

# PolicyWatch



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

Volume 7, No.1

CUTS  
International

January-March, 2006

## Infrastructure Regulation: The Knots and Crosses

Despite several favourable policy initiatives being announced by the Indian government, private investment is not picking up in infrastructure sectors. The reasons, for this, are no secret. Investors simply do not perceive the regulatory environment to be conducive and consistent enough to do business in, with a long-term perspective.

During the last decade, the government made a paradigm shift in its policies and governance structure in some of the infrastructure sectors. Specialised regulatory agencies were established in the telecom and electricity sectors and is likely to be set up soon in the oil & gas sector. Regulatory agencies are mandated to enable private investment and to ensure development of the sector; however the outcomes, so far, do not match up to expectations. Though reasonable success has been achieved in the telecom sector, the situation could have been far better. Private telecom companies are struggling with several policies and regulations that are biased in favour of the government owned incumbent service providers.

There are manifold reasons for regulatory inefficacy in India.

In most cases, the opaque processes followed in selecting regulators leaves no space for talent to get onto the seat. With inadequate compensation on offer, bright and capable individuals do not find it attractive to join regulatory bodies.

As a matter of fact, regulatory laws in India do not provide for the so-called independent regulator to decide upon the nature and strength of their own staff and the compensation. Consequently, talented, competent personnel prefer joining the industry rather than the

regulatory authority, which reflects in the latter's performance and erodes credibility.

Fair and competitive appointment is just one of the concerns, and provisions related to ousting a regulator are equally important. It is a case of too much to expect outstanding performance from regulators when their survival is subject to the whims and fancies of the line ministry concerned. For instance, no investigation needs to be undertaken to oust a member of the Telecom

Regulatory Authority of India (TRAI) if the executives sitting in *Sanchar Bhavan* perceive him working against 'public interest'. The bitter experience of 1999 when the TRAI Act was amended to sack regulators who were doing their job well is a case in point. The provisions in the amended TRAI Act have only worsened thereafter. In such circumstances, expecting TRAI to enforce a level-playing field between the incumbent who reports to *Sanchar*

*Bhavan* and the remaining service providers would be, as stated before, too much. Conflict in interests on the government's part affects overall outcomes and often leads to less-competitive markets, for which blame is often placed upon the regulator.

The recent experiences of regulatory interface with the government are a major cause of concern. It appears that regulatory agencies in India find it difficult operating in an autonomous manner, as the ministry concerned often indulges in issues that fall within the mandate of a regulator. For instance, though the telecom regulator was supposed to deal with tariff related issues, the minister was making announcements without consulting the regulator. Similarly, sometime ago, the ministry of power had proposed to amend the law to enable itself to influence tariff determination.

.../...



The Economic Times

HIGHLIGHT	
<b>S L Rao</b>	
<b>Competition in Infrastructure</b>	
"In one decade, India has tried to do a U-turn on competition".....	18

ALSO INSIDE	
Indian Railways .....	19
Budget .....	20
From Being an Ignorant to Informed Farmer .....	22
Private Sector in Water Distribution .....	23

"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."	<b>Machiavelli in The Prince</b>
---	----------------------------------

Regulating the government owned incumbent is something that the regulatory agency often finds difficult to deal with. It is not just TRAI that finds it difficult to push Bharat Sanchar Nigam Limited (BSNL) on level-playing turf with private operators; electricity regulators across the states face similar challenges as well. In several incidents, State Electricity Boards (SEBs) and/or their successors had not complied with regulatory directives, and the media had likewise reported in the past that in some states, governments had tried to influence the tariff setting process by making public announcements.

In most cases, state governments own and control electricity distribution companies and tariff setting is highly politicised, which hinders improvement in performance. Though regulatory commissions are supposed to discipline the utilities, they have, however, limited choices for the reason that in a case of non-compliance, imposing financial penalties to the already starved utilities might lead the structure to collapse.

Powers vested with the government to issue policy directives to a regulator is another gray area. Though issuance of policy directives to independent regulatory bodies is arguably the government's prerogative, but letting the scope of such directives undefined offers scope for distorted interpretations, which might undermine autonomy of the regulator. Such issues concern investors and scale up the risk perceptions, which escalates capital costs.

Evidently, politicians and executives sitting in related ministries should be educated and sensitised about the delineation between regulatory and policy formulation functions. Otherwise, regulators would not be able to perform and attain the objectives they are mandated with. The capacity of regulators and their staff is another important issue that needs to be addressed with a holistic approach. Recruiting capable people is just one aspect, and this should be supported through the institutional base to impart and sharpen relevant skills. However, the institutional base needed for such a purpose is lacking, as of the present, which reflects in terms of shortage of

professionals with appropriate skills and knowledge.

As independent economic regulation is a recent phenomenon in developing countries, capacity building should be top priority. And, this need for capacity building is not just confined to regulators and their staff; the training needs of all stakeholders have to be addressed. Indeed, effectiveness of regulatory regimes depends, to a large extent, on the quality of inputs received from the stakeholders. Further, capacity-building programmes should be designed in a manner to help participants address the issues they grapple with.

The other important interface-related issue is that with the competition commission. Related to addressing competition concerns in a regulated sector, the division of work between two agencies has to be spelt out in unambiguous manner. Lack of clarity in respective legislations might lead to forum shopping and litigation. Further, consistency in approach adopted is preferred in the various sectors.

Regulatory accountability is no less important issue than autonomy. The prevailing provisions that require regulators to submit activity report to the legislature are not sufficient to ensure accountability in real terms. In practice, the legislature hardly devotes the time and attention required for analysing such reports. Addressing this would require having a systemic arrangement in place to strike a desirable balance. To that effect, mandating consumer organisations as watchdogs may help to a considerable extent. This would require making a mention in the related legislation of such a role to be given to consumer groups. Further, as another measure to enhance accountability, provisions could be made in the law to implement the Regulatory Impact Assessment on a periodic basis.

At the behest of the Prime Minister, the Planning Commission has taken up the matter and is supposed to recommend a robust regulatory framework, by means of which the concerns expressed in this article will be hopefully addressed.

---

**T H E M E : I N F R A S T R U C T U R E   R E G U L A T I O N**

---

**In Conflict**

The Appellate Tribunal for Electricity overturned an earlier ruling by Central Electricity Regulatory Commission (CERC) which had directed Power Grid Corporation of India Ltd (PGCIL) to execute a transmission link at a 'cost ceiling suggested by the utility thereby allowing PGCIL to execute the project at a revised cost, higher than the 'ceiling' submitted by the transmission utility to the CERC earlier.

PGCIL is recognised as the 'central transmission utility' that is supposed to assist the electricity regulator in evaluating technical and financial parameters of transmission projects proposed by the private sector.

There appears to be a conflict of interest between its role as an evaluator of project costs proposed by private parties and its interest as a potential executor of the same project, should private promoters fail to win the regulator's mandate. This lack of clarity could hurt the cause of private participation in infrastructure projects. *(BL, 14.01.06)*

**Knocking Heads**

In an unprecedented move, the Department of Telecom (DoT) has asked the Telecom Regulatory Authority of India (TRAI) to share its views on the issue of Access Deficit Charge (ADC) with the government before taking any decision.

Fixing ADC so far has been under the purview of the telecom regulator and the intervention of DoT on the matter could be an indication of it being made a policy issue.

In a related development, the DoT, by invoking Section 25 of the TRAI Act, has taken over the powers of the regulator citing extreme, emergency-like circumstances.

Above instances of government intervention in the affairs of the regulator seems to be way forward. In 1999, there was a similar face-off between TRAI and the government over a telecom Tariff Order 1999, which concluded with the sacking of all members of TRAI, but one.

*(HT, 13.08.05 & BL, 03.09.05)*

### Fixing Trade Margins

Empowered under the Electricity Act 2003, Central Electricity Regulatory Commission (CERC), the power regulator decided to fix the power trading margins at four paise per unit for players who have been given licences for engaging in interstate trading of electricity.

Average trading margins being charged by trading firms have shown an increasing trend over the last year. The move is seen to come as a blow to a number of trading firms who have been charging higher margins.

The Commission said that the move to fix the margins was aimed at protecting the consumers as well as providing reasonable return to traders.

(BL, 26.01.06)

### Scheme For Sugar Mills

In a move to encourage sugar mills in the co-operative sector to set up co-generation and captive power plants and to reduce dependence of the mills on the electricity grid, the Government plans to come up with an innovative scheme.

According to officials, power generation from mills and distilleries needed to be scaled up through appropriate policy measures and regulatory interventions.

It was further noted that there was a need to come up with novel solutions to produce electricity and reduce dependence on conventional sources such as coal and suggested use of new techniques such as bi-methanation of effluents for producing biogas to generate electricity in sugar mills.

(BL, 07.03.06)

### Allowing Private Investments

In a bid to attract larger investments in the nuclear power sector the government plans to introduce a bill in Parliament to amend the existing Atomic Energy Act to allow private investments.

The new amendment will enable production and supply of nuclear power by companies in the private sector.

Leading power companies including Tata Power have already drawn up plans to put in investments in the nuclear power sector, once it is opened up.

(ET, 21.03.06)

## Prioritising Power

In a bid to find out solutions to the problems being faced by the power sector, a string of initiatives are on way to be implemented. The government has also accorded high priority for development of hydro projects.

Through the innovative scheme of *Rajiv Gandhi Grameen Vidyutikaran Yojna*, the government is committed to provide electricity to all the villages across the country by 2009.

In the context, attention would be given to various aspects including ways to increase generation capacity to meet the growing demand of power.

Besides, the plan to add about 10,000 MW of hydroelectric generation capacity during the tenth plan is also in the pipeline, the highest ever capacity addition from the hydro sector.

(FE, 24.01.06 & BL, 16.02.06)



### Tariff Policy Announced

The Central Government approved the Power Tariff Policy under the provisions of Electricity Act 2003.

The policy aims at ensuring availability of electricity to consumers at reasonable and competitive rates while ensuring financial viability of the sector and also attracting necessary investments. Promoting consistency and predictability in regulatory approach is one of the important objectives of the policy.

The new policy proposes that distribution licensees should procure all future requirement of power through a process of competitive bidding. It has also given CERC the discretion to choose between the Return on Equity, and the Return on Capital Employed approach while setting the tariffs.

According to the policy, a two-part tariff structure should be adopted for all long-term power procurement contracts from generation projects. The policy has also called for the introduction of multi-year tariff frameworks for both public and private utilities.

(BL, 11.01.06)

### Rap on the Knuckles

The power regulator, CERC has rapped the Jammu and Kashmir government for endangering the northern grid security by repeated violations of grid code regulations and for not paying outstanding dues of over Rs 473 crore excluding interest.

On a petition by the Northern Regional Load Dispatch Center, CERC

observed that despite an earlier directive, the state had continued with heavy overdraws.

Earlier, the state government had assured that overdraws from the grid would be limited and dues would be settled. However, despite assurances and CERC's directions, the government did not make any payment above Rs 49.94 crore in August 2005.

(BS, 14.03.06)

### Mega Ventures

It has been reported that work on the proposed four ultra mega power projects with a capacity of 4,000 MW each may begin as early as January 2007 and may take three to four years to complete.

The process of setting up four special purpose vehicles (SPVs) to pilot these projects is also underway. Once operational, the total power shortage in the country will be reduced considerably.

The SPVs will prepare the project reports, sign power purchase agreements with the respective state governments, establish coal linkages and put in place environment clearances before selling the projects to independent power producers through an international bidding process.

The Power Finance Corporation has been appointed by the Finance Ministry as the nodal agency to execute these projects. The possible project locations include Champa, Singaroli, Karwar, and Surat.

(BS, 11.01.06 & ET, 15.01.06)

## Connecting Distant Villages



The Ministry of Communications and Information Technology will provide Rs 451 crore from the Universal Service Obligation Fund to set up public telephones in 66,822 villages under the Bharat Nirman Programme by 2007.

The plan envisages connecting 14,183 of the 66,822 remote and far-clung villages through digital satellite phone terminals. The department has assured that it would use the Fund to assist private service providers also to reach out to rural areas for maintenance of existing public telephones, replacement of those installed, and the installation of telephone lines in households in specified rural areas.

The government also plans to support private operators for the provision of additional rural community phones in villages that are without PCO.

(BS, 21.01.06)

### More Choice for Customers

In a move that would allow customers to switch operators while retaining the old number and to enable customers to choose service provider for long distance calls, the Telecom Regulatory Authority of India (TRAI) recommended mobile operators to introduce the Mobile Number Portability (MNP) and Carrier Access Code (CAC).

Considering the present status of telecom services in India, TRAI considers it an appropriate time to initiate the process for implementing both schemes so as to increase customer convenience, quality of service, and further enhance competition among service providers in the mobile sector.

But, subscribers will have to wait longer before they can avail the services, as TRAI has decided to initiate fresh consultations on the matter and feels that a number of technical and cost sharing problems need to be sorted out.

(ET, 14.01.06 & BL, 09.03.06)

### Blocking Unwanted Calls

Following a Supreme Court verdict, the government has decided to come out with a detailed guideline on blocking unwanted calls from the tele-marketers, thus benefiting mobile consumers.

While the move will bring cheer to consumers, it could deal a blow to the huge domestic business process outsourcing companies and banks selling financial products. It will also seek to ban telephone companies from

transferring the data of telephone subscribers to any other company for commercial purposes.

The government made this announcement as 'Do Not Disturb' registry started by many cellular operators did not prove effective. The government plans to meet operators, banks and financial products companies, and IT-enabled services providers to formulate the guidelines.

(BL, 07.03.06)

### Mobile Internet Services

According to an official announcement, the Department of Telecom (DoT) has permitted mobile operators to provide Internet services including the lucrative Internet Protocol (IP) based Virtual Private Network (IP-VPN), without any additional fee.

VPN services are used to network large corporate houses, retail chains and offices in remote locations through leased line optic fibre cables. The services until now were being offered by Internet Service Providers and long distance service providers such as Sify, BSNL, and Bharti Tele-ventures. At the moment, cellular operators are providing Internet services limited to surfing and e-mailing.

The decision will allow mobile operators to lease out capacity from national long distance operators for offering all types of Internet services. The decision will bring additional revenues for cellular companies.

(BL, 16.02.06)

### Frozen Lifetime Validity

TRAI, the telecom regulator has posed questions on the long-term viability and sustainability of a string of lifetime validity offers under names such as *Jeevan Saathi*, *Chalta Rahe*, *Lifelong* etc, being offered to mobile subscribers.

Of late, TRAI stepped in and issued a clarification that 'Lifetime Validity' product should be valid till the licence period of the mobile operator.

The companies offering lifetime subscriptions must tell subscribers for how long their licenses are valid and they also cannot hike tariffs at any time.

(FE, 17.01.06)

### New Era

In a bid to enable cable operators to offer telephony services to their customers more efficiently, TRAI has proposed to open up the Media Gateway Control Protocol (MGCP).

Currently, cable operators in the country offer data services such as broadband Internet services along with broadcast. If TRAI's proposal comes through, cable operators would not only be able to foray into voice services but will also present direct competition before telecom operators.

At present, there is a restriction in usage of protocols; the only protocols permitted are SIP and H.323, which are primarily used for proper telecom network.

(BL, 05.01.06)

### Under One Roof

Cellular operators have agreed to share infrastructure, a move intended to bring down set-up costs. The sharing is expected to begin in Delhi followed by Mumbai and so on. A working group under a Joint Secretary in the DoT will work out the modalities involved.

Sharing infrastructure would mean having a single tower, where all the operators can install their equipment. This will improve coverage, address the issue of call drops and reduce cost.

GSM operators currently have about 6,000 towers in Delhi and Mumbai. The existing towers may not be tampered initially, and the agreement is expected to benefit companies wanting to set up new towers in future.

(BL, 14.03.06)

### Pooling-in Resources

In a bid to cut down costs of operations, private airlines including Kingfisher Airlines, GoAir, Air Deccan, and IndiGo are planning to come together by sharing engineering resources, equipment, technical manpower, and training requirements.

In the backdrop of Jet-Sahara deal, the decision assumes great significance and will certainly help bringing down the cost of airline operations substantially.

In addition, the agreement calls for the four-member league to transfer passengers between each other's flights on an agreed flat fare in case of disruptions. *(BS, 25.01.06)*

### Playing Private

The government is looking forward to expanding the role of the private sector in future road projects. It is planning to hand over the lion's share of its road projects with aggregate investment of Rs 1, 50,000 crore to private players by 2012.

Sources point out that the government cannot finance the huge investment required in infrastructure, and so, increased participation from private players is inevitable.

It was further reported that the government has finalised a blueprint to join all road and railway missing links to ports and that a dedicated railway freight corridor will also be soon put in place. *(FE, 12.01.06)*

### Airport Revamp

The process of modernisation and restructuring of the Delhi and Mumbai airports gets underway with the government signing the final agreement to hand over the airports to two separate joint venture companies GMR and GVK.

The 30-year agreement allows the private consortia GMR and GVK the right to operate and modernise the airports. The capital investment for this modernisation is estimated at Rs 5,000 – 7,000 crore.

Earlier, a statement laid on the floor of the House had clarified that the management control of the two airports will remain in the hands of Indian nationals and the foreign direct

investment allowed in the joint venture companies has been pegged at 49 percent.

Besides, a decision to modernise Chennai Airport through the joint venture route is also said to be in the pipeline and may begin soon.

*(BL, 03.03.06)*

### Certification Withdrawn

The International Air Transport Association (IATA) has withdrawn the International Operation Safety Audit (IOSA) certification for Air India (AI) due to the delay on the part of the airline to meet norms earlier this year.

IOSA required AI to comply with certain additional training modules relating to quality control and documentation, which AI managed to organise in March. Restoration of certification depends upon the completion of the training and the audit satisfactorily.

The audit is considered as the benchmark for global safety management and is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.

By 2007, all IATA members will need to have successfully undergone the IOSA audit in order to maintain IATA membership. *(BL, 27.02.06)*

### Addressing Needs

According to the economic survey, Indian Railways had appointed a consortium including French Railways, SNCF, and Ernst & Young, among others, to work on its accounting reforms programme in a bid to support the existing government reporting requirements and provide activity or service-based revenue and cost data.

The survey said that the reforms programme was embarked upon by the Railways to address various issues for business orientation of the organisation including development of fully computerised cost accounting organised on business lines.

The survey further added that the reform programme includes concessioning of loss-making branch

lines and that it would be capable of providing both government and commercial accounts.

*(BL, 28.02.06)*

### Slew of Sops

A slew of incentives in the form of subsidies and grants are being worked out to attract private sector participation in the Inland Water Transport (IWT), as the sector has been recognised as a thrust area.

The share of cargo traffic in India on inland waters is estimated at less than one percent. Therefore, investment by the Government is imperative to make it attractive for private players and to help develop IWT as a mode of transportation.

In an effort to determine the kind of incentives required to make investments more viable, the ministry is working out an action plan. Viability gap funding is one of the options being considered. *(ET, 03.02.06)*

## Trucking Tales

Bharat Petroleum Corporation Ltd., BPCL has initiated a 'one stop truck shop' (OSTS) facility comprising of a gas station, dormitory, and eatery, especially for truckers.



Currently 60 such OSTs are up and running across the country which BPCL plans to increase to 300 in coming three years. The OSTs will take care of the personal, travelling and business requirements of truckers and long-distance travellers.

BPCL officials believe that projects of such nature will help them raise their diesel sales up to 25 percent in the coming years. The OSTs would be greenfield sites. The company also plans to upgrade some of its strategically located petrol pumps to OSTs.

*(BL, 06.01.06)*

## Strategic Energy Pact

India and Saudi Arabia plan to develop a 'strategic energy partnership' based on complementarities and inter-dependence. Saudi Arabia has agreed to ensure reliable, stable and increased volume of crude oil supplies through 'evergreen' long-term contracts.

Emphasis was laid on co-operation by both sides in joint ventures, both in public and private sectors in the upstream and downstream oil and gas sectors.

A full realisation of these commitments by Saudi Arabia would greatly decrease India's uncertainties over its energy security.

Public and private companies from both countries have signed six MoUs for co-operation in energy and financial services. The two sides have further agreed to co-operate in setting up ventures for gas-based fertiliser plants in Saudi Arabia.

(ET, 26.01.06 & BL, 28.01.06)



### Seeking Compensation

Reliance Industries, Ltd (RIL) has sought compensation similar to the one being extended to public sector oil marketing companies (OMC) like Indian Oil Corporation, IBP, Bharat Petroleum and Hindustan Petroleum, for selling petrol and diesel below the cost price.

According to RIL officials, the retail price of petrol barely makes up for its cost of production. Private sector companies including Reliance Industries, Shell and Essar have fared poorly in the area of retailing petroleum fuels.

The existing framework provides part of the losses suffered by the OMCs on sale of petrol and diesel through the issue of oil bonds and discounts extended by upstream OMCs.

(FE, 10.01.06)

### Moving Onwards

As the much-awaited Iran-Pakistan-India (IPI) gas pipeline project moves towards the trilateral level, the issue of pricing, project structure and routing of the pipeline would become the core areas of deliberations.

While both India and Pakistan have stressed on having a ceiling to the price, Iran prefers prices of gas without ceiling.

India has indicated that gas prices should be linked to the price of crude oil and alternative fuels and that the pricing formula should be such that all concerned parties are satisfied.

Indications reveal that a steering committee comprising representatives of the three countries would oversee the IPI project. India is looking at the

pipeline project to secure 60-90 million standard cubic metres per day of gas supplies to bridge the expected shortfall in domestic production.

(BL, 03.01.06)

### Promoting Bio-fuel

The Ministry of non-conventional energy sources is working on a major project to promote the use of bio-fuels in non-stationary engines as a substitute for petrol in rural areas. In this context, a proposal paper has been submitted to the Union Cabinet.

Besides, the Ministry was taking initiatives to develop other energy sources like hydrogen energy and bio-diesel. The Planning Commission has also taken up a Bio Mission to have *Jatropha* cultivated in 400,000 hectares.

In the backdrop of the same Mizoram government has chalked out an array of measures to turn the state into 'green oil field' by producing huge quantity of bio-diesel.

Mizoram is expected to be the first State in the North-eastern region to implement a mega project to cultivate *Jatropha* plantations.

(BL, 06.01.06 & ET, 07.01.06)

### Recommendation on Pricing

The Rangarajan Committee on pricing and taxation of petroleum products has put forth three sets of recommendations on pricing of petrol and diesel, Liquefied Petroleum Gas (LPG) and kerosene and restructuring the excise duties.

The panel has proposed giving oil companies the freedom to fix the prices of petrol and diesel through the trade parity pricing mechanism rather than the existing import parity pricing.

It has also suggested reduction in customs duties on petrol and diesel from 10 percent to 7.5 percent and has recommended hike of Rs 75 on LPG. While submitting the final report to Petroleum Minister, the Committee has suggested to restrict the sale of subsidised kerosene to below poverty line families.

Oil companies and consumers could breathe easy if the recommendations submitted are accepted.

(BL & FE, 18.02.06)

### Surplus on Sale

The Department of Coal is in the process of consulting with the Ministry of Law in a bid to legally permit sale of surplus coal produced by captive coal producers to other approved end-users.

At present, captive mining of coal is allowed only for internal consumption of companies engaged in production of iron and steel, generation of power and making of cement. According to sources, an expert panel is taking a relook at the mining laws in the country.

(ET, 08.03.06)

### Air Fuel Supply

A consortium led by Indian Oil Corporation has bagged a contract for setting up the aviation fuel supply infrastructure project at the new international airport coming up in Bangalore.

The consortium will be responsible for the design, construction, financing and operation of the facility. It will invest about Rs 90 crore in the project and the duration of the contract is 20 years.

This fuel facility in Bangalore will be the first in India to operate under an open access model.

(BL, 03.03.06)

### Water: Key Focus

Deeply distressed over the 'woefully' inadequate water supply system in the country, Prime Minister Manmohan Singh assured that the availability of safe drinking water to every habitation would be the key component of the agenda to be delivered under the Bharat Nirman programme.

The government has chalked out a five-point agenda that focuses on water quality, water supply management and strengthening management of environment and mobilising communities.

Dr Singh pointed out that the growth of water infrastructure has not been accompanied by an improvement in the quality of governance of water services and hence urged all to work together to tackle the problem.

(TH, 01.02.06)

### Refurbishing...

In a move to revamp the existing appointment system at the top management level in public sector banks, the Finance Ministry has proposed that the average age of Chairmen and Managing Directors be set at 50, with a minimum stint of five years.

Furthermore, steps are also being taken to widen the talent base for the top posts. The Ministry has finalised a parallel plan to allow free flow of officials of the rank of general manager and above.

According to the new system, banks can choose from the talent pool

and import talent from other banks thereby maintaining a certain standard of performance while getting rid of non-performers. (FE, 20.01.06)

### New Buzz

After the Insurance Regulatory and Development Authority (IRDA) announced microinsurance regulations, companies are readying to offer microinsurance products to an under-penetrated market.

The IRDA Microinsurance Regulations 2005 allows insurers to issue policies with a maximum cover of Rs 50,000 for general and life insurance. The regulations allow life and general insurers to tie up for offering a combined policy to cover risks of lives, crop, huts, livestock and tools.

Microinsurance has become the latest buzzword for insurance companies that seek to provide income security in rural areas. As income in the rural areas is mostly irregular and seasonal, income security is the top most priority for potential policyholders. (ET, 22.03.06)

### Use and Pay

According to the Economic Survey 2006, the accelerating process of urbanisation is putting severe strain on urban infrastructure and services like drinking water, sanitation, sewage systems, electricity and gas distribution, urban transport, primary health services, and environmental regulations.

The Survey suggested for a user-charge financed approach to facilitate a massive increase in capital expenditure on urban infrastructure. The survey notes that the process of urbanisation has gathered momentum in recent times and this has put urban infrastructure and services under severe pressure.

Further, the Survey points out that because of their inadequate financial resources, smaller cities have found it particularly difficult to cope with the increasing demands on services. Urban areas in India present a grim picture with regard to availability of basic infrastructure. (BL, 28.02.06)

### Guarding the Flow

Increasing number of state governments are intending to enact laws to regulate the informal water market which is currently valued at around Rs 5,000 crore if states succeed in getting any legislation passed, they could earn revenue of at least Rs 500 crore per year.

Though water is a state subject, rights over water are not clear. But state governments need to have some legislation to regulate the market.

The Maharashtra Water Resources Regulatory Act 2005 has already imposed a regulation on sellers of water recently and has asked them to take the state's permission for installing tube wells.

While states like Rajasthan and Himachal Pradesh have drafted similar legislations. (ET, 12.02.06)

## Postal Amendment, a Retrograde Measure

The Department of Posts (DoP) plans to ban courier companies from delivering letters weighing up to 300 gm with the resultant crippling of the Rs 5,000 crore express industry.

The DoP has proposed amendments to the Indian Post Office Act, 1898 for this purpose and to provide for a Mail Regulatory and Development Authority (MRDA) to increase efficiency in the services.

As a result of the proposed amendments, the whole courier industry is likely to suffer a setback according to observers as nearly 50 percent of the industry's total revenue comes from carriage of letters below 300 gm and would facilitate DoP getting this lucrative segment, which until now was cornered by the private courier industry. (ET, 08.02.06 & 11.02.06)

### CUTS' Perspective

The strategy to serve rural and remote areas via the proposed amendments is a retrograde measure. In the current scenario when there is already segmentation of the market for postal services (ordinary mail vs express), government should seek to preserve this, rather than create further segmentation, observes CUTS International, in a submission to the government.



To read more, follow [http://www.cuts-international.org/pdf/Indian\\_Post\\_Office\\_Bill.pdf](http://www.cuts-international.org/pdf/Indian_Post_Office_Bill.pdf)

## 100 Days' Work

An employment guarantee scheme that will ensure citizens their legal right to get 100 days of work in a year has got off the ground.

The scheme provides that in case the government fails to provide employment, the job-card holders would get a part of the wages as compensation.

The scheme would be implemented in 200 districts and aims at creating durable assets and strengthening the livelihood base of the rural poor. There are five important non-negotiable components in the scheme including 100 days of work, payment once in 15 days, equal wages to men and women, and undertaking work approved by the *Gram Sabha*. (BL, 03.02.06)



## Combing Fine

Prompted by Jet Airways' acquisition of Air Sahara, the Monopolies and Restrictive Trade Practices Commission (MRTPC) has initiated a probe into the deal which may keep Jet and Air Sahara on edge, as the probe will take a cursory look on whether the merger results in abuse of dominance, even if it is not deliberate.

Against this backdrop, the Directorate General of Civil Aviation (DGCA) also suggested the civil aviation ministry to lay down a framework for transfer of assets and facilities such as the international flying rights, parking and landing slots, hangars, and offices. These facilities are governed by lease agreements and hence cannot change hands with mergers or acquisitions, the Directorate feels.

The possibility of more mergers and/or acquisitions cannot be ruled out in the near future, and in the light of the same MRTPC probe and DGCA's comments both bear great significance. A fresh set of government rules can act as a turning point in all future cases of mergers and acquisitions.

(ET, 07.03.06 & 28.03.06)

## Plan for Cheaper Drugs

The government has come up with several measures including slashing excise duty by 50 percent, exempting cancer and HIV/AIDS drugs from taxes, and implementing a uniform drug-pricing norm across the country, which would make the maximum retail price inclusive of all levies.

It further proposed that the drug packaging would have data such as the name, price, production, and expiry date of the drug in both English and Hindi. Consumers will have to wait before these measures usher in practice, as these proposals would be effective from April 1, 2006, but the final date for compliance is October 2, 2006. (TH, 12.02.06)

## Tax Return 'Preparer' Scheme

In a bid to crash the fees charged by the chartered accountants for filing tax returns, the finance ministry is on its way to finalise a public-private partnership scheme to appoint, train, and certify unemployed graduates for the job.

The 'tax return preparers' scheme is slated to begin from June 1, 2006.

Officials said the department would soon appoint an agency to train such graduates whose performance would be monitored on a regular basis by the revenue department. Officials further added that there would be strict enforcement of quality. If the 'preparer' makes mistakes, he or she will be held accountable.

According to officials, the revenue department was keen to introduce the scheme because it would help in widening the tax base by encouraging more small taxpayers to file their returns. (BS, 08.03.06)

## Setting Up Anew

In a bid to attract foreign investment in the exploration and mining of minerals and metals, the government is in the process of reviewing the National Mineral Policy and plans to set up a 'new mining regime'.

In the proposed regime, the government intends to grant 'right to transfer licence' to a foreign company, and simplify procedures for granting licence for exploration and mining, apart from increasing area of operation and duration of concessions.

The new regime is expected to come into force, once relevant statutes that would further encourage foreign investors in exploration and mining are amended. (ET, 08.03.06)

## Taxing the 'Favoured' Farmer

In the case of individuals earning income from both agricultural and non-agricultural sources, the time has probably come when the income from agricultural sources is set a threshold limit, beyond which the income of such people would be brought under the tax net.

In what appears to be the first assault on the influential farmers' lobby, the Parliamentary Standing Committee on Finance suggested taxing the 'creamy layer' among farmers.

In its final report on widening the tax base, the Committee expressed concern over tax evasion by people involved in non-agricultural activities such as trading in rural areas.

According to the panel, such practices make a serious dent in government's total realisable tax kitty.

(FE & ET, 18.02.06)

## Lab Regularisation

Six months after the Andhra Pradesh State Assembly okayed the legislation to regulate private medical establishments, an order will soon be issued to regulate diagnostic laboratories in the state. In the absence of any licence requirement till now, the laboratories mushroomed all over the state and there is no count of them. According to government sources, registration of all diagnostic labs would be subject to renewal every two years.

(www.ndtv.com, 13.01.06)

## Opening Up

The government indicated that all defence purchase files would be open to scrutiny under the Right to Information (RTI) Act, but the filed information will be made public after a contract is concluded. The files would not be made available while the procurement process was on. (TH, 01.02.06)

### New Start in Atomic Energy

The Department of Atomic Energy (DAE) is working on the possible amendments to the Indian Atomic Energy Act 1962, which would enable and encourage private participation in the country's ambitious nuclear power programme in the form of investments, both from India and abroad as against the existing framework, which prohibits such activities.

According to officials, DAE is also trying different elements, which would help in enhancing the statutory status of the Atomic Energy Regulatory Board, very vital when going in for private participation. However, the private investors will have no right on nuclear material, and it is only the DAE that will have the right to protect the nuclear material.

Indian Atomic Energy Act placed in 1948 provides for the development, control, and use of atomic energy for the welfare of people of India and other peaceful purposes and matters connected thereof.

(BL & FE, 23.03.06)

### Venturing for Container Trains

In accordance with the new container policy, private players can now run container trains for both import and export and domestic traffic.

The private players could be companies/firms/individuals registered in India with an annual turnover of more than Rs 100 crore. The policy permits the operation of container trains for a period of 20 years, which will be extendable by another 10 years subject to satisfactory working by the applicant.

The policy of container train movement will be uniformly applicable to all applicants including Concor and the principle of 'first come, first serve' will be followed.

The policy further lays down that while Railways will provide engines and drivers, the applicant will have to provide bogies and procure its own rolling stock required for the movement of container trains.

(BS, 06.01.06)

### Fully Convertible Rupee

The Indian Prime Minister, Dr Manmohan Singh suggested that in the light of the changes that have taken place over the past two decades, there is merit in moving towards fuller capital account convertibility.

A full convertibility of the rupee would eliminate the obstacles to India's integration with the global economy. The suggested change would also enable Indian individuals

and businesses to invest more freely overseas, thereby allowing large companies easier and cheaper access to foreign debt currently limited to US\$500mn per company per year.

Currently, India allows its currency to be convertible only on trade or current account enabling companies and individuals to freely convert rupees into foreign currencies for trade in goods and services.

(FT, 20.03.06)

### No Direct Benefits

The Centre is likely to endorse, for the first time ever, a pilot project involving direct subsidies to farmers for fertilisers.

The formula devised is to give out coupons to farmers to be submitted to retailers, who will subsequently pass them on to the producer company upon buying every bag of fertiliser as against the existing arrangement, whereby the Centre reimburses fertiliser companies the difference between the maximum retail price/indicative price and the actual cost of production.

The main purpose of this arrangement is to provide fertilisers to farmers at an affordable price.

(ET, 07.01.06)

### Blowing the Whistle

In the wake of the recent Initial Public Offering scam in banks that had violated norms with regard to opening accounts, foreign and private banks operating in the country now have more reasons to be on their guard.

Bank employees can now blow the whistle in case of any irregularities, in view of the recent guidelines issued by the Reserve Bank of India.

(BL, 26.01.06)

### Better Work, Better Pay

Performance based remuneration is likely to be on the cards for public sector bank staff.

In a bid to keep up with stiff competition from private sector banks, the government is working on a proposal to increase pay packages of bank chairmen and executive directors through performance based incentives, which will be later extended to branch employees.

(FE, 20.03.06)

## A Standard for Quality

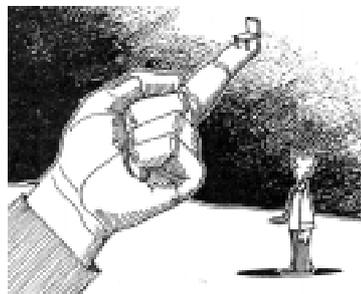
The Department of Administrative Reform and Public Grievances (DARPG) has brought out a standard for maintaining and addressing service quality for various public sector organisations (PSO).

The Bureau of Indian Standards (BIS) formed these standards for DARPG. The standard called IS 15700 specifies requirements of quality management systems in situations where a PSO needs to demonstrate its ability to consistently provide effective service, meeting both customer and regulatory requirements.

It further specifies norms of quality maintenance to enhance customer satisfaction and continuously improve service and the service delivery process. It further spells out that the top management of the company will be held responsible for ensuring that the service quality, policy and objectives are defined.

An application of this standard extends to all central government ministries and PSO. To meet the norms set forth, an organisation will have to declare a citizen charter declaring intentions and commitments for providing efficient service.

(FE, 14.02.06)



## Legislative Changes on Cards : Budget Session 2006-07

Amendments to Competition Act, 2002: CUTS' Perspective	
Key Amendments	CUTS' Concerns
<p>Split the competition authority into two; Competition Commission of India (CCI) as an expert body, and Competition Appellate Tribunal (CAT) to carry out adjudicatory functions and hearing appeals against the order of CCI.</p> <p>The Chairman and members of the Commission would be experts picked by a selection committee to be headed by the Chief Justice of India or his nominee.</p> <p>Regulatory authorities can make a <i>suo motu</i> reference to CCI</p> <p>Remove provisions regarding establishing benches for decision making</p>	<p>This step would keep a check on CCI's functioning. However, empowering CCI to pass 'cease and desist' orders and impose monetary penalties will lead to confusion, as these are adjudicatory functions. This requires more clarity.</p> <p>The selection procedure has been left at the discretion of the panel. This will lead to selection of retired bureaucrats and judges, as the age limit is beyond 60 years.</p> <p>This may create conflicts between the two bodies and lead to inconsistent decisions and forum shopping. Jurisdictions of CCI and sectoral regulators should be clearly demarcated.</p> <p>Considering the size of our country, this may not help in ensuring proper check on local concerns. CCI may consider setting up regional offices.</p>
To read more, follow: <a href="http://www.cuts-international.org/pdf/Bill-Blow-up2-2006.pdf">http://www.cuts-international.org/pdf/Bill-Blow-up2-2006.pdf</a>	

### More Bite

In a bid to regulate the commodity derivatives market efficiently, and to restructure and strengthen the Forward Markets Commission (FMC) broadly on the lines of the Securities and Exchange Board of India, and bestow upon it more statutory powers, the Government of India has introduced the Forward Contracts (Regulation) Amendment Bill 2006.

The bill seeks to provide for corporatisation and demutualisation of recognised associations in accordance with the schemes to be approved by the FMC.

It will also allow option trading in goods and commodity derivatives, which is prohibited under the existing framework. (BL, 22.03.06)

### Awaiting Assent

The Pension Fund Regulatory and Development Authority (PFRDA) Bill, 2005 may get the green signal during the second half of the budget session. The bill provides for the setting up of an authority to promote old age income security and would vest it with powers to regulate the new pension system (NPS) and other such funds through regulation or guidelines.

The regulatory body would be authorised to prescribe disclosure

standards, levy fees for services rendered to meet its expenses and impose penalties for any violation of the provisions of the legislation.

The PFRDA would lay down norms for management of the corpus of pension funds, including investment guidelines. (ET, 09.03.06)

### Acquiring Cable TV Operation

In an effort to correct the imbalances and deficiencies in services offered by the Multi-System Operators (MSOs), the Tamil Nadu State Assembly has approved the Tamil Nadu Acquisition, Transfer and Taking Over of the Administration of Cable Television Network (Including Multiple Service Optical Transport System) Bill, 2006.

The proposed law envisages acquiring the operations of eight large MSOs, but intends to keep the small street-level cable operators outside the purview of the acquisition, since their operations are small and they function at the fag end of the distribution system.

The bill is believed to set right the deficiency and faults in the service offered by the cable TV networks.

(BL, 21.01.06 & 27.01.06)

### Decks Cleared

The bill to set up the Petroleum and Natural Gas Regulatory Board (PNGRB), which will regulate the petroleum and natural gas sectors and protect the interests of consumers and entities engaged in such activities, was passed by the Lok Sabha.

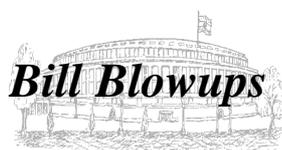
### CUTS' Perspective

*CUTS' Bill Blowup on the PNGRB Bill, 2005 lays stress that the bill should clearly lay down whether it will be the PNGRB or the CCI that will have jurisdiction in case of disputes relating to anti-competitive practices and that it should address fair and equitable distribution of government negotiated imported raw materials.*

To read more, follow: <http://www.cuts-international.org/pdf/Bill-Blowup-1-2006.pdf>

The Bill envisages the setting up of an independent regulatory mechanism to regulate refining, processing, storage, transportation, distribution, marketing, and sale of petroleum production and natural gas.

The regulator will also look into uninterrupted and adequate supply of petroleum and petroleum products and natural gas. (BL, 23.03.06)



CUTS as part of its activities has been regularly coming out with Bill Blowups. These Bill Blowups weigh the pros and cons of proposed socio-economic legislations in a simple language, listing out highlights, lowlights and action point to assist Parliamentarians understand the issue and make informed interventions in the Parliament.

To view CUTS' Bill Blowups, please access: <http://www.cuts-international.org/bill-blowup.htm>

### Ensuring Self-reliance

Microsoft India has announced an initiative named 'Saksham' that aims at developing a rural portal powered with content and applications designed specifically for the rural segment.

The software major will also set up 50,000 IT kiosks in the coming three years that will help villagers in getting information related to health, education and agriculture.

The company further plans to provide an opportunity to local entrepreneurs to set up and manage kiosks on a self-sustaining basis.

Sources report that Microsoft has tied up with three non-governmental agencies to roll out the kiosks and is also in talks with lending institutions like the State Bank of India to provide funding to local entrepreneurs.

(ET & TH, 02.02.06)

### Simplifying

In its drive to simplify procedures in the foreign trade policy, benefiting exporters, the commerce ministry plans to issue online, all export licences and authorities, including duty entitlement pass book (DEPB) scrips to exporters.

The plan is expected to reduce physical intervention to the minimum. Official sources report that the Directorate General of Foreign Trade (DGFT) would issue all licences online and that the customs department would be required to 'capture' them online.

The proposed move entails a provision whereby after sending shipments, exporters will be able to

transfer their shipping bills online to the DGFT, who, after processing the documents, will issue the DEPB scrips online.

After issuance, exporters can use the scrips for importing products duty-free as per guidelines. (FE, 31.01.06)

### Enhanced Implementation

Expressing views on e-governance in India, Sam Pitroda, Chairman of the National Knowledge Commission suggested that e-governance should be implemented in 10 to 20 identified priority services or processes to begin with and the government process should be reengineered to make things less bureaucratic.

The Commission further pointed out that ministries and states could help each other, and learn from good practices already adopted by some at the state and central level.

The Commission emphasised that there was a need for building national IT infrastructure, introducing web-based services and going in for open-source software. (FE, 06.03.06)

### A Click Away

The recent introduction of the Common Integrated Police Application (CIPA) system at some police stations in New Delhi has heralded a new era of state-of-the-art technology-driven force that no longer depends on cumbersome paper work.

Developed by the National Informatics Centre, the CIPA system will instantly make available digitised data pertaining to all aspects of

policing at various levels as against the earlier system where data was manually collated and analysed.

Apart from interlinking police stations, sub-divisions and headquarters, the system will ensure higher levels of transparency in police functioning, as supervisory officers will have round-the-clock access to details and developments in investigations.

This would mean better follow-up and watertight scrutiny of cases, thus improving the rate of convictions and will also ensure correct appraisal of the performance of the personnel.

(TH, 04.02.06)

### Planning for E-stamping

In line with the concept of e-ticketing, the centre is firming up plans to introduce electronic stamping (e-stamping) facility across the country and has advised states to move towards this computer-based system.

According to officials, a concept paper on e-stamping has been prepared. It was further reported that payment in case of e-stamping can be done through banks or credit cards. Details are still in the process of being worked out.

Stamp papers are used for paying stamp duty on various types of instruments – which means any document by which any right or liability is created, transferred, limited, extended, extinguished or recorded.

Such instruments include bill of exchange, bill of lading, debentures, shares, letter of credit, insurance policy, receipt and transfer.

(ET, 13.01.06)

## Look at IT!



The Government of Haryana has introduced an IT driven electronic interface, named 'E-Disha' that facilitates the general public to obtain information and/or status about transactions being done with various government departments at the district and lower levels through a district network.

It provides a one-stop venue for services of various State and Central Government departments in an efficient, reliable, transparent and integrated manner through a chain of Computerised Integrated Citizen Services Centres.

The national award-winning project, in Karnataka, 'Bhoomi' scans and stores digitally, the paper-based land record *patta*. The benefits of *Bhoomi* include a reduction in time taken to obtain a print-out from three to 30 days, to just a couple of minutes; reduced time for incorporation of mutation from about 200 days to about 35 days; and, enabling farm credit to be availed of in just five days, from the earlier 25-30 days. In a similar vein, a lot of attention is being paid to computerisation of land records across the country.

(www.informatics.nic.in, 16.03.06 & FE, 17.03.06)

## A Long Wait

With the dust yet to settle over the decision to allow FDI in branded retail, the larger issue of opening up retail to foreign investment would not be taken up till a political consensus is evolved on the issue.

An indication to this effect was expressed to a visiting Wal-Mart team informally. Though the official version states that FDI in retail is under consideration.

Wal-Mart is the largest retailer in the world, with a turnover that beats every other multinational corporation. Official sources have informally hinted to Wal-Mart that the political climate is not favourable at this juncture for FDI in retail sector. Wal-Mart officials are however hopeful that the Indian government would allow FDI in food and grocery retailing soon.



(ET, 18.03.06)

### Irksome Uneven Rates

Lack of uniformity in VAT rates among States is hurting the footwear sector in West Bengal badly, and also threatening livelihoods of people engaged in the trade.

Regional players wanting to emerge on the national arena feel discouraged by the tariff schedules published in the West Bengal VAT legislation. The zero-tax concession accorded to the low-priced footwear sector in Delhi in the recent State Budget is another dampener.

In Bengal, footwear, if not exclusively made of plastic, is chargeable to VAT at the rate of 12.5 percent, whereas in Delhi and Haryana irrespective of whether it is made of plastic or not, it attracts a tax of only four percent.

Hence, the much cheaper outsourced footwear from Delhi-Agra may sound the death-knell for manufacturers in Kolkata, who supply to the entire eastern region plus the North-east.

(BL, 16.03.06)

### Rural Business Hubs

The Panchayati Raj Ministry and the Confederation of Indian Industries (CII) are working together to facilitate linkages between *panchayats* and business enterprises in public and private sectors to create rural business hubs (RBHs) in the country.

The Centre with the help of state governments, *panchayats*, CII and other similar organisations has identified 846 potential products and blocs for RBHs. 30 MOUs have so far been signed between *panchayats* and

business enterprises in public and private sectors with regard to setting up of these hubs.

The Ministry has evolved an action plan consisting of 150 points after convening several meetings of state ministers who hold charge of Panchayati Raj.

The RBHs would act as a bridge between the rural entrepreneurs and the corporate houses, thus channelising the latent resources at the village level.

(BL, 14.03.06)

### For Global Access

Tata Consultancy Services (TCS) has unveiled its first 'engineering center of excellence' in Coimbatore. This consulting-led initiative is expected to enable the small and medium sized enterprises (SMEs) to innovate and access global markets.

TCS officials state that a study undertaken by the company had indicated that SMEs in and around Coimbatore region had been doing well on the export front, but "the process was not structured".

Therefore, TCS decided to step in to connect companies from low-cost countries to their global innovation networks through a joint solution of IT, software and consulting services with the launch of Asian Sourcing Network.

(BL, 06.03.06)

### Taxing on Consumption

The government plans to tax global firms targeting Indian consumers or Indian markets. Internet firms providing e-commerce services

in the country do not pay taxes on all the services rendered by them in India.

As such, the new guidelines introduced by the budget envisage taxation on the basis of consumption and not on the location of the entity providing the service.

By shifting the focus of taxation to consumption from delivery the Indian tax authority is trying to bring in a larger revenue base under its tax umbrella.

Consequently, every e-commerce transaction will come under the tax purview – where the buyer is in India and is the consumer of services. This includes travel sites, ticketing sites and so on.

(ET, 08.03.06)

### Wooing Telecom Firms

Since a long time, Indian mobile telecom firms have been ignored by global carriers. But recently, Asian and Western companies seeking access to huge untapped markets are suddenly wooing India's mobile telecom firms.

India is the last big, untapped market. As such, carriers in established markets, where penetration rates are near the saturation point are being increasingly attracted towards the Indian mobile telecom sector

Placed in the aforementioned context, Telekom Malaysia, of late, bought a 49 percent stake in mid-sized GSM firm Spice Communications, for US\$178.8mn.

(ET, 11.03.06)

### Searching Far and Near

A number of UK companies seem to be eyeing a potentially huge but mostly untapped business segment – water management services in large metros across the country.

To begin with, most companies are looking for opportunities in potable water in the new residential projects and townships coming up in and around cities like Bangalore and Kolkata.

However, water is only one of the several potential areas of business being explored by the two countries.

Sources report that retail, IT, biotechnology, healthcare, agro and food processing, infrastructure, both civic and urban, and financial services could emerge as the key drivers of bilateral business between UK and India, in the near future.

(ET, 17.03.06)

**Reliance in Retail**

Reliance Industries, India's largest petroleum and refining group, is planning to invest up to US\$5bn in creating a chain of hypermarkets and back-up retail services to transform the country's embryonic retail sector.

Reliance Industries' massive roll-out, the first stage of which will be a US\$750mn investment, will initially focus on pilot projects in three Indian states to perfect the retailing format before an anticipated expansion into 500 Indian towns and cities.

The investment is expected to create 300,000 to 400,000 jobs. Besides, plans are also underway to develop cold storage chains, food-processing units and contract farming. Sources report that the company aims to build a new supply system because the existing facilities cannot be ramped up quickly enough. *(FT, 24.01.06)*

**Bonding Together**

Malaysia is keen to explore opportunities for joint ventures and other forms of co-operation with Indian businesses, particularly in the software development and infrastructure (housing) sectors. Opportunities are also being explored for Malaysian products and services in the metros.

According to official Malaysian sources, time was ripe for establishing stronger economic ties between India and Malaysia and there was need for a continuous dialogue between the two countries.

The second Malaysia-India Economic Conference scheduled in April 2007 is believed to play a big role in fostering bilateral trade relations between the two countries.

*(BL, 03.03.06)*

**Back in Vogue**

The good old cartel is said to be back in vogue. Indian companies are reported to get together to protect margins. Throughout the discount days of go-go competition, companies across the industry spectrum focused on outdoing each other in the market place.

The scenario has changed of late with increasing number of companies joining hands to protect margins. One may call it corporate understanding,

competitive win-win or price arrangement.

From auto to paints, banks to durables, the thrust is on better margins rather than higher market share.

For example, car manufacturing companies tend to move in tandem when it comes to price decisions. Likewise, the paint companies have also learned to explore possibilities to fix uniform rate for their various discounts including special schemes offered at festival time to dealers.

Nevertheless, it appears that India Inc. has discovered the power of union. *(ET, 21.01.06)*

**Making Ethanol Mandatory...**

The sugar industry has asked the government to revive and accelerate the ethanol blending programme by making it mandatory for production units. The industry believes that this would strengthen the cash flow of sugar producers and save huge foreign currency.

Ethanol has emerged as a sustainable, renewable and viable alternative to the fast-depleting, non-renewable fossil fuels. It is also a comparatively environment-friendly energy source. Massive use of

ethanol can help India meet its commitment to curb its greenhouse gas emissions.

Ethanol production can be sustainable if the government provides subsidies, as in the case of all major ethanol producers such as Brazil, US, and Australia.

*(BS, 02.02.06)*

**Biggest Till Date**

Dr Reddy's Laboratories (DRL) has acquired the fourth-largest German generic drug maker Betapharm Arzneimittel GmbH for approximately Rs 2,550 cr. Experts consider the deal to be one of the biggest overseas acquisitions by an Indian pharmaceutical company,

The Hyderabad-based company signed a definitive agreement with 3i, the private equity house that controls Betapharm, to acquire 100 percent equity of the German drug major. This is the company's second acquisition in Europe.

Analysts believe that with the new patent regime posing fresh challenges for generic companies in the domestic market, an overseas buy will give DRL, a strong production portfolio and marketing infrastructure in Europe.

*(FE & BL, 17.02.06)*

**An Inclusive Package**

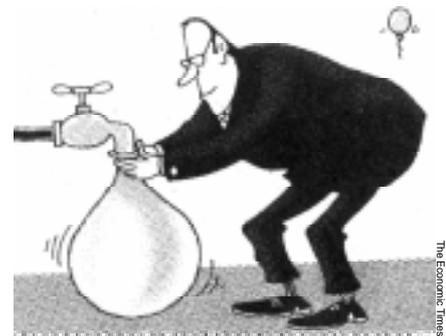
In a bid to attract large investments, the government has come out with a comprehensive package for Special Economic Zones (SEZ) sweetened with a liberalised set of rules.

Official sources quote that the coming into effect of the SEZ Act and the rules would provide comfort and instill confidence in prospective investors. Till now SEZs had been operating under the provisions of the foreign trade policy and were eligible for fiscal incentives.

SEZ rules provided for drastic simplification of procedures and a single-window for clearances on matters relating to Central and State Government along with income-tax exemption for 15 years.

Consequently, heavy investment in sectors like IT, pharma, biotechnology, textiles, petrochemicals and auto components is expected to take place along with potential of both direct and indirect employment opportunities.

So far, the government has provided formal clearance to 51 SEZ projects and in principle clearance to 66 projects. *(TH, 10.02.06)*



## Jet-Air Sahara Merger in Focus

The Jet and Air Sahara merger has been subject to several analyses, mostly done from a perspective of cartelisation, without reference to the separate merger regulation in the Competition Act, 2002.

Over the past few years with the entry of new airlines, the Indian aviation industry has witnessed intensified competition. Besides, it is also facing infrastructure constraints like limited parking bays, limited landing slots and congestion during peak hours. In light of these, for Air Sahara, the merger presented a better alternative than to shut down as a failed airline and for rest, competition concerns worth considering.

The deal allowed Jet to acquire Air Sahara's parking bays and landing slots, which in wake of the increasing traffic and inability of airports to expand their infrastructure facilities have become a valuable resource.

Besides, Jet has emerged as a dominant enterprise, in control of about 48-50 percent of the domestic market

### CUTS' Perspective

CUTS International has urged DGCA to redistribute Air Sahara's rights to all airlines in order to prevent Jet Airways from attaining a dominant position in slots as this would restrain competition.

To read more, follow:

<http://www.cuts-international.org/news-cutsfeb06.htm#air9feb06>



share. Consequently, other airlines may face difficulty in providing a competitive threat to Jet. This places the combined entity in a better position thereby attracting reasonable concerns from all over.

The merger further led to the transfer of Air Sahara's aviation rights to Jet. Had Air Sahara continued and given the inevitability of its closure, its rights would have anyway got released for distribution to others, and not available only to Jet. *(ET, 23.03.06)*

### Widened Scope

The Institute of Chartered Accountants of India (ICAI) has decided to remove the restriction on practising chartered accountants or accountancy firms from taking up audit or certification work in the US even if they are members of the American Institute of Certified Public Accountants (AICPA).

Officials report that in view of rising scope of work flowing from the US, ICAI does not want that an Indian chartered accountant who is also a AICPA member should lose any advantage and has hence provided

that such members can now undertake audit or certification work required by the regulatory authorities in the US.

As per the existing regulations of ICAI, an Indian chartered accountant or a chartered accountancy firm registered with the institute cannot undertake attestation functions for any US-related work even if they are members of the AICPA. *(BL, 06.02.06)*

### Grabbing a Chunk

Neptune Orient Lines (NOL), the Singapore-based global transportation and logistics company has been successful in grabbing a

slice of India's vast rail cargo market that has been a state monopoly for the past five decades.

NOL and its new joint venture company, India Infrastructure and Logistics Pvt. Ltd. (IIL), have received the 'in principle' approval from the Union Government to provide freight rail services in India.

Observers opine that while foreign investors are being permitted entry into one of the traditionally statist areas of Indian government managed services, of interest is to see whether they will be allowed majority control. *(TH, 05.03.06)*

### Scrapping off Barriers

In view of the growing trade gap between Bangladesh and India, Bangladesh has sought for dismantling of the non-tariff barriers in India to facilitate Bangladeshi exports into the country.

Bangladeshi government is keen to support strategic business partnership between the traders and investors of the two countries in key areas such as information and communication technology and has urged towards improved land ports for boosting trade. *(BL, 23.03.06)*

### Air Connectivity

Finland and India are likely to sign a bilateral agreement on air services. Besides this agreement, the two countries would discuss areas of co-operation in which both countries have inherent strengths.

Finland has strengths in mobile technology, paper and pulp, energy, welfare, and health sectors, while India's strength lies in engineering, textile, tourism, and software. *(BL, 13.03.06)*

### Hub of India

In a bid to save on costs and to downsize the government, the British government is considering switching several civil servant jobs and government tasks such as social security and pensions to India or Eastern Europe where costs are much lower.

Placed in the context, Castle Donington based British Airline BMI announced 154 accounts department workers may face risk of redundancy in light of their jobs being moved to India. *(ET, 26.01.06)*

### Reaping Fortune

A study by ASSOCHAM and Deloitte revealed that Fortune 500 companies with base in Gurgaon, is expected to double by 2010. At present 20 percent of such companies have an operational base in Gurgaon and is likely to reach 40 percent in four years. This will lead to job creation particularly in sectors like IT-enabled services, automobile, manufacturing, banking, textiles, and petrochemicals. *(ET, 20.01.06)*

### Freedom of Choice

In a bid to increase autonomy of public sector enterprises (PSE), government is considering a recommendation to enable the board of directors of a holding company to appoint full-time directors in its subsidiaries/joint ventures.

As of now, the board level directors in a subsidiary of a PSE are appointed by the government through the search committee and appointment committee of cabinet.

The government is also looking into the recommendation that provides for including the CEO of the PSE concerned as a member of the search committee formed to identify independent directors. (ET, 14.02.06)

### In Favour

The Ministry of Company Affairs is considering adopting the J J Irani Committee recommendation of one-third representation for independent directors on boards of listed companies under the proposed new company law.

The position taken by the Irani Committee is at variance with the Concept Paper on the New Company Law, which had suggested that close to 50 percent of the board of a listed company should comprise independent directors

Besides prescribing the minimum number of independent directors on a company's board, the Irani Committee had left it up to the sector regulator to decide the sectoral limit. (BL, 03.02.06)

### Check on Defaulters

Companies not fulfilling Clause 49 obligations under the Listing Agreement may face delisting or may even be held liable for a penalty as the market regulator Securities and Exchange Board of India (SEBI) is working on delisting norms.

The Listing Agreement stipulates that the independent directors should comprise 50 percent of the board strength if the chairman is an executive director and one third if he is a non-executive director.

Earlier, SEBI had set a deadline for companies to meet Clause 49 requirements by December 31, 2005. Placed in that context, SEBI has warned that companies failing to meet the deadline may also face the heat.

(ET, 11.01.06)

## A Comprehensive Move



The government is all set and committed towards bringing in a comprehensive new company law, which would focus on greater transparency and efficient governance in firms, while at the same time giving them greater independence in operations.

The new law would be a comprehensive revision of the 50-year old company law. The government would further expedite the adoption of the accounting standards in alignment with the international accounting standards so that the disclosure norms are on par with global best practices.

The Ministry of Company Affairs would also be looking into issues such as limited liability partnerships, which are essential business structures in the emerging knowledge economy. (BL, 19.03.06)

### India: Above Average

A report released by the Institute of International Finance (IIF) has rated India's corporate governance system to be much better than those prevalent in most emerging market economies.

At the same time, the report further pointed out that corporate governance system in India is not free from flaws and that it suffers from poor enforcement of rules and regulations.

The report found that in key areas such as minority shareholder protection and accounting/auditing, India's corporate governance framework is consistent with most of the IIF's guidelines.

The report believes that the country's corporate governance policy framework is moving in the right direction and for further improvements in practices, better compliance with listing requirements will be needed. (BL, 03.02.06)

### Poaching Concerns

In the light of increased instances of talent poaching, oil giant Oil and Natural Gas Corporation (ONGC) has pressed for greater autonomy in deciding employees' remuneration.

The company has approached the Department of Public Enterprises (DPE) and is also planning to move the Petroleum Ministry for immediate action to address the issue.

The problem is that the company is not able to recruit people at middle and senior level management as the company is governed by DPE guidelines, which sets salary structure.

Therefore, the company makes hiring at the entry level and invests in them. But after a few years, private firms poach on these skilled employees, leaving the company to hire more trainees.

(BL, 03.02.06 & 01.03.06)

### IRDA Overhauling

The Insurance Regulatory and Development Authority of India (IRDA) in conjunction with Reserve Bank of India and SEBI is planning to come out with corporate governance guidelines for insurance companies.

Sources report that the issue of corporate governance has been found to be acute in the insurance sector as none of the companies are listed. In the case of listed companies, the regulators deal with corporate governance issues.

While existing regulations take care of any aberration, there is a need for a well-articulated code for the industry. (BL, 10.02.06)

### Upgrading Governance

As a step towards promoting good corporate governance practices in India, the Ministry of Company Affairs (MCA) is planning to further upgrade the National Foundation for Corporate Governance (NFCG) to a national center for advocating and promoting activities, which will encourage good corporate governance practices in the country.

The Ministry is also planning to strengthen and establish a link between the NFCG and Investor Education and Protection Fund (IE&PF) to make the initiative more efficient and purposeful. (BL, 22.01.06)

## A Long Way on the Road

According to the annual index of economic freedom released by the Heritage Foundation and Wall Street Journal, India has slipped down 36 places to 121 in the 2006.

Trade policy, banking and finance sector, regulation and transparency were the categories that retarded India's progress, according to the study.

India's poor ranking is despite the equity markets surging to record highs, Foreign Institutional Investors' inflows of over US\$10bn, and a robust GDP growth rate of seven percent.

(FE, 05.01.06)



Rank	Country	Overall Score
1.	Hong Kong	1.28
2.	Singapore	1.56
3.	Ireland	1.58
4.	Luxembourg	1.60
5.	Iceland	1.74
110	Pakistan	3.33
111	China	3.34
121	India	3.49

### A Burst of Confidence

The 64<sup>th</sup> business outlook survey by the Confederation of Indian Industry (CII) has stated that the economy's robust performance in the past six months together with an improved situation and perceptions of higher growth and capacity expansion are the reasons behind strong business confidence prevalent in the economy.

Likewise, according to the ACNielsen Online Consumer Confidence and Opinion Survey, a majority of Indians are willing to purchase what they desire and invest in mutual funds and shares, way ahead of their Asian counterparts.

Besides, the survey notes that the country is witnessing a retail boom and that disposal incomes are venturing beyond traditional savings to investments in the stock markets.

(BL, 02.01.06 & 23.02.06)

### A Little More Honest?

It sounds an oddity, but a recent study has stated that the number of respondents who experienced corruption in 2005 while availing of public services is less than that in 2002.

The study, conducted by the Centre for Media Studies (CMS), established linkages of petty corruption with various parameters such as access and quality of service, poverty, education, awareness about the grievance redressal mechanism, manpower, and use of IT.

But, the perception as to the high rate of corruption in the country has

remained the same, the study revealed. In fact, a higher percentage of respondents felt that in 2005, the corruption had increased than in 2002, even though they had not experienced it.

(ET, 19.02.06)

### In Muck and Mire

The 2006 Citizens Report on Governance and Development does not mince words in detailing the mess that is India. Categorically, India is whining and not shining.

Needless to say, politicians with criminal cases account for 25 percent of Lok Sabha MPs, and are wasting more time on disruptions than ever before.

The other endemic, distressing issues that found mention were the judiciary, disabled in dispensing speedy justice, and negligible spending on the social sectors.

As many as 48.6 percent farmers are debt-ridden, and many are committing suicides.

(HT, 20.01.06)

### Health For All

A tome 'Securing Health For All' brought out by the Institute for Human Development (IHD) has revealed that the healthcare system in the country should be reorganised and regulated with a greater stress on rural public health delivery mechanisms.

This is attributed to increasing pace of privatisation of health services and a spurt in the prices of essential drugs.

The study makes a strong case for the government to provide "affordable, accessible and equitable healthcare as a basic right of the citizen".

The study points out that the extant allocation of public resources for health in India remains by far the lowest in the world. The study further maintains that if the country has to scale even the modest health targets, it is essential to substantially increase it.

(BL, 19.02.06)

### Pat on the Back

World Economic Situation and Prospects 2006, the flagship publication of the United Nations, has taken due note of and extolled India's "strong economic performance" in 2005, largely driven by the manufacturing sector, booming domestic demand for consumer goods as well as infrastructure development.

India's services sector has also performed well, supported by the continued strong growth of information technology as well as tourism and tourism related activities.

In light of the above, projections by a US management firm state that India will "equal or surpass" Japan in 2006 and emerge as the world's third largest economy after the US and China.

(BL, 25.01.06 & HT, 10.02.06)

### Absent Public Participation

A recently released report, the 'Electricity Sector Governance in India: An Analysis of Institutions and Practice' observes a near absence of public participation in policy-making process and also lack of transparency in selection of power regulators.

The report points out the absence of foolproof provisions regarding rules and procedures in place to prevent conflict of interest among policy-makers.

It also notes that policy-making is more expert driven and public participation in the sector is ad hoc and limited.

Further, the report states that the civil society woefully lacks in capacity to take advantage of the participatory spaces provided by independent regulation.

(BL, 04.03.06 & TH, 05.03.06)

### Sen-se Speak

Nobel laureate Amartya Sen has called for land reforms and an increased coverage and efficiency of social infrastructure to broaden the impact of economic growth and bring about transformation in rural areas.

Dr Sen expressed concern that there was considerable distress in the agriculture sector due to the sharp contrast it had with the upwardly mobile industrial and urban segments. There was considerable stagnation in the sector causing asymmetries and inequalities.

He further observed that the development of social infrastructure in health and education could make a 'dramatic difference' in rural India and it was essential in terms of creating greater opportunities for increasing income and also for enhancing the well being of rural people.

(TH & BL, 04.01.06)

### Call for Democracy

It is democracy and the power of the vote that is now triggering the reforms process. These views were put forward by Dr Abid Hussain, member of UNESCO's international panel on democracy and development and Professor Emeritus at the Indian Institute of Foreign Trade.

The former India ambassador to US opines that opening up the Indian economy to the world is fine, but maintaining a check on unfair practices to provide for a level playing field is equally imperative.

Dr Hussain added that Indians have been making a mark throughout the globe in this 'knowledge driven era'.

(HT, 03.02.06)

### Bhagwati for Reforms...

Elaborating on the way the transition to a highly liberalised economy should be undertaken without compromising, Columbia University professor and leading economist Jagdish Bhagwati said "you cannot expect people to walk out on a high-wire unless there is a safety net below".

Prof. Bhagwati further expressed that just focusing on developing models will not help in meeting the challenge of free trade and employment generation.

He opines that it would merit if we explore a model where lots of people are in different services and small industries and exporting labour intensive products, as we are exceptional among the developing countries in having highly skill intensive labour.

(HT, 20.01.06)

### Not Fully Tapped

According to Anwarul Hoda, member of the Planning Commission, the Indian manufacturing sector has to achieve an enhanced growth before its full potential is realised, particularly when the share of manufacturing in gross domestic product (GDP) has remained between 16 and 17 percent during the last two decades.

The manufacturing sector suffered considerably from "rigidity in labour laws as well as from the infrastructural deficit".

(BL, 18.02.06)

### Facing Globalisation

Dr C Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister, stated that opting out of globalisation is not a viable choice, "we need to stay and win".

The country needs to create an appropriate framework to wrest maximum benefits out of international trade and investment.

This included reforming the trade system. "The risks of an open economy are well known. We must not, however, miss the opportunities that the global system can offer", the former RBI Governor said.

Dr Rangarajan observed that to meet the challenges of globalisation we must identify and strengthen our comparative advantages.

(BL, 26.01.06)

### Redefine Poverty Line

Planning Commission deputy chairman Montek Singh Ahluwalia has expressed the need to redefine the poverty line based on key parameters such as access to healthcare, clean drinking water and sanitation, to arrive at a meaningful assessment of poverty level.

Admitting that India had not done enough to combat poverty and provide quality of opportunity, Ahluwalia said the failure of policy was evident in the sphere of agriculture, where the growth rate after the 90s has remained stagnant at two percent against the targeted four percent.

The performance cannot be attributed to failure of globalisation, but to policies that were indifferent to agricultural growth, he said.

(ET, 20.01.06)

## Towards Growth

Dr Raghuram G Rajan, Economic Counsellor and Director, International Monetary Fund, has called for doing away with subsidies on petroleum products, as this would encourage people to consume appropriately.

A large number of those who consume petrol are the ones who can afford to pay the full price, he said.

Dr Rajan said that besides high fiscal deficit, poor infrastructure is another threat to the country's growth. Infrastructure such as electricity, roads and ports should be improved.

According to Dr Rajan, "future growth would depend on the steps we take now".

Expressing views on the interest rates, Dr Rajan said interest rates in India could not be totally immune from international rates. He said "Whether it feeds into credit is hard to answer, but it will have an effect on domestic environment".

With regard to rising oil prices, Dr Rajan observed that it has not yet affected core inflation but have affected headline inflation across the world.

(BL, 21.01.06)



# Competition in Infrastructure

– By S L Rao\*

*In one decade, India has tried to do a U-turn on competition. Before liberalisation, the Monopolies and Restrictive Trade Practices Act (MRTP) did not encourage competition, but instead restricted and constrained monopolies and monopolistic practices. The new competition law aims to encourage competition and prevent anti-competitive practices enabling enterprises to grow and be efficient. The Competition Commission needs to devote much attention as to how to encourage competition in infrastructure services in which natural monopolies and large sizes are considered necessary.*

*When it comes to infrastructure — roads, railways, posts, power, water, oil and gas, coal or airports — the government has been ambivalent. It is not clear in many cases what are the preconditions for competition in infrastructure. The following constraints have been identified to competition in infrastructure and needs resolution when introducing competition in these services.*

## Market and Demand Segmentation

The Indian context in infrastructure is the reason given for not moving ahead. Markets and demand are highly segmented between the rich and the poor, the urban and the rural. Services have to reach the poor and the rural. Costs of delivering infrastructure services to them are higher than that to urban consumers and buyers of large quantities.

Cross-subsidy or dual pricing alleviates the inability of government finances to bear these costs. Those better-off are made to pay more. Cross-subsidies have led to leakage through corruption, waste with only a fraction of the subsidised services reaching their targets.

## Limited Service Providers

The other set of constraints on competition starts with the limited number of service producers and providers, the relative shortage of the services, and the constraints imposed by limited transportation mechanisms. This is made worse by single or limited ownership of the transport mechanisms. Political interference in pricing keeps adding to the subsidised groups. Ownership of the whole chain from production to supply tends to be concentrated with governments, which have shown themselves to be inefficient.

The resultant subsidies stretch government finances, create leakages and strain the finances of producers and providers. Private providers find ways to avoid losses. Government-owned service providers make huge losses, reimbursed by the governments. But when laws are amended to enable greater private entry, as with electricity through captive generation, regulators, governments, and state-owned companies delay implementation.

There has been some progress in private entry into providing such services, but this has raised new issues. For example, competition could be between bidders for projects, with decisions to be taken on the basis of agreed rules. This could be on different parameters, from the lowest cost quoted for the project, to the tariffs charged to customers, to government subsidies.

The experience with the privatisation of the Mumbai and Delhi airports shows that there are enough pressure groups to change parameters and skew the decision unfairly.

## Huge Costs of Providing Services

Another problem is with services that have huge lumpy ‘natural monopoly’ costs like airports, railway lines or roads. British Railways split the loose parts out of the ‘lumps’ by treating tracks and signalling as one item on which all users paid rents, and trains and carriages as competing elements using the common tracks and signalling. But, it has not been particularly effective in offering convenience, cheaper rates or safety.

## Government Ownership Constraint

The limitations imposed by shortage of transportation and dominant government ownership create other issues. Transmission and distribution of electricity and oil and gas through pipelines were considered natural monopolies during the command and control economy. In electricity, the law was amended in 1998 to allow private investment. In oil and gas, the issue has been debated over the years. In both, incumbent government enterprises have resisted private entry.

On ‘natural monopoly’, India has recognised in the Electricity Act, 2003 that parallel transmission lines could be laid, thus accepting that more than one transporter could cover the same route. This has been implemented in telecommunications. But neither electricity nor gas has seen parallel networks yet. In the case of roads, this seems to be happening without forethought, as, for instance, in the Bangalore-Mysore highway, where both the government and a private provider are creating their own.

## Vertical Integration Encouraging Monopoly

Another issue in competition in infrastructure awaiting resolution is that of monopoly being encouraged by permitting vertical integration. Vertical integration is said to make possible the exploitation of the consumer. A truly independent regulator can ensure that there is no exploitation by closely monitoring capital and revenue expenditures. In electricity, the law does not allow a generating company to own transmission lines. There is a move to do the same in the case of oil and gas.

Similarly, airlines cannot own airports. One argument for vertically integrated enterprises is that ownership of its source of fuel generation plant, transmission and distribution, can guarantee for its consumers steady supplies and tariffs. Independent regulators can insist on

separate business units for each activity, separation of costs and determination of tariffs at each point, and so avoid exploitation of consumers. Of course, the integrated monopolies with state electricity boards have led to worst results: erratic supplies, poor quality, high and rising tariffs, waste, thefts, and inefficiencies.

### Conclusion

Many issues need to be resolved when introducing competition into infrastructure services. One is whether competition is going to be on capital cost bids, tariffs to users, loss reductions or revenue shares to the government. The bid process must be faultless and

transparent, including the selection of the independent assessors of the technical and financial bids. No participant must have an unfair advantage over others. Hence, production of the service and its transportation to users must be clearly separated.

When the service has consumer segments that need price support, the eligible users and methods for giving that support as well as reimbursing the supplier must be clearly spelt out. There must be no changes made to rules and procedures after the process has started, or during implementation. The price relationships between different services must be clear. India has to go a long way before we can have competition in infrastructure services.

*\*The writer is a renowned columnist and Chairman, Institute for Social & Economic Change (ISEC), Bangalore*



## Indian Railways – ‘Take-off’ Mode

Enjoying a position of monopoly ever since its establishment in 1853, Indian Railways (IR) has grown into one of the largest railway networks in the world. Of its two main segments – freight and passenger – the freight segment has by and large been IR’s bread and butter accounting for about two-thirds of revenue. Profits from freight sector usually get exhausted making up the losses by passenger segment.

Over the last few years, IR’s competitive weakness in the face of challenges from various sources within the country in freight movement segment resulted in losses even in this sector. In the freight transport segment, the road sector, coastal shipping, and inland waterways captured a huge chunk of the railway’s freight market. Besides, high ratio of freight fares to passenger fares along with poor quality of services that IR provided added to its dire situation.

In light of the above, in a bid to get the sector into better shape and realise its potential, IR adopted new marketing strategies to win back traffic to improve its share of freight traffic. Accordingly, “increase volumes - reduce unit costs” strategy was adopted to help IR succeed in

increasing profits in the freight segment. Better marketing strategy for non-bulk, non-block rake and high value traffic was taken up. For quicker movement of perishable commodities like vegetables, flowers, butter, milk etc, refrigerated vans on mail and express trains were introduced.

Besides, to revive its passenger transport segment, an action plan was worked out. A monitoring mechanism was streamlined by introduction of a New Computerised Coaching Operations Information System for improving the punctuality of passenger services. Additionally, computerisation of unreserved ticketing system was extended, computerised Passenger Reservation System Centres were expanded, and facilities of booking tickets through Internet and computerisation of refunds were provided.

Consequently, the loss making entity which in 2001 had deferred dividend payment, and whose fund balances had reduced to just Rs. 350 cr. made a historical turn around in its financial position making profits of over Rs 5,000 crore and fund balances of Rs 11,000 crore during financial year 2005-06.

To continue with the high-end performance and to meet futuristic

requirements of growth, IR has come up with more proposals to take up myriad challenges to upgrade and modernise IR’s system, which include plans to get private sector containers on railway tracks, construct new freight corridors at a massive cost of Rs 22,000 crore, linking the major metropolitan cities meeting emerging competition from road transport.

In an effort to reform the passenger transport segment, IR has introduced a novel scheme called the Automatic Upgradation Scheme, which intends to optimise the utilisation of available accommodation upgrading full fare paying passengers to the next higher class against the available vacant accommodation.

To improve passenger satisfaction, IR has proposed to provide basic amenities to passengers under ‘touch and feel’ passenger care points. Passengers can now look forward to clean coaches, better toilets, clean drinking water and improved quality of food in trains. To suit the customised needs of the tourists, plans are being chalked out to offer tourist car services wherein a separate bogie for group of friends, families or office goers would be attached with a train going to the desired destination.

All these initiatives and proposals reflect IR’s willingness towards taking off and flying high and has started giving an impression that the organisation is inclined and striving to get out of the chaotic situation in which it has remained for quite some time.

# Budget and its Implications

## Introduction

Budget 2006-07 focuses on infrastructure, agriculture, public health and education.. It essentially seeks to preserve the status quo, while achieving revenue targets and containing fiscal deficit. There are concrete announcements regarding illiteracy, rural development including agriculture, infrastructure, health, employment, child and women welfare. Bharat Nirman, which will have a wide impact on the economy over the years, provides a long-term vision towards sustained economic growth and development. But as always, the successful implementation of the proposals depends on 'good governance'.

## Salient Features

- No change in tax rates. Fringe benefit tax rationalised.
- Peak rate of customs duty reduced. Excise on small cars reduced.
- Service tax raised; net widened.
- 2010 is the target date for Goods and Services Tax.
- Budget support for roads enhanced and coal reserves will be de-blocked for power projects.
- Food processing to be priority sector for banking.
- Short-term credit for farmers at seven percent
- An investor protection fund to be set up funded essentially by fines and penalties collected by SEBI.
- Bill on insurance sector to be introduced in the financial year 2007
- Five ultra mega power projects of 4,000 MW each to be awarded before December 31, 2006.
- 1,000 kms of access-controlled Expressways to be developed on the Design, Build, Finance and Operate (DBFO) model.
- Cess on crude processing up from Rs 1,800/tonne to Rs 2,500/tonne
- Rs 1,500 crore to be allocated for Universal Services Obligations Fund under the telecom sector.

## Panorama Across

### For All and Sundry

This year's was a relatively easy budget to make. The economy is doing extremely well; during this year it is expected to grow at 8.1 percent. Inflation is about four percent, which is benign by Indian standards.

The boom has boosted government revenue, which is expected to grow 20 percent. That gave the finance minister considerable leeway to increase expenditure without having to raise taxes – unlike in the last two budgets when the demands of his party and its allies made it impossible for him to contain expenditure.

Mr. Chidambaram was earlier known for introducing new taxes which upset business; he has also experimented with changes designed to stop tax evasion. This time, he made no major changes in taxes.

He took seriously the current government's mandate to help the poor and disadvantaged minorities, and raised allocations to expenditure on employment creation, education and health. He also allocated more money for investment in infrastructure – roads, railways, ports and power – which happen to be the bottlenecks.

**Ashok V. Desai**  
Economist

([www.ccindia.com](http://www.ccindia.com), 01.03.06)

### Giving With One, Taking With Other

Budget 2006-07 did not come out with any fanfare and simply followed the famous American maxim, "If it ain't broke, don't fix it". The Finance Minister did not raise the corporation tax or income tax paid by the rich but did not dither from raising the indirect taxes paid by all the others.

What he gave with one hand, he took away with the other. On the taxation front, whereas the custom duty on non-agri products has been reduced from 15 percent to 12.5 percent, a CVD of four percent has been imposed on most imports. Thus the import duty has gone up from 15 percent to 17 percent.

Allocations to specific sectors targeting the weaker areas of the economy, and creation of an Investor Protection Fund under SEBI are among welcome moves. Similarly, particular emphasis on education and health sector and setting up of gender budgetary cells to support women are also welcomed.

Emphasis on textiles, food processing, petroleum, chemicals and petrochemicals, leather, tourism, and software can help generate large number of jobs.

**Pradeep S. Mehta**  
Secretary General, CUTS International

(*CUTS Press Release*, 01.03.06)

### A Delicate Balance

The Union Budget for 2006-07 has sought to lay the foundation for the country to achieve 10 percent growth in the next two to three years. The emphasis of the budget on growth and investment is reflected in higher allocation for critical sectors, which should push up the growth rate in the near future.

Focused attention on the creation of physical infrastructure and on building up social infrastructure should help Indian economy to increase and sustain a higher level of growth rate.

A major positive feature of the budget is the clear signal given by the Finance Minister on introduction of a comprehensive Goods and Services Tax by 2010. This should serve to integrate the economy and make India a single common market.

In the context of coalition politics, the budget has remained silent on the issue of disinvestments. The move to revise upwards the FII investment limits in corporate debt and government securities and allowing Indian investors greater exposure in markets abroad are hailed as a step in the right direction

**Saroj Kumar Poddar**  
President, FICCI

(*FICCI Press Release*, 28.02.06)

## Impact on Key Sectors

- *Telecom* – The budget proposes an increase in service tax from current level of 10 percent to 12 percent, which would result in marginal increase in monthly bill. Though there are no major steps taken regarding reduction in license fee yet this budget paves the way for increased rural penetration in long term.
- *Power* – Five new 4000 MW power projects and extending benefits through section 80IA could give a fillip to the power sector. De-reserving coal blocks for the power projects and continued focus on non-conventional energy is a positive sign.
- *Oil & Gas* – Increase in cess on crude processing will be borne by oil producing companies producing negative impact for upstream oil companies. Extension of concessional duty to pipeline projects will be positive for downstream oil companies. Reduction of custom duty on natural gas, propane and butane will benefit importers.
- *Petrochemicals* – Peak customs duty going down from 15 percent to 12.5 percent has little direct impact on the petrochemical industry. The budget provisions reducing customs duty tariffs for the bulk polymers will have adverse impact on the manufacturers.
- *Banking & Finance* – Mostly positive for banking. Measures like tax relief for bank deposit will allow banks to mobilise more deposits, conversion of non-tradable into tradable security may lead to increase in lending capacity and reduction of excise duty on small cars will increase bank's lending to this sector.
- *Food Processing* – Across the board excise duty reductions, combined with excise duty abolition on branded foods and grant of priority status, would provide a boost.
- *Pharmaceuticals* – Reduction in customs duty on vital drugs and removal of promotional expenses from Fringe Benefit Tax would have positive impact.
- *Media* – Prices of Set-top boxes will increase. All sponsorship services, except sports events, have been brought under the service tax net. This move is expected to adversely affect the live entertainment industry.

## Economic Survey 2005-2006

The Economic Survey is an annual commentary on the state of the economy which is put together by the Union finance ministry. The survey is thus the finance ministry's version of economic developments during the course of the year.

The authors of the Economic Survey 2005-06 seem quite excited and elated and have made every effort to paint the Indian economy in flying colours. As they put it, the economy has finally displayed a "robust demonstration of its nascent strengths".

The Economic Survey for the financial year 2005-06 gives a cautiously optimistic outlook for next year. In brief, the Survey puts forward the following:

- ◆ The Survey reports that apparent improvement in the investment scenario, coupled with policy measures towards further liberalisation and simplification of norms guiding investment, overall productive capability of industrial sector, as a whole, is likely to increase substantially.
- ◆ Mining sector is expected to improve its performance in near future.
- ◆ Survey observes that recent softening in the price of oil in the international market, if sustained, would have a positive impact on industrial sector.
- ◆ Electricity sector remains a cause of concern as private investment in this sector has remained almost stagnant.
- ◆ Hardening of interest rates could be a dampening factor for sustained growth in investment.
- ◆ Survey takes note of the fact that while various sectors within manufacturing registered an overall impressive increase in volume of production and exports, growth in total factor productivity was hardly noticeable.
- ◆ Survey considers prospects of agricultural production in 2005-06 to be bright.
- ◆ In first nine months of 2005-06, crude oil production registered a decline, and there was deceleration in growth of coal, electricity, and refinery through put and steel sectors.
- ◆ Survey estimates that India has the potential to absorb US\$150bn of FDI in next five years in the infrastructure sector alone.
- ◆ Survey said that telecom sector would need to address and harness the challenges being posed by Internet and convergence. Terming broadband as the next frontier in telecom, the Survey said that growth in subscriber base would need to increase substantially to look comparable with other Asian countries.
- ◆ Survey reports that to accelerate and increase public private partnerships in infrastructure, two major initiatives have been taken by the Government: (a) provision of viability gap funding; and (b) setting up of a SPV, named India Infrastructure Finance Company Limited (IIFCL) to meet the long term financing requirements of potential investors.
- ◆ Survey feels that there was an assessed need to improve the ambience in which Postal Financial Services are offered and bring under one roof a Financial Super Market, with networked and computerized facilities providing all postal financial products like Savings Bank and Savings Certificates, Postal Life Insurance, International Money Transfer, Mutual Fund and Bonds, Government Securities, Domestic Money Transmission, etc.
- ◆ Survey reports that as a matter of policy, government has decided to take-up future phases of National Highway Development Project proposals mainly on a public private partnership basis. Implementation of projects through construction contracts will be only in exceptional cases, where private sector participation is not possible at all.

*(Information in this article has been collected from several websites and newspapers)*

## From Being an Ignorant to Informed Farmer

**I**nformation and communication technology (ICT) is the power of the future and if the aim is to rule over tomorrow, an economy must not only acquire this power but also use it in an effective manner.

Market information is an important aspect of agricultural marketing. Despite various measures taken on the part of the Government to protect and safeguard the interests of farmers, the benefits do not seep down due to the farmer's inability to plan their strategies for sale of their produce at remunerative prices in the absence of correct and timely market information and advice about arrivals, prices, market trend, etc.

Out of a range of communication technologies available at disposal, the IT way has gained more prominence and has in particular helped farmers to market their produce in an appropriate manner. Gone are the days of an ignorant farmer forced to sell his produce at a price not valued correctly. Today's farmer has become an informed farmer. With information just a click away, farmers are much more competent to make informed decisions.

In the past few years, a number of projects have been undertaken with a view to provide sustainable digital access to the rural communities to give them a sense of connectedness and belonging – a few of which are documented.

Among several e-initiatives undertaken to improve the plight of Indian farmers, of note is E-Choupal initiated by ITC, in the year 2001. This project is an example of how Internet has helped farmers from about 6000 villages in Madhya Pradesh to create wealth. The project was initiated by ITC in an attempt to fill the void in the Soya procurement supply chain by avoiding the middlemen and purchasing Soya directly from the farmers. Farmers who sell directly to ITC through an E-Choupal receive a higher price for their crops than they would if they had gone to a *mandi*. Besides, E-Choupal has enabled distant farmers to get information about growing techniques, to have a look at global price trends to determine when to sell their produce at the highest prices. They can track closing prices at local *mandis*, and they also use the E-Choupal to order seed, fertiliser, and even consumer goods from ITC – all at prices lower than those available from village traders, because the orders are aggregated.

The Union Ministry of Agriculture, as a step towards globalisation of agriculture embarked upon a NICNET based Agricultural Marketing Information System Network (AGMARKNET) that links all the important Agricultural Produce Market Committees (APMCs), State Agricultural Marketing Boards/Directorates and Directorate of Marketing & Inspection (DMI) regional offices located throughout the country. This web based information system ensures effective exchange of information on market prices related to agricultural produce and places farmers in a much better position than they have ever been in. They now have a choice to sell their produce in the nearest market at remunerative prices. The system effectively solves the information management problems at the village level and helps farmers realise a better price for their produce.

To address the marketing needs of the rural producers, National Informatics Centre (NIC) developed an e-commerce solution called RuralBazar that aims at providing improved services to the rural community with information technology as the backbone. The software provides provision for simple showcasing of the products, off-line payment as well as on-line payment. It has been implemented in the states of Tripura, Goa and Tamil Nadu. It further helps in establishing direct link between the buyers and sellers, thereby promoting agribusiness.



The Financial Express

In yet another set-up the National Dairy Development Board has been using IT-based machines at milk collection centres, and in co-operatives to measure butterfat content of milk, test the quality of milk, and promptly make payment to the farmers. This has helped in improving the quality of milk, as there is no incentive left to add water. It has also reduced time for payments from 10 days to less than five minutes, and instilled confidence in farmers in the co-operative set up.

These are some of the initiatives taken in the country. A wide range of e-initiatives undertaken has emerged as a potential tool making e-agriculture the way of tomorrow. No doubt the scenario has changed, but one must also acknowledge the fact that adoption of information and communication technology will accelerate only when benefits become visible on a large scale and despite the immense challenges presented, benefits trickle down to the lowest level. Success in agriculture through adoption of information and communication technology will depend upon two key factors – increased public investments and the political will to implement growth-oriented programmes. The journey of the average Indian farmer from being an ignorant to an informed one has not ended; it is still continuing. To revolutionise farming or to bring rural prosperity, institutional reforms must precede technology adoption.

# Private Sector in Water Distribution

## Background

In the last one decade, the private sector has made forays into the water supplies of several developing countries and experiences have been diverse. In some cases, private investments have brought in operational efficiencies and benefited consumers, while in other instances led to manifold increase in tariffs without perceived improvements in deliveries.

Water is essential for living, and therefore may not be treated as an economic good in an absolute sense. In any event, the universal service obligation has to be met with. At the other end, putting appropriate incentive mechanism in place to achieve efficient uses is also desirable, which the involvement of the private sector often facilitates.

Driven by profit motives, the private sector may not always care to serve those consumers who are not profitable. Though the sector is expected to bring in operational efficiencies and arguably better accountability to consumers, the absence of adequate incentives may not inspire to meet social obligations. Therefore, attaining multiple policy objectives would ask for a careful design of Public-Private-Partnership (PPP) initiatives.

## Indian Experiences

In India, Tirupur was the first town where a PPP project was implemented in the water sector. A thriving city for the garments industry, Tirupur requires huge volumes of water for industrial consumption.

A consortium of three private firms, Mahindra & Mahindra of India, Bechtel Inc. of the US, United Utilities of the UK are implementing the PPP project to ensure sustained supplies of water. Under the proposed scheme, the one billion dollars knitwear industry in Tirupur is to receive 115 million liters per day (mld) of water.

The Tirupur municipality, which includes 60,000 slum dwellers, will get 26 mld, while 792 rural settlements in its neighbourhood will share the remaining 36 mld. According to the project document, the operators will



**The National Water Policy of India outlines the purposes and scope for private participation in the sector. The policy encourages participation of the private sector in the planning, development and management of water resource projects because it can bring in innovative ideas, generate financial resources, and improve service efficiency and accountability to users. Would private participation be able to succeed?**

run the joint venture at a 'fixed operation and maintenance fee' to be recovered entirely from the Tirupur municipality. The project has been designed on a Build-Own-Operate-and-Transfer (BOOT) basis for a period of 30 years to be transferred thereafter to the government. Contrary to the Tirupur case, the Delhi Jal Board (DJB) has been running into controversy, though privatisation has not taken place, as yet.

Lack of transparency in the process is a major concern, and the allocation of risks and potential rewards is being criticised heavily. At a time when the DJB has definite plan to invest huge public money in the next couple of years to improve supplies and reduce non-revenue water (NRW), the motive of privatisation is being questioned.

## Experiences Across

In the US, the public sector manages drinking water supplies in a

majority of states. In Europe, the pattern is mixed; private corporations are also managing drinking water supplies in some of the countries.

However, in developing countries the involvement of multinational private corporations often runs into controversies. Bolivia is one such example where in the year 2002, the government handed over the water supplies of Kochabamba City to Bechtel Incorporation of the US. The move led to substantial hike in tariffs and hence evoked strong protests from the people in the streets. Consequently, the Bolivian government had to cancel the contract with Bechtel.

Analysts believe that a lack of transparency in the formulation of the contract had substantially contributed towards this end. A comparable example in India is of the Sheonath River in Chhattishgarh; the government had to cancel a contract with the private investor that had been signed by the erstwhile regime without consulting stakeholders.

## Conclusion

In conclusion, the private sector can play an important role in water supplies, as government alone cannot meet investment requirements. Further, the managerial capabilities of the private sector can improve operational efficiencies and quality of services. However, the success of PPP projects would largely depend on the capacity of governments to negotiate a win-win deal that takes care of the interests of disadvantaged consumers as well.

While the government will have to set up an enabling regulatory framework, the private sector needs to demonstrate willingness to accept the business risk associated with such projects.

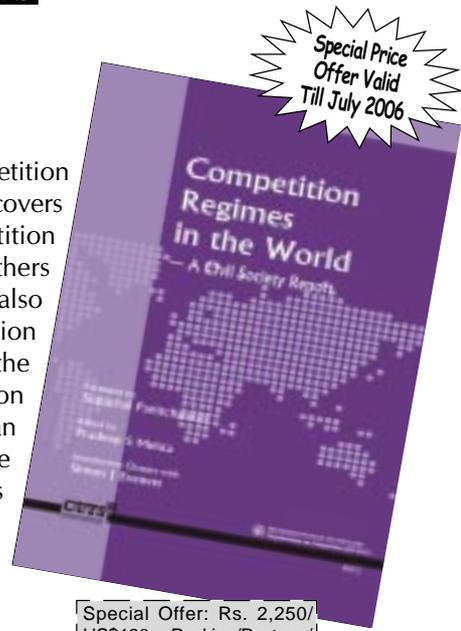
## Issues for Discussion

- Would profit driven private sector care to serve consumers which are not profitable?
- How will we ensure that government agencies' propensity to get into sub-optimal contracts does not drag the entire project into trouble?
- Ensuring water supply to all is a socio-economic responsibility. Will the private sector come forward and take on this responsibility accepting all associated risks?

## Competition Regimes in the World – A Civil Society Report

This report is a compilation of short essays that maps national competition regimes from around the world from a civil society perspective and covers nearly 119 countries. Most countries covered in the book have competition legislation in place, while there are others without one, while some others are in the process of adopting a competition regime. The publication also carries a brief description of regulatory regimes and consumer protection frameworks in each country. The book was earlier released in one of the side events of the UN Conference on Trade and Development, held on November 14-18, 2005, in Antalya, Turkey in the presence of more than 50 international delegates. The 'final' revised and refined version of the report will be available for readers in May 2006. The final version of this book has a foreword by UNCTAD Secretary General, Supachai Panitchpakdi and an introductory chapter co-authored by Secretary General of CUTS International, Pradeep S Mehta and renowned competition scholar Simon J Evenett.

For getting your copy refer to <http://www.competitionregimes.com>  
You can also send an enquiry to [c-cier@cuts.org](mailto:c-cier@cuts.org)



Special Offer: Rs. 2,250/  
US\$130 + Packing/Postage/  
Shipping Charges Extra



## REGULETTER

The latest issue of ReguLetter (Jan – Mar 2006), the flagship newsletter of C-CIER, in its cover story, talks about the proposed takeover of Arcelor by Mittal Steel and well examines the competition concerns associated with the deal.

Special article by Luna Abbadi examines an exemption demand from Jordan's specialised tourism transport sector to tolerate some anti-competitive practices due to development or public interest considerations.

Another Special by Richard Meade attempts to questions whether all capital markets should adopt protection for minority investors against expropriation by dominant investors and whether this is going to improve the lot of investors anyway.

About a Competition Law looks into the competition scenario in the Republic of Panama and the various efforts taken to increase the efficiency and credibility of the competition agency in fulfilling its activities in the area of competition policy in the country.

## We want to hear from you...

We put in lot of time and effort into bringing out this newsletter and it would mean a lot to us if we could know how far this effort is paying off in terms of utility to the readers. Please take a few seconds off to grade the newsletter on the following parameters on a scale of one to ten (ten being the best). Try to be honest and please suggest ways for improvement.

- Content
  - Number of pages devoted to short news stories
  - Number of special articles
  - Use as an information base
  - Readability (colour, illustrations & layout)

Please e-mail your comments and suggestions to [c-cier@cuts.org](mailto:c-cier@cuts.org).

**Eagerly waiting to hear from you!**

## SOURCES

ET: The Economic Times, BS: Business Standard, TH: The Hindu, BL: Business Line, FE: The Financial Express, HT: Hindustan Times

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.