PolicyWatch

Covering developments on policy responses, policy implementation and policy distortions on a quarterly basis. Comments are welcome.

CUTS International

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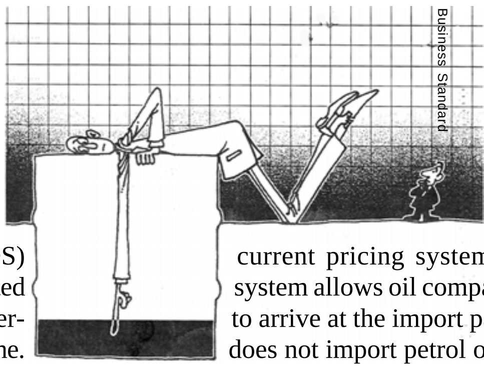
Petroleum Subsidies: Is There a Real Burden?

The Government has raised the prices of petrol and diesel, while kerosene and liquefied petroleum gas (LPG) have been spared. No prizes for guessing the reason: pressure from the Left.

The domestic prices of petrol and diesel have been frozen since November 2004, despite international crude oil prices crossing the US$55/barrel mark on several occasions. The oil companies have been clamouring for an equitable sharing of the burden, citing their shrinking bottom lines. The Petroleum Minister, Mani Shankar Aiyar, has also suggested that all the stakeholders – oil companies, consumers and the Government – would have to share the burden. Hence the hike is to pass on a part of the burden to consumers.



The Government's share of the burden is estimated at Rs 3,553 crore in 2004-05, which comprises subsidies on domestic LPG and public distribution system (PDS) kerosene. The oil industry's share is estimated at Rs 20,310 crore, on account of the under-recoveries on petrol, diesel, LPG and kerosene. The total burden shared by these two stakeholders is about Rs 24,000 crore. Considering this figure as the benchmark, a part is going to be transferred to the consumers. But, is this the real extent of the burden?

The method currently employed for calculating subsides on domestic LPG and PDS kerosene is import parity pricing of petroleum products and not unrecovered costs, which is the appropriate method. The subsidy amount is itself based on flawed methodology.

While the burden of the subsidy is itself inflated, the Government mops up a large amount from the oil sector, in the form of indirect taxes, most of which is passed on to the public in the form of higher costs. Compared with other Asian economies, India's levy on oil is very high. The total tax revenues from the oil sector stood at Rs 1,10,000 crore in 2003-04.

Additionally, the Government imposes a 'cess' on indigenously produced crude oil and collects about Rs 6,000 crore annually from the public. The cess was introduced in mid-70s to provide financial assistance to state-owned companies. Over the past three decades, the Government has collected about Rs 50,000 crore as cess, and almost all of it has gone into the consolidated fund of India.

The cess was doubled in March 2002, on the grounds of providing subsidies on LPG and kerosene (*the cess was, however, never intended to cover subsidies*). Unfortunately, the cess has now become an arrangement to meet the petroleum subsidy burden. Comparing the amount of petroleum subsidy and the cess amount collected, it is found that there is no *net* burden of petroleum subsidy on the Government. In fact, the Government is collecting much more than it claims to be spending.

Even the oil companies are reaping profits from the current pricing system. The import parity pricing system allows oil companies to factor in customs duty to arrive at the import parity prices. Since the country does not import petrol or diesel, the amount collected as *notional* customs duty from the public, estimated at Rs 10,000 crore, goes to bolster the finances of oil companies!

There is absolutely no transparency in the pricing of petroleum products. The Government and the public-sector companies are minting money from distortionary practices. Claims of a huge subsidy burden and bleeding oil companies are exaggerated; most of the burden is actually borne by the consumers.

According to a discussion paper of the Oil Ministry, public sector units (PSUs) make high profits due to monopolistic practices. A significant step towards introducing competition was the de-canalisation of kerosene and LPG and allowing private parties to import, as well as market, these products at market-determined prices.

However, since only state-owned oil companies are permitted to market subsidised petroleum products, the non-targeted subsidies offered to PSU oil companies, in terms of concessional pricing, distorts the market and restricts the ability of private retailers to compete effectively.

HIGHLIGHTS

"The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new."

Machiavelli, in *The Prince*

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Furthermore, the LPG Control Order has specified that the cylinders, regulators and valves to be used by the parallel marketeers have to be distinct from those used by the public sector oil companies. This requirement reduces the freedom of LPG end-users to switch from one supplier to the other, thus restricting competition.

One of the most significant threats to sustained economic growth of the country is the global oil scenario. This requires an effective conservation strategy, which can be made feasible, if the prices of petroleum products are determined transparently and allowed to reflect their true economic cost. In view of this, Government's intervention in the sector needs to be rationalised, to facilitate the market process, with subsidies targeted sharply at the poor. The petroleum sector requires a comprehensive competition framework, rather than stringent regulation.

The prevailing tax structure should be overhauled. The import-parity-pricing regime should be dismantled and the oil companies should be allowed to charge market-determined prices. A price stabilisation fund should be created to check high volatility in international crude prices. The Petroleum and Natural Gas Regulatory Board should be established to foster competition and ensure transparency in the determination of the prices of petroleum products.

These measures will ensure that the prices of petroleum products are determined by market forces without any distortions. They will also help in determining the real extent of the subsidy burden, which is expected to be much lower.

The subsidy on LPG can be removed. Presently, the subsidy largely benefits the high-income groups in urban areas. Moreover, the above measures will ensure that the additional burden on consumers would be much lower.

A cautious approach is required in the provision of kerosene subsidies, since about a half of the rural households use kerosene primarily to light their homes. For better targeting, coupons should be issued to the truly needy, with entitlement to purchase kerosene from a retailer at a subsidised price. This would discourage diversion of subsidised kerosene to other sectors. The list of beneficiaries could be made public and the local level agencies should be involved in the monitoring of the kerosene distribution system.

THEME: PETROLEUM SUBSIDIES AND PRICES

Taxes Inflating Prices

As much as 50 percent of the petrol retail price is pocketed by the Government, as taxes. The story is not very different for diesel either. The total tax component ranges anywhere between 11.05 percent in Delhi to a hefty 40.28 percent in Mumbai.

This sector is the golden goose for the exchequer. Compared with other Asian economies, India's levies on oil tend to be high. The total revenues from the oil sector – at Rs 1,10,000 crore in the fiscal 2003-04 – can meet almost 88 percent of the total debt servicing and interest burden of the country. No wonder, the Finance Minister is reluctant to reduce duty rates.

The Petroleum Minister has impressed upon the States the need to reduce sales tax on petroleum products, which is as high as 65 percent in Maharashtra. He wants the States to share the burden of the spiralling crude prices in the international market. *(ET, 11.08.04)*

Skewed Pricing

The prices of petrol and diesel in India are the highest in the South Asian Association of Regional Cooperation (SAARC) member countries. If high petrol and diesel prices are a rip-off on Indian consumers, then the highly subsidised kerosene and cooking gas more than make up for it. The prices of kerosene and cooking gas in India are among the lowest.

The SAARC countries, other than India, seem to have moved towards a market-determined pricing policy for petroleum products. Multiple taxes in India have ensured that the selling price of petrol is more than double its original price. *(FE, 02.12.04)*

Utilise the Cess

The Parliamentary Standing Committee on Petroleum and Natural Gas has directed the Government to create a price stabilisation fund from the cess levied on crude oil. This should be utilised to absorb fluctuations in the international price of crude oil. The annual average of such cess comes to about Rs 5,000 crore.

"There is no justification in levying the cess, if the amount generated from it is not being utilised for the development of the oil sector," the Committee observed while recommending the creation of the fund. *(ET, 25.08.04)*

Domino Effect?

The Government announced a hike in the prices of petroleum products, citing high international crude prices as the main reason. But, the decision is bound to make energy still scarcer for the national economy.

The hike is bound to lead to a chain reaction of higher fuel costs, higher freight and passenger tariffs and higher production costs of basic materials and consumer goods, according to J Mehra, Director, Essar Group. He questions the mechanisms that the Government has been adopting to raise the prices of petroleum products.

While the Government has cited high OPEC (Oil Producing and Exporting Countries) crude prices to justify the price hike, it nowhere takes the crude prices into account when fixing the prices of petroleum products. Instead, self-evolved 'import parity formula' is used, which puts the basic prices of petrol, diesel, LPG, etc., at par with the existing world spot prices. *(FE, 03.07.04)*

Out with Subsidies!

A definite timeline to progressively eliminate cross-subsidies in electricity tariffs for domestic consumers living above the poverty line is likely to be announced soon. The relevant guidelines will be laid down in the upcoming tariff policy, which will be placed before the Union Cabinet soon, said the Union Power Minister, P M Sayeed.

"The tariff policy will lay down the macro-level ground rules on electricity tariff fixation which every State Electricity Regulatory Commission (SERC) will have to follow. The move is aimed at ensuring uniformity and constancy of approach in tariff setting across the SERCs," added R V Shahi, the Union Power Secretary.

(ET, 14.02.05)

Less Funds for Reform

In view of the low off take for the Accelerated Power Development and Reforms Programme (APDRP), the Government has decided to reduce the allocation for 2005-06 to Rs 2,100 crore. This will be 40 percent less than the allocations made during the fiscal year 2004-05.

"In the period up to January 2005, there has been no allocation under the investment component of the programme, while Rs 80 crore have been allocated under the incentive component," said an official.

Under the investment component, additional Central assistance of 50 percent of the project cost is provided for strengthening and upgrading of the sub-transmission and distribution networks. The release of funds is linked to measurable targets. The incentive component includes 50 percent of the actual cash loss reduction by the state electricity board or utilities provided as grant.

(BS, 23.02.05)

Free Single Point Connection

The Government has approved the new 'rural electricity infrastructure and household electrification' scheme providing free single point connection to households below poverty line. This will provide a decentralised power distribution and supply system.

The existing scheme of accelerated electrification of one lakh villages and one crore households will be replaced by the new scheme. The minimum needs programme for rural electrification will be merged with the new scheme. This was announced after a meeting of the Cabinet Committee on Economic Affairs. The scheme will provide a 100 percent subsidy for single point connection to BPL households. *(FE, 18.02.05)*

Power Sector Bidding

In a bid to move away from the cost-plus approach of determining tariffs, the Ministry of Power has issued guidelines for competitive bidding for tariff determination of power procured by distribution companies. The guidelines have been finalised after consultation with the Central Electricity Authority (CEA), Central Electricity Regulatory Commission (CERC) and other stakeholders.

Competitive procurement of electricity by distribution licensees is expected to reduce the overall cost of procurement of power and, thereby, lower costs for consumers.

"The guidelines aim at moving away from cost-plus approach for determining tariff and is expected to further encourage private sector investments," said Power Secretary, R V Shahi. *(ET, 21.01.05 & BL, 04.02.05)*

Free Power Fine-tuned

The Andhra Pradesh Chief Minister, Y S Rajasekhar Reddy, has decided to make 'minimal changes' in free power policy.

"We are not flouting our poll promise. But, to strengthen the distribution system, marginal changes have been made to the policy," said Reddy. From April 1, 2005, about four lakh farmers (mainly big and corporate farmers) have to pay between Rs 0.20 and Rs 2 per unit, based on their status.

"We are still going to offer free power to about 90 percent of the deserving farmers. The exercise will not have direct benefit for the government or the Andhra Pradesh Transmission Company, but strengthens the distribution system," Reddy pointed out. *(FE, 26.01.05)*

Massive Investment Sought

The Government has projected an investment requirement of Rs 9,00,000 crore by 2012 to finance generation, transmission, distribution and rural electrification projects.

Business Standard

The draft National Electricity Plan (NEP), prepared by the CEA, has set the target of capacity addition at a record 60,769 MW for the 11th plan, which is higher than the 10th Plan target of 41,110 MW.

"The 60,769 MW target is set for the 11th Plan in order to accomplish the Central Government's objective of providing power to all by year 2012. The recently announced national electricity policy has already provided clear guidelines and the proposed plan will give the manner in which capacity will be added," said H L Bajaj, the CEA Chairman. *(BL & FE, 04.02.05)*

Electricity Policy Approved

The Union Cabinet has approved the National Electricity Policy. The policy aims at facilitating open access, making electricity available to all households over the next five years and meeting the demand for power by 2012. "The policy, under the Electricity Act 2003 will serve as a guideline for power regulators at the Centre and States," said the Finance Minister, P Chidambaram.

The policy will enable companies to obtain a licence in a power distribution zone with an existing player, i.e., the state electricity board (SEB). The policy has set out the minimum licensing area as a revenue district, to ensure that the new entrant does not walk away with the best consumers alone.

(BS & FE, 03.02.05)

TRAI's Common Charter

The Telecom Regulatory Authority of India (TRAI) has released a common charter of telecommunication services for adoption by all the service providers. Though not mandatory, this Charter is an attempt by the TRAI to promote a code of conduct in the industry.

Under the Charter, a basic telephone connection should be provided within seven days, while a mobile connection should be provided immediately on registration, subject to technical feasibility and compliance of all required formalities. It also provides the citizens the right to have a free choice in selecting their service providers, besides being informed regarding the broad range of services, individual plans, tariff rates applicable to each of these plans, their validity and the terms and conditions of payment by the service provider.

(FE & BS, 25.02.05)

Hike in FDI Cap

The much-awaited Cabinet decision to allow up to 74 percent foreign direct investment (FDI) in the telecom sector is expected to drive a second round of consolidation. It is likely to facilitate the entry of multinational companies and enable domestic companies to raise funds necessary to increase the total telecom subscriber base from 90 million now to 250 million by 2007.

The Government, however, added several riders to address the Left parties' security concerns, such as mandating 50 percent of the board comprising of resident Indians. The Left parties have, nonetheless, strongly opposed the decision.

(FE & BS, 03.02.05)

VSNL Sues Government

The Videsh Sanchar Nigam Limited (VSNL) has filed a suit in the High Court of Mumbai demanding Rs 2,560 crore from the Government of India as compensation for its early loss of monopoly in international long distance telephony.

The petition also prayed that the Government pay the VSNL interest at the rate of 18 percent per annum on the amount of Rs 2,560 crore from April 1, 2002 (when the monopoly was taken away), till the actual date of payment/realisation. This is arguably one of the biggest compensation cases the Government has been taken to court for.

(BL, 30.01.05)

Calling Off Sales-calls!

The Supreme Court has issued notices to top mobile firms and private banks on a public interest petition alleging that they were providing phone numbers of citizens to commercial groups for promotion of sales. The Court observed that this practice not only violated the fundamental right to privacy but also the Telegraph Rules and international norms. The Court has asked the Government as well to curb mobile phone 'spam'.

A petition was moved to the apex CFourt accusing Mahanagar Telephone Nigam Ltd (MTNL), Reliance, Hutch and HSBC Banks of invading the privacy of citizens by making unsolicited calls offering products and services. The petitioner wanted the Court to direct the Government to frame a scheme or pass regulations to protect the privacy of subscribers. *(FT, 12.02.05 & BS, 08.02.05)*

Bandwidth Prices Slashed

The TRAI has slashed the international bandwidth prices by 35-70 percent, a move expected to lower tariffs for International Long Distance (ILD) calls, internet access and Broadband services. Besides retail customers, IT and IT-enabled service companies would benefit significantly from the move. The operators would be free to offer tariffs that are lower than the ceiling tariff fixed by the regulator.

"The ILD tariffs will surely drop...It is, however, too early to comment on the magnitude of the likely price cuts. The market will decide the extent of ILD rate cuts," a senior TRAI official said.

(FE, 12.03.05)

Rs 8,000 Cr for Rural Phones

The Government has embarked on a Rs 8,000 crore plan to provide 6 million new fixed line telephones in rural households by the year 2007, with the support from the Universal Services Obligation (USO) Fund.

The USO fund administrator has invited expression of interest from telecom operators across 20 states to bid for the largest project envisaged under the USO scheme.

"We have worked out a per-line cost of Rs 17,000 which may be brought down if there is competitive bidding. The operator can use any technology for offering fixed telephone services in these villages," said Shyamal Ghosh, Administrator, USO Fund, Department of Telecommunications.

On the other hand, the Bharat Sanchar Nigam Ltd (BSNL) is planning to set up 1,00,000 information kiosks covering 48 percent of the rural population by the year 2007, in order to provide broadband and connectivity in these areas.

(BL, 04.01.05 & BS, 16.03.05)

Market Upbeat on Prospects

India's tele-density is expected to reach 25 per 100 people by the year 2010 and it will be one of the world's largest telecom markets by the year 2008. "By 2004, India's teledensity was projected to grow to 7 per 100, but it has surpassed the expectations and grown to 8.2 per 100," said Gururaj Despande, the Chairman of Sycamore Networks and the Chairman of the Board of Tejas Networks. "During the year 2000, teledensity was around 2 percent and it has increased to over 8 percent because of the Government's initiatives in this sector," he said.

(FE, 10.01.05)

NHAI to Get Autonomy

The Government has decided to completely restructure the National Highways Authority of India (NHAI), in a bid to empower it to take independent investment decisions without forwarding them to the Public Investment Board for clearance.

The decision to restructure the NHAI was the result of the personal initiative of the Prime Minister. The move will help the NHAI to take independent investment decisions for mega expansion of the ongoing highways upgradation programme, said Prithviraj Chavan, the Minister of State in the Prime Minister's Office.

(ET & FE, 15.02.05)

An AERA in the Air

The Government will soon be setting up an Airport Economic Regulatory Authority (AERA). The role of the proposed regulator would be to regulate economic affairs of the sector. The Authority would be set up through a legislation and will function on the lines of the TRAI and the Insurance Regulatory and Development Authority (IRDA), said Praful Patel, Civil Aviation Minister.

The move is expected to provide comfort to investors and help in attracting large-scale investments, especially FDI, in major projects like restructuring of the Delhi and Mumbai Airports with private sector investments, added Patel.

(ET & FE, 03.02.05)

Maritime Watchdog

Indian shippers have demanded a freight regulator for the shipping industry. Many associations, including the Freight Interest Forum (FIF), and the Indian Merchant Chambers (IMC) have asked the Government to initiate steps to set up a regulator in line with the Federal Maritime Commission (FMC) of the US. Further to that, the Associated Chambers of Commerce and Industry (ASSOCHAM) has now suggested the formation of a regulatory body to control the 'frequent rise in shipping freight rates.'

Meanwhile, the Shipping Ministry is proposing a Shipping Trade Practices (STP) Bill aimed at regulating freight forwarders and shipping agents. This is in addition to the amendments to the Multi-modal Transport Act.

(ET, 16.01.05 & BS, 20.02.05)

Reduce Cross-Subsidies

The World Bank (WB) has advised the Indian Railways to review passenger fares so as to reduce cross subsidies and freight rates, which would, in turn, lead to growth in the freight business.

A comparative analysis of the highways and railways development in China and India between year 1992 and 2002 done by WB shows that while average passenger tariff in India is 55 percent lower, freight tariff is almost 70 percent higher than China. The cost per unit in China is lower by 15 percent than in India. The analysis was presented to the Prime Minister's Office (PMO) and the Planning Commission.

Listing out potential lessons for India from the Chinese experience, the WB advised that the conflict between the Indian Railways' role as a commercial organisation and its social obligations should be resolved.

(FE, 28.01.05)

Private Containers In

To cater to the growing container traffic, estimated at 15 percent annually, the Railways has decided to allow entities other than state-owned Container Corporation of India (Concor) to run container trains.

A beginning in this direction was made in November 2004, when the Railways Board cleared a long-pending proposal to allow Pipavav Railway Corporation Limited, a 50-50 joint venture between the Indian Railways and Gujarat Pipavav Port Limited, to operate container trains from Pipavav port to various inland container depots.

(BL, 27.02.05)

Shutters Down for MPSRTC

The Madhya Pradesh Government has decided to close down the loss-making Madhya Pradesh State Road Transport Corporation (MPSRTC). Cumulative losses of the Corporation had reached approximately Rs 800 crore. The Transport Department was working on a report to compensate the employees or accommodate them in other departments or organisations, said Umashankar Gupta, the State's Transport Minister.

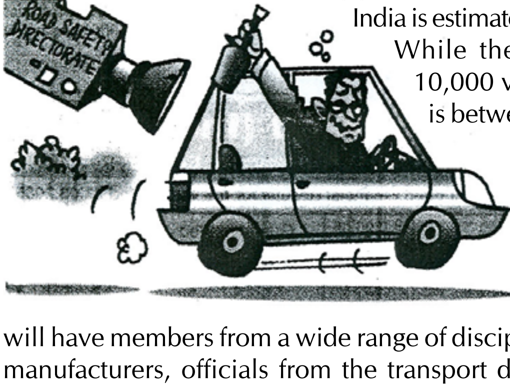
The Corporation has 11,000 employees. According to the details available, operating costs of the Corporation for 850 buses have reached Rs 20.44 per km, while the earning is just Rs 13.86 per km. Thus, the Corporation was incurring a loss of Rs 6.58 per km as on December 31, 2002. The Corporation is also likely to face litigation from some banks since its liabilities have not been settled so far.

(BS, 04.01.05)

Board for Road Safety

With a view to reducing the number of fatal road accidents in the country, the apex body for automobile manufacturers, the Society of Indian Automobile Manufacturers (SIAM), has mooted the idea of setting up of a National Road Safety Board (NRSB).

According to the SIAM, over 80,000 Indians are killed in road accidents every year and the social cost of road accidents in India is estimated to be over Rs 55,000 crore. While the number of fatalities per 10,000 vehicles is 14.54 for India, it is between 4.1 and 4.6 in other low-income countries like Brazil and Mexico. High-income countries have less than two fatalities per 10,000 vehicles.



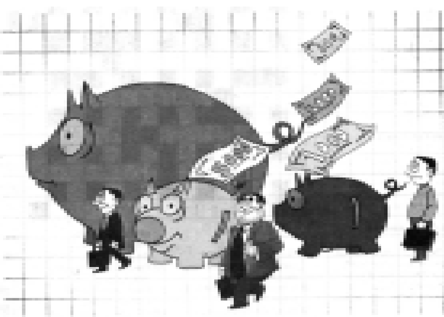
The Financial Express

The proposed NRSB will have members from a wide range of disciplines, including automobile manufacturers, officials from the transport department, researchers and academics.

(BS & ET, 07.01.05)

PSBs to be Market Driven

The Ministry of Finance has cleared a new autonomy package for public sector banks (PSBs), aimed at creating a level playing field for state-owned banks with their private sector counterparts. As per the new provisions, PSBs will have the freedom to decide on virtually the entire gamut of human resource issues. Further, the package permits them to undertake acquisitions of companies/business, close or merge unviable branches, open overseas offices, set up subsidiaries, take up a new line of business or exit an existing one, without seeking prior approval from the Government.



Business Standard

"We want public sector banks to be more market-driven. They should compete on a level playing field with private and foreign banks," said Amitabh Verma, Joint Secretary, Ministry of Finance. *(BL, 23.02.05)*

Amendment Sought

With a view to initiating recovery proceedings under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (Sarfaesi) Act, 2002, banks are seeking changes in the Recovery of Debts Due to Banks and Financial Instrumentation (RDDBFI) Act, 1993.

A formal request for enabling such changes has been sent to the Finance Ministry from the Indian Bank's Association (IBA). As per the recent amendment to Section 19 of the RDDBFI Act, banks, which have proceeded against defaulters in the Debt Recovery Tribunal, have to first withdraw the case before the tribunal in order to initiate proceedings under the Sarfaesi Act.

"The latest amendment to the Sarfaesi Act is proving to be a constraint for all banks. Borrowers are trying their best to ensure that the three-year limitation period is behind their backs by adopting delaying tactics, so that banks are not able to make recoveries," said a senior banker.

(FE, 11.01.05)

Falling Short

As per the findings of the Parliamentary Committee on Empowerment of Women, as many as eight public sector banks, including the State Bank of India, have failed to meet the March 2004 deadline for earmarking five percent of their net bank credit (NBC) for lending to women.

As per the first report of the Committee, tabled in Parliament during the Winter session, eight of the 27 public sector banks failed to achieve the target of lending five percent of NBC to women, especially to self-help groups (SHGs), as prescribed by the Reserve Bank of India (RBI) on July 26, 2001. *(BL, 02.01.05)*

Regulators Lock Horns

The Securities and Exchange Board of India (SEBI) is locked in a turf war with the Forwards Market Commission (FMC) over the regulations of exchange traded gold-backed mutual funds announced in the Union Budget 2005-06.

Both regulators feel that they should be exclusively regulating the product. SEBI's contention is that any kind of instrument traded on the exchanges automatically falls in its jurisdiction, irrespective of whether it is defined as a security or not under the Securities Contract Regulation Act (SCRA).

On the other hand, the FMC holds the view that since the underlying asset for such instrument is a commodity (gold), the regulation of the product lies with the Commission.

(BS, 29.03.05)

FM Identifies Key Drivers

Dismissing the fears of job loss, the Finance Minister, P Chidambaram, urged the bank employees to reflect on consolidation to make the sector competitive.

"Competition, convergence and consolidation will be the key drivers of the banking industry in the future," said Chidambaram. "We need strong banks and I am confident we are on the right path. I spoke to the Prime Minister and we reflected on the issue… This is the path we must take," he added. *(BS & ET, 25.03.05)*

BoI Goes Shopping

After the State Bank of India, the Bank of India (BoI) has emerged as the second Indian bank to look overseas for acquisitions. The Bank was eyeing a small private bank in Indonesia and was also looking to funding its overseas operations through medium term notes issued in the coming fiscal, said M. Venugopalan, Chairman and Managing Director, BoI.

"We are looking at acquisition in Indonesia, as otherwise, there is high capital requirement to set up a branch. We would need a US$100mn to open a branch. Hence, the acquisition model is a preferred route," he added.

(BS, 06.01.05)

IRDA to Review Act

The Insurance Regulatory and Development Authority (IRDA) has set up a committee to review some of the recommendations that the Law Commission made in a report it submitted in 2004 suggesting amendments to certain provisions of the Insurance Act of 1938.

The recommendations are intended to merge certain provisions in the IRDA Act of 1999 and the Insurance Act of 1938. The proposed changes relate to investments, sufficiency of assets, the Tariff Advisory Committee and the shareholders/policyholders' funds.

As the Industry is facing intense competition, insurers now want an enabling provision allowing them to raise capital in the form of subordinated debt instruments.

Regarding the review related to the Tariff Advisory Committee, both the public and private sector insurers have sought greater flexibility in fixing tariffs to cut underwriting losses and ushering in a free pricing regime as in the case of international markets.

(BL, 22.03.05)

Common Tribunal Likely

A common appellate authority for related sectors could be a reality soon. However, there is no likelihood of the Government going in for common regulators for transport and energy. The idea of having a common regulator for networks such as telecom, gas pipeline, power transmission lines and railways was also not found favourable.


Business Standard

"The appellant authority can be expanded to include members with expertise in specific areas. For instance, a common authority on energy can have separate persons handling the petroleum and power sectors," said a Government official

"The Government should not be allowed to overturn the decisions of regulators. If required, the Government could change the relevant policy so that the outcome of the policy is in line with what is thought to be desirable." added the official. *(BS, 11.02.05)*

PC Announces SPV

The Finance Minister, P. Chidambaram, announced the setting up of a Rs 10,000-crore Special Purpose Vehicle (SPV) for infrastructure, to help developers import capital of US$2-3bn to leverage investments of Rs 20,000 crore.

The SPV, which would be a shell company, housed in the Finance Ministry, will raise funds from the domestic market and offer long-term debt for infrastructure projects. *(BS, 05.03.05)*

Develop Rural Infra

The Planning Commission stressed the need for infrastructure development in rural and backward areas and to attract investment for the socio-economic growth of states.

"Plan expenditure of a State does not necessarily determine its growth rate. It depends on the State's capacity to attract investment from within the State, outside and abroad," said Montek Singh Ahluwalia, the Deputy Chairman, Planning Commission. The states need to identify the causes of growth like poverty alleviation and education and improve road connectivity and other infrastructure like power and railways, he added. *(ET, 11.03.05)*

Time to Merge Oil PSUs

Indicating his plan for restructuring the oil and gas sector, the Prime Minister, Manmohan Singh, has set the stage for a mega merger among the PSUs in the oil and gas sector.

"We can no longer be complacent and must learn to think strategically, to think ahead and to act swiftly and decisively," he said, addressing Petrotech 2005. "I find China ahead of us in planning for the future in the field of energy security." The Government will shortly set up a high-level Committee under former Steel Authority of India Ltd. (SAIL) Chairman, V Krishnamurthy to consider options for restructuring oil PSUs to make them competitive and take on China in the global market.

Even the Planning Commission, in its mid term appraisal in November 2004, recommended creating a single national oil company by merging Indian Oil, Oil and Natural Gas Corporation (ONGC), Oil India Ltd and certain operations of GAIL. *(FE, 17.01.05)*

Gujarat Woos Investors

The Gujarat Government has announced the creation of US$100mn Gujarat non-resident Indian Infrastructure Fund for foreign investors and financial institutions keen on investing in infrastructure projects in the State.

The State Government will contribute up to 10 percent of the fund corpus that will be used to attract investment.

"The Gujarat Government has prepared a list of 300 project proposals in different industrial sectors for the investors' Summit where the Government has outlined feasibility of the projects along with the geographical and locational advantages. With the Central Government sanctioning the development of seven Special Economic Zones (SEZs) for Gujarat, we are poised to offer sops to industry players in setting up industries in these SEZs," said Narendra Modi, the Chief Minister. *(FE, 07.01.05)*

PPP in Water

Speaking at a national seminar organised by the Confederation of Indian Industry (CII), the Delhi Chief Minister, Sheila Dikshit, announced full privatisation in the water sector. She said the Government was open to public-private partnership (PPP) in the construction of water treatment plants and supply of meters.

The Government was also 'seriously considering' a proposal to set up a water regulatory body which would look into all aspects of water charges in the capital region. "The proposed regulator will be a quasi-judicial authority which will be responsible for determining water tariffs and other critical issues," said the Chief Minister. *(BL, 08.02.05)*

Regulating Media Content

The Bill providing for a quasi-judicial regulatory body to monitor content on television channels, has been drafted and is likely to be introduced during the monsoon session of the Parliament, said Jaipal Reddy, the Minister for Information and Broadcasting.

The Bill will be covering the 'content' and not getting into the 'carriage' side of the business. The Ministry has already initiated discussions with the Communications Ministry on the issue. "We have tried to explain why content should be separated from carriage and why there should be a separate content regulator," said top Government sources. *(FE & BL, 18.01.05)*

Smooth Sailing Patents Ensured

Following the introduction of the patent regime in the country, the Government has ensured that there would not be inordinate delays in the granting of a patent and very strong opposition procedures would be adopted, according to Ashok Jha, Secretary, Industrial Policy and Promotion, Ministry of Commerce & Industry.

Addressing the session organised by the Federation of Indian Chambers of Commerce and Industry (FICCI), on the amendments to the Patent Act, Jha said that the pre-grant sessions would be conducted in a time-bound manner, thereby not delaying any case, and a fair chance would be given to oppose any patent grant.

Allaying fears over the increase in drug prices because of the patent regime, he said, "prices of drugs will be determined by the market forces. However, there is always an alternative for any drug, including a patented drug". This means alternatives would be pushed into the market and there would be very few takers for the patented drugs, he added.

(FE, 09.02.05)

Pension Protection

The Pension Fund Regulatory and Development Authority (PFRDA) will administer a fund for subscriber protection. It will also fund its expenses through government grants and fees. A Pension Regulatory and Development Fund will be constituted for this purpose, as per the Ordinance governing the PFRDA.

All sums received by the Authority, as decided by the Centre from time to time, will be credited to the fund. In addition, a Subscriber Education and Protection Fund will also be established. The corpus of this fund will come from the penalties levied by the Authority. Further, grants and donations given by the centre, state governments, companies or any other institution will be used for the fund.

As a developer, the Authority is required to establish a mechanism for redressing grievances of subscribers. It is required to take steps to educate subscribers on issues relating to pension, retirement savings and training of intermediaries.

(BS, 03.01.05)

Quota for SC/ST

The Government is considering reserving 7.5 percent share each for Scheduled Tribes (ST) and Scheduled Castes (SC) when awarding tenders from public sector units like the Railways and other central supply and distribution systems.

This has been recommended by the Prime Minister's Inter-Ministerial Task Group (IMTG) as a strategy for encouraging viable livelihood for SC and ST. The IMTG report has also suggested that industries should be persuaded to award a share of their outsourcing jobs to the *dalits* and the tribals.

Highlighting the role of the state governments, the IMTG says states should formulate cluster-based plans indicating viable livelihood programmes like settled agriculture, dairy and animal husbandry, fisheries, afforestation, housing, education, basic primary health facilities, safe drinking water, besides programmes for skills upgradation and vocational training.

In order to provide sustainability to the programme, a strong market chain has to be evolved, the report suggests.

(FE, 10.01.05)

West Bengal Tops the List

West Bengal tops the list of states in terms of distribution of surplus land and the number of beneficiaries, followed by Maharashtra, Andhra Pradesh, Assam and Jammu & Kashmir.

While the total area declared surplus was 73.36 lakh acres as on March 31, 2004, 54.03 lakh acres was distributed to 57.46 lakh individual beneficiaries, said the Agriculture Minister, Sharad Pawar. Of this, West Bengal distributed about 11 lakh acres to 27.60 lakh beneficiaries, followed by Maharashtra with 6.14 lakh acres to 13.5 lakh beneficiaries, Andhra Pradesh with 58.22 lakh acres to 52.6 lakh beneficiaries and Assam with 5.56 lakh acres to 52.6 lakh beneficiaries.

(BL, 22.03.05)

Biotech Policy will be Simplified

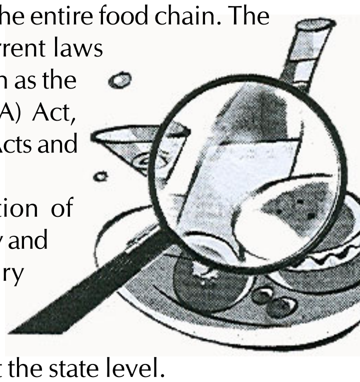
The Government's biotechnology policy, which is expected to be released soon, will simplify the regulatory processes for the sector. The Government is looking at reducing the clearance time for products. While products that entail low risk will have a two-step clearance process, those in the high-risk segment will invite more stringent criteria.

"It has been proposed to have a single window regulatory authority in the long run, but, as of now, the Government will go in for simplification of the existing mechanism," M K Bhan, Secretary, Department of Biotechnology, said on the sidelines of the 2nd International Conference on Biotechnology. Under the new policy, the Government is also looking at increasing public-private partnership to support innovation. The policy will also look at promoting medical school research and stem cell research.

(BS, 09.02.05)

Integrated Food Law

The CII has called for putting in place an integrated food law that would encompass several issues, including standard setting, enforcement and consumer safety for the entire food chain. The Chamber is of the opinion that all current laws governing food quality and safety, such as the Prevention of Food Adulteration (PFA) Act, 1954 and PFA rules, 1955, plus other Acts and Orders must be repealed.



The Economic Times

According to the CII, the definition of 'food' should include functional, dietary and nutritional foods and the regulatory structure should ensure consumer safety in the food industry, by setting standards and uniform enforcement at the state level.

It has suggested the setting up of an autonomous 'Food Regulatory Authority (FRA)' to formulate rules and procedures and supervise the implementation and enforcement. A `council of food standards' could assist the FRA to recommend and upgrade food standards based on science-based risk analysis to ensure consumer safety, CII added. *(BL, 27.03.05)*

Food Safety Monitoring Body

Consumer Education and Research Centre (CERC), Ahmedabad, in a representation made to the Union Ministry of Food Processing Industries, has underlined the need for an effective regulatory authority to monitor the fulfilment of food safety, nutrition, labelling and other such requirements by producers and distributors.

These provisions are missing in the present Prevention of Food Adulteration (PFA) Act 1954, which deals largely with the prevention of adulteration, particularly prosecution for the violation of the Act. It does not deal with the nutritional aspects nor does it provide for compensation to consumers for loss, injury or death because of non-compliance of the Act. Also, there is no provision for disgorgement of unjust enrichment or class action suits against producers or distributors of unsafe, substandard or underweight food products and/or false or misleading advertising, or sale of spurious or counterfeit food products. *(Insight, 30.03.05)*

No Petro Dealership to MPs

The Supreme Court appointed a high-level committee, which advised the cancellation of 297 petrol pump allotments and recommended that MPs should not be allotted dealership of petroleum products. If given, they should resign from their membership of Parliament before taking up the dealership.

The two-judge committee, appointed by the apex Court by its December 12, 2002 order, said that an MP has to attend Parliament and meetings of Parliamentary Committees entailing long absence from his place of allotment of the retail outlet. "They cannot thus run the dealership/ distributorship themselves but have to engage employees to supervise work. They, therefore, do not fulfil the necessary condition of 'Full Time Working Dealer," the report said.

(ET, 18.01.05)

Flexible Timings for Women

Government decided to amend the Factories Act 1948, to allow women to work in late night shifts, Information and Broadcasting Minister Jaipal Reddy said. The amendment would greatly benefit women working in special economic zones and IT sector.

Reddy said flexible work timings for women shall be allowed "provided adequate safeguards in the factory as regards occupational safety and health, equal opportunity for women workers, adequate protection of their dignity, honour and safety and their transportation from the factory premises to the nearest point of their residence are made." *(ET, 29.03.05)*

Ordered Closure of Polluters

The Supreme Court ordered the Centre to direct 12 state governments to close 218 industrial and mining units within 10 days for failing to take mandatory clearance under Environment Protection Act. "Industrialisation cannot be allowed at the cost of environment," said the court.

Of the 218 units, 70 are in the industrial and 148 in the mining sector. Goa tops the list with 31 polluting units, while Jharkhand and West Bengal have just one unit each.

(FE & ET, 22.02.05)

State Policies under Scanner

State governments still harbouring a legacy of the control and licence *raj* will have some tough questions to answer now. The Competition Commission of India is set to scrutinise the liquor and passenger transport policies of the state governments to see if there are any practices that blunt free-market competition.

The Commission, empowered to penalise a corporate or government body for anti-competitive practices, will, however, restrict its action to 'competition advocacy' till it gets fully operational. *(ET, 11.01.05)*

Farm Marketing Reforms

With the objective of implementing legal reforms in the agricultural marketing sector, the Andhra Pradesh Government has come out with a Bill that seeks to amend the Agricultural Produce and Livestock Markets Act, 1966.

The Bill provides for the enforcement of contract farming, establishment of private market yards and special markets, setting up of national integrated produce markets for the National Dairy Development Board and a change in the composition of the existing Agricultural Market Committees (AMCs).

As per the provisions, the number of members of the AMCs in the State will be raised to 18, including growers, traders and ex-officio members. There will also be five representatives from scheduled castes, scheduled tribes, backward classes, minorities and women among the 14 nominated members of the committees.

(BL, 28.03.05)

Redefine Centre-State Relations

The Central Government has decided to set up a new commission to take a fresh look at the centre-state relations, especially with regard to the division of powers when it came to the appointment of Governors, Union Home Minister Shivraj Patil announced. He said there was an urgent need to define the centre-state relations in a multi-party democracy.

Indicating that much had changed regarding the norms of behaviour between the centre and the state governments, Patil candidly observed that there had been occasions of friction between the centre and states on certain issues. *(BS, 17.02.05)*

Cadre of Senior Officials

The SEBI is to create a cadre of senior officials. According to preliminary indications, the top SEBI management will henceforth be drawn only from the cadre.

SEBI will interact more closely with other regulators such as the Reserve Bank of India, the Insurance Regulatory and Development Authority and agencies such as the Enforcement Directorate, the Income Tax Department and the Central Bureau of Investigation (CBI).

As per SEBI Act 2003, out of nine members, three should be whole time members. The lack of a proper cadre for staffing SEBI at the top levels means that its top posts lie vacant for most of the time. *(BS, 24.02.05)*

Centre Gets Notice on Cola

The Supreme Court (SC) issued a notice to the Central Government on a petition seeking the manufacturers to disclose soft drinks contents and give warnings of harmful substances in them. It also wanted the Government to control misleading advertisements, particularly those targeting children, the illiterate and the unaware.

The petition alleged that the government, which has a duty to protect the lives of citizens, has not taken any initiative in this regard despite several researches finding soft drink contents to be harmful, especially for children. *(BS, 03.01.05)*

Find the Best Talent

India needs to find the best talent to head the Competition Commission and various economic regulatory agencies, according to several MPs at a seminar organised by CUTS-International.

Initiating the discussion with reference to the current stalemate relating to the Competition Act, Yashwant Sinha, former Finance Minister, said: "It is a pity that such an important legislation has run into difficulties because of the petty issue of who should head the Commission."

Yashwant Sinha also said that the country definitely needs a National Competition Policy to ensure a competition assessment of all government policies. In the context of competition abuses that exist at the local level, Sinha expressed doubts about the ability of the Competition Commission of India to deal with such issues. *(BL, 14.03.05)*

Draft Steel Policy

The draft National Steel Policy visualises that the sector would generate 10 lakh new jobs by the year 2002, directly or indirectly. Domestic steel output, according to the target set by the policy draft, is expected to touch 110 million tonnes by 2020, from the current level of 36 million tonnes annually.

Differences have emerged among the country's leading steel producers on the idea of having a steel regulator. While all others have spoken out against the proposal, the Steel Authority of India Limited is willing to accept a regulator in case the steel prices become unreasonable. *(BS, 31.01.05)*

Specialised Food & Drug Labs

Under a programme known as 'Capacity Building Project on Food and Quality Control of Drugs,' the Government has put in motion a plan to set up close to 40 food and drug testing laboratories and upgrade the existing ones at a cost of around Rs 350 crore.

India has passed strong and stringent legislation regarding food and drugs and now the new hi-tech laboratories will enable detection of pesticides and other contents efficiently and accurately.

Currently, out of the 19 laboratories only 7 are equipped to test all varieties and types of drugs. Despite there being an equal number of laboratories for testing edible items, none of them is presently able to detect contents as per international standards.

The laboratories will be as modern and hi-tech as any lab in Europe and would be able to conduct all required tests to ensure that no banned substance or contamination reaches a consumer. The labs will be equipped to detect all internationally banned residues, which will ensure that not only Indian but also foreign companies will have to follow global standards across India. *(ToI, 24.03.05)*

The Competitiveness Mantra

The Prime Minister, Manmohan Singh, asked the National Manufacturing Competitiveness Council (NMCC) to come up with ideas that can help Indian industry in becoming globally competitive and generate employment in the country. Addressing members of the NMCC, Singh said that Indian industry should be prepared for lower tariffs and think in terms of world-scale production facilities. Singh also urged industry to think big and think into the future.

According to the NMCC Chairman, V Krishnamurthy, they will come up with a long-term strategy paper on manufacturing. The elements that are likely to go into the long-term paper include making the environment more conducive for manufacturing and enhancing the competitiveness of the sector. *(BL, 07.01.05)*

NISG's e-Gov Plan

The National Institute of Smart Governance (NISG) plans to broad base the implementation of various e-governance projects across the country. It has identified certain key areas of citizen services, land records and transportation applications that could be replicated for rapid deployment.

The United Nations Development Programme (UNDP) Resident Representative, Maxine Olson, said that the UNDP would be working towards a coordinated effort in this direction.

The Centre, under the National E-governance Action Plan (NEAP), has earmarked Rs 12,400 crore through public-private participatory models. 25 mission mode projects have been identified for implementation at the central and state levels in the next three to four years, with the principle focusing on improving service delivery to citizens and businesses.

The World Bank (WB) has given an in-principle nod for a US$500mn financial support, for four years initially, to the national e-governance plan, giving a fillip to the country's e-governance initiative.

(BL, 25.01.05, 13.03.05 & FE, 03.02.05)

High-tech PMO

The Prime Minister's Office (PMO) officials now use information technology solutions to monitor the implementation of various programmes and policies of the government.

In addition to the implementation of the National Common Minimum Programme (NCMP), the PMO applies similar technology tools to monitor various issues concerning the state governments, the MP Local Area Development Fund and some thrust areas identified by the government.

The PMO officials are able to record the proceedings of internal meetings on a laptop, upload them and then follow-up with the concerned departments on a monthly basis.

(ET, 05.03.05)

AP Broadband Project Halted

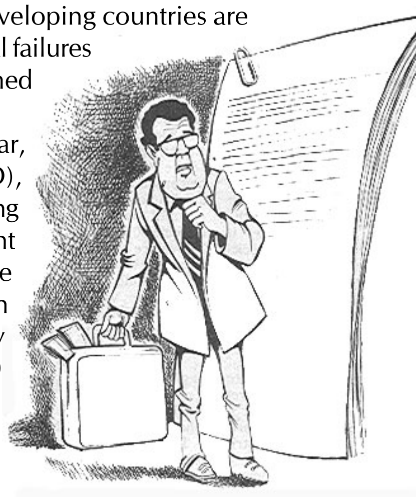
A public interest litigation plea and the objections raised by the Telecom Regulatory Authority of India (TRAI) have come in the way of the Rs 400-crore broadband project of the Andhra Pradesh (AP) Government. The High Court has ordered a *status quo* in the project. The TRAI objected on the grounds that the network laying plans needed a license first.

This project is aimed at providing entertainment, literacy, data and Internet services by charging Rs 100 a month from rural households. The state is also looking at introducing a device that combines the features of a personal computer, television and phone in these areas. The setting up of Internet kiosks is being planned.

The project proposes to connect 23 districts, 1,127 *mandals*, thousands of villages and 40,000 government offices and enable departments to deliver citizen services through *e-seva* centres. *(ET, 30.03.05)*

Failures Abound

A World Bank (WB) study estimated that about a 35 percent of the e-governance projects in developing countries are total failures, 50 percent are partial failures and only 15 percent can be termed as success stories.



The Hindu Business Line

According to Sameer Kochhar, Chief Executive Officer (CEO), Skoch Consultancy, India's spending on e-governance is up 23 percent per annum to touch Rs 2,200 crore by 2004 end. As per Skoch Consultancy's e-governance survey for 2004, although over 100 projects have been implemented across the country, only half of them qualify as e-governance projects, with interface with citizens or other customers of such services. Infrastructure is a critical issue. Adequate network/connectivity is important in the rural areas to experience a more accessible and transparent face of the Government. *(FE, 24.01.05)*

Courting Technology

Dispensation of justice may be quickened with the computerisation of all courts in the country over the next four years. Rs 300 to 400 crore are proposed to be spent every year for this purpose.

The Union Law and Justice Minister, H R Bharadwaj, said on the sidelines of a training programme for the newly appointed members of the Income Tax Appellate Tribunal (ITAT) that every court or tribunal, even at the *Taluka* level will be computerised in the coming days.

The Law Secretary, R L Meena, said that there had been some improvement in the number of pending cases before the ITAT, but they must aim towards a system that would enable disposal of appeals within six months of filing. As on March 1, 2005, about 1,38,739 cases were pending before the ITAT.

(BL, 14.03.05)

Tata Wins Mega Deal

The Indian Government announced that the largest outsourcing deal in India, worth US$78mn, went to Tata Consultancy Services (TCS), India's largest software company. This is mooted as Delhi's most visible step, so far, in reforming its slow moving bureaucracy.

TCS is all set to digitise the corporate filings of 6,50,000 Indian companies across 22 national offices. All the paper records are expected to be computerised over the next six years. A potential goldmine of corporate information will be made instantly available.

Vijay Kelkar, a former Finance Ministry official, said that outsourcing is the way forward, as it saves taxpayers' money and does not risk public sector jobs. For these reasons, such reforms are comparatively easy to push through.

(FT, 10.02.05)

States to Get More

In a move to restore budgetary balance, the Twelfth Finance Commission (TFC) plans to reform state finances and has recommended transfer of 30 percent of revenue from central taxes to the states.

Adhering to the TFC's recommendation for enactment of fiscal responsibility legislation, many states have tabled the Bill in the budget session. The passage of this Bill would entitle them to a debt write-off scheme. Suggestions were also put forth for setting up an independent agency to review compliance.

TFC, besides suggesting ways of reducing the debt burden of the states, has set a long-term target of 3 percent fiscal deficit each for the centre and the states. The states' share in the divisible pool of the centre's taxes and duties has been increased by 74 percent, grants portion by 143 percent and the share in taxes by 63 percent, respectively.

(ET, 26.02.05, FE, 06.02.05 & 26.02.05)

Elevating FDI Inflow

The government is in the process of liberalising the foreign investment regime in order to expand the scope of foreign direct investment (FDI). A survey by The Economist shows that India needs to raise its investment rate to over 30 percent of the gross domestic product (GDP) and attract more FDI in order to catch up with the Chinese growth.

Furthermore, the Economic Advisory Council (EAC) has been entrusted with the responsibility of critically evaluating the overall FDI scenario and suggests ways and means of attracting FDI inflow. The EAC seemed to be fully confident of the growth prospects and the India-FDI report lays out the ways of tapping the country's potential to attract FDI up to US$90bn in the next five years.

In another move, a group of economists pitched for the easing of FDI norms. In principle, the Cabinet Committee on Economic Affairs (CCEA) has provided clearance to 100 percent FDI in the construction and real estate development sector, subject to some conditions. The concerns of the Left were duly considered. The plans to hike the FDI limit to 74 percent in sectors like banking and telecom are also underway.

(BL & ET, 24.02.05 & 04.05.05)

London to Lose Jobs

A recent research by Troika, a UK financial services consultancy, shows that a total of 15,000 high-end jobs in London could be lost to India over the next five years, as the companies show a rising willingness to outsource complex tasks to low-cost economies.

Displacement of between 10,000 and 15,000 financial service jobs by the end of the decade would add to the flood of low-skill call centres and back office administration jobs that have already been shifted abroad.

Currently, Indian companies are providing research services to London-based stockbrokers and management consultancies and background industry analysis for consultants.

However, the Corporation of London believes that off shoring of jobs would not pose a threat to the City. *(BL, 28.03.05)*

Services Export Body

The government has set up an inter-ministerial task force, headed by Director-General of Foreign Trade, K T Chacko, to recommend modalities for setting up a Services Export Promotion Council.

The task force has been asked to give its report within the next two months, an official said. It includes representatives of industry chambers besides officials from the ministries of finance, health, education and information technology.

There are 13 services that have been identified by the commerce ministry as significant in terms of services exports. These include medical services, project exports, education, financial services, tourism and computer related services.

(BS, 04.01.05)

SSI Items De-reserved

The Ministry of Small Scale Industry (SSI) has identified 108 items for de-reservation, including 30 items from textiles. The government has thrown open the rubber and the textiles sector for large and medium-scale manufacturing. However, it has retained auto components and ancillary items for the small scale.

The government has also proposed raising the ceiling for the small-scale industry exemption, based on the turnover, from the existing Rs 3 crore to Rs 4 crore. In addition, the provision for the 'Promotion of Small Scale Industry Schemes' was also being enhanced to Rs 173 crore.

(FE, 29.03.05 & BL, 28.02.05)

Doubling Global Trade Share

The Commerce and Industry Minister, Kamal Nath, has raised a strong voice for liberalising the economic policies to double India's share in the global trade to 1.5 percent by 2009. To start with, he recommended concessions to boost exports, which would create more employment.

The thrust areas identified under the foreign trade policy are pharmaceuticals, textiles and auto components.

Indicators are pointing in the right direction, with exports increasing despite the appreciation of the rupee against the US dollar making Indian products more expensive abroad. India needs to sustain an eight-percent growth to reduce poverty and grab a larger share of the global market.

(ET, 17.02.05 & 04.02.05)

Waiting for SEZ Legislation

The government has cleared 36 cases for setting up special economic zones (SEZs) with private investment, 16 of which have got formal clearance.

"Investors are waiting for the SEZ legislation, which promises a stable policy environment to be in place before they start the work", said a commerce ministry official. This legislation seeks to provide fiscal incentives to exporters, like a 20-year tax holiday, and envisages procedural simplification for attracting FDI by not subjecting investments to approval from Foreign Investment Promotion Board. *(FE, 10.02.05)*

On the Growth Path…

India is again on the track for a robust growth. Economic think tank, the National Council of Applied Economic Research (NCAER), predicted a comfortable economic growth of around 6.7-6.9 percent.

All of this performance is expected to be on the back of the manufacturing and services sectors, which grew at 8.1 and 8.2 percent respectively during the second-quarter of 2004-05 (much higher than the national average of 6.6 percent). Concerns on fiscal deficit and public debt remain the impediments to sustained growth.

As per the Central Statistical Organisation, the country's GDP at the current market prices would be nearly US$715bn.

(FE, 28.01.05 & BL, 07.02.05)

Holcim on a Buying Spree!

Holcim, the US$9.4bn Swiss cement producer, is all set to become the world's largest cement company. To begin, it entered into an agreement with Gujarat Ambuja Cement Ltd. (GACL) for US$800mn to acquire 67 percent stake in Ambuja Cement India Ltd. (ACIL). This deal accounts for the largest FDI in the Indian cement sector. Both aim to exchange experiences and strengthen their cement trading activities.

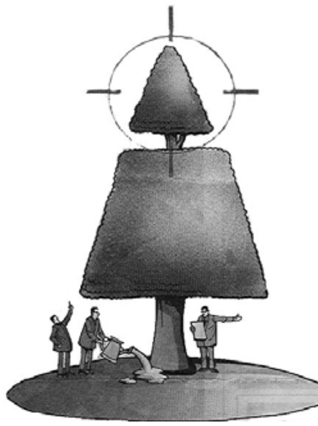
Holcim's dream would come true, if it manages to wrest control of the Associated Cement Company (ACC), India's second-largest cement company. This dream deal will overtake the current leader, Lafarge, the French cement giant.

Holcim-GACL has made an open offer at Rs 370 a share to acquire up to 50.1 percent stake in ACC, which, if successful, will give Holcim an additional 18.3 million tonnes of annual production capacity.

(BS, 06.02.05 & FE, 20.01.05)

Escalating PSUs

The Cabinet Committee on Economic Affairs (CCEA) has announced the creation of a dedicated National Investment Fund (NIF), which will comprise proceeds received from disinvestments of public sector units. Its main aim is to invest the returns on social sector and revive potentially profitable PSUs. Varied suggestions and oppositions were received from various industry chambers.



The Hindu Business Line

Government officials stated that the Government hopes to generate around Rs 50,000 crore over the next three years and the funds raised from the sale of government stakes in PSUs will be transferred to the NIF. The fund managers will be appointed to take care of the disinvestment proceeds.

The setting up of this fund is supposed to be in line with the National Common Minimum Programme (NCMP).

(FE, 27.01.05, BS 07.02.05 & 01.02.05)

Press Note 18 Scrapped

The government has scrapped the contentious Press Note 18 (1998 Series), which requires foreign companies in joint ventures (JVs) to seek the governments' consent before setting up a rival business in the same industry. It has, instead, through Press Note 1 (2005 Series), notified fresh guidelines for the approval of new proposals for foreign/technical collaboration with previous ventures in India, under the automatic route. The Prime Minister, Manmohan Singh, said that the rule had become an anachronism. New JVs, he said, will be shaped by commercial contractual agreements, based on the free will of the partners, without government interference.

The existing JVs, which will fall under the ambit of Press Note 18, have to obtain a no objection certificate from the Indian partner for starting new ventures in India in the 'same' field of activity. Several provisions of Press Note 18 will apply to the existing Indian-foreign JVs, though with substantial changes.

(ET, 16.03.05 & FT, 13.01.05)

Bank to Merge with Parent

The proposed merger of IDBI Ltd. and IDBI Bank would form the fifth-largest bank in terms of total assets.

The boards have approved the scheme of amalgamation for the merger and fixed the swap ratio at 1:1:42, i.e., IDBI will issue 100 equity shares for 142 equity shares held by the shareholders in IDBI Bank. The post-merger scenario shows that the total assets of the new entity would be Rs 94,312 crore. However, the merger is awaiting a final approval from the RBI.

(ET, 19.01.05)

Slipping State Finances

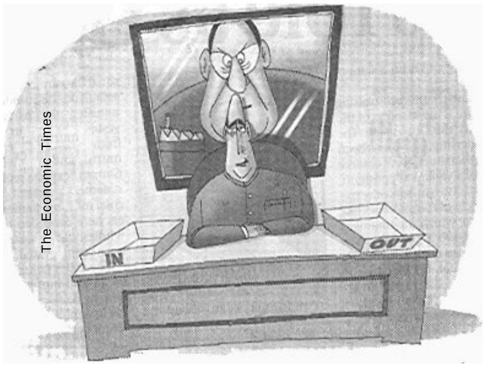
The RBI has expressed concerns about deteriorated state finances. Efforts to shore up finances of the state electricity boards (SEBs) and sluggish non-tax revenues are the culprits. Apart from these, lower non-development spending and allocation for education, infrastructure and health also led to weaknesses in the states' finances, according to an RBI bulletin.

Highlighting the major reasons for the states' poor financial health, the RBI said, "The direction of fiscal correction saw a reversal during 2003-04, partly on account of one-off factors essentially relating to the settlement of dues of the SEBs aimed at strengthening the power sector."

(BS, 23.02.05)

CG Cost as Investment

Attempts are being made to improve the quality of corporate governance (CG) norms among listed companies in India. While doing so, the companies should regard cost incurred on compliance with CG norms as an investment in protecting the interests of stakeholders, instead of expenditure.



Towards this end, the Securities and Exchange Board of India (SEBI) has constituted a Committee under the Chairmanship of N R Narayana Murthy. This committee submitted a report spelling out its recommendations in mid-2003. After a couple of rounds of discussions and public comments, the amendments were incorporated in Clause 49 of the Stock Exchange Listing Agreement. The Agreement will come into effect from April 1, 2005. *(BL, 23.03.05 & 31.03.05)*

Tardy Response to CG

The Union Finance Minister, P Chidambaram, expressed concern over the lack of seriousness on the part of corporates in India in following corporate governance principles, in his valedictory address at a summit on 'Indian CEOs — Competencies for Success.' Pointing out that many companies have not appointed 'truly independent directors' or have got an audit or a remuneration committee, the Minister said that these companies resisted change.

"If I ask CEOs what is the distance they have travelled in the corporate governance milestone of 1-10, not many of them will reply that they have crossed even three," said Chidambaram. Indian companies should also open up and shun their rigid approach to issues like formation of board and audit committees.

"We cannot take corporate governance forward unless the very fundamental principles and policies are not followed by the Indian corporate sector," the Finance Minister added. He also asked Indian companies to take globalisation seriously as technology had enabled everyone to be familiar with the latest business models in any part of the world. *(BL, 22.01.05 & HT, 23.01.05)*

Recognise Corp Performance

The first-ever regional meet of the United Nations Global Compact Conclave, attended by some 2,000 corporate members, began on March 8, 2005 with the call to find ways to recognise good corporate performance and to build ways to spread the message.

Delivering his inaugural speech, the United Nations Global Compact executive head George Kell said that another challenge before the Global Compact forum was to find ways to connect good corporate performance with better government policy-making.

The inaugural session of the conclave was also addressed by B Muthuraman, Tata Steel Managing Director; Subir Raha, President, Global Compact Society of India & CMD, ONGC; and Dr June Henton, Dean, College of Human Sciences, Auburn University, US. *(FE, 09.03.05)*

Committee Set to Move

The Company Affairs Minister Prem Chand Gupta, on January 3, asked the J J Irani Committee to distinguish companies with a substantial public interest from purely private firms and prescribe a separate legal regime for the former to protect small investors' interests.

The move assumed significance as it came in the wake of the Reliance ownership dispute, where more than 30 lakh investors had parked their money in the country's largest private sector company.

According to an official statement, Gupta also recommended that the committee advise the government on the new company law, and revisit the penal provisions to evolve a system, which is a real deterrent to international wrongdoers.

Also on the new company law, the National Investors Foundation (NIF), in a presentation before the J J Irani Committee, recommended that a price discovery mechanism coupled with an exit option be provided to the dissenting minority shareholders in case of mergers.

It has been seen that most mergers end up leaving a group of dissatisfied shareholders agitating against the mergers. Therefore keeping in mind the minority interests and problems arising from mergers and acquisitions (M&As), Naitonal Investors Forum (NIF) has proposed certain amendments to the new companies law, which is expected to be placed shortly. *(BL, 14.03.05 & FE, 04.01.05)*

Takeover Rules Tightened

SEBI has amended the takeover regulations to tighten the creeping acquisition norms for promoters. Acquirers, according to the amendment, will have to make an open offer to raise their stake beyond 55 percent in a company. Presently, SEBI's takeover regulations permit creeping acquisition up to 75 percent. Promoters can increase their holding in a company by buying up to 5 percent of the company's equity capital each year. *(ET, 24.01.05)*

Leaders of Tomorrow

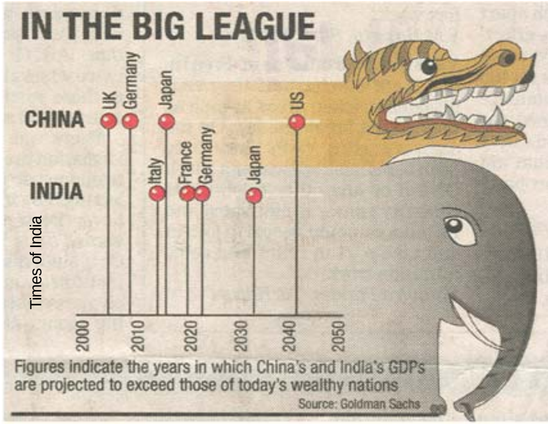
"We need to foster competition among stock exchanges through creation of well-managed and well-run stock exchanges," said the Finance Minister, P Chidambaram on the launch of IndoNext platform of the stock exchange at Mumbai. He indicated that India is too big a country to be served by only two stock exchanges.

IndoNext platform will pay adequate attention to small entrepreneurs who run well-managed companies with very strong fundamentals. "IndoNext will provide the much-needed liquidity to the stocks of these small and medium companies so far as trading in regional stock exchanges in concerned," he said. *(FE, 08.01.05)*

Reign of Elephant and Dragon

In a Central Intelligence Agency commissioned report, entitled, "Mapping the Global Future," upbeat projections are made for India and China, the two Asian giants. In the same way that commentators refer to the 1900s as the 'American Century,' the 21st Century may be seen as the time when Asia, led by China and India, comes into its own, the report observed.

There is also a warning about the pitfalls that the path may be strewn with – India-China rivalry, resentment by other countries and internal political and economic volatility, with pressures on resources intensifying as modernisation progresses. In India, states like Bihar, Uttar Pradesh and Orissa will remain underdeveloped. The legacy of a stifling bureaucracy will remain, but the gross national product (GNP) will still have overtaken that of European economies.



Between India and China, India may have an upper hand, because of a continued increase in its working age population, largest English speaking population in the developing world, a large Indian expatriate population providing access to key markets around the world, an education system that produces millions of skilled personnel and well-entrenched democratic institutions. *(ToI, 16.01.05 & FE, 23.02.05)*

India 'Mostly Unfree'

The Index of Economic Freedom, 2005, published by the Heritage Foundation and The Wall Street Journal has labelled India as 'mostly unfree,' though the country has moved up three notches to rank 118 out of a total of 155 countries that were included in the study.

Hong Kong remains the world's freest economy for the 11th year running, beating Singapore to second place. The US dropped out of the top 10 for the first time since the index was launched 11 years back, falling to the 12th position, from the 10th last year. China is at the 112th position, six higher than last year. This is a clear indicator of the change that has taken place since China joined the World Trade Organisation (WTO) and undertook major structural reforms.

(FE, 04.01.05)

India: Fourth Most Corrupt

The Political and Economic Risk Consultancy Ltd. came out with its annual graft ranking for Asia, in which India stands fourth.

Singapore was the least corrupt, followed by Japan, Hong Kong, Taiwan and South Korea. Indonesia was Asia's most corrupt nation, ranking 9.25 on a scale of 10. Philippines, at number two, has a backlog of 2,000 cases in the anti-graft court. Vietnam was at number three. India was fourth on the list because the country's 'suffocating bureaucracy' created plenty of opportunities for pay-offs to cut through the red tape. But, the report said, the graft in China poses the biggest global threat because of its growing economic influence.

(ET, 08.03.05)

A Long Way to Go...

A recent study on social progress and outlook by the World Bank (WB) shows that health indicators in India are not satisfactory. Though infant mortality has declined between the 1980s and 2000 from 115 to 68 per 1,000 live births, maternal mortality rates have worsened, going up from 424 to 540 per 1,00,000 live births between the 1990s and 2000. The number of HIV infected has risen from 3.5 million in the 1990s to 4 million in 2000.

This is also reflected in the report released by the Millennium Project Director, Jeffrey Sachs which indicates India is unlikely to meet the Millennium Development Goals (MDGs) for reduction in number of undernourished people, lowering infant mortality, under-five mortality and maternal mortality and improving access to sanitation facilities.

Sachs' report concurs that reduction of population below poverty line, school enrolment for boys and girls and water access are areas where India is on the track to meet the MDG.

(FE, 10.01.05 & 02.02.05)

Cluster Up

An analysis carried out by the Federation of Indian Chambers of Commerce and Industry (FICCI) states that the high cost of input materials and utilities, coupled with high finance and transaction costs, has resulted in depressed productivity in India. Low labour productivity more than offsets any advantage the manufacturing sector derives out of low labour costs.

The FICCI has suggested that the cluster approach in 82 identified areas in 23 industries across the country would provide significant scope for improvement in labour productivity. The analysis of costs of raw materials and utilities across 15 manufacturing segments points out that, on an average, the share of input materials and utilities in total output value was as high as 81.3 percent in India, as against 75.5 percent in China, 68.7 percent in Malaysia and only 58.5 percent in Korea. *(BL, 06.03.05)*

Cheaper Drugs

In order to make drugs available at affordable prices, the department of chemicals and petrochemicals has proposed a nationwide implementation of the Rajasthan model of 'medicare societies' in which essential drugs and antibiotics, injectibles and IV fluids are made available to patients at almost 30-50 percent of their market prices. This model was recommended by the Sandhu Committee in its interim report and has been accepted by the department.

"It is a tried and tested model which has been prevalent in Rajasthan for the past several years. It has been able to bring down prices of drugs successfully," an official in the department of chemicals said. This is done by eliminating trade margins given to dealers and retailers as the drugs are acquired through open tenders directly from manufacturers.

(BS, 03.03.05)

More Services in the Net

A survey conducted by the FICCI notes that liberal economic policies and a buoyant services sector has made 63 new services segments viable for taxation. These results are based on the feedback from 25 public and private sector firms and experts. This is the case in spite of the doubling of the service tax from 5 percent in March 2003 to 10 percent in September 2004. These are over and above the 73 segments that have been under the tax net since 1994.

The FICCI suggests that the government evaluate these segments for augmenting resources for the national exchequer, while carefully nurturing their growth through incentives and adequate credit facilities. It also recommends that taxes on certain services may have outlived their utility. The usage and requirement of telegraph, telex and pagers has witnessed a decline over the years and the government may consider their removal from the tax net.

(BS, 08.02.05)

Tsunami Effect

The Asian Development Bank (ADB), in its survey of the effect that the tsunami has had and is likely to have on the Indian economy and those of the States, has said that India's fiscal deficit will take a major hit through the large spending on rehabilitation and reconstruction operations. ADB thinks that the macro impact will be minimal, as manufacturing and services have been left untouched and the impact on fisheries is highly localised. Even the tourism sector, which is currently seeing a tough phase, will bounce back soon enough.

The impact on poverty is obvious and will be difficult to recover from. The key priorities for now are disposal of dead bodies, prevention of epidemics, provision of fresh water, oral rehydration kits, food, medicines, shelter, etc. Tamil Nadu and the Andaman and Nicobar Islands are the worst hit parts of the country.

(BL, 25.01.05)

Fiscal Policy Rules for States

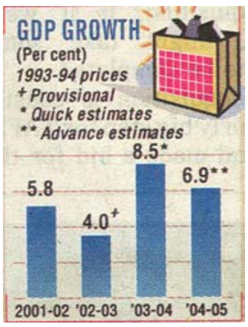
The group on Model Fiscal Responsibility Legislation at the state level was constituted at the twelfth conference of the State Finance Secretaries in August 2003, with technical assistance from the Reserve Bank of India (RBI). It reported that the states must adopt the fiscal policy rules built under the legislation.

The definition of liabilities has been extended to include not only the liabilities under the consolidated fund but also those under the Public Account of the state. Off-budget borrowings, special purpose vehicles, other equivalent instruments and developments arising out of state guarantees should be included when calculating state liabilities. The group noted that the fiscal performance of the states had been an area of serious concern and that the stress has seriously constrained their ability to discharge primary responsibilities of developing social and economic infrastructure.

(BL, 02.03.05)

Survey Speak

The Economic Survey 2004-05 was tabled in the Parliament by the Finance Minister, P. Chidambaram. According to the survey, India needs to cut wasteful spending and widen its tax base, if it wants to shrink the fiscal deficit. The document gives hope about the "possible ratcheting up of the trend growth of the economy from around six to about seven percent per year," though not under the present investment levels.



It prescribes greater investment in agriculture and allied activities, simplifying procedures and relaxing entry-exit barriers, competitive finance for farmers and small enterprises and higher foreign investment to bridge the yawning gaps in infrastructure and other productive sectors.

A wider tax base is seen as essential to shrink the stubbornly large fiscal deficit. This may be done by bringing more and more services under the tax net. Consolidated deficit of the Union Government and the States stands at about 10 percent of the gross domestic product (GDP). The target must be to keep the fiscal deficit at 4.4 percent of the total output for this fiscal year.

(BL, 25.02.05 & ToI, 26.02.05)

Step up GDP

'India needs to double the agriculture growth in order to achieve the target of eight percent economic growth', stated Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, addressing the annual Frank Morais memorial lecture. According to him, the major reason behind the decline in the gross domestic product (GDP) was the diminished agricultural growth.

The Hindu Business Line

He said the government should concentrate on the rural infrastructure, to step up the agricultural growth. Another cause of concern, in his opinion, is the existing gap in the demand for and supply of quality health care and education.

On the other hand, the legendary agricultural scientist and Nobel Laureate, Norman Borlaug, while delivering the Coromandel Lecture organised by the Murugappa Group, made a strong recommendation for adoption of genetically modified technologies to enhance agricultural growth in developing countries. *(FE, 09.01.05 & BL, 16.03.05)*

India Needs to Open Up!

Although India has achieved certain economic and development standards, it still needs to go a long way, opined Raghuram G Rajan, Chief Economist, International Monetary Fund (IMF). He pointed out that the country's policies stand in the way of achieving its true economic potential. Despite having home-grown multinationals like Infosys, Wipro, *et al.*, the Indian economy is still not open to foreign goods and services.

Reiterating the need to finance infrastructure through foreign exchange reserves, Rajan said the Government needs to push for reforms whereby not only would India attract foreign direct investment (FDI) but also be able to utilise its reserves to pay for the import of capital goods. He further stressed that improving access to education and finance and providing better rural infrastructure will gain support for global competition from a larger section.

"India's foreign exchange reserves are significantly above the requirement and need to be managed. India needs to find ways to push capital out," said Rajan. *(BS, 20.01.05 & ET, 14.01.05)*

Fiscally Unsustainable

Various experts have expressed their concern about India's 8-10 percent fiscal deficit, which is 'unsustainable'. The fiscal deficit problem will limit investment and even prevent the financial sector from improving its efficiency. Further, it also reduces incentives for financial institutions to constantly search for innovative ways to develop private sector access. Although the deficits have been financed with apparent ease, they have held back growth.

The WB Country Director, Michael Carter, averred that progressive fiscal adjustment and financial sector reforms should go hand in hand. While pitching for policies to increase competition, he added that India needs to put in place more effective regulatory and supervisory systems and make sure that the authorities take swift and effective action to deal with weak or insolvent institutions, so as to minimise potential fiscal costs of dealing with weak institutions.

(FE, 06.01.05 & DH, 24.02.05)

Economy and Ecology?

Certain experts have pointed out that economic or industrial development should not be at the cost of ecology and voiced the urgent need to preserve the ecological balance in coastal areas, with a view to preventing tsunami-like disasters in future. According to them, the destruction of the mangroves was one of the main reasons for the failure to mitigate the tsunami disaster.

The Director of Centre for Environment and Food Security (CEFS), Parshuram Ray, expressed his concern over the issue. He stated that more than 65 percent of the population is still dependent on natural resources and any economic growth undermining these resources will have adverse effects.

Moreover, he said that the mainstream economists measure the country's wealth by the Gross National Product (GNP), which does not take into account the 'natural capital'; no value is given to the forest until the trees are sold. *(FE, 11.01.05)*

Improve Logistics

Sam Pitroda, who was actively involved in kicking off the telecommunication revolution in India, said that the country, with a population of over one billion, has a high potential of becoming a global power, provided it makes genuine efforts towards improving logistics and increases the usage of broadband to a larger section, especially in the rural areas. He said this on the sidelines of the three-day *Pravasi Bharatiya Divas* Summit.

He added that if India needs to achieve the growth rate of 8-9 percent, it should strive to make its logistics of international standards.

(FE, 07.01.05)

Abolish MSPs

At a pre-budget meeting held in the Finance Ministry, agriculture sector experts suggested doing away with the system of minimum support prices (MSPs) and replacing it with a participatory price insurance scheme to protect the interests of farmers.

They also suggested setting up a Rs 500 crore revolving fund for the Food Corporation of India to expedite the payment for purchase of pulses and oilseeds from growers, with a view to encouraging cultivation of these crops.

In a related development, a report entitled, 'Vision, Strategy and Action Plan,' prepared by Rabobank for the Ministry of Food Processing, has suggested that the Government should replace the MSP system with direct income support system, routed through a credit card or a bank account. The report points out that the MSP system created imbalance in farm output at the cost of other agri-produce.

(ET, 12.01.05, FE, 18.01.05 & 11.01.05)

Meaningful Reporting

The Government makes a large number of promises within and outside the budget, but it is a good idea to prepare action taken reports (ATRs), in order to pin down the government on promises made, according to Bibek Debroy. For a short span of time, under the National Democratic Alliance (NDA) government, the budget papers had ATRs. However, the language was quite vague and highlighted movement rather than action. Instead, the ATR should comprise of meaningful 'action' taken and should not be mistaken with 'movement'.

Recently, the Business Standard had carried excerpts from the PMO's policy thrust for assorted Ministries to monitor their functioning and check whether the Ministries are conforming to the National Common Minimum Programme (NCMP) objectives. However, for meaningful ATRs, precise targets and time frames are needed, preferably with improvements in outcomes. *(BS, 17.02.05)*

Ridding of Red Tape

India is on it ways to growth and has made significant advances in the liberalisation of various key industries such as telecom, electricity, insurance, transportation, etc., according to William T Wilson, Managing Director and Chief Economist, Keystone India.

Over the past few years, there has been a significant acceleration in the liberalisation of a number of key industries. The market reforms are showing results in the country's national income. India's immediate and timely action after the tsunami disaster indicates an improvement over red tapism.

The government's current Five-Year Plan estimates that the Indian economy needs to grow at about 8 percent annually. The country needs to put in more efforts so as to realise its vast economic potential. *(FT, 29.03.05)*

Far Far Away...

Despite being a 'star performer' in terms of economic growth, India will take at least 34 years to achieve the 1950's GDP level of the United States, according to a senior World Bank economist, Lant Pritchett, who was addressing a symposium organised by The Loyola Economics Association for Development.

Assuming that the Indian economy maintains the current growth rate, it would take another 61 years for the country to catch up with the current economic level of the United States. "Not in your lifetime," he told an audience, comprising largely college students.

Pritchett was, however, bullish on the country's growth prospects and added that India was a "rich country waiting to happen". He said that steady economic growth was good for the country and cautioned against an accelerated pace. *(ET, 11.02.05)*

TFC Prescription

The 12th Finance Commission (TFC) has stated that getting the right size and composition of government expenditure, to ensure the highest attainable growth rates and meeting the government's social obligations, should be considered integral to any plan for restructuring public finance.

It said that the suggested reform strategy has to aim to strengthen growth by increasing the public sector savings and the government's capital expenditure, relative to the GDP. This would entail reducing the share of the revenue deficit in the fiscal deficit, which itself should fall. The Commission said fiscal correction requires increasing the combined tax-GDP ratio to 17.5 percent, primary expenditure to two percent of the GDP and the capital expenditure to nearly seven percent of the GDP by 2009-10.

The TFC pointed out that, since the interest on the loan component of assistance was 300 to 400 basis points higher than the cost of funds to the Centre, the grant component couldn't be really seen as interest free. Hence, it maintains that grants should be given as genuine grants and the states might be encouraged to borrow directly from the market. *(BL, 28.02.05)*

Agri-monitoring Body Needed

An agri-loan regulator is the need of the hour in banking, according to M.S. Kapur, Chairman and Managing Director, Vijaya Bank. A body along the line of the Telecom Regulatory Authority of India, or the Insurance Regulatory Authority, is required for monitoring farm loans and reminding the bankers of their responsibilities towards the farmers. This will also make the agri-credit mechanism more effective.

Further, he said that most banks even failed to fall within the RBI prescribed 18 percent priority sector-lending norms and because of the lost sanctity of the prime lending rate (PLR), saw a fall in net profits. Farmers feel deprived when big industrial groups walk away with interest rates below the PLR. *(FE, 27.01.05)*

Matter of Clarity

The lack of clarity in legislation and ensuring the independence and accountability of the regulators are some of the critical issues facing the regulatory structure in India, according to Montek Singh Ahluwalia, the Deputy Chairman, Planning Commission. He said this at a seminar on the 'Regulatory Framework for the Infrastructure Sector in India', jointly organised by the Planning Commission and Consumer Unity & Trust Society (CUTS).

He further added that the terms on which public sector incumbents are to be subjected to competition needs to be spelled out. The quality of people working as regulators was also important.

While presenting the international experience, Scott Jacobs, of Jacobs and Associates, outlined the major problems faced by regulators, such as weak commitment to market reforms by governments, hostile policy environment for good regulation and undeveloped institutional capacities in the regulatory sector.

The seminar report is available at: *http://www.cuts-international.org/RptRegFrmwork140105.htm*

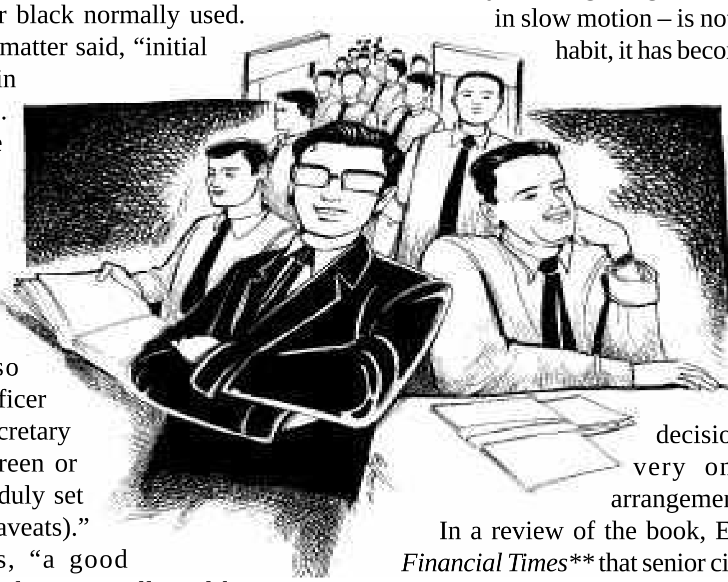
(BS, 15.01.05)

Exposing the Sclerosis

*Governance, and the sclerosis that has set in**, is the first authentic account of how the Government functions, written from the inside by the keen observer that is Arun Shourie. He talks about how the system is so rotten from within that most people are content to just let things be, because they wouldn't know where to begin, if they tried. Too many of us in the middle class are content to blame politicians. Shourie reveals that the bureaucracy – composed of middle class people like us – is at least as much to blame.

Having been a Cabinet Minister at various times since 1998 – for privatisation, administrative reforms, information technology and telecommunications – Shourie's observations, as revealed in his present work, are close to the bone.

One ludicrous instance of red tape is when almost a year of the valuable time of India's most senior officials was consumed to resolve the issue of whether civil servants should be allowed to use green or red ink, as opposed to the blue or black normally used. The new order in this matter said, "initial drafting will be done in black or blue ink. Modifications in the draft at the subsequent levels may be made in green or red ink by the officer so as to distinguish the corrections made." Hierarchy was also specified: "Only an officer of the level of joint secretary and above may use green or red ink in rare cases (duly set out, with appropriate caveats)." Shourie dryly notes, "a good bureaucratic solution: discretion allowed but circumscribed"!



The real condition of public sector units came to light only when it was time for them to be privatised. In the case of the hotels that were put on the block for privatisation, it was found that not one had a deed or lease document (in order), Completion Certificate or mandatory certificates from the fire authorities. Their licences for running restaurants and bars had either expired or did not exist. The consultants selected to evaluate the properties were provided with only 10 to 15 percent of the information required. By foot-dragging of this kind, the entire privatisation process could very easily be killed.

Shourie reveals that at closed door meetings, senior officials were referring to the Planning Commission as 'a parking lot', 'a doormat' and 'a limb the Government used to use to do and say things it did not want to say and do directly, but a limb which has, by now, atrophied too much to even do that much'. The Commission, Shourie feels, must exert its credibility and authority with the force of its ideas, by the fact that it speaks the truth, often the inconvenient truth.

The demographic inundation from Bangladesh is an issue that no one was willing to look into. There was always an excuse to not do something: "one word has killed the country and that word is examination," a senior intelligence official had to admit. Investigations are conducted, information is shifted and the matter disappears. The Government shuts its eyes. "This manifest softness is doubly fatal: on the one hand, it leads the enemy to conclude that we will not fight; on the other, it leads us to conclude that we should not fight."

The point that Shourie makes through this range of examples is that the trend is the same, irrespective of the gravity of the matter at hand. "When an ailment seizes the body, every follicle exhibits the same symptoms…You will find it in every aspect of India's governance, big or small… This way of doing things – a mindless, endless shuffling in slow motion – is not a device, it is more than a habit, it has become nature," Shourie writes.

Where there exists a certain group of people who benefit from the present system, it will do anything in its powers to withhold change. How is the system to be overhauled when the decision to reform it and the wherewithal to carry out that decision lie in the hands of the very ones who benefit from arrangements as they are at present?

In a review of the book, Edward Luce writes in the *Financial Times*** that senior civil servants seem to inhabit a parallel universe in which "action" is defined by an internal code that bears little relation to the society it serves. Too often does the hostile bureaucracy win with the help of obfuscation, missing files and wonderfully baroque delaying tactics. To be fair, Shourie notes that the Indian administrative system is capable of functioning with world-class speed and efficiency. Following the outbreak of the pneumonic plague in 1994, the city authorities of Surat cleaned the port within weeks and there was no recurrence. Every 12 years, the Uttar Pradesh Government caters to almost 30 million pilgrims in the traditional Hindu kumbha mela without a stampede, epidemic or riot. Which other country is capable of handing an event even a tenth of this? Unfortunately, it is the day-to-day work of the bureaucracy that matters, and it matters too much to be ignored. Shourie does a depressingly thorough job of chronicling it.

* Arun Shourie, *Governance, and the sclerosis that has set in,* Rupa & Co., Delhi, 2004

***FT, 10.04.05*

Union Budget 2005: A Fine Balancing Act

Key Budget Proposals

- *Bharat Nirman* – to bring an additional one crore hectares under assured irrigation; to connect all villages that have a population of 1000 with a road; to construct 60 lakh additional houses for the poor; to provide drinking water to the 74,000 habitations that are uncovered; to reach electricity to the remaining 1,25,000 villages and offer electricity connection to 2.3 crore households; to give telephone connectivity to the remaining 66,822 villages
- National Urban Renewal Mission – To cover the seven-mega cities with a population of over a million
- National Food for Work programme converted into the National Rural Employment Guarantee Scheme
- Roadmap for Agricultural Diversification; National Horticulture Mission; new scheme for agricultural marketing infrastructure; National Project for the repair, renovation and restoration of water bodies; coverage of micro-irrigation scheme to increase
- Enhanced target for credit-linking under Micro-Finance Development & Equity Fund
- To set up a Knowledge Centre in every village by 2007
- Manufacturing Competitiveness Programme to be launched to help small and medium enterprises
- Textile package with a Technology Upgradation Fund, a subsidy scheme and enlarged life and health insurance for handloom weavers
- Corpus for Research and Development Fund to be increased for pharmaceuticals and biotechnology
- Drinking Water and Sanitation: emphasis on providing drinking water to the uncovered rural habitations and on tackling water quality in about 2.16 lakh habitations; Total Sanitation Campaign to be extended to all districts
- 108 items under small and medium enterprises identified for de-reservation; enhanced provision for "Promotion of SSI Schemes"
- All states to implement the Value Added Tax from April 1, 2005. Central Government to compensate the States, according to an agreed formula, in the event of any revenue loss
- Policy of making the customs duty structure closer to that of East Asian neighbours
- Excise duties rationalised with only two items – cars and aerated drinks – now attracting 24 percent duty

For details, please visit the page, http://www.indiabudget.nic.in/

Money is not the Panacea

The Finance Minister (FM) is well aware that throwing money at problems does not make them go away. This is evident in his Budget speech where he says that outlays do not necessarily lead to outcomes.

What has made investors, and most economists, happier is that he has concentrated on continuing growth as a necessary element of all-round development. Peak custom rates are down. There is still a long way to go but at least the direction of change is right. One hopes that a rising growth rate will garner enough resources to carry out at least a few of what the Common Minimum Programme promises to deliver.

The FM has done away with the government's ability to force people to save in instruments that the government controlled. This had resulted in a cascading set of distortions in financial markets, not the least of which is the interest rate floor on small savings. This one measure will boost capital markets, make financing of new investment cheaper and, most importantly, encourage more players to enter the market. *(ET, 01.03.05)*

Shubhashis Gangopadhyay
India Development Foundation

Harness the Financial Acumen

The Budget places broad-based economic development on top of the national agenda. The FM has outlined a holistic approach towards tapping rural India's vast potential as an engine of growth.

By encouraging delivery of financial services through agents and banking correspondents, it makes possible for banks to meet the challenge of sustainable, efficient and low-cost intermediation.

A landmark move in the budget is the announcement of measurement of development outcomes. This in effect takes the national budgeting process to the level of performance budgeting. In a sense, budgeting in India is truly coming of age. *(ET, 01.03.05)*

K V Kamath
MD, ICICI

Only Futuristic Projections, No Realism!

There's expected to be only a marginal decline in the fiscal deficit. In 2004, the FM pinned hopes on the collection of arrears of taxes. This year, he has maintained complete silence on how much he has collected, or hopes to collect.

The Budget is silent on the privatisation of public sector undertakings (PSUs) and gives no disinvestment targets. This clearly means disinvestment is on hold and even loss-making PSUs are not going to be disinvested. The FM seems to have no public sector policy.

The ambitious *Bharat Nirman* scheme for rural development seems to be part of an election manifesto. The catch in the scheme is that it says targets will be fixed for 2009. Fixing targets four years hence puts one in a very comfortable situation. No tangible details have been delineated so far and no annual break-ups made available for the four years. It is just an idea. Similarly, the FM has made only futuristic projections for employment generation. *(FE, 01.03.05)*

Yashwant Sinha
Former Union Finance Minister

Back to the Basics!
Organic Farming in India

The Green Revolution

The Green Revolution, no doubt, enabled the country to boost the production of staple crops and put us on an enviable food stockpile. Unfortunately, it also deteriorated the soil health due to excessive use of chemical fertilisers and degraded the environment through the use of chemical pesticides. The groundwater table has been depleted on account of over-exploitation. The result of the mono-cropping of high-yielding varieties of wheat and rice was that traditional nutritious varieties of wheat, rice and coarse cereals, which were earlier grown in arid and semi-arid rain-fed areas, are now out of cultivation.

Farmers have committed suicide on account of being debt-trapped from the use of spurious pesticides and fertilisers, leading to crop failure. The factor productivity decreases as the soil is degraded due to excessive use of chemical fertilisers and pesticides. The crop productivity and production graphs plateau after a certain level. For instance, when urea is used, the plant absorbs nitrogen, but the rest of the petrochemical, which is a 'carrier' that holds the nitrogen together, seeps into the soil, making it hard, leaving no space for the roots to grow.

What is Organic Farming?

Organic farming is a crop production system that generally excludes the use of synthetic fertilisers, pesticides and other chemicals. To the maximum extent feasible, they rely on crop rotations, crop residues, animal manure, legumes, green manure, neem seed, kernel extracts, neem and karanj seed cakes, compost, cow dung, cow urine, bio-fertilisers, vermicompost, vermi-wash, off-farm organic wastes, mechanical cultivation, and biological pest control to maintain soil productivity, to supply nutrients to plants and control weeds and pests. Organic farming:

- uses no harmful chemicals
- does not pose occupational hazard to farmers
- keeps food free from pesticide residues, the long term effects of which are not clear (many diseases today are attributed to this)
- eliminates chemical effluents from the fields
- produces more nutritious food
- precludes the existence of genetically modified organisms
- enables the soil to maintain a balance through multiple cropping and a wide variety of beneficial insects and other wildlife to act as natural predators for crop pests
- is kinder to the planet, in terms of sustainability of its resources

Myth and Reality

A commonly held myth has long led farmers to view organics suspiciously — that they traditionally result in lower than conventional yields. For instance, some tea planters in eastern India are apprehensive about making the switch to organic tea, since production falls drastically during the five or six years required for making the transition. According to them, a planter who decides to make the switch will have to stop using chemical fertilisers, pesticides and herbicides for at least five years to clear all traces of such chemicals from the soil and the tea bushes. No one has the financial muscle to last five years on a reduced crop. But, others say that this is not true at all. Leaf production may decline for the first few years. But, a plantation can realise enough leaf to sustain itself. After three years, once a thick bed of mulch has been built over the topsoil, the tea bushes automatically get their nutrition from the soil and leaf realisation increases. In fact, organic tea fetches much higher prices.

A commonly held myth has long led farmers to view organics suspiciously — that they traditionally result in lower than conventional yields

The Opportunity

The shelf life of organic fruits and vegetable are found to be more than their non-organic counterparts. Organic farming is less expensive for farmers, who can earn premium prices for their produce. The global market for organic foods is valued at US$37bn. Markets in the EU, Australia and the US, where consumers have been fed on hormone-treated beef and genetically modified (GM, or transgenic) crops for years, are now known to be willing to pay a premium of 20-25 percent on organic produce. This must be seen as a great opportunity to pull Indian agriculture out of the low performance doldrums it has been in for decades now.

…And the Scope for Using it

About 65 percent of India's cropped area is un-irrigated, where the farming practices are still largely 'organic by default', without any effort of the government. One of the main reasons for this is that 60 percent of the cultivated area is rain-fed where the use of chemical fertilisers is either negligible or absent. Farmers resort to excessive use of fertilisers only where there is assured irrigation. The farmers in rain-fed areas, by and large, use organic manure and traditional farming practices. This provides us, in India, with a natural advantage, as far as cultivation of organic crops is concerned.

The Experience

Karnataka:

So far, all policy statements on organic farming have been made at the national level. The first state-level policy in the country, the one by the Karnataka State Government, is expected to offer greater location-specific priorities.

Significantly, the policy is not market-driven — the State claims it is not aiming at premium dollars for organically grown produce in the export market. In fact, the Karnataka Agricultural Department says it has a practical reason for welcoming this policy: it will help reduce the use of chemicals, improve soil quality and offer a practical platform to push organic farming. This, in turn, will lead to a reduction in input costs for farmers. Department sources say, with rising costs of chemical fertilisers and pesticides, farmers had already started cutting down on their use.

What seems to concern the Government most is ecological damage, mainly erosion of soil and pollution of groundwater because of constant use of chemicals. Groundwater contamination has been making news as labs discovered traces of pesticides in everything, from breast milk, to cow's milk, to bottled water, to soft drinks. It is the excessive use of chemical fertilisers and pesticides that is to blame for this.

The Government is looking at self-help groups (SHGs) to take up activities such as production of quality compost/vericompost, organic seeds/planting materials and plant protection material. The policy expects to channel this organic produce through Government marketing arms such as SAFAL (Mother Dairy's Fruits and Vegetable market), APMC (Agriculture Producers' Marketing Committee), HOPCOMS (Horticultural Producers Cooperative Marketing and Processing Society), NCS (Nursery Certification Scheme), KAPPEC (Karnataka Agricultural Product Processing and Export Corporation Ltd.) and KVIB (Khadi and Village Industries Board), which will have separate markets and storage areas for organic produce. The Government also plans to offer credit facility for organic farming at concessional rates of interest.

Punjab:

Punjab, which literally means the 'Land of Five Rivers' and was once characterised by abundance of water, is turning into a land of either no water or contaminated water. Due to loss of massive forest cover in the Shivaliks, many tributaries and streams have dried up; many are contaminated on account of dumping of industrial wastes. Groundwater tables have depleted from 15-20 feet to 150-200 feet in several parts of the state due to excessive exploitation, without adequate recharge through water harvesting.

A local voluntary organisation of farmers and youth called *Kheti Virasat* has taken up the mission to reshape the destiny of Punjab through the practice of organic farming, water harvesting and use of eco-friendly bio-fuel. The organisation has roped in intellectuals in environment and conservation technologies and organised 35 village level awareness meetings in six districts of Malwa with the participation of more than 500 farmers. Malwa's cotton belt faced one of the most unfortunate situations emerging from debt, death, destruction and displacement: as many as 3,000 farmers committed suicide.

Maharashtra:

Major vineyards in Maharashtra expect a growth in harvest, riding on the back of cost-effective organic farming practices in water management, weed management and diseases and pest management. According to A S Deokate, Corporate Manager, Indage Group, "we are into organic farming and plan to produce residue-free grapes for making organic wine, as everybody is becoming health conscious."

Challenges

There are many challenges that are faced by the practice of organic farming. One was already touched upon earlier – about the yield drop in the initial two to three years. According to the Association for the Promotion of Organic Farming, a dramatic shift from chemical to organic farming can bring the yield down by as much as 50 percent in the first year and in the second by 25 percent. It is only in the third year that there may be parity between the yields of an organic farm and a chemical farm.

Hybrid seed companies, along with fertiliser and pesticide companies, have a vested interest in not promoting organic cultivation

The next challenge comes from marketing of the final produce. It either gets mixed up with regular crop on its way to the market or does not get a premium. If the produce is perishable, sellers will be eager to sell at any price, to avoid wastage.

At a higher level, proper certification of organic produce is absolutely necessary. The package for organic farming technology has to be location-specific and, therefore, there is a need to explain our organic farming practices to international certifying bodies and other quality certifying bodies in importing countries.

Hybrid seed companies, along with fertiliser and pesticide companies, have a vested interest in not promoting organic cultivation. Hybrid seeds are designed for an environment of chemical fertilisers and pesticides, and when these inputs are not given, their yields tend to be the same as ordinary seeds. In fact, there are many stringent conditions for a product to be certified as organic in the global market.

The state should devote itself to providing cultivators with timely information, a sound regulatory mechanism and a science-based policy.

(The information in this article has been taken from articles in FE over the period March 2004 to June 2005)

VAT 2005: Proposed Implementation and Challenges

Marking a momentous tax reform, as many as 21 States and most Union Territories in the country switched to the Value Added Tax (VAT) regime from April 1, 2005, replacing the sales tax and other levies like entry tax. The grandiosity of VAT arrival has, however, been marred by strong resistance from traders and far-from-impeccable preparedness of the legal and administrative machinery.

What is New about the VAT?

Under the old sales tax system, each of the different links in the supply chain was being taxed, just like in the new VAT regime. This amounts to double taxation, as the manufacturer pays a tax on the output directly and has also paid a tax on the input purchased (included in the cost of the input). The distinguishing character of the VAT is that this double taxation is corrected by allowing for a set-off on the tax payment on output – an input tax credit. This eliminates the cascading effect, taxing only the value addition to the good at each stage and not the entire value.

For instance, if a weaver bought cotton for Rs 100 (this includes Rs 20 as tax @ 20 percent) and sold the cloth for Rs 200 (charging the customer Rs 40 as tax @ 20 percent), then his total tax liability becomes:

total tax payable – input tax credit

= 40 – 20 = 20

The weaver still pays Rs 40 to the authorities, but is entitled to a refund of Rs 20 on production of an invoice. All other existing state taxes such as turnover tax, surcharge, additional surcharge and special additional tax would be abolished over time. This is aimed at making the system neater in implementation and more secure as a revenue source.

Objectives of VAT

- Lower the cost of production and investment
- Replace a plethora of different taxes by a single levy
- Simplify tax returns and procedures
- Levy a tax at all points up to the final consumer
- Eliminate tax declaration forms required to identify goods that have already borne tax
- Adopting the system of self-assessment of taxes by dealers, with only selective audit and verification of declarations made by them
- Rationalising tax exemptions and rates
- Replacing the system of notifications and discretionary provisions by explicit and transparent rules

VAT Rates

There are four basic rates of VAT: 0, 1, 4 and 12.5 percent. There will be 46 zero-rated commodities – natural and unprocessed products, goods of local social importance, exports, business under special economic zones and software technology parks. Special VAT rate of one percent will be levied only for gold and silver ornaments. The four percent category comprises items of basic necessities such as medicines and drugs, all agricultural and industrial inputs and capital goods. The remaining commodities, common for all the States will fall under the general VAT rate of 12.5 percent.

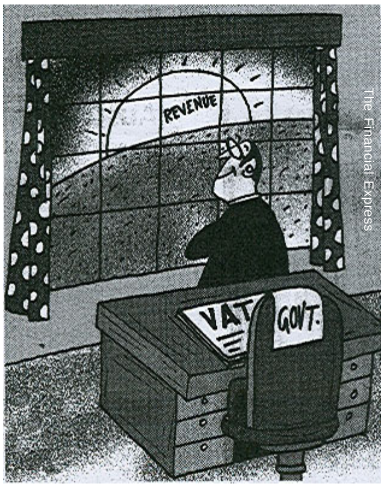
Exemptions

Dealers having a turnover of up to Rs five lakh will be exempt from VAT. No registration is required for them. These traders are not eligible for any input tax credit. This means that small traders do not pay any tax on their value addition, but do pay a tax on the inputs used (through input cost).

Small dealers with annual gross turnover not exceeding Rs 50 lakh, who are otherwise liable to pay VAT, shall have the option for a composition scheme with payment of tax at a small percentage of gross turnover to be decided by State, again without input tax credit.

Loose Ends

The prickliest issue about the VAT is that for the first few years, it must coexist with the old sales tax. Over the next two to three years, the sales tax will be phased out and a pure VAT will be in place. But, before this stage is reached, there will be more-than-double taxation, prices will rise, business will flag and inflation will run high. Traders all over the country have been up in arms against the implementation of this system since its very announcement. It has created confusions with regard to their future plans on relocation of production/distribution facilities. Leaders have been unable to convince traders and consumers of the long-term benefits of the VAT and the immediate losses that may be necessary to get them.



The Financial Express

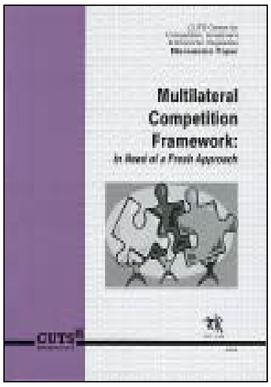
Leaving aside the issue of simultaneous existence of the two taxes, even the implementation of the VAT in itself can be a problematic task. Any level of propriety in VAT collection demands a strict and clear system of entrepreneurial accounting. The submission of invoices for the collection of input tax credit is central to the idea. In the case of a bulk of the Indian entrepreneurs, accounting is absent, at worst and insufficient, at best. This will surely create problems that cannot be ignored.

The silver streak, if one chooses to look at it, will be that the lure of an input tax credit may induce the habit of better accounting, where it does not already exist.

(This article has been compiled from news clippings from ET, BS and FE, Jan-Mar, 05)

Forthcoming Publications…

Multilateral Competition Framework: *In Need of a Fresh Approach*



The paper starts with recognising the challenges posed by cross-border competition issues, such as international cartels, export cartels, mergers and acquisitions, import cartels, foreign investment related competition problems and intellectual property rights related competition problems. It then examines the bilateral and regional cooperation arrangements to deal with these issues – including the existing UNCTAD Set and the proposed competition framework at the WTO – and finds them to be grossly inadequate.

The final suggestion is that a new organisation, dedicated solely to competition issues under the auspices of the UN, will be the most suitable. The new agency can combine the principles and structures of the World Intellectual Property Organisation (WIPO) and Interpol, and similar multilateral bodies.

(Suggested Contribution: Rs 100/US$25)

Economiquity

The No. 1-2005 issue highlights the Sutherland report, which calls for institutional reforms of the World Trade Organisation. It emphasises on the need to resolve the disputes between India and Pakistan as a key to better economic cooperation in South Asia. It analyses some of the apprehensions related to India's Patent Act.

(Subscription: Rs 100/US$20 per annum)

ReguLetter

ReguLetter is the flagship newsletter of the Centre for Competition, Investment & Economic Regulation (C-CIER), covering information related to the competition scenario around the world. The cover story in this issue (volume 6, issue 1) talks about "Access to Medicines: Beyond Patents" as a critical issue in the developing world today. The tricky business of Corporate Social Responsibility and the way forward with it, is tackled in the section titled 'Perspective'. Other than the regular features like Macro Issues, Micro Issues, Restructuring, Corporate Issues, Investment & Privatisation and Sectoral Regulation, there are special articles on 'Efficiency Defense in Competition Law: A Small Economy Perspective ' and 'Does a Cartel Exist in the Philippine Oil Industry'. Besides, it also talks about the investment prospects in Vietnam for Indian business as a means of economic cooperation between the two countries in 'News & Views' and discusses the state of competition in Ethiopia. An 'Insert' in this issue informs the reader about the current activities of the Centre.

(Subscription: Rs 150/US$30 per annum)

Forthcoming Event…

Retreat on Regulatory Accountability and Independence

New Delhi, India, July 23, 2005

Regulators need to be given sufficient autonomy to ensure that they take judicious decisions in a competent manner and made accountable and answerable for their actions and performance.

Lack of functional autonomy is not the only deficiency with which regulatory regimes in India are struggling. Poor accountability mechanism is the other concern that is of equal importance and has a direct bearing on regulatory efficacy. The system should be able to take care of possible non or even under-performance. Given that the science of regulatory regimes in India is still evolving the issue so far has not been able to attract due attention.

With the view to facilitate better understanding among key stakeholders, CUTS Centre for Competition, Investment & Economic Regulation (CUTS-CCIER) envisaged organising rounds of discussions to deliberate upon the key aspects of regulatory accountability and independence and help emergence of a consensus, in this regard.

Against this background, a retreat on 'Regulatory Accountability and Independence' (second in the series of three) will be organised at the India Habitat Centre, New Delhi, on July 23, 2005.

The first, in the series, of such discussions was organised successfully at New Delhi, India, on May 7, 2005.

More on: *http://www.cuts-international.org/forthcoming-events.htm#retreat23july05*

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **DH:** Deccan Herald, **ET:** The Economic Times, **FE:** The Financial Express, **FT:** Financial Times, **HT:** Hindustan Times, **ToI:** Times of India

The news/stories in this Newsletter are compressed from several newspapers. The sources given are to be used as a reference for further information and do not indicate the literal transcript of a particular news/story.