

COMMITTEE ON PUBLIC UNDERTAKINGS (1968-69)

(FOURTH LOK SABHA)

TWENTY-SIXTH REPORT

**TROMBAY UNIT OF FERTILIZER CORPORATION
OF INDIA LTD.**

Paras in Section II of Audit Report (Commercial), 1968

MINISTRY OF PETROLEUM & CHEMICALS

(DEPARTMENT OF CHEMICALS)



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**LOK SABHA SECRETARIAT
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26TH REPORT OF THE COMMITTEE ON PUBLIC
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- III. Statement showing comparison of Trombay's cost of production in 1967-68 with cost of production in other units of FCI and imported price. 47
- IV. Summary of conclusions/Recommendations of the Committee on Public Undertakings contained in the Report. 48

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V Recommendation No.15 (Para 3.16)- line 1.	not	note
V Recommendation No.18 (Para 4.9) lines 13&14.	Suggestions made by the Committee on Plan Projects, it would be genous production.	found to be absolutely essential after taking into account the indi-genous production.

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(1968-69)**

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Shri M. M. Mathur—*Under Secretary.*

INTRODUCTION

1. The Chairman, Committee on Public Undertakings, having been authorised by the Committee to present the Report on their behalf, present this Twenty-Sixth Report on the Trombay Unit of Fertilizer Corporation of India Ltd.

2. This Report is based on the examination of audit paras relating to the Trombay Unit contained in Section II of Audit Report (Commercial) 1968.

3. The Committee took the evidence of the representatives of the Fertilizer Corporation of India Ltd. and the Ministry of Petroleum & Chemicals (Department of Chemicals) on the 31st August, 1968.

4. The Report was considered and adopted by the Committee on the 23rd December, 1968.

5. The Committee wish to express their thanks to the Officers of the Ministry of Petroleum & Chemicals (Department of Chemicals) and the Fertilizer Corporation of India Ltd. for placing before them the material and information that they wanted in connection with their examination.

6. The Committee also place on record their appreciation of the assistance rendered to them in this connection by the Comptroller & Auditor General of India.

NEW DELHI;
February 9, 1969
Magha 20, 1890 (S)

G. S. DHILLON,
Chairman,
Committee on Public Undertakings.

INTRODUCTORY

In April, 1959, the Government of India approved the establishment of a fertilizer factory at Trombay to utilise the gas available with Burmah Shell and Standard Vacuum Refineries. Two plants were to be set up under the original Project, one for production of urea with a capacity of 97,500 M. tons (subsequently increased to 99,000 M. tons) a year and the other for production of nitrophosphat with a capacity of 2,54,000 M. tons (subsequently increased to 3,30,000 M. tons) a year. In December, 1962 Government approved the addition of a Methanol Plant with a capacity of 30,000 M. tons a year.

II AGREEMENTS

A. Agreement for the supply of Ammonia, Urea and Nitric Acid Plant. Para 2 (a), pp. 53—55.

2.1. The Trombay Unit entered into an agreement with a foreign firm on 22nd March, 1961, for the supply of Ammonia, Urea and Nitric Acid Plants and for supervisory services for the installation, start-up and test runs and for fulfilment of the performance guarantees. The effective date of the agreement was 27th June 1961, when the first 7-1/2 per cent. down payment provided for in the agreement was made.

2.2. According to the agreement, the firm was to furnish outline drawings of foundations, civil works, etc. between October, 1961, and April, 1962, in accordance with the "estimated schedule" laid down in clause 3.7 (a) and deliver machinery, equipment and materials within 18 months from the date of receipt of necessary import licences. The agreement also provided that, if for no fault of the firm, the plant was not ready for initial operations within 48 months from the effective date of the agreement, the firm should be deemed to have satisfied its obligation.

2.3. There were delays on the part of the firm ranging from 72 to 258 days in the supply of civil works outline drawings|designs and delays ranging from 7 months to 27 months in the delivery of the machinery, equipment and materials, with the result that the plant was not ready for start-up operations before the expiry of the contract i.e., 27th June, 1963.

2.4. For the delay in the supply of drawings and equipment by the firm, the Unit initially preferred a claim of \$8,20,000 but subsequently withdrew it for the following reasons:—

1. The firm was not contractually responsible for consequential or indirect damages.
2. The contract did not provide for any penalty for these delays and the schedule given for the scope drawings was only an "estimated" one.
3. In any case, the plant could not have been commissioned till the middle of May, 1965, for want of power.

2.5. The Ministry informed Audit in December, 1967, that "reasons for delay are many and all of them cannot be attributed to the Plant Supplier and the claim of \$8.20 lakhs on M[s. Chemico, might not have been enforced even if the contract had a penal clause against delays on the part of the contractors".

2.6. The firm also contended in June, 1965, that since the plant was not ready for initial operations for reasons for which it was not responsible, fresh arrangements should be made for the continuance of its services.

2.7. The Unit, by a supplementary agreement dated 27th June, 1965, agreed to extend the period for start-up operations by 6 months i.e., up to 27th December, 1965, and to release the firm from its obligations if it demonstrated the guarantees for only one instead of all the streams of the plant as provided for in the original agreement. The Unit also agreed to bear the cost of stay (Rs. 26.36 lakhs) of the firm's personnel in India during the extended period.

2.8. The firm, however, failed to demonstrate successfully the operation of Urea and Nitric Acid Plants even at the end of the extended period and the Unit granted two further extensions, the first up to 31st January, 1966, for both the plants, and the second up to 30th April, 1966, for Urea Plant. The operation of these plants was demonstrated within these extended dates.

2.9. The failure on the part of the firm to demonstrate guarantees in respect of the three plants by 27th December, 1965, resulted in an additional expenditure of Rs. 9.63 lakhs on the stay of its personnel for the period of the extensions which, in the absence of any penal provision in the agreement, was borne by the company.

2.10. As regards the claim of \$8,20,000 on M[s. Chemico the General Manager, Trombay, in a Memorandum dated 27-5-1965, requesting the Managing Director to press certain claims with M[s. Chemico, had observed as follows:

"In my view following claims can be pressed successfully. The expenses we have incurred on Chemico's men staying here beyond June, 1964, the date on which we would have completed the plant according to schedule. We might not have had permanent power supply on that date which is one of the points that Chemico is likely to urge but it is open to us to build the plant and wait for electric supply. In fact, such a course would have been in our interest because, after building up the plant, we could have sent back a portion of Chemico's supervisory personnel."

"To give you an idea and magnitude of our claims on Chemico's supervisory personnel remaining here from June 1964, it works out to approximately \$60,000 per month. So, for one year the extra burden we had assumed by Chemico's supervisory personnel staying here is about \$720,000. We might claim for one year but at least for six months, our claims in my opinion, is fairly strong."

2.11. Later, to the claim of \$720,000 indicated by the General Manager, \$100,000 were added as being the excess custom duty| freight charges paid on account of the enhancement of the customs duty etc.

2.12. It was also stated that legal opinion of the solicitors was taken about this claim before negotiating with the firm. The relevant extracts from their opinion are given below:—

"The (FCI) would be entitled to such damages under the general law of contract as there is no provision specifically providing for liquidated damages for such a situation under the contract. It does not mean that unless there is a specific provision for liquidated damages laid down for any particular default, the party would not be entitled to claim damages as in the absence of any such provision the aggrieved party would be entitled to claim damages under the Contract Act. Under the circumstances, FCI's claim for damages would be tenable."

"In computing damages which the FCI has suffered directly as a result of the above said breaches of Chemico, it would be most relevant and material to show to a court or an Arbitrator that additional expenditure had to be incurred by the FCI on having to retain Chemico's staff for a longer period because of the delay as well as the additional expenditure incurred by FCI on administrative charges and financing charges because of the delay and also increase in ocean freight, custom duty, which came into effect on 1-8-1963."

"Chemico cannot object to FCI's claim for damages, it being demonstrated that it had committed breach of its obligations under clause 3.7 by contending that the delays were also due to certain defaults on the part of FCI. FCI, in any event, would be entitled to claim damages and the onus would be entirely on Chemico to prove to what extent the quantum of damages should be produced by reason of the delay being aggravated by acts of omission.

Furthermore, it would be pertinent to note that such acts or omissions of Fertilizer Corporation of India which Chemico can rely on as being responsible for the delay must be specifically related to their obligations under clause 3.7(a) and (b), that is to say, that in the performance of their obligations under sub-clause 3.7(a) and (b) certain acts or omissions directly hindered or aggravated the delay in the supply of scope drawings and equipment. In our opinion, Chemico cannot get out of its liability to pay damages to Fertilizer Corporation of India for the breach of clause 3.7 by alleging that the ultimate commissioning of the plant was delayed for non-availability of power."

2.13. In spite of the observations of the General Manager, Trombay, and the legal opinion of the solicitors the Corporation withdrew the claim on M|s. Chemico. The main reason advanced for withdrawing the claim was that the circumstances prevailing at that time were such that some sort of compromise was inevitable unless either party was bent upon going to arbitration which would have jeopardised the smooth and orderly progress of the Trombay Project at its critical juncture.

2.14. During evidence, the Managing Director Fertilizer Corporation of India, explained that one of the clauses of the contract with M|s. Chemico, which became effective on 27-6-61 provided that "in the event plant was not ready for initial operations for any reason, other than Chemico's fault, within 48 months, from the effective date of agreement, Chemico shall be deemed to have satisfied its obligations to the client and the amount of contract price due on fulfilment of guarantees and any other unpaid amount shall become due and payable to Chemico." As the plants were not ready for operations within this period that meant that on the 27th June, 1965, M|s. Chemico were in a position to walk out of the contract and leave the Corporation completely in the lurch with the plant undemonstrated and its capacity unproved. Since the Corporation was anxious to ensure that the obligation of the firm continued for demonstrating the capacities of the plant it was interested in the stay of the personnel of the firm to carry out the demonstration tests.

2.15. The matter was, therefore, discussed in a joint meeting with the representatives of the contractors on the 25th, 26th and 27th June, 1965. The negotiations on behalf of Fertilizer Corporation of India were carried out by a Committee presided over by the then Managing Director of Fertilizer Corporation of India. As a result of these negotiations, it was agreed that Fertilizer Corporation of

India would not make any claim on M/s. Chemico for late delivery of scope drawings and, designs or late delivery of equipment. At the same time M/s. Chemico also agreed not to raise any issue or claim in regard to delay in construction|erection of the factory (No details about the claims raised by M/s. Chemico have, however, been furnished to the Committee). A supplemental agreement was also entered into as a result of these negotiations with the firm extending the period for start-up operations by 6 months.

2.16 The Committee were also informed during evidence that according to overall settlement out of total claims worth Rs. 62 lakhs M/s. Chemico agreed to pay only Rs. 4.50 lakhs. Neither the General Manager of the Trombay Unit nor the Financial Adviser of the Corporation was associated in the negotiations as they were out of India to USA and Paris, respectively, for about 16 days and it was not possible to postpone the deliberations any further since the overall period of 48 months from the effective date of agreement was expiring on the 27th June, 1965.

Further, neither the Government nor the Board of Directors were consulted by the Managing Director before agreeing to withdraw the claims and entering into a supplementary agreement with the firm.

2.17. The agreement concluded by the Managing Director with M/s. Chemico on 27th June, 1965, was put up to the Board of Directors for their approval at their meeting held on 6th July, 1965. While submitting the proposal to the Board, the then Managing Director observed as follows:—

“I do (not) consider the monetary aspect of the bargain so important as the fact that the settlement enables us to continue the job to its completion in a peaceful atmosphere unvitiated by constant talks of claims and counter-claims and mutual recrimination.”

2.18. The Board noted and approved the supplemental agreement as the best possible arrangement in the circumstances of the case.

2.19. In a note dated 7th October, 1965, (after leaving the Corporation) the then Managing Director stated “I had permitted the claims to be raised even though I knew that most of them were ill-founded, only because I intended to use them as bargaining counters in what I foresaw was going to be a most difficult round of negotiations with Chemico”. He further stated that the voluminous notes recorded by the then General Manager, Trombay Unit, explaining

the claims against the firm and the record note of his own discussions with M/s. Chemico on 25th, 26th and 27th of June, 1965." were not deliberately placed before the Board or before Government in order that undue importance may not be attached to the issue of claims and counter-claims. In my private and personal view it was always a very minor issue compared to the need to get the job executed efficiently and expeditiously at no extra cost to ourselves".

2.20. The Committee are unhappy over the manner in which legitimate claims amounting to \$8,20,000 against M/s. Chemico were withdrawn by the Corporation in spite of the contrary views expressed by the General Manager, Trombay Unit and the categorical legal opinion of the solicitors. They feel that there was no justification for treating these valid claims merely as "bargaining counters" to arrive at an overall settlement with this firm which did not eventually turn out to be in the best interests of the Corporation.

2.21. It has been admitted by the Government that there was a lacuna in the original agreement with this firm due to which M/s. Chemico were in a position to "walk out of the contract and to leave the Corporation completely in the lurch". This clearly goes to prove that the legal aspects of the agreement were not fully considered before the contract was signed. The Committee are distressed to note that the same lacunae continued to exist even in the supplemental agreements which were signed with this firm after a negotiated settlement. Due to this, the Corporation had to extend twice the period for starting up operations and for demonstration of guarantees which resulted in additional expenditure of Rs. 9.63 lakhs on only the stay of the personnel of the firm.

2.22. The Committee also find that para 8.4 of the original contract provided that the Corporation and M/s. Chemico shall consult each other regarding arrangements for subsequent services to be furnished by the firm with respect to the plant as soon as it could be foreseen that the plant would not be ready for initial operations within the specified time. It is, therefore, surprising that the negotiations with the representatives of M/s. Chemico were commenced only three days before the date of expiry of the contract and without associating the General Manager, Trombay Unit and the Financial Adviser of the Corporation. The Committee see no justification for delaying the negotiations with the firm till the end of the period of the contract and for signing the supplemental agreement with the firm on the last date of the original contract without prior consultation or approval of the Board of Directors and the Government.

2.23. The Committee were informed that the then Managing Director who signed the supplemental agreement and withdrew the claim in June, 1965, left the Corporation in September, 1965, and was appointed by M/s. Chemico as its consultant. The firm utilised his services in connection with the tender which it had submitted for the Madras Fertilizer Project and that contract was ultimately awarded to that firm.

2.24. The Committee take a serious view of retired senior officials of public undertakings taking up appointments or serving in some capacity private firms with which they had large financial dealings, while in service. They find that this matter was also raised in Parliament in August, 1967, when objection was taken by some members to such appointments. The Prime Minister had then admitted that the matter deserved a serious attention. It is regrettable that even after a lapse of more than one year no suitable rules have been framed in this regard. The Committee desire that this should now be attended to immediately.

2.25. It has been stated that the supplemental agreement was sent to Government for approval on 12th July 1965. The Committee enquired about the action taken by the Ministry when the agreement was received by them. The Secretary of the Ministry stated during evidence that:

"The Government did go into this settlement at very great lengths both in the Ministry of Petroleum and Chemicals and in the Ministry of Finance. In the end, after a great deal of discussion with the Fertilizer Corporation of India the Government did approve of the settlement arrived at, though we did feel that some of the things could have been done in a better fashion procedurally. On the merits of the settlement we had no great misgivings, but we did feel that the things could have been negotiated procedurally in a better manner. I think the Government did satisfy itself on the merits of the settlement. The settlement itself was subject to Government's approval. That was one of the terms. If the Government were not satisfied, the terms of the agreement would have been reopened; we would have advised the Fertilizer Corporation of India to do so."

2.26. The Committee, however, find from the supplemental agreement entered into with the firm that it was only subject to the approval of the Board of Directors and AID concurrence. There

is no mention in the agreement about its being subject to the approval of Government. In the circumstances, the Committee fail to understand as to on what basis they were informed that the settlement was subject to Government's approval and if they were not satisfied, the terms of the agreement would have been re-opened and they would have advised the Fertilizer Corporation of India to do so. In spite of the admission by the Secretary of the Ministry "that things could have been negotiated procedurally in a better manner", no records have been furnished to the Committee to show that any action was taken by Government against the person concerned for these procedural lapses.

2.27. In view of the above circumstances, the Committee cannot help feeling that as far as the agreement entered into with M/s. Chemico for the supply of Ammonia, Urea and Nitric Acid Plants was concerned, the Managing Director did not act entirely in the interests of the Corporation. They would, therefore, recommend that a more detailed enquiry ought to be conducted to find out whether the dropping of the claims worth Rs. 57.50 lakhs against M/s. Chemico was justified and whether the terms of the agreements entered into with this firm were in the best interests of the Corporation. They also desire that responsibility for various lapses in this case should also be fixed and suitable action taken against the persons concerned.

2.28. As pointed out in subsequent paragraphs of this Report the Committee came across several other cases where there were lacunae in the agreements entered into by the Corporation and these did not contain adequate penalties or provisions to safeguard the interests of the Corporation. The Government also failed to detect the defects in these agreements when these were sent to them for approval. Asked about the steps taken by the Ministry in this regard the Secretary of the Ministry stated, during evidence, that the present practice which had been established in the last two years was that both the Corporation and Government took legal opinion before finalising the terms of an agreement. The Corporations sought legal opinion before they finalised the terms of agreement. When those agreements came to Government for approval, the Ministry concerned also took the opinion of the Ministry of Law before conveying the Government's approval.

2.29. The Committee hope that in future there will be closer scrutiny of the agreements entered into with the various parties to ensure that the terms of agreements adequately safeguarded the interests of the public undertakings.

B. Agreement for the Supply of Nitrophosphate Plant—Para 2(b), pp. 55-56

2.30. The Unit awarded a contract on 8th May, 1962, for the design, engineering and supply of Nitrophosphate Plant, with a designed capacity of 1100 M. tons of complex fertilizer per day by sulphonic process or 900 M. tons per day by carbonitric process to a foreign firm (Chemical and Industrial Corporation of U.S.A.) at a cost of \$39,76,140 plus charges for the construction and start-up supervisory services estimated at \$1,02,000.

2.31. According to clause 8.4 of the agreement, the successful demonstration of the operation of the plant was to be completed within 9 months from the date on which the firm notified the Unit that the plant was ready for initial operation. In the event of the plant not fulfilling the requirements of production capacity, the firm was entitled to an extension of time up to 13 months from the date of start-up of the plant under clause 8.5 of the agreement.

2.32. Although the firm notified the Unit on 30th June, 1965, that the plant was ready for initial operation, it subsequently expressed its inability to demonstrate the performance by sulphonic process. The Unit thereupon decided not to run the plant by that process. The payment of \$2,50,000 (Rs. 12 lakhs) as licence fee for incorporating the sulphonic process thus proved infructuous. Besides, a sulphuric acid plant and an extra storage tank, which were installed at a total cost of Rs. 85.40 lakhs for this purpose, could not be fully utilised.

However, the Ministry informed Audit in December, 1967 that the sulphuric acid was still required for carbonitric process.

2.33. In the carbonitric process the designed and guaranteed capacity of the plant was 900 M. tons per day. Owing to various difficulties and shortcomings, the plant could not, however, attain the designed capacity. According to an assessment of the Management based on more than a year's experience the plant could produce only 600 M. tons a day on a sustained load provided modifications at a cost of Rs. 15.00 lakhs were carried out.

2.34. According to clause 8 of the agreement, the firm was to pay penalties at stipulated rates subject to a maximum of \$2,00,000 in the event of its failure to demonstrate the specified guarantees in respect of product yield and consumption of utilities. It was, however, free to effect any change deemed necessary by it to attain the designed production and to demonstrate the stipulated guarantees..

2.35. As the firm "failed to make any progress whatsoever either in the matter of bringing up the production capacity of the plant or in mitigating the damages", the Unit informed it on 28th June, 1967, as follows:

"We notify you that we shall take over the legal control and supervision of the Nitrophosphate Plant with effect from 28th June, 1967, and remedy the defects of the plant and/or rehabilitate it entirely at your risk and cost with such modifications and/or changes of process as may be advisable in order to get the desired resultant production, reserving at the same time our right to claim from you the entire expenditure so incurred and the losses and damages already suffered as well as those to which we may be entitled by reason of your continued breaches of the contract and losses incurred by us during the period from 1st December, 1966, upto the date of taking over the plant".

2.36. The juridical possession of the plant was taken over by the Corporation on 28th June, 1967.

2.37. At the time of evidence the Committee were informed that the question of failure of the firm to demonstrate successful operation of the Nitrophosphate Plant was in the process of being referred to arbitration as per Inter-national Chambers of Commerce Rules. Presently, the attorneys of the Corporation along with the Attorney General of India were seized with finalisation of Reference to Arbitration. It was expected that during the current month (August, 1968), the Reference would be ready to be filed with the International Chambers of Commerce.

2.38. As regards the reasons for not taking prompt action in this regard it was explained that in terms of the Agreement, the contractors had to prove the performance by November, 1966, but they failed to do so. The Corporation had to give them reasonable opportunity to discharge their contractual obligations prior to taking recourse to legal remedy. The contractors also showed willingness for a negotiated settlement for which their executives arrived in India and had discussions with F.C.I. between February and May, 1967. Ultimately in May, 1967, the negotiations failed because of serious differences of opinion about shouldering the financial responsibility. Thereupon, after obtaining legal opinion, the Corporation took juridical possession of the Nitrophosphate Plant from the contractors' local representatives on 28th June, 1967. If there was some de'ay

beyond November 1966, it was to make sure, after personal discussion with senior executives of the contracting firm, that nothing further could be done by them to improve the performance of the plant and also to explore the possibility of a negotiated settlement.

2.39. The Committee are, however, unhappy to note that even after taking over juridical possession in June, 1967, it has taken the Corporation more than one year to refer the matter to arbitration. They desire that remedial measures should be taken to avoid such inordinate delays in future.

2.40. As regards the production performance of the plant, the Committee were informed that based on the experience of operation of the plant for nearly one year under the supervision of the C. & I. personnel (the contractor), the Corporation's assessment had been that the plant, at best, could produce 600 metric tonnes per day by the carbo-nitric process against the design basis of 900 metric tonnes per day due to the basic design deficiency in the plant. Even this production of 600 metric tonnes per day could be attained on a sustained basis only after certain modifications/replacements were carried out. The estimated cost of these modifications/replacements was Rs. 15 lakhs. These modifications/replacements were now being carried out and material had been ordered in accordance with the plans.

2.41. It was further stated that to step up capacity of the plant to an equivalent of 900 metric tonnes per day of carbo-nitric product, which was the rated capacity, there could be two alternative approaches:

- (1) To retain the carbo-nitric process and provide additional plant and equipment, as for example, spherodizer screens, etc. to step up capacity from 600 metric tonnes to 900 metric tonnes or roughly, addition of 50 per cent of the existing plant.
- (2) To make the best use of the equipment already provided and limit the additional capital expenditure to as little as possible and change the process to step up capacity in terms of the fertilizer nutrients.

2.42. The Corporation adopted the second approach and developed a new process. The carbo-nitric product has 13 per cent P_2O_5 and 16 per cent nitrogen, or a total of 29 per cent plant nutrients. Thus, 3062 (Aii) LS—2

with 300 tonnes per day production, the total daily nutrient capacity is 261 tonnes per day. The Committee have been informed that the new process produces a richer product with 20 per cent nitrogen and 20 per cent P_2O_5 , i.e. total of 40 per cent plant nutrients. It would only be necessary to produce 652.5 tonnes per day of the new product to equal the rated capacity of the plant of 900 metric tonnes per day of carbo-nitric product.

In actual practice, the new process is stated to have enabled the Unit to run the plant at this capacity and often higher at 700 metric tonnes per day and occasionally upto 800 metric tonnes per day.

2.43. The new process however uses the imported dia-ammonium phosphate as a short term measure. This short-term measure was adopted in view of the fact that it would take at least three years to build a phosphoric acid plant which would be required to produce dia-ammonium phosphate at Trombay—to substitute the imported D.A.P. The Government approved of the installation of a phosphoric acid plant in September, 1968, and action was being taken to install the phosphoric acid plant at a cost of about Rs. 1.54 crores. After the phosphoric acid plant is installed, it would no longer be necessary to import D.A.P.

2.44. During evidence, the Chairman of the Corporation informed the Committee that the nitrophosphate process was basically an European process and not an American process. In the U.S.A. there was no dearth of sulphur and, therefore, nitrophosphate was not produced. The American contractor to whom the contract was awarded had put up smaller plants but none of the size proposed at Trombay. The contract should, therefore, have been awarded to an European firm rather than to the American firm. But the difficulty was that the financial assistance for the plant was received from USAID and one of the conditions attached to it was that the contract should be placed with an American firm.

2.45. The Committee take a serious view of this matter. The availability of foreign credit no doubt has to be taken into consideration in setting up any plant, but this should not have weighed so heavily with the Government as to ignore such important factors as experience and ability of the contractor to supply the required plant. Unsatisfactory working of the plant has not only resulted in shortfall in production of fertilizers, loss of foreign exchange in import of materials and fertilizers, avoidable capital expenditure on Sulphuric acid plant and storage tank but has also cost the exchequer an additional capital expenditure of Rs. 1.69 crores for

its rehabilitation. The Committee, therefore, desire that the reasons for awarding the contract to this firm should also be investigated by the enquiry Committee suggested in para 2.27 of this Report.

2.46. As regards the utilisation of the sulphuric acid plant and the extra storage tank installed for production of nitrophosphate, the Committee were informed that the Sulphuric Acid Plant was meant for production of 200 tonnes per day of sulphuric acid. Since nitrophosphate on sulphonitrate route could not be produced, it had not been possible to utilize the full capacity of the plant. In order to use the maximum capacity of the plant the market for sulphuric acid had been developed as a part of the diversification programme being followed at Trombay. In addition to the internal use of the sulphuric acid about 10,000 tonnes of sulphuric acid was being sold for commercial use in the western region. But presently, taking into consideration the outside sale and the sulphuric acid required for internal use the net requirements hardly exceeded 30—50 tonnes a day. In view of the fact that it was not possible to run the plant at such a low rate, it was being run on optimum rate for a few days in a month and the sulphuric acid was stored in the storage tanks to be used for sale and local use. When the stock of sulphuric acid was sufficiently exhausted, the plant was again run on an optimum rate for a few days and so on.

2.47. The Committee are informed that in order to fully utilize the Sulphuric Acid Plant capacity, a scheme for the production of concentrated nitric acid and phosphoric acid had been finalised which had also been approved by the Government of India. After these two plants are established, it would be possible to utilize the full capacity of the Sulphuric Acid Plant.

2.48. The Committee believe that there is sufficient demand for sulphuric acid in the country and with greater efforts it should be possible for the Corporation to sell larger quantities of this acid in the open market. They hope that steps would be taken in this direction.

C. Agreement for the supply of Methanol Plant—para 2(c), pp. 56-57

2.49. The Unit awarded a contract on 12th February, 1964 on a "turn-key" basis for the designing, engineering, supply, erection and commissioning of a Methanol Plant with a capacity of 100 M. tons per day to a third foreign firm (M/s. Girdler Corporation of U.S.A.) at a cost of \$60,44,890. Clause 8.09 of the agreement provided that the plant would be ready for commissioning within fourteen months from the effective date of the agreement i.e. 1st September, 1964.

The erection of the plant was completed by 29th December, 1965, as against the date of 31st October, 1965, prescribed in the agreement for Commissioning.

2.50. Clause 8.01 of the agreement provided that test runs for the purpose of demonstration of guarantees would be conducted after the contractor had determined that the fully commissioned plant was ready for testing, but not until the plant had operated approximately on full load for at least two weeks. The plant was commissioned in October, 1966, and demonstration of performance guarantees was completed in March, 1967, i.e. after a period of fifteen months from the date of erection.

2.51. The Management informed Audit in December, 1966, that a plant of this type ought to take only about 6 months for commissioning from the date of completion of erection. On this basis the extra expenditure incurred by the Unit on the salaries and wages of the operation and maintenance staff and overheads during the period of delay in commissioning the plant amounted to Rs. 12 lakhs. Besides, there was loss of production of 7,500 M. tons of methanol.

2.52. After the demonstration of performance guarantee in March, 1967, the firm claimed the balance of 5 per cent. of the plant price which was payable on satisfactory demonstration of performance. As the Unit had serious apprehensions regarding the reformer catalyst it agreed to make the 5 per cent payment subject to the issue of a bank guarantee by the firm. When the guarantee was received it was found that two changes detrimental to the interests of the Corporation had been made. As the firm did not execute the bank guarantee according to the terms of the agreement, the balance of 5 per cent. of the plant price has not been released by the Unit.

2.53. The Management informed Audit in May, 1967, that the reformer catalyst of the plant was not of the contracted quality, that it started showing signs of disintegration even before commencement of tests and that other sections of the plant were also defective. The plant was completely shutdown with effect from 21st April, 1967. The plant was recommissioned on 3rd May, 1967, but there were several breakdowns in its functioning. On 8th July, 1967, the Unit took over the juridical possession of the plant and ran it with a new catalyst. Except for some failures on the reformer tubes, the plant was being run successfully on partial load between 50 per cent and 55 per cent.

2.54. The Ministry again informed Audit in December, 1967, that "the question of the incapacity of Methanol Plant to produce owing to poor catalyst performance has been taken up actively by Fertilizer

Corporation of India Limited with M/s. Girdler Corporation and it is intended to take legal action".

2.55. During evidence the Chairman of the Corporation informed the Committee that as in the case of Nitrophosphate Plant, this firm also had no previous experience of putting up a Methanol Plant of this size.

2.56. As regards the reasons for the delay in the commissioning of the Methanol Plant it has been stated that the reasons for failure and inordinately long commission period were the break-down of a number of equipment, unsatisfactory performance of the reformer catalyst, and design deficiency in the reformer furnace. The reformer catalyst supplied by M/s. Girdler Corporation was disintegrating prematurely and could not live its normal life as guaranteed under the contract. The normal life guaranteed under the contract is one year while the catalyst failed in many instances within a few weeks. The Corporation notified on 17th February, 1967 its apprehension to the contractors that on account of the short life of reformer catalyst, the plant was not capable of sustained production and, therefore, the contractors had committed fundamental breach of the contract. Ignoring the Corporation's above notice, the contractors rushed through a so-called guarantee test without the consent and participation of Fertilizer Corporation of India Ltd. and without having run the plant on its full load continuously for a period of two weeks as envisaged under clause 8.1 of the contract prior to the commencement of trial runs. Thereafter the contractors' representatives arrived in March, 1967, for a negotiated settlement, which was arrived at and executed on 21st March, 1967. However, certain obligations agreed to by the contractors under the negotiated settlement were subsequently not fulfilled by them, and hence the Corporation had to terminate the settlement, and to go back to the original contract. After obtaining appropriate legal advice, the Corporation took over the juridical possession of the plant on 8th July, 1967, alleging fundamental breach of the contract. The Corporation's attorneys had examined the contractual position after taking over the juridical possession and formulated claims against M/s. Girdler Corporation, which were presently under scrutiny of Attorney General of India.

2.57. As to the steps taken to improve the working of the plant it was stated that after the juridical possession of the plant had been taken over from the contractor, the contractor's reformer catalyst, which was earlier frequently failing was replaced by another suitable foreign reformer catalyst. With the change of the catalyst, it had been possible to steadily produce methanol but only upto about 60 per cent of the rated capacity.

2.58. The Committee were informed during evidence that the P&D Division of the Corporation had now developed its own catalyst. It was expected that with the use of this catalyst after certain modifications of the plant it would be possible to produce upto 100 per cent rated capacity of the plant.

2.59. The Committee are constrained to observe that this is another instance where the Corporation suffered loss due to the contract having been awarded to a contractor who had no experience of putting up of such a big plant. Further, according to Audit, no time limit for proving the guarantees was provided from the date of completion of erection. The contract provided the unusually long period of 18 months for undertaking all necessary modifications for proving the guarantees of production and quality from the date of test runs whereas according to the Corporation's own estimate a plant of this type ought to take about 6 months for commissioning from the date of completion of erection. As a result no action could be taken against the firm before the expiry of this period nor could any steps be taken by the Corporation to remedy the defects in the plant.

2.60. The Committee also regret to note that although it is now more than one year when the juridical possession of the plant was taken over, no claims have been preferred against the firm as the details thereof are still being finalised. The Committee hope, that immediate action would now be taken to finalise the claims against the firm and to recover the loss suffered by the Corporation.

III

A. Delays in Commissioning; Para 3(a), pp. 58-59 TARGETS AND ACHIEVEMENTS

3.1. The following table gives the scheduled dates of commissioning of the various plants as revised from time to time and the actual dates of commissioning:—

Name of the Plant	Original Schedule (June, 1960)	1st revision (September, 1961)	2nd revision (December 1962)	3rd revision (July, 1964)	Actual dates of of commissioning
1	2	3	4	5	6
1. Ammonia . . .	November, 1963	January 1964	April, 1964	October, 1964	15th October, 1965
2. Urea	Do.	Do.	Do.	Do.	31st October, 1965
3. Nitric acid	Do.	Do.	Do.	December, 1964	Do.
4. Sulphuric Acid .		November, 1963	June, 1964	February, 1965	31st January, 1966
5. Nitrophosphate .	November, 1963	May, 1964	August, 1964	February, 1965	5th November 1965
6. Methanol . . .				November, 1965	12th October, 1966

3.2. The delay in commissioning has been attributed by the managements to:

- (i) Delay in the award of contracts on account of re-invitation of tenders from the U.S. sources as the foreign exchange requirement of the project was to be met out of U.S.A. I. D. loan only and late shipment of equipment on account of strike in the port of embarkation;
- (ii) diversion of some of the equipments to other ports on account of congestion at Bombay port, resulting in loss of certain packages for replacement of which fresh orders had to be placed;
- (iii) Change in the product pattern of nitrophosphate on account of the investigation carried out by a technical team;

- (iv) delay in the execution of engineering and erection work on account of heavy monsoon and delay in receipt of scope drawings from the plant suppliers;
- (v) delay in obtaining certificate from the Boiler Inspector, import licence, etc.
- (vi) delay in making arrangements for carrying over-dimensional packages from Bombay port to factory site;
- (vii) dispute between the management and plant suppliers regarding the quality of work of compressor foundation;
- (viii) non-availability of power and water for start up operations; and
- (ix) defects in the Air-liquefaction plant at the commencement of trial operations.

3.3. The delay in the execution of the project had the effect of pushing up the cost estimates by Rs. 236.54 lakhs (increase in the expenditure on construction—Rs. 167.81 lakhs and employment of staff in advance of the date of commissioning—Rs. 68.73 lakhs).

3.4. The Committee were informed that the delays that occurred in the execution of the Trombay Fertilizer Project had been systematically studied by the Fertilizer Corporation of India in consultation with the experts of the Committee on Plan Projects of the Planning Commission. The Committee on Plan Projects made a special report on Trombay with the object of gaining experience and avoidance of delays in future projects and recommended steps for control of time schedule of the projects and the organisational set up. Currently in all the Fertilizer Corporation of India's projects, these steps had been introduced. For example, detailed critical path schedules for each of the activity were also drawn up to determine which were the items of activity which require special attention, so that the overall time schedule for completion of the project is maintained.

3.5. The Committee regret to note the inordinate delays in construction and commissioning of the various plants at Trombay. Delay in the erection of complex plants, due to unforeseen circumstances, to some extent is unavoidable, but a delay of two years as at Trombay can hardly be justified. What is worse, even after the schedule, had been revised thrice, there were delays in commissioning the plants as compared to the last schedule drawn up as late as in July, 1964. Besides loss of production, the delays in the execution of the project had the effect of pushing up the cost estimated by Rs. 230.54 lakhs.

3.6. The Committee have already commented upon the delay in construction on account of the failure on the part of the contracting

firms in the earlier paragraphs of this Report. The delays in construction and commissioning of various projects of the Fertilizer Corporation of India including Trombay were also considered by the Committee on Public Undertakings (Third Lok Sabha) and their observations are contained in Chapter III of their Sixth Report of the Fertilizer Corporation of India. The Committee, therefore, do not desire to re-examine in detail the reasons for delays in construction. They trust that with the implementation of the recommendations contained in their Sixth Report (Third Lok Sabha), and the suggestions made by the Committee on Plan Projects, it would be possible for the Corporation to avoid such delays in the construction of future projects.

B. Production Performance—Para 3(b), pp| 59-60

3.7. The project was commissioned in October, 1965; the production guarantees in terms of the contracts were, however, demonstrated for Ammonia Plant in December, 1965, for Nitric Acid Plant in January, 1966, for Sulphuric Acid Plant in February, 1966, for Urea Plant in April, 1966 and for the Methanol Plant in March, 1967. The performance guarantee in the case of Methanol Plant has not been accepted, as having been fulfilled, by the Management as the plant has not achieved the rated capacity. In respect of Nitrophosphate Plant, the suppliers have not so far demonstrated the performance.

3.8. The following table gives the production capacity of the factory and the production actually achieved there against during the period from November, 1965, to March, 1967.

(Figures in M. tons)

Name of the plant	Rated Capacity	Actual Production		Percentage of production to capacity	
		1965-66 (Nov. 1965 March, 1966)	1966-67	1965-66 (Nov. 1965 to March, 1966)	1966-67
1	2	3	4	5	6
Ammonia	1,15,500	12,274*	57,855	21.25	50.09
Urea	99,000	8,065	53,188	19.55	53.73
Nitro-phosphate:					
(a) Sulphonitric process	3,30,000	The Plant has not been operated on this process for the reasons mentioned in para 2(b).			
(b) Carbonitric process	2,70,000	16,392	70,613	14.57	26.12
Nitric acid	1,05,600	6,703**	27,581	15.23	26.15
Sulphuric acid	66,000	1,276	8,340	11.6	12.65
Methanol	30,000	Commissioned in October, 1966	2,416	..	16.11

*Includes production of Ammonia in October, 1965 also.

**Commissioned on 31st January, 1966.

It will be seen therefrom that none of the plants could achieve the rated capacity during the above period.

3.9. The management attributed the shortfall in production to the following factors:

- (i) *Ammonia*: technical defects in the Ammonia Plant;
- (ii) *Urea*: non-availability of Ammonia;
- (iii) *Nitrophosphate*: under-capacity of Nitrophosphate Plant;
- (iv) *Nitric acid*: Lower production of Nitrophosphate;
- (v) *Sulphuric acid*: failure of sulphonitric process in the Nitrophosphate Plant, affecting the production of sulphuric acid;
and
- (vi) *Methanol*: serious defects in the Reformer Catalyst of the Methanol Plant.

3.10. Delay in the commissioning of the fertilizer group of plants by about 2 years and failure to achieve the rated capacity during the period from November, 1965, to March, 1967, resulted in a total loss of production of 2,76,997 M. tons of urea (1,98,000 M. tons on account of delay in commissioning and 78,997 M. tons on account of failure to achieve the rated capacity) and 10,40,495 M. tons of Nitrophosphate (6,60,000 M. tons on account of delay in commissioning and 3,80,495 M. tons on account of failure to achieve the rated capacity).

3.11. The General Manager informed the Committee during evidence that even in a normally well designed plant it took between 2 to 3 years to overcome the initial operating problems and teething troubles. The Trombay plant had basic deficiencies in design and engineering and for that reason the production in the first year had been of a low order.

3.12. The Committee, however find that even in 1967-68, the production in all the plants was much below the rated capacity. The

production performance in 1967-68 as against the rated capacity was as follows:—

Plants	Rated Capacity	Actual production		Percentage performance of 1967-68 against rated capacity
		1966-67	1967-68	
	MT	MT	MT	
1. Ammonia	115,500	57,855	65,958	57.11
2. Urea	99,000	53,188	57,436	58.00
3. Nitro-phosphate	270,000 (16:13) or 180,000 (20:20)	70,613	22,355 70,625	24.84 (prorata 4 months basis) 58.88 (prorata 8 months basis)
4. Nitric Acid	105,600	27,581	39,870	37.75
5. Sulphuric Acid	66,000	8,350	8,079	12.24
6. Methanol	30,000	2,416	9,621	32.07

3.13. As to the reasons for short fall in production in 1967-68, it has been stated that the production of nitric acid and sulphuric acid was restricted to the requirements for production of nitrophosphate for which no production performance could be demonstrated by the plant contractor. The other reasons for short fall in production during 1967-68 were as under:—

(i) *Ammonia*

- (a) Lower density of naphtha than specified in the design.
- (b) Break-down of certain equipment.
- (c) Frequent start-ups and shut downs due to voltage variations or trip out by safety devices, and other operational causes.
- (d) Power limitation and damage caused to plant due to earthquake in December, 1967.

(ii) *Urea*

(a) Ammonia limitations.

(b) Break-down in moving machinery like pumps, evaporator motors, etc.

(iii) *Nitrophosphate*

After taking juridical possession of the plants on 28-6-1967, the plant was on experimentation to produce a new and upgraded product *viz.* ammonia nitrate phosphate (20.20) from October, 1967).

(iv) *Methanol*

(a) Failure of original reformer catalyst supplied by the plant contractor at frequent intervals resulting in loss of production and damage to the plant.

(b) Mechanical troubles.

3.14. As to the steps taken to improve the working of the plant, the Committee were informed that the management had been trying during the last one year to overcome the various handicaps relating to poor design, equipment deficiencies and certain operational problems with which this plant started. A number of investigations had been made by in-plant persons as well as by outside experts to suggest remedial measures. A Committee of Engineers of Trombay unit itself was appointed in the first instance. On the receipt of recommendations of that Committee, another high level Committee which included engineers from several other units and an outside General Manager, was appointed to go into the recommendations of the Committee of Engineers. The recommendations of the latter Committee were considered by the Board of Directors and the Government. Two experts from T.V.A. were also invited to go into the working of the plant. These Committee's main finding was that the shortfall in production was due to design deficiencies and the low quality of the feed stock. The defects existed mainly in the plant itself and not so much in its operation. The Committees recommended certain modifications and alternations in the existing equipment and additions of new equipment. The accepted recommendations of the Committees were in various stages of implementation.

3.15. It was further stated that the required capital expenditure in foreign exchange and in Indian currency had been sanctioned by Government. A provision of Rs. 30.64 lakhs was made in the Budget Estimates for 1968-69 for this purpose. Out of this a total amount

of Rs. 16.10 lakhs had been incurred or committed upto 31-7-1968. During the year 1969-70, a provision of Rs. 84.08 lakhs including foreign exchange component of Rs. 7.90 lakhs has been made for implementation of the recommendations of the committees.

The Committee were informed that the plant was now reasonably well on the road to rehabilitation.

3.16. The Committee regret to note that the production in various plants at Trombay is much below the rated capacity. As admitted during evidence before the Committee and as also pointed out in the reports of Committees of experts, the reasons for low production are deficiencies in designing, engineering and material in the plant itself. On the other hand, the Committee find that the production guarantees for Ammonia and Urea plants, were demonstrated by suppliers (M/s. Chemico) and these were accepted by the management. With all the existing defects in these plants, the Committee fail to understand as to how these plants could produce upto the rated capacity during the performance tests. Had proper guarantee tests been carried out, there was no reason why these defects in the plants should not have come to light at that stage. Apparently the management failed to fully satisfy itself that the plant could produce upto the rated capacity on a sustained load before discharging the contractor of his obligations under the contract. The Committee would like the Government to look into this matter thoroughly and take suitable action against the individuals found responsible for this lapse.

(C) Consumption of raw materials and power—para 4, pp. 60-61.

3.17. The contracts for the supply of plants contained certain guarantees in respect of consumption of raw materials and power. Though the firms had demonstrated fulfilment of such guarantees for some of the plants, these were not fulfilled in actual operation during 1966-67.

3.18. The excess consumption of raw materials and power resulted in extra expenditure of Rs. 22.15 lakhs during 1966-67.

3.19. In this connection, the Ministry informed Audit in December, 1967, as follows:—

“Owing to the various troubles in the Plant resulting in frequent shut-downs, the plants have not stabilised. Unless the plants are stabilised it is not possible to get the best efficiency. The guarantee test runs are conducted for 132 hours under very favourable conditions. The production and efficiency during this selected period cannot be expected to continue over the whole year. All attempts are being made to achieve this ideal condition”.

3.20. The Committee find that the position about the consumption of raw materials and power continued to be unsatisfactory during 1967-68 also. The excess consumption of raw materials and power over the guaranteed figures resulted in extra expenditure of Rs. 82.57 lakhs during 1967-68. A table indicating the percentage of excess consumption of raw materials and power over the guaranteed consumption and the amount of extra expenditure incurred on this account during 1967-68 in respect of each plant is given in appendix I.

3.21. It has been stated by the management that the figures of guaranteed consumption are those which are applicable for working of the plant at full rated capacity and in a sustained steady load. When the plants are run at a lower capacity and/or under unsteady conditions, which is the case at present, the rate of consumption would be higher than the guaranteed figures. Another reason for increase in the rate of consumption of power and ammonia is the frequent start up and shut downs of the plant.

3.22. As regards the steps taken to stabilise the production in the plants in order to avoid excess consumption of raw materials and power the Committee were informed that the recommendations of the technical Committees were in various stages of implementation. After the implementation of these recommendations, production would stabilise and the losses in consumption of ammonia and power would be minimised. The plants were expected to be rehabilitated by 1971.

3.23. It had also been decided by the Board of Directors to install a higher capacity reformer furnace for bringing the production of methanol to 100 tonnes a day. With the installation of a higher capacity reformer furnace, the existing furnances would be available to supplement gas supply to the Ammonia Plant.

3.24. The Committee hope that with the rehabilitation of the plants, production will be stabilised. The need not emphasise that the excess consumption of raw materials and power leads to higher cost in production.

D. Cost of production para 5, p. 61

3.25. The excessive consumption of raw materials and various other factors have resulted in high cost of production of various products. The following table gives the cost of production as estimated

from time to time and the actual cost of production during the year 1966-67:

(Cost of production per M. ton of product)

Product	As estimated by the Trombay Fertilizer Project Committee	As per first sanctioned project estimate	As per revised project estimate	As per budget (1966-67)	Actual (1966-67)
1	2	3	4	5	6
	Rs.	Rs.	Rs.	Rs.	Rs.
1. Ammonia . . .	325.00	401.00	449.00	590.62	875.56
2. Urea	360.00	434.80	483.70	612.03	878.41
3. Nitric acid 7.	157.00	183.00	207.20	396.06	619.93
4. Nitrophosphate	232.00	248.30	286.90	545.52	704.88
5. Sulphoric acid . . . . .	..	96.54	103.50	186.78	327.86
6. Methanol* . . . . .	..	..	..	758.29	2,648.31

*Production commenced in October, 1966 only.

NOTE:—Figures against nitrophosphate under columns 2, 3 and 4 relate to fertilizer of 12:9: 12:9 grade by Sulphonitric process and those under columns 5 and 6 relate to fertilizer of 16:13 grade by Carbo-nitric process.

3.26. The high cost of production during 1966-67 was attributed by the management to:

- (i) shortfall in production;
- (ii) variations in consumption ratios of raw materials and utilities;
- (iii) variations in price of raw materials and utilities; and
- (iv) increase in fixed cost (i.e. depreciation and interest charges) due to devaluation.

3.27. In reply to a question whether the factors which affected cost of production could not be foreseen at the time of preparation of budget estimates, the Ministry have stated that 'being first whole year

of production immediately after commissioning and testing, the production bottlenecks could not be foreseen.' Further, 'budgets were compiled at the beginning of the year taking the prices of raw materials prevailing at that time. Since devaluation of currency on 6.8.66, the prices went up. These could not be foreseen and provided for in the Budget.'

3.28. The Committee, however, find that the position was not satisfactory better even in 1967-68. Statements showing comparison of the actual cost of production with standard costs for the year 1967-68 (worked out at the time of preparation of budget estimates) the average selling prices during the year, the cost of production in other units of the Fertilizer Corporation of India (Sindri and Nangal) and imported price are given in Appendices II & III. It will be seen therefrom that the actual cost of production at Trombay was higher than the standard cost and the cost of production in Sindri and Nangal Units. The cost of production was also higher than the selling price for all the major products except for ammonia and nitric acid.

3.29. The Committee were informed that the standard cost was separately worked out for the 1st half and the 2nd half year, based on the fixed cost and the targets of production taken in the Budget. The production in the first half of 1967-68 was estimated at 58 per cent and the second half at 78 per cent of the rated capacity.

3.30. The main reason for the higher cost of production was stated to be low production. Efforts were being made to increase the production by removing the existing difficulties. It was expected that with the increase in production level during 1968-69 it would be possible to improve the working results towards economic viability.

3.31. The Committee are concerned to note the high cost of production of fertilizers at Trombay which was not only higher than the cost of production of similar fertilizers in Sindri and Nangal units but also generally higher than the selling price. The Committee realise that the low production at Trombay is one of the main factors for this high cost of production and hope that with the increase in production by implementing the various recommendations of the technical Committees the cost of production will come down. The Committee however, find that in case of certain products e.g. urea, inspite of increase in production in 1967-68 as compared to 1966-67, there had been an increase in cost of production. They, therefore, feel that it is essential to maintain a strict control over

the cost of production of various products and to make vigorous efforts to locate areas where economies can be effected. It needs no emphasis that if the Trombay unit has to work profitably it should see that its cost of production is brought down at least to that of the other units operating at present.

IV
FINANCIAL RESULTS

Para 6, pp. 62-63

4.1. The table below summarises the financial position of the Trombay Unit under broad headings for the three years ending 31st March, 1967:

	(Rupees in lakhs)		
	1964-65	1965-66	1966-67
Liabilities			
(a) Inter Unit Accounts	1,980.60	2,680.69	2,708.80
(b) Borrowings :			
(i) Foreign credit	1,356.62	1,177.08	1,797.26
(ii) Cash Credit	4.74	72.69	51.54
(c) Current liabilities and provisions	142.89	304.96	354.28
TOTAL	3,484.85	4,235.42	4,911.88
Assets :			
(d) Gross block	443.75	3,360.67	4,558.33
(e) Less : Depreciation	36.28	142.93	442.37
(f) Net fixed assets	407.47	3,217.74	4,115.96
(g) Capital works-in-progress (including stores earmarked for capital jobs including in-transit)	2,176.95	510.99	16.53
(h) Construction period expenses pending allocation	573.86		
(i) Current assets, loans and advances (including investments)	308.98	451.80	740.01
(j) Miscellaneous expenditure	17.59	54.89	39.38
TOTAL	3,484.85	4,235.42	4,911.88
Capital employed	573.56	3,364.58	4,501.69

NOTE : Capital employed represents not fixed assets plus working Capital.

4.2. The unit commenced production from October, 1965 and incurred a loss of Rs. 190.48 lakhs during 1965-66 and Rs. 407.75 lakhs during 1966-67.

4.3. The Committee were informed that there had been some improvement in the financial results of the unit during 1967-68. It suffered a loss of Rs. 181.19 lakhs as against a loss of Rs. 407.75 lakhs suffered in 1966-67.

4.4. The reasons for the loss suffered at Trombay during 1967-68 were stated to be mainly as follows:

- (1) Low production.
- (2) Increase in fixed cost due to devaluation.
- (3) Heavy incidence of interest charges due to comparatively larger proportion of Loan to Capital.
- (4) Excess consumption of raw materials and power due to low and unsteady production.
- (5) Accumulation of stock of the newly developed products, viz. ammonium nitrate phosphate (20:20:0) due to less offtake on account of easy availability in Trombay's marketing zone of dia-ammonium phosphate—imported by Government.
- (6) Increase in price of naphtha on account of devaluation.

4.5. As regards the steps taken to improve the profitability of the Trombay unit, the General Manager informed the Committee during evidence that efforts had been made to develop market in the industrial field for some of the products which could be produced at Trombay without incurring any additional capital expenditure or with a little more of capital expenditure. For instance it had been found that by altering slightly the operating conditions, the Urea plant could produce urea suitable for plastic industry which would fetch a higher price. It was proposed to divert 5 per cent of production for this purpose. The unit was also selling nitric acid, sulphuric acid, ammonia and carbon dioxide which were surplus to the present requirements of the unit because of difficulties in the various plants. The General Manager felt that during the current year the operational problems would not be such as will prevent the plant from making a profit.

4.6. The Committee were, however, informed subsequently in a written reply that if a forecast was to be made on the basis of production alone, the Trombay unit should make a profit during the current financial year. But due to the uncertainties of off take of certain products, it was difficult to make a prediction. Because of the drought in Andhra, Maharashtra and Mysore which constitute the natural marketing zone of the Trombay factory and heavy accumulation of imported fertilizers in his zone, the current off take of

ammonium nitrate phosphate 'Suphala' was not what it should have been and there had been accumulation of stocks in Trombay godowns. Unless the accumulated stocks were cleared early, production of 'Suphala' might have to be reduced.

4.7. Similarly, off take of methanol was also stated to be below expectations. Some import licences were issued to Formaldehyde manufacturers (who are largest consumers of methanol) because of uncertainties of methanol production last year. These had limited the consumption off indigenous methanol. It was, however, stated that efforts were being made with the Formaldehyde manufacturers to surrender their unutilised licences.

4.8. The Committee regret to note that even after more than two years of commencement of production the plant was not able to reach the break-even stage and had suffered a loss of Rs. 181.19 lakhs in 1967-68.

4.9. The Committee have already discussed some of the factors affecting the working results of the unit e.g. low production, increased consumption of raw materials etc. in earlier paragraphs of this Report. One of the reasons for the loss suffered by the Trombay unit, was accumulation of ammonium nitrate Phosphate because of large imports of dia-ammonium phosphate. The Committee view with concern that while on the one hand there was drain of foreign exchange on import of fertilizers, on the other hand the plant suffered loss due to these excessive imports. They feel that such a situation urgently calls for a proper assessment of import requirements and for close coordination between the ministries dealing with the import, production and distribution of fertilizers. Government must ensure that imports are allowed only when they are found to be absolutely essential after taking into accounts the indigenous production.

OTHER TOPICS OF INTEREST

A. Payment of bonus to the suppliers (Para 7a (ii), p. 63)

5.1. Clause 8.6 (a) of the agreement with M/s. Chemico provided for the payment of bonus for production in excess of 105 per cent of the guaranteed production in all the streams. In the Urea Plant, the unit however, agreed to release the firm from all the obligations if it demonstrated the guarantee for one stream only. Accordingly, the firm demonstrated the operation of one stream of the plant only and claimed bonus of 4,500 (Rs. 4.54 lakhs) in respect of all the streams. The amount was paid by the unit in April, 1966.

5.2. In this connection, the Chief Engineer of the plant had reported as follows:

"The plant, when all the three streams are run, cannot produce (126.57x3) 379.71 tonnes of Urea. The main bottleneck is Co₂ purification section.....The Co₂ purification as it is designed cannot supply Co₂ to make 380 tons of Urea. Without adequate capacity of this section, the capacity of subsequent section to produce 126.57 per cent of designed capacity is only of academic interest, and is not eligible for production bonus".

5.3. The Committee enquired the reasons for making payment of bonus to the firm on the basis of the performance of one stream only. They were informed that according to the original contract, the guarantee performance was to be achieved by the plant as a whole, but in the supplemental agreement it was stipulated that it would be sufficient for the contractor to demonstrate only the first stream to its full capacity and to bring the other two streams to initial production. The justification given for it by the then Chairman and Managing Director in the memorandum which he submitted to the Board was that since identical equipment has been installed in all streams of the plant. this change "does not, I believe, entail any material disadvantage from our point of view." Government have stated that obviously this suggestion was made by M/s Chemico.

and accepted by the Fertilizer Corporation of India across the table during the negotiations. In view of this altered method of demonstration the bonus payment became due under the contract.

5.4. In regard to the objection raised by the Chief Engineer (Production) Trombay to the payment of bonus the Ministry have stated:

“The Chief Engineer (Production) Trombay, objected to the payment of bonus on the ground that Co₂ purification Section could not produce Co₂ to make 380 tonnes of Urea. Without adequate capacity of this Section the capacity of the subsequent sections to produce 126.57 tonnes of the designed capacity of Urea would not be possible. When this point was pressed before Chemico they agreed to supply the foreign equipment to increase the capacity of Co₂ purification Section. This equipment had been installed and the capacity of the Co₂ purification section augmented. Highest actual production so far achieved in a single day is 340 tonnes of Urea. The Trombay engineers expect that the capacity of the Co₂ purification section will no longer be the limiting factor.”

5.5. The Committee were also informed that the additional imported equipment had been supplied free of cost by M/s Chemico. However, the cost borne by the Fertilizer Corporation of India for indigenous procurement and installation of entire equipment was Rs. 5 lakhs (approx.) The cost of indigenous procurement and installation of entire equipment was borne by the Fertilizer Corporation of India in terms of the decision arrived at in the meeting held on 22nd April, 1966, between representatives of the Fertilizer Corporation of India and M/s Chemico.

5.6. The Committee are unhappy to note that even after the installation of additional equipment at an extra cost of Rs. 5 lakhs, the highest actual production achieved so far in a single day is only 340 tonnes of Urea as against 380 tonnes which was the required production to justify the payment of bonus. They feel that there was no justification for agreeing to judge the performance of the entire plant by the working of one stream only. The Committee observe that this is another instance where the provision made in the supplemental agreement with M/s. Chemico was to the disadvantage of the Corporation.

5.7. The Committee also note that the change in the clause relating to the payment of bonus is stated to have been agreed to by the Corporation across the table during the negotiations with M/s. Chemico. This further strengthens the impression that the negotiations were conducted by the then Managing Director in an arbitrary fashion without safeguarding the interests of the Corporation.

B. Extra payment for earthfilling work—Para 7(iii), pp. 63-64.

5.8. While awarding the work of earth filling in the factory area to a firm on 24th December, 1960, the unit agreed to increase the tendered rate by 12½ per cent. in consideration of the firm agreeing to waive certain conditions put forward in its tender. One of these conditions was that "the unit should make necessary arrangements with Railway authorities and Bombay Municipality; and give a clear passage from the cutting site to the filling site".

5.9. In August, 1961, the firm represented for increase in rates on the ground that its transport cost had increased considerably owing to the small width of the railway gate which also remained closed for 4 to 5 hours a day as against 1 to 1½ hours expected. Although the unit was not contractually liable to increase the rates (since such a condition had been waived by the firm earlier) it agreed in June, 1963 to pay the firm an increase of 6½ per cent, over the approved tendered rate on account of hindrance caused in its work due to frequent closure of the railway gate. The extra expenditure on this account worked out to Rs. 1.10 lakhs. In this connection, the management have stated as follows:—

"The payment was allowed so long as impediment of the railway passage continued and the moment the railway overhead was constructed, the benefit of the additional increase was withdrawn."

5.10. In this connection, the Financial Adviser and Chief Accounts Officer of the Corporation observed on 25th September, 1962, as follows:—

"I have gone through the notes put by C. F. & A. O. and G. M. Trombay. While I am inclined to agree that there is some case of compensation to the contractor, I find it hard to agree that compensation on the entire loss of time due to the passage of trains on the level crossing should be made good by the Corporation. He cannot have a claim contractually as he has withdrawn stipulations previously made on an increase of 12.5 per cent. being allowed unconditionally.

However, it would not be unreasonable to allow for loss of time due to increase in traffic which on the basis of the information collected in September, 1961 would be of the order of 5 per cent.

I would, therefore, recommend an increase of 5 per cent only being allowed, the percentage over N.I.T. being raised from 23.5 per cent to 28.5 per cent”.

5.11. The Committee enquired about the considerations which weighed with the management in granting to the firm an increase of 6½ per cent over and above the 12½ per cent of the tendered rate at the time of accepting the tender. They were informed that the contractor M/s. Union Land & Building Society Ltd., quoted a rate 11 per cent above the estimated rate on the following conditions:—

- (i) The Corporation should give free working area for heavy equipment, make necessary arrangements with the Railway authorities and Bombay Municipality and give a clear passage from the cutting site to filling site—at the cost of the Company.
- (ii) Each part should be taken over as soon as completed and once the area is filled, it should be deemed completed and the contractor shall not be responsible for working after the monsoon again.
- (iii) No reduction of 5 per cent should be made for voids.

5.12. The Corporation informed that these conditions were not acceptable and that the works and the modes of measurement etc., shall be as specified in the NIT.

5.13. The contractor agreed to withdraw all the above conditions provided that the tender rates were revised from 11. per cent to 23½ per cent above the estimated rates for all the 4 parts.

5.14. The contractor later on argued that when he accepted the withdrawal of condition at (i), there was an understanding that non-availability of passage will not be a material factor which would exist and also pointed out that after the contract was concluded stoppage at the railway crossing was found to be much more than was anticipated. This point was thoroughly examined and it was accepted that the contractor was substantially correct in his stand. The tender Committee which recommended the increase from 11 per cent to 23.5 per cent had indicated that 5 per cent of the increase was towards deduction for voids and the remaining percentage was

for covering "shrinkage" and to generally cover the fact of free passage not being available. In actual fact the remaining 7½ per cent covered only the factor of 'shrinkage' as can be verified from the CPWD practice when a 13" high embankment is measured as 12" for the type of settlement provided in the present contract. In view of this position, figures were worked out to find out the extent of loss of time due to non-availability of free passage and it was found that the total loss of time was a little over 11 per cent. Excavation and transport portion of the contract calculated on the basis of departmental excavation formed 60 per cent of the total work and the time lost was therefore 60 per cent of 11 per cent, namely about 6½ per cent of the total contract rate.

5.15. It was contended that with the grant of above increase of 6½ per cent, the rate went upto 30 per cent over the estimated rate of the NIT. The rates of other contractors from whom quotations were received for the same were substantially higher and even with this increase of 6½ per cent it was found to be the lowest and therefore reasonable. The rate of M/s. Land & Building Society and of other parties are tabulated hereunder:

	For work to be done with earth cut out from FCI's estate.
Bharat Sewak Samaj, Delhi	74.89% above
Bharat Sewak Samaj, Bomaby.	33.1/3% above
K.G. Construction	65.85% above
Steelcrete	37.32% above
Hindustan Construction Co.	100.00% above
Patel Engineering Co.	110.00% above
Union Land & Building Society Ltd.	11.00% above with conditions. 23.50 % above for the removal of conditions.

5.16. The decision of giving the increase of 6½ per cent was arrived at after careful observation and analysis. It was also added that the discussions in regard to signing of this contract were held at Nangal where the head office of the then Hindustan Chemical & Fertilizer Ltd., was located and it was just not possible to visualize

the full extent of impediments like frequent closing of railway level crossing at Trombay which could hamper the progress of work and come in the way of smooth operation of the contract. When the difficulties were realised at site, it was considered equitable to allow the increase of 6½ per cent.

5.17. The Committee are not satisfied with the explanation in this case. The main reason advanced is that the increase of 12½ per cent allowed to the contractor over the tendered rates actually covered the deductions for voids and the factor of shrinkage. It did not fully cover the loss due to non-availability of free passage. The Committee however feel that it was for the contractor to judge before agreeing to withdraw the stipulations previously made, whether or not the increase in rates covered adequately the loss due to these factors. Having agreed to unconditionally withdraw the stipulations including the one to "make necessary arrangements with Railway authorities and Bombay Municipality; and give a clear passage from cutting site to filling site" the contractor had contractually no claim for any increase in rates on the ground of hinderance caused in work due to frequent closure of the railway gate.

5.18. The Committee regret to observe that here too the management failed to safeguard the interests of the Corporation and paid the contractor more than the stipulated amount for considerations which had already been taken into account at the time of awarding the contract to him.

C. Defective agreements for the supply of refinery gas and naphtha (para 7-b, pp. 64-65).

5.19. On 22nd April, 1961, and 1st January, 1962 the Unit entered into agreements with two private oil refining companies for the supply of refinery gas by one and naphtha by the other for the Ammonia Plant. The agreements did not specify the minimum relative density of the gas/naphtha though the plant was designed (on the basis of feed stock data supplied by the refining companies) for the consumption of gas having a relative density of 0.92 to 1.47 with an average of 1.12, and of naphtha having a relative density of 0.752.

5.20. Out of the four reactors of Ammonia Plant, commissioned on 15th October, 1965, three were designed for the consumption of either gas or naphtha and the fourth for the consumption of naphtha only. The Unit, however, decided to use refinery gas on two reactors and naphtha on the other two.

5.21. In actual operation the gas supplied by the refining company was found to be of a lower relative density (0.65) which affected the production of the plant adversely and also caused explosions. On the matter being taken up by the Unit with the refinery company, the latter stated on 16th February, 1966, that "We expect the relative density to average 0.6 but would recommend that any new equipment should cater for an estimated minimum relative density of 0.5".

5.22. As the supply of gas was much below the required specifications, the unit switched over to the use of naphtha from 9th May, 1966, in all the four reactors. The actual relative density of the naphtha supplied by the refining company ranged from 0.6527 to 0.7467 as against the required specification of 0.752, with the result that the production capacity of the plant was reduced by about 10 per cent.

5.23. The loss of ammonia production on account of the supply of gas and naphtha of lower density was estimated by the management at 16.891 M. tons during the period from October, 1965, to March, 1967.

5.24. In the absence of any stipulation in the agreements regarding the minimum relative density of gas and naphtha, the management could not take any action against the private refining companies.

5.25. During evidence, the Committee were informed that the agreements with the two private oil refineries were also entered into by the then Managing Director of the Fertilizer Corporation of India who entered into agreements with the other foreign firms for the supply of plant and machinery etc. The contracts with the two companies were defective as they did not provide for the minimum density of gas/naphtha but only specified the calorific value in the gas to be supplied. In the circumstances legally no action could be taken against these firms. There was also no alternative in Bombay but to deal with one of these two companies.

5.26. The Committee were also informed that the production loss due to lower density was about 12000—15000 tonnes of ammonia per annum, the annual sale value of which would be about Rs. 1.2 crores. The Corporation had taken certain steps to minimise the loss in this regard. In case of naphtha, they had tried to get naphtha of higher density by discussions with ESSO. Occasionally they had also succeeded in it. As regard, refinery gas they had several discussions

with the Burmah Shell and at the instance of the Corporation the company had installed additional equipment to ensure the supply of gas with steady density. The position had improved to some extent but not up to the expectations of the Corporation. Within the plant also the Corporation had changed the size which would also partly make up the loss in this regard.

5.27. The Committee also enquired, during evidence, whether any responsibility had been fixed for the vital omission in the agreements in not providing for the minimum relative density of gas/naphtha. The Secretary of the Ministry stated that the Corporation had not so far considered the question of responsibility but this would be done now.

5.28. The Committee were, however, informed subsequently in a written reply that every effort was made to bind the Refining companies to the specific gas composition. The refining companies, however, indicated that the composition of the gas was affected by many factors including nature of feedstock to the various gas producing plants, the method of operation of these plants and the number of plants in operation. They also indicated that refining operations were primarily directed to the production of petroleum products and the refinery gas was a by-product. Under the circumstances, they were unable to guarantee any specific composition. The Refining companies only agreed to specific calorific value of refinery gas with a permissible variation of 10 per cent.

5.29. Similarly, Mis. ESSO indicated that specific gravity of Naphtha was liable to vary from time to time as operational changes occur and the properties of crude change and they were unable to guarantee the same. In support of their contention the Corporation have furnished to the Committee only three letters from STANVAC and BURMAH SHEEL sent by them in 1959.

5.30. The Committee are not satisfied with this explanation. No records have been furnished to them to show that the question of making specific provision in the agreements for minimum relative density of gas/naphtha to be supplied by the two companies was considered at the time of entering into agreements with them in 1961 and 1962. The letters written by the two companies 2-3 years earlier at the planning stage can hardly prove that the companies were not agreeable to such a provision in the agreements entered into with them. In fact the plant was designed on the basis of the feed stock data supplied by the refining companies.

The Committee, therefore, desire that the reasons for this vital omission from the agreements with these two companies which have resulted in annual loss to the extent of Rs. 1.2 crores to the Corporation should be examined and responsibility fixed.

5.31. They would urge that the question of supply of gas/naphtha of required density should also be taken up by the Ministry of Petroleum and Chemicals with the two refineries to arrive at some satisfactory arrangement to save the Unit from continuous heavy loss on this account.

D. Idle Plant, Para 7(c), p. 65.

5.32. In June, 1963, unit imported a wagon tippler costing Rs. 16.07 lakhs for the purpose of unloading rockphosphate received in Railway wagons. The tippler was erected in February, 1965, at a cost of Rs. 6.36 lakhs.

5.33. On receipt of the first shipment of rockphosphate in May, 1965, the unit invited tenders for transporting the material from docks to the rockphosphate storage. On the basis of the tenders received it was found that the transportation of the material by road was more economical than by rail. This resulted in the wagon tippler remaining unutilised since the date of its installation.

5.34. In this connection, the Ministry informed Audit in December, 1967, that "when it was decided to have this wagon tippler it was intended that the phosphate rock would be received by wagons. At present it is, however, cheaper to transport rockphosphate by road. This is the reason why wagon tippler has not been used. Further, the Central Railway has not been able to place wagons at the disposal of Fertilizer Corporation of India. Negotiations are in progress with Railway authorities in this regard".

5.35. The Committee enquired whether the economics of transportation of rockphosphate by road and rail and the question of the availability of wagons was considered before the import of wagon tippler. They were informed that a study was made by the Trombay Project Organisation whether the onward movement of rock phosphate from the ships to the factory site should be by barges or road transport or ropeway or railways. The annual requirement of rock phosphate was estimated at 1,26,000 tonnes and of sulphur 25,000 tonnes. It was envisaged that the shipment of rock phosphate would be in ship-loads of 10,000 tonnes at a time which worked out

to, on an average, one ship per month. The ship would have to be unloaded within the free time of about 6 days which meant a daily clearance of 1500 to 2000 tonnes. It was not considered practicable that such a large quantity could be conveniently handled by road transport. Since the wagons arriving at Trombay would have to be unloaded expeditiously to avoid accrual of demurrage, provision of a wagon tippler was considered essential. Accordingly arrangements were made for providing a wagon tippler which could handle one—4 wheeler wagon, either open or covered, at a time. When between 1959—61 the Railway authorities were consulted on the question of availability of wagons for the movement of rock phosphate from Bombay Docks to Trombay, they advised that the wagons required would be supplied.

5.36. After deciding for the installation of the tippler, the design and pattern was also got approved by the Research Designs and Standards organisation of the Indian Railways.

5.37. However, when the question of import of rockphosphate actually arose, it was found that its transportation from dock to Trombay factory was cheaper by road than by rail. In the case of its transportation by road, the charges worked out to Rs. 7.56 per tonne, whereas by rail the charges worked out to Rs. 10.58 per tonne. The break-up of these charges is given hereunder:—

<i>By Road</i>	<i>Rs.</i>	<i>By Rail</i>	<i>Rs.</i>
Loading charges	1.25	Loading charges	1.90
Transport Charges	4.94	Railway freight	5.50
Weightment Charges	0.12	B.P.T. Siding charges	0.89
Unloading Charges	1.25	M.C.I. siding charges	0.12
		Packing charges	0.35
		Weightment charges	0.35
		Unloading charges	1.47
	7.56		10.58

5.38. The Committee were informed that the railway freight was based on the haulage distance of 30 kms., whereas the actual distance between Bombay Dock and the place of discharge is 17 kms. only. If Railways agree to charge on the basis of the actual distance, the freight charges would work out to Rs. 7.42 per tonne and would, therefore, be cheaper from road transport by 14 paise per tonne. Railways had, however, informed that due to change in the

operating conditions in the Bombay region on account of very heavy traffic of imported food-grains movement taking place and the incidence of enhanced movement of crude oil from Gujrat, it was not possible for the railways to undertake the movement of rockphosphate from Dock to Trombay factory. The Management had again taken up with the railways for grant of station to station rates based on the actual distance and also to provide 4-wheeler wagons, for which the tippler installed at Trombay is suitable.

5.39. In regard to provision of 4-wheeler wagons, the Central Railway vide their letter of 5th January, 1968, agreed that in view of very special circumstances, 4-wheeler wagons (open and covered) would be provided for clearing traffic of phosphate as and when the next consignment arrives. The question of application of station to station rates based on the actual distance, was, however, still under the consideration of the Ministry of Railways.

5.40. From the facts furnished to the Committee it appears that the Management decided to provide the wagon tippler mainly for expeditious unloading and to avoid accrual of demurrage charges. No records have been furnished to the Committee to show whether the economics of transportation of rockphosphate by road and rail were considered by calculating the estimated charges by road and the Management decided to provide the wagons tippler mainly for rail and the likely demurrage charges if any, in both cases. It was only on receipt of tenders that it was found that the transportation of rockphosphate by road would be cheaper than by rail.

5.41. The Committee regret to note that the decision to import a wagon tippler, costing Rs. 16.07 lakhs, was taken without first assessing the economics of transportation by rail and road. The import of wagon tippler has not only led to the unnecessary spending of foreign exchange, but also blocking the funds of the Corporation.

5.42. The Committee, desire that the question whether the transportation of rockphosphate would be done by road or rail should be decided expeditiously in the light of the experience gained. In case it is decided to continue road transportation, steps should be taken to utilize the wagon tippler elsewhere or to dispose it of.

VI

CONCLUSION

6.1. The examination of Audit Paras relating to the Trombay Unit of F.C.L. in the Audit Report (Commercial) 1968, in the preceding pages has revealed several unsatisfactory features.

6.2. The Committee are constrained to observe that there were a number of procedural and functional lapses on the part of the Management of which Government of India could have taken serious note but do not appear to have done so or exercised proper check and supervision. The Committee would urge that as suggested by them in Paragraph 2.27 an enquiry should be made to ascertain the reasons for entering into such defective agreements which have resulted in huge financial losses and continuous low production. Awarding of contracts to firms which had neither the capacity nor experience to undertake them is also a sad affair. They would like to be informed of the findings of the enquiry, the names of the officers found responsible for these lapses and the action taken against them.

6.3. In conclusion the Committee would like to stress the need for laying down necessary guide-lines for avoiding such lapses in future. They feel that the autonomy enjoyed by an undertaking should not be construed to mean that its Management is free to make commitments without regard to financial propriety and procedural requirements.

NEW DELHI;
February 9, 1969.
Magha 20, 1890 (Saka).

G. S. DHILLON,
..... Chairman,
Committee on Public Undertakings.

APPENDIX I

(vide para 3.2 of the Report)

Statement showing the excess consumption of raw materials and power and extra expenditure incurred on such extra consumption in each plant.

Name of Plant	Percentage capacity utilization in 67-68	Raw Materials required	Excess consumption over guaranteed figures in 1967-68		Extra expenditure due to excess consumption of materials and power in 1967-68			Total Rs./lakhs.
			Raw materials %	Power %	Raw Materials Rs./lakhs.	Power Rs./lakhs.		
1. Ammonia *1	57.11	Naphtha	9.29	50.22	4.68	34.10	38.78	
2. Urea	58.00	Ammonia	15.65	10.04	16.04	0.86	16.90	
3. Nitric Acid	37.75	Ammonia	5.59	16.13	2.05	1.35	3.40	
4. Sulphuric Acid *2	12.24	Sulphur	6.76	184.25	0.57	0.38	0.95	
5. Nitrophosphate (16.13) *3	24.84	Rockphosphate	16.08	123.19	2.46	1.30	3.76	
		Nitric Acid	1.75	—	0.18	—	0.18	
		Ammonia (—)	5.83	—	(—)0.39	—	(—)0.39	
		Sulphuric Acid	141.18	—	0.73	—	0.73	

(20:20:0) *4	58.88	Rockphosphate	13.65	16.87	6.15	0.56	6.71
		DAP (—)	0.78	—	(—)1.08	—	(—)1.10
		Nitric Acid	0.97	—	0.37	—	0.37
		Ammonia	19.56	—	3.82	—	3.82
		Sulphuric Acid	19.23	—	0.52	—	0.52
6. Methanol *5	32.07	Naphtha	59.36	52.29	5.75	2.22	7.94
		TOTAL			41.80	10.60	82.57

*1—Ammonia :

The guaranteed figure for Ammonia Plant is for a combined usage of naphtha and refinery gas in equal proportion. In practice no refinery gas is used for production of Ammonia. For the purpose of calculating the excess consumption of naphtha, the guaranteed consumption has been doubled up proportionately to arrive at a comparable figure for exclusive usage of naphtha as feed-stock.

*2—Sulphuric Acid :

The Sulphuric Acid Plant is intended to be operated with combined feed-stock of elemental sulphur and H₂S. (Hydrogen sulphide gas). In actual practice no hydrogen sulphide gas is available for use. For the purpose of comparison and calculating the excess consumption of raw materials and power, the guaranteed figures indicated by the main plant contractors have been adopted.

*3—Nitrophosphate (16:13) Products :

In the Nitrophosphate Plant, for manufacture of 16:13 products, the guaranteed figures of consumption of raw materials and power have been adopted for working out the excess consumption though the main plant contractors have not proved the plant for this guaranteed consumption figures.

*4—Nitrophosphate (20 : 20 : 0) Products :

In this case, no guaranteed figures have been indicated for raw materials, as this is a locally developed product. The excess consumption over guaranteed figures, however, have been worked out on the basis of norms evolved internally based on plant experience.

*5—Methanol

The plant is being operated at considerably lower capacity. In the case of Methanol Plant, the guarantees have not been proved successfully to our satisfaction. In view of the unsteady performance of reformer catalyst, the steam-naphtha ratio has to be considerably increased with the result there is excess consumption of naphtha.

APPENDIX II

(vide para 3.28 of the Report)

Statement showing comparison between actual cost of production and standard costs for the year 1967-68 and the average selling prices during the year.

Sl. No.	Production	Actual cost of production in 1966-67 Rs/Te	Actual cost of production in 1967-68 Rs/Te	Actual cost of production in 1967-68 excluding effect of devaluation Rs/Te	Standard cost of production 1967-68		Percentage variation of actual cost 1967-68 to Standard Cost		Average selling Prices realised in 1967-68 Rs/Te
					1st half year Rs/Te	2nd half year Rs/Te	1st half year %	2nd half year %	
1	2	3	4	5	6	7	8	9	10
1.	Ammonia	275.56	869.49	754.92	753.47	612.45	15.4	41.9	1172.45
2.	Urea	878.41	985.21	913.07	824.91	683.28	19.4	44.2	748.45
3.	Nitrophosphate (16:13)	704.88	586.74	548.41	573.06	—	2.3	—	519.42
	'' (20:20)	—	771.46	735.42	—	614.75	—	25.5	744.23
4.	Nitric Acid	619.93	441.67	376.84	425.10	328.30	3.0	34.5	1205.37
5.	Sulphuric Acid	327.86	382.54	345.60	323.34	247.78	18.3	54.4	315.83
6.	Methanol	2648.31	1389.48	1361.63	1015.32	781.00	36.9	77.6	1333.22

APPENDIX III

(vide para 3.28 of the Report)

Statement showing comparison of Trombay's cost of production in 1967-68 with cost of production in other units of FCI and imported price

Sl. No.	Product	Actual cost of production in 1967-68 including interest on loan.	Actual cost of production in 1967-68 excluding interest on loan.	Actual cost of production in 1967-68 excluding interest on loan and effect of devaluation.	Cost of production in other units.**		Imported price
					Sindri	Nangal	
1	2	3	4	5	6	7	8
		Rs/Tc	Rs/Tc	Rs/Tc	Rs/Tc	Rs/Tc	Rs/Tc
1.	Ammonia	869.49	694.49	655.90	589.43	502.28	—
2.	Urea	985.21	790.36	747.44	589.88	—	675.19
3.	Nitrophosphate (16:13)	586.14	484.23	461.78	—	—	—
	(20:20)	771.46	672.88	651.17	—	—	796.99*
4.	Nitric Acid	441.67	341.93	319.95	272.60	205.11	—
5.	Sulphuric Acid	382.54	307.30	290.73	—	—	—
6.	Methanol	1389.48	1080.03	1011.87	—	—	1746.00

Note : *Price for Ammonium Phosphate (20:20:0).

**Cost of production in other units does not include any interest charges.

APPENDIX IV

Summary of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

Summary of Conclusions/Recommendations

Sl. No. Ref. to
para No. in
the Report

1 2 3

1 2:20

The Committee are unhappy over the manner in which legitimate claims amounting to \$8,20,000 against M/s. Chemico were withdrawn by the Corporation in spite of the contrary views expressed by the General Manager, Trombay Unit and the categorical legal opinion of the solicitors. They feel that there was no justification for treating these valid claims merely as "bargaining counters" to arrive at an overall settlement with this firm which did not eventually turn out to be in the best interests of the Corporation.

2 2:21

It has been admitted by the Government that there was a lacuna in the original agreement with this firm due to which M/s. Chemico were in a position to "walk out of the contract and to leave the Corporation completely in the lurch". This clearly goes to prove that the legal aspects of the agreement were not fully considered before the contract was signed. The Committee are distressed to

note that the same lacunae continued to exist even in the supplemental agreements which were signed with this firm after a negotiated settlement. Due to this, the Corporation had to extend twice the period for starting up operations and for demonstration of guarantees which resulted in additional expenditure of Rs. 9.63 lakhs on only the stay of the personnel of the firm.

2.22

3

The Committee find that para 8.4 of the original contract provided that the Corporation and M/s. Chemico shall consult each other regarding arrangements for subsequent services to be furnished by the firm with respect to the plant as soon as it could be foreseen that the plant would not be ready for initial operations within the specified time. It is, therefore, surprising that the negotiations with the representatives of M/s. Chemico were commenced only three days before the date of expiry of the contract and without associating the General Manager, Trombay Unit and the Financial Adviser of the Corporation. The Committee see no justification for delaying the negotiations with the firm till the end of the period of the contract and for signing the supplemental agreement with the firm on the last date of the original contract without prior consultation or approval of the Board of Directors and the Government.

2.24

4

The Committee take a serious view of retired senior officials of public undertakings taking up appointments or serving in some capacity private firms with which they had large financial dealings, while in service. They find that this matter was also raised in Parliament in August, 1967, when objection was taken by some

members to such appointments. The Prime Minister had then admitted that the matter deserved a serious attention. It is regrettable that even after a lapse of more than one year no suitable rules have been framed in this regard. The Committee desire that this should now be attended to immediately.

The Committee find from the supplemental agreement entered into with the firm (M/s. Chemico) that it was only subject to the approval of the Board of Directors and AID concurrence. There is no mention in the agreement about its being subject to the approval of Government. In the circumstances, the Committee fail to understand as to on what basis they were informed that the settlement was subject to Government's approval and if they were not satisfied, the terms of the agreement would have been re-opened and they would have advised the Fertilizer Corporation of India to do so. In spite of the admission by the Secretary of the Ministry "that things could have been negotiated procedurally in a better manner", no records have been furnished to the Committee to show that any action was taken by Government against the person concerned for these procedural lapses.

The Committee cannot help feeling that as far as the agreement entered into with M/s. Chemico for the supply of Ammonia, Urea and Nitric Acid Plants was concerned, the Managing Director

did not act entirely in the interests of the Corporation. They would, therefore, recommend that a more detailed enquiry ought to be conducted to find out whether the dropping of the claims worth Rs. 57:50 lakhs against M/s. Chemico was justified and whether the terms of the agreements entered into with this firm were in the best interests of the Corporation. They also desire that responsibility for various lapses in this case should also be fixed and suitable action taken against the persons concerned.

7

2.29

The Committee hope that in future there will be closer scrutiny of the agreements entered into with the various parties to ensure that the terms of agreements adequately safeguarded the interests of the public undertakings.

8

2.39

The Committee are unhappy to note that even after taking over juridical possession of nitrophosphate plant in June, 1967, it has taken the Corporation more than one year to refer the matter to arbitration. They desire that remedial measures should be taken to avoid such inordinate delays in future.

9

2.44

The Committee were informed by the Chairman of the Corporation during evidence that nitrophosphate process was basically an European process and not an American process. The American contractor to whom the contract was awarded had put up smaller plants but none of the size proposed at Trombay. The contract should, therefore, have been awarded to an European firm rather than to the American firm. But the difficulty was that the financial

assistance for the plant was received from USAID and one of the conditions attached to it was that the contract should be placed with an American firm.

2.45

The Committee take a serious view of this matter. The availability of foreign credit no doubt has to be taken into consideration in setting up any plant, but this should not have weighed so heavily with the Government as to ignore such important factors as experience and ability of the contractor to supply the required plant. Unsatisfactory working of the plant has not only resulted in shortfall in production of fertilizers, loss of foreign exchange in import of materials and fertilizers, avoidable capital expenditure on sulphuric acid plant and storage tank but has also cost the exchequer an additional capital expenditure of Rs. 1.69 crores for its rehabilitation. The Committee, therefore, desire that the reasons for awarding the contract to this firm should also be investigated by the Enquiry Committee suggested in para 2.27 of this Report.

§

2.48

The Committee believe that there is sufficient demand for sulphuric acid in the country and with greater efforts it should be possible for the Corporation to sell larger quantities of this acid in the open market. They hope that steps would be taken in this direction.

The Committee are constrained to observe that the awarding of contract for the supply of Methanol plant is another instance where the Corporation suffered loss due to the contract having been awarded to a contractor who had no experience of putting up of such a big plant. Further, according to Audit, no time limit for proving the guarantees was provided from the date of completion of erection. The contract provided the unusually long period of 18 months for undertaking all necessary modifications for proving the guarantees of production and quality from the date of test runs whereas according to the Corporation's own estimate a plant of this type ought to take about 6 months for commissioning from the date of completion of erection. As a result no action could be taken against the firm before the expiry of this period nor could any steps be taken by the Corporation to remedy the defects in the plant.

The Committee regret to note that although it is now more than one year when the juridical possession of the Methanol plant was taken over, no claims have been preferred against the firm as the details thereof are still being finalised. The Committee hope, that immediate action would now be taken to finalise the claims against the firm and to recover the loss suffered by the Corporation.

The Committee regret to note the inordinate delays in construction and commissioning of the various plants at Trombay. Delay in the erection of complex plants, due to unforeseen circumstances, to some extent is unavoidable, but a delay of two years as

the cost of production of similar fertilizers in Sindri and Nangal units but also generally higher than the selling price. The Committee realise that the low production at Trombay is one of the main factors for this high cost of production and hope that with the increase in production by implementing the various recommendations of the technical Committees the cost of production will come down. The Committee however, find that in case of certain products e.g. urea, inspite of increase in production in 1967-68 as compared to 1966-67, there had been an increase in cost of production. They, therefore, feel that it is essential to maintain a strict control over the cost of production of various products and to make vigorous efforts to locate areas where economies can be effected. It needs no emphasis that if the Trombay unit has to work profitably it should see that its cost of production is brought down at least to that of other units operating at present.

The Committee have already discussed some of the factors affecting the working results of the unit e.g. low production, increased consumption of raw materials etc. in earlier paragraphs of this Report. One of the reasons for the loss suffered by the Trombay unit, was accumulation of ammonium nitrate Phosphate because of large imports of dia-ammonium phosphate. The Committee view with concern that while on the one hand there was drain of foreign exchange on import of fertilizers, on the other hand the plant suffered loss due to these excessive imports. They feel that such a

situation urgently calls for a proper assessment of import requirements and for close coordination between the ministries dealing with the import, production and distribution of fertilizers. Government must ensure that imports are allowed only when they are suggestions made by the Committee on Plan Projects, it would be genous production.

19

5.6

The Committee are unhappy to note that even after the installation of additional equipment at an extra cost of Rs. 5 lakhs, the highest actual production achieved so far in a single day is only 340 tonnes of Urea as against 380 tonnes which was the required production to justify the payment of bonus. They feel that there was no justification for agreeing to judge the performance of the entire plant by the working of one stream only. The Committee observe that this is another instance where the provision made in the supplemental agreement with M/s. Chemico was to the disadvantage of the Corporation.

20

5.7

The Committee also note that the change in the clause relating to the payment of bonus is stated to have been agreed to by the Corporation across the table during the negotiations with M/s. Chemico. This further strengthens the impression that the negotiations were conducted by the then Managing Director in an arbitrary fashion without safeguarding the interests of the Corporation.

21

5.17

The Committee are not satisfied with the explanation furnished for extra payment for earth filling work. The main reason

advanced is that the increase of 12½ per cent allowed to the contractor over the tendered rates actually covered the deductions for voids and the factor of shrinkage. It did not fully cover the loss due to non-availability of free passage. The Committee however feel that it was for the contractor to judge before agreeing to withdraw the stipulations previously made, whether or not the increase in rates covered adequately the loss due to these factors. Having agreed to unconditionally withdraw the stipulations including the one to "make necessary arrangements with Railway authorities and Bombay Municipality; and give a clear passage from cutting site to filling site" the contractor had contractually no claim for any increase in rates on the ground of hinderance caused in work due to frequent closure of the railway gate.

5.18

The Committee regret to observe that here too the management failed to safeguard the interests of the Corporation and paid the contractor more than the stipulated amount for considerations which had already been taken into account at the time of awarding the contract to him.

22

5.30

The Committee are not satisfied with the explanation furnished for the absence of any provision in the agreements entered into with two private oil refining companies about the minimum relative density of the gas/naptha to be supplied by these companies.

No records have been furnished to them to show that the question of making specific provision in the agreements for minimum relative density of gas/naphtha to be supplied by the two companies was considered at the time of entering into agreements with them in 1961 and 1962. The letters written by the two companies 2-3 years earlier at the planning stage can hardly prove that the companies were not agreeable to such a provision in the agreements entered into with them. In fact the plant was designed on the basis of the feed stock data supplied by the refining companies.

The Committee, therefore, desire that the reasons for this vital omission from the agreements with these two companies which have resulted in annual loss to the extent of Rs. 1.2 crores to the Corporation should be examined and responsibility fixed.

The Committee would urge that the question of supply of gas/naphtha of required density should also be taken up by the Ministry of Petroleum and Chemicals with the two refineries to arrive at some satisfactory arrangements to save the Unit from continuous heavy loss on this account.

From the facts furnished to the Committee it appears that the Management decided to provide the wagon tippler mainly for expeditious unloading and to avoid accrual of demurrage charges. No records have been furnished to the Committee to show whether the economics of transportation of rockphosphate by road and rail were considered by calculating the estimated charges by road and

rail and the likely demurrage charges if any, in both cases. It was only on receipt of tenders that it was found that the transportation of rockphosphate by road would be cheaper than by rail.

5.41

The Committee regret to note that the decision to import a wagon tippler, costing Rs. 16.07 lakhs, was taken without first assessing the economics of transportation by rail and road. The import of wagon tippler has not only led to the unnecessary spending of foreign exchange, but also blocking the funds of the Corporation.

25

5.42

The Committee, desire that the question whether the transportation of rockphosphate would be done by road or rail should be decided expeditiously in the light of the experience gained. In case it is decided to continue road transportation, steps should be taken to utilize the wagon tippler elsewhere or to dispose it of.

26

6.1

The examination of Audit Paras relating to the Trombay Unit of F.C.I. in the the Audit Report (Commercial) 1968 has revealed several unsatisfactory features.

6.2

The Committee are constrained to observe that there were a number of procedural and functional lapses on the part of the Management of which Government of India could have taken serious

note but do not appear to have done so or exercised proper check and supervision. The Committee would urge that as suggested by them in Paragraphs 2.27 an enquiry should be made to ascertain the reasons for entering into such defective agreements which have resulted in huge financial losses and continuous low production. Awarding of contracts to firms which had neither the capacity nor experience to undertake them is also a sad affair. They would like to be informed of the findings of the enquiry, the names of the officers found responsible for these lapses and the action taken against them.

27

6.3

In conclusion the Committee would like to stress the need for laying down necessary guide-lines for avoiding such lapses in future. They feel that the autonomy enjoyed by an undertaking should not be construed to mean that its Management is free to make commitments without regard to financial propriety and procedural requirements.

61

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI					
24.	Jain Book Agency, Connaught Place, New Delhi.		33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.		11		
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.		3	34. People's Publishing House, Rani Jhansi Road, New Delhi.	76
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.		9	35. The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.		11	36. Hind Book House, 82, Janpath, New Delhi.	93
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.		15	37. Bookwell, 4, Sant Naran kari Colony, Kingsway Camp, Delhi-9.	96
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.		20	MANIPUR	
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.		23	38. Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
32.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.		27	AGENTS IN FOREIGN COUNTRIES	
			66	39. The Secretary, Establishment Department, The High Commission of India India House, Aldwych, LONDON W.C.—2.	99

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