can say they are well run, they are professionally managed and are contributing very much to the national development.”

CHAPTER II

CAPITAL STRUCTURE AND OTHER RELATED ISSUES

A. Capital Structure

2.1 As against the authorised share capital of Rs. 1000 crores of IFFCO and Rs. 500 crores of KRIBHCO, the paid up capital of these Cooperatives at the end of March, 1994 was as under:

(Rs. in crores)		
Shares held by	IFFCO	KRIBHCO
Govt. of India	289.61	328.00
NCDC	8.05	0.30
Cooperatives	61.94	28.36
IFFCO	—	97.00
TOTAL	359.60	453.66

2.2 During the course of examination of IFFCO the Committee enquired whether the paid up capital of IFFCO was adequate to carry out the present activities or there were any plans to increase it. IFFCO in a written note stated that the existing paid up capital of the Society was adequate to carry out the present activities. There was no plan to increase the paid up capital for the time being since IFFCO had sufficient internally generated funds to meet its commitments for the projects under implementation and those planned for implementation in the near future.

2.3 On being pointed by the Committee that IFFCO was not a cooperative unit in real sense as more than 80% equity was held by Government the M.D., IFFCO informed during evidence that IFFCO was working as a good cooperative. Out of 27 directors, 3 were Ex-officio, 5 Government nominees and remaining 19 were from cooperatives. Every director has equal voting right and decisions were taken by the majority of the directors.

2.4 He further stated that IFFCO was having about 30,000 share holders and was largest cooperative in the world. Annual General Meetings were being attended by about 600-700 members and useful suggestions were being received during these meetings.

2.5 When asked by the Committee whether the paid up capital of KRIBHCO was adequate to carry out the present activities or there were any plans to increase it, KRIBHCO in a written note informed the Committee that the paid up capital of

KRIBHCO was adequate to carry out the present activities and there were no immediate plans to increase the same.

2.6 During the course of examination of Department of Fertilizers, the Committee pointed out that out of the total equity of Rs. 359.50 crores in IFFCO and Rs. 453.66 crores in KRIBHCO, the share of cooperatives account for 16% and 6% in IFFCO and KRIBHCO respectively. On being asked by the Committee whether the Government intended to change the capital structure of IFFCO and KRIBHCO by increasing the share of cooperatives to make IFFCO and KRIBHCO cooperative units in real sense, the Secretary, Department of Fertilizers stated during evidence:

“First of all, it is true that we can characterise these organisations as cooperative only in name. It is because, in the case of IFFCO, it is over 80 per cent. In that sense, these are only co-operative organisations in name. Nevertheless, they are being run largely by the very societies who are members although they hold a very limited share of the equity capital. Why I am saying that is because in the Board, majority of the Directors is from cooperatives. In IFFCO, out of 26 Directors, there are only five Government Directors. In KRIBHCO, out of 16 Directors, there are only five Government Directors. Effectively, the control and management is with the cooperatives. The issue of whether or not the Government should encourage its share capital being transferred to the cooperatives has been considered neither in our Ministry nor in the Agriculture Ministry.”

He further stated:

“We would however, have been very happy if the cooperatives came forward and took up more equity of these cooperatives. But that did not happen in the past and it does not seem to likely happen in the foreseeable future because this magnitude of equity being taken over by cooperatives does not seem likely.”

B. Cooperative vis-a-vis Company Status

2.7 During the course of examination the Committee referred to the press reports suggesting that IFFCO and KRIBHCO were considering for changing their co-operative society status to that of a company for bringing public issues for raising their financial resources. Asked whether the matter had been examined by IFFCO, the Managing Director, IFFCO stated during evidence:

“It has come out in the Press. We have read that report. In one of the meetings called by the Agriculture and Cooperation Minister this item was discussed. They wanted to discuss conversion of cooperatives into co-operative company by insertion of a clause in the Company Law. But this is only voluntary. People who want to join can join. I will like to go a little into macro level. The cooperatives may not have sufficient funds. For example, right now our fund is to the extent of Rs. 678 crores. Had we

been in a public sector or private sector company, we could have invested something like Rs. 600 crores out of Rs. 678 crores fund. We could have put up project of that value. We could have gone into the market and got cheaper finance. This constraint is there in the co-operative sector. Sometimes this matter was discussed—is it possible for us also to try and get this cheaper finance without diluting our cooperative principles. This is discussed sometimes in seminars but it has not been discussed formally. Some of the countries have this kind of provision where they have non-transferable shares and transferable shares in the same institution. The transferable shares are transferred and traded like any other shares. But non-transferable shares which are management controlled shares, are not transferred. It is possible to achieve both the objective in that scenario. We have massive investment plan upto the year 2000 A.D. with an investment of about Rs. 3000 crores. We feel, out of Rs. 3000 crores about Rs. 1500 crores can come out of IFFCO and the other Rs. 1,500 crores can be borrowed from banks and financial institutions which would be little expensive than borrowing from the market. But we do not want to enter into a controversy on this subject.”

2.8 When asked about the views of KRIBHCO on the subject the Managing Director, KRIBHCO informed the Committee that a report containing relative advantages and disadvantages of this change over had been submitted by KRIBHCO to Department of Fertilizers.

2.9 On being further pointed out by the Committee that IFFCO was a share holder of KRIBHCO and IFFCO itself was not keen to change over to company status, the witness replied that both organisations were asked to submit reports.

2.10 During the course of evidence of the representatives of Department of Fertilisers the Committee enquired whether the Government was contemplating change over from cooperative to Company status in respect of two co-operative units viz. IFFCO and KRIBHCO and whether this issue was examined in the Department of Fertilizers. The Secretary, Department of Fertilizers informed the Committee:

“We have not examined this issue in Department nor has the Ministry taken any decision on this.”

Explaining it further the witness stated:

“The issue was examined in the context of two policy issues which were considered by the Agriculture Ministry and referred to us. One is the Government’s intended Policy Paper on National Co-operative Policy and the other is regarding some changes that are being contemplated in the Multi-State Co-operative Societies Act. It was in the context of these two issues that we had a look at how far the changes that were being proposed in regard to the cooperative structure as a whole would be relevant for IFFCO and KRIBHCO. The Ministry has come to the conclusion that the changes which are contemplated have not been framed keeping in mind the

nature and magnitude of operations of large industrial undertakings like IFFCO and KRIBHCO. They are still under consideration of the Government.”

2.11 In reply to another question as to what were the *pros and cons* of the cooperative form of management of the industrial undertakings like IFFCO and KRIBHCO and what would be the possible advantages of bringing them under the Companies Act, the Secretary, Department of Fertilizers stated:

“Coming to the nature of the working of the cooperatives, perhaps it would not be appropriate to treat them (IFFCO & KRIBHCO) at par with cooperatives for which that policy is meant. All policy changes that are sought to be made in regard to the Co-operative National Policy as also the Multi-State Co-operative Societies Act, have basically the thrust of Government withdrawing from the cooperatives and giving them greater autonomy. But that is based on the presumption that the cooperatives will own most of the equity.”

He added:

“The examination of these issues in the Agriculture Ministry is being done in the context of functional co-operative societies in various areas. For instance, the distribution aspect and other things. Those policy papers have not taken into consideration the nature of industrial undertakings. Our Ministry’s view is that so long as Government continues to hold such share capital in these and so long as they are carrying out industrial activities in the core sector, the Department of Fertilisers is not inclined to treat them differently than the public sector undertakings in fertilisers sector. We would like to retain the same kind of control on industrial co-operative societies as we have on the public sector undertakings in the fertilizer sector.”

C. Memorandum of Understanding (MoU)

2.12 Presently IFFCO and KRIBHCO are not signing MoU with the Administrative Ministry *viz.* Department of Fertilizers as is being done by some of the public sector undertakings. The MoU signing Companies enjoy more autonomy in their operations and projects costing upto Rs. 50 crores need not be sent to Government for approval.

2.13 In this context, Managing Director, KRIBHCO stated during evidence:

“We should be able to sign the MoU or if there is no other way to increase the resources then we can go to public and borrow money.”

2.14 When asked whether the above difficulties could not be overcome by the co-operative unit, the witness replied:

“No, Sir.”

In this connection, IFFCO also stated in a note:

“Being a Co-operative Society IFFCO is not required to sign any MoU with the Government of India. However, keeping in view the various expansion and diversification schemes planned for implementation, IFFCO has approached the Government of India for providing more autonomy and freedom in running the Organisation as available to MoU signing public sector undertaking.”

When asked from KRIBHCO that would it not be better to have MoU particularly when Organisations having MoU system get more autonomy and freedom in running the Organisations, KRIBHCO in a written note furnished after evidence stated as follows:

“Yes it will be better to have MoU since the organisation having MoU system get more autonomy and freedom. However, it is understood that Government of India has no system of signing Memorandum of Understanding with Co-operative Societies like KRIBHCO/IFFCO. We also understand that a proposal for allowing Co-operative Societies to sign MoU with the Government is presently under consideration by the Government.

However, recently the society has received a letter No. 188/13/94-FS-II dt. 7th November 1994 from Ministry of Chemicals and Fertilizers, Department of Fertilizers, extending the delegation of powers to the Board of Directors of both IFFCO and KRIBHCO to incur capital expenditure in line with MoU signing Public Sector enterprises as communicated *vide* office Memorandum No. 1(18)/B-DFE(MoU) dt. 29-8-90 from Ministry of Industry. (Department of Public Enterprises), subject to the fulfilment of all the conditions in the aforesaid O.M.”

2.15 During the course of examination of Department of Fertilizers, the Committee wanted to know about the difficulties in signing MoU with big co-operatives like IFFCO and KRIBHCO which were being run almost like big Public Sector Undertakings and whether these Co-operatives could be given MoU signing status for giving them more autonomy and freedom in their operations, Department of Fertilizers in a written note stated:

“MoU is a freely negotiated performance agreement between Government (as owners of PSUs) and the PSUs. It specifies the obligations and the mutual responsibilities of the two parties, with particular emphasis on physical and financial performance of PSUs. The Department of Public Enterprises (DPE) in the Ministry of Industry is the nodal agency which coordinates the signing of MoUs with the PSUs, IFFCO and KRIBHCO, being co-operative societies, do not fall under the purview of Department of Public Enterprises and therefore, are not being considered for signing of MoUs. Department of Public Enterprises has authorised enhanced delegated powers to the Board of Directors of MoU signing PSUs in regard to capital expenditure. Although IFFCO and KRIBHCO are not PSUs, they have also been authorised by the Department to incur capital expenditure in line with the MoU signing PSUs. Thus, in so far as the question of greater autonomy

and freedom is concerned, both IFFCO and KRIBHCO have been treated at par with MoU signing PSUs in the matter of investments/capital expenditure.”

D. Corporate Plan

2.16 IFFCO has a corporate plan duly approved by its Board of Directors. However, it came out during the course of examination that KRIBHCO had not prepared any Corporate Plan since its inception. KRIBHCO had advanced the following reasons for not preparing any corporate plan so far:

- (i) Concentration of all efforts towards successful Implementation of the Hazira Project, the only important mission, for first few years of incorporation.
- (ii) Frequent changes in Chief Executive of the Coöperative.
- (iii) The exercise for preparing Corporate Plan, taken up in 1989-90 could not be firmed up because the Department of Fertilisers then was of the view that KRIBHCO should confine only to the Fertiliser field and not diversifying into any other area. Since all fertiliser projects are allocated by the Government of India, the perspective plans of the society could not be formulated in the absence of any upcoming allocations.”

2.17 KRIBHCO however, informed the Committee that finalisation of a detailed perspective plan was in progress in KRIBHCO at present. Giving salient features of the Detailed Perspective Plan, KRIBHCO in a written note stated as follows:

“In the last one year, considerable progress has been made in the identification of several projects, including several overseas joint ventures. The perspective plan aims at assigning priorities to the identified projects and evolving strategies for achieving the targets and for maintaining growth as an important ongoing activity.”

2.18 Asked by the Committee since when the above Detailed Perspective plan was under formulation and by when it would be finalised, the KRIBHCO in a written note stated:

“The Plan is under formulation since early part of 1994-95 and may take another year or so for finalisation.”

2.19 During the course of examination of DOF the Committee wanted to know as to how KRIBHCO could not prepare any Corporate Plan so far, DOF in a written note stated:

“It is a fact that in 1989 KRIBHCO had engaged the service of a consultant for preparing a corporate plan for 1989-95. The consultant submitted a report in 1989 itself which, *inter-alia*, suggested diversification in fields other than fertilizers. It is also a fact that at that point of time the view of

DOF was that KRIBHCO should concentrate in the fertilizer sector. It is also a fact that from November, 1980 till date KRIBHCO has had as many as eight Managing Directors.”

2.20 DOF further stated:

“It may, however, be added that absence of a Corporate Plan has in no way affected the performance of KRIBHCO. The society has been consistently performing well in the fields of production and marketing of fertilizers, financial management and promotional activities.”

CHAPTER III

PROJECT PLANNING AND EXECUTION

A. Projects in IFFCO

3.1 A rehabilitation project was approved in 1988 with a view to improve energy consumption, operational reliability, pollution control and safety aspects of the existing units at Phulpur, Kalol and Kandla. As against the revised cost estimates of Rs. 107.32 crores, an amount of Rs. 96.34 crores has been incurred by the end of March, 1994. However, there were delays in completion in respect of some of the schemes as shown below:

S. No.	Schemes	Estimated duration (months)	Actual duration (months)	Delay (in months)
Phulpur				
1.	Energy survey and Modification	26	57	31
2.	Hydrolyser for Urea Plant	24		11
3.	Equipment Replacement Modification	18	26	8
Kalol				
4.	Reformer Convection Zone Modification	24	33	9
5.	Replacement with better heat exchanger.	24	39	15

3.2 The Committee wanted to know the reasons for delay in completion of above projects and whether the delays occurred were the unavoidable. IFFCO in a written note stated as follows:

“The proposal for implementing rehabilitation schemes at Kalol, Kandla and Phulpur was formulated in September 1986. This proposal formulated in 1986 had been revised due to the time gap between the original proposal and PIB approval and change in technology and perception. During the review some schemes were dropped and some others were substituted. Thus, there was delay in starting the schemes for implementation. In this connection it may be mentioned that the schemes envisaged to be implemented for energy conservation were planned to be implemented after a detailed energy survey. Since the various sections of the Phulpur plant had to be surveyed on active operation basis it involved more than

two years. Thereafter, they had to be processed to find the best solution. Even after the rehabilitation schemes have been implemented, some new aspects of energy savings are being pursued.

Regarding Hydrolyser equipment the penalty clause was invoked and penalty as specified in the contract was levied. For other scheme i.e. Equipment Replacement, the delay was mainly due to the fact that the scheme completion had to wait for the plant shutdown. In respect of other schemes it may be stated that they were completed on schedule.”

3.3. Presently the following projects of IFFCO are under planning/implementation:

- (i) Aonla Expansion Project at an estimated cost of Rs. 960 crores. Commercial projection likely to start in January, 1997.
- (ii) Phulpur Expansion Project at an estimated cost of Rs. 600 crores-under study.
- (iii) Kalol Expansion Project at an estimated cost of Rs. 120 crores-under study.
- (iv) Ammonia-urea complex in Krishna Godavari basin at an estimated cost of Rs. 571 crores-feasibility report under study.
- (v) Joint venture with KRIBHCO at Iran. MOU signed between Government of India and Government of Iran (IFFCO's equity about Rs. 81 crores).
- (vi) Joint Venture at Qatar under planning.
- (vii) IFFCO-Agro-Chemical Ltd. to produce pesticides under planning.

3.4. Giving details about IFFCO's expansion plans by 2000 A.D., the M.D. IFFCO stated during evidence:

“We have prepared the corporate plan which we call as vision 2,000. By year 2000 A.D., we want to increase our capacity by at least 80 per cent. An attempt was made to increase the capacity of nitrogen by at least 100 per cent. Our major expansion plan is already in progress in Aonla. Kalol expansion project will increase it by 140 per cent, which is the cheapest investment because of in-house expertise. Aonla expansion plan is going to be at least 15 per cent cheaper than the contemporary plants in other sectors including private sector. We will continue to remain in this field in a very major way.”

3.5. The Committee further pointed out that one of the objectives of IFFCO was to set up Sugar factories. In some of the Board agenda sugar diversification item was mentioned. Asked whether IFFCO had any plans to enter into sugar industry, M.D. IFFCO stated:

“We have no plan to join sugar industry. We pay expensive salary to our people. Last year we paid Rs. 72 crores for about 6300 people. We can remain profitable in highly technological oriented area. This is where we are concentrating in highly technological oriented area of production of

fertilisers and then pesticides. We have no plan to enter into the sugar industry. Our Board wanted to help sick cooperative in sugar industry. where we are providing with the approval of the Government of India and our Board of Directors nursing, revival and rehabilitation of cooperatives in the sugar industry, in Nandyal, as a project only.”

3.6. From the various stages involved in getting Government approval for various projects submitted by Societies/PSU's etc. the Committee noted that a normal time of 6-7 months was required. During the course of examination of DOF the Committee wanted to know as to how many projects of IFFCO were awaiting Government approval for more than six months. DOF in a written note stated:

“The names of the projects pending approval for more than six months and reasons why they are awaiting Government clearance are given below:

1. IFFCO's Agrochem Project: This proposal was received in DOF on 13.1.94. The Standing Finance Committee of DOF cleared the project on 21.9.94, subject to environmental clearance being obtained. The environmental clearance has been received on 17.1.95 with certain conditions. The matter is further being examined. (CCEA approval is required as it involves formation of a new company).
2. IFFCO's Kalol expansion project: This proposal was received in DOF on 21.4.94. The first stage clearance by Committee of PIB was given on 17.8.94. The proposal was cleared by PIB for submission to CCEA on 29.12.94. The proposal will shortly be placed before the CCEA for consideration.
3. IFFCO's proposal for making equity investment in Indian Farm Forestry Development Cooperative:

This proposal when first sent to DOF in February, 1994, was not mature for taking a decision as no details had been given regarding the management structure. Besides, it was also not clear as to which Department of the Government of India would be the administrative also desired that they be exempted from seeking approval from the Expenditure Finance Committee. This was not agreed to by the Department. The requisite details were received from IFFCO on 16.12.94. Some more details were supplied by IFFCO till the first week of January, 1995. The EFC Note has been prepared in the third week of January for consideration of the proposal by EFC to be chaired by Secretary (Expenditure).”

3.7 When asked about the appraisal system in the Ministry for ongoing projects with a view to avoid cost and time over-runs, DOF stated in a note as follows:

“All the major projects having a capital cost of more than Rs. 100 crores are reviewed every month in a meeting taken by Joint Secretary (Fertilizers) and the Senior officers of the concerned undertaking are

present. The Ministry of Programme Implementation also reviews these projects on monthly basis. Besides, all the projects, irrespective of the project cost, are reviewed in depth in the QRM's, as also at the time of finalisation of the annual plan."

B. Projects in KRIBHCO

HAZIRA COMPLEX

3.8. KRIBHCO has set up only one plant so far at Hazira. Explaining the components of the Hazira complex, MD, KRIBHCO stated during evidence:

"We have got one plant only. We have got two ammonia plants with a capacity of 1,350 tonnes per day each. We have got four urea plants with a capacity of 11,000 tonnes per day each. Alongwith that, we have got all the infrastructure and we have got a heavy water plant also which is considered one of the best in the country because of its production record. These are the plants which we have got at Hazira near Surat."

3.9. The following statement shows original/revised and final costs, scheduled as well as actual dates of completion, delay in months and reasons for delay in respect of Hazira project of KRIBHCO:

Original Capital cost	Revised Cost (Rs. in crores)	Final Cost	Scheduled date of completion	Actual date of completion	Delay in months occurred	Reasons for delay
700.70 (Dec. 79)	957.71	890.00	Sep. 84 (Phase I)	Nov. 85 (Phase I)	14	Delay in delivery of some equipments & material by both indigenous and foreign suppliers etc. and delay in supply of gas
			Sep. 85 (Phase II)	Dec. 85 (Phase II)	3	

3.10 The Committee were informed that the cost escalation in the project was attributed to shifting of zero date. Asked about the reasons for shifting of zero date, KRIBHCO in a written note stated as follows:

"Selection of the Consultants for the process plants was done by Government of India. On account of the delay in the decision regarding selection of consultant by the Government of India, zero date was shifted from 1.2.80 to 31.2.81."

3.11 Enquired further whether any penalty was imposed on supplier for delay in delivery of equipments and materials, KRIBHCO stated in a written note:

“There are delays in the scheduled deliveries of both locally manufactured and imported equipment, but the 21 month delay in the supply of gas by ONGC for firing the reformer had offset all the other delays. Therefore, no liquidated damages (LD) were imposed on suppliers of equipment and materials due to delay in delivery.”

Construction of Office Building of KRIBHCO

3.12 KRIBHCO had recently constructed, its Head office complex at NOIDA. The original estimated cost of the building was Rs. 7.00 crores which was revised to Rs. 10.5 crores. Similarly as against the original date of completion of March 1991, the virtual date of completion was May 1994.

3.13 During the course of examination of KRIBHCO the Committee wanted to know whether the extension of time given to contractors was justifiable. KRIBHCO replied in a note that the extension of time given to contractors was justifiable.

3.14 Asked whether any penalty clause had been invoked against the contractor for delay in completion of the building, KRIBHCO replied in a note:

“The final bill by the contractors are yet to be submitted and any liquidated damages, if applicable, shall be recovered from the contractors as per the terms of contract.”

3.15 It came out that a sub-Committee of the Board of KRIBHCO had also examined the issue relating to construction of Head Office building. Some of the important findings of the sub-committee are:

- (a) No press advertisement was issued while selecting the Architect with the result KRIBHCO did not have the benefit of making a selection out of different designs.

However, the Sub-group took note of the fact that the contract for consultancy work was given on the same terms and conditions on which the Architect were given consultancy work for the township of the Society at Hazira.

- (b) No ceiling was fixed on the consultancy fees of Architect with the result that there was no compulsion on the part of Architect to economise on the total cost of work. Subsequently maximum ceiling for the same was however, fixed as suggested by Sub-Group and Architect agreed.
- (c) Architect increased the total covered area from 1.5 lakh sq. ft. to 2.20 lakh sq. ft. without obtaining approval of Society. The drawings for building prepared by Architect for a total covered area of 2.20 lakh square feet against original estimates of 1.50 lakh square feet for submission to NOIDA, The drawings were signed by CM (P&A) on good faith on the presumption that these were prepared by the architect on the basis of

original estimates submitted by the architect and there has been no element of malafide on the part of CM (P&A).

- (d) The execution of work was being looked after by Personnel & Administration Department. It was felt that such a work should have been assigned to a person with a technical background, preferably a civil engineer.

This situation was corrected later and a Civil Engineer was made responsible for supervision of execution work.

- (e) The procedure followed in selection of contractor and award of civil work has been generally in order.

3.16 During the course of examination of DOF, the Committee wanted to know whether they had issued any guidelines in view of the above findings of the Sub-Group. DOF in a written note stated:

“This was a matter which fell within the delegated authority of KRIBHCO’s Board which includes Directors nominated by the Government. In view of this, the question of issuing of any direction by DOF to KRIBHCO did not arise. Sub-Group of the Board of Directors of KRIBHCO, which examined the issues relating to construction of KRIBHCO’s Head Office Building at Noida, included two of the Government Directors.”

3.17 KRIBHCO in a written note stated that the following projects of KRIBHCO are under various stages of planning:

S. No.	Project	Present Status	Expected zero date	Duration for project completion and start of prodn.
1.	Nitrophosphate	1.1. 1st stage PIB clearance obtained 1.2 Enquiries for DPR, weak Nitric Acid, NP/CAN and Environment Project Study issued.	April 95	April 98 (36 months)
2.	MDF Board	Action for intensive market survey initiated	Dec. 95	Dec. 97 (24 months)
3.	Mushroom	Bids for technology selection have been received. Expenditure Finance Committee (EFC) approval being sought.	Dec. 94	June 96 (18 months)
4.	Maize Processing complex (starch Complex)	Action for intensive market survey has been initiated.	Nov. 95	Jan. 98 (26 months)
5.	Aquaculture	Pre-feasibility report under preparation.	Nov. 95	July 97 (20 months)

3.18 Asked about the financing pattern for the above projects KRIBHCO stated in a note that financing pattern for above would be tentatively as follows:

S. No.	Name of Project	Estimated project cost (Rs. in crores)	Debt: Equity ratio	Equity by KRIBHCO (Rs. in crores)
1.	Nitrophosphate	423.85	1:1	211.93
2.	MDF Board	119.85	1.5:1	47.90
3.	Mushroom	19.80	100% funds	19.80
4.	Maize processing (Starch)	84.37	1.5:1	33.75
5.	Aquaculture	55.26	1.5:1	22.08
Total				335.46

3.19 When asked further whether the required funds would be available for the projects, KRIBHCO stated in a note that it had adequate surplus funds from internal generation to finance the equity component of the above projects. Loans required would be raised from Financing Institutions.

C. Buying of Old Plants

3.20 It also came out during examination that KRIBHCO was examining the possibility of purchase of one running phosphatic fertiliser plant either in USA or in Russia. Explaining the plans in this regard, MD, KRIBHCO informed the Committee during evidence:

“We have identified after seeing six plants in Russia and six plants in America. We were asked to see in South Africa but because of some reasons, they did not want to sell. After the screening process, we have identified one plant in US and two plants in Russia. There will be due diligence study to find out the health of the plant. The whole study has to be done of pre-acquisition and post-acquisition problems.”

3.21 Asked about how old these plants would be the witness informed that these plants were about 1964-68 vintage.

3.22 On being pointed out by the Committee whether these plants were not too old, the witness clarified:

“We want to see that level of production they are still giving or expected to give. Our limited investment of 50 million dollars or 30 million dollars. With that, we want to enter into equity and get into this business and whatever renovation is required will be done. I am talking of American plant. We know that in this plant, the sulphuric acid plant, will have to be changed. This plant will not be able to give production. We are taking that cost into account. Unlike ammonia plant, this plant is a much simpler plant. There is no high temperature, no catalyst. You have to replace the rubber lining or some equipment like the filter has to be changed. A study

is being done to find out whether this plant is able to run for another ten years minimum. In this plant, they are having the captive mines which we are looking for.”

3.23 The Committee wanted to know whether any other developing country had also purchased old plants the witness stated that China had already purchased two plants.

3.24 The Committee further enquired whether any technical study had been made. The M.D., KRIBHCO stated:

“With the help of US based consultant through search and process, the Society has identified three plants. There will be a consultant who will do due diligence study. We have gone to Government for first stage clearance of PIB Committee. These plants are all known through published sources.”

3.25 In reply to a further question the witness stated that the main objective for buying the plants abroad was to have assured source of supply of fertilisers.

3.26 Asked about the latest position in this regard DOF in a written note stated:

“The Committee of PIB in its meeting held on 20.10.94 gave First-stage Clearance for initiating the Due Diligence Process for acquiring equity in phosphatic manufacturing facilities in USA/Russia. After the due Diligence studies are completed and the Detailed Feasibility Report establishes the viability of the proposals, KRIBHCO will be approaching the Government for the 2nd Stage Clearance by the PIB *i.e.* for the investment decision at the appropriate levels in the Government.”

D. Joint Ventures

3.27 KRIBHCO informed the committee that they would be involved in setting up of two joint venture Fertilizer Plants one each in Oman and Iran as per details given below:

Name of Joint venture	Party/ Country	Estimated costs	Likely date of production	Object	Present status
1	2	3	4	5	6
(i) Nitrogenous (Ammonia Urea) Fertiliser Project.	KRIBHCO/ RCF with Sultanate of Oman.	US \$819 million	33 months from zero date. Zero date is yet to be deter-	Buy-back arrangement 100% urea produced shall be purchased by KRIBHCO & RCF	MOU signed on 15.6.93 between Govt. of India and Govt. of Sultanate of Oman. KRIBHCO & RCF to

1	2	3	4	5	6
					detailed Feasibility Report (DFR)
(ii) Nitrogenous (Ammonia-Urea) fertiliser Project	KRIBHCO IFFCO Oeshm Free Area authority QFAA	US \$ 350 million	36 months from zero date. Zero date which is yet to be determined.	Buy-back arrangement 60% of urea prodced by the project shall be purchased by KRIBHCO & IFFCO	MOU signed between IFFCO & KRIBHCO with QFAA IRAN. Pre-feasibility report to be prepared.

3.28 Explaining the salient features of these joint ventures, M.D., KRIBHCO stated during evidence:

“We have now embarked upon very ambitious project, that is, KRIBHCO has become Global with the start of the Oman Fertilizer Project. It is a 897 million dollars project, almost close to a billion dollars. After one year of very dogged persuasion and negotiations, we have been able to get very good price. We have got a price of 50 cents per million BTU which is almost one fourth of the price which we pay here and then it is valid for ten years. As a result of this, the cost of production of ammonia is coming to 85 dollars with ten per cent IRR and the price of urea is coming to 105 dollars with 10 per cent guaranteed IRR. As of today, the price of urea is about 145 dollars and the price of ammonia is 170 dollars. So if we can maintain this cost or contain the project cost at this level, then we will be making urea and ammonia at very cheap prices and this will be a great advantage to KRIBHCO and to the country at large.

As far as this project is concerned, the first Joint Management Committee Meeting has already taken place. We have not yet formed the Joint venture company because it requires so many approvals. It is now called Joint Management Committee. The first meeting had already taken place and the second meeting is due on 3rd Oct. 1994 at Bombay. We are hopeful that within 33 months we will be able to complete this project.

The second thing is, we are trying to do something in Qeshm Island in Iran. That is a free trade zone being developed near Iran and there we are trying to do another similar project, but half of the size, along with IFFCO. These are the projects which we are going to undertake as far as nitrogenous fertilizer is concerned.”

3.29 The Committee also wanted to know that in the event of availability of higher price in some other countries for the product would the companies engaged

with joint ventures allow KRIBHCO to take fertiliser to India. The M.D., KRIBHCO stated as follows:

“Whatever share we own, according to that portion, we will take the material to India only. The concept is that whatever is our share, that much should come to India. Even in the case of nitrogenous fertilizers, if your import in the year 1998 or 1999 is 4 million tonnes of urea, then 1.5 million tonnes that we are producing in Oman should be deducted and the rest only allowed to be imported.”

3.30 Informing the Committee about advantages of getting assured supply of urea from joint ventures in Oman and Iran, the M.D., KRIBHCO stated as follows:

“But at least one thing will be assured that there is an assured supply from very steady source and that will maintain certain sort of a price discipline.”

3.31 When asked about the quantum of investments to be made by KRIBHCO in the above joint ventures, the KRIBHCO in a written note stated that the total estimated investment by KRIBHCO in Joint Venture Projects would be approx. Rs. 264.00 crores as follows:

(Rs. in crores)					
S. No.	Name of Project	Estimated project cost	Debt: equity ratio	Total equity	Equity by KRIBHCO
1.	OMAN	2870	3:1	717.6	180.00
2.	IRAN	1120	3:1	280.6	84.00
	Total	3990.00	—	998.2	264.00

3.32 During the course of the evidence of representatives of DOF the Committee enquired about the progress made in joint venture to be set up in Iran, Secretary, DOF stated:

“We are awaiting the response from Iranian authorities as to whether they will be able to supply gas, the requirement of the plant. As a matter of fact, this issue was also discussed with Iranian Foreign Minister during his recent visit to India. We are yet to hear from them. As soon as we get some information from Iranian authorities, we will finalise the pre-feasibility report which will be needed for the first stage clearance.”

3.33 About progress made with regard to joint venture to be set up in Oman, a representative of DOF stated as follows:

“A detailed feasibility report is under preparation and at the moment pre-project work is being taken care of by a Joint Management Committee which includes representatives of KRIBHCO, Rashtriya Chemicals and the Government of India as well as Joint Venture partners from Oman. The next meeting of this Joint Management Committee is scheduled for 17th of January, 1995. Therefore, the pre-project activities are satisfactory.”

CHAPTER IV

PRODUCTION PERFORMANCE

A. Production Performance of IFFCO

4.1 The following table shows the product-wise licensed and installed capacity, targets of production, actual production and percentage utilisation of various plants of IFFCO during the last three years:

Year-wise	Plant-wise/ Product-wise	Licenced & installed capacity	Target of production (in M.T.)	Actual production	Percentage of Utilisation of Installed Capacity
1991-92	Urea: Kalol	396000	370000	432122	109
	Phulpur	495000	500000	506174	102
	Aonla	726000	798000	849605	117
	Kandla				
	NPK: 10:26:26		405000	335500	
	NPK: 12:32:16		375000	323150	
	DAP: 18:46:0		250000	346000	
	Total NPK/DAP		1030000	1004850	
	In terms of P205	309130	340300	349890	113
	1992-93	Urea: Kalol	396000	375000	360975
Phulpur		495000	520000	606974	123
Aonla		726000	800000	816825	113
Kandla					
NPK: 10:26:26			405000	2813000	
NPK: 12:32:16			305000	275100	
DAP: 18:46:0			300000	319400	
Total NPK/DAP			1010000	875000	
In terms of P205		309130	340900	308094	100
1993-94		Urea: Kalol	396000	400000	378565
	Phulpur	495000	550000	540544	109
	Aonla	726000	881000	906430	125
	Kandla				
	NPK: 10:26:26		241500	251000	
	NPK: 12:32:16		243500	193200	
	DAP: 18:46:0		376500	465800	
	Total NPK/DAP		861500	910000	
	In terms of P205	309130	313900	341352	110

4.2 The Committee wanted to know about the reasons for less capacity utilisation of urea at Kalol Plant and of NPK at Kandla Plant which was below the targets fixed. Explaining the Plant-wise production constraints IFFCO stated in a note as follows:

	Plant	Production Constraints
(i)	Kandla	Personal water shortage problem/congestion in ports.
(ii)	Kalol	Shortage in supply of gas by ONGC/GAIL.
(iii)	Phulpur	Shortage in supply of Naphtha and coal due to limitations in availability of wagons.
(iv)	Aonla	Reduction in supply of natural gas from BHI pipeline by GAIL.

4.3 Elaborating the position about shortage of gas being faced by IFFCO plants, the IFFCO in a note stated:

“Shortages in supply of gas have been faced by two IFFCO plants based at Aonla in UP and Kalol in Gujarat. The Kalol plant has been operating at 90 to 95 per cent of the installed capacity due to the shortfall in supply of gas by ONGC/GAIL for the last 3-4 years. As per the contract, Kalol Plant was to be given a quantity of 6.2 lakh cubic metre per day of Natural gas and 2.2 lakh cubic metre per day of associated gas. However, the committed quantity of gas was not being made available to them by ONGC and GAIL. Similarly IFFCO plant at Aonla is getting gas supply from HBJ gas pipeline under a long term agreement with GAIL. As against the contracted normal supply of 1.6 to 1.7 million cubic metre gas per day, the level of supply of gas has been reduced to 1.4 to 1.5 million cubic metre per day since December, 1993.”

4.4 Pleading for higher allocation of gas to IFFCO plants, Managing Director, IFFCO, also stated during evidence:

“About gas availability we all know that gas production is declining. The HBJ pipeline is able to send less gas. Besides this, the commitment which has been made by Gas Authority of India is something which is quite detrimental to our country. In any other part of the world, the first lien on use of gas is given to fertiliser industry. Unfortunately, in our country, we are giving it for sponge iron and power and not making an optimum use of gas. So, whatever gas is available, we have to use it and we have no way by which we can tell them to increase the gas. They are in a monopolistic situation. We just cannot do anything on that matter. However, we have taken certain technological actions at Aonla and Kalol. There is a gas shortage. We feel that at Kalol, we lose roughly 10 per cent of our production due to shortage of gas. At Aonla, we lose about 5 per cent of our production.”

He added:

“Gas allocation is given by the Linkage Committee through the Gas Authority of India Limited. we have absolutely no say on that.”

4.5 Asked about the steps taken or proposed to be taken to overcome the above constraints, IFFCO stated in a written reply that the following steps were being taken to overcome production performance constraints:

(i) Kandla: Arrangement for water through pipeline is being made. For port congestion, a separate jetty for IFFCO is being proposed with Kandla Port Trust.

(ii) Kalol : IFFCO has taken up the matter regarding shortage in supply of gas by ONGC/GAIL with the Department of Fertilisers from time to time. The Society has planned to instal a natural gas compressor/booster to increase the pressure of gas being supplied by ONGC/GAIL at Kalol. It is also proposed to incorporate the necessary modifications to the plant so that naphtha could also be used as feed along with natural gas.

(iii) Phulpur: Adequate availability of wagons for supply of naphtha and coal is taken up with Railway authorities through the Department of Fertilisers.

(iv) Fuel Oil/naphtha is being used in steam generators (Boiler) and gas turbines in place of gas. This has resulted in diverting 0.25 million Sm³/day of gas to feed stock. Auxiliary super heaters are also being modified to use naphtha in place of gas which will divert another 0.079 million Sm³/day of gas to feed stock.”

4.6 When asked further whether the above problems were brought to the notice of Department of Fertilisers, IFFCO stated in a note:

“The above matters are brought to the notice of Department of Fertilisers through separate letters/proposals and during the Quarterly Review Meetings. DOF takes up the matter with the concerned Ministry/Department.”

B. Production Performance of KRIBHCO

4.7 The following statement shows the licensed and installed capacity, targets of production, actual production and percentage utilisation of installed capacity in

respect of Urea/Ammonia during the last three years in KRIBHCO:

Year	Licenced & Installed capacity	Target (in 000 Mt.)	Actual	Percentage of utilisation of installed capacity
UREA				
1991-92	1452	1600	1700	117.1
1992-93	1452	1600	1687	116.2
1993-94	1452	1479	1515	104.4
AMMONIA				
1991-92	891	960	1028	115.4
1992-93	891	978	1008	113.2
1993-94	891	892.9	914	102.6

4.8 During the course of examination of KRIBHCO the Committee pointed out that the percentage capacity utilisation was declining year after year. Asked about its reasons, KRIBHCO informed the Committee in a written note as follows:

“Shortage in supply of gas has also been faced by KRIBHCO’s only plant at Hazira. The requirement of KRIBHCO’s Hazira Plant is 3.9 million cubic metre per day of natural gas. Since December 1992 the supply of gas has been reduced from that level to only 3.0 million cubic metre per day by GAIL. Due to reduction in supply of gas KRIBHCO is facing major production constraints in maintaining its production level.”

4.9 Elaborating the shortage of gas, Managing Director, KRIBHCO, also stated during evidence that their capacity utilisation in the past had been at the level of around 115%. However, less availability of gas since December, 1992 had resulted in loss of production of Urea.

4.10 On being asked whether GAIL was not honouring the contract, the witness stated:

“Initially both of the Thal and KRIBHCO Hazira Plants were planned on coal based plants steam generation and power plant and three million cubic metre of gas per day was allotted. Later on we got the communication from the Government that they would give us the gas for our boilers as well as for power generation. That was amounting to 0.9 million cubic meter per day. Then, there were several correspondences with the ONGC. Every month there used to be a customers’ meeting. It was an initialled agreement and in that two clauses were kept open. One was the minimum billing clause and the other was the clause for price fixation for gas. We have left those two clauses for the Government to decide. That is why, it was not signed. There was enough documentation by which they had committed gas for boilers and power generation. But since this was not incorporated in the contract, they have taken the position that the contractual commitment is only for three million cubic metre per day and they are giving that.”

4.11 In reply to another question about the gas supply the witness stated:

“All over the world, the gas is priced on the basis of million BTU. But here, it is only on the basis of volume, that is cubic metre. There may be enough quantity of carbon or hydrogen or nitrogen or it will be diluted gas but there is no provision for increasing the quantity to give the same energy. In effect, 3 million cubic metre gas which we were getting is not really 3 million cubic meter. They were supposed to give calorific value of 9000 to 9500 kilo calorie per cubic metre. But we are getting only about 8400 kilo calorie per cubic metre of gas.”

4.12 On being pointed out by the Committee that for certain activities KRIBHCO could set up boilers based on fuels other than the gas instead of depending upon the gas, Managing Director, KRIBHCO replied:

“We have completed for the first time in India conversion of one of the boilers with NGL fuel. We are saving about 0.3 to 0.4 million cubic metres of gas from that boiler per day we will be completing conversion of second boiler also by the end of this year. Once we do that, we come to the level of almost original production of 115 per cent or so capacity utilisation. The incidence on the cost of production due to use of NGL is higher cost by approximately Rs. 150 per tonne of urea.”

4.13 During the course of examination of the Department of Fertilisers the Committee pointed out that the main production constraints for IFFCO and KRIBHCO plants was shortage of gas. Asked whether the Department had taken up the matter with concerned authorities, the Secretary, Department of Fertilisers stated:

“We have the Gas Linkages Committee at the level of Ministry of Petroleum which is presided over by the Petroleum Secretary. I am the member of that Committee and every Secretary from the user Ministries is a Member. The problem is, gas is becoming a scarce resource. We have been pleading our case and making good our case. But it has not been possible for us to get an over-riding priority.”

He further added:

“There are two aspects. One is in relation to the shut down. They (GAIL) are going to take a break for a temporary period. And the other aspect is that of supply of gas on a regular and normal basis. As far as the issue of supply of gas on normal basis is concerned we have come to a point where we have accepted what they are giving to us. We have had this problem of allocation of gas for the period when GAIL was going to take a shut down for augmentation of gas supply. This was supposed to have taken place in January or February, 1995 and it has been postponed to the end of January, 1995. There is some kind of difference of opinion between Ministry of Petroleum and Natural Gas and Ministry of Power regarding how much gas should be given during this period.

We are hoping to see how we will be able to maximise production to meet our requirement of users. But between us and the Ministry of Petroleum, there is some kind of an understanding and we also understand the problems of the Ministry of Power. They are saying that they cannot do without some additional amount of gas."

4.14 The Committee further enquired about the production trends during the current year viz. 1994-95. A representative of Department of Fertilisers stated:

"The production target for IFFCO in the case of nitrogen was 9.24 lakh tonnes for the year and for the first 9 months of the current year which expired on 31st December, 1994, their target of production was 6.99 lakh tonnes or 7 lakh tonnes of nitrogen and 2.36 lakh tonnes of phosphate. As against 7 lakh tonnes of nitrogen for nine months, their actual production was 7.72 lakh tonnes. In the case of phosphate as against the target of 2.36 lakh tonnes, 2.90 lakh tonnes was produced during the nine months. About KRIBHCO the average during the nine months. About KRIBHCO the target of production in terms of nitrogen is 6.84 lakh tonnes and for the nine months period, the target was 4.95 lakh tonnes against which the actual production was 5.37 lakh tonnes."

4.15 He further explained that in IFFCO the 9 months average production came to about 110% for nitrogen and 123% for phosphate fertiliser. In case of KRIBHCO the average came to 108.5% for the same period.

C. Availability of Gas

4.16 Taking note of the fact that the major production constraints in IFFCO/KRIBHCO plants was the shortage of gas the Committee also examined the representatives of Ministry of Petroleum and Natural Gas, ONGC and GAIL. The Committee were informed by the representatives of the GAIL that as against the registered demand (as on 31-3-1992) of 263 million cubic metre gas (MMSCMD) per day, the actual supply upto the end of March 1994 was 35.49 MMSCMD only. The allocations were being done by Gas Linkages Committee which was having members from Consumer Ministers also. Fertiliser sector was being given priority as is evident from the table given below:

Sector	Allocations (MMSCMD)	Percentage
Fertiliser	21.49	44.55
Power	19.41	40.24
Spong Iron	2.25	4.66
Industries/Others	5.09	10.55
Total	48.24	

4.17 The Committee enquired about the reason for not fulfilling the commitments made to various users including the fertiliser sector. The Secretary,

Petroleum replied as follows:

“The investment on gas production and transportation were going on, there was some delay in the investments of few fertilizer plants. So, the Government had to respond to the situation to save the investments already made on the production, transportation side and, therefore, have added additional power plants so that the gas that is there could be utilised. Some fertilizer plants have taken five years to complete the execution of their works. But at that time, it was not known that they would be ready within five years. In one fertiliser plant, we still do not know as to what is going to be the delay.”

4.18 On being pointed out by the Committee that there was cut in gas supply to fertiliser plants, the witness stated:

“Allocations to fertiliser plants are fully met. There is a marginal shortfall. If you look at the figures, wherever fertilizer plants are required to use liquid fuel for captive power generation, you can see that the feedback is 100 per cent. In some cases it is much more than 100 per cent. So actually fertiliser productions has not suffered. You can always get power from diesel, naptha, fuel oil etc.”

4.19 In this connection, GAIL further informed the Committee in a note that till October 1993 there was no shortage of gas and fertiliser plants were being supplied gas more than allocations. The following table shows the unit-wise supply of gas to fertiliser plants during 1993-94:

			(Qty. MMSCMD)
Fertiliser Plants	Allocation	Daily Av. Sale	
1	2	3	
Maharashtra			
1. RCF, Trombay	1.80	1.74	
2. RCF, Thal	3.15	3.06	
3. Deepak Fertilizers	0.60	0.31	
	5.55	5.11	
Gujarat			
1. KRIBHCO	3.00	3.06	
2. GNFC	0.55	0.73	
3. IFFCO	0.84	0.66	
4. GSFC	0.45	0.40	
HBJ	0.35	0.36	
	5.19	5.22	
Madhya Pradesh			
NFL Vijaipur HBJ	1.80	1.72	
Uttar Pradesh			
1. IFFCO-HBJ	1.80	1.64	
2. Indo-Gulf-HBJ	1.80	1.32	
3. TATA-HBJ	—	0.01	
	3.60	2.97	

1	2	3
Rajasthan		
Chambal Fert.—HBJ	1.80	0.54
Assam		
HFCL Namrup	0.45	0.25
K.G. Basin		
NFCL	1.30	1.20
Total Fertilisers	19.69	17.00

4.20 In the context of ongoing upgradation of HBJ gas pipeline the Committee wanted to know whether upgradation would improve the gas availability to fertiliser plants, the GAIL stated in a note:

“After upgradation of HBJ pipeline and the commissioning of additional sub-sea pipeline of ONGC including upgradation of Hazira Terminal which is expected to be completed by that time, the availability of gas for supply along HBJ would increase, enabling GAIL to supply improved quantity of gas to fertiliser plants. This would not only result in improvement of supply of gas to existing units on the system but, two additional units one by IFFCO Anola and another, by NFL, Vijaipur would also be commissioned to increase the availability of fertilisers.”

4.21 The Committee further pointed out that KRIBHCO Plant at Hazira was presently getting 3.00 MMSCMD as against the earlier supply of 3.9 MMSCMD. Asked about the drastic cut in this regard, the committee were informed by GAIL in a written note as under:

“The contracted quantity of gas with KRIBHCO was 3 MMSCMD. KRIBHCO has earlier been drawing over and above its allocated/committed quantity of 3 MMSCMD of gas. Relevant clause on quantity of the contract expired on 31-12-1993. In view of some of the consumers to whom gas had been allocated earlier coming on stream, the supply of gas over and above allocations got restricted to the contracted quantity. KRIBHCO had contract of 3 MMSCMD, and supply so far has been maintained at a level of 3 MMSCMD. Supply of gas beyond contracted quantity was no longer possible. The supply of gas to M/s. KRIBHCO w.e.f. 1-1-1994 is continuing without contract.”

4.22 When asked further as to by which period the gas could be made available to KRIBHCO as per their requirement of 3.9 MMSCMD, the Committee were informed in a written note:

“Since allocation of gas as well as the contract which has expired has been for 3 MMSCMD, there is no proposal to supply gas to KRIBHCO in excess of 3 MMSCMD. Since earlier KRIBHCO was getting gas above allocations due to non-commissioning of other consumer to whom gas was allocated, they had not taken action for dual fuel capability. However, KRIBHCO had

already been advised to make arrangements for alternative fuel for their fuel purpose and it is learnt that they have already been implementing measures for utilising NGL/Naphtha for meeting their fuel requirement.”

4.23 The Committee further pointed out that KRIBHCO had brought to their notice to the fact that calorific value of natural gas was being reduced consequent upon extraction of LPG from the gas resulting less calorific value of gas. According to KRIBHCO without extraction of LPG they would have received 9000 to 9500 kilo calories per cubic metre of gas as against this they were getting only 8400 kilo calories per cubic metre of gas. Asked whether the original contract between GAIL and KRIBHCO envisaged provision for extraction of LPG from natural gas while supplying the gas to KRIBHCO, GAIL stated in a note:

“The original contract between ONGC and KRIBHCO which was assigned to GAIL in 1992 envisaged extraction of recovery of heavier hydrocarbons including LPG. As a matter of fact the contract also contained composition of gas, which would be applicable as even after removal of C₂ beside LPG.”

4.24 In reply to another question that whether GAIL should compensate KRIBHCO for making up the deficiency caused in terms of calorific contents either by enhancing the gas supply to maintain the calorific value or by reducing the price of the gas, the Committee were informed by GAIL:

“There is no proposal for enhancing the quantity of gas on account of calorific value as commitment is on volumetric basis. However, with regard to price the consumers are compensated by reducing the price of gas when the calorific value of the gas is less than 9000 Kilo Calories.”

4.25 The Committee further enquired about the gas availability scenario by the end of VIIIth and IXth plan periods. The Secretary, Petroleum stated during evidence:

“By the end of the Eighth Plan the expected production of ONGC would be perhaps around 70 to 75 million cubic metres per day. Similarly the oil is likely to increase between 35 to 36 million tonnes in the final year of Eighth Plan. While we are going to continue the exploration we are also intensifying our exploration efforts within India itself and we expect that as we go along during the Eighth Plan and beyond it, these efforts will bring in competitive results and we will establish additional reserves of both oil and gas and these reserves will help us to maintain an increased production during the Ninth Plan period and beyond. This accelerated additional plan which we have presently made in respect of ONGC is about 4000 crore for the period of Eighth Plan.”

CHAPTER V

PROMOTIONAL AND OTHER ACTIVITIES OF IFFCO AND KRIBHCO

A. Promotional and educational activities in IFFCO

5.1 IFFCO organises educational programmes for the benefit of farmers like promoting balanced use of fertilisers. These programmes include demonstrations, farmers' meetings, field days, crop seminars, farmers training and visit, and soil test based field trials. The number of programmes carried out in the past three years are as under:—

Activities	91-92	92-93	93-94	94-95 (Proj.)
1. Plot demons. (Nos.)	1225	1269	1770	1800
2. Large scale block demon.	128	155	166	130
3. Critical input package demon.	22141	16675	11802	20000
4. Farmers meeting	1940	2133	2113	2000
5. Field days	846	762	724	—
6. Crop Seminar	154	174	161	180
7. Soil test based field	—	56	56	100
8. Soil testing campaigns	405	450	336	400
9. Soil Samples	38295	51688	20465	40,000
Expenditure incurred on above activities (Rs. in lakhs)	228.42	162.96	173.06	—

5.2 During the course of examination the Committee wanted to know the reasons for downward trend over the years in promotional activities of IFFCO particularly package demonstrations field days, soil testing campaigns, etc. Explaining the reasons the M.D. IFFCO informed the Committee as follows:—

“About our field activity, I can say that in 1992-93, it had suddenly reduced because that was the year when the fertilizer industry and IFFCO had received a major shock. The DAP and Potassic fertilizers were decontrolled. The rupee was made convertible. We just did not know how to manage at that crucial time. For 24 years, we had been in a protective environment. So, we did not know how to manage at that crucial time. We concentrated very strongly on preserving our own survival. But from

1993-94 onwards, we have increased the Budget; increased the activities. I can assure the hon. Members that in 1994-95 we will again come back to the original level.”

5.3 On being pointed out that when IFFCO could manage to keep up its profits it should have maintained the level of promotional activities, the witness stated:—

“The profitability was not affected because we have also got some money of the previous years. Basically, all these activities are related to that season. It was decontrolled in 1992. The Rabi season is the most important season. Major profits are made in Kharif season. In Robi season, we did not know where we would land. So, the concentration was less in 1992-93. We could have continued doing that. I would fully agree to your views. But, somehow or the other, in 1992-93, we missed something which we compensated in 1993-94 by enhancing our activity. In 1994-95, we are again going to come back to our original level of activities.”

5.4 When asked about the steps taken for educating the farmers for using balanced quantity of fertilisers, the M.D. IFFCO stated during evidence:—

“We also adopt the entire village we have two plot demonstration. In one plot balanced use of fertilizer is undertaken and in other plot we do not put the balanced use of fertilizers. In the year 1993-94 we had about 1722 plots with balanced use of fertilizers all over the country under the two plot demonstration. By this we want to create awareness among the people”.

5.5 The witness added that they have been telling the farmers everywhere that use of Urea should be restricted and Phosphate and Potash should be necessarily used because excessive use of Urea would worsen the land.

5.6 The Committee further wanted to know whether any documentary film for this purpose had been prepared by IFFCO the witness stated:—

“Dharti Ki Mang” a documentary has been prepared which is shown everytime to farmers”.

5.7 When asked about the modes of publicity the witness stated:

“As all know, in our country, more important than electronic media is the visual boards, the melas, the religious functions, small bazars, the rural folk connected publicity. In IFFCO, we started in 1970 a culture of having publicity by way of village boards all over the country. We have got 24,000 boards and we are going to increase it. After that in most the major events, we have boards and hoardings.”

5.8 In addition to the promotional activities IFFCO stated that each year upto 600 villages were being covered in village adoption programmes. In such

programmes other aspect of rural development are undertaken in these villages. Details of the village adoption activities are given below:

	1991-92	1992-93	1993-94
No. of village adopted	596	581	537
Seed treatment	400	203	173
Campaigns			
Plant Protection campaigns	437	542	334
Medical check up camps	144	128	94
Veterinary check up camps	152	159	90
No. of special projects in progress	10	8	8

B. Promotional and Educational activities in KRIBHCO

5.9 KRIBHCO started educational programmes since the inception of its marketing activities in 1984 with emphasis on farmers development. The number of programmes carried out in the past three years as also the proposed for 1994-95 are as under:-

S. No.	Activities	1991-92	1992-93	1993-94	1994-95 (projections)
1.	Farmers' meetings	663	109	257	122
2.	Demonstrations (ha)	310	422	226	50
3.	Field days	245	214	132	122
4.	Crop Seminar	25	38	23	54
5.	Agriculture Campaign	241	85	76	105
6.	Kisan Mela	17	13	8	10
7.	Command Area Development	-	42	32	20
8.	Group Discussions	252	177	139	206
9.	Cooperative Conference	338	225	175	314
10.	Farmers Training/visit	20	13	2	15
11.	Krishak Bharati Sewa Kendras	70	69	66	66
12.	Mobile Soil (a) No. of Vans (b) Soil Samples	7 21829	7 27117	7 28196	7 70000
Budget (Rs. lakhs)					
	-Allocated	130	60	57	70
	-Utilised	38	59	41	—

5.10 In addition to the above KRIBHCO undertakes rural development programme. The expenditure incurred in such activities during the year 1991-92, 1992-93 and 1993-94 was Rs. 11.03 lakhs Rs. 6.32 lakhs and Rs. 0.20 lakhs respectively.

5.11 During the course of examination the Committee pointed out that there has been a progressive decline in the promotional activities such as Farmers' meetings, Demonstrations, Field days, Command Area Development Programmes; etc. during the last 3 years. On being pointed out as to how KRIBHCO was going to promote farmers development when its activities were decreasing over the years, a representative of KRIBHCO stated:—

“You are right, Sir, There have been some aspects. We have had some problems in 1993-94, but we are not looking back. The running year is 1994-95. We may well go beyond the level utilized in 1993-94. Our figures for 1994-95 will definite be more.”

5.12 Explaining it further M.D.KRIBHCO stated.

“There were other problems also. Some time back, we did not have detailed guidelines for the rural work/activity. Recently, in the last Board meeting, we have passed a resolution on the areas we have to concentrate. Now, we have demonstrated at many places how to increase production with our fertilizers. So, the number of 'Demonstrations' will increase. We have been planning to increase the number of Crop Seminars. In 1991-92, there were just 25. Now, in 1994-95, we are planning for 54 Crop seminars. We used to conduct seminars earlier only before sowing. Now we are holding seminars even during mid-season. We are also concentrating on Group Discussions. We plan to increase this activity from 139 in 1993-94 to 206 in 1994-95. Again in Cooperative Conferences, an increase from 175 in 1993-94 to 314 in 1994-95 is contemplated. There is a move towards educating the farmer rather than just having demonstrations, which we have already done at many places. A drastic increase is planned in soil testing also.”

5.13 When asked about the reasons for less allocation of budget over the years, the M.D. KRIBHCO replied:—

“In the initial stage we had to do a lot of advertising. For example, we used to paint on the buses advertisement for 'KRIBHCO UREA'. Today, we do not require that. Our urea is well-known everywhere. We used to put up our hoardings at a distance of every kilometre in the villages. Now this type of expenditure has come down. In the initial stages, in order to make our brands popular, this type of expenditure used to be quite high. Today our brand is known all over the country. Today, the thrust is different.”

5.14 When asked whether the above activities did not require augmentation, the Committee were informed by KRIBHCO in a written note:

“There is no doubt that the promotional & educational activities are important. However, emphasis has always been on need based activities

which would uplift the economic conditions of farmers and enhance the skill of cooperative personnel in increasing their sales turnover in years to come. KRIBHCO has, therefore, plans to carry out such activities on a wider scale in years to come. It is worth mentioning here that the Society has taken-up special projects for the development of dry land areas in collaboration with ODA, U.K. One such project in the States of Rajasthan, Gujarat and Madhya Pradesh is already in operation and its results are encouraging. Looking into the performance, the Society, is likely to be entrusted with one more such project in Eastern India in the States of Bihar Orissa and West Bengal.”

5.15 During the course of evidence of the representatives of DOF the Committee pointed out that there was decline in promotional activities of IFFCO and KRIBHCO and consequently the budget for these activities decreased sharply in 1992-93 and 1993-94 as compared to the amount spent in 1991-1992. Explaining its reasons, the Secretary, DOF stated as follows:—

“I have checked them up with these two undertakings. I discussed this with them, I found that they had shown expenditure under only few items, whereas they are spending money on promotional activities under other schemes also. For instance, in the case of IFFCO, as against Rs. 162.96 lakhs in 1992-93, they had spent Rs. 300.51 lakhs. In 1993-94, as against Rs. 173 lakhs, they had spent Rs. 346.48 lakhs; in 1994-95, their target is Rs. 465 lakhs. In the case of KRIBHCO, in 1992-93, as against Rs. 59 lakhs shown earlier they actually spent Rs. 107.58 lakhs and in 1993-94, their expenditure was Rs. 95.95 lakhs and in 1994-95 their target is Rs. 228 lakhs. So, as a matter of fact, the expenditure that they had shown earlier was part of few schemes only. In addition, they are also giving one percent of their profits to the education fund of NCUI”.

5.16 When further pointed out by the Committee that the quantum of funds for promotional activities by IFFCO and KRIBHCO was too less in the context of their turnover and profits, the witness replied:-

“It has to be seen whether inadequacy is in relationship to the needs or to the percentage of their turnover. I must frankly confess that the Ministry has never looked into the aspect before. I had discussions with the Managing Director of these two organisations. They told me that they can spend only in their area of operations and cannot go outside of that area.”

C. Farmers Service Centres

5.17 Farmers Service Centres (FSCs) have been set up both by IFFCO and KRIBHCO (Farmers Sewa Kendras) as part of their promotional activities to provide integrated service to the farming community for increasing agricultural production. These centres, under the single roof, provide essential agricultural inputs such as fertilisers, high yielding variety seeds, agro-chemicals, farm implements and improved farming technology to the farmers.

5.18 IFFCO and KRIBHCO have set up 170 and 66 such centres respectively as per the details given below:-

State	Number of FSC/SKs	
	IFFCO	KRIBHCO
Punjab	41	10
U.P.	62	42
Orissa	2	—
Himachal Pradesh	5	—
West Bengal	7	—
Rajasthan	1	—
Haryana	41	13
Andhra Pradesh	2	—
Bihar	2	—
Karnataka	-	—
Maharashtra	5	—
Madhya Pradesh	6	—
Delhi	Nil	1
Total	174	66

5.19 During the course of examination of IFFCO the Committee pointed out that these centres were mainly located in 3 States viz., U.P., Punjab and Haryana and enquired whether there were plans to open such centres in other States where farmers need more help and guidance. IFFCO stated in a written note that considering the need for more help and guidance in other states some of the existing cooperative societies were strengthened under a scheme known as IFFCO -NCDC scheme on the pattern of IFFCO Farmers' Services Centres. IFFCO felt that the existing Farmers Service Centre and NCDC Societies were adequate.

5.20 When asked by the Committee whether 2 FSCs in big States like A.P. were adequate, M.D. IFFCO replied:-

“Sir, taking on the basis of the facts, the equity of Andhra Pradesh in IFFCO is far less than that of the States mentioned. Secondly, our sale of Urea in Andhra Pradesh is virtually nil”.

5.21 Asked about the basis of selection of location of centres the witness informed that it was decided by the Board of Directors.

5.22 The Committee further wanted to know whether there was any coordination with other fertiliser plants/Ministry of Agriculture/Fertilisers/State Governments in regard to opening of farmers centres. IFFCO replied in a written note as under:—

“In regard to opening of IFFCO's FSC's no formal system of coordination with other institution is existing. However, for IFFCO, NCDC centres, approval of State Cooperative Department is taken.”

5.23 During the course of evidence of the representatives of KRIBHCO the Committee point out that KRIBHCO's Seva Kendras were limited to 3 States viz.,

Punjab, U.P. and Haryana. Asked about the reasons for not opening up kendras in other States, the M.D. KRIBHCO replied:-

"I will not defend this question because there is a lot in this. We cannot justify really as to why in Haryana there is 13 KBS Kendras and why it is there are very few or nil in some other States. It has been done; you can understand that. I do not want to make any comment."

5.24 On being further pointed out by the Committee that even the Gujarat, where KRIBHCO's plant was located was not having any such Kendra the witness stated:-

"Usually it has been done on the basis of EC allocation. Selling depends on how strong the Federation is. If the Federation is very strong then, most of the things are sold through the Federation only. It depends on various situations."

5.25 In reply to a further question, the witness stated:—

"M.D. does not take such decision. The decisions are taken only in the Board. It is not within the authority and power of the MD."

5.26 During the course of examination of DOF the Committee wanted to know whether the Deptt. had any proposals for opening new Farmers Service Centres/ Kendras particularly in States where there were no such centres at present. DOF in a written note replied:—

"No requests have been received in DOF for opening of new Farmers Service Centres in other States. The Farmers Service Centres (Sewa Kendras) have been opened in the marketing areas of IFFCO and KRIBHCO. Commercial viability is kept in view while opening such centres in view of the expenses involved. Duplication of efforts and services is avoided if there are already such centres of other undertakings in a particular area."

D. Research & Development

5.27 The following table shows IFFCO's expenditure on R&D during the last 3 years:—

Year	Annual Expenditure (Rs. in lakhs)	Annual Turnover	%age of Turnover
1991-92	54.95	130795	0.04
1992-93	24.15	140458	0.02
1993-94	26.33	153003*	0.02

*Provisional.

5.28 The Committee pointed out that IFFCO's annual expenditure on R&D was too low and asked whether the R&D facilities in IFFCO were adequate or there

was a need to strengthen the same, particularly in the context of international competition in the field of fertilizers, IFFCO stated in a note as follows:-

“IFFCO plants at Kalol Kandla and Phulpur have R&D facilities which are recognised by the Department of Science & Technology of Government of India. Aonla plant also has well equipped laboratory which undertakes the R&D work at Aonla unit. IFFCO has already allocated an increased budget of Rs.1 crore for expenditure on R&D activities during the current year 1994-95 and onwards.”

5.29 The Committee further pointed out that in their 3rd Report they had recommended that all fertiliser units should contribute for R&D work. When asked whether any instructions/directions were received by IFFCO from DOF in this regard, IFFCO in a written note stated:—

“IFFCO has not received any written instructions/directions from DOF in this regard. However, IFFCO has adequate R&D facilities and has planned to strengthen the same in the current and the ensuing years.”

5.30 During the course of examination of KRIBHCO the Committee pointed out that KRIBHCO had made a provision of Rs. 15 lakh for R&D purposes for 1994-95 and in the previous years no separate Budget Head was maintained for R&D activities. On being enquired about the reasons for very meagre budget for R&D activities, the MD, KRIBHCO stated during evidence:-

“This being a manufacturing unit there is not much scope for theoretical type of research and things like that. We have been trying to intensify our efforts towards technological breakthroughs, improvement of processes, improvement of plant operation and such type of things. It is a continuous effort for us as a result of which we have made many improvements in the plant processes which have resulted in high amounts of energy saving. We did not name this as R&D activity but this in our organisation is known as technical services and basically these are R&D activities.”

5.31 The Committee further wanted to know as to what extent the country was self sufficient in fertiliser technology. The witness stated:-

“Sir, except ammonia technology, rest of the things can be done in India. Technology, for urea is available with many companies in the world including India but ammonia technology is available with very few companies. Firms like Kellogg, Snamprogetti and two other companies are the main suppliers of this technology. There are a number of processes for urea. As far as urea process in India is concerned our PDIL is the co-consultant. Whereas in the case of ammonia technology till today it has not been possible to achieve such a level of appreciation in our country.”

5.32 When asked whether the proposed fertiliser plants would be based on indigenous or imported technology, the witness stated:-

“There are two parts of it, one is technology and the other is services. For any project work, so far as technology is concerned, the licence has to come”

from the licensor, that is, it has to be imported. Basic technology and a few other things are to be given by the licensor and detailed engineering can be done by the engineers in India. As for services, we are giving in the enquiry that they should use more of Indian services so that they can compete with others like Europeans, Americans or Japanese. In other countries they cost much higher for example, in America the cost is 200 to 250 dollars per hour while the cost in India, is 6 to 7 dollars per hour. In their own interest these competing technology suppliers should take the help of Indian companies wherever possible. We have already told them and we will continue to say this."

5.33 On being asked whether it was possible to have a common R&D for all the fertiliser units by earmarking certain amount for each unit for the purpose, the M.D., KRIBHCO stated:-

"The R&D Centres, sometimes, concentrate more towards fundamental research whereas the industries need R&D in applied science etc., so that they can reap the benefits. The only thing is that some qualifications should be fixed."

5.34 Asked whether for R&D purposes the PDIL (a PSU) need to be strengthened, the witness stated:-

"So far as PDIL is concerned, they have demonstrated that they have got the strength for detailed engineering, inspection, expediting services and so on. But the only point is that they are generally found wanting when it comes to completion of jobs within a given time frame."

5.35 During the course of examination of DOF the Committee pointed out that R&D budget/activities of IFFCO and KRIBHCO were too low. Asked about the views of DOF in this regard, Secretary, DOF stated during evidence:-

"This is a subject matter which has been discussed with the MDs of the two organisations. We had also looked into a report which was produced by the Fertilizer Association of India which had constituted an Expert Group to examine the R&D activities. The comments that have been given to the Ministry through this Report are that the major technologies for the production of ammonia and urea have already been perfected by the overseas technology developers and suppliers. So, there is no scope for fundamental or original research for developing technology for the purpose of production of these things. The Expert Group had identified certain areas such as affluent treatment technology in order to reduce water consumption, ecological upgradation, etc. where research efforts should be intensified. I understand that KRIBHCO, through its in-house activity, is in the process of furthering its R&D efforts to develop production of bio-fertilizers. Both IFFCO and KRIBHCO are spending roughly about one crore of rupees each on research."

5.36 In the context of use of balanced fertilisers the Committee wanted to know whether it would be feasible to produce mixed fertilisers instead of single component of fertiliser. The witness replied:-

“Sir, this is a good suggestion. I am not an expert and, therefore, I am not in a position to respond. As a preliminary reaction, one of the problems at the moment is of single production unit of single component. Switching over of it is a problem. Basically, we are doing it on the basis of instructions given by the Agriculture Ministry.”

CHAPTER VI

COST OF PRODUCTION

A. Cost of Production—IFFCO

6.1 The following table shows the cost of production of various types of fertilisers in IFFCO during the last 3 years:—

(Cost Rs. per tonne)

Unit	1990-91		1991-92		1992-93		1993-94	
	FICC Norm	Actual	FICC Norm	Actual	FICC Norm	Actual	FICC Norm	Actual
Kalol Urea	2403	2399	2524	2428	2600	3114	3124	3303
Aonla Urea	3250	3150	3289	3732	3320	4028	3626	3825
Phulpur Urea	3456	3048	3752	3943	3848	4027	4588	4743
Kandla 10:26:26	3652	3541	5132	5119	5092	5536	5536	
12:32:16	4069	3921	5669	5765	5725	5801		
DAP	5156	5175	7856	7601	7448	6988		

(The actual cost NPK/DAP Kandla for 1992-93 includes the cost of production for the period after August 1992 *i.e.* post-decontrol period, where as the FICC cost is only for the period upto 24.08-92 *i.e.* pre-decontrol period.)

6.2 During the course of examination, the Committee pointed out that actual cost during 1992-93 in all units (except Kandla DAP) was more than FICC norms. Asked about the reasons for sharp increase in cost of production during 1992-93 as compared to 1991-92 the IFFCO in a written note stated as follows:—

“The actual cost of production of IFFCO’s fertilisers during 1992-93 was higher than the FICC norms as there has been a delay in the revision in retention prices for VIth Pricing period commencing on 1st April, 1991 and the delays in the revision in retention prices due to increase in the input price escalations.”

6.3 The M.D., IFFCO during the course of evidence also stated that FICC norms were fixed in 1988. Even though these were due for revision in 1990-91, these have not been revised as yet. After revision of the FICC norms cost of production would be within the norms.

6.4 The Committee further wanted to know about the steps taken for keeping the cost of production at the minimum, IFFCO in a written note stated as follows:

“The society has little control over the prices of major items of inputs like Gas, Naphtha, Coal, Fuel Oil, Power and imported items like Phosphoric Acid, Ammonia and Potash the cost of which constitutes 50 to 65% of the total cost of production in the case of Urea and more than 80% in the case of Phosphatic and Potassic Fertilisers. In the case of newer plants like Aonla the Capital Related cost like Depreciation and Interest constitute about 30% of the total cost of production.

However, the Society on its part is making all efforts to keep the cost of other items like Administration and Factory overheads, Repairs and Maintenance etc. under control by proper mointoring of these costs.”

B. Cost of Production, KRIBHCO

6.5 The following table shows the standard cost, budgetted cost and actual cost of production during each of the last 3 years:

Cost of Production Level	(In Rs. per tonne)					
	1991-92		1992-93		1993-94	
	Fixed	Var.	Fixed	Var.	Fixed	Var.
Standard cost of production (As per FICC norms)	759	1493	783	1547	783	1802
Budgetted cost of production	906	1635	901	1662	1028	1837
Actual cost of production	727	1572	758	1641	887	1823

6.6 During the course of examination of KRIBHCO the Committee pointed out that the actual cost of production was more than the standard cost/budgetted cost in some cases. Asked whether the cause-wise reasons for increase in cost of production had been analysed, KRIBHCO in a written note stated:

“Cause-wise reasons for increase in the cost of production, if any, are being analysed on monthly basis. A detailed comparison of actual cost of production *vis-a-vis* standard cost of production (as per FICC Norms) and Budgetted Cost of Production is made to critically review and identify the reasons.

The increase in actual variable cost is mainly due to increase in gas price and calorific value difference as well as Bagging Cost. The escalation claims are lodged by the Society which are admitted and reimbursed by the FICC subsequently. the actual variable cost of production has substantially increased during 1993-94 due to restriction in supply of Gas by M/c GAIL, which is being met by using alternate fuel i.e. NGL, for Boilers which is costlier than Gas. The increase in per tonne actual Fixed Cost is mainly due to decrease in capacity utilisation from 116.2% (1992-93) to 109.4%

(1993-94) of Urea on account of restriction in supply of gas by M/s GAIL although total Fixed Costs for the years 1992-93 and 1993-94 are more or less the same.”

6.7 Explaining it further, MD, KRIBHCO also stated during evidence that the FICC has not yet announced the Retention price for the sixth pricing.

6.8 When asked whether KRIBHCO was satisfied about the cost control methods in the Society, KRIBHCO replied in a note that the Society was satisfied about the cost control methods adopted to analyse and control the costs.

Explaining it further, MD, KRIBHCO also stated during evidence:

“They have fixed it only at Rs. 3340. Our cost of production is Rs. 2600 plus Rs. 150 because of this change. The FICC has not yet announced the Retention price for the sixth pricing. But based on the Retention Price announced for fifth pricing period on the basis of escalation in raw material inputs, bags etc. they keep on revising the retention price periodically.”

CHAPTER VII

REVIEW OF WORKING OF IFFCO & KRIBHCO

A. Financial Performance

7.1 The following table shows the profit earned by IFFCO and KRIBHCO during the last 3 years:

Year .	Profit (Rs. in crores)	
	IFFCO	KRIBHCO
1991-92	100.91	158.04
1992-93	155.38	227.78
1993-94	204.38	183.66

During the course of examination of KRIBHCO the Committee pointed out that there was substantial decrease in profits during 1993-94 as compared to 1992-93. Asked about the reasons for the same, M.D., KRIBHCO stated:

“Sir you might have seen that we could maintain that last year also. In 1992-93 we could produce about 115 percent. But in the year 1993-94 because of gas restrictions we were running at about 90 percent, only after converting one boiler we are now running at 104-105 percent.

7.3 Explaining the reasons further, KRIBHCO stated in a note that the net profit (before tax) of Rs. 227.78 crores for the year 1992-93 included arrears of Rs. 95.06 crores pertaining to prior period on account of revision in Retention Price whereas the net profit for 1993-94 included only Rs. 57.25 crores towards similar arrears pertaining to prior periods.

B. Review of Working of IFFCO & KRIBHCO by DOF

7.4 During the course of examination of DOF the Committee pointed out that Govt. had majority shares both in IFFCO and KRIBHCO. Asked about the system being followed DOF to review the working of these cooperatives, DOF in a note stated:

“The Department of Fertilizers monitors the performance of IFFCO and KRIBHCO through various weekly, monthly, quarterly and annual reports regarding production, sales, profitability, etc. with respect to the targets fixed. In addition, DOF holds Quarterly Review Meetings (QRMs) in

which the production with respect to the targets, sales with reference to E.C. allocations etc., consumption efficiencies *vis-a-vis* those allowed by FICC, profitability with respect to the budget approved by their Boards/Government, various accounting ratios, actual manpower *vis-a-vis* approved strengths, etc. are critically reviewed and reasons for variance are analysed and necessary directions are given. The problems relating to availability of raw materials, transportation, etc. are also discussed during the QRMs and wherever required DOF takes up the matter with the concerned Departments/Ministries to remedy the situation. Apart from QRMs, whenever any problem needing immediate action crops up, special meetings are arranged by DOF who, in turn, take up the matter with the concerned agencies to resolve the same."

7.5 When asked about the number of quarterly review meetings held during the last 3 years, DOF stated that they held 10 and 9 QRMs in respect of IFFCO and KRIBHCO respectively from 1991-92 till date.

7.6 As regards the nature of reviews at such meetings, DOF stated in a note that arising out of discussion at such meeting detailed minutes were issued bringing out actions to be taken, both by the Society and the Government. As an example, some of the important directions/observations made by DOF arising out of such QRMs in case of KRIBHCO were as follows:

- “(i) To explore the possibility of joint venture projects.
- (ii) The extension programmes/activities may be rationalised and these programmes should be carried out only in those areas where these were really needed.
- (iii) Marketing costs may be reduced.
- (iv) The management should take concrete steps to reduce overtime payments.
- (v) The scheme for installing facilities for use of alternate fuel in the boilers should be speeded up.
- (vi) The Society should explore the possibility of taking up a programme of bio-fertilizers development production.
- (vii) The activities of Krishak Bharati Sewa Kendras should be monitored more effectively and it should be ensured that these Kendras serve as nodal points for various extension programmes of the Society.
- (viii) Preventive maintenance of the various plants/machinery should be given more attention.
- (ix) Debtors to turn-over ratio should be reduced.”

7.7 DOF further stated that the progress of major projects was also reviewed by DOF every month by holding meetings with the senior executives and necessary directions were given. In addition, Ministry of Programme Implementation also monitors the progress of major projects every month.

7.8 The Committee further wanted to know whether the DOF was satisfied about the role of Govt. Directors on the Board of IFFCO and KRIBHCO. DOF in a written note stated that the Department of Fertilizers was satisfied about the role of Government Directors on the Board of IFFCO and KRIBHCO. There was a practice of Government Directors from the Department of Fertilizers taking a briefing from Secretary (Fertilizers) on the agenda items to be discussed in a Board meeting. After the Board meetings, Government Directors of DOF report back to secretary (F) the details of discussions held and decisions taken on all the major items.

C. Auditing by C&AG

7.9 As per the provisions of the Multi State Cooperative Societies Act, the Central Registrar of Cooperative Societies appoints Statutory Auditors for the cooperative Societies like IFFCO and KRIBHCO. When asked whether regular audit by C&AG would not be better for the Society, IFFCO in a written note stated:

“Apart from the statutory Audit and Tax Audit IFFCO is also having a sound internal audit system of its own which covers all the important activities of the Society during the course of the audit and it is quite elaborate and exhaustive in nature. The Government in its discretion had separately entrusted to C&AG special audit of IFFCO for the period 1985-1990 which has since been completed and Draft Report has been submitted by C&AG to Department of Fertilisers. In view of the above a separate regular audit by C&AG is not considered necessary.”

7.10 When asked about the latest position in regard to finalisation of the Audit Report, DOF in a written note stated that C&AG's Draft Audit Report on the accounts of IFFCO for the period 1985-86 to 1989-90 was received in DOF in June, 1994. The detailed comments of DOF on the Draft Audit Report were sent to C&AG on 10.11.1994. Some additional comments, as desired by C&AG, were sent on 13.1.1995. The final report of C&AG was still awaited.

PART II

RECOMMENDATIONS/CONCLUSIONS OF THE COMMITTEE

Indian Farmer's Fertiliser Cooperative Limited (IFFCO) and Krishak Bharati Cooperative Limited (KRIBHCO) were registered as Cooperative Societies under Multi-unit Cooperative Societies Act, 1942 in November, 1967 and April, 1980 respectively. Consequent upon enactment of Multi-State Cooperative Societies Act, 1984, these cooperative units were deemed to be registered as Multi-State Cooperative Societies. The main aim to form these Cooperative Societies was to promote the interests of farmers mainly through production and distribution of fertilisers. While the IFFCO has set up four fertiliser plants viz. one each at Kalol (Guj.), Kandla (Guj.), Phulpur (U.P.) and Aonla (U.P.) with total installed capacity of 11.73 lakh tonnes of fertilisers, KRIBHCO has its sole plant at Hazira in Gujarat with a production capacity of 14.52 lakh tonnes of fertilisers.

2. The Committee note that the objectives as laid down in bye laws of IFFCO and KRIBHCO range from production of fertilisers to pesticides, agricultural machinery implements, setting up of agricultural farms setting up factories for production of sugar, petro-chemicals, electronic items etc. The other main objectives of these cooperatives are to store/market/transport fertilisers and to provide training to farmers. The Committee regret to note that the main activities of these two organisations have been mainly limited to the production and marketing of fertilisers only. In this connection the representatives of the IFFCO stated that the activities of IFFCO were commensurate with its objectives and basically their bye-laws were more general to provide flexibility in case of expansion in their activities. As a result of their activities undertaken in the field of promotion of fertilisers, IFFCO had enrolled 33,000 cooperatives Societies as its members. IFFCO has also become country's largest producer of chemical fertilisers contributing around 13% of total of Nitrogen and around 19% of total of P2O5 produced in the country. Besides it was having about 600 trained people to impart training to farmers in promotional activities. In regard to the assessment of KRIBHCO's achievements M.D. KRIBHCO was candid in his admission before the Committee that they were neither totally satisfied nor totally dejected about it. KRIBHCO had not been allowed to go beyond fertilisers production and they were asked by the Ministry to stick to fertilisers line only. However, they have changed their bye-laws to take up some more activities to benefit farmers' community and participate in other developmental programmes.

The Committee also note that recently both IFFCO and KRIBHCO are in process of diversifying their activities in some new areas like production of pesticides, forestry and wasteland development projects. The Committee recommend that IFFCO and KRIBHCO should take up all the objectives as enshrined in their bye-laws in a time bound programme so that the main aim of setting up these cooperative societies is fully achieved.

3. The Committee note that as against the authorised share capital of Rs. 1000 crores of IFFCO and Rs. 500 crores of KRIBHCO, the paid up capital of IFFCO and KRIBHCO at the end of March 1994 was Rs. 359.60 crores and Rs. 453.66 crores respectively. The Committee are constrained to observe that both the cooperative units are being run like PSUs as majority of the share capital is held by the Government. In IFFCO out of the total paid up capital of Rs. 359.60 crores, the equity of the order of Rs. 289.61 crores and Rs. 8.05 crores are held by Government of India and NCDC respectively leaving only Rs. 61.94 crores for the cooperatives. Similarly in KRIBHCO, out of the total paid up capital of Rs. 453.66 crores, the equity of Rs. 328 crores and Rs. 97 crores is held by Government of India and IFFCO respectively leaving a share of only Rs. 28.36 crores for the Cooperatives. Thus the share of cooperatives account for 16% in IFFCO and 6% in KRIBHCO only. The Secretary DOF was candid in his admission before the Committee that IFFCO and KRIBHCO were cooperatives for name's sake and these were run like other PSUs. The Committee are not convinced with the Government's plea that there are only five Government Directors in each of the IFFCO's and KRIBHCO's Board of Directors which are having 26 and 16 Directors respectively and as the majority of Directors were from Cooperatives and the major decisions were being taken by the Board of Directors of these cooperatives without being unduly influenced by Government Directors. Admittedly the Department of Fertilisers has not examined the issue relating to transfer of more share capital to cooperatives. The Committee wonder how in the absence of proper examination of the issue the Government has come to a conclusion that cooperatives may not come forward to take up more equity in IFFCO and KRIBHCO. The Committee accordingly recommend that to make IFFCO and KRIBHCO real cooperative units, the Government should initiate action for transferring more share capital to cooperatives in a phased manner.

4. Another issue relating to the organisational structure of IFFCO and KRIBHCO, which came up during the course of examination of these units was about the continuance of the cooperative status or the change to company status. Reportedly the company status has several advantages over the cooperative status particularly in the matters of arranging finance at comparatively low rate of interest and bringing out public issues, if required. At the instance of DOF, both IFFCO and KRIBHCO have reportedly submitted their reports bringing out the relative advantages and disadvantages of cooperative vis-a-vis corporate form of organisation. The Ministry of Agriculture was also examining these issues in regard to cooperative units as a

whole. However, according to DOF the general principles applicable to cooperatives may not suit industrial units like IFFCO and KRIBHCO. The Committee strongly feel that since the main aim of setting up these units is to help the farming community through cooperatives, the cooperative status of these units should not be diluted particularly when the production and financial performance of these units has been consistently very good.

5. The Committee find that even though IFFCO and KRIBHCO have been treated by DOF to be at par with the other Public Sector Undertakings, these have not been allowed to sign Memorandum of understandings, with the government as is being done in the case of other undertakings. Reportedly MOU signing PSUs enjoy greater autonomy in their operations. The Committee are happy to note that after the matter was taken up by the Committee, since November 1994 DOF has extended the additional powers/facilities to IFFCO and KRIBHCO bringing them at par with the MOU signing companies. This step will ensure greater autonomy and freedom in the operation of these cooperative units. The Committee hope that with the additional powers, IFFCO and KRIBHCO will make use of the new system to overcome certain operational difficulties coming in their smooth functioning.

6. The Committee regret to note that KRIBHCO has not been able to finalise its corporate Plan during the last 15 years of its existence. This sorry state of affairs has been attributed to the frequent changes in the chief executives of the cooperative and also to the DOF directions to the society to concentrate in the field of fertiliser production only. The Committee have now been informed that a Detailed Perspective Plan is under finalisation which may take about one more year. The Committee recommend that all out efforts should be made to finalise the Perspective Plan within the stipulated period of one year. The Committee also recommend that since KRIBHCO has suffered in the past on account of frequent changes in the Chief Executives, due care should be taken to avoid this in future so that this does not become a recurring feature.

7. Examination of project planning and implementation systems by the Committee in regard to projects undertaken by IFFCO and KRIBHCO during the last 5 years has revealed that the project planning and execution machinery in these societies needs to be strengthened. The Committee find that during the aforesaid period IFFCO's rehabilitation project for energy conservation, operational reliability, safety aspects etc. for existing units at Phulpur, Kalol and Kandla had been approved. The Committee are dismayed to learn that some of the schemes under the rehabilitation project got delayed considerably ranging from 8 months to as long as 31 months. The Committee regret to note that in the case of one scheme, due to time lag between submission of scheme and the approval of the same by the government there was change in technology leading to modifications of the scheme. In case of KRIBHCO, the committee also find that it has not taken up any major project for implementation after its main complex at Hazira in 1985. Apart

from about 14 months delay in completion of the project, there was cost escalation to the order of Rs. 190 crores. Shifting of zero date, due to delay in selection of consultants for the process plant by the Government has been stated to be the reason for delay in the completion of the Hazira project. Further more, the Committee are unhappy to note that KRIBHCO constructed its Head office building recently after a delay of more than 3 years which has resulted in increase in cost from Rs. 7 crores to Rs. 10.5 crores. The Board of KRIBHCO have brought out some disquieting features with regard to the appointment of the architect of the Building and other related matters. The above facts reveal a dismal picture of the two cooperatives. The Committee therefore recommend that both IFFCO and KRIBHCO should review their project planning as well as implementation machinery with a view to strengthen the same so that cost and time over-runs do not occur in future. The Committee also urge the Department of Fertilisers to ensure that concerted efforts should be taken to clear the projects at the earliest so that there may not be any necessity of revising the schemes for incorporating latest technology.

8. The Committee note that presently both IFFCO and KRIBHCO have planned several expansion/diversification projects. These are under various stages of planning/implementation. The main projects of IFFCO include Aonla, Phulpur and Kalol Expansion Projects, Ammonia-Urea Complex in Krishna Godavari basin and, Agro-chemical project to produce pesticides. These expansion projects are expected to result in increasing the production capacity of IFFCO plants by 100% by the year 2000 AD. The estimated cost of these projects would be about Rs. 2000 crores. Similarly KRIBHCO has planned to take up projects like Nitrophosphate Plant, MDF Board, Mushroom, Maize Processing Complex and Aquaculture projects costing about Rs. 700 crores. The committee would like IFFCO and KRIBHCO to take necessary steps to implement/complete the various projects under planning/implementation so that these are completed within the stipulated cost and time schedule. The Committee would also like the DOF to constantly monitor the progress of the projects with a view to give necessary instructions as also to provide help to these units wherever necessary. Needless to emphasise that timely execution not only avoids the cost over-runs, but also adds to the production capacity resulting in reduction of imports.

9. The Committee note that in view of shortage of gas in the country (which is the feed stock of fertilisers) and shortage of raw materials like phosphate, IFFCO and KRIBHCO have planned joint ventures with countries where gas and raw materials are in abundance. The main aim of setting up these joint ventures is to have an assured source of supply of fertilisers in future. While IFFCO's joint venture project will be in Iran and Qatar, KRIBHCO will share one with IFFCO in Iran and the other with RCF in Oman. Memorandum of Understanding (MOU) for these joint ventures have been signed by the government of India with these countries. The Committee find these ventures to be in the right perspective/direction and would like the

Government, IFFCO and KRIBHCO to take all possible measures to set up joint venture projects well in time so that the desired results are achieved.

10. It also came out during examination of KRIBHCO that for the purpose of assured source of supply of phosphatic fertilisers, to Indian farmers KRIBHCO is planning to buy/participate in equity in respect of one running phosphate fertiliser plant either in USA or in Russia. The Committee have been informed by DOF, that first stage of clearance (for initiating the diligence process for acquiring equity in phosphatic manufacturing facilities in USA/Russia has already been accorded. After the due diligence studies are completed and detailed feasibility report has established the viability of the proposals, decision for investment on the proposals would be taken after the second stage clearance has given by the PIB. The Committee hope that DOF/KRIBHCO would take due care of the viability, life and production capacity of old plant while taking over the same.

11. The Committee note with satisfaction that the capacity utilisation of fertiliser plants of IFFCO and KRIBHCO has been very good. During the last 3 years the capacity utilisation has been over 100% with the exception of the Urea plant at Kalol where the capacity utilisation was 91% and 96% in 1992-93 and 1993-94 respectively. However both IFFCO and KRIBHCO have submitted before the Committee that there has been some shortfall in their production during the last 2-3 years on account of shortage of gas. This factor is reported to have caused shortfall in production to the extent of 5% to 10% in IFFCO's plants at Kalol and Aonla and KRIBHCO's sole plant at Hazira. The administrative Ministry viz. DOF have informed this Committee that the matter regarding shortage of gas has been taken up by them before gas Linkages Committee responsible for gas allocation to various users. The representatives of DOF have informed this committee that since gas was becoming a scarce resource, they have been pleading their case consistently before the Gas Linkages Committee. However, it has not been possible for them to get an over-riding priority of gas allocation for fertiliser plants. In this connection, the representatives of Gas Authority of India Ltd. (GAIL) had informed the Committee that as against the registered demand as on 31-3-92 of 263 MMSCMD per day actual supply upto the end of March, 1994 was 35.49 MMSCMD only out of which fertilisers alone accounted for 21.49 MMSCMD representing 44.5% of the total gas allocations. The Secretary, Petroleum informed the committee that allocations to fertiliser plants were being met fully and that there has been a marginal shortfall only. He contended that wherever the fertilisers plants were required to use liquid fuel for captive power generation, the feedstock of natural gas was 100% and in some cases it was more than that. Hence fertiliser production in actual terms has not been adversely effected. In this regard, the Committee would like to reiterate its earlier recommendations made in the 3rd and 8th Reports regarding pursuing the question of availability of adequate gas to fertiliser plants at the highest level in the Government.

12. The Committee have also been informed that upgradation of HBJ gas pipelines would improve considerably the availability of gas in some of the fertiliser plants situated at HBJ pipeline including IFFCO's plant at Aonla. The Committee recommend that Ministry of Petroleum and Natural Gas and GAIL should make all out efforts to complete the upgradation project within the stipulated cost and time schedules in order to meet the domestic demand of fertilisers.

13. During examination it came out that in view of shortage of gas some of the fertiliser units have started using alternate fuels for some of their activities so that their level of production is not affected by shortage of gas. For instance, the Committee find that KRIBHCO has set up one boiler based on NGL for power generation and that they are in the process of setting up similar boiler so that the available gas is utilised solely as feed stock. The Committee find that these steps are in the right direction and would like all the fertiliser plants to adopt such measures as even in the coming years shortage of gas may continue.

14. The Committee regret to note that cost of production of IFFCO and KRIBHCO's products has increased considerably during the years 1991-92 to 1993-94. In IFFCO the cost was more than the FICC norms in most of its plants. Similarly, KRIBHCO's actual cost of production was more than the standard cost of production and budgetted norms during the years 1991-92 to 1993-94. In this context M.D. IFFCO deposed before the Committee that they have no control over the prices of major items of inputs/raw materials such as gas, naphtha, coal, fuel oil, power and imported items like Phosphoric Acid, Ammonia and Potash constituting 50% to 65% of the total cost of production of Urea and more than 80% of the total cost of phosphatic and potassic fertilisers. KRIBHCO has attributed reduction in supply of gas by Gas Authority of India (GAIL), as the main cause of increase in the cost of production. The Committee were also informed that FICC norms of costing were due for revision and after the revision cost of production of IFFCO/KRIBHCO would be within the FICC norms. The Committee would like IFFCO and KRIBHCO to take all economy measures for keeping their cost of production at the minimum level.

15. The Committee regret to note that even though the main aim of setting up of cooperative units of IFFCO and KRIBHCO is to provide help to the farming community the quantum of activities as also the funds spent on the promotional and educational activities undertaken for the benefit of farmers by IFFCO and KRIBHCO during the last 2-3 years is hardly adequate. In the context of IFFCO's annual turnover of over Rs. 1500 crores, the expenditure incurred on these activities amounted to Rs. 3 crores in 1992-93 Rs. 3.46 crores in 1993-94 and the proposed outlay of Rs. 4.6 crores for 1994-95 is proportionately too meagre. Similarly as against the annual turnover of Rs. 587 crores of KRIBHCO the expenditure on promotional and educational activities was Rs. 1.07 crore in 1992-93, Rs. 95.65 lakhs in 1993-94 and the

proposed outlay of Rs. 2.28 crores for 1994-95 again repeats the same sorry state of affairs. Consequently there has been decline in some of the promotional activities such as Plot Demonstrations, Field Days, Crop Seminars and Soil Testing Campaigns. The Committee were dismayed to learn from the Secretary, Fertilisers that the DOF has never examined the issue regarding availability of funds for promotional and educational activities by IFFCO and KRIBHCO vis-a-vis their turn over and profits. Since the Government is holding about 80% share capital of these cooperatives and all major decisions about the working of these two organisations require Government approval, DOF cannot therefore plead ignorance in the matter. The Committee, therefore, recommend that Government should direct IFFCO and KRIBHCO to raise their budgets for promotional and educational activities accordingly.

16. The Committee note that as a part of their promotional activities to provide integrated service to the farming Community, IFFCO and KRIBHCO have set up Farmer's service Centre/Kendras. So far the number of such centres is 174 in case of IFFCO and 66 in case of KRIBHCO. From the state-wise details of the location of these centres the Committee are surprised to note that majority of these centres are in the fertile plains of Punjab, U.P. and Haryana. Out of a total of 174 centres of IFFCO as many as 144 centres are located in Punjab, UP and Haryana. Almost all the centres of KRIBHCO (65 out of 66) are also located in these three states. The Committee are not convinced by the explanation of the DOF that the location depends upon the sale of fertilisers which in turn is decided by the EC allocation. The Committee further regret to note that presently, there is no coordination among various agencies viz. cooperative units, PSUs, DOF/Ministry of Agriculture and State agencies in regard to setting up of Farmers Centres. In Committee's view there is need for elimination of lopsided approach so that benefit of the Farmers centres reach all parts of the country and are not crowded in selected States/areas where farmers are quite progressive and may not need preliminary services etc. The Committee strongly recommend that the Government should conduct a study to know the requirement vis-a-vis existing Farmers Centres set up by different agencies. Such a study would help in identifying the deficit areas where Centre could be set up. The Committee also recommend that there should be some machinery to coordinate the promotional activities of different organisations including cooperative and PSUs. If necessary, Fertiliser Association of India which represents all fertiliser units should be persuaded to associate itself in this regard.

17. The Committee regret to note that IFFCO and KRIBHCO's spendings on R&D hardly reflect the size and standing of these organisations. Expenditure in R&D by IFFCO has come down from Rs. 54.95 lakhs in 1991-92 to Rs. 26.33 lakhs in 1993-94 representing 0.04% and 0.02% of its total turn over. In KRIBHCO the Committee find that a meagre provision of Rs. 15 lakhs has been made for 1994-95 for R&D activities and no such

separate Budget Head has been maintained in the previous years. In this context the Committee have been informed that there is not much scope of theoretical type of R&D work in fertiliser units as the technology for fertiliser production is stabilised. However, IFFCO and KRIBHCO have been trying towards technological breakthrough, improvement of processes, improvements in plant operations etc. resulting in high amount of energy saving. An Experts Group appointed by Fertiliser Association of India has also identified certain areas for carrying out research by fertiliser units. These areas *inter alia* include affluent treatment technology, ecological upgradation etc. The Committee recommend that besides these areas IFFCO and KRIBHCO should also carry out research in other areas like production of bio-fertilisers, feasibility of producing of mix (NPK) fertilisers. For this purpose quantum of funds should be appropriately enhanced.

18. Project Development of India Ltd. (PDIL), a PSU is a premier organisation for carrying out R&D work in the fertiliser industry. This organisation is reportedly having necessary expertise and infrastructure. Presently PDIL is a sick unit under reference to BIFR. The Committee in their 3rd Report had recommended that fertiliser units should be asked to contribute towards R&D for the benefit of the fertiliser industry. In their action taken replies, DOF informed the Committee (June, 1994) that the Government has taken note of the recommendations on need for contribution from Fertiliser Industry towards research and development. However, it came out during course of examination of IFFCO and KRIBHCO that they have not received any direction from the DOF in this regard so far. The Committee therefore recommend that DOF should issue necessary guidelines in this regard to all concerned and the Committee be informed accordingly.

19. The Department of Fertilisers have informed the Committee that they have been reviewing the working of these two Cooperative units on weekly, monthly, quarterly and annual basis covering different aspects of production, sales and profitability in these units, and have been issues necessary directions. The progress of major projects is being reviewed by DOF on a monthly basis with the senior Executives of the IFFCO and KRIBHCO. The Committee, however, regret to not that DOF is not regularly conducting quarterly performance review meeting in respect of IFFCO and KRIBHCO. As against the stipulated 16 QRM's which should have been held during the years 1991-92 to 1994-95, the actual number of such meetings was 10 and 9 in IFFCO and KRIBHCO respectively. The Committee are of the firm view that for achieving desired results more interactions between representatives of IFFCO and KRIBHCO and those of Department of Fertilisers are needed particularly when the Government is owning majority shares of these cooperatives. The Committee, therefore, recommend that Department of Fertilisers should hold quarterly review meetings on regular basis so as to ensure proper review of the working of IFFCO and KRIBHCO and also issue necessary instruction wherever necessary.

20. The Committee note that accounts of IFFCO and KRIBHCO are audited by the statutory auditors appointed by Central Registrar of Cooperative Societies and not by the auditors appointed by C&AG. However, it came out during the course of examination that the Government entrusted the accounts of IFFCO to C&AG for the purpose of special audit for the period from 1985 to 1990. C&AG's Draft Report was sent to DOF in June 1994. The comments of the DOF on C&AG's draft report were sent to C&AG in November, 1994 and further comments in January, 1995. A final report of C&AG on the subject is still awaited. Since the Report has already been delayed considerably the Committee would like DOF to get the C&AG Report expedited. The Committee would also like to know about the findings of C&AG and the follow-up action taken by DOF/IFFCO. The Committee also desire that C&AG may be approached to conduct a similar audit of the accounts of KRIBHCO.

NEW DELHI;
24 March, 1995
Chaitra 3, 1916 (Saka)

SRIBALLAV PANIGRAHI,
Chairman,
Standing Committee on
Petroleum & Chemicals.