

[Shri L. N. Mishra]

savings through this institution. It is not reasonable or necessary to judge the possibilities in the future in the light of our experience in the recent past. As the pace of economic development is accelerated, as new inducements and opportunities for investment are created and as the capital markets revive with the consequent increase in the value of shares and also in the value of the unit certificates, the Unit Trust will be able to command and to utilise a much larger volume of resources. It will be in a position to serve, at the same time, both industry and the new and emerging class of individual investors. In the long run, and notwithstanding the experience in the last few months, the Trust has a vital and significant role to play in assisting the country's growth.

Sir, I move

The question was proposed

MR. CHAIRMAN The House stands adjourned till 2-30 P.M.

The House then adjourned for lunch at one of the clock

The House reassembled after lunch at half-past two of the clock, THE VICE-CHAIRMAN (SHRIMATI TARA RAMCHANDRA SATHE) in the Chair

STATEMENT RE ESTABLISHMENT OF A FERTILIZER PLANT AT MADRAS

THE MINISTER OF PETROLEUM AND CHEMICALS (SHRI O V ALAGESAN) Madam, Government approved the proposal to establish a complex fertilizer factory in Madras as an adjunct to the Madras Refinery in collaboration with Amoco, an American Company, on 12th May, 1966. The Agreement relating to the proposal was signed on 14th May 1966. I have also arranged to place in the Library copies of the Agreement for ready reference by hon. Members. I shall briefly explain the background and a few salient features of the Madras Fertilizer Project.

During 1964, Government received offers from over a dozen parties from all over the world for putting up a refinery at Madras. In November 1964, Government considered the comparative merits of the various offers and directed that exclusive negotiations might be conducted with National Iranian Oil Co./American International Oil Co. As a result of such negotiations,

the said two Companies agreed to provide a sum of \$ 65 million of which \$ 27 million would go to meet the foreign exchange cost of the refinery and the balance of \$38 million would be utilised for setting up a fertilizer plant of capacity 200,000 tonnes of nitrogen and also some petro-chemical industries. The negotiations regarding the refinery were concluded earlier and the Refinery Agreement was signed by the Government of India and the two parties in November, 1965, while the negotiations regarding the fertilizer project continued.

In the course of the negotiations regarding the fertilizer project, it was brought out that the necessary dollar loan would have to be raised from private banks in the U.S.A. which would require the coverage of U.S. AID Specific and Extended Risk Guarantees. As per terms of the Agreement relating to such Guarantees, they are to be extended only to American private parties if they have substantial equity holding and also certain management rights. It was made clear that Government would be the majority partner and Amoco could hold only a minority position. This created a situation in which, if the NIOC were to come as an equal partner with Amoco in a maximum minority holding of 49%, the project would not have qualified for U.S. AID Guarantees. This was resolved by Amoco and NIOC coming to an agreement which provides for NIOC participation at a later stage in the project under certain conditions.

The main features of the Agreement are: The Government of India will hold 51% of equity and Amoco the remaining 49%. Several important issues will be decided by the two shareholders by common consent. The Board of Directors, whose Chairman will be the nominee of the Government, will have four members each of the Government and Amoco with the Chairman having a casting vote. Most of the matters that have been enumerated in the Agreement will be decided by a simple majority. Questions such as sales policy, fixation of prices, recommendation with regard to the declaration of dividends, etc. will have to be decided by a three-fourths majority, in other words, by the unanimous vote of the Board. If such unanimity is not possible, the matter will be referred to be decided by the Secretary to the Government.

of India and the President of Amoco whose decision shall be final and binding on the Board. This provision will enable Government to ensure that sound and acceptable policies are always followed. The Managing Director, who will function under the control of the Board, would be a nominee of the American Company and will have to act under the advice of an Executive Committee on which there will be equal representation for both Government and Amoco. Whatever decisions are taken by the Managing Director by exercising his casting vote in this Committee can be reviewed by the Board and altered by a three-fourths majority. The Board further has power to modify or withdraw the power or the authority of the Managing Director by a three-fourths majority. If such majority is not obtainable, it can by simple majority refer the matter to the forum of Secretary to the Government of India and the President of Amoco and their decision shall be final.

It may be pointed out that all these arrangements regarding management will last only during the initial period which has been defined as ten years from the date of commencement of the commercial operation of the plant or when the foreign exchange loans will have been fully repaid whichever occurs first. After this initial period, Government will be appointing the Managing Director and the requirements of three-fourths majority for certain decisions of the Board will not be there.

There is also a Technical Assistance Agreement entered into with Amoco by which sufficient number of Indian personnel will be trained for running the plant.

Though Amoco will be in charge of day-to-day management because of the nature of the plant and the technology that will be employed, and also because the entire foreign exchange bill of \$35 million is found outside the Consortium sources, during the initial period Indian personnel will be fully associated in all aspects of selection of plant, construction, start-up and its operation. Sufficient checks and balances have been provided which will enable Government to have an effective say in all important matters. Another point to be noted is that if the foreign exchange loans could be discharged earlier than envisaged,

this temporary arrangement will also terminate earlier.

Apart from the safe guards and provisions made in the interest of both parties in the Agreement, I believe that as practical men who are more interested in seeing the job through than insisting on their respective rights, both the representatives of Government and Amoco will bring to bear upon the job on hand the fullest measure of mutual understanding, cooperation and spirit of give and take so that the plant is established in record time and produces the much-needed half a-million tonnes or so of fertilizers for the benefit of increased food production.

I would also request hon Members not to look at the fertilizer project in isolation. It forms part of a large complex consisting of a refinery, a lube oil plant and one of the most modern large-sized fertilizer plants employing the latest techniques in ammonia synthesis, urea and complex fertilizer manufacture. We have secured considerable advantages not only in the prices that we will be paying for the crude the parties will sell but also by avoiding several features like a large fee for technical services, a stipulated margin per barrel of crude refined, etc., which we had accepted in a previous Agreement. We have also succeeded in securing for the first time a large amount of foreign exchange outside the Consortium sources based upon the quantum of crude that is being purchased. Thus, taking an overall view, it can be safely said that the country has benefited to a great extent by entering into this Agreement to establish the complex in Madras. I may also assure the House that in future we will even try to improve upon this and secure even larger benefits for the country.

SHRI ATAL BIHARI VAIPAYEE (Uttar Pradesh) Madam, I should like to know whether the attention of the hon Minister has been drawn to an interview given by an American collaborator to the industrial correspondent of a New Delhi daily, and if so, does the hon Minister agree with the claim made by that American collaborator that although the Government of India would be having a majority of the shares they will enjoy equal rights with the collaborators and there will be parity between the Government of India and the collaborators?

SHRI O V ALAGISAN Madam, I should say that I saw the report that the hon Member referred to but I cannot vouchsafe for the veracity of that report, what the particular American gentleman said, how he said it and the manner in which that was interpreted by the said newspaper correspondent I cannot vouchsafe for the veracity of that statement. But as far as the provisions of the Agreement go, as I have explained in my statement, I have also kept copies of the Agreement there in the Library and they are there for all hon Members to see. We have evolved an arrangement by which the Government will retain an effective voice in almost all the important matters. As far as the day-to-day management during the construction period and the construction job etc go, it has been left in charge of a technical group where there will be two from our side and three from the American side and even there our people will have a voice. As for the executive committee we will have two and the Americans will have two on that body and decisions will be taken by them. As I have already explained in the Statement as practical men they will come to unanimous decisions. If unfortunately there is any difference of opinion then it can be reviewed by the Board or it can be referred to the higher forum that I have mentioned in the statement. So I do not see that there is any difficulty in working this arrangement. Not only that, I do not see any disability placed on the Government's pursuing sound and accepted policies, as I have stated in the Statement.

SHRI MULKA GOVINDA REDDY (Mysore) I would like to know from the Minister what arrangements are made for fixing the price of fertilizers and whether the distribution will be completely in the hands of this concern or the Government of India will take it up. The second question I would like to ask is whether there is any stipulation in the Agreement that whatever profits are earned by this company will not be allowed to be exported till the management of this concern comes into the hands of the Indian Government.

SHRI O V ALAGISAN To take the last question first, there is no such thing. The party will be free to take away the dividends etc that will be earned by the com-

pany. It is not the position the party will be permitted to take away the profits, the profits they will earn on the equity only after the management comes into the hands of Government, that is, until all the loans have been discharged. As far as distribution goes it is proposed to appoint marketeers. The existing cooperative agencies will be fully utilised. The present method of distribution will be there but in addition to it there will be private marketing agencies entrusted with this job and to help in building up a network of distributing organisations which will take the fertilizer to the farmer's door and also see to it that it is delivered to the farmers at the proper time. As far as pricing goes, the company will fix the price but the Government will have a good say in the fixation of the price and we will see to it that the farmer gets it at a very reasonable price.

SHRI M. S. GURUPADA SWAMY (Mysore) Madam, I think the Government has taken nearly more than a year to bring about an agreement with Amoco but the Agreement which is now concluded seems to be very complicated and according to the arrangement between the parties concerned, two things require clarification (a) apart from the Board of Directors there is also going to be an Executive Committee and I do not know why the necessity was felt by the authorities concerned to have an executive committee when the Board of Directors itself can function as a real and effective controlling body, (b) secondly it is not clear to me how this kind of 51 per cent participation by the Government of India did not automatically imply also a greater measure of control over the management. And is it a fact that the American banks were not prepared to give assistance to Amoco unless they had managerial control over the company and if that is so, would it not have been enough if both Amoco and the Government of India had given guarantee for the finances arranged by the American banks? What made the American banks think that managerial control exercised by the American interests should be there and that any control exercised by the Government of India would not be acceptable to them if the money is to be provided by them?

SHRI O. V. ALAGESAN Madam, it is a fairly long question. It is an

unfortunate fact that it took quite a long time, more than a year, to conclude this ment. Though it took such a long time we are happy that it has been concluded and we are now able to proceed with the job. I shall also not deny the hon Member's statement that the arrangement made in this Agreement can be called somewhat complicated. The hon. Member put a question why there should be an Executive Committee and why the Board itself should not manage the affairs of the company. Surely, the Board is the supreme body which will manage the affairs of the company but during the initial period when the construction has to take place and that too at a record pace it was thought that the supervision and the actual looking after the work by an Executive Committee was necessary and therefore this mechanism was created

As far as guarantees go, it is true that the American parties said that they will have to raise the loan part of the funds from American private banks and for the American private banks to lend such huge sums they want guarantees not of our Government but of the U. S. Government. Now the U. S. Government or the U.S. A.I.D. have entered into this guarantee agreement with the Government of India in accordance with whose terms this guarantee would be available in the case of American private parties and such private parties should have a substantial equity holding in any venture in which they participate; not only that, they should also have certain management rights. Unless these conditions are fulfilled the guarantee will not be forthcoming and the loans will not be forthcoming which means that the project cannot fructify. That is the reason why we have provided this sort of arrangement. While providing this sort of arrangement we have taken care to see that the country's national interests are not in any way affected and that the Government has effective voice on all important matters concerning the project.

SHRI R. S. KHANDEKAR (Madhya Pradesh). The hon. Minister said in the earlier part of his statement that a dozen parties had applied for this deal. May I know who those parties were and from which countries and why particularly these two parties were selected? Secondly,

who is going to be the Chairman of this, whether Indian or a foreigner because he has been given very vast powers? Thirdly, there is provision for arbitration. Usually the number of arbitrators is either one or three. Here there are two arbitrators, one is the Secretary to Government of India and the other the President of Amoco. In case of disputes, if they do not agree, what will be the position?

SHRI O V ALAGESAN Madam, when I referred to over a dozen parties, I referred to the parties that bid for the Refinery at Madras. There were several American companies, the existing private oil companies, some French company and so on and so forth. Among those parties these two companies applied jointly and they were selected for the Refinery and the first Agreement was about the Refinery and now we have got this Agreement for the fertilizers. The second question of the hon Member was who the Chairman will be. The Chairman will be a nominee of the Government of India. What was the other question?

SHRI R. S. KHANDEKAR It was about arbitrator.

SHRI O V ALAGESAN The hon. Member can refer to the Agreement. Of course I can also refer to it, the copy is here

SHRI R. S. KHANDEKAR He has provided for two arbitrators, if they differ from each other what is the position?

SHRI O. V. ALAGESAN: It is not exactly arbitration; it is a higher forum for resolving differences. If the differences are not resolved at lower levels, they are bound to be resolved at this higher forum.

THE VICE-CHAIRMAN (SHRIMATI TARA RAMCHANDRA SATHE) But if there is a difference of opinion even between the two parties, is there a third person? What happens then?

SHRI O. V. ALAGESAN I follow but one can go on like that. We have said that at that level the difference should be resolved

SHRI SYED AHMAD (Madhya Pradesh): Suppose the Secretary to Government and the other person differ on a particular

[Shri Syed Ahmad]

and they are bound to differ on many points. In such cases what is going to happen?

SHRI ARJUN ARORA (Uttar Pradesh): The World Bank will see to it that they do not differ

SHRI SYED AHMAD. This is a unique case where there is provision for arbitration and you have only two arbitrators.

SHRI O. V. ALAGESAN: It is true that disputes have been left to be decided by these two. But there is the Executive Committee where itself there may be unanimous decisions. If there is any difference, it can go to the Board. Again the Board, I expect, will resolve all these things, at its level. But supposing certain things are there still unresolved then this is there; there is the highest forum which we have provided. Of course you can ask, if there is difference of opinion even here, what is to be done? Well, I can only express my hope that at that level they will be resolved.

DR. ANUP SINGH (Punjab): May I ask the hon. Minister if any other country or countries offered to participate in this project and, if so, what were their terms?

SHRI O. V. ALAGESAN: In the fertiliser plant? I said 'No' in answer to the other hon. Member. These two parties were selected even in November, 1964, when there were more than a dozen bids for the establishment of a refinery at Madras.

DR. ANUP SINGH: I am asking specifically if any other countries offered to participate and, if so, what were their terms? It is quite obvious that these two parties were selected. We want to have some knowledge about the comparative offers from other countries

SHRI O. V. ALAGESAN: They were selected not only for the refinery, but also for the fertiliser factory, because these were the parties that offered an extra 38 million dollars for the setting up of a fertiliser plant and also petro-chemical industries, over and above the 27 million dollars that they proposed to bring in for the setting up of a refinery. So, even at the stage, in November, 1964, they were selected not only for the refinery, but also for the fertiliser plant. So, the question of other people bidding does not come in.

DR. ANUP SINGH. My question has not been answered.

THE VICE-CHAIRMAN (SHRIMATI TARA RAMCHANDRA SATHE): No, no. Mr Govindan Nair.

SHRI M. N. GOVINDAN NAIR (Kerala): Anybody who knows anything about the oil industry knows that today the most profitable part of the industry is the petro-chemical complex. Under such circumstances, why is it that the Government have decided to give majority participation or equal participation to a foreign firm? Is it because the technical know-how is not available or is there any other reason for this collaboration?

SHRI O. V. ALAGESAN. We have not given them majority participation. We have given them only 49 per cent. As far as the refinery goes, the Government of India holds 74 per cent of the equity capital. The NIOC and the American Oil Company hold 13 per cent each—as low a percentage of 13 per cent each. Now, in the fertiliser factory we are giving the American company 49 per cent and the Government has retained 51 per cent. So, there is no question of the majority of equity shares being handed over to the American participants.

SHRI ARJUN ARORA: It is a very funny explanation which the Minister is offering. He has given the Americans 49 per cent of holdings and 100 per cent of management—management over production, management over technique, management over prices, management over distribution. Does he realise that he is handing over 51 per cent of the capital of the concern, the Government of India's money, poor people's money, to an American concern for 14 years—four years for construction and ten years for management thereafter? Why has he done it? If he wants to give the Americans 100 per cent control over technique, over prices, over distribution and over management, why does he not ask them to invest 100 per cent capital? He has done a very dangerous thing. Fifty-one per cent of the capital of the company is that of the Government of India, that of our poor taxpayers, and the management is 100 per cent American

SHRI O. V. ALAGESAN. Let me explain. I think the hon. Member is confusing many things

SHRI M. N. GOVINDAN NAIR: Confusion is on that side.

SHRI O. V. ALAGESAN: I beg to submit that it is not so. I shall explain presently to show that I have not handed over my money to anybody.

SHRI ARJUN ARORA: You will, in due course. You are yet to do it

SHRI O. V. ALAGESAN. No, I will not. On the other hand, I am getting American investment for the sake of my farmers.

SHRI ARJUN ARORA: American investment controlled by Americans and your investment also controlled by them.

SHRI O. V. ALAGESAN. If Mr. Arora will not interrupt me, I shall carry conviction to him.

SHRI ARJUN ARORA. If you do it in a straightforward manner and truthfully, I will not interrupt you.

SHRI O. V. ALAGESAN: Kindly do not interrupt and I shall carry conviction to you. What is the equity participation of the American company? Their equity capital participation is less than Rs. 5 crores. Even if they earn a net profit of 20 per cent on this, they will be repatriating a sum of about Rs. 1 crore. That is the maximum that they can repatriate. Now, as against that, what is the value of the production that we shall be making in this factory? The value of the production of fertilisers that will be made in this factory will be Rs. 25 crores, when it is in full production per year. There will be a saving of Rs. 25 crores in foreign exchange per year. Otherwise, I will have to spend my hard-earned foreign exchange to the tune of Rs. 25 crores to import this fertiliser. As against a net foreign exchange saving of Rs. 25 crores, I shall be allowing the American parties to repatriate only Rs. 1 crore. These two things should be taken together. Then you will know whether I am giving him my money or we are taking the help of his money for a definite purpose.

SHRI ARJUN ARORA: Anybody who knows anything about the industrial management knows that in these matters, it is not the investors, not the shareholders...

THE VICE-CHAIRMAN (SHRIMATI TARA RAMCHANDRA SATHE): No.

He has replied to you. We go on to the next item.

THE UNIT TRUST OF INDIA (AMENDMENT) BILL, 1966—contd

PANDIT S. S. N. TANKHA (Uttar Pradesh): Madam Vice-Chairman, while I support the measure before the House, I am sorry I have to say that I am not at all satisfied with the performance of the Trust so far. It is true that the Trust was created only about a year back, but all the same it has to be seen what it has done during this period and whether it has succeeded in drawing money from the small investors, which it was expected to do. I am afraid the hopes which were raised in the public mind when the scheme was started have not been fulfilled, because the rate of interest which this Trust has been able to give on the units has been very low. It is for this reason that the public participation has not been to the extent that it was expected to. From the figures, which were supplied to me by the Ministry of Finance, in a brief which I had asked for from the Department at a meeting of the Informal Consultative Committee of the Finance Ministry, I find that the initial response to this scheme was very encouraging and that between July 1964 and November, 1964, that is to say, within five months the value of the units sold amounted to as much as Rs. 18.22 crores, but since then there has been a decline in the sale of the units. Further, from the figures supplied I find that during the period September 1965 to February 1966 sales of the units were to the extent of Rs. 86.52 crores whereas units, which had been purchased earlier by the public and which were sold later to the Trust amounted to as much as Rs. 61.78 crores, which therefore means that during the period September 1965 to February 1966 there was a net gain of sales of only Rs. 1.21 crores during a period of five months, which is indeed most disappointing. It goes to prove that the scheme has not attracted the public.

We find, Madam, that during the last year the Trust has been able to give on the units a dividend of only 6.1 per cent, while at the time the scheme was initiated it was expected to yield somewhere about 8 per cent. That perhaps accounts for the