

NINTH REPORT
STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1999-2000)

(THIRTEENTH LOK SABHA)

KRISHAK BHARATI COOPERATIVE LIMITED
(KRIBHCO)

MINISTRY OF CHEMICALS & FERTILISERS
(DEPARTMENT OF FERTILISERS)

Presented to Lok Sabha on
Laid in Rajya Sabha on 27 NOV 2000



LOK SABHA SECRETARIAT
NEW DELHI

November, 2000/Kartika, 1922 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS
(1998-99)

Dr. Balram Jakhar *Chairman*

MEMBERS

Lok Sabha

2. Shri Ratilal Kalidas Varma
- *3. Shri Z.M. Kahandole
4. Dr. Vallabhbhai Katheria
5. Shri Ashok Argal
6. Shri V. Dhananjay Kumar
7. Shri Ganga Charan
8. Shri Devibux Singh
9. Dr. Ramesh Chand Tomar
10. Shri Tejveer Singh
11. Shri Kamal Nath
12. Dr. Ravi Mallu
13. Shri Paban Singh Ghatowar
14. Shri Krishan Datt Sultanpuri
15. Shri Gurudas Kamat
16. Shri Nepal Chandra Das
17. Shri Narendra Budania
18. Dr. Asim Bala
19. Shri Balram Singh Yadav
20. Shri Raja Paramasivam
21. Shri Pitambar Paswan
22. Shri Prabhunath Singh
23. Dr. C. Suguna Kumari
24. Shri Arjun Charan Sethi
25. Shri M. Selvarasu

*Nominated w.e.f 10.7.98 *vice* Shri Chandubhai Deshmukh expired on 28.6.1998.

(iv)

26. Shri Prem Singh Chandumajra
27. Shri Mohan Vishnu Rawale
28. Shri Ambreesh
29. Shri C. Kuppusami
30. Smt. Kailasho Devi

Rajya Sabha

31. Shri Ahmed Patel
32. Shri Radhakishan Malaviya
33. Shri Surendra Kumar Singh
34. Shri Anantha Sethi
- **35. Shri Kanak Mal Katara
36. Smt. Malti Sharma
37. Shri Ram Nath Kovind
38. Shri Dipankar Mukherjee
39. Dr. Y. Lakshmi Prasad
40. Shri Ram Gopal Yadav
41. Shri Anil Kumar
42. Shri Mukesh R. Patel
43. Shri Dara Singh Chauhan
44. Shri Joyanta Roy
45. Shri Parag Chaliha

SECRETARIAT

- | | |
|----------------------|-----------------------------|
| 1. Dr. A.K. Pandey | <i>Additional Secretary</i> |
| 2. Shri Harnam Singh | <i>Joint Secretary</i> |
| 3. Shri Brahm Dutt | <i>Deputy Secretary</i> |
| 4. Shri J.N. Oberoi | <i>Under Secretary</i> |
| 5. Shri A.K. Shah | <i>Committee Officer</i> |

**Nominated *w.e.f.* 5.8.98 *vice* Prof. Naunihal Singh retired from the membership of Rajya Sabha *w.e.f.* 4.7.98.

COMPOSITION OF THE STANDING COMMITTEE ON
PETROLEUM & CHEMICALS (1999-2000)

Shri Mulayam Singh Yadav—*Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ramchandra Baidia
4. Shri Ananda Mohan Biswas
5. Shri Ajay Singh Chautala
6. Dr. (Smt.) C. Suguna Kumari
7. Shri Padam Sen Choudhary
8. Shri T.T.V. Dhinakaran
9. Shri Dilipkumar Mansukhlal Gandhi
10. Shrimati Sheela Gautam
11. Shri Pawan Singh Ghatowar
- *12. Shri B.K. Handique
13. Shri Shriprakash Jaiswal
14. Shrimati Nivedita Mane
15. Shri Punnulal Mohale
16. Shri P. Mohan
17. Shri Ashok Pradhan
18. Shri Mohan Rawale
- **19. Dr. Bikram Sarkar
20. Shri Shyama Charan Shukla
21. Shrimati Kanti Singh
22. Shri Prabhunath Singh
23. Shri D.C. Srikantappa

* Nominated in lieu of Shri Vilas Muttemwar, M.P., Lok Sabha *w.e.f.* 24th January, 2000.

** Nominated to serve as Member of the Committee *w.e.f.* 26th July, 2000.

(vi)

24. Dr. Ramesh Chand Tomar
25. Shri Tarlochan Singh Tur
26. Shri Shankersinh Vaghela
27. Shri Ratilal Kalidas Varma
28. Shri B. Venkateshwarlu
29. Shri Rajesh Verma
30. Dr. Girija Vyas

Rajya Sabha

- *31. Shri Ram Nath Kovind
32. Shri Anil Kumar
- **33. Shri Mool Chand Meena
34. Dr. (Smt.) Joyasree Goswami Mahanta
- ***35. Shri Dipankar Mukherjee
36. Shri Ahmed Patel
37. Shri Mukesh R. Patel
- ****38. Shri Suresh Pachouri
- **39. Shri Ravi Shankar Prasad
40. Shri K. Kalavenkata Rao
41. Shrimati Basanti Sarma
- **42. Shri Rajiv Ranjan Singh
43. Shri Gaya Singh
44. Shri P. Soundararajan
45. Prof. Ram Gopal Yadav

SECRETARIAT

- | | |
|---------------------|-----------------------------|
| 1. Dr. A.K. Pandey | <i>Additional Secretary</i> |
| 2. Shri John Joseph | <i>Joint Secretary</i> |
| 3. Shri Brahm Dutt | <i>Deputy Secretary</i> |
| 4. Shri J.N. Oberoi | <i>Under Secretary</i> |
| 5. Shri A.K. Shah | <i>Committee Officer</i> |

* Nominated to serve as Member of the Committee *w.e.f.* 16th May, 2000.

** Nominated to serve as Member of the Committee *w.e.f.* 5th May, 2000.

*** Nominated to serve as Member of the Committee *w.e.f.* 24th April, 2000.

**** Nominated to serve as Member of the Committee from Committee on Defence *w.e.f.* 5th May, 2000.

COMPOSITION OF THE SUB-COMMITTEE ON FERTILISERS,
A SUB-COMMITTEE OF STANDING COMMITTEE
ON PETROLEUM & CHEMICALS

- Shri Mulayam Singh Yadav—*Chairman*
2. Shri Dipankar Mukherjee — *Convenor*
 3. Shri Ramchandra Binda
 4. Shri Ananda Mohan Biswas
 5. Shri Ajay Singh Chautala
 6. Shri Padam Sen Choudhary
 7. Shri Dilipkumar Mansukhlal Gandhi
 8. Shri Punnulal Mohale
 9. Shri Suresh Pachouri
 10. Shri Ravi Shankar Prasad
 11. Shri K. Kalavenkata Rao
 12. Shri Rajiv Ranjan Singh
 13. Shri P. Soundararajan
 14. Shri D.C. Srikantappa
 15. Shri Rajesh Verma
 - *16. Dr. Bikram Sarkar

*Nominated as a member of the Sub-Committee on Fertilisers *w.e.f.* 11th August, 2000.

INTRODUCTION

I, the Chairman, Standing Committee on Petroleum & Chemicals (1999-2000) having been authorised by the Committee to submit the Report on their behalf present this Ninth Report on Krishak Bharati Cooperative Limited (KRIBHCO).

2. This subject was selected for examination by the Standing Committee on Petroleum & Chemicals (1998-1999) (Twelfth Lok Sabha). The Committee considered the replies furnished by the Ministry of Chemicals & Fertilisers, Department of Fertilisers and KRIBHCO to the questionnaire issued on the subject from time-to-time and other material on the subject. The Committee took evidence of the representatives of KRIBHCO on 9th, 10th and 23rd December, 1998 and that of the Ministry of Chemicals & Fertilisers (Department of Fertilisers) on 23rd December, 1998. The Committee could not complete the examination due to pre-mature dissolution of Twelfth Lok Sabha.

3. After constitution of Thirteenth Lok Sabha, the Standing Committee on Petroleum & Chemicals (1999-2000) decided to continue with this subject. The Sub-Committee on Fertilisers, a Sub-Committee of the main Committee took evidence of the representatives of KRIBHCO on 7th July, 2000 and those of representatives of the Ministry of Chemicals & Fertilisers (Department of Fertilisers) on 3rd August, 2000.

4. The Committee wish to express their thanks to officers of the Ministry of Chemicals & Fertilisers (Department of Fertilisers) and KRIBHCO for placing before them their views and for furnishing the information desired in connection with examination of the subject.

5. The Sub-Committee on Fertilisers considered and adopted this Report at their sitting held on 3rd October, 2000.

6. The Standing Committee on Petroleum & Chemicals (1999-2000) considered and adopted this Report at their sitting held on 16th October, 2000. The Committee place on record their appreciation of the work done by the Sub-Committee on Fertilisers.

7. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the Officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
15 November, 2000
24 Kartika, 1922 (Saka)

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum and Chemicals.

CHAPTER I

Introductory

(a) Historical Background

Krishak Bharati Cooperative Limited (KRIBHCO), a premier Cooperative Society for manufacture of fertiliser was promoted by the Government of India, IFFCO, NCDC and other agricultural Cooperative Societies all over the country. The society was incorporated on 17th April, 1980 as a Multi-State Cooperative Society. The Government of India has a share of 67.73%, IFFCO 20.02% and other Cooperative Societies all over India has a share holding of 12.24%. The total membership of the Society is 5038 consisting of 5035 Cooperatives all over the country, IFFCO, NCDC and Government of India.

1.2 KRIBHCO has set up a Fertiliser Complex for production of urea at Hazira which is located on the West Coast of India, 15 Km from Surat in the State of Gujarat on the bank of river Tapti. Initially this project was conceived by IFFCO and was planned to be jointly owned with National Fertilisers Limited (NFL). This proposal did not find favour with Government of India and it was decided to have a single owner for the project. Accordingly, KRIBHCO came into being and was incorporated as Cooperative Society to implement this project. Zero date of the project was 31.3.1981 and trial production of urea commenced from 26.11.1985. Commercial production from the plant started from 1.3.1986. Final cost of the project was about Rs. 890 crore.

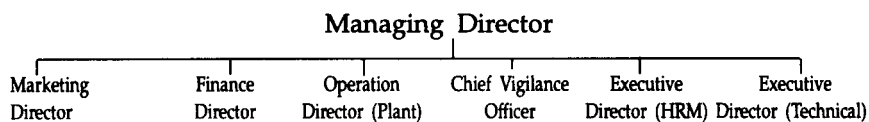
1.3 The Hazira Complex consists of two units of Ammonia Plants of capacity 1350 MT per day each and four streams of urea plants of capacity of 1100 MT per day each. Thus, the capacity of the urea plants is 4400 MT urea per day equivalent to 14.52 lakh MT of urea per annum *i.e.* 6.68 lakh MT of Nitrogen per annum. The plant also has its own captive power plant of 30 MW capacity.

1.4 KRIBHCO has also installed a Bio-fertiliser Plant at Hazira with an annual installed capacity of 100 MT production of which commenced from August, 1985. The capacity of the plant was enhanced to 250 MTPA in December, 1998. KRIBHCO has also established 7 Seed Processing Plants and 4 more are planned to be added.

1.5 KRIBHCO is also operating and maintaining Hazira Ammonia Extension Plant (HAEP) on behalf of Heavy Water Board, Department of Atomic Energy.

(b) Organisational Set Up

1.6 The Chief Executive of KRIBHCO is Managing Director who reports to Board of Directors. All the activities of KRIBHCO under charge of Managing Director are as under:



1.7 As per the Bye-laws of the Society, the Board of Directors of KRIBHCO consists of six Directors elected by the General Body, of whom three are the representatives of Apex Marketing Federations of different States/Union territories, Managing Director of NCDC, five Directors are nominated by the Government of India, five Directors nominated by IFFCO, besides Managing Director, Finance Director, Marketing Director and Operation Director of KRIBHCO (all Ex-officio). Board also co-opts one expert as Director from amongst eminent economists or management experts or experts on Cooperation. The total strength of Board of Directors of KRIBHCO is not to exceed 25.

(c) Objectives

1.8 The objectives of KRIBHCO (as per Bye-laws) shall be to promote the economic interest of its members by undertaking the business of manufacture, production, development, processing, conversion, sale, distribution, marketing, import, export, trade or otherwise deal in, store, or transport, build, construct, fabricate or otherwise turn to account, in India and abroad of chemical fertilisers, bio-fertilisers, man-made fibres, detergents, soaps, chemicals, petrochemicals, drugs and pharmaceuticals, paper, industrial products, cement, steel, electronic products, satellite receivers, pesticides, seeds, agricultural machinery and implements and other agricultural inputs, agricultural items, agro-based industrial items, food products, aquaculture, forestry products, power generation and distribution from conventional or non-conventional energy sources, textiles, automobiles, breweries, housing and real estate, construction and fabrication, and to provide/undertake the business of oil exploration, communication and tele-communication, shipping, trading, banking and insurance and undertake such other activities which are conducive and incidental thereto.

1.9 It came out during examination of KRIBHCO that apart from marketing and distribution of fertilisers, it has not made any stride in achieving the other objectives as enshrined in the Bye-laws. However, KRIBHCO, in its defence in a written note stated:

“For achieving other objectives, Society has already taken up Seed Processing Plants and Bio-fertiliser Plant. Apart from this, Society is considering the diversification in the field of Power. Earlier Society had made studies for entering in the field of MDF Board, Maize Processing, Zeolite and detergents based on Zeolite, Argon gas etc. However, they were either not found viable or the demand/supply scenario was not favourable. Society will continue to make efforts to fulfil its other objectives as per the Bye-laws.”

1.10 With regard to achievement of objectives, Secretary, Department of Fertilisers (DoF) supported the position of KRIBHCO when he said during the evidence:

“...So far as the objectives are concerned, the objectives are wide ranging. They cover not merely fertilisers, pesticides, detergents but also power. So, if we look at the wide range of objectives, one can say that there has been that degree of diversification. But KRIBHCO has been concentrating on production of fertilisers and certain other ancillary objectives like production of seeds, bio-fertilisers, etc. And, of late, they have expressed their intention to enter into the infrastructure sector project for generation of power...”

1.11 A scrutiny of projects undertaken by KRIBHCO reveals that though it did try to diversify into other areas but could not succeed. It started commercial production in March, 1986 and about a year and half later tried to establish a DAP Plant at Hazira and Bagasse based newsprint Project in Gujarat. Thereafter, during the next 9 to 10 years it conceived in all 19 projects including DAP plant at Hazira and Bagasse based newsprint project in Gujarat. But no project could be finally implemented for various reasons, which the Committee would analyse in subsequent Chapters.

1.12 The Committee observe that objectives laid down in the bye-laws of the Society are wide-ranging nature varying from production of soaps and detergents to electronic products, satellite receivers, oil exploration, etc. etc. In the Committee's view, some of these objectives are non-synergic in character. Although KRIBHCO did try to achieve some of these, yet efforts were non-serious and half hearted. The Committee feel that no useful purpose can be served in retaining all these objectives in the bye-laws and recommend that KRIBHCO should review all these and retain only those which are in consonance with changing times and within its corporate vision for the next twenty years or so. The Committee hope that KRIBHCO would undertake a serious study in this regard and screen all the existing objectives and retain only those, the achievement of which shall enhance its professionalism and credibility.

(Recommendation Sl. No. 1)

CHAPTER II

CAPITAL STRUCTURE

2.1 As against the authorised share capital of Rs. 500 crore of KRIBHCO, its paid-up-capital as on 31st March, 2000 was Rs. 484.25 crore.

2.2 The following table shows the share capital structure of KRIBHCO:

Members	(Paid-up share capital)			
	As on 31.3.1995 (Rs. in crores)	As on 31.3.2000 (Rs. in crores)	Percentage as on 31.3.95	Percentage as on 31.3.2000
Government of India	328.00	328.00	71.94	67.73
	97.00	97.00	21.27	20.03
	0.25	0.05	0.05	0.01
Other Cooperatives	30.73	59.20	6.74	12.23
Total	455.98	484.25	100.00	100.00

2.3 During the course of examination, the Committee drew the attention of representatives of KRIBHCO that the Standing Committee on Petroleum & Chemicals in their 13th and 21st Reports (Presented in Parliament in March and December, 1995 respectively) had recommended that the Government should take action for transferring more share capital to Cooperatives. At the time of making this recommendation the share holding amount of the Government of India and IFFCO was the same as it was on 31.3.2000. The Committee wanted to know the reasons for non-implementation of the recommendation, the KRIBHCO in a written note informed:

“.....It may be mentioned that the Cooperatives in the country do not have the financial strength to take over Government of India's equity”.

2.4 The Committee further wanted to know about the steps taken during the last six years to dilute Government's share and augment Cooperatives. KRIBHCO in a written note informed:

"KRIBHCO had taken the following steps for increasing the share of Cooperatives:

1. Encouraged new Cooperative Societies by enrolling them as member of KRIBHCO.
2. Reducing face value of one share from Rs. 25000 to Rs. 10000 thereby small Cooperative Societies are encouraged to become member of KRIBHCO.

It may be seen from the following that during last five years the percentage share of the Cooperatives has increased whereas percentage share of the GOI has decreased.

Members	Paid-up Share Capital	
	Percentage as on 31.3.95	Share as on 31.2.2000
Government of India	71.94	67.73
IFFCO	21.27	20.03
NCDC	0.05	0.01
Other Cooperatives	6.74	12.23
Total	100.00	100.00

The number of other Cooperatives has increased from 3594 as on 31.3.95 to 5035 as on 31.3.2000 i.e. an increase of 40.1%. The membership of KRIBHCO as on 31.3.2000 stood as under:

Name of State	Membership
	2
Andhra Pradesh	289
Bihar	106
Delhi and NCDC	12
Gujarat	1709

1	2
Haryana	96
Himachal Pradesh	7
Jammu & Kashmir	1
Karnataka	166
Kerala	
Maharashtra	215
Madhya Pradesh	877
Orissa	3
Punjab	509
Uttar Pradesh	427
Rajasthan	546
Tamil Nadu	42
West Bengal	28
IFFCO	1
Government of India	1
Total	5038"

2.5 During the course of examination of DoF the Committee pointed out that the Standing Committee on Petroleum & Chemicals examined *inter-alia* the Cooperative character of KRIBHCO in the year 1994-95 and in their Thirteenth Report presented to Lok Sabha on 30th March, 1995 had recommended that Government should initiate action for transferring more share capital to Cooperatives in a phased manner. Asked as to why it has not been possible for the Government to implement the Committee's recommendation and what were the difficulties in transferring more share to Cooperatives, the DoF in a written note informed:

"Due consideration has been given by the Government to the directions contained in the Thirteenth Report of the Standing Committee on Petroleum & Chemicals which, *inter-alia*, recommended that Government should initiate action for transferring more share capital to Cooperatives in a phased manner. It may be noted that Government's equity has not

increased in KRIBHCO as per a conscious decision between the period 1995-2000 and has remained at Rs. 328 crore. This has led to a decline in percentage terms of Government equity in KRIBHCO from 71.24% as on 31.3.1997 to 67.73% as on 31.3.2000. While on the other hand, the participation of other Cooperatives in the equity of KRIBHCO has increased to 12.23%. The enrolment of new Cooperative Societies as Members in KRIBHCO has increased from 3947 as on 31.3.97 to 5035 as on 31.3.2000. This has resulted in corresponding increase in the capital contributed by small cooperative of KRIBHCO from 7.66% to 12.23% for the corresponding period. The number of member societies have further increased to 5106 as on 31.7.2000.

The authorised share capital of KRIBHCO is Rs. 500 crore of whereas the paid-up capital is Rs. 484.25 crore as on 31.3.2000. This will indicate that there is sufficient scope for further participation by small cooperative societies in KRIBHCO.

Clause 26 of the Multi-State Cooperative Societies Act, 1984 provides only for redemption of shares and, as such, direct transfer of Government shares in favour of Cooperative Societies has not been provided for."

2.6 The Committee further pointed out that main reason being advanced for poor enrolment was that farmers were poor and they could not afford to buy shares even though KRIBHCO has reduced face value of one share from Rs. 25000 to Rs. 10000. Enquired whether Department of Fertilisers has analysed this phenomenon and interacted with Ministries of Agriculture and Finance to devise ways to empower the farmers economically to encourage them to buy shares, the DOF in a written reply informed:

"Empowerment of farmers to contribute to the equity of KRIBHCO through small cooperative societies is related to the much larger issue of increasing the disposable incomes of Indian farmers which, in turn, depend on large number of policies, schemes and actions being taken by different Departments, Ministries and agencies of the Government. The Department of Fertilisers has played its role in this by assisting KRIBHCO in quickly permitting reduction in the face value of shares as proposed by KRIBHCO from time to time. The Department is in agreement with the proposal of KRIBHCO to convert 500 number of shares of face value of Rs. 1,00,000/- each into 5000 number of shares having a face value of Rs. 10,000/- each so as to enable small Cooperative Societies to become members of KRIBHCO."

2.7 Explaining it further, Secretary, DoF stated during evidence:

“Sir, authorised share capital of KRIBHCO is Rs. 500 crore and the paid-up capital is about Rs. 484 crore as on 31.3.2000. So, there is a scope of Rs. 16 crore and this can come through increased membership of farmers and cooperative societies. The share of Government owned equity in KRIBHCO has come down from 71.24 per cent as on 31.3.1997 to 67.73 per cent on 31.3.2000 and the cooperative society’s share has increased from 7.66 per cent to 12.23% in the same period. I am not saying that there is no scope for further improvement. The point that I am trying to make is that it was beginning to move in the right direction. Sir, I must share a very major difficulty with this august body and that relates to the cooperative sector as a whole. It is because when the Government took a policy decision to waive the arrears from the agricultural loans, the banks were compensated. But the primary agricultural societies of the first and second tier organisations became defaulters. Therefore, they were denied a number of facilities. I am afraid that the cooperative sector is still recovering from the effects of that policy decision. Unless the grassroot level organisations in the cooperative sector are activated to become vibrant, KRIBHCO or IFFCO, will not be able to bring about the desired change on their own.”

2.8 With an aim to empower the farmers financially to enable them to enrol members of Cooperative Society, the Committee wanted that ‘B’ component of credit facilities be increased. To this suggestion, DOF responded:

“This is a subject-matter which relates to the Department of Agriculture and Cooperation and the Department of Banking. Any move to increase the ‘B’ component of credit facilities available to farmers through nationalised banks would have wide ranging ramifications and would be dependent on variations in the purchasing power of farmers from State to State.”

2.9 The Committee note that as against authorised share capital of Rs. 500 crore of KRIBHCO, the paid-up capital was Rs. 484.25 crore as on 31st March, 2000. The Committee also note that majority of shares in KRIBHCO are being held by the Government. Out of Rs. 484.25 crore paid-up capital as much as Rs. 328 crore are held by Government. The Standing Committee on Petroleum & Chemicals (1994-95), 10th Lok Sabha had also examined the matter and in their

13th Report on IFFCO and KRIBHCO, presented to the Parliament on March, 1995, had recommended that the Government should transfer more share capital to cooperatives in a phased manner for making IFFCO and KRIBHCO real cooperatives in character. However, during the course of examination the Committee found that the desired transfer of equity in KRIBHCO has not taken place. During the last six years the Committee found that share of Government has come down from 71.94% to 67.73% whereas share of cooperatives has marginally increased from 6.74% to 12.23%. The Committee have been informed that since the cooperatives are not financially strong, these are not able to enrol themselves as Members. The Committee have also been informed that still there was a scope for small cooperatives to participate in equity of KRIBHCO since there was a gap of Rs. 15.75 crore between authorised share capital and paid-up share capital of KRIBHCO.

2.10 The Committee have been informed that in order to encourage small societies to become members of KRIBHCO, Government have allowed KRIBHCO to reduce the face value of its share from Rs. 20,000 to Rs. 10,000 per share and also to convert 500 shares of face value of Rs. 1 lakh per share into 5000 shares of face value of Rs. 10,000 per share. The Committee have also been informed that direct transfer of share from Government to Cooperatives is not allowed under Multi-State Cooperatives Act, 1984. The Committee would like to emphasise that the thrust of their recommendation is to impart real Cooperative character to KRIBHCO and it can be done if Government's equity is regularly decreased with corresponding increase in the equity held by Cooperative Societies. Government should devise the ways and means to achieve this objective, whether through amendment to MSCS Act, 1984 or amending the bye-laws. However, as an immediate measure, KRIBHCO should initiate action such as special drive to increase its membership substantially so that the remaining equity of Rs. 15.75 crore is contributed by Cooperative Societies within a targeted period say of two years. Government should extend all necessary help expeditiously in this regard. The DOF should act as a Nodal agency and liaise with various agencies and get suitable guidelines issued to banks/district cooperative credit banks to give loans to farmers for acquiring membership of the Society.

(Recommendation Sl. No. 2)

2.11 The Committee note that on 31.3.1995, the total membership of the Society was 3594 and after 5 years *i.e.* on 31.3.2000, the membership, has gone up to 5038. Out of this, 4 States, *viz.* Gujarat, Madhya Pradesh, Punjab and Rajasthan have 3641 memberships. There is ample scope to increase membership in other States, especially in the East and North-East. As of now only 16 States have their representation in KRIBHCO which does not project all India character of the Society. The Committee, therefore, recommend that KRIBHCO should undertake special drive of enrolment of Members during the next two years and set a target to double the present strength.

(Recommendation So. No. 3)

2.12 The Committee welcome the decision of KRIBHCO to convert its 500 shares of Rs. 1 lakh face value into 5000 number of shares of Rs. 10,000 denomination and hope that the decision will be executed sincerely. The Committee urge the Government to assist KRIBHCO in all aspects to implement and execute the decision.

(Recommendation Sl. No. 4)

CHAPTER III

COOPERATIVE CHARACTER

3.1 KRIBHCO's objective is to promote the cause of agricultural cooperatives in the country and for that it has to imbibe cooperative philosophy. During the course of examination the Committee referred to the press reports suggesting that Government was considering to change KRIBHCO from Cooperative to Company. The Government had constituted Dr. Y.K. Alagh Committee to suggest suitable changes in Multi-State Cooperative Act, 1984 for the purpose of converting Cooperatives into Company. Asked by the Committee about the views of KRIBHCO in this regard and whether KRIBHCO has ever been consulted by the Government or by Dr. Alagh Committee, and whether KRIBHCO has made any suggestions/proposals to this Committee, KRIBHCO in a written note stated:

"Considering certain gains, the conversion from cooperative to company may be advantageous, however, since the main aim of setting up of KRIBHCO is to help the farming community through cooperatives, the cooperative status of this unit should not be diluted particularly when the production and financial performance of the unit is consistently good. Yes, we have been consulted by Dr. Alagh Committee through Government. Suggestions made by KRIBHCO are as under:

(a) Voting Rights

It should be one member one vote irrespective of share holding or participation in business patronage.

(b) Limited interest on Shares

To attract investment by users in equity, there should be no restriction on distribution of dividend and the company should be allowed to declare dividend depending upon its profitability and paying capacity.

(c) Raising of Finance

The Producer Company be allowed to raise equity and debts from general public/market to enable to undertake large sized capital intensive projects.

(d) Income tax on dividend

Such company should be exempted payment of 20% tax on dividend."

3.2 During the course of examination of DOF the Committee referred to some press reports and drew the attention of DOF, as to whether the Government was contemplating to introduce a Bill to amend the Multi-State Cooperative Societies Act, 1984. DOF in a note informed:

"The Department of Agriculture & Cooperation is working on amendments to be brought out in the Multi-State Cooperative Societies Act, 1984 following the recommendations of the Brahm Prakash Committee."

3.3 Asked further whether DOF has ever been consulted by Dr. Y.K. Alagh Committee in a move to corporatise KRIBHCO, DOF in a written note *inter-alia* informed:

"Dr. Y.K. Alagh Committee is working on draft amendments to the Companies Act, 1956 to enable formation of producer companies. The work relating to the report of the High Powered Committee for formation and conversion of cooperative business into companies headed by Dr. Y.K. Alagh is being performed by Ministry of Law, Justice and Company Affairs, Department of Company Affairs.

Department of Fertilisers has been consulted formally by both these Departments on these two issues that is amendment to the Multi-State Cooperative Societies Act, 1984 and proposal to amend Companies Act, 1956 to enable formation of producer companies.

As far as proposal to amend Companies Act is concerned, this Department is in agreement with the proposal for amendment of Companies Act, 1956 to enable the cooperative sector to re-orientate itself and adapt to the changing competitive scenario. This Department, however, emphasised the need for enabling provision in the MSCS Act to retire Government shares in Multi-State Cooperative Societies on market rate. Further, this Department had noted that the Cooperatives had the option to become producer companies, which required resolution to be passed in the Annual General Meeting by two-third majority of the shareholders. It was pointed out that amendments to MSCS Act were on the anvil, which will give adequate flexibility and powers to large Multi-State Cooperative Societies like KRIBHCO.

The issue to corporatise the Cooperatives is still not clear as neither the proposed amendments to MSCS Act, 1984 nor the proposed amendment to Companies Act, 1956 to enable formation of producer companies is final."

3.4 The Committee find that the issue of converting the Cooperative to company has been in focus since March, 1995 when this Committee examined the matter in their 13th Report and had recommended that cooperative status of IFFCO/KRIBHCO should not be diluted since their production performance has been consistently very good.

3.5 During the course of examination the Committee found that the issue of converting the cooperatives to companies has again gathered momentum. In this context, it came out that the issue involves amendments in two Acts governing cooperatives as also companies, *i.e.* Multi-State Cooperatives Societies Act, 1984 and Companies Act, 1956 respectively. The Committee have been informed that the task of amending Multi-State Cooperatives Societies Act, 1984 in the light of Brahm Prakash Committee recommendations has been entrusted to the Department of Agriculture & Cooperation whereas the task of amending the Companies Act, 1956 has been entrusted to the Department of Company Affairs under the Ministry of Law.

3.6 The object of amendment in the Multi-State Cooperative Societies Act, 1984 was to reduce Government control over cooperative societies whereas amendment to Companies Act, 1956 according to DoF was necessitated for enabling the cooperative to reorient itself and adapt to the changing competitive scenario. The Committee are broadly in agreement with the objectives set forth by both the Committees, *viz.* Dr. Y.K. Alagh Committee and Brahm Prakash Committee. The Committee recommend that the Cooperatives should retain its intrinsic character of one vote per member irrespective of the number of shares and should be allowed to sell its shares only to Members and there should be a cap on the dividend. The Committee recommend that MSCS, Act should be so amended which would enable the Cooperatives to gain the advantages of Corporation even while retaining Cooperatives values and strengthening them to face the on-slaught of multi-national Corporations.

(Recommendation Sl. No. 5)

3.7 The Committee feel that some of the Cooperative Societies in the country are mere extensions of Government Departments and are bureaucratically managed. The Committee, therefore, urge the Government to reduce Government controls to the minimum. The Cooperatives should be given more functional and financial autonomy. To achieve this MSCS Act should be so amended which would remove restrictive regulatory provisions in various Central and State Cooperative laws.

(Recommendation Sl. No. 6)

CHAPTER IV

CORPORATE FUNCTIONING

(a) Board of Directors

4.1 As per the Bye-laws of KRIBHCO, the total strength of its Board of Directors shall not exceed 25. The Board mainly consists of six Directors elected by the General Body of whom three are representatives of Apex Marketing Federations of different States/Union Territories, Managing Director of NCDC, five Directors nominated by the Government of India, five Directors nominated by IFFCO, besides Managing Director, Finance Director, Marketing Director and Operational Director (all Ex-officio). Board shall co-opt one expert as Director from among eminent economists or management experts or experts on cooperation.

4.2 During the course of examination of KRIBHCO, the Committee were informed that the present strength of the Board was 19 as against 25 and during the last two years, its strength was never full. The Committee sought to know from the Department of Fertilisers the reasons for not filling up the vacancies and how KRIBHCO with 19 Directors out of 25 could be called a functional board. The DoF submitted in a written note:—

“The constitution of Board of Directors of KRIBHCO has been laid down in the Bye-law 37(a) of the Bye-laws of KRIBHCO. Under Bye-law 37(b), maximum strength of 25 Directors on the Board of Directors has been laid down. Out of this, 3 nominees can be of the financial institutions which have given loans to KRIBHCO. Since KRIBHCO has no loan liability, there are no nominees of the financial institutions. Without them, then the maximum strength is 22. Against this, 19 are in position which include 5 nominees of Government of India, 5 nominees of IFFCO, 3 Functional Directors and 5 elected Directors. Managing Director of National Cooperative Development Corporation (NCDC) is also a Director on the Board. These are 3 following vacancies:—

- (a) One elected Director lying vacant due to withdrawal of nomination by the nominating agency;
- (b) Finance Director in the position has fallen vacant on 5.6.2000;
- (c) Co-opted Director.

The process of filling the post of Finance Director has already begun and separately a proposal is being made to give additional charge of the post to a suitable person. The absence of the remaining two Directors is in no way hampering the functioning of the Board or the Society."

4.3 When asked whether the position of expert Director was being filled up regularly, DoF replied in a written note:—

"The Board of Directors of KRIBHCO is constituted once in 3 years. The last Board whose tenure expired on 29.7.1999 had a co-opted Director. But that was the only time when this position was filled since the inception of the Society. The process for making recommendation for co-option of an expert as Director has been initiated in the Department."

4.4 The Committee note that as per Bye-laws of the Society, the Government nominates five Directors on the Board which as per the present strength of the Board constitutes a little more than 25%. The Committee view KRIBHCO as any other PSU of the Government of India and this position has been repeatedly mentioned in the Thirteenth Report presented in April, 1995. Department of Public Enterprises which lays down policy guidelines with regard to Corporate functioning of all PSUs vide its O.M. No. 18(6)-91-GM dated 16th March, 1992 has observed as under:—

"The question of representation of Government Directors on the Boards of PSEs was examined by the Arjun Sengupta Committee and following its recommendations, the Bureau of Public Enterprises has issued guidelines in 1986 that the Administrative Ministry concerned should not have more than one nominee Director on the Board of a PSE.....

Government Directors:

- (i) The number of the Government Directors on the Boards of Directors of an enterprise should not exceed one-sixth of the actual strength of the Board.

4.5 The Committee would like DoF to analyse its position on the Board of KRIBHCO in the light of the above guideline and review its position.

(Recommendation Sl. No. 7)

4.6 Secondly, the Committee do not agree with the position taken by DoF that absence of two Directors is in no way hampering the functioning of the Society. Perhaps this is too simplistic an analysis of the position. The fact that 19 Directors are in position as against 25 indicates that the Board is not fully functional irrespective of the fact that 3 nominees of financial institutions are not required to be on Board as KRIBHCO has no loan liability. In the Committee's view the Bye-laws of the Society should have been amended to reduce the total strength of the Board and/or these positions could have been given to other institutions/agencies reputed in management or agriculture or cooperative fields. The incumbency of expert co-opted Director only once since inception of KRIBHCO suggests the very negation of the purpose for which this provision was made. Surprisingly, DoF did not take a note of this position as, apparently, it has not acted in any manner. The Committee wished KRIBHCO and DoF had acted in a professional manner and not allowed the vacancies to remain unfilled. The Committee recommend that a review of Bye-laws on this count be undertaken to make them pragmatic and guiding. The Committee direct that no position on the Board should be allowed to remain vacant for more than 3 months and to achieve this objective, if the Bye-laws need amendment, this should be done.

(Recommendation Sl. No. 8)

(b) Autonomy in Corporate Functioning

4.7 The success of any Company lies in autonomy it enjoys and its responsibility towards the share holders. In the context of KRIBHCO, it was stated that its Management is enjoying autonomy to the extent the Multi-State Cooperative Societies Act, 1984 and the Rules framed thereunder provide for the same. Within the framework of the present Act, the Board carries out its functions and tries to achieve its objectives in accordance with the provisions contained in the Bye-laws of the Society. In reply to query as to whether KRIBHCO enjoyed full autonomy in corporate functioning and whether KRIBHCO faced any hindrances in decision making, KRIBHCO in a written note informed:—

“The power delegated to Managing Director has been provided in the Society's Bye-laws and to that extent MD enjoys full autonomy. Hindrances has not been experienced.”

4.8 During the course of examination the Committee further wanted to know what role Government's nominees have in decision-making process of the Board and in how many cases, Board's decisions were revised/taken as per the directives of Government's nominees.

The KRIBHCO in a written note informed:—

“Government's nominees during the decision making process of the Board participate in discussions in the Board Meeting like any other Director of the Board. The Board's decisions are taken collectively by the Board members and Government's nominee does not have any special power to give his directive. In the past no decisions were revised or taken as per directives of Government's nominee.”

4.9 During the course of examination of Department of Fertilisers the Committee wanted to know whether there was any institutional system available with the Government nominated Directors to seek directives for their performance in Board's meetings and give feed back with follow up action, the DoF in a written note informed:—

“There is no institutionalised system for the nominee directors to seek directions from the Government on the items brought before the Board nor are there any laid down instructions for giving feed back on each of items discussed. There is however, no bar to the Government nominee directors seeking instructions on items which they think are important and which require prior consultation with the Government. The instructions are sought both orally and in writing. On other items, nominee directors, who are senior Government officials, are expected to use and exercise their own judgement. This is in line with the guidelines laid down by the Government for the nominee directors on the Board of Directors of the Public Sector Undertakings.

The nominee directors are free and do provide feed back to the Government on sensitive issues, which require Government attention. Follow-up action is also taken on such items in case there are instructions to that effect. There are instances where owing to this, Board of Directors have been made to re-consider their decisions.”

4.10 The Committee are happy to note that there are no apparent instances where KRIBHCO's autonomy has been eroded. Certainly the Society should not be allowed to become an extension of the Government. KRIBHCO has stated that it enjoys autonomy within the provisions of MSCS, Act, 1984 but in the Committee's view, there are various restrictive provisions within the Act which hinder the Society's autonomy. The Committee recommend that such provisions should be suitably revised in a manner to ensure more functional and financial autonomy.

(Recommendation Sl. No. 9)

4.11 The Committee note with seriousness the statement of DOF that there are instances where owing to Government's directions, the Board of Directors have been made to reconsider their decisions. The Committee take this statement in positive way with objectivity in approach but would urge the Government that there should be specific guidelines indicating that role of Government nominees should seemingly be to assist the Board to discharge its functions in a democratic manner.

(Recommendation Sl. No. 10)

CHAPTER V

PROJECT PLANNING AND IMPLEMENTATION

The Standing Committee on Petroleum & Chemicals in their Thirteenth Report presented to Lok Sabha on 30th March, 1995 had impressed upon KRIBHCO the need to have a corporate plan. In pursuance to this recommendation KRIBHCO finalized the Corporate Plan which aims to act as a catalyst to agricultural and rural development by selecting, financing and managing projects that are both socially desirable and commercially profitable. KRIBHCO's vision is to become one of the leading fertiliser producers in the world funding growth through:

1. Efficient production.
2. Efficient diversification.
3. Efficient distribution.
4. Efficient utilisation of resources.

5.1 As part of corporate planning, KRIBHCO's main objectives are:

1. To increase the urea installed capacity, maintaining its market share.
2. To ensure optimum utilisation of existing plant and machinery through proper maintenance.
3. To diversify into other sectors like Power, LNG Terminal/ Port chemicals etc.

5.2 KRIBHCO has identified the following projects in its Corporate Plan:

1. Oman-India Fertiliser Plant.
2. Third stream of Ammonia-urea at Hazira.
3. Power Generation.
4. LNG terminal/port development.
5. New Ammonia-urea plant at Gorakhpur.
6. Joint Venture fertiliser project in Iran.
7. Bio-fertiliser plant.

(a) Fertiliser Project Abroad

(i) Indo-Oman Fertiliser Project

5.3 The first stage clearance to this project was accorded on 22nd August, 1994 and Detailed Feasibility Report (DFR) was completed in June, 1996. As per the DFR estimate the project was to cost US\$ 1106 million. Total equity of the project was supposed to be US\$ 276 million for all the sponsors considering 3:1 as debt equity ratio. KRIBHCO's commitment towards equity was US\$ 69 million which was 25% of the total equity of the project. The remaining was to be held by Rashtriya Chemicals & Fertilisers from Indian equity.

5.4 Depositing before the Committee on 9.12.1998, during evidence, MD, KRIBHCO explained about the project:

"About the Oman Project, we have requested IFFCO to get into as a third partner. The simple reason was that when we went to bank for getting loan for this project at that time, the Government has approved that the debt equity ratio will be 3:1. That means, that Indian sponsor will be bearing 50 per cent of the project cost and 25 per cent of it will be borne by KRIBHCO. Later on, when the bank reviewed it, it said that it was a small quantity contribution and that how did it expect the bank to give three times of it. So, there was a proposal that the equity of the project should be raised from 25 per cent to 33 per cent by the sponsors. While the Oman Oil Company had agreed to 33 per cent equity towards their 50 per cent share of the project, we reviewed it... KRIBHCO's Board was of the view that we should not increase financial exposure beyond 25 per cent.... Hence the third partner was requested and that is how IFFCO had come into the picture.

IFFCO's first point was that the project cost should be reduced.... IFFCO has requested that when they build this plant, they should have the freedom to bring urea without Government restriction, whether country requires it or not.... And, if they are not able to sell in the country, they can think of selling it anywhere else."

5.5 Replying to specific query, MD KRIBHCO stated that as per the present planning the financial close would be around June, 1999 but the project could be completed only when we get loan.

5.6 The Committee enquired as to whether there was any problem from bankers, MD KRIBHCO stated.

"No, Sir, this is because of the country's rating, depressed urea market and also because of KRIBHCO and RCF do not have international experience of handling urea for buy back and all that."

5.7 The project remained under repeated examination and consideration since then and with uncertainties. Finally, the Government approved the project with restructured capital ratio on 20.6.2000. The revised capital structure of the project and the reasons for deviation are as follows:

Present Capital Structure

Item	As per DFR (June, 1996)	Restructured (June, 2000)
Total Project Cost	US\$ 1106 MM	US\$ 969 MM
Debt Equity Ratio	3:1	67:33
Indian Equity	US\$ 138 MM	US\$ 160 MM
Omani Equity	US\$ 138 MM	US\$ 160 MM
Debt	US\$ 830 MM	US\$ 649 MM

5.8 The project had to be revised and restructured in the wake of the fall in international urea prices and the consequent stiff conditions imposed by the foreign lenders which were not acceptable to the Indian Sponsors of the Project.

The project is being set-up with twin objectives:

To utilise the cheap Omani gas reserves.

To create a secure source of ammonia & urea for the Indian Market.

5.9 Salient features of the restructured project as also the comparative picture of the differences in the original project and the restructured project and the principal terms and conditions of the project and their deviation from the original terms are as under:

Salient Features of Project Economics

1. Capital Structure

Project Cost	US\$ 969 Million
Debt Equity Ratio	67.33
Debt	
ECA Funds	US\$ 324.50 Million
Commercial Loans	US\$ 324.50 Million
Total Debt	US\$ 649 Million

2. Equity

• KRIBHCO	US\$ 80 Million (25%)
IFFCO	US\$ 80 Million (25%)
Oman Oil	US\$ 160 Million (50%)
Total Equity	US\$ 320 Million

3. Cash Cost of Production of Urea and Amonnia

• Third year of operation	: US\$ 106/MT
• Average over 20 years	: US\$ 86/MT

4. Internal Rate of Return (IRR) on Equity to Indian Sponsors

• Unleveraged	: 10.3% (Pre-Indian Income Tax)
• Leveraged	: 10.4% (Pre-Indian Income Tax)
• Leveraged	: 7.07% (Post-Indian Income Tax)

5. Average dividend to the Indian Side

US\$ 20 Million (2nd
year onwards)

Difference in Project Parameters

S.No.	Item	Earlier Approved	Present Proposal
1	2	3	4
	Production Capacity MT per day:		
	- Urea	4400	5060
2.	On Stream days		
	- Urea	330	326.5
	- Ammonia	330	340
3.	Annual Production for Sale at full capacity, Lakh MT		
	- Urea	14.52	16.52
	- Ammonia for sale	3.3	2.48
4.	Debt : Equity Ratio	3:1	67:33
5.	Custom Duty	Nil	Nil
6.	Forward Escalation	Nil	Nil
7.	Basis for plant cost	EPC bid	EPC bid
8.	Equity-Indian	50%	50%
	-Omani	50%	50%
9.	Debt Finance	Limited resource finance	Limited recourse finance with assured buy back with LTP
10.	Completion time	36 months	35 months
1	2	3	4
	Urea Offtake	Entire production for 20 years by the Indian Sponsors on FOB basis at price linked to international urea price	GOI will purchase actual production subject to maximum of 16.52 MT per annum of FOB basis LTP under a 15 year take-or-pay contract
12.	Ammonia Offtake	To be sold under a long-term contract	During the debt service period IFFCO will purchase entire surplus ammonia at a fixed FOB price of US\$ 100/MT
13.	Gas Supply	By Govt. of Oman under 20 year contract-10 year fixed price and escalation thereafter	By Govt. of Oman under 20 year contract-10 year fixed price and escalation thereafter.
14.	Subordinated Loans by the Omani Side	Gas Loan by Gas Supplier	Scrapped
15.	Subordinated Loans by the Indian Side	'A' Loan, 'B' Loan and Sales Fee Loan by the Indian Sponsors	Scrapped
16.	Product Prices after Offtake Agreement	Not applicable	Low Cycle Prices extrapolated
17.	Omani Income Tax after 10 years	25%	12%
18.	Project Life	20 years	20 years

5.10 During the evidence, the Committee wanted to know the outstanding issues related to the project which remain to be resolved. DOF replied in a written note that the main outstanding issues on the project are as follows:

1. Enhancement of compensation by Sultanate of Oman for non-supply of Gas.
2. Compensation to Government of India for non-supply of urea.
3. Resolution of the question of exemption of dividend to be received by IFFCO and KRIBHCO from OMIFCO from income tax.

5.11 Depositing before the Committee, Secretary (Fertilisers) elaborated upon these issues further:

“There are two more issues. One is the Sultanate of Oman. Oman’s liability for failure of supply of natural gas for reasons other than *force majeure* is limited to 10 million per year. On the other, the Government of India’s liability for its failure to pay back urea is unlimited. They have to compensate for the urea for the monetary loss. That is not the case with the Sultanate of Oman. That is the first point.

The second point is that OMIFCO is saying in case OMIFCO fails to supply urea to the Government of India then the Government of India, will ask it to pay the difference between the price which the Government of India would pay for buying urea from the international market and the price at which Oman would have sold urea to the Government of India. That is point number two and the third is the dividend.

We had recently sent a team to OMIFCO and on the taxation front there is some progress. I am awaiting the full-fledged report and with regard to the other two issues some discussions have taken place but those are within Department of Fertilisers...”

5.12 The Committee pointed out that the contract might not be balanced one in case there was clause of unlimited liability and enquired whether the Ministry had consulted the Attorney-General on the subject. Responding to this specific query, Secretary (Fertilisers) informed:

“The Ministry of Petroleum gave the feed back also. We were informed that in international agreements of this type the supplies of natural gas does not bind himself with an unlimited guarantee.

5.15 About zero date of the project, KRIBHCO informed:

“The zero date of the project would be determined subsequent to discussion with Arranging Banks. It is expected to occur by March 2001 as per current estimates.”

5.16 The Committee in their various Reports have commented upon the delay with regard to this project and emphasised upon the need to have transparency at all levels while finalising and executing this project. The Committee are still concerned about the delay in declaring the zero date of the project and expect resolution of all outstanding issues within this year. The Committee should be apprised of the status of the project during this period.

5.17 The Committee in their Seventh Report (13th Lok Sabha) had cautioned the Government against agreeing to the clause of “unlimited liability” regarding purchase of urea. The Committee reiterate their earlier recommendation and hope that in negotiated settlement, this clause would be suitably amended to the satisfaction of sponsors. The Committee would like to draw the attention of the Government of India towards a similar situation on liability of gas supply from Oil India Limited to Reliance Industries during finalisation of the gas supply agreement for Assam Gas Cracker Project. The Committee urge upon the Government to follow uniform policy in this regard for inland and overseas projects.

(Recommendation Sl. No. 11)

(ii) Joint Venture Project in Iran

5.18 Estimated to be completed at the cost of US\$ 470 million, with debt equity ratio 3:1, the project was conceived in July 1993. The basic memorandum of understanding was signed between the Government of India and the Government of Islamic Republic of Iran on 6th July, 1993. It is now reported that the project is not viable in the changed market scenario.

5.19 Asked about the latest status of the project and reasons for keeping the project on paper particularly when it is non-viable, KRIBHCO in a written note informed:

“The MOU for the Project was signed by the Government of India and Qesham Free Area Authority (QFAA) with INDCONS (IFFCO & KRIBHCO) in March, 1994. Subsequently, feasibility report has been made and project was found viable at that time. Invitation to bids for selection of EPC contractors were issued in November 1997 and January 1999. The response from EPC bidders has not been encouraging mainly because of constraints of financing of the Project. However, in view of depressed Urea market under changed market scenario, the project has not been found viable. The matter was further discussed with Iranian officials for restructuring of the Project. The project is based on cheaper gas available in Iran. Further KRIBHCO is not incurring any expenditure.”

5.20 The Committee during the course of evidence of DOF wanted to know the fate of this project, Secretary (Fertilisers) stated:

“We will ask both IFFCO and KRIBHCO about the Iranian Project to give us a final reply within a time frame.”

5.21 The Committee find that the project which was initiated in July, 1993 has not made any headway even after six years of its planning. The Committee have been informed by Secretary (Fertilisers) that IFFCO/KRIBHCO would be finally asked to give their reply within a time frame. Reportedly the project is not viable in the changed market scenario. In the Committee's view such projects should be taken off from the list of projects under consideration. The Committee hope that based on replies of IFFCO/KRIBHCO, DOF would soon take a final decision on this project.

(Recommendation Sl. No. 12)

(b) Indigenous Projects

5.22 Apart from the projects being considered abroad by KRIBHCO, the Society has initiated action on some projects located in India. These are:

1. Ammonia/Urea Fertiliser Project (Hazira Phase-II) at Hazira.
New Fertiliser Project at the existing site of FCI, Gorakhpur.
3. Power Project at Pipavav (Gujarat).

(i) Hazira Phase-II

5.23 The broad features of the project area as under:-

Estimated Total project cost	Rs. 1318 crore
Debt Equity Ratio	2:1
KRIBHCO's equity	Rs. 439 crore
Plant Capacity	
Ammonia	1350 MTPD
Urea	2328 MTPD

First stage clearance was accorded in October, 1997.

5.24 As per note submitted by KRIBHCO the proposed Hazira Phase-II will be located at the existing site of KRIBHCO's Fertiliser Complex and the new plant will share the existing infrastructure and off site facilities. Availability of infrastructure and off-sites facilities at Hazira is the major reason for setting up the proposed ammonia-urea plants at Hazira, Surat. This project will be around Rs. 400 crore cheaper than any grass root project of similar capacity. The estimated project cost of Rs. 1318 crore is the lowest compared to any other plant of similar capacity.

M/s. Petronet, British Gas and Shell are in the process of setting up their LNG terminals at Dahej, Pipavav and Hazira respectively.

KRIBHCO is not seeking any budgetary support from the Government of India as it has sufficient reserves to finance the project.

After according first stage clearance on 21st October, 1997, Pre-PIB meeting considered this proposal on 10th February, 1999. CCEA has given 'In Principle' approval in April, 1999 and PIB also appraised this project for investment purpose on 9th July, 1999. CCEA final clearance is awaited.

5.25 This Committee had commented upon the pending projects including Hazira-II earlier also. While examining Demands for Grants for 1999-2000, the Committee wanted to know as to why this project was not being cleared till now on the ground of prioritization and demand-supply issue when it was planned for implementation way back in 1997-98, the Secretary (Fertilisers) had stated:—

“The question of prioritization as cropped up only in the last seven to eight months. Demand and prioritization again got linked up because the supply demand gap permits a certain number of projects as per the order of the priority.....”

5.26 The Committee had further enquired about time by which the process of prioritization would be completed. The Secretary (Fertilisers) had stated (April, 1999):—

“I think we should be in a position to do that within about two months or so.”

5.27 After one year, when Demands for Grants of DoF (for 2000-2001) were examined by the Committee, the Secretary (Fertilisers) said with regard to this project (April, 2000):

“....When the Standing Committee met last time I said, and I remember what I promised, that within two to three months we will get these sorted out.....”

5.28 He was candid to admit:-

“...Yes, there have been delays. Last time, I said that I have to repeat the same thing here. So far as these four projects relating to Thal, Hazira, Nellore and Gorakhpur are concerned, it was about difference in perception of supply and demand”.

5.29 While dealing with this project, the Committee in their 6th Report, 13th Lok Sabha presented to Parliament on 25th April, 2000 had *inter-alia* recommended:—

“The Committee had earlier recommended that the Government should accord absolute and final approval to these projects. The Committee reiterate their recommendation and hope that this would be accorded within two and a half months as assured by the Secretary, Fertilisers”.

5.30 Subsequently, appearing before the Committee during evidence on 3.8.2000 in connection with examination of KRIBHCO, the Secretary (Fertilisers) stated:—

“Sir, I lived upto my promise-in-as-much as I was able to send a note to the Government at the highest level. Now, I am waiting for the decision. It has gone there for the consideration of the Government. The Cabinet will decide on it”.

5.31 From the sequence of events brought out above, the Committee are constrained to observe that the Government had been taking the Committee too lightly and casually. Secretary, DoF had been assuring the Committee time and again of the clearance of the project within a specified time but ultimately nothing has come out. Ironically, the Cabinet cleared the Oman Project at foreign land on 20.6.2000 but the most cost effective Hazira Project is still awaiting clearance. The Committee are pained at the scant regard which the Government are showing to the Parliamentary Committee as evidenced by non-fulfilment of repeated assurances. The Committee recommend to the Government to issue directions to the Secretaries of the Government that before tendering any assurance before the Parliamentary Committee, they should seek prior approval from the concerned Minister so that all assurances can be fulfilled within the stipulated time frame.

(Recommendation Sl. No. 13)

5.32 The Government should realise that indefinite delay in according final approval adversely affects the organisation's initiative and negates the very concept of Corporate Planning. With regard to the clearance of this project, the Committee once again recommend for its immediate clearance which is essential in making the country self-reliant in fertilisers.

(Recommendation Sl. No. 14)

(ii) New Project at Gorakhpur

5.33 The Committee during the course of examination were informed that first stage clearance was accorded in October, 1997 and in 'In principle' approval from CCEA was given on 10.4.1999 subject to investment appraisal by PIB. Final clearance for CCEA is awaited. On being asked about the present status and cost of the project, KRIBHCO in a written note stated:—

“First stage clearance of the project was accorded in October, 1997 and 'In principle' approval was accorded by CCEA on 10th April, '99. PIB meeting was held on 9th July, '99 for financial clearance of the project. The present proposal with the estimated cost of Rs. 1536 crore is under consideration of CCEA and the project is viable based on the present cost. Final clearance of CCEA is awaited.”

5.34 The Committee during the course of evidence of representatives of KRIBHCO the M.D., KRIBHCO also attributed delay on the part of Government in clearance of this project as a major reason for delay. On being further asked about the factors responsible for delay, M.D. KRIBHCO stated:—

“Clearance of Gorakhpur project will depend on the Government policy on feedstocks which is still to come.”

5.35 In reply to another question, he stated:—

“We agree if it (Gorakhpur project) can be deferred.”

5.36 The Committee during the course of evidence of the representatives of DoF also wanted to know the present position of Government on this project. Secretary (Fertilisers) stated:—

“Sir, the position about KRIBHCO Gorakhpur project today is that the unit which is under the control of the Fertiliser Corporation is lying closed since 1990. That unit has to be formally closed with an Order of the Government and the BIFR. Unless that is closed formally, KRIBHCO cannot step in and start implementing the project. That is one part.

Secondly, KRIBHCO has shown interest and the discussion between the Fertiliser Corporation of India and KRIBHCO about the valuation of some of the assets which will be used by KRIBHCO has been completed.

But the Government have to give clearance to KRIBHCO project along with three others. We expect a decision any time because the matter has reached the Government at the highest level. They have only to fix the date and time for the meeting.”

5.37 He further informed:—

“There is one more point. A decision with regard to both the closure of the FCI’s plant and the KRIBHCO stepping in has to be taken. Both decisions have to be taken at the highest level in the Government.”

5.38 The Committee find that the New Project at Gorakhpur like the one at Hazira has been considerably delayed after getting first stage clearance in October '97 and thereafter 'In Principle' approval on 10.04.99. The Committee have been informed by KRIBHCO that since the feedstock policy for fertiliser plants is still to come the project might be deferred further. The Committee on the other hand have been informed by DoF that before formal clearance is accorded to the project, FCI unit has to be closed first by an order of Government and BIFR. Thereafter a decision has to be taken about KRIBHCO's stepping in. DoF has also informed that both the decisions have to be taken at the highest level in the Government. The Committee urge the Government to take the required decisions early so that a project conceived 3 years back is not allowed to drag for years, leading to much higher cost than original estimate.

(Recommendation Sl. No. 15)

(iii) Power Project at Pipavav (Gujarat)

5.39 As part of diversification programme, KRIBHCO has planned setting up a Power Project at Pipavav. The salient features of the project are:—

Estimated Total Project Cost	Rs. 2141 crore
Debt Equity Ratio	70:30
Total Equity	Rs. 642 crore
Plant capacity	615 Megawatt
Present Status	

'In principle' clearance received from Government of Gujarat on 30.9.1998. First stage clearance received from Department of Fertilisers on 18.11.1998.

Memorandum of Understanding (MoU) entered into between KRIBHCO and GPCL on 7.5.1999.

Power Purchase Agreement has been finalised with GEB within a time of 6 months which is record.

Government of India has allocated 2.25 MMSCMD of Natural Gas from Tapti fields for the project.

Bids have been invited for selection of Engineering Procurement and Construction (EPC), Contractors on Lumpsum Turn Key (LSTK) basis through International Competitive Bidding (ICB) procedure.

Formation of Joint Venture Company (JVC)

5.40 Share holders' Agreement for the formation of Joint Venture Company has been approved by the Government of Gujarat and the Board of Directors of the Society in April, 2000 and the same has been submitted to Department of Fertilisers on 25th May, 2000 for obtaining Cabinet approval from Government of India. Approval is still awaited and thereafter JVC will be formed.

5.41 In this context during the course of evidence of KRIBHCO , the Committee wanted to know why KRIBHCO was interested in Gujarat particularly when it has shelved a power project in Rajasthan earlier, the M.D. KRIBHCO stated:—

“We have examined the project and found feasible.”

5.42 On being further asked when KRIBHCO has not expertise in power sector why it has taken up this project, M.D. KRIBHCO stated:—

“I would like to submit that about expertise in power sector, it is true that we have no experience on power plant as you say, but we have the experience of a captive power plant we have of 30 MW. In power plants, boilers are the same.”

5.43 On being further asked about the zero date for the project, KRIBHCO in a written note informed:—

“The project zero date is to take in the first quarter of 2001.”

5.12A. Clarifying it further, Secretary DOF stated:

Firstly, I must clarify that the feed back that we have got from the Ministry of Petroleum & Natural Gas is that during the course of informal discussions which we hold from time to time about the project, they are clear that normally this is the position about the supplier of a natural gas. But, as I said earlier, they have also said that if the Government of India is giving such a guarantee with regard to the finished products, then it is the point worth taking up with the Sultanate of Oman."

5.13 Regarding the latest position of the project, KRIBHCO in another note stated:

GOI has approved the investment proposal of Indian Sponsors on 13th July, 2000.

Discussions for finalisation of various project agreements are in progress.

OMFICO Board has authorised the reactivation of advisors and Arranging Banks appointed for raising the finance on 25th August, 2000.

Indian Sponsors have applied to RBI on 12th September, 2000 for remittance of additional amount of Omani Rial 500,000 (equivalent to US\$ 1.3 million) each by KRIBHCO and IFFCO, out of total equity of US\$ 80 million each by KRIBHCO and IFFCO.

Core project team is being mobilised".

5.14 Regarding resolution of outstanding issues relating to the project, KRIBHCO has informed:

"Subsequent to the approval of GOI, discussions are ongoing on certain outstanding issues flagged by Department of Fertilisers. It is expected from the trend of discussions that these will be resolved soon. KRIBHCO's Board, during its meeting held on 6th September, 2000 reviewed the progress and reaffirmed the participation of KRIBHCO in the project."

5.15 About zero date of the project, KRIBHCO informed:

“The zero date of the project would be determined subsequent to discussion with Arranging Banks. It is expected to occur by March 2001 as per current estimates.”

5.16 The Committee in their various Reports have commented upon the delay with regard to this project and emphasised upon the need to have transparency at all levels while finalising and executing this project. The Committee are still concerned about the delay in declaring the zero date of the project and expect resolution of all outstanding issues within this year. The Committee should be apprised of the status of the project during this period.

5.17 The Committee in their Seventh Report (13th Lok Sabha) had cautioned the Government against agreeing to the clause of “unlimited liability” regarding purchase of urea. The Committee reiterate their earlier recommendation and hope that in negotiated settlement, this clause would be suitably amended to the satisfaction of sponsors. The Committee would like to draw the attention of the Government of India towards a similar situation on liability of gas supply from Oil India Limited to Reliance Industries during finalisation of the gas supply agreement for Assam Gas Cracker Project. The Committee urge upon the Government to follow uniform policy in this regard for inland and overseas projects.

(Recommendation Sl. No. 11)

(ii) Joint Venture Project in Iran

5.18 Estimated to be completed at the cost of US\$ 470 million, with debt equity ratio 3:1, the project was conceived in July 1993. The basic memorandum of understanding was signed between the Government of India and the Government of Islamic Republic of Iran on 6th July, 1993. It is now reported that the project is not viable in the changed market scenario.

5.19 Asked about the latest status of the project and reasons for keeping the project on paper particularly when it is non-viable, KRIBHCO in a written note informed:

“The MOU for the Project was signed by the Government of India and Qesham Free Area Authority (QFAA) with INDCONS (IFFCO & KRIBHCO) in March, 1994. Subsequently, feasibility report has been made and project was found viable at that time. Invitation to bids for selection of EPC contractors were issued in November 1997 and January 1999. The response from EPC bidders has not been encouraging mainly because of constraints of financing of the Project. However, in view of depressed Urea market under changed market scenario, the project has not been found viable. The matter was further discussed with Iranian officials for restructuring of the Project. The project is based on cheaper gas available in Iran. Further KRIBHCO is not incurring any expenditure.”

5.20 The Committee during the course of evidence of DOF wanted to know the fate of this project, Secretary (Fertilisers) stated:

“We will ask both IFFCO and KRIBHCO about the Iranian Project to give us a final reply within a time frame.”

5.21 The Committee find that the project which was initiated in July, 1993 has not made any headway even after six years of its planning. The Committee have been informed by Secretary (Fertilisers) that IFFCO/KRIBHCO would be finally asked to give their reply within a time frame. Reportedly the project is not viable in the changed market scenario. In the Committee’s view such projects should be taken off from the list of projects under consideration. The Committee hope that based on replies of IFFCO/KRIBHCO, DOF would soon take a final decision on this project.

(Recommendation Sl. No. 12)

(b) Indigenous Projects

5.22 Apart from the projects being considered abroad by KRIBHCO, the Society has initiated action on some projects located in India. These are:

1. Ammonia/Urea Fertiliser Project (Hazira Phase-II) at Hazira.
2. New Fertiliser Project at the existing site of FCI, Gorakhpur.
3. Power Project at Pipavav (Gujarat).

(i) Hazira Phase-II

5.23 The broad features of the project area as under:—

Estimated Total project cost	Rs. 1318 crore
Debt Equity Ratio	2:1
KRIBHCO's equity	Rs. 439 crore
Plant Capacity	
Ammonia	1350 MTPD
Urea	2328 MTPD

First stage clearance was accorded in October, 1997.

5.24 As per note submitted by KRIBHCO the proposed Hazira Phase-II will be located at the existing site of KRIBHCO's Fertiliser Complex and the new plant will share the existing infrastructure and off site facilities. Availability of infrastructure and off-sites facilities at Hazira is the major reason for setting up the proposed ammonia-urea plants at Hazira, Surat. This project will be around Rs. 400 crore cheaper than any grass root project of similar capacity. The estimated project cost of Rs. 1318 crore is the lowest compared to any other plant of similar capacity.

M/s. Petronet, British Gas and Shell are in the process of setting up their LNG terminals at Dahej, Pipavav and Hazira respectively.

KRIBHCO is not seeking any budgetary support from the Government of India as it has sufficient reserves to finance the project.

After according first stage clearance on 21st October, 1997, Pre-PIB meeting considered this proposal on 10th February, 1999. CCEA has given 'In Principle' approval in April, 1999 and PIB also appraised this project for investment purpose on 9th July, 1999. CCEA final clearance is awaited.

5.34 The Committee during the course of evidence of representatives of KRIBHCO the M.D., KRIBHCO also attributed delay on the part of Government in clearance of this project as a major reason for delay. On being further asked about the factors responsible for delay, M.D. KRIBHCO stated:—

“Clearance of Gorakhpur project will depend on the Government policy on feedstocks which is still to come.”

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5.43 On being further asked about the zero date for the project, KRIBHCO in a written note informed:—

“The project zero date is to take in the first quarter of 2001.”

5.44 The Committee during the course of examination of DOF also enquired whether the DOF has evaluated the Pipavav power project thoroughly. The Committee also enquired about the present status of this project and when the final clearance is expected, the DOF in a written note stated:

“First stage clearance for preparation of a Detailed Feasibility Report (DFR) at a total cost of Rs. 1.25 crore was accorded on 18.11.98, to KRIBHCO’s proposal to set up 615 MW (Nominal Station Capacity) Power Project at Pipavav, Gujarat. The evaluation of the project by DOF will be done after the preparation of the DFR during the process for seeking approval of the Government to the proposal under the prescribed PIB/CCEA clearance procedure. At present KRIBHCO is in the process of formation of a joint venture company/corporation to be jointly owned by KRIBHCO and Gujarat Power Corporation Ltd. (GPCL) under the Companies Act, 1955. KRIBHCO will have management control of this new Joint Venture Company. KRIBHCO approached the Government seeking approval for formation of the new company. The project, however, is being monitored regularly by the Government.”

5.45 The Committee find that the Power Project of KRIBHCO at Pipavav in Gujarat has been given first stage clearance by DOF on 10th November, 1998. The Committee have been informed by KRIBHCO that Power Purchase Agreement has been finalised with GEB within a record time of 6 months and Detailed Feasibility Report (DFR) is under finalisation. The Committee hope that KRIBHCO will keep up momentum and finalise the same promptly.

(Recommendation Sl. No. 16)

Appraisal of Corporate Planning of KRIBHCO

5.46 Corporate Planning is core factor of successful working of any organisation. Commenting on KRIBHCO’s over-all vision of Corporate Planning, Secretary (Fertilisers) stated before the Committee during evidence:

“.....Another area where there is scope for improvement in KRIBHCO is its capacity to have Corporate Planning and strategy..... The problems which KRIBHCO is suffering from right now relate to lack of proper focussing or marketing and lack of clear vision or perspective about what should be done in future.

5.47 In a separate written note submitted before the Committee, DOF informed:

“The philosophy of diversification of the activities of KRIBHCO in areas other than fertilisers, specially on account of the fact that KRIBHCO is having a lot of cash surplus but no projects were taken up for a long time, was discussed more than once in Quarterly Review Meetings held in DOF from time to time.....Secretary (Fertilisers) had also taken up the issue with the management by writing a D.O. letter to the Managing Director, advising him on the need for foresight and vision in effectively utilising the cash surplus. As it was felt during these meetings that KRIBHCO was also advised to prepare a comprehensive plan, with the help of an expert consultancy agency, if need be”.

5.48 When specifically asked about the views of DOF about lack of vision on the part of KRIBHCO with regards to projects undertaken and dropped, the Department stated:

“.....In the year 1993 alone, the Society conceived 8 project proposals out of 19 projects dropped by the Society, it may be pertinent to mention that that was the period subsequent to the unearthing of the security scam/scandal. Investment of surplus funds/cash in securities etc. by KRIBHCO through CANFINA and Andhra Bank Financial Services Limited (ABFSL) were under cloud, and KRIBHCO had difficulty in recovering the investments made with these agencies. Though the investment has been fully recovered by the Society subsequently, these investment decisions by KRIBHCO after the security scandal broke out were questioned during that time, and the Society was under tremendous pressure to look for alternative avenues to deploy or invest the surplus funds available with it. This perhaps led to the Society running after too many project proposals at the same time, resulting in the Society loosing focus on which proposal should be pursued with earnestness. The Society took up 19 new projects for consideration between 1990 and 1996 Scrutiny of the 19 projects shows that 10 were fertiliser related, 5 were relating to agro-based projects, and the other 4 related to power generation, manufacture of argon, detergents as well as news print in UP after taking over of NEPA’s newsprint unit. These projects are not questionable per se, as

these are covered by bye-laws of the Society. Some of the projects have been dropped for valid reasons such lack of demand in the case of argon recovery unit and zeolite based detergent, non-availability of feedstock/raw material, in the case of bagasse based news print project in Gujarat, and gas based urea projects in Tripura and Haryana. The reluctance to go in for activities in the non-fertiliser areas, such as newsprint is unlistable to some extent. However, in the fertiliser sector itself, certain projects, it is felt, could have been pursued, like manufacture of DAP at Hazira and Joint Venture in Jordan for production of phosphoric acid.

On the whole, it may be said that the thrust in the right direction was lacking though considerable efforts were made to diversify KRIBHCO's sphere of activities. The Society would be well advised to concentrate on fertiliser and power sector in addition to agro-based industries. The need to develop expertise in the power sector has been emphasised during discussions with KRIBHCO's officials. KRIBHCO can also contribute to agricultural research by giving financial assistance to agricultural universities. The recent trends in the direction appear to be the right ones."

5.49 In another context, the Secretary (Fertilisers) submitted before the Committee during oral evidence:

"Sir, it is a Corporate body in which so many Cooperative directors are also there. As the Hon'ble Member said, it is the rate of casualty of the projects on which they have to think more. The projects have not fructified. So, it may be that that planning side of the project needs to be improved like the IFFCO which have been pursuing whatever they have been thinking. But at the same time, I would like to assure that KRIBHCO is a good company. KRIBHCO's management is good and they are actively pursuing the proposals within the country like in Hazira and Gorakhpur".

5.50 KRIBHCO has surplus of Rs. 1432.75 crore as on 31.3.2000 and is paying income tax on some component of the profit earned out of it. When KRIBHCO was asked whether at any time, Government asked it to finance some other Public Sector Undertakings, KRIBHCO replied as under:

“Government of India had initially asked KRIBHCO to examine the possibility of investing 50% of equity for modernisation of Amjhore Plant (*i.e.* Rs. 9.50 crore). Subsequently, in January, 2000, KRIBHCO was asked to study the proposal for take over of Amjhore unit of PPCL. Consequently, KRIBHCO appointed ICICI to carry out due diligence exercise of PPCL Amjhore M/s. ICICI has concluded that takeover of this unit is not viable unless drastic concessions are given by Government of India..... Department of Fertilisers has also desired in January, 2000, that IFFCO, KRIBHCO and RCF jointly carry out due diligence exercise for taking over Engineering and Construction Division of PDIL and had asked IFFCO to take the lead in this regard on behalf of all the three companies. Further, action in this regard is being taken by IFFCO”.

5.51 The Committee enquired as to how does KRIBHCO plan to utilise the surplus amount, it furnished the details as under:

Indo Oman Fertiliser Project	Rs. 365 crore
Expansion project at Hazira	Rs. 439 crore
New Fertiliser Project at Gorakhpur	Rs. 512 crore
Power Project	Rs. 572 crore
Total	Rs. 1888 crore'

5.52 The Standing Committee in their Thirteenth Report (Tenth Lok Sabha) presented to Parliament on 30th March, 1995 had specifically noted that KRIBHCO had not been able to finalise its Corporate Plan during the last 15 years of its existence. It is heartening to note that the Society formulated a Corporate Plan and conceived certain mega projects for implementation. It is another

matter that these projects are still pending with the Government of India for final clearance. DOF's observations that the Society lacks vision and foresight in Corporate Planning appear more sweeping than realistic. Prior to 1995, Department of Fertiliser itself had observed in a written note submitted to the Committee:

"It is a fact that in 1989 KRIBHCO had engaged the services of Consultant for preparing a Corporate Plan for 1989-95. The Consultant submitted a Report in 1989 itself which *inter-alia* suggested diversification in fields other than fertilisers. It is also a fact that at that point of time the view of DOF was that KRIBHCO should concentrate in the fertiliser sector...It may, however, be added that absence of a Corporate Plan has in no way affected the performance of KRIBHCO. The Society has been consistently performing well in the fields of production and marketing of fertilisers, financial management and promotional activities..."

5.53 So, till March, 1995, DOF itself had directed KRIBHCO to concentrate on the fertiliser sector and also certified the latter's good performance in all fields, *viz.* Production, Marketing, Finance and Promotional activities. After this period KRIBHCO has initiated several mega projects, including a Power Project (Gujarat), which signifies diversion from the core sector and all these projects are pending for final clearance. Despite several recommendations of this Committee and assurances by DOF, some projects like Hazira Expansion and Gorakhpur have not been cleared. Thus, DOF cannot escape from sharing the blame that KRIBHCO is found wanting in effectively utilising cash surplus. Rather, responsibility for non-utilising cash surplus lies on DOF. The Committee feel that it is highly improper to hold back the clearance of projects for an indefinite period. That not only creates time and cost over-runs but most importantly kills the zeal and initiative of the Planner. The Committee urge the Government to analyse this situation seriously. The Committee are of the opinion that the Government lacks promptitude and sincerity in disposing of investment appraisal cases. This approach is construed as obstructionist and impedes the growth

of Public Sector and Private Sector thrives on infirmities of official dom. The Committee hope that Government will appreciate their anxiety on the need to take quick decisions, either way, in investment appraisal cases.

(Recommendation Sl. No. 17)

5.54 With the changing economic scenario, KRIBHCO has also to gear itself up to meet with the new situations. Instead of resting with mega projects pending with the Government, KRIBHCO should diversify its activities, in new areas related to agricultural products. The Bye-laws of KRIBHCO are wide enough to accommodate such activities *e.g.* cold storage and food processing. Some of the State Governments, like Maharashtra, are keen to extend official help to promote such activities. KRIBHCO of its own can also engage reputed management consultancy to prepare such projects.

(Recommendations Sl. No. 18)

5.55 Natural Gas availability in North-East is in abundance. Although KRIBHCO did try in the past to explore the possibility of setting up a Fertiliser Plant there, perhaps due to technical problems the proposal could not materialise. The Committee recommend that KRIBHCO should in all sincerity take a fresh look at its earlier proposal and explore the possibility of setting up a Fertiliser Plant there. It will also help KRIBHCO to expand its membership network in the North-East as well.

(Recommendation Sl. No. 19)

(c) Dropped Projects

5.56 KRIBHCO started commercial production from March, 1986. Thereafter, it started its efforts to grow further and diversify in other fields. In this process during the next ten years it conceived about 19 projects and spent about Rs. 462.25 lakhs on carrying out feasibility studies etc. Incidentally, none of these projects was finally implemented. A Statement showing the dropped projects together with year of starting and dropping expenditure incurred and reasons for droppings

is given below:

Sl. No.	Name of Project	Initiated in (year)	Dropped in (year)	Expenditure incurred (excluding travel expenses in India) (Rs. in lakhs)	State at which dropped and major reasons for dropping
1	2	3	4	5	6
1.	DAP Plant at Hazira	Sept., 87	July, 89	4.75	Due to fall in prices of DAP and rise in prices of imported phosphoric acid which made the retention price very high. Attempts for backward linkage for phosphoric acid manufacture in a country with abundant rock deposits also did not materialize.
2.	Bagasse based Newsprint Project in Gujarat	Oct., 87	Dec., 90	3.19	Due to complexity of various linkages and uncertainties of increased availability of bagasse.
3.	Joint Venture Phosphoric Acid Project in Jordan	Aug. 89	July, 90	2.6	Ministry of Commerce did not approve the project in the absence of a firm commitment from KRIBHCO for buy-back of P ₂ O ₅ with GOI.

1	2	3	4	5	6
4.	DAP Project, Rajasthan	Nov., 89		1.69	The Project became commercially unviable due to high retention price and decontrol of DAP.
5.	Argon Recovery Unit	Dec., 90	Feb., 94	0.55	Before EFC clearance due to insufficient unviability of the unit.
6.	Joint Venture Phosphatic Project in Tunisia	Feb., 91	Nov., 92	5.5	M/s. SIAPE, the joint venture partner in the project were not in a position to commit eventual participation in the venture due to other commitments.
7.	Ammonia-Urea Project Tripura	Nov., 91	Feb., 94	1.5	At preliminary stage due to non-allocation of gas by M/o P&NG
8.	Ammonia-Urea Project in Haryana	1991	Jan. 92	10.43	Due to non-allocation of gas for the project.
9.	Newsprint Project in U.P.	March, 93	March, 94	1.72	At preliminary stage due to NFPA Ltd. expecting much higher price than Society offered earlier and undefined substantial liabilities which could arise from pending court cases regarding land acquired by M/s. NFPA Ltd.
10.	MDF Board Project	May, 93	Sept., 96	1.93	After preparation of pre-feasibility report. Interim Market Survey revealed that there is no scope for new entrant.

	2	3	4	5	6
11.	Maize Processing Complex	May, 93	Sept., 96	3.95	At preliminary stage, after market study. Due to unattractive profitability.
12.	Mushroom Project	May, 93	Aug., 95	2.83	After preparation of TEFR and issue of NIT. Due to poor response from pre-qualified bidders for setting up this project.
13.	Zeolites & Zeolites based Detergents	Aug., 93	April, 94	1.12	At conceptual stage. Due to unattractive demand-supply scenario.
14.	Integrated Aquaculture Project	Aug., 93	Nov., 95	1.60	During preparation of pre-feasibility due to environmental & ecological problems from Shrimp Farms and adverse public opinion.
15.	Due Diligence process for acquisition of Phosphatic manufacturing facilities (DAP) in USA& Russia	Sept., 93	Oct., 95	300.00	After 1st stage clearance. Due to various imponderables, uncertainties, financial risks, condition of plants etc. as revealed by Due Diligence Process.

1	2	3	4	5	6
16.	Nitrophosphate Project	Oct., 93	Nov., 96	72.24	After PIB clearance & before CCEA approval, due to increase in NG price, non-availability of port for handling imported rock phosphate, high prevailing price of ammonia, increase in project capital cost & reduction of IRR of the Project.
17.	Takeover of Durgapur Unit of HFC	May, 95	After June, 96	Nil	On account of obsolete technology, high energy consumption, constraint in availability of spares at competitive price etc. the revamp of Durgapur unit was found unviable.
18.	200 MW Power Project at Jhunjhunu, Rajasthan	Oct., 95	July, 98	7.85+25 (as deposit with RSEB)*	After Pre-feasibility study. Due to non-allocation of naphtha and non-availability of LNG and surface water at Jhunjhunu.
19.	Rehabilitation of MC&FL	July, 96	May, 98	38.8	Non acceptance of rehabilitation package of BIFR/IDBI.

*Rs. 25 lakhs deposit with RSEB has been received back by KRIBHCO.

5.57 An analysis of the projects reveals that the Society took up 19 new projects for consideration between 1987-96 and out of these, 10 were fertiliser related, 5 were agro-based projects and the other 4 related to power generation, manufacture of argon, detergents as well as newsprint in U.P. after taking over of NEPA's newsprint unit. Project-wise analysis of some of the projects is given in succeeding paras.

Project-wise Analysis of Major Dropped Projects

5.58 The following major projects were dropped by KRIBHCO alongwith their year of commencement/dropping expenditure involved and reasons for dropping:

Sl. No.	Name of Project	Initiated (in year)	Dropped (in year)	Cost involved (excluding travel expenses in India) (Rs. in lakhs)	Reasons for Dropping
1.	Acquisition of DAP facilities in USA/Russia	Sept. '93	Oct. '95	300.00	After 1st stage clearance. Due to various imponderables, uncertainties, financial risks, condition of plants etc. as revealed by Due Diligence Process.
2.	Nitrophosphate Project	Oct. '93	Nov. '96	72.24	After PIB clearance & before CCEA approval, due to increase in NG price, non-availability of port for handling imported rock phosphate, high prevailing price of ammonia, increase in project capital cost & reduction of IRR of the project.
3.	Rehabilitation of (MC & FL)	July '96	May '98	38.8	Non acceptance of rehabilitation package by BIFR/IDBI.
4.	200 MW Power Project at Jhunjhunu, Rajasthan	Oct. '95	July '98	7.85+25 (as deposit with RSEB)	After Pre-feasibility study. Due to non-allocation of Naphtha and non-availability of LNG and surface water at Jhunjhunu.

(i) Acquisition of DAP Manufacturing Facilities in USA/Russia

5.59 The Committee during the course of examination of DoF wanted to know the details about the project of acquisition of DAP manufacturing facilities in USA/Russia undertaken by KRIBHCO, the DoF in a written note in (Dec. '98) informed:—

“Society’s Board in September '93 approved that Society may inspect the facilities in USA and open a dialogue with prospective sellers for purchase of a running DAP Plant in USA with or without captive mine. Due to complexity of issues like Technical, Environmental, Legal, Financial etc. M/s. Alutec Inc. were engaged for initial Preparatory work at a fee of US\$ 27,000. The payment of this fee was approved by Government of India.

Executive Committee of the Board of Directors of the Society in March '94 after review of the proposal for exploring the possibility of acquiring phosphatic manufacturing facilities abroad decided:

To initiate investigation for similar facilities in South Africa and Russia.

To carry out further detailed discussions with the prospective sellers for acquiring/participation in equity in their existing phosphatic fertiliser facilities.

- To engage the services of M/s. Alutec Inc. for Search & Screen Process at a fee of US\$ 65,000 to maintain the continuity of work.

The proposal for Search & Screen Process for payment of US\$ 65000 as fee to M/s. Alutec Inc., USA was approved by Government of India. The Plan for visit to South Africa was dropped as the investigation carried out by M/s. Alutec Inc. and the Society’s review of the same confirmed that the further follow up action with the fertiliser industry in South Africa was no longer necessary as the product types did not match with KRIBHCO’s requirements and further they had no plans of having joint venture/disinvestment in favour of a foreign company.

The Executive Committee of the Board of Directors of the Society in July '94 reviewed the proposal and decided:

To carry out Due Diligence Process of the Target companies M/s. Irgiz in Russia and M/s. Mulberry Phosphate in USA.

To engage M/s. Alutec Inc. USA to maintain continuity of work for a fixed lump-sum fee of US\$ 295,250 and reimbursable projects support service cost estimated at US\$ 137,850. Further to enter into expert consultancy services sub-contracts for Technical, Environmental, Legal and Financial aspects directly with selected companies and administered by Alutec Inc. for estimated amount of US\$ 593,820 for Due Diligence Process of Target Plants in Russia and USA.

The scope of work of M/s. Alutec Inc. was enhanced by adding the Due Diligence work for M/s. ACRON in Russia without any extra cost.

Government of India approved the proposal to carry out the Due Diligence Process (Preparation of Detailed Feasibility Report) to establish the possibility and viability of acquiring interests in a phosphatic manufacturing facility in USA/Russia at an estimated cost of Rs. 3.75 crore. Subsequently, the amount was enhanced to Rs. 3.94 crore including foreign exchange component of Rs. 3.70 crore.

Due Diligence Investigation of following Target Plants in USA and Russia based on Search and Process was carried out:—

Target Plants in USA

Mulberry Phosphate Inc. facilities consisting of Piney Point Plant, Mulberry Plant and Wingate Creek Mine.

Target Plants in Russia

ACRON, Novgord

Irgiz, Balakova

The Expert Sub-Consultants were engaged in consultation with the Management Consultant M/s. Alutec Inc. (Lead Consultant)

on the basis of their experience in the relevant field of mergers and acquisitions and resources of personnel associated with them for Due Diligence Process of Target Companies in Russia and USA for the following areas:

- Engineering, Technology and Environmental Study.
- 2. Economical, Financial and Accounting Services.
- 3. Legal Services

After a study, the reports were submitted by the Consultants.

A Committee comprising of officials from technical and finance along with expert from FEDO was constituted to examine the reports submitted by Management Consultant for Due Diligence Process for target plants in USA and Russia. The recommendation of Committee along with reports were subsequently reviewed by Committee of Senior Executives of the Society (COSE).

It was decided by the Board of Directors in October '95 not to go for any investment in Phosphatic Manufacturing Facilities in USA/Russia due to various imponderables, uncertainties, financial risks, condition of plants etc. as revealed by the Due Diligence Process and recommended by Committee of Senior Executive of the Society (COSE).

Total expenditure incurred on Consultant and foreign travel was about Rs. 3.0 crore."

5.60 On being pointed out by the Committee that the above reasons for dropping of projects could not have been pre-judged before conceiving the Project, the DOF in a written note informed:

"The proposal for acquisition of phosphatic fertiliser manufacturing facilities in USA/Russia was abandoned after receiving the draft report of the consultants which highlighted the fact that the plants which were proposed to be acquired, were based on obsolete technology and would not be economically viable even after renovation. The nitrophosphate project was dropped in view of the increase in the price of natural gas, increase in the project capital cost, non-availability of port for handling imported rock phosphate, high prevailing price of ammonia, and reduction in project profitability. Such changes/reasons which led to dropping of these projects could not have been known till certain studies and activities had been completed."

5.61 On being enquired further whether expenditure of Rs. 3.72 crore incurred for these two projects was not very high, and why there should not be accountability and responsibility for the lapses, the DoF in a written note stated:—

“A total expenditure of Rs. 3.72 crore was incurred on these proposals which may now appear to be infructuous in retrospect but it has to be conceded that expenditure of such nature on exploratory activities to select feasible project proposals to be taken up for implementation by corporate bodies cannot be avoided. This expenditure was against the total estimated expenditure of Rs. 9.75 crore approved by the Government at the time of according first stage clearance to these projects. The decision to drop the projects was not taken by any single officer and hence it may not be appropriate to hold any one officer responsible for conceiving or abandoning these projects.”

(ii) *Nitrophosphate Project at Hazira*

5.62 The Committee wanted to know the reasons for conceiving and subsequent dropping of the Nitrophosphate project involving an expenditure of Rs. 72.24 lakh. DoF in a written note stated:—

“KRIBHCO applied to Government of India in October, 1993 for 1st stage PIB clearance to set-up a Nitrophosphate Project of capacity 970 MTPD Nitrophosphate and 735 MTPD Calcium Ammonium Nitrate (CAN) with an estimated project cost of Rs. 440 crore. 1st stage clearance was considered by Committee of PIB on 26.05.94. DFR was submitted on 30th June, 1995 for setting up the project with revised estimated project cost of Rs. 601.78 crore and of capacity 1000 MTPD Nitrophosphate and 950 MTPD CAN. PIB meeting was held on 30.01.96 for 2nd stage clearance of the project with revised estimated cost of Rs. 637 crore.

The proposal to drop the Nitrophosphate Project at Hazira based on the report of the Committee consisting of Senior Executives was placed before the Board in its 127th Meeting held on 27th November, 1996. The Society has reviewed the proposal and having regard to the changed circumstances, availability of resources *vis-a-vis* various alternative avenues of investment presently under consideration by the Society and has come to the conclusion that it would be desirable that the Nitrophosphate project proposal may be dropped. The main factors which have been influenced arriving at this decision can be summarized as follows:

(i) Increase in price of Natural Gas (NG)

Taking into account the recommendations of the Committee appointed for comparative evaluation of the funds, the matter was further reviewed by the Management in the light of the latest information now available regarding escalation in the natural gas price effective from 1.1.1996 based on the recommendations of the Shankar Committee appointed by the Government of India for review of the Natural Gas Pricing Policy which ended in the year 1995. It is understood from the newspaper report that the said Committee has recommended 11.2% increase in the natural gas price immediately from 1.1.1996 to be followed up by 2.5% increase every year in the subsequent years.

Society has worked out the ammonia transfer price based on above information. Ammonia transfer price as on 1.4.2001 when the proposed project will become operational will be increased from Rs. 3360/- PMT to Rs. 3572/- PMT in the first year, Rs. 3646/- in the second year of operation and will increase to Rs. 4692/- PMT in the terminal year of operation (15th year).

(ii) Dedicated Port for handling imported rock phosphate

M/s. Gujarat Maritime Board have indicated that they cannot entertain the Society's request to modify the existing wharf at River Tapti and the Society will have to utilise the port facility that may be provided by Gujarat Maritime Board at any other port in Gujarat. Society's present proposal was based on handling rock phosphate at Hazira. In the case of rock is to be handed at alternate ports, the transportation cost will increase appreciably reducing the viability of the project further.

(iii) High prevailing price of ammonia

The landed cost of ammonia is around US\$ 225 PMT (Rs. 8100/- PMT) compared to the transfer price of Rs. 3572/- PMT at Hazira after increasing the price of Natural Gas. The sale price of Ammonia for bulk purchase from KRIBHCO is around Rs. 7000 to 7100/- PMT during November 1996 when Board has considered the proposal for supply.

(iv) Increase in Project Capital Cost

The project cost was increased from Rs. 637.87 crore to Rs. 694.72 crore on account of escalation of Software fee and increase in the cost of Hardware. The same was further increased to Rs. 701.28 crore on account of zero date to 1.4.1997.

(v) Revision in the IRR

Due to increase in the capital cost of Rs. 701.28 crore and the cost of production of NP to Rs. 7082 PMT and CAN of Rs. 2880 PMT and the transfer price of ammonia from Rs. 3360 PMT to Rs. 3572 PMT, the IRR was reduced from 14.39% to 13.09% and the pay back period was increased from 9.8 years to 10.79 years.

The total expenditure incurred on this Project including preparation of DPR is Rs. 72.24 lakh."

(iii) Rehabilitation of Magalore Chemicals & Fertilisers Ltd.

5.63 The Committee enquired about the reasons for dropping Rehabilitation of Mangalore Chemicals & Fertilisers involving an expenditure of Rs. 38.8 lakh. DOF in written note informed:

"Society had explored the possibility of taking over Mangalore Chemicals & Fertilisers Limited (MCFL) plant located at Mangalore in July '96 which was under BIFR for Rehabilitation of MCFL Plant.

Society had submitted the rehabilitation package to IDBI on March 14, 1997 based on approval of Board of Directors with stipulation that package is subject to clearance from Deptt. of Fertilisers, PIB, Central Registrar of Cooperative Societies etc. The package came for preliminary discussions on April 04, 1997 and certain guidelines were issued. A revised rehabilitation package was worked out after taking into account BIFR guidelines, refusal of Deptt. of Agriculture and Cooperative to give approval for loan by KRIBHCO to MCFL, refusal of Department of Fertilisers to give any special dispensation with respect to concessions sought from FICC, observations of BIFR Committee of Government of Karnataka during meeting held on May 20, 1997 and proposed sale cost of surplus land available with MCFL.

Revised rehabilitation package was submitted to IDBI/BIFR on September 04, 1997 with stipulation that package is subject to clearance from Department of Fertilisers, PIB, Central Registrar of Cooperative Societies, Government of Karnataka (GOK) etc. The revised rehabilitation package came up for hearing on November 24, 1997. It was informed that GOK has asked for two months time to submit their final view regarding concession sought by KRIBHCO. This time extension was granted by BIFR. The Bench further directed KRIBHCO to bring in their (Promoters) contributions only by way of equity/interest free unsecured loan for meeting the cost of scheme instead of 9.09% Preference Shares as envisaged in the rehabilitation proposal.

The revised Rehabilitation proposal was discussed by a high level committee of Government of Karnataka on January 21, 1998. Most of the concessions sought as per revised proposal namely waiver of Sales Tax and Subordinated loan, waiver of turnover tax, to grant upfront and annual subsidy were not agreed.

Before preparation of Rehabilitation package, it was not possible to assess the requirement of concessions and waivers to be sought from Government to make MCFL viable, therefore, the same cannot be envisaged earlier. It was also expected that the concessions, waivers sought shall be granted to make the proposal viable.

An amount of approx. Rs. 38.8 lakhs have been spent towards the consultants charges for study and preparation of Rehabilitation proposal of MCFL.

The matter was discussed by Board of Director's of KRIBHCO and it was noted that the Government of Karnataka has not agreed to most of the relief and concessions as proposed in the revised rehabilitation package submitted to IDBI. BIFR has also not agreed to KRIBHCO's proposal to invest in MCFL's 9.09% preference share as envisaged in the revised rehabilitation package and therefore the rehabilitation package was no longer viable. Accordingly, KRIBHCO had requested IDBI/BIFR to refund its bid deposit amount to Rs. 5 crore alongwith applicable interest. As directed by BIFR *vide* its proceedings dated 5.5.98, KRIBHCO has received its bid amount alongwith applicable interest from IDBI."

(iv) Power Project at Jhunjhunu

5.64 Asked about the reasons for conceiving and dropping of this project at Jhunjhunu involving a cost of Rs. 7.85 lakh, DOF in a written note informed:

“KRIBHCO initiated action in October, 1995 to explore the possibilities to diversify in the Power Sector. As KRIBHCO's existing operations were located in Gujarat, the matter was taken up with the concerned authorities in Gujarat and nearby Rajasthan. A more favourable response was received from Rajasthan State Electricity Board (RSEB), which offered a tariff rate of Rs. 2.10 per unit as on 1.11.1995, with variation in variable cost.

Discussions were accordingly held with RSEB, RIICO and Bureau of Industries Promotion to identify suitable locations. Pre-feasibility Report (PFR) including site selection was prepared by a consultant in October 1996. The Consultant recommended Jhunjhunu as the suitable site for the proposed project and indicated that there is no perennial surface water stream capable of supplying make-up water for the proposed location of the plant. The only source of water for continuous drawl is ground water tapped through deep borewells. The size and number of borewells actually required to be installed for meeting the water requirement would be determined after a detailed study of ground water potential at the proposed location at a later date. The viability of the project, however, could not be established at the tariff of Rs. 2.10 as on 1.11.1995 offered by RSEB.

In November, 1996 the PFR was updated for 200 MW Power Project based on fresh terms and conditions offered by RSEB, similar to the tariff/terms conditions already offered by them to M/s. RPG, for their 788.5 MW Power Project proposed to be set up at Dholpur in Rajasthan, which *inter-alia* provided for a 16% return on equity and the Project was found viable. For the proposal for setting up of a 200 MW Power Project at Jhunjhunu, Rajasthan at an estimated cost of Rs. 635 crore, the society approached Government of India for obtaining 1st Stage Clearance for preparation of Detailed Feasibility Report for the project. During consideration of the proposal for preparation of Detailed Feasibility Report, in March 1997, Department of

Fertilisers desired that Society may first obtain allocation of Naphtha from Government of Rajasthan. When this was taken up with the Government of Rajasthan, the Government of Rajasthan suggested that in absence of allocation of fuel (Naphtha), out of the state quota, KRIBHCO may consider alternate fuels other than Naphtha available under OGL and for which no allocation is required to be made by Ministry of Petroleum & Natural Gas.

As suggested by Government of Rajasthan, the Society got the pre-feasibility Report updated based on alternate fuels. As the levelised tariff and project cost was considerably higher in case of Power Plant based on alternate fuels like furnace oil etc., the Society in February, 1998 communicated the outcome of revised pre-feasibility study to Government of Rajasthan/RSEB and requested for allocation of Naphtha out of state quota under fall back arrangement or to accord 'in principle' approval for setting-up the project on alternate fuels where tariff and project cost is much higher than combined cycle plant based on Naphtha.

Government of Rajasthan informed that position about drop out would be known probably by the end of March, 1998 by which time IPPs have been asked to reach financial closure and in case they do not so, the question of reallocation of fuel in favour of KRIBHCO can be considered. However, the Government of Rajasthan could not make allocation of Naphtha for the project nor commit to recognize the cost of production of power based on alternate fuels by the indicated time. Since allocation of Naphtha for the project was a crucial factor for determining the viability and future of the project, and no progress was made on this front, the need for conducting a detailed study of ground water potential at the proposed location to meet the water requirements of the project, as suggested by the consultant, became secondary, and was not undertaken. The expenditure that the society would have had to incur on the detailed study if it was undertaken prior to Naphtha allocation for the project, was therefore avoided. The Society decided in July '98 not to further pursue this Project considering the following major factors:

In spite of regular follow-up, Government of Rajasthan/RSEB could not allocate Naphtha for the project. In the meantime new opportunities emerged due to possibility of LNG availability.

- Cost of generation of Power with LNG as Fuel is much cheaper than that of Naphtha. In view of this, it was decided to explore alternative site, which could ultimately be converted, to LNG base.

Plans to set up LNG terminals near seashores and supply through pipelines was subsequent development of India which was not known at the time when KRIBHCO initiated action to set up a Power Project at Jhunjhunu, Rajasthan."

5.65 The Committee pointed out that during the last 15 years *i.e.* since the year KRIBHCO launched its commercial production, it had not been able to implement any new project successfully. KRIBHCO conceived 19 projects during this period which were finally dropped after spending Rs. 462.25 lakhs. Asked whether decisions to conceive and drop the projects were taken at the Board level or at Government level, KRIBHCO in a written note informed:

"Efforts for growth and diversification activities comprise various in-house and/or specialized exploratory studies undertaken by experts. Decision to pursue activities are initiated by the Managing Director and presented to Board for decision wherever necessary".

5.66 Enquired whether any accountability has been fixed for these futile exercises, KRIBHCO in a written note informed:

"Society has made several attempts in order to explore investment opportunities in the field of fertilisers and by diversification in other areas. As can be seen, the reasons for dropping these projects were beyond the control of the Society. Therefore, accountability has not been fixed."

5.67 The Committee during the course of examination of DOF sought its comments on the dismal performance of KRIBHCO on conceiving and thereafter dropping of projects, the DOF in a written note informed:

"The track record of KRIBHCO in conceiving and subsequently abandoning/dropping projects was critically appraised by Department of Fertilisers from the point of view of expenditure incurred on them and the reasons for abandoning the proposals. Although it may be said in favour of KRIBHCO that many of the reasons which led to dropping of these projects, could not have been known till after certain studies had been concluded, the fact that KRIBHCO was not able to conceive any project and take it up to the implementation stage, indicated weakness in its corporate planning set-up."

5.68 The Committee also wanted to know from DOF whether Department has critically examined the performance of Government's nominees related to these projects on KRIBHCO's Board and whether the Government would like to fix the responsibility on some one for these futile exercises and take action against such people who proved failure, the DOF in a written note stated:

"The Government can nominate a total of 5 Directors on the Board of Directors of KRIBHCO which can have a maximum of 25 Directors including 3 functional Directions. As any decision taken by the Board of Directors of KRIBHCO has to be viewed as it collective decision, the role of Government nominees on the KRIBHCO Board in taking a decision on these projects need not be separately examined by DOF. The decision to take up or drop any of the projects was not taken by any single officer, and hence it would not be appropriate to hold any one person responsible for such decisions."

5.69 Regarding fixing responsibility for dropping of projects, the Secretary (fertilisers) informed during evidence:

"I look at the problem from this angle also that on accountability, in many of the cases decisions have been taken within a year or two. But here I must confess about this project of acquisition of DAP facilities in the USA and Russia. I do not find fault with the concept as such. The concept was well taken because of the need for diversification into DAP. We have acquired the unit from the USA because we get 60 per cent of our DAP from USA. It was a very good idea, but the Board did not pursue it. While I do not find anything wrong with the idea, I do find that the expenditure incurred on that is on the high side. It is Rs. 3.00 crore. While we have not questioned the concept, I must point out that there has been an audit objection on the amount that was spent on foreign tours etc. I have gone through the report and I think that we would have to initiate action on that."

5.70 He further added:—

“That is why, at the outset, I have said that this is a matter of anxiety and there has to be some accountability”.

5.71 The Committee express their concern that KRIBHCO could not succeed in finally executing any of the projects though in this process it spent about Rs. 462 lakh. The Committee are not convinced with the reply of the Society that it made several attempts in order to explore investment opportunities in the field of fertilisers by diversification in other areas. The Committee feel that the Society did not act seriously and everything was done on *ad-hoc* basis. The Society lacked expertise, talent and basic ability in planning and execution of the projects. DoF's version that many of the reasons which led to dropping of these projects could not have been known till certain studies had been concluded is very simplistic view. The Society spent Rs. 3.00 crore and took two years in analysing the Acquisition of Phosphatic manufacturing facilities by buying old plants from USA and Russia and later dropped it mainly for the reasons that condition of plants was not worthy of purchase. The Committee expect from the planners to visualise and analyse such things right in the beginning.

5.72 The Committee have noted that KRIBHCO made several attempts to diversify into DAP but could not succeed. However, the Society have not taken any initiative in this regard, *viz.*, manufacturing DAP since its plan to acquire Phosphate manufacturing facilities (DAP) failed to materialise. The Committee would emphasize that DAP is an important fertiliser and much in demand, therefore, KRIBHCO should formulate plan to manufacture DAP and not merely concentrate on urea.

(Recommendation SL. No. 20)

5.73. Similarly, in case of 200 MW Power Project at Jhunjhunu, the Committee feel that KRIBHCO owes explanation as how it proceeded with the project when the basic need of surface water was not available. KRIBHCO has advanced another reason for dropping the object which reads as under:—

“Cost of generation of Power with LNG as fuel is much cheaper than that of Naphtha. In view of this, it was decided to explore alternative site which could ultimately be converted to LNG base.”

5.74 The Committee feel that such explanation is untenable and an organisation does not have to spend 8 lakhs and waste three years to take such decision.

5.75 The Committee's examination has revealed that the role of Government nominees on the Board of Directors has been found lacking. The Committee do not agree with the view of DoF that any decision taken by the Board of Directors has to be viewed as its collective decision and the role of Government nominees on the KRIBHCO Board in taking a decision need not be separately examined by the DoF.

(Recommendation Sl. No. 21)

5.76 The Committee feel that the Government has statutory powers to give directions to the Cooperative Societies in the public interest and the role of the Government nominees is that of a watch dog. The Committee recommend that Government should clearly define the role of the Government nominees in such situations and lay down guide lines. In this case the Committee recommend that the Government should order an enquiry to fix accountability as to why none of the 19 projects could be executed so far.

(Recommendation Sl. No. 21)

5.77 The Committee observe that a good amount has been spent on foreign tours in Acquisition of DAP facilities USA/Russia and audit has also raised an objection on this count. Secretary, DoF has assured that that was a matter of anxiety and there had to be some accountability. The Committee urge the Government to fix the responsibility accordingly and inform the Committee.

(Recommendation Sl. No. 22)

5.78 The Committee also recommend to the Government to explore the avenue of holding inquiry into the role of concerned Directors of KRIBHCO on some selected projects namely, Acquisition of DAP facilities in USA/Russia, Nitrophosphate Project, Rehabilitation of MC&F and 200 MW Power Project at Jhunjhunu (Rajasthan).

(Recommendation Sl. No. 23)

5.79 The Committee also recommend that KRIBHCO should engage the services of reputed Management Consultants for planning and analysing the projects and should not depend entirely on in-house facilities.

(Recommendation Sl. No. 24)

CHAPTER VI

MARKETING

6.1 KRIBHCO is marketing its product *i.e.* urea in all major States of the country. Presently, these States are Uttar Pradesh, Punjab, Haryana, Himachal Pradesh, Delhi, Gujarat, Madhya Pradesh, Rajasthan, Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Bihar. Being in Cooperative Sector and as provided in its Bye-laws, the Society is marketing its product mainly through Cooperative Channel *i.e.* State Cooperative Marketing Federations as per ECA given by the Government in each session. However, in some of the States where Cooperative system is weak, the Society is marketing its product through Agro-Industries Corporation and other Agricultural Commodity Boards and Institutions. In some of the States urea is also supplied directly to the Primary Agriculture Cooperative Societies. Apart from this, the Society has also its own retail outlets *i.e.* Krishak Bharati Sewa Kendra (KBSK) in the State of U.P., Punjab, Haryana and Karnataka. There are 64 KBSKs. These Sewa Kendras also provide other agro inputs such as seeds, pesticides, agricultural implements etc.

6.2 With the changing economic scenario and era of decontrol, Government is contemplating to stop subsidy in the next five to seven years. Secondly, under the WTO agreement there is possibility that import of fertiliser may affect the indigenous industry. Asked in this context whether KRIBHCO has drawn any strategic and long-term plan to meet with this situation, it replied in a written note as under:—

“The imported urea is unlikely to pose any threat to KRIBHCO due to its low cost of production. However, KRIBHCO may expand its marketing territory to include remote and deficient areas, if need arises. Further, KRIBHCO has also appointed one consultant for developing marketing strategy under the scenario partial decontrol scenario, and explore export avenue”.

6.3 However, Secretary DoF cautioned KRIBHCO about its marketing strategy when he shared his views before the Committee during evidence:—

“...But KRIBHCO’s philosophy is that it shall market its products only through the Cooperative net work... It is a Cooperative Society and it has a philosophy relating to the Cooperative Society. I cannot take exception to that. But today when there is a need to market more and more of urea, its philosophy may come in the way of achieving optimum results because then the success or failure of KRIBHCO gets totally dependent on the degree of success of the Cooperative movement in the concerned State. Today, KRIBHCO does not have much of its presence in the eastern and southern regions. In the eastern region you do not have a strong movement. I would also say the same thing about the southern regions. Though the incentive is less, it is much more successful as compared to the East. All the time, in various fora, suggestions are being made that KRIBHCO and IFFCO both should expand their net work in the Eastern and Southern region.....”

6.4 A representative of the DoF informed the Committee further:

“After seeing the kind of glut which our Secretary has mentioned about urea, we have asked all the public sector undertakings and the cooperative societies to draw up the market strategies and also keep in mind the decontrol which may be in the offing five to seven years hence. We have also asked them to get themselves prepared and prepare a market strategy and get it approved by the Board. When it came on the Board of Directors, this was extensively discussed, I must inform the Hon’ble Members here that at that time we had drawn the pointed attention of KRIBHCO to one aspect. That is, if they wanted to remain wedded to the cooperative philosophy, we have no objection, but this should not become an impediment tomorrow when it comes to marketing of their product. If at any stage you find that this is something becoming a handicap, you should feel free to say that you will market through cooperative channel or even through the private sector. Today, both IFFCO and KRIBHCO are saying that they will like to pursue and strengthen the cooperative area and with this intention they have undertaken the development of the cooperative societies. They are supposed

to be having membership but not developing societies. But both have ventured into this area and it is part of their marketing strategy to develop the societies which are aligned to KRIBHCO and IFFCO directly and which take their product. But the problem is coming not so much from these societies but from the State Marketing Federations. The State Marketing Federations, though they are members of KRIBHCO and IFFCO, they do not buy only through these societies. They are floating tenders and inviting open tenders."

6.5 Elaborating this further, DoF in a written note submitted:—

"In this situation of Cooperative buying, there have been instances when KRIBHCO and IFFCO lost out to its competitors who were willing to offer more competitive prices for a variety of reasons. This has happened despite the fact that State Federations are represented on the Boards of both KRIBHCO and IFFCO...The purchases from the private sector and fertiliser PSUs thus inhibits the potential of marketing of fertilisers by KRIBHCO and IFFCO in the States which are not currently willing to market through other channels".

6.6 In this context KRIBHCO submitted in a written note under:—

"By and large there have not been major problems from State Marketing Federations for KRIBHCO in marketing its product but State Federations at times raise objections for our going through private trade on the pretext that it affects their sales. However, since as per our objectives we are selling our product mainly through State Marketing Federations whereas Federations also purchase material from other manufacturers besides KRIBHCO to meet out their requirements against better sales terms offered by others. We have to overcome such situations by matching terms.

It is suggested that Federations should also be bound to purchase their requirements firstly from Cooperatives and in case of any shortfall only, they may be allowed to purchase material from other manufacturers. The Cooperative system as a whole can be strengthened by increasing their cash credit limits for disbursing more credit to their members for which 'B' component should be kept minimum at 50%."

6.7 The Committee share the anxiety of the Department of Fertilisers that KRIBHCO has to evolve market strategy to meet with the situation arising out of liberalized economy and decontrolled era. KRIBHCO appears to be wedded to its philosophy which begins with the Cooperative Society and ends with it. The Committee agree with the views of DoF that there is a need to market more and more of urea. Today, KRIBHCO does not have its presence in the eastern and southern regions. The Committee hope that KRIBHCO will make concerted efforts and expand its marketing network in such regions where its presence is either nil or negligible.

(Recommendation Sl. No. 25)

6.8 The Committee note with concern that State Marketing Federations are not fully cooperating with KRIBHCO. This is perhaps the result of market forces where market is determined by purely traders' interest. KRIBHCO has to prepare itself to face this eventuality in the time to come. The Committee are satisfied that KRIBHCO has engaged a marketing consultancy to advise it on marketing policy. The Committee recommend that KRIBHCO should engage marketing consultancy on regular basis whose assignment should be to prepare short term, mid-term and long-term marketing strategies foreseeing all marketing conditions and advise KRIBHCO objectively. KRIBHCO's objective should be to remain fully prepared to market its products in private sector also, if need be.

(Recommendation Sl. No. 26)

6.9 There is urgent need to strengthen State Marketing Federations also. They should be bound to purchase their requirements firstly from Cooperatives only. As already recommended elsewhere in the Report, the Committee recommend that Cooperative system should be strengthened by increasing their cash credit limits for disbursing more credit to their members for which 'B' component should be kept at a minimum of 50%. There is need to develop a viable rural cooperative credit system. The Committee urge DoF to take the lead in this regard and liaise with other Government Departments and agencies to get the objective fulfilled.

(Recommendation Sl. No. 27)

6.10 The Committee recommend that KRIBHCO should develop alternative channels for marketing through institutional wholesalers though initially a fair percentage of its product may be earmarked for doing so. This may help KRIBHCO to pressurise the State Marketing Federations to stick to their original philosophy of buying from Cooperative Societies.

(Recommendation Sl. No. 28)

6.11 The Committee also recommend that KRIBHCO should develop its own infrastructure like that of constructing warehouses so that fertiliser can be stored there at the right time in right quantity and made available to the Cooperatives. These warehouses can be rented out to other State agencies, when not required for its own use, and thus they can generate income to meet its maintenance cost and later recover capital cost also.

(Recommendation Sl. No. 29)

CHAPTER VII

PROMOTIONAL AND EDUCATIONAL ACTIVITIES

7.1 KRIBHCO undertakes agricultural promotion and rural development by way of various programmes for technology transfer, balance, use of fertilisers and strengthening the Cooperative System. KRIBHCO undertakes these activities in all major States where it has its marketing network. Presently, these States are U.P., Punjab, Haryana, H.P., Delhi, Gujarat, M.P., Rajasthan, Maharashtra, A.P., Karnataka, Tamil Nadu and Bihar. Besides KRIBHCO has been imparting other agro-inputs through its own retail outlets called *Krishak Bharati Sewa Kendra* (KBSK's).

(a) Promotional Activities and Fund Utilised

7.2 KRIBHCO has given the following details of programme undertaken by it during 1997-98, 1998-99 and estimated figures for 1999-2000:

Sl. No.	Main Activities	1997-98		1998-99		1999-2000 (Prov.)	
		Target	Achievement	Target	Achievement	Target	Achievement
	Soil Sample	54500	21466	30000	20021	40000	25162
2.	Crop Seminar	85	72	64	72	106	92
	Farmers' Meeting	482	448	328	270	393	350
4.	Field day	454	328	328	232	390	289
5.	Tree Plantation Campaign	14	12	164	132	430	313
	Human Health Checks	186	124	164	148	95	67
	Fertiliser Debate	12	6	12		12	
8.	Group Discussion	333	293	304	309	323	285
9.	Utilisation of budget (Rs. in lakhs)	150	113	213	168	200	151

7.3 During the course of examination the Committee pointed out KRIBHCO has been lagging behind in achievement of targets in almost all activities and utilisation in all the three years. In this connection the Committee wanted to know whether DoF also monitors the achievement of Target and utilisation of amount allocated by KRIBHCO, the DoF in written note informed:

“The targets fixed for various promotional activities have not been met fully, though there has been significant increase in the utilisation of Budget over the years except during 1999-2000 as could be seen from the following table:

Year	Budget (Rs. in lakh)	Expenditure (Rs. in lakh)
1997-98	150	113
1998-99	213	168
1999-2000	200	151

It may be mentioned that the Budget is kept at a higher side to build a pressure on the field staff. However, the programmes thus conducted have been done based on the need in particular areas. Besides above, the Society has spent an amount of Rs. 50 lakh during 1999-2000 on various welfare activities in the wake of the super cyclone in Orissa.”

7.4 The Committee find that KRIBHCO has been undertaking number of promotional and educational programmes such as soil sample, crop seminars, farmers’ meetings, etc. for transfer of technology and balanced use of fertilisers in States where KRIBHCO has its marketing network through its Krishak Bharati Sewa Kendras. The Committee during the course of examination, however, have found that the promotional activities undertaken during the last three years are far below their targets. Simultaneously, the funds allocated for these activities have not been fully utilised by KRIBHCO. For instance, on soil sample collection as against the targets of 54500 during 1997-98 the achievement was only 21466. For 1998-99 as against the target of 30000, the achievement was only 20021. For 1999-2000 as against the target of 40000 the achievement was only 25162. Similarly on Crop Seminar as against the targets of 85 and 106 during the years 1997-98 and 1999-2000, the achievement was far low at 72 and 92.

7.5 About utilisation of funds the Committee find the situation is no better. As against the targets of KRIBHCO of Rs. 150 lakh, Rs. 213 lakh and Rs. 200 lakh during 1997-98, 1998-99 and 1999-2000 the achievement was only Rs. 113 lakh, Rs. 168 lakh and Rs. 157 lakh respectively. The DoF has admitted before the Committee that targets fixed for various promotional activities have not been met though there has been significant increases in the utilisation of budgets over the years. In view of the foregoing the Committee feel that KRIBHCO's performance on achievement of targets and utilisation of amounts earmarked for promotional and educational activities does not speak well about KRIBHCO's work done for promotion of fertilisers during the last three years. The Committee hope KRIBHCO would make all out efforts in years to come for improving its performance, even above the targets fixed for different activities.

(Recommendation Sl. No. 30)

(b) Bio-Fertilisers

7.6 KRIBHCO has informed that in order to provide eco-friendly and cost-effective fertilisers, KRIBHCO established a Bio-fertiliser Plant at Hazira with an installed capacity of 100 MT per year in 1995 and enhanced it to 250 MT in 1998. Besides KRIBHCO has also initiated implementation of two Plants 300 MTPA each at Lanja (Maharashtra) and Varanasi (U.P.) and planned four more Plants.

The following table gives the production and sales of bio-fertilisers during the last three years:

Year	In MT	
	Production	Sales
1997-98	168.00	
1998-99	250.01	
1999-2000	316.00	290

7.7 During the course of examination of Committee pointed out that sales of bio-fertilisers was much less than production and enquired the reasons for less sales as compared to production during 1997-98 and 1998-99 the KRIBHCO in a written note informed:

“The sales against production is less as bio-fertiliser is produced continuously whereas sales season of the product is related with sowing seasons *i.e.* two months each in Kharif & Rabi. Hence the material produced between January — March is carried over to the next financial year.”

7.8 The Committee also wanted to know the present status of the two plants being located at Lanja (Maharashtra) and Varanasi (U.P.), KRIBHCO in a written note stated as under:

Location-wise progress is given below:

Lanja (Maharashtra) — The process of land acquisition from Maharashtra Government is in progress. Tenders for civil works and supply of Plant and machinery were issued in May 2000. Bids for civil works were opened on 6th June 2000 and are under review. The bids for plants and machinery would be opened on 25th July, 2000.

Varanasi (Uttar Pradesh) — Land for this plant has been made available to KRIBHCO by U.P. Government at the nominal lease of Re. 1 per year for 30 years. Tenders for civil works and supply of Plant and machinery were issued in May 2000. Bids for civil works are to be opened on 11th July, 2000 and bids for plant and machinery would be opened on 25th July 2000.

Both the plants are likely to be commissioned by the end of this financial year.”

7.9 During the course of examination of DoF, the Committee wanted to know whether the Government has as a matter of policy decided to promote use of bio-fertilisers extensively and what role DoF has in this regard and whether schemes have been initiated the DoF in a written note informed:

“Government in the Department of Agriculture & Cooperation is promoting the use of bio-fertilisers by implementing a central sector scheme entitled ‘National Project on Development & Use of Bio-Fertiliser’. Department of Fertilisers is encouraging Indian fertiliser sector units for manufacturing bio-fertilisers in view of its importance in supplementing the requirement of chemical fertilisers.

In addition to bio-fertiliser project funded by Department of Agriculture & Cooperation under the Central Sector Scheme, fertiliser companies have been assisted by Department of Fertilisers from its own budget for setting up bio-fertiliser manufacturing unit. The Department of Fertiliser has so far assisted the following fertiliser units:

Sl. No.	Name of PSU/Coop.	Location of Units	Capacity (TPA)
		Manali, Tamil Nadu	100
2.	MFL	Vijayawada, Andhra Pradesh	150
3.		Bangalore, Karnataka	150
4.	NFL	Indore, Madhya Pradesh	100
		Amjhore, Bihar	75
6.	KRIBHCO	Hazira, Gujarat	100
7	IFFCO	Phulpur, Uttar Pradesh	75
8.	RCF	Trombay, Maharashtra	150
9.		Durgapur, West Bengal	75
10.		Barauni, Bihar	75
11.		Sindri, Bihar	75
12.		Namrup, Assam	75
13.	HFC	Gwalior, Madhya Pradesh	75
14.		Bhopal, Madhya Pradesh	75
15.		Cuttack, Orissa	150
16.		Siliguri, West Bengal	150
17.	FACT	Udyogamandal, Kerala	150

7.10 On being further asked whether DoF has undertaken a study to determine the projected demand of bio-fertiliser in the next ten years and its availability, the DoF in a written note stated:

“The Department of Agriculture & Cooperation is the nodal agency for carrying out studies to determine the projected demand of bio-fertilisers in the country.”

7.11 The Committee further wanted to know whether DoF and Ministry of Agriculture have institutional interaction to study, develop, promote bio-fertiliser use and resolve other related issues, the DoF in a written note stated:

“Meetings have been held between Department of Fertilisers and Department of Agriculture & Cooperation to promote use of bio-fertilisers and field extension activities, keeping especially in mind the initiative to be taken by the fertiliser companies in this regard. The bio-fertiliser project proposals submitted in the Ministry of Agriculture are considered by an Inter-Departmental Committee where a representative of Department of Fertiliser is also a member.”

7.12 On being asked whether the Government proposes to help bio-fertiliser units financially to produce more and also educate farmers, the DoF in a written note stated:

“Under the Central sector scheme, a grant-in-aid of Rs. 20 lakh is being given to agro industries, cooperatives, fertiliser manufacturers and NGOs for strengthening/setting up bio-fertiliser production units of 150 TPA capacity. Since inception, 81 bio-fertiliser production units have been established with central assistance. The farmers, extension workers and dealers are being educated for awareness and use of bio-fertiliser by organising field demonstration, farmers’ fairs and training.”

7.13 The Committee find that in order to provide eco-friendly and cost effective fertilisers, KRIBHCO has at present an installed capacity of 250 MT per annum for production of bio-fertilisers. The Committee have been informed that KRIBHCO has started implementation of two more bio-fertiliser plants of 300 MTPA each at Lanja in Maharashtra and Varanasi in U.P. Besides, KRIBHCO has planned four more plants, one each is to be set up at Punjab

and Madhya Pradesh. The Committee have been informed that locations of remaining two plants are yet to be decided. As regards commissioning of two bio-fertiliser plants under implementation at Lanja (Maharashtra) and Varanasi (U.P.), the Committee have been informed that by the end of this financial year these will be commissioned. The Committee are glad to know that KRIBHCO has been doing a good work in this area. The Committee hope that KRIBHCO would soon commence implementation of the two bio-fertiliser plants, one each at Punjab and Madhya Pradesh. The Committee also hope that KRIBHCO would be able to locate sites for remaining two bio-fertiliser plants.

(Recommendation Sl. No. 31)

7.14 As regards policy implementation part for promotion of bio-fertilisers, the Committee find that the Department of Agriculture & Cooperation and DOF play a vital role in this regard. While the Department of Agriculture & Cooperation implements a Central sector scheme entitled 'National Project on Development & Use of Bio-fertilisers', DOF on the other hand encourages Indian fertiliser manufacturers for manufacturing of bio-fertilisers. Besides, fertiliser PSUs/Cooperatives have been assisted by DOF from DOF's own budget for manufacturing of bio-fertilisers. These PSUs/Cooperatives are MFL, NFL, RCF, HFC, FACT and cooperatives namely IFFCO and KRIBHCO. The Committee have been informed that assessment of demand of bio-fertilisers has been the responsibility of the Department of Agriculture & Cooperation. The Committee have been informed that based on initiatives taken by fertiliser units/cooperatives, the Department of Agriculture & Cooperation discusses with DOF, proposals for setting up of bio-fertiliser plants at Inter-Departmental Committee wherein representative of DOF is a Member. Since the KRIBHCO had already planned four bio-fertiliser projects, the Committee, therefore, recommend DOF to take up the issue with the Department of Agriculture & Cooperation in Inter Departmental Committee for early action in this regard.

(Recommendation Sl. No. 32)

CHAPTER VIII

PRODUCTION AND FINANCIAL PERFORMANCE

(a) Production Performance

8.1 As against the total production of Nitrogen of 111.60 lakh tonnes in the country during 1999-2000 the share of cooperatives is 26.14 lakh tonnes. Out of 26.14 lakh tonnes of cooperatives, KRIBHCO's production is around 7.16 lakh tonnes. The following Table shows the installed capacity of KRIBHCO's plant *vis-a-vis* actual production during last three years.

(In lakh tonnes)

Year	Licensed Installed Capacity	KRIBHCO's production (N)
1997-98	6.68	8.15
1998-99	6.68	6.98
1999-2000	6.68	7.16

8.2 During the course of examination the Committee pointed out that production of KRIBHCO has been declining year after year. On being pointed out that production of KRIBHCO of 8.15 lakh tonnes during 1997-98 has fallen to 6.98 lakh tonnes during 1998-99, KRIBHCO attributed three reasons for this decline. These include the accident occurred in May '98 in one of the units of the plant leading to shut down for thirty days. Unprecedented floods in September '98 and restriction of supply of gas by GAIL from 3.0 MM SM³ per day to 1.97 MM SM³ per day from 21.2.99. On being asked whether the above difficulties have been overcome by KRIBHCO in a written note informed:

"The difficulties as mentioned have been overcome."

8.3 On being further asked whether KRIBHCO has taken up the matters of restriction of gas to DOF, the KRIBHCO in a written note informed:

“Department of Fertilisers is being regularly kept informed about the gas restriction/problems. It may be noted that the gas restriction from 21.02.1999 was a planned shutdown for hooking up of Booster Compressor platforms of ONGCL. This restriction of gas was affecting the fertiliser industry on the gas pipeline. It is understood that Ministry takes-up such matters in the Gas Linkage Committee (GLC) meetings.”

8.4 During the course of examination of the Department of Fertilisers, the Committee drew the attention of DOF about the gradual decline in KRIBHCO’s production from 8.15 lakh tonne in 1997-98 to 7.16 lakh tonnes in 1999-2000 and enquired about and corrective action taken or proposed to improve upon the situation. DOF in a written note informed:

“It is true that there was a decline in production of nitrogenous fertilisers at KRIBHCO — Hazira in 1998-99 and 1999-2000 as compared to 1997-98. In 1998-99 there was a fire accident in the Ammonia II plant, leading to shutdown of the plant for about a month. Production was also affected due to flood in September 1998, leading to loss of production for about 17 days. Production improved slightly in 1999-2000. However, it was still less than that in 1997-98 in which the best production achieved. The shortfall in production in 1999-2000 was due to equipment problems and problems faced in the supply of gas. In the Quarterly Review Meeting, KRIBHCO Management has been advised to maintain their plant and machinery by regular renewals and replacements. As the plant is aging, KRIBHCO has undertaken an end to end survey to study the health of the plant. Necessary corrective action in plant and machinery will be taken based on this study. The problem faced by KRIBHCO, alongwith other gas based fertiliser plants on account of shortfall in supply gas, is taken up with Ministry of Petroleum & Natural Gas for necessary action.”

8.5 The Committee are constrained to note that production performance of KRIBHCO during the last three years has been declining steadily. For instance as against the production of 8.15 lakh tonnes during 1997-98 the production of KRIBHCO during

subsequent year 1998-99 fell to 6.98 lakh tonnes. Three reasons, occurrence of fire accident and unprecedented floods in May and September '98 and restriction in supply of gas have been attributed as reasons for less production by KRIBHCO. The Committee have been informed that difficulties have since been overcome. As regards production during 1999-2000 the Committee have been informed by DOF that shortfall in production has been due to equipment problems and problems faced in supply of gas. They have informed that since plant is aging, KRIBHCO has been asked to study the health of the plant. Necessary steps for gas supply are being taken up with Ministry of Petroleum & Natural Gas. The Committee hope that KRIBHCO will complete the study at the earliest so that necessary corrective steps are taken up for stepping up production. The Committee also hope that DOF would take necessary steps for augmenting gas supply to KRIBHCO in the meeting of Gas Linkages Committee and apprise the Committee of the outcome/decision taken.

(Recommendation Sl. No. 33)

(b) Financial Performance

8.6 The financial performance in of KRIBHCO during the last three years has been as under:

(Rs. in crore)	
Year	Profit
1997-98	299.61
1998-99	261.13
1999-2000	55.85

8.7 Asked whether the DOF was satisfied with the financial performance of KRIBHCO and analysed the reasons for decline in profits, the DOF in a written note stated:

"It is seen that during the year 1997-98 the Society could achieve the highest ever production of 10.8 lakh metric tonnes of ammonia and 17.72 lakh metric tonnes of urea because of the following reasons:

- (i) The plant could be on stream for 346 days during the year and there was no shut down on account of usual annual Turn Around (ATR).

- (ii) Natural Gas supply to the plant of the Society was not only higher than the average flow but was also found to be superior in quality which resulted in much higher production.
- (iii) The ambient condition during November, 1997 to February, 1998 were extremely favourable.

On the other hand, during the year 1998-99, loss of production was reported due to shut down of two urea streams because of the fire in ammonia unit, unprecedented floods in Surat and Hazira and also the gas supply restrictions due to ONGC shut down. These factors resulted in loss of production as well as decline in profitability of the Society. The financial performance of the Society was otherwise quite satisfactory."

8.8 The Committee find the financial performance of KRIBHCO has gone down during the last three years. For instance of profits of KRIBHCO of Rs. 299.61 crore during 1997-98 declined to Rs. 261.13 crore in 1998-99. The actual profits of KRIBHCO for 1999-2000 have been a mere Rs. 55.85 crore which are the lowest during the three years. DOF has informed the Committee that due to fire accident and unprecedented floods in May and September '98, leading to production cuts profits of KRIBHCO suffered. DOF has also informed the Committee that financial performance is otherwise quite satisfactory. After seeing the working results of KRIBHCO for the year 1999-2000 the Committee do not agree with DOF that financial performance was quite satisfactory. The Committee, therefore, recommend that KRIBHCO/DOF should take corrective steps so that the downward trend in profitability is arrested at the earliest.

(Recommendation Sl. No. 34)

NEW DELHI;
15 November, 2000
24 Kartika, 1922 (Saka)

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on
Petroleum & Chemicals.

APPENDIX I

STATEMENT OF RECOMMENDATIONS/ OBSERVATIONS OF THE COMMITTEE

Sl. No.	Ref. to Para No. in the Report	Observations/Recommendations
1	2	3
	1.12	The Committee observe that objectives laid down in the bye-laws of the Society are wide-ranging nature varying from production of soaps and detergents to electronic products, satellite receivers, oil exploration, etc. etc. In the Committee's view, some of these objectives are non-synergic in character. Although KRIBHCO did try to achieve some of these, yet efforts were non-serious and half hearted. The Committee feel that no useful purpose can be served in retaining all these objectives in the bye-laws and recommend that KRIBHCO should review all these and retain only those which are in consonance with changing times and within its corporate vision for the next twenty years or so. The Committee hope that KRIBHCO would undertake a serious study in this regard and screen all the existing objectives and retain only those, the achievement of which shall enhance its professionalism and credibility.
	2.9	The Committee note that as against authorised share capital of Rs. 500 crore of KRIBHCO, the paid-up capital was Rs. 484.25 crore as on 31st March, 2000. The Committee also note that majority of shares in KRIBHCO are being held by the Government. Out of Rs. 484.25 crore paid-up capital as much as Rs. 328 crore are

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held by Government. The Standing Committee on Petroleum & Chemicals (1994-95), 10th Lok Sabha had also examined the matter and in their 13th Report on IFFCO and KRIBHCO, presented to the Parliament on March, 1995, had recommended that the Government should transfer more share capital to cooperatives in a phased manner for making IFFCO and KRIBHCO real cooperatives in character. However, during the course of examination the Committee found that the desired transfer of equity in KRIBHCO has not taken place. During the last six years the Committee found that share of Government has come down from 71.94% to 67.73% whereas share of cooperatives has marginally increased from 6.74% to 12.23%. The Committee have been informed that since the cooperatives are not financially strong, these are not able to enrol themselves as Members. The Committee have also been informed that still there was a scope for small cooperatives to participate in equity of KRIBHCO since there was a gap of Rs. 15.75 crore between authorised share capital and paid-up share capital of KRIBHCO.

2.**2.10**

The Committee have been informed that in order to encourage small societies to become members of KRIBHCO, Government have allowed KRIBHCO to reduce the face value of its share from Rs. 20,000 to Rs. 10,000 per share and also to convert 500 shares of face value of Rs. 1 lakh per share into 5000 shares of face value of Rs. 10,000 per share. The Committee have also been informed that direct transfer of share from Government to Cooperatives is not allowed under Multi-State Cooperatives Act, 1984. The Committee would like to emphasise

that the thrust of their recommendation is to impart real Cooperative character to KRIBHCO and it can be done if Government's equity is regularly decreased with corresponding increase in the equity held by Cooperative Societies. Government should devise the ways and means to achieve this objective, whether through amendment to MSCS, Act, 1984 or amending the Bye-laws. However, as an immediate measure, KRIBHCO should initiate action such as special drive to increase its memberships substantially so that the remaining equity of Rs. 15.75 crore is contributed by Cooperative Societies within a targeted period say of two years. Government should extend all necessary help expeditiously in this regard. The DoF should act as a Nodal agency and liaise with various agencies and get suitable guidelines issued to banks/district cooperative credit banks to give loans to farmers for acquiring membership of the Society.

3. 2.11 The Committee note that on 31.3.1995, the total membership of the Society was 3594 and after 5 years *i.e.* on 31.3.2000, the membership, has gone up to 5038. Out of this, 4 States, *viz.* Gujarat, Madhya Pradesh, Punjab and Rajasthan have 3641 memberships. There is ample scope to increase membership in other States, especially in the East and North-East. As of now only 16 States have their representation in KRIBHCO which does not project all India character of the Society. The Committee, therefore, recommend that KRIBHCO should undertake special drive of enrolment of Members during the next two years and set a target to double the present strength.
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2.12	The Committee welcome the decision of KRIBHCO to convert its 500 shares of Rs. 1 lakh face value into 5000 number of shares of Rs. 10,000 denomination and hope that the decision will be executed sincerely. The Committee urge the Government to assist KRIBHCO in all aspects to implement and execute the decision.
3.4	The Committee find that the issue of converting the Cooperative to company has been in focus since March, 1995 when this Committee examined the matter in their 13th Report and had recommended that cooperative status of IFFCO/KRIBHCO should not be diluted since their production performance has been consistently very good.
3.5	During the course of examination the Committee found that the issue of converting the cooperatives to companies has again gathered momentum. In this context, it came out that the issue involves amendments in two Acts governing cooperatives as also companies, <i>i.e.</i> Multi-State Cooperatives Societies Act, 1984 and Companies Act, 1956 respectively. The Committee have been informed that the task of amending Multi-State Cooperatives Societies Act, 1984 in the light of Brahm Prakash Committee recommendations has been entrusted to the Department of Agriculture & Cooperation whereas the task of amending the Companies Act, 1956 has been entrusted to the Department of Company Affairs under the Ministry of Law.
5.	3.6
	The object of amendment in the Multi-State Cooperative Societies Act, 1984 was to reduce Government control over cooperative societies

whereas amendment to Companies Act, 1956 according to DoF was necessitated for enabling the cooperative to reorient itself and adapt to the changing competitive scenario. The Committee are broadly in agreement with the objectives set forth by both the Committees, viz. Dr. Y.K. Alagh Committee and Brahm Prakash Committee. The Committee recommend that the Cooperatives should retain its intrinsic character of one vote per member irrespective of the number of shares and should be allowed to sell its shares only to Members and there should be a cap on the dividend. The Committee recommend that MSCS, Act should be so amended which would enable the Cooperatives to gain the advantages of Corporation even while retaining Cooperatives values and strengthening them to face the onslaught of multi-national Corporations.

6. 3.7 The Committee feel that some of the Cooperative Societies in the country are mere extensions of Government Departments and are bureaucratically managed. The Committee, therefore, urge the Government to reduce Government controls to the minimum. The Cooperatives should be given more functional and financial autonomy. To achieve this MSCS, Act should be so amended which would remove restrictive regulatory provisions in various Central and State Cooperative laws.
- 4.4 The Committee note that as per Bye-laws of the Society, the Government nominates five Directors on the Board which as per the present strength of the Board constitutes a little more than 25%. The Committee view KRIBHCO as any other PSU of the Government of India and
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this position has been repeatedly mentioned in the Thirteenth Report presented in April, 1995. Department of Public Enterprises which lays down policy guidelines with regard to Corporate functioning of all PSUs vide its O.M. No. 18(6)-91-GM dated 16th March, 1992 has observed as under:—

“The question of representation of Government Directors on the Boards of PSEs was examined by the Arjun Sengupta Committee and following its recommendations, the Bureau of Public Enterprises has issued guidelines in 1986 that the Administrative Ministry concerned should not have more than one nominee Director on the Board of a PSE.....

Government Directors:

(i) The number of the Government Directors on the Boards of Directors of an enterprise should not exceed one-sixth of the actual strength of the Board.

7.

4.5

The Committee would like DoF to analyse its position on the Board of KRIBHCO in the light of the above guideline and review its position.

8.

4.6

Secondly, the Committee do not agree with the position taken by DoF that absence of two Directors is in no way hampering the functioning of the Society. Perhaps this is too simplistic an analysis of the position. The fact that 19 Directors are in position as against 25 indicates that the Board is not fully functional irrespective of the fact that 3 nominees of financial institutions are not required to be on

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Board as KRIBHCO has no loan liability. In the Committee's view the Bye-laws of the Society should have been amended to reduce the total strength of the Board and/or these positions could have been given to other institutions/agencies reputed in management or agriculture or cooperative fields. The incumbency of expert co-opted Director only once since inception of KRIBHCO suggests the very negation of the purpose for which this provision was made. Surprisingly, DoF did not take a note of this position as, apparently, it has not acted in any manner. The Committee wished KRIBHCO and DoF had acted in a professional manner and not allowed the vacancies to remain unfilled. The Committee recommend that a review of Bye-laws on this count be undertaken to make them pragmatic and guiding. The Committee direct that no position on the Board should be allowed to remain vacant for more than 3 months and to achieve this objective, if the Bye-laws need amendment, this should be done.

9.

4.10

The Committee are happy to note that there are no apparent instances where KRIBHCO's autonomy has been eroded. Certainly the Society should not be allowed to become an extension of the Government. KRIBHCO has stated that it enjoys autonomy within the provisions of MSCS, Act, 1984 but in the Committee's view, there are various restrictive provisions within the Act which hinder the Society's autonomy. The Committee recommend that such provisions should be suitably revised in a manner to ensure more functional and financial autonomy.

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10.	4.11	<p>The Committee note with seriousness the statement of DOF that there are instances where owing to Government's directions, the Board of Directors have been made to reconsider their decisions. The Committee take this statement in positive way with objectivity in approach but would urge the Government that there should be specific guidelines indicating that role of Government nominees should seemingly be to assist the Board to discharge its functions in a democratic manner.</p> <p>The Committee in their various Reports have commented upon the delay with regard to this project and emphasised upon the need to have transparency at all levels while finalising and executing this project. The Committee are still concerned about the delay in declaring the zero date of the project and expect resolution of all outstanding issues within this year. The Committee should be apprised of the status of the project during this period.</p>
	5.17	<p>The Committee in their Seventh Report (13th Lok Sabha) had cautioned the Government against agreeing to the clause of "unlimited liability" regarding purchase of urea. The Committee reiterate their earlier recommendation and hope that in negotiated settlement, this clause would be suitably amended to the satisfaction of sponsors. The Committee would like to draw the attention of the Government of India towards a similar situation on liability of gas supply from Oil India Limited to Reliance Industries during finalisation of the gas supply agreement for Assam Gas Cracker Project. The Committee urge upon the Government to follow uniform policy in this regard for inland and overseas projects.</p>

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12.	5.21	<p>The Committee find that the project which was initiated in July, 1993 has not made any headway even after six years of its planning. The Committee have been informed by Secretary (Fertilisers) that IFFCO/KRIBHCO would be finally asked to give their reply within a time frame. Reportedly the project is not viable in the changed market scenario. In the Committee's view such projects should be taken off from the list of projects under consideration. The Committee hope that based on replies of IFFCO/KRIBHCO, DOF would soon take a final decision on this project.</p>
13.	5.31	<p>From the sequence of events brought out above, the Committee are constrained to observe that the Government had been taking the Committee too lightly and casually. Secretary, DoF had been assuring the Committee time and again of the clearance of the project within a specified time but ultimately nothing has come out. Ironically, the Cabinet cleared the Oman Project at foreign land on 20.6.2000 but the most cost effective Hazira Project is still awaiting clearance. The Committee are pained at the scant regard which the Government are showing to the Parliamentary Committee as evidenced by non-fulfilment of repeated assurances. The Committee recommend to the Government to issue directions to the Secretaries of the Government that before tendering any assurance before the Parliamentary Committee, they should seek prior approval from the concerned Minister so that all assurances can be fulfilled within the stipulated time frame.</p>

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14.	5.32	The Government should realise that indefinite delay in according final approval adversely affects the organisation's initiative and negates the very concept of Corporate Planning. With regard to the clearance of this project, the Committee once again recommend for its immediate clearance which is essential in making the country self-reliant in fertilisers.
15.	5.38	The Committee find that the New Project at Gorakhpur like the one at Hazira has been considerably delayed after getting first stage clearance in October '97 and thereafter 'In Principle' approval on 10.04.99. The Committee have been informed by KRIBHCO that since the feedstock policy for fertiliser plants is still to come the project might be deferred further. The Committee on the other hand have been informed by DoF that before formal clearance is accorded to the project, FCI unit has to be closed first by an order of Government and BIFR. Thereafter a decision has to be taken about KRIBHCO's stepping in. DoF has also informed that both the decisions have to be taken at the highest level in the Government. The Committee urge the Government to take the required decisions early so that a project conceived 3 years back is not allowed to drag for years, leading to much higher cost than original estimate.
16.	5.45	The Committee find that the Power Project of KRIBHCO at Pipavav in Gujarat has been given first stage clearance by DOF on 10th November, 1998. The Committee have been informed by KRIBHCO that Power Purchase Agreement has been finalised with GEB within a record time of 6 months and Detailed Feasibility Report (DFR) is under finalisation. The Committee hope that KRIBHCO will keep up momentum and finalise the same promptly.

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The Standing Committee in their Thirteenth Report (Tenth Lok Sabha) presented to Parliament on 30th March, 1995 had specifically noted that KRIBHCO had not been able to finalise its Corporate Plan during the last 15 years of its existence. It is heartening to note that the Society formulated a Corporate Plan and conceived certain mega projects for implementation. It is another matter that these projects are still pending with the Government of India for final clearance. DOF's observations that the Society lacks vision and foresight in Corporate Planning appear more sweeping than realistic. Prior to 1995, Department of Fertiliser itself had observed in a written note submitted to the Committee:

"It is a fact that in 1989 KRIBHCO had engaged the services of Consultant for preparing a Corporate Plan for 1989-95. The Consultant submitted a Report in 1989 itself which *inter-alia* suggested diversification in fields other than fertilisers. It is also a fact that at that point of time the view of DOF was that KRIBHCO should concentrate in the fertiliser sector...It may, however, be added that absence of a Corporate Plan has in no way affected the performance of KRIBHCO. The Society has been consistently performing well in the fields of production and marketing of fertilisers, financial management and promotional activities..."

17.

5.53

So, till March, 1995, DOF itself had directed KRIBHCO to concentrate on the fertiliser sector and also certified the latter's good performance in all fields, *viz.* Production, Marketing, Finance and Promotional activities. After this period KRIBHCO has initiated several mega projects,

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		<p>including a Power Project (Gujarat), which signifies diversion from the core sector and all these projects are pending for final clearance. Despite several recommendations of this Committee and assurance by DOF, some projects like Hazira Expansion and Gorakhpur have not been cleared. Thus, DOF cannot escape from sharing the blame that KRIBHCO is found wanting in effectively utilising cash surplus. Rather, responsibility for non-utilising cash surplus lies on DOF. The Committee feel that it is highly improper to hold back the clearance of projects for an indefinite period. That not only creates time and cost over-runs but most importantly kills the zeal and initiative of the Planner. The Committee urge the Government to analyse this situation seriously. The Committee are of the opinion that the Government lacks promptitude and sincerity in disposing of investment appraisal cases. This approach is construed as obstructionist and impedes the growth of Public Sector and Private Sector thrives on infirmities of official dom. The Committee hope that Government will appreciate their anxiety on the need to take quick decisions, either way, in investment appraisal cases.</p>
18.	5.54	<p>With the changing economic scenario, KRIBHCO has also to gear itself up to meet with the new situations. Instead of resting with mega projects pending with the Government, KRIBHCO should diversify its activities, in new areas related to agricultural products. The by-laws of KRIBHCO are wide enough to accommodate such activities <i>e.g.</i> cold storage and food processing. Some of the State Governments, like Maharashtra, are keen to extend official help to promote such activities. KRIBHCO of its own can also engage reputed management consultancy to prepare such projects.</p>

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19.	5.55	<p>Natural Gas availability in North-East is in abundance. Although KRIBHCO did try in the past to explore the possibility of setting up a Fertiliser Plant there, perhaps due to technical problems the proposal could not materialise. The Committee recommend that KRIBHCO should in all sincerity take a fresh look at its earlier proposal and explore the possibility of setting up a Fertiliser Plant there. It will also help KRIBHCO to expand its membership network in the North-East as well.</p>
	5.71	<p>The Committee express their concern that KRIBHCO could not succeed in finally executing any of the nineteen projects though in this process it spent about Rs. 462 lakh. The Committee are not convinced with the reply of the Society that it made several attempts in order to explore investment opportunities in the field of fertilisers by diversification in other areas. The Committee feel that the Society did not act seriously and everything was done on <i>ad-hoc</i> basis. The Society lacked expertise, talent and basic ability in planning and execution of the projects. DOF's version that many of the reasons which led to dropping of these projects could not have been known till certain studies had been concluded is very simplistic view. The Society spent Rs. 3.00 crore and took two years in analysing the Acquisition of Phosphatic manufacturing facilities by buying old plants from USA and Russia and later dropped it mainly for the reasons that condition of plants was not worthy of purchase. The Committee expect from the planners to visualise and analyse such things right in the beginning.</p>

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20.	5.72	<p>The Committee have noted that KRIBHCO made several attempts to diversify into DAP but could not succeed. However, the Society have not taken any initiative in this regard, <i>viz.</i>, manufacturing DAP since its plan to acquire Phosphate manufacturing facilities (DAP) failed to materialise. The Committee would emphasize that DAP is an important fertiliser and much in demand, therefore, KRIBHCO should formulate plan to manufacture DAP and not merely concentrate on urea.</p> <p>Similarly, in case of 200 MW Power Project at Jhunjhunu, the Committee feel that KRIBHCO owes explanation as how it proceeded with the project when the basic need of surface water was not available. KRIBHCO has advanced another reason for dropping the object which reads as under:</p> <p>“Cost of generation of Power with LNG as fuel is much cheaper than that of Naphtha. In view of this, it was decided to explore alternative site which could ultimately be converted to LNG base.”</p> <p>The Committee feel that such explanation is untenable and an organisation does not have to spend 8 lakhs and waste three years to take such decision.</p> <p>The Committee’s examination has revealed that the role of Government nominees on the Board of Directors has been found lacking. The Committee do not agree with the view of DoF</p>

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		that any decision taken by the Board of Directors has to be viewed as its collective decision and the role of Government nominees on the KRIBHCO Board in taking a decision need not be separately examined by the DoF.
21.	5.76	The Committee feel that the Government has statutory powers to give directions to the Cooperative Societies in the public interest and the role of the Government nominees is that of a watch dog. The Committee recommend that Government should clearly define the role of the Government nominees in such situations and lay down guide lines. In this case the Committee recommend that the Government should order an enquiry to fix accountability as to why none of the 19 projects could be executed so far.
22.	5.77	The Committee observe that a good amount has been spent on foreign tours in Acquisition of DAP facilities USA/Russia and audit has also raised an objection on this count. Secretary, DoF has assured that that was a matter of anxiety and there had to be some accountability. The Committee urge the Government to fix the responsibility accordingly and inform the Committee.
23.	5.78	The Committee also recommend to the Government to explore the avenue of holding inquiry into the role of concerned Directors of KRIBHCO on some selected projects namely, Acquisition of DAP facilities in USA/Russia, Nitrophosphate Project, Rehabilitation of MC&F and 200 MW Power Project at Jhunjhunu (Rajasthan).

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24.	5.79	The Committee also recommend that KRIBHCO should engage the services of reputed Management Consultants for planning and analysing the projects and should not depend entirely on in-house facilities.
25.	6.7	The Committee share the anxiety of the Department of Fertilisers that KRIBHCO has to evolve market strategy to meet with the situation arising out of liberalized economy and decontrolled era. KRIBHCO appears to be wedded to its philosophy which begins with the Cooperative Society and ends with it. The Committee agree with the views of DoF that there is a need to market more and more of urea. Today, KRIBHCO does not have its presence in the eastern and southern regions. The Committee hope that KRIBHCO will make concerted efforts and expand its marketing network in such regions where its presence is either nil or negligible.
26.	6.8	The Committee note with concern that State Marketing Federations are not fully cooperating with KRIBHCO. This is perhaps the result of market forces where market is determined by purely traders' interest. KRIBHCO has to prepare itself to face this eventuality in the time to come. The Committee are satisfied that KRIBHCO has engaged a marketing consultancy to advise it on marketing policy. The Committee recommend that KRIBHCO should engage marketing consultancy on regular basis whose assignment should be to prepare short-term, mid-term and long-term marketing strategies foreseeing all marketing conditions and advise KRIBHCO objectively. KRIBHCO's objective should be to remain fully prepared to market its products in private sector also, if need be.

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27.	6.9	<p>There is urgent need to strengthen State Marketing Federations also. They should be bound to purchase their requirements firstly from Cooperatives only. As already recommended elsewhere in the Report, the Committee recommend that Cooperative system should be strengthened by increasing their cash credit limits for disbursing more credit to their members for which 'B' component should be kept at a minimum of 50%. There is need to develop a viable rural cooperative credit system. The Committee urge DoF to take the lead in this regard and liaise with other Government Departments and agencies to get the objective fulfilled.</p>
28.	6.10	<p>The Committee recommend that KRIBHCO should develop alternative channels for marketing through institutional wholesalers though initially a fair percentage of its product may be earmarked for doing so. This may help KRIBHCO to pressurise the State Marketing Federations to stick to their original philosophy of buying from Cooperative Societies.</p>
29.	6.11	<p>The Committee also recommend that KRIBHCO should develop its own infrastructure like that of constructing warehouses so that fertiliser can be stored there at the right time in right quantity and made available to the Cooperatives. These warehouses can be rented out to other State agencies, when not required for its own use, and thus they can generate income to meet its maintenance cost and later recover capital cost also.</p>

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	7.4	<p>The Committee find that KRIBHCO has been undertaking number of promotional and educational programmes such as soil sample, crop seminars farmers' meetings, etc. for transfer of technology and balanced use of fertilisers in States where KRIBHCO has its marketing network through its Krishak Bharati Sewa Kendras. The Committee during the course of examination, however, have found that the promotional activities undertaken during the last three years are far below their targets. Simultaneously, the funds allocated for these activities have not been fully utilised by KRIBHCO. For instance, on soil sample collection as against the targets of 54500 during 1997-98 the achievement was only 21466. For 1998-99 as against the target of 30000, the achievement was only 20021. For 1999-2000 as against the target of 40000 the achievement was only 25162. Similarly on Crop Seminar as against the targets of 85 and 106 during the years 1997-98 and 1999-2000, the achievement was far low at 72 and 92.</p>
30.	7.5	<p>About utilisation of funds the Committee find the situation is no better. As against the targets of KRIBHCO of Rs. 150 lakh, Rs. 213 lakh and Rs. 200 lakh during 1997-98, 1998-99 and 1999-2000 the achievement was only Rs. 113 lakh, Rs. 168 lakh and Rs. 157 lakh respectively. The DoF has admitted before the Committee that targets fixed for various promotional activities have not been met though there has been significant increases in the utilisation of budgets over the years. In view of the foregoing the</p>

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Committee feel that KRIBHCO's performance on achievement of targets and utilisation of amounts earmarked for promotional and educational activities does not speak well about KRIBHCO's work done for promotion of fertilisers during the last three years. The Committee hope KRIBHCO would make all out efforts in years to come for improving its performance, even above the targets fixed for different activities.

31. 7.13 The Committee find that in order to provide eco-friendly and cost effective fertilisers, KRIBHCO has at present an installed capacity of 250 MT per annum for production of bio-fertilisers. The Committee have been informed that KRIBHCO has started implementation of two more bio-fertiliser plants of 300 MTPA each of Lanja in Maharashtra and Varanasi in U.P. Besides, KRIBHCO has planned four more plants, one each is to be set up at Punjab and Madhya Pradesh. The Committee have been informed that locations of remaining two plants are yet to be decided. As regards commissioning of two bio-fertiliser plants under implementation at Lanja (Maharashtra) and Varanasi (U.P.), the Committee have been informed that by the end of this financial year these will be commissioned. The Committee are glad to know that KRIBHCO has been doing a good work in this area. The Committee hope that KRIBHCO would soon commence implementation of the two bio-fertiliser plants, one each at Punjab and Madhya Pradesh. The Committee also hope that KRIBHCO would be able to locate sites for remaining two bio-fertiliser plants.
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32.	7.14	<p>As regards policy implementation part for promotion of bio-fertilisers, the Committee find that the Department of Agriculture & Cooperation and DOF play a vital role in this regard. While the Department of Agriculture & Cooperation implements a central sector scheme entitled 'National Project on Development & Use of Bio-fertilisers', DOF on the other hand encourages Indian fertiliser manufacturers for manufacturing of bio-fertilisers. Besides, fertiliser PSUs/Cooperatives have been assisted by DOF from DOF's own budget for manufacturing of bio-fertilisers. These PSUs/Cooperatives are MFL, NFL, RCF, HFC, FACT and cooperatives namely IFFCO and KRIBHCO. The Committee have been informed that assessment of demand of bio-fertilisers has been the responsibility of the Department of Agriculture & Cooperation. The Committee have been informed that based on initiatives taken by fertiliser units/cooperatives, the Department of Agriculture & Cooperation discusses with DOF, proposals for setting up of bio-fertiliser plants at Inter-Departmental Committee wherein representative of DoF is a Member. Since the KRIBHCO had already planned four bio-fertiliser projects, the Committee, therefore, recommend DoF to take up the issue with the Department of Agriculture & Cooperation in Inter Departmental Committee for early action in this regard.</p>
33.	8.5	<p>The Committee are constrained to note that production performance of KRIBHCO during the last three years has been declining steadily. For instance as against the production of 8.15 lakh tonnes during 1997-98 the production of KRIBHCO during subsequent year 1998-99 fell</p>

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to 6.98 lakh tonnes. Three reasons, occurrence of fire accident and unprecedented floods in May and September '98 and restriction in supply of gas have been attributed as reasons for less production by KRIBHCO. The Committee have been informed that difficulties have since been overcome. As regards production during 1999-2000 the Committee have been informed by DOF that shortfall in production has been due to equipment problems and problems faced in supply of gas. They have informed that since plant is aging, KRIBHCO has been asked to study the health of the plant. Necessary steps for gas supply are being taken up with Ministry of Petroleum & Natural Gas. The Committee hope that KRIBHCO will complete the study at the earliest so that necessary corrective steps are taken up for stepping up production. The Committee also hope that DOF would take necessary steps for augmenting gas supply to KRIBHCO in the meeting of Gas Linkages Committee and apprise the Committee of the outcome/decision taken.

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8.8

The Committee find the financial performance of KRIBHCO has gone down during the last three years. For instance the profits of KRIBHCO of Rs. 299.61 crore during 1997-98 declined to Rs. 261.13 crore in 1998-99. The actual profits of KRIBHCO for 1999-2000 have been a mere Rs. 55.85 crore which are the lowest during the three years. DOF has informed the Committee that due to fire accident and unprecedented floods in May and September '98, leading to production cuts profits of KRIBHCO suffered. DOF has also informed the Committee that financial performance is otherwise quite satisfactory. After seeing the working results of KRIBHCO for the year 1999-2000 the Committee do not agree with DOF that financial performance was quite satisfactory. The Committee, therefore, recommend that KRIBHCO/DOF should take corrective steps so that the downward trend in profitability is arrested at the earliest.

APPENDIX II

MINUTES STANDING COMMITTEE ON PETROLEUM & CHEMICALS 1998-99

THIRTEENTH SITTING 9.12.1998

The Committee sat from 1500 hrs. to 1630 hrs.

PRESENT

Dr. Balram Jakhar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Ratilal Kalidas Verma
3. Shri Kamal Nath
4. Shri Paban Singh Ghatowar
5. Shri Krishan Dutt Sultanpuri
6. Shri Gurudas Kamat
7. Shri Nepal Chandra Das
8. Dr. Asim Bala
9. Shri Prabhunath Singh
10. Dr. C. Saguna Kumari
11. Shri Arjun Charan Sethi
12. Shri M. Selvarasu
13. Shri C. Kuppusami

Rajya Sabha

14. Shri Radhakishan Malaviya
15. Shri Anantha Sethi
16. Shri Kanak Mal Katara
17. Shri Ram Nath Kovind
18. Shri Dipankar Mukherjee
19. Shri Dara Singh Chauhan
20. Shri Joyanta Roy

SECRETARIAT

- | | |
|---------------------|-------------------------|
| 1. Shri Brahm Dutt | <i>Deputy Secretary</i> |
| 2. Shri J.N. Oberoi | <i>Under Secretary</i> |

**Representatives of Krishak Bharati Co-op. Ltd.
(KRIBHCO)**

- | | |
|-----------------------|--------------------------|
| 1. Shri P.P. Singh | Managing Director |
| 2. Shri R.L. Saha | Finance Director |
| 3. Shri H.C. Malhotra | Marketing Director |
| 4. Shri A.K. Jain | General Manager |
| 5. Shri T. Vijayan | Chief Manager (P&A) |
| 6. Shri P.K. Jain | Chief Manager (Projects) |

The Committee took oral evidence of the representatives of Krishak Bharati Cooperative Ltd. (KRIBHCO) in connection with examination of KRIBHCO.

2. The main issues concerning KRIBHCO which came up for discussion *inter-alia* include achievement of objectives, progress of new projects including Joint Venture Projects, production performance, marketing activities and progress on promotional activities. The Committee sought certain information about visits abroad in connection with Indo-Oman Fertiliser Project.

3. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX III

MINUTES
STANDING COMMITTEE ON PETROLEUM & CHEMICALS
1998-99
FOURTEENTH SITTING
10.12.1998

The Committee sat from 1500 hrs. to 1530 hrs.

PRESENT

Dr. Balram Jakhar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Ashok Argal
3. Shri Ganga Charan Rajput
4. Dr. Mallu Ravi
5. Shri Paban Singh Ghatowar
6. Shri Krishan Dutt Sultanpuri
7. Shri Gurudas Kamat
8. Dr. Asim Bala
9. Dr. C. Saguna Kumari
10. Shri C. Kuppusami

Rajya Sabha

11. Shri Radhakishan Malaviya
12. Shri Kanak Mal Katara
13. Shri Ram Nath Kovind

SECRETARIAT

1. Shri Brahm Dutt *Deputy Secretary*
2. Shri J.N. Oberoi *Under Secretary*

**Representatives of Krishak Bharati Co-op. Ltd.
(KRIBHCO)**

- | | |
|-----------------------|--------------------------|
| 1. Shri P.P. Singh | Managing Director |
| 2. Shri R.L. Saha | Finance Director |
| 3. Shri H.C. Malhotra | Marketing Director |
| 4. Shri T. Vijayan | Chief Manager (P&A) |
| 5. Shri P.K. Jain | Chief Manager (Projects) |

The Committee resumed oral evidence of the representatives of Krishak Bharati Cooperative Ltd. (KRIBHCO) in connection with examination of KRIBHCO.

2. The Committee were apprised of the latest position on Indo-Oman Fertiliser Project.

3. Since the representatives of KRIBHCO could not furnish the requisite information sought by the Committee/previous day the Committee decided to take further evidence of the representatives of KRIBHCO at their sitting to be held on 23rd December, 1998.

4. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX IV

MINUTES STANDING COMMITTEE ON PETROLEUM & CHEMICALS 1998-99

Seventeenth Sitting

23.12.1998

The Committee sat from 1500 hrs. to 1630 hrs.

PRESENT

Dr. Balram Jakhar — *Chairman*

MEMBERS

Lok Sabha

2. Dr. Ravi Mallu
3. Shri K.D. Sultanpuri
4. Shri Gurudas Kamath
5. Shri Nepal Chandra Das
6. Dr. Asim Bala
7. Shri Balram Singh Yadav
8. Dr. C. Suguna Kumari
9. Shri Prem Singh Chandumajra
10. Shri C. Kuppusami

Rajya Sabha

11. Shri Radhakrishan Malaviya
12. Shri Ram Nath Kovind
13. Shri Dipankar Mukherjee
14. Shri Parag Chaliha

SECRETARIAT

- | | |
|---------------------|-------------------------|
| 1. Shri Brahm Dutt | <i>Deputy Secretary</i> |
| 2. Shri J.N. Oberoi | <i>Under Secretary</i> |
| 3. Smt. Abha Singh | <i>Asstt. Director</i> |

**Representatives of Ministry of Chemicals & Fertilisers
(Deptt. of Fertilisers)**

- | | |
|-----------------------|---------------------------|
| 1. Shri A.V. Gokak | Secretary |
| 2. Shri Ravi Mathur | JS (F) |
| 3. Shri S. Kabilan | JS & FA |
| 4. Shri D.K. Sikri | JS (Admn.) |
| 5. Shri Pradeep Singh | Executive Director (FICC) |

2. The Committee took oral evidence of the representatives of Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers in connection with examination of Krishak Bharati Cooperative Ltd. (KRIBHCO).

3. The main issues that came up for discussions include issue of taking and dropping of different projects by KRIBHCO, delay in recommending investment decision on Hazira Expansion and for setting up of a new fertiliser plant at Gorakhpur, present status of joint venture project between RCF and KRIBHCO in Oman, efforts to increase share of small farmers in equity of KRIBHCO and promotional activities undertaken by KRIBHCO.

4. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX V

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS

1998-99

Eighteenth Sitting

23.12.1998

The Committee sat from 1630 hrs. to 1700 hrs.

PRESENT

Dr. Balram Jakhar — *Chairman*

MEMBERS

Lok Sabha

2. Dr. Ravi Mallu
3. Shri K.D. Sultanpuri
4. Shri Gurudas Kamath
5. Shri Nepal Chandra Das
6. Dr. Asim Bala
7. Shri Balram Singh Yadav
8. Dr. C. Suguna Kumari
9. Shri Prem Singh Chandumajra
10. Shri C. Kuppusami

Rajya Sabha

11. Shri Radhakrishan Malaviya
12. Shri Ram Nath Kovind
13. Shri Dipankar Mukherjee
14. Shri Parag Chaliha

SECRETARIAT

1. Shri Brahm Dutt — *Deputy Secretary*
2. Shri J.N. Oberoi — *Under Secretary*
3. Smt. Abha Singh — *Asstt. Director*

**Representatives of the Krishak Bharati Cooperative Limited
(KRIBHCO)**

1. Shri P.P. Singh — *Managing Director*
2. Shri R.L. Saha — *Finance Director*
3. Shri H.C. Malhotra — *Marketing Director*

2. The Committee took further evidence of the representatives of Krishak Bharati Cooperative Ltd. (KRIBHCO) in connection with examination of KRIBHCO. The main issues that came up for discussions were dropping of different projects undertaken by KRIBHCO in Gujarat, Rajasthan and Russia for different reasons and opinion of KRIBHCO on commissioning of Joint Venture Project in Oman.

3. A verbatim record of the proceedings of the sitting has been kept.

The Committee then adjourned.

APPENDIX VI

MINUTES

SUB-COMMITTEE ON FERTILISERS, A SUB-COMMITTEE OF
STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(1999-2000)

First Sitting

07.07.2000

The Committee sat from 1400 hrs. to 1600 hrs.

PRESENT

Shri Dipankar Mukherjee — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ramchander Baidia
3. Shri Padam Sen Choudhary
4. Shri Dilipkumar Mansukhlal Gandhi
5. Shri Punnulal Mohale
6. Shri D.C. Srikantappa
7. Shri Rajesh Verma

Rajya Sabha

8. Shri Suresh Pachouri
9. Shri Ravi Shankar Prasad
10. Shri K. Kalavenkata Rao
11. Shri Rajiv Ranjan Singh
12. Shri P. Soundararajan

SECRETARIAT

1. Shri Brahm Dutt *Deputy Secretary*
2. Shri J.N. Oberoi *Under Secretary*

**Representatives of Krishak Bharati Cooperative Limited
(KRIBHCO)**

- | | |
|-----------------------|---------------------|
| 1. Shri P.P. Singh | Managing Director |
| 2. Shri T.R. Chaudhry | Operations Director |
| 3. Dr. P.K. Awasthi | Marketing Director |

The Sub-Committee took oral evidence of the representatives of Krishak Bharati Cooperative Limited (KRIBHCO) in connection with examination of KRIBHCO.

2. The main issues that came up for discussions include failure of KRIBHCO for not undertaking any major projects even when there were adequate resources, dropping of various projects, need for expanding Cooperative movement in Southern and Eastern States and present status of different projects undertaken by KRIBHCO. The Committee sought certain clarifications from KRIBHCO on Indo-Oman Fertilisers Project and on other Projects.

3. A verbatim record of the proceedings of the sitting has been kept.

The Sub-Committee then adjourned.

APPENDIX VII

MINUTES

SUB-COMMITTEE ON FERTILISERS, A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Second Sitting

03.08.2000

The Sub-Committee sat from 1500 hrs. to 1650 hrs.

PRESENT

Shri Dipankar Mukherjee — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ananda Mohan Biswas
3. Shri Ajay Singh Chautala
4. Shri Padam Sen Choudhary
5. Shri Dilipkumar Mansukhlal Gandhi
6. Shri Punnulal Mohale
7. Shri D.C. Srikantappa

Rajya Sabha

8. Shri Ravi Shankar Prasad
9. Shri K. Kalavenkata Rao
10. Shri Rajiv Ranjan Singh

SECRETARIAT

1. Shri Brahm Dutt *Deputy Secretary*
2. Shri J.N. Oberoi *Under Secretary*

**Representatives of Ministry of Chemicals & Fertilisers,
(Deptt. of Fertilisers)**

1. Shri A.V. Gokak — Secretary (Fertilisers)
2. Shri Ravi Mathur — Joint Secretary
3. Shri Suresh Chandra — Joint Secretary & Financial
Advisor
4. Shri D.K. Sikri — Joint Secretary

The Sub-Committee took oral evidence of the representatives of Ministry of Chemicals & Fertilisers, Deptt. of Fertilisers, in connection with examination of Krishak Bharati Cooperative Limited (KRIBHCO).

2. The main issues that came up for discussions included maintaining Cooperative character of society, increasing membership of the Societies especially in Eastern and Southern regions, corporate planning, marketing strategy, diversification, fixing of responsibility for conceiving and dropping of projects, present status of Indo-Oman Project and delay in according clearance to Hazira Expansion Project.

3. A verbatim record of the proceedings of the sitting has been kept.

The Sub-Committee then adjourned.

APPENDIX VIII

MINUTES

SUB-COMMITTEE ON FERTILISERS, A SUB-COMMITTEE OF STANDING COMMITTEE ON PETROLEUM & CHEMICALS (1999-2000)

Fifth Sitting
03.10.2000

The Sub-Committee sat from 1400 hrs. to 1445 hrs.

PRESENT

Shri Dipankar Mukherjee — *Convenor*

MEMBERS

Lok Sabha

2. Shri Ramchander Binda
3. Shri Padam Sen Chaudhary
4. Shri Dilipkumar Mansukhlal Gandhi
5. Shri Punnulal Mohale
6. Shri D.C. Srikantappa
7. Shri Rajesh Verma

Rajya Sabha

8. Shri Ravi Shankar Prasad
9. Shri K. Kalavenkata Rao
10. Shri Rajiv Ranjan Singh
11. Shri P. Soundararajan

SECRETARIAT

1. Shri N. Oberoi *Under Secretary*

At the outset, Hon'ble Convenor welcomed the Members of the Sub-Committee to the sitting. Thereafter, he explained the main recommendations contained in the Report. Then he invited the Members to give suggestions if any. Some of the Members made some suggestions regarding recommendations which were incorporated in the Report and revised recommendations were read out in the sitting. Hon'ble Convenor requested the Members to give suggestions in writing if they so desire later but not later than 5th October, 2000.

2. Thereafter, the Sub-Committee considered and adopted the Draft Ninth Report on Krishak Bharati Cooperative Limited.

3. The Sub-Committee authorised the Convenor to finalise the Draft Report and submit the same to Chairman for consideration by Standing Committee on Petroleum & Chemicals after incorporation of suggestions if any to be given by Members of Sub-Committee.

The Sub-Committee then adjourned.

APPENDIX IX

MINUTES

STANDING COMMITTEE ON PETROLEUM & CHEMICALS
(1999-2000)

Fifteenth Sitting
16.10.2000

The Committee sat from 1100 hrs. to 1200 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Dr. (Smt.) C. Suguna Kumari
3. Shri Padam Sen Choudhary
4. Shrimati Sheela Gautam
5. Shri Shriprakash Jaiswal
6. Shrimati Navedita Mane
7. Dr. Bikram Sarkar
8. Shrimati Kanti Singh
9. Shri D.C. Srikantappa
10. Shri Tarlochan Singh Tur
11. Shri Shankersinh Vaghela
12. Shri Rajesh Verma

Rajya Sabha

13. Dr. (Smt.) Joyasree Goswami Mahanta
14. Shri Dipankar Mukherjee
15. Shri Ahmed Patel
16. Shri Suresh Pachouri
17. Shri Ravi Shankar Prasad
18. Shri K. Kalavenkata Rao
19. Shri Gaya Singh
20. Shri P. Soundararajan
21. Prof. Ram Gopal Yadav

APPENDIX X

ABBREVIATIONS USED IN THE REPORT

1.	BIFR	Bank of Industrial and Financial Reconstruction
2.	CCEA	Cabinet Committee on Economic Affairs
3.	DAP	Di-ammonium Phosphate
4.	DOF	Department of Fertilisers
5.	DFR	Detailed Feasibility Report
6.	ECA	Export Credit Agencies
	ECA	Essential Commodities Act
8.	EPC	Equipment Procurement Contract
9.	FACT	Fertilisers & Chemicals Travancore
10.	FOB	Free on Board
11.	GPCL	Gujarat Power Corporation Ltd.
12.	GEB	Gujarat Electricity Board
13.	GLC	Gas Linkages Committee
14.	HFC	Hindustan Fertilisers Ltd.
15.	ICB	International Competitive Bidding
16.	IFFCO	Indian Farmers Fertilisers Cooperative Ltd.
17.	IRR	Internal Rate of Return
18.	KBSK	Krishak Bharati Sewa Kendra
19.	LNG	Liquefied Natural Gas
20.	LTP	Long Term Pricing
21.	MTPA	Metric Tonne Per Annum
22.	MSCS Act	Multi-State Cooperative Societies Act
23.	MMSCMD	Million Standard Cubic Metre Per Day
24.	MFL	Madras Fertilisers Ltd.
25.	MTPD	Million Tonne Per Day
26.	NCDC	National Cooperative Development Corporation
27.	OMIFCO	Oman-India Fertilisers Company Ltd.
28.	PFR	Pre-Feasibility Report
29.	PIB	Public Investment Board
30.	PPCL	Pyrites, Phosphates & Chemicals Ltd.
31.	RCF	Rashtriya Chemicals & Fertilisers
32.	RSEB	Rajasthan State Electricity Board
33.	TPA	Tonnes Per Day

