MONDAY, MAY 28, 2001

BLOWING THE FUSE

HD-17

EVEN GOING BY the standards of the Dabhol Power Company's controversial innings so far, the current developments are truly frenetic. The starting point of this current phase which in all probability will be a denouement of the 2144 MW, 3 billion dollar project began less than a month ago. Dabhol Power, of which Enron is the chief promoter, seems ready to quit the project, unable to make the Maharashtra State Electricity Board (MSEB) or the State Government meet its contractual obligations and dues. The company first invoked the force majeure clause and then obtained overseas lenders' permission to serve a preliminary notice of termination on the MSEB, which it duly did 10 days ago. So unless some significant breakthrough is obtained within the next 6 months, the project in its present form will cease to exist.

Ironically, the termination moves come at a time when the 1,440 MW second phase of the project is about to be commissioned. That the country needs the power, albeit at a more competitive price, as well as the plant and machinery used in generation is beyond argument. No other power plant of similar size has even come up to the construction stage. Moreover, the investment that has made it possible is the single largest foreign direct investment till date. Yet the current debate is not over any of these vital matters: it is about more basic concerns over salvaging the project and remedying to the extent possible an obviously flawed commercial contract between a multinational and a State Government-owned electricity distributor. The ongoing turmoil has naturally drawn in the State and Central Governments, both of which having much more than mere financial stakes and lenders, Indian and foreign.

It is for that very reason that the latest episode marked by Mr. Madhav Godbole's resignation (and subsequent retraction) from the committee that is renegotiating the project assumes special significance. Quite simply, reworking the project and arriving at a mutually satisfactory solution with Dabhol is the only honourable way to avoid the fallout of reneging on a commercial contract. Mr. Godbole had earlier presided over a committee whose initial findings made public on April 10 point to serious deficiencies in specific areas of project formulation. For instance, demand-supply estimates of power were miscalculated and a stupendously high return on equity was guaranteed. Moreover, facilities such as regasification and a port, both far in excess of the immediate requirements, were added to the fixed cost of the project, thereby taking the break-even point to an unacceptably high level. As suggested by the Godbole Committee, the only way is to renegotiate these parameters to bring down the cost of power and make Enron accept lower but still reasonable returns. In addition, more general and long-aired remedies such as restructuring the MSEB's tariff as well as selling the power to outside consumers can be considered.

Even as the company is stridently opposed to using the Godbole Committee report as the starting point for any renegotiation, a view gaining ground in India is to test the legal validity of the power purchase and other agreements, using the committee's observations to substantiate charges of negligence and perhaps even malfeasance in the Indian side. MSEB's legal posturing is in that game. However, a legal recourse of this nature will inevitably take a longer time than what the present circumstances will allow. Moreover, as the committee has pointed out, there has been an inexcusable failure of governance by successive State governments which coupled with their inexperience and incompetence in such negotiations made Enron drive an unfair bargain. Ideally, a long term solution is possible only if a buyer is found for Enron's stake and thereafter use the new promoter to restructure the debt, bring down the cost of power and sell it outside. Tough, unpredictable days are ahead but discussions are a must.

THE HINDU

28 MAY 2001

Dabhol rejects Rs 136.8 cr payment by MSEB

By Baiju Kalesh

MUMBAI: The Dabhol Power Company (DPC) has rejected the Maharashtra State Electricity Board's most recent payment of Rs 136.8 crore for power bought in April and returned the cheque to MSEB on Thursday.

According to a letter sent to MSEB on Friday, DPC managing director K. Wade Cline has said that the cheque was returned to MSEB because DPC wanted to set out its position in writing so that there could be no possible misunderstanding. It also wanted clarity on several issues regarding the PPA before accepting the latest payment, he stated.

DPC's refusal to accept MSEB's cheque for the April bill is being seen in financial and legal circles as a strategic move aimed at not validating MSEB's claims against it. The move is significant since claims and counter-claims made by both parties will have to be validated by an arbitration panel. By not accepting the payment, DPC has clearly underscored its intention of not recognising either MSEB's counter-claims related to the slow ramp-up of power generation from a cold start by the station nor MSEB's decision to rescind the PPA under the Indian Contracts Act.

If DPC had accepted the April payment which was made "under protest" and "without prejudice" to MSEB's notice of 'recission\avoidance', analysts say that it would have amounted to DPC accepting MSEB's claims against it.

▶ 'PPA valid, effective..' Page 7

▶ ~~Related reports on Page 1?~~

Centre may bail out state govt. on Dabhol II

By Ashley D'Mello and Pradipta Bagchi

MUMBAI: Amidst the escalating slugfest between U.S. energy major Enron and the Maharashtra State Electricity Board over phase I of the Dabhol power project, there are signs that the Centre may step in to bail out the Maharashtra government on phase II of the project.

According to well-placed Union power ministry sources, a separate company, owned by the power-deficient states, the Power Grid Corporation, the Power Trading Corporation and the National Thermal Power Corporation may be formed to buy power generated by the project's second phase since Maharashtra has already said it will not be able to buy any Phase II power. (Detailed report on Page 13)

THE TIMES OF INDIA

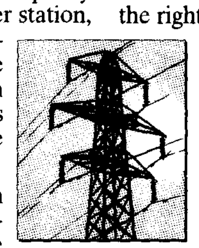
26 MAY 2001

MSEB cancels PPA with Dabhol Co. as Enron admits default

Business Times Bureau

MUMBAI: The battle has been joined. The Maharashtra State Electricity Board (MSEB) on Wednesday fired its first legal salvo at the Dabhol Power Company by issuing a notice rescinding the power purchase agreement (PPA), citing the failure of the DPC to meet its contractual obligations.

Listing the material misrepresentations made by DPC's owners about the capacity and capability of the Dabhol power station, MSEB told DPC that it was constrained to avoid or rescind the power purchase agreement with immediate effect because it was convinced that the conduct of the DPC was not "bona fide".



In a statement issued late on Thursday evening, DPC maintained that MSEB did not have the right to rescind the PPA. The statement added that the PPA does not allow MSEB to shut down the plant except in emergencies and that the plant was designed as a baseload station. However, analysts countered this by stating that the PPA only restricted shutting down of both blocks of Phase I simultaneously.

DPC added that MSEB's decision was improper since the matter was pending for arbitration and the board should have waited until an outcome was reached before a drastic move such as this.

Explaining the board's move, A. Krishna Rao, Member (accounts), MSEB, said that the notice was slapped as per the Indian Contract Act and this was necessary since the company had admitted that the plant did not conform to the standards and capacity enshrined in the PPA.

Explaining the significance of the notice, Mr Rao said, "Under the Indian Contract Act, if a business agreement is signed between two parties, and if a breach of the terms of contract occurs, the other party has the right to terminate the contract. We have exercised this option since Enron has admitted that there is a breach of contract."

However, MSEB has kept its options open for negotiations by telling DPC that is agreeable to continuing the present arrangement for purchase of power and payment until the disputes are resolved by an appropriate forum so as to minimise loss and inconvenience.

Analysts say that MSEB's move is aimed at pressuring DPC to come back to the negotiating table. MSEB is also setting the record straight for future arbitration or litigation by informing DPC that the problems have been created by a "DPC event of default" rather than MSEB's event of default. "The battle will become more intense now with the MSEB taking an aggressive stance as far as negotiations are concerned as well as any arbitration in the future," said an analyst.

▶ **MSEB on firm legal ground, Page 7**

THE TIMES OF INDIA

2 5 MAY 2001

Centre in welfare mode, gives Rs 2,315 cr. for food subsidy

The Times of India News Service

NEW DELHI: The Union cabinet and its committee on economic affairs (CCEA) on Tuesday approved a slew of welfare measures, topping which was the implementation of the Antyodaya Anna Yojna with a subsidy bill of Rs 2,315 crore.

The cabinet decided to amend Section 125 of the Code of Criminal Procedure, 1973, and four marriage laws to remove the present ceiling of Rs 500 of maintenance allowance to wives, children and ageing parents and to make it mandatory that any application for interim maintenance shall be disposed of within 60 days.

The amendments will ensure that the cases relating to maintenance of wives, children and parents are quickly disposed of, law and company affairs minister Arun Jaitly told reporters.

He said the marriage laws to be amended are: the Indian Divorce Act, the Special Marriage Act, the Hindu Marriage Act and the Parsi Marriage and Divorce Act. He clarified that there is a separate 1986 legislation in the case of Muslims which provides for a 30-day timeframe for disposal of interim maintenance applications.

Mr Jaitly said the cabinet also decided to enact a central legislation for setting up advocates welfare funds at state level. Advocates in subordinate courts will be required to pay Rs 5 and in other courts Rs 10 while filing a case. Advocates will subscribe to the welfare fund in each state in this manner.

The Antyodaya Anna Yojna, launched on December 25, 2000, is already under implementation, but the CCEA cleared the expenditure on the scheme on Tuesday. Under the scheme, one crore of the "poorest of the poor" families will be provided with foodgrains at 25 kg per family per month. The grains will be provided at a highly subsidised rate of Rs 2 a kg for wheat and Rs 3 a kg for rice. Annual requirement of foodgrains for this scheme will be 3 million tonnes — 1.3 million tonnes of wheat and 1.7 million tonnes of rice.

It is estimated that five per cent of India's population, numbering about 5 crore or one crore families, have such low purchasing power that they cannot even buy foodgrain round the year at BPL rates. The Antyodaya Anna Yojna targets 15.33 per cent of the 6.52 crore families below poverty line in the country.

Other decisions taken by the Cabinet and CCEA include:

* The Navratna and the Miniratna status for individual public sector enterprises will not be in perpetuity. The performance of each will be reviewed every three years and they could be divested of their status and the attendant autonomy they enjoy.

* The project cost of Petro Energy Products Company Limited stands revised to Rs 2,652 crore against Rs 500.25 crore approved in 1994. The company is, setting up a 100 per cent export-oriented refinery. The location has now been allowed to change from Karaikal in Pondicherry to Kakinada in Andhara Pradesh. The company has also been permitted to restructure the equity, which will now be 95 per cent foreign, NRI and OCB and five per cent domestic against earlier foreign equity of 40.5 per cent.

THE TIMES OF INDIA

2 MAR

Godbole quits, relents later

By Mahesh Vijapurkar

MUMBAI, MAY 23. Mr. Madhav Godbole, who heads the truncated renegotiation committee to re-work the deal with the Enron-sponsored Dabhol Power Company (DPC) today quit in protest against Mr. Sharad Pawar's remark that the panel should have a "positive approach" failing which "I wonder how results would be achieved" and, hours later, on persuasion by the entire Maharashtra Cabinet, decided not to press his resignation.

After being satisfied that the entire Government, despite some individual misgivings, was backing him, Mr. Godbole has decided to convene the meeting of the panel with DPC representatives here next week. "I am not pressing the resignation because of the unanimous view of the Cabinet that I have its support and confidence," Mr. Godbole told *The Hindu* within an hour of a letter from the Chief Minister, Mr. Vilasrao Deshmukh, conveying the Cabinet's request.

Had Mr. Godbole remained firm, all the efforts to have the independent power producer push towards lower tariffs would have suffered a major setback. Since Mr. Deepak Parekh, Mr. R.K. Pachauri, Mr. E.A.S. Sarma and Mr. Kirit Parikh are already as good as out of it for want of time, the one credible effort at renegotiation would have come apart, sources said.

A meeting of his panel with the DPC was due to be held today at 11 a.m. but had to be called off since Mr. Godbole dashed off a letter to Mr. Deshmukh expressing his unwillingness to continue with the efforts to rework the power purchase agreement since Mr. Pawar led at least one half of the Government as a constituent of the coalition and he disliked being termed, even if only tangentially, "negative."

There were serious misgivings about the developments "at a crucial and critical moment" because it had all the promise of derailing the renegotiations that had commenced ever so reluctantly. For long, the DPC had been asking for a credible platform with all parties with interests or ability to provide solutions to be a party to the efforts to bring the tariff down from the existing levels — it had reached even an unconscionable Rs. 21 per kwhr at one time — to something affordable.

Ironically, Mr. A.V. Gokak, the Centre's nominee on the panel, has arrived for the meeting with some proposals, like involving the Power Trading Corporation in picking up the power from the DPC plants, though without other elements being worked out, it can only be seen as a positive gesture from the Centre.

Counter-termination? Page 9

- 4 MA: 2001

'Taxing agriculture not worthwhile'

By Our Special Correspondent

NEW DELHI, MAY 21. An expert committee on tax policy and tax administration for the Tenth Plan has concluded that it would not be worthwhile to tax agricultural income.

Talking to presspersons after presenting the report to the Planning Commission, the Chairman of the committee, Dr. Parthasarathi Shome, said after discussions with State Governments, the committee came to the view that an agricultural income tax did not have much potential to generate revenue. Moreover, implementing such a tax would be very difficult.

According to Dr. Shome, agriculture contributed about 24 per cent of the gross domestic product (GDP) and out of this about 60 to 70 per cent was subsistence agriculture and only about 30 per cent originated from large holdings. Hence, the revenue potential was not large, particularly since the contribution of agriculture to GDP was estimated to go down further to 18.8 per cent by the end of the Tenth Plan. Secondly, implementing such a tax with small revenue potential would be very difficult, he said. Alternatively, the expert committee had stressed on the services sector as one holding greater potential for revenue generation.

The report stresses on the need to increase the tax to gross domestic product (GDP) ratio by 3.68 per cent over the Tenth Plan period to reach a level of 17.78 per cent by 2006-07, up from 14.09 per cent in 1999-2000. To achieve this, the committee has estimated that corporation tax would have to go up from the present 1.55 per cent to 2.35 per cent, income tax from 1.38 per cent to 1.88 per cent, Union excise duties from 3.16 per cent to 3.51 per cent while customs was expected to go down from 2.47 per cent to 2.44 per cent during this period.

The service tax is expected to contribute 0.57 per cent of the GDP by 2006-07 from the present contribution of 0.1 per cent. Consequently, the gross central taxes would increase from the level of 8.8 per cent to 10.88 per cent while the State taxes would increase from 5.29 per cent to 6.9 per cent, thus increasing the total from 14.09 per cent to 17.78 per cent by the end of the Tenth Plan period.

The committee has recommended a host of measures to achieve this, including scrapping of a number of concessions currently available in various taxes. In the case of direct taxes, the committee has recommended withdrawing tax incentives under Sections 10 (15) which pertain to interest premium on redemption or other payments of notified securities, bonds, certificates and deposits, Section 80-CCC dealing with contributions to certain pension funds of LIC, Section 80L dealing with Government securities, interest on NSC VI and VII issues, interest on deposits in post office time deposit, etc. and Section 88 dealing with contributions to life insurance premiums.

The committee has recommended changes in the incentives under Section 80-D, 80-DD, 80-DDB and 80E from income- based deduction to tax credit at 10 per cent. Similarly, roll- over provisions under Section 54, 54B, 54D, 54EA and 54EB have been recommended.

On corporate tax, reduction in tax rate to 30 per cent for both domestic and foreign companies and abolition of dividend distribution tax has been suggested.

For expanding the tax base, the committee has suggested income of various funds other than mutual funds be taxed at 10 per cent, exemption for foreign income and remuneration under Sections 10(8), 10(8A), 10(8B) and 10(9) be deleted, exemption of income derived by industrial units situated in special economic zones, under Section 10A, should be deleted and exemption to 100 per cent export oriented units be withdrawn. It has also been suggested that exemption for income from new industrial units and projects, under Section 80-IA, should be withdrawn.

THE HINDU

Enron to face another penalty

MUMBAI, MAY 20. Undeterred by issuance of the preliminary termination notice (PTN) by the Enron-promoted Dabhol Power Company, the Maharashtra State Electricity Board has decided to slap another Rs. 400-crore penalty on the U.S. energy major.

"PTN or no PTN, in the first week of June, the MSEB will slap one more Rs. 400-crore penalty on the DPC for misdeclaration and default on the availability of power, a review for which will be taken next month," sources in the MSEB said today.

The proposed penalty follows the DPC's inability to produce power on February 12 and March 13 as per MSEB's demand in the stipulated time of three hours as per the power purchase agreement (PPA), they said. "In fact, we would pay the Rs. 139-crore April bill on May 23 and this will be the last payment from our side, rest of the due amount should be adjusted in the penalty," the sources added.

The MSEB follows a four-month cycle, the first instance of failure on January 28 fell in the first cycle, while the other two instances fell in February-May, a bill for which would be prepared and despatched to the DPC in June.

Earlier, the MSEB had slapped a Rs. 401-crore penalty on the DPC for "not generating" required power for January 28 demand.

The matter has been disputed since, as the DPC has refused to ascertain the validity of the MSEB's claim, the sources said adding the matter was now under arbitration, process for which would begin soon.

The sources said that contrary to the DPC's allegations, the despatch instructions were in line with the PPA provisions and there were no procedures previously agreed or followed about declaration of availability and delivery of the instructions during the start-up of the "cold plant".

"The instructions are revised for only those hours for which there were no instructions earlier," they said adding that in the past the DPC was able to achieve the instructed capacity at the specified hour.

Pawar plea to Centre

The Nationalist Congress Party president, Mr. Sharad Pawar, today said the Centre should intervene and try to bail out the State from the crisis after Enron issued a preliminary termination notice to the MSEB. — PTI

THE HINDU

21 MAY 2001

Enron sets out to switch off MSEB link

Business Times Bureau

MUMBAI: It's the beginning of the end of Enron's presence in the Indian power sector. Putting an end to speculation about its future, the Dabhol Power Company (DPC) on Saturday issued a preliminary termination notice to the Maharashtra State Electricity Board (MSEB). The move has paved the way for Enron to claim termination penalties and quit the project by transferring its assets to MSEB.

"This (notice) initiates the process of terminating the power purchase agreement with MSEB. Even though it was necessary to issue the notice, we are still open to constructive discussion," a DPC statement said.

Vinay Bansal, chairman, MSEB, confirmed receipt of the notice and said that DPC had shown the bill payment default as the main reason for issuing the termination notice. "They (Enron) have treated two aspects in the notice, the first part dealing with the defaults which have occurred in paying the monthly bills and the second indicating the company's intention to terminate the contract. We will be studying the emerging scenario and hope for a favourable outcome in another six months, when the notice expires. Meanwhile, all aribtration proceedings will continue," Mr Bansal said.

Enron has also categorically declined to participate in any renegotiations on the basis of the Godbole Committee report. According to the company, a specific proposal from MSEB, the state government and the Centre should form the basis for any future discussions and not the Godbole Committee report. As per the procedure after the pre-termination notice is issued, a six-month suspension period will follow within which both parties can negotiate a compromise. If there is no solution, DPC will issue a final termination notice.

Before this, DPC will serve a transfer notice whereby all the operating assets, viz plant and machinery, will be transferred to MSEB. It is not clear whether Enron wants to transfer the LNG plant to MSEB as well, although it isup to the company to decide.

Thereafter a termination statement will be issued under Schedule 11 of the PPA, certified by chartered accountants, in which the amount payable as penalties will be enclosed. The revenue compensation amount will be worked out involving discounted profits for another 20 years of Phase I and the equity contribution of Phase II ($452 million) plus the $ 2,049 million debt component. However, experts maintain that the entire process will take no less than 18 months since several arbitration proceedings are currently on between both parties.

▶ FIs seek steps to bail out DPC, Page 10
▶ Foreign firms exit, Page 10

Negotiations, not notices can solve problems, says CM

By Prakash Joshi
The Times of India News Service

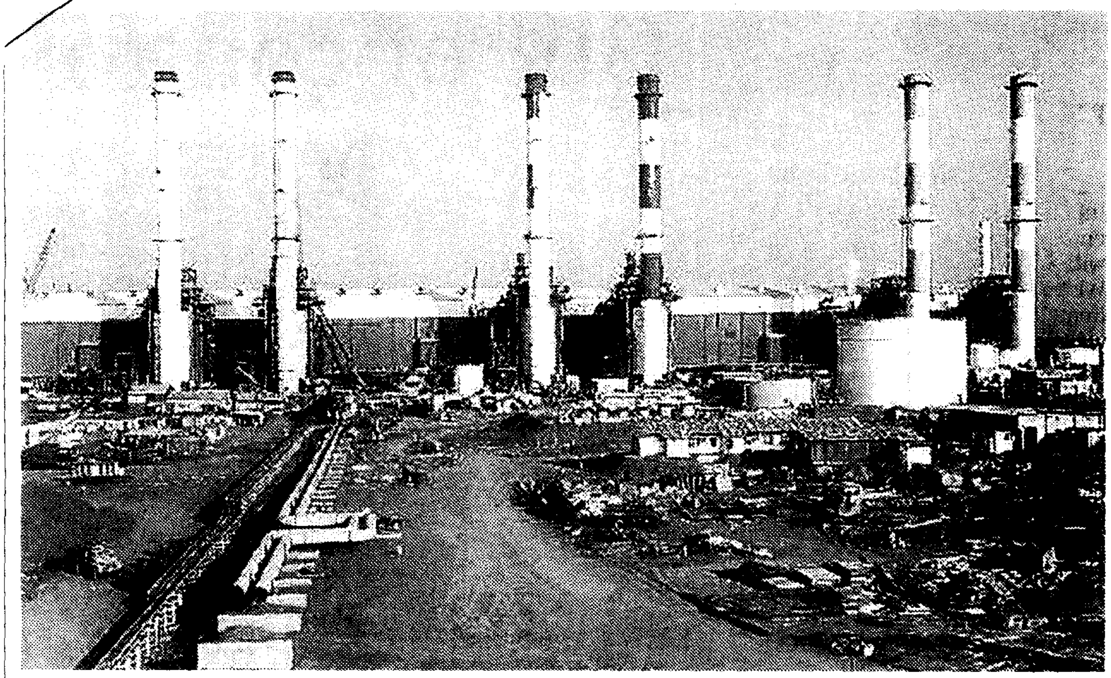
MUMBAI: Maharashtra chief minister Vilasrao Deshmukh on Saturday hit back at the Dabhol Power Company for serving a preliminary termination notice (PTN) when the Maharashtra State Electricity Board (MSEB) had completed all its contractual obligations.

Reacting sharply to the notice, he said, "There are difficulties, but problems can be solved by negotiations and not by giving notices." Mr Deshmukh, who met NCP president Sharad Pawar on Saturday morning, said the government would seek legal opinion before sending a reply.

▶ 'MSEB not a defaulter', Page 7

THE TIMES OF INDIA

20 MAY 2001



Enron's power plant at Dhabol... controversial from the start.

Wires crossed

THE PRINCIPLE of 'errors and omissions excepted' is too simple to sort out the Enron imbroglio. Besides, it does not cover errors of commission. This is being increasingly felt by all concerned as the Maharashtra Government's renegotiations panel led by Dr. Madhavrao Godbole hopes to get the power major to make the power purchase agreement (PPA) less ruinous for the State.

The meeting between the two sides on May 11 was not very cordial. But the officials were thankful that there could be another meeting on May 23 even after Dr. Godbole did some tough talking.

In Mumbai, however, no one is placing bets on the May 23 meeting taking place. On Saturday, Enron issued a preliminary termination notice (PTN) to the MSEB. "This initiates the process of terminating the power purchase agreement with MSEB," it said. The power major, however, left the door at least partly open by adding "even though it was necessary to issue PTN, we are still open to constructive discussion on the solutions".

The MSEB had slapped three notices on Enron for not meeting its enhanced power needs as per the PPA and demanded a penalty of over Rs. 400 crores. But, according to an Enron spokesman, the MSEB has paid its February and March bills under protest though the earlier December and January bills of about Rs. 250 crore are "overdue".

Both Enron and the MSEB know that even the credit note for the penalty after deducting the outstanding bills would not take them any further. The Godbole panel in its earlier avatar as the Energy Review Committee had pointed out that Enron had put in the PPA a number of ways to fleece the MSEB. Leave alone the PPA, many of its charges do not stand even a simple accounting test and are, arguably, bad in law.

For instance, the cost of shipping and harbour facilities is included in the capital recovery charge and yet Enron is charging the MSEB about Rs. 233 crores a year for these facilities. Excluding the reasonable cost of the shipping charter, Enron is charging over Rs. 100 crores more every year. The Godbole Committee also found that Enron inflated the fuel consumption to claim Rs. 332 crores more.

The way out of the Enron tangle would be to make the deal a just one. Any attempt at short cuts could short-circuit the whole process, writes Arunkumar Bhatt.

Though the power plant uses 2.1 million tonnes of LNG a year, the expenditure on the 5 million-tonnes regassification plant has been added to the costs. Enron has set up another company, Metgas, to use the excess capacity. The LNG facility should be separated and its capital cost should not be included in the fuel charge.

Dr. Godbole, who once headed the MSEB, and the former Union Power Secretary, Dr. E.A.S. Sarma, have recommended a judicial inquiry into the messy deal under the Commission of Inquiries Act. The Left parties and NGOs such as Prayas are for the probe.

But such a probe would mean a lot of explanations for the former Chief Ministers, Mr. Sharad Pawar and Mr. Manohar Joshi, and the latter's deputy, Mr. Gopinath Munde. No one expects the Congress(I)-NCP led coalition Government in Maharashtra to order a judicial probe.

Mr. Joshi made an interesting observation in Mumbai some days ago. "The present Government is competent to take any decision," he said when asked about the stand of the Shiv Sena on the probe. His successor as Chief Minister, now Leader of the Opposition, Mr. Narayan Rane, said the anti-Enron proceedings meant a clash between Mr. Pawar and the present Chief Minister, Mr. Vilasrao Deshmukh.

Enron executives know that neither the parties in power nor those in the Opposition would want a judicial probe. The judicial inquiry can, however, be a heavy load on the power multinational. But experts such as Dr. Subodh Wagale of Prayas believe that if the State Government plays its cards well, Enron will not be left with many options.

Backroom boys on both sides believe that the way out would be to make the PPA a just one. Any attempt at short cuts could short-circuit the whole process.

THE HINDU

Countdown to Dhabol's end begins

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HT Correspondents
New Delhi/Mumbai, May 19

IN THE possible beginning of Enron's endgame in India, the US energy giant's Dabhol Power Company today served a Preliminary Termination Notice (PTN) on the Maharashtra State Electricity Board (MSEB).

"This initiates the process of terminating the power purchase agreement (PPA) with the MSEB," a DPC statement said. The notice comes two days before the final decision on the PTN was expected.

The Maharashtra Government termed the PTN an "improper step". "It's not proper to issue a PTN when renegotiations to bring down the power tariff are on," said Maharashtra Chief Minister Vilasrao Deshmukh, adding that legal opinion would be sought on the notice.

DPC dispatched the termination to MSEB at 11 am, two hours after former Maharashtra Chief Minister Sharad Pawar — who had initiated the project in 1992 — and the present incumbent held a closed-door meeting on Government strategy in the event of such a move.

In its statement, DPC said the failure of the MSEB, the State and Central Governments to meet their contractual obligations to Enon had left it with no choice "but to issue the PTN". It, however, said, "We are still open to constructive discussion on the solutions," but added, "a lasting solution is possible only if the parties contractually bound to purchase the power are willing to either buy it themselves or find other creditworthy buyers".

At his meeting with Deshmukh, Pawar was updated on DPC's stand on PTN and that of the MSEB vis-à-vis the Rs 401-crore penalty that Enron has refused to even recognise, let alone pay, said an official present at the meeting.

He said MSEB chief Vinay Bansal briefed Pawar and Deshmukh that "the situation would further worsen after DPC commissions its Phase-II on June 6 as the loss-making board is in no position to pay the Rs 200 crore plus fixed charges henceforth".

The DPC project has been dogged by controversy since its inception, with critics charging that Dabhol was charging too much for the power it sold.

The notice begins the start of a six-month cooling period under the PPA, during which the parties are expected to try and resolve the dispute, failing which a formal termination will take effect. The termination will mean that the Central and the State Governments will have to pay an estimated Rs 2,850 crore as damages to Enron and the lenders to the project.

The 2,184 MW project has been the eye of a storm for over six months now. The first phase of 740 MW is already up and running, while the second, of 1,444 MW, is scheduled to start generating next month.

The loss-making MSEB, which originally agreed to buy the entire capacity, has reneged on its commitment forcing Dabhol to contemplate termination.

Related reports on Page 12

THE HINDUSTAN TIMES

20 MAY 2001

Reforms must go on to keep pace with global economy: PM

The Times of India News Service

NEW DELHI: Prime Minister Atal Behari Vajpayee made it clear on Friday that India could not remain isolated in the fast-changing world economic scene and reiterated that disinvestment would continue. "There is no going back," he said, inaugurating the 37th Indian Labour Conference here in the morning.

While affirming that the second-generation reforms would continue, the Prime Minister assured the conference that the interests of workers would be taken care of while disinvesting sick industries. "The government doesn't enjoy closing sick units. We tried to revive IDPL. We haven't taken a single disinvestment decision in haste," he said.

In an indirect attack on the Congress and the Left parties for opposing the government's disinvestment policy, Mr Vajpayee said, "Those opposed to disinvestment at the Centre are adopting the same policies in their party-ruled states." Departing from his prepared text, he also made a call for a wide-ranging dialogue on disinvestment and issues like workers' interests. "Justice should be done to workers, but economic decisions should be in the wider context of the nation," he added. In the same vein, he claimed that "no worker has been removed yet, and neither will anyone be in future".

NO LOOKING BACK

He claimed that in the last one year, the country had made major economic progress. Quoting from figures given by a representative of the Council of Indian Employers who spoke before him, Mr Vajpayee said the poverty level had come down. "These figures are not mine. Governments change, but statistical agencies don't. It is an achievement for which we would like to take credit."

Without directly referring to the opening up of the defence sector to private and foreign companies, Mr Vajpayee allayed fears that the move would hurt the national interest. "No foreign money will come until a licence is given. We need foreign money. We need to compete."

Referring to the demands that India opt out of the WTO, Mr Vajpayee said, "We will be isolated. We need markets, investment and raw material. Even the labour laws need to be changed according to WTO guidelines." He said a chief ministers' meet would be convened soon to discuss the challenges emerging from the WTO regime.

THE TIMES OF INDIA

19 MAY 20

PM rejects BMS demand for reforms rethink

HT 19/5

HT Correspondent
New Delhi, May 18

PRIME MINISTER A B Vajpayee today rejected the Bharatiya Mazdoor Sangh's demand for "rethinking" on economic reforms. There could be no going back on reforms, he said, since the country needs to reach globalisation goals.

Vajpayee inaugurated the 37th Indian Labour Conference, an event that left no one in any doubt that the Government and the trade unions are on a warpath over reforms. There could be some difficulties in the "transition" period. But India could not remain an "island" in today's fast changing world. The Government is ready for dialogue: a chief ministers' conference has been called on India's WTO commitments.

BMS general secretay Hasubhai Dave had no doubt that the economic reforms initiated in 1991 had gone against the interests of workers, small and big industries, and the nation itself. Dave said profit-making units should not be disinvested and labour law changes should await the second Labour Commission's report.

The Prime Minister disagreed, saying that statistics had shown that reforms had pushed up the GDP growth rate and reduced the number of people living below the poverty line. "No one has been thrown out of jobs, and no one will lose jobs," Vajpayee said. A Rs 150 crore social security scheme will be launched on July 1 for the country's 12 crore agricultural workers.

He said there would be no unregulated entry of FDI, although India needed foreign exchange to import oil. FDI projects would require licences, and it would be ensured that they served national interests. India must be prepared to face competition. India was still debating benefits of joining WTO, while many countries waited to enter it. The unions should see the country's problems in a larger context. Labour and capital should realise they can do nothing without each other.

Vajpayee admitted industries went sick more often because of failures of the system and management, rather than labour trouble. The Government would see to it that workers got justice in the disinvestment process. But, Vajpayee said, the unions should not oppose disinvestment just for the sake of opposing it. Dave and Arvind Doshi, employers' representative, spoke before Vajpayee, who said their speeches left everybody confused whether "we are moving forward or backward". Doshi said the GDP growth rate had been six per cent since the reforms and less than 26 per cent people lived below the poverty line. Vajpayee endorsed his statistics, which he said should be accepted because they had been given by an independent organisation.

THE HINDUSTAN TIMES

Enron signals beginning of DPC endgame

Soma Banerjee & Anto Joseph

NEW DELHI, MUMBAI 19 MAY

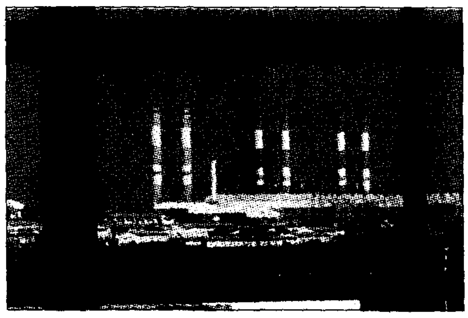
THE LIGHTS at Dabhol Power Company (DPC) have been flickering for a long time now. On Saturday, the beleaguered company issued the pre-termination notice (PTN) on Maharashtra State Electricity Board (MSEB), ending weeks of suspense over its possible course of action. The move, which has come without the consent of Indian lenders, has left Indian financial institutions, led by IDBI, dazed.

Strangely, Enron's pullout moves have come despite the Centre striking a conciliatory note despite talk of arbitration on the disputed penalty issue between MSEB and DPC.

Negotiations are on and there have been regular assurances from the Centre that it will honour the counter-guarantee it issued to the US utility. By no means was this the end of the road and even as late as mid-May, Enron bosses were reaffirming their commitment to the Indian project.

Analysts wonder, therefore, if this pressure tactic will work, but for the moment it's lights out at Dabhol.

Having served the PTN, DPC will now have to give six months to MSEB and the Centre before it can serve the final termination notice. "Maharashtra will have to now either go ahead with the negotiation process already initiated and find an amicable solution within the given period or can also serve a termination notice," sources said.



LIGHTS OUT — AP

The central counter-guarantee, which guarantees all energy payment obligations of MSEB and the debt serving obligations of Enron, will also come into effect only after six months.

■ **Arbitration may make notice invalid: Page 14**

The Economic Times

STATE HAS NOT COMMITTED ANY DEFAULT, SAYS CHIEF MISISTER

Enron's move unwarranted, but Maharashtra ready for truce

Our Mumbai Bureau
MUMBAI 19 MAY

THE MAHARASHTRA government, on Saturday, described Enron's action as "unwarranted" and said an amicable solution could still be found.

Reacting to the pre-termination notice (PTN) issued by Enron, Maharashtra chief minister Vilasrao Deshmukh refuted the allegations made by the US energy major and dubbed the company's action as an "unwarranted move that could complicate the issue."

"We have not committed any default. It's wrong on the part of Enron to say that we are not honouring our contractual obligations," said Mr Deshmukh while talking to ET. According to him, the issue of the December 2000 and January 2001 bills has already been referred to arbitration.

The CM said he still wants an amicable solution to the ongoing imbroglio and asked Enron to present its case before the Godbole panel on May 23. "There is no alternative to talk. We have to create an amicable atmosphere for a solution to emerge," he said.

However, he said the state government is also seeking legal opinion to tackle the situation. Meanwhile, Nationalist Congress Party chief Sharad Pawardiscussed the issue with Mr Deshmukh.

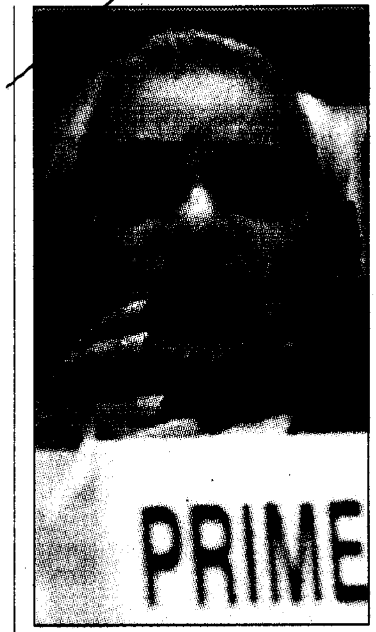
"We have taken stock of the situation and also discussed the reports on Dabhol Power Corporation's (DPC's) lenders' meet at length. A strategy will be chalked out, as Enron officials are again meeting the Godbole Committee on May 23," Mr Deshmukh said after the two-and-half hour long meeting.

Mr Pawar, who was briefed for the second time on the current crisis, was updated on DPC's stand on the pre-termination notice and that of the Maharashtra State Electricity's Board's with reference to the Rs 401-crore penalty. The US energy major has refused to even recognise this penalty, let alone pay, a state government official who attended the meeting, said.

MSEB chief Vinay Bansal told Mr Pawar and Mr Deshmukh that the situation will further worsen after DPC commissions its phase-II and that the loss-making board was in no position to pay the fixed charges.

The Economic Times

Atal stands up to reform attack



Vajpayee at the conference. (PTI)

FROM OUR SPECIAL CORRESPONDENT

New Delhi, May 18: Staring down aggressive trade unions, including the Sangh parivar's Bharatiya Mazdoor Sangh (BMS), Prime Minister Atal Bihari Vajpayee today declared that economic reforms were here to stay.

Vajpayee, who was inaugurating the two-day Indian Labour Conference this morning, said existing economic policies and laws had failed to respond to the changing needs and there was "no question of reverting to the old economic regime".

Totally at odds with the government, BMS general secretary Hansubhai Dave, the first speaker at the conference, slammed the reforms as "anti-worker and anti-national". Dave said the reforms "had a terrible impact on workers and the government should seriously reconsider them". He reeled off a string of demands, most of which clashed with the government's policies.

The contradictions within the Sangh parivar were played out in full at the conference: the Prime Minister sticking to his stand, though he held out assurances on social security for unorganised workers, and the BMS bludgeoning the government, hoping to turn it around on some crucial policies. BMS leaders had yesterday said Vajpayee's speech would decide the union's next course of action.

Vajpayee later had an informal chat with labour leaders, but is believed to have "only listened and not said anything". Dave, however, emerged from the meeting saying that the Prime Minister had agreed not to bring a Bill in the monsoon session of Parliament to amend the Industrial Disputes Act and the Contract Labour Act. But the other trade unions denied any such assurance.

Labour minister Satyanarain Jatiya said: "The Bill will be discussed by the Group of Ministers, approved by the Cabinet and then only will it be brought to Parliament. We may or may not be able to bring it in the next Parliament session." Neither his tone nor Vajpayee's was conciliatory, an indication of more trouble for the parivar.

Vajpayee challenged the trade unions to come out of their groove and fall in step with the changing world. "There is simply no alternative to raising the efficiency of our production units, reducing costs and improving the quality of our goods and services," he said.

He described as absurd the demand of some trade unions that India should quit the World Trade Organisation — a demand the BMS general secretary raised in his speech. "How can India survive in isolation? It should try to get the best possible terms for the developing world from the WTO," Vajpayee said.

He said statistics proved that there had been a reduction in poverty and an increase in growth. But the labour leaders rejected the figures and furnished their own to show a decline in growth and industrial production between 1991 and 2001.

Lost in a swirl of rumours, group attacks Maruti van driver

Monkey-man turns Delhi into lynch mob

FROM AMBEREEN ALI SHAH

New Delhi, May 18: Mass hysteria and rumours are taking over the lives of Delhiites as the elusive "monkey-man" continues to attack and vanish without a trace.

Police said the paranoia was not just restricted to the east Delhi area bordering Ghaziabad and Gautam Buddh Nagar in Uttar Pradesh from where the attacks began, but has spread as far as the upmarket colonies of south Delhi.

In east Delhi, the driver of a Maruti van was severely beaten up last night by a mob because of a helmet lying inside his car.

This followed reports of the "monkey-man" being described by some of its victims as wearing a helmet. Overpowered by anger, hysteria and perhaps hallucination, the mob swooped down on the car and thrashed the driver, according to police sources.

Delhi Police, which have its hands full trying to track down the creature, is also having to deal with rumour-mongers. Over 80 distress calls, mostly fake, were received from all over the capital.

The police today arrested two persons in east Delhi for spreading rumours. One of them, Dr Narendra Sagar, was arrested in the Shakarpur area for frightening his neighbours by throwing an inflated doctor's glove — painted black — on the street.

The hysteria had led to a person jumping to death in northwest Delhi on Wednesday night following a false alarm raised by his neighbour.

"The current paranoia is in the minds of the people. It is a form of hallucination. People start perceiving things and objects out of obsessive compulsive behaviour," South Delhi deputy commissioner of police P. Kamraj explained.

D.L. Sheth, a sociologist at the Centre of Social Research, believes that the mass phobia is not class-specific, although all the incidents of attacks have been reported from jhuggi clusters and lower-end colonies.

"It transcends the parameter of class. In Western countries, people claimed to have had encounters with UFOs, while in Ireland people have seen Mother Mary in the clouds. This is collective hallucination, which appears in a wave," he said.

The Shiv Sena is urging people not to believe in rumours and superstitions. State executive member Abhimanyu Gulati said: "We are setting up vigilante groups armed with swords, tridents and lathis in the affected areas."

Gulati also blamed the Centre for its "inactivity" and alleged that the situation was the result of intelligence failure. "If the government cannot deal with the monkey mania, how will it look after the problems ravaging its borders?" he asked. Predictably, the Sena activist did not at the same time rule out the ISI's "involvement" in the affair.

THE TELEGRAPH

19 MAY 2001

Spending plan to boost economy

UNITED NEWS OF INDIA

NEW DELHI, May 16. – The NDA government plans to pump-prime the economy by unleashing a slew of high-spending schemes in the infrastructure sector to reverse the economic slowdown.

The plan, based on the Keynesian models, is being pushed by the finance minister.

In an exclusive interview with UNI, Mr Yashwant Sinha revealed his plans to inject a massive dose of expenditure to build roads, ports, irrigation and power projects in the near future.

"There will be quite a lot of action within the next few months on this front," he said.

New power projects, which the Centre till recently was hoping to be taken up by the private sector, will now be a thrust area for the government. Public sector power giants like the National Thermal Power Corporation and National Hydro-electric Power Corporation have been asked to implement their Greeenfield power projects at the earliest.

Mr Sinha has even promised Central funds for these projects with the government planning to add at least 8,000 MW power over the next two years.

He said contracts for a total of 6,000 kms of the golden quadrangle of express highways will be given out by end June. The government also plans to build a network of rural roads, linking up the hinterland, at a cost of Rs 2,500 crore. Again, Rs 1,000 crore has been earmarked for state highways, he added. The government will help the states with the irrigation projects, he said.

This bout of high dose public spending, apart from creating fresh capital assets, will increase spending power and create new jobs, Mr Sinha said. Industrial growth in 2000-01 was 4.9 per cent as compared to over eight per cent in 1999-2000. A worried Central government consequently decided to put this "spend your way out of the morass" plan into action.

Lord JM Keynes first propounded the concept of massive spending as a way out of depression, or its less rigorous form of recession. Faced with the Great Depression of 1930s in the West, Keynes advocated a massive public works programme, which eventually was turned into the now famous "new deal" plan, which built a chain of dams, roadways and power projects in the USA.

Mr Sinha said slow agricultural production had also adversely affected the industrial growth.

Poor agricultural growth meant low rural purchasing power which led to the slower demand for industrial goods. He expected better economic performance this year and seven to eight per cent GDP growth in the next three to four years. Part of this would accrue from the large government spending. The spending will create externalities and pep up private sector activity in these and allied areas. Mr Sinha said people are not spending money now which is leading to a demand shortage.

Satisfied with his meeting with the representatives of the automobile, cement and construction sectors, Mr Sinha plans to broaden the consultations and would soon invite people from other industrial fields.

He said while there would be no further tax sops, his ministry would go into specific difficulties the industrialists highlighted.

Their suggestions were being examined and whatever changes possible would be incorporated.

Yashwant Sinha tells Jayanta Roy Chowdhury he is in control of everything except weather

'We are ready to clear policy doubts'

Under fire from Swadeshi hawks for pushing too hard with reforms and being too soft on multinationals, finance minister Yashwant Sinha says he is ready to remove misgivings.

"If our friends have any doubts about our policy, we are ready to discuss it," he said.

The remarks come after BMS chief and Swadeshi Jagran Manch ideologue Duttopant Thengadi tongue-lashed him as a 'criminal.'

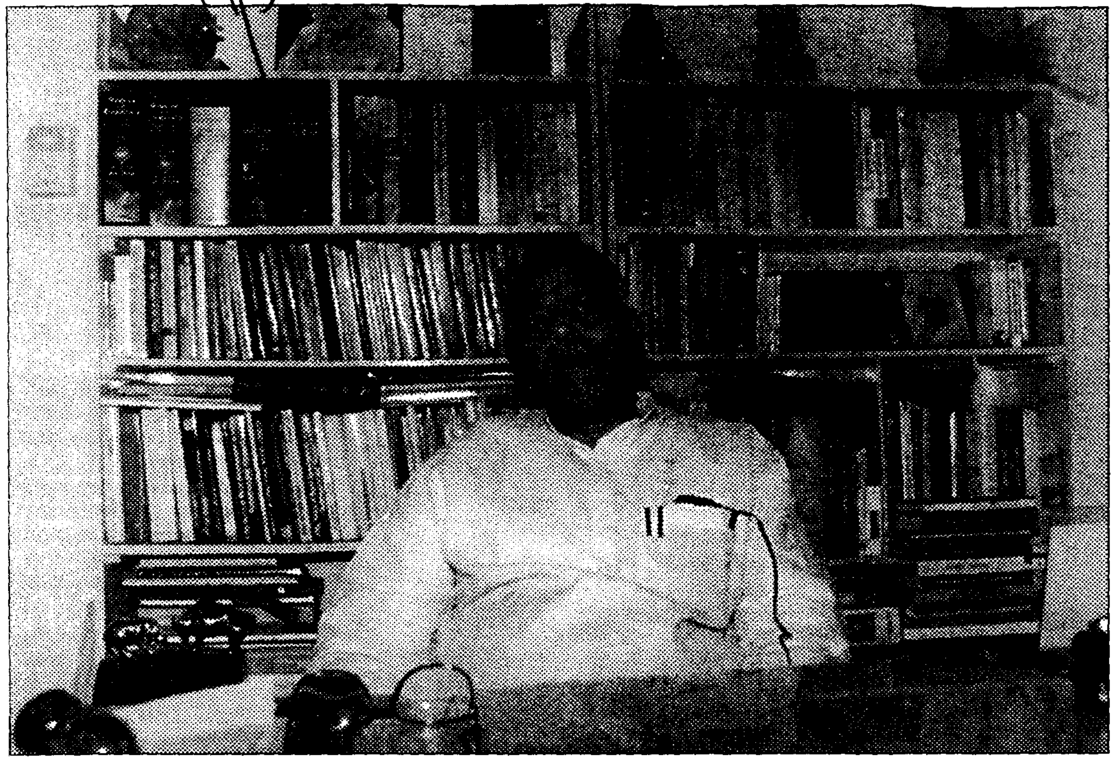
Reacting to comments that he had allowed things to spin out of control, he said, "I am in control of the economy, except divine will and the vagaries of weather."

Sinha scoffed at fears that opening up the economy to foreign capital or imports, including the foreign direct investment limits announced last week, would give multinationals control of the economy. "FDI is just a trickle. The fear of MNCs is irrational. It is crazy to imagine that we will be reduced to traders while outsiders will take over the industry."

Instead, the minister saw China as a bigger threat. "When we talked of MNCs a few years back, we thought about US and European companies, not China." He said the government will prevent the flow of imports from turning into a deluge. "Have we been swamped by imported wheat, rice or any product produced locally?"

Reacting to calls from certain quarters that the government quit the World Trade Organisation, Sinha said there were more benefits in staying with it than in walking out. "To me, Swadeshi means a strong and self-reliant India, not a state of autarky where we trade with no one."

Sinha, facing flak for not doing enough to stem the post-budget stock slump, promised changes in laws governing the Securities and Exchange Board of India and bourses, but insisted the House panel probing it will be consulted.



Sinha: Reform warrior willing to give everyone a patient ear. (A Telegraph picture)

Tainted firms face selloff bar

The government is likely to debar scam-tainted companies like Sterlite Industries, Videocon and BPL, from bidding for any future disinvestment in public sector units.

The decision has been taken by a group of ministers, including Prime Minister Atal Bihari Vajpayee, home minister L. K. Advani, finance minister Yashwant Sinha and disinvestment minister Arun Shourie, which has held several rounds of meetings on the issue.

Sources said an in-principle decision on the issue has already been taken, which will later be formally placed at a Cabinet meeting.

When asked, Sinha refused to comment on the outcome of the meetings, but confirmed "the government is considering the issue (of debarring scam tainted companies) for future disinvestments."

However, the government has yet to decide whether to disallow the Hinduja group, allegedly involved in the Bofors pay-off scam, to bid for any of the PSUs.

"A decision over the Hindujas is holding up the issue. If they are barred, the government will be accused of being politically motivated; If they are allowed to bid, the government will be accused of double standards," sources said.

Fresh from the uproar over Balco, the government is keen to avoid any allegations of a scam, which may arise if Videocon, BPL and Sterlite, charged with ramping up their scrips in 1998, are allowed to bid for the PSUs.

A parallel move is also on to eliminate foreign merchant bankers—being investigated by Sebi for their alleged involvement in share price rigging—from advising the government on the disinvestment process. Significantly, Credit Suisse First Boston, an advisor in VSNL 's divestment, is under Sebi's scanner.

Back to basics in pro-people tilt

Stung by the electoral reverses staring it in the face and mounting criticism of its reforms process, it's back to the basics for the BJP government, at least where the economy is concerned.

In other words, it will now be roads, electricity, water, health and education, issues closer to the common man's heart.

Tacitly admitting the government's changed priorities, finance minister Yashwant Sinha said: "The common man is not bothered about fiscal deficit and FDI, he wants the basics like water, roads, electricity, health and education to be addressed; we will work on this." Moreover, "development is not just growth, it is growth plus concern for the common man," he added.

The finance minister prescribed patience for those who have been pushing for a faster pace of reforms. "Second generation reforms do not mean a reform a day. I have always cautioned patience."

Sinha, who has been under severe attack from the Sangh Parivar and its associates for his economic policies, considered even by several hardliners within the Cabinet to be too right-wing, now promises quick implementation of projects, which the government hopes will help it get closer to the common man.

"You will see much action within the next few months on this front," he promised.

New power projects, which, the Centre was keen till recently be taken up by the private sector, will now be a thrust area for the government. State-run power utilities like the National Thermal Power Corporation and National Hydro-electric Power Corporation have been ordered to start work on power projects as soon as possible. Sinha has even promised central funds for these projects.

The government plans to add at least 8,000 megawatts of power within the next two years.

"Since the reform programme started in the early 1990s, the government's philosophy has been there would be no fresh investments from its side in industrial enterprise. PSUs who want to set up projects or expand operations, will have to fend for themselves by either raising internal resources or borrowing from the market," he said.

"Contracts for the remaining 3,000 kms of the golden quadrangle of express highways will be awarded by June-July. Besides, we will be spending some Rs 2,500 crore on rural roads. This is a well thought-out package where we want to deliver the goods and we took our time in starting with this one because we wanted to be sure the money actually produces results," Sinha said.

The finance minister added that another Rs 1,000 crore has been earmarked for state highways. "We will also extend liberal help to the states for irrigation projects," he said.

The rash of public spending is also expected to pump up the economy, create new jobs and increase spending power.

Let Enron Exit

Nothing to Lose, Crores to Gain

By ADITYA CHATTERJEE & POOJA KOTHARI

FOR years, Enron tried to woo Indian policy-makers, who couldn't seem to decide whether the Dabhol project was a good idea or not. Today, the boot is on the other foot, and it seems to be pinching. Enron's management is keen to stop investing in huge, capital-intensive plants around the world. In keeping with this strategy —and no doubt exhausted by its ceaseless crisis management in India — Enron is mulling a pullout. But both the Centre and Maharashtra government want to renegotiate the power purchase agreement and have entrusted this responsibility to the Madhav Godbole panel.

Is Enron really as indispensable as the authorities seem to think it is? Financially, no. Indeed, if the only way to continue the project is on the present terms, then it makes better sense to simply scrap it. After all, it's better to amputate a gangrenous limb than to let the problem spread further.

A little arithmetic will make this amply clear. If the Dabhol Power Company (DPC) does scrap its agreement with the Maharashtra State Electricity Board, the Centre will have to cough up a sum of Rs 2,910 crore — a penalty amount of Rs 1,500 crore for one year's electricity bill, and $300 million as termination fees (which works out to Rs 1,410 crore at an assumed exchange rate of 47 rupees to one dollar). This is a one-time payment, and the figure of Rs 2,910 crore is corroborated by a recent statement by Union power secretary A K Basu.

Now, if India were to continue with the present arrangement, it would end up paying at least Rs 1,500 crore per year for the next 10 years to DPC. On the other hand, what would happen if the project were scrapped? Well, very simplistically, India would save Rs 15,000 crore (Rs 1,500 crore multiplied by 10 years). But things aren't quite that simple, because that money could earn interest, while inflation would mean that Rs 15,000 crore after 10 years would not have the same value it would have today. To get around this problem, financial experts use a concept called net present value, which discounts future earning streams as well as inflation, to evaluate the attractiveness of a project. If we use a discount rate of 10 per cent, then the value of the amount India would save by scrapping the Dabhol project works out to Rs 9,217 crore, over three times the amount India would have to pay today if the agreement with DPC is terminated.

Indian financial institutions (FIs) and banks which have lent money to DPC are actively lobbying to prevent such an eventuality. But how badly would they be hit? Well, FIs led by Industrial Development Bank of India have provided loans of $95 million and $333 million in two phases. This brings their total exposure to $428 million (Rs 2,012 crore at an exchange rate of 47/$). Besides, State Bank of India also underwrote the maximum portion of a $557 million cross-border loan, and has an exposure of about $175 million (Rs 823 crore). Thus, the cumulative exposure of Indian banks and FIs in DPC works out to around Rs 2,835 crore.

However, since only 80 per cent of this amount has been disbursed so far, the net exposure of Indian lenders amounts to Rs 2,268 crore. Since the Indian lenders are not covered by any counter-guarantee, their bottomline would be hit if Enron backs out. The government, being a majority stakeholder in most of these institutions, would also be affected. But even if all these loans are taken into account and added to the one-time payment of Rs 2,910 crore, the total cost to the government would be Rs 5,178 crore — still lower than Rs 9,217 crore.

> **IN BRIEF**
>
> - Scrapping the power purchase agreement involves a one-time payment of Rs 2,910 crore
> - However, India would save over Rs 9,000 crore by doing so
> - There would be a net saving even after writing off FI loans to Dabhol Power Company

Thus, the termination option will prove less costly for the nation than proceeding on the present terms. What will happen to the assets and the plant, did we hear you ask? Well, the government can sell it to private players and re-negotiate the cost factor with them - this time hopefully after doing a cost-benefit analysis! A sale of assets would also lessen the load on the government. Who knows, the government may actually manage to sell the ownership of DPC at a premium to another private sector player!

Of course, fears have been raised that cancelling the project might cost us foreign direct investment since Enron is the biggest investor in India so far. After all, Brazil raised $31 billion and China $49 billion last year in comparison with India's measly $4 billion. But there's another way of looking at the problem - what does India really have to lose? In short, it's a case of losing what you don't even have in the first place.

Many developing nations which were pushed into signing expensive power projects by multinationals have successfully re-negotiated their contracts with no serious financial consequences. Many nations simply did not have the money to pay for the inflated bills, some refused to pay even after losing international arbitration awards, while others like Costa Rica declared that the 15 contracts signed with independent power producers (like Enron) have no legal status or are bad in law.

In July 1999, the Hungarian parliament declared that a PPA signed with multinational RWE was unconstitutional and void. In August 2000, the Croatian government tore up a PPA signed between Enron and a previous government. The contract was considered to be unaffordable, and was allegedly signed in suspicious circumstances. Enron subsequently abandoned the original agreement. In September 2000, the Philippines took a decision to not renew financially crippling contracts with IPPs.

Controversy has accompanied the Dabhol project from the start. In August 1994, the finance ministry had written to the power ministry that the size of "the potential liability for a 1,000 megawatt plant was around Rs 3,000 crore per year". The department of economic affairs had also warned that the "...risk of counter-guarantees being invoked was not unreal, given that state electricity bills had been defaulting in payments". Caution was thrown to the winds then. The least India can do now is ask for a re-negotiation. But does the Indian government have the courage to go eyeball-to-eyeball with Enron and not blink first?

THE TIMES OF INDIA

3 MAY 2001

Balco workers defer decision on ending stir

UNITED NEWS OF INDIA

KORBA, May 2. – The striking Balco employees have deferred till Friday any decision on whether to end their stir.

The meeting of the core committee of the Balco Bachao Sanyukt Abhiyan Samiti, spearheading the cause of the employees, today failed to decide on the future course of action.

Yesterday, the Supreme Court asked the employees if they were ready to resume work on payment of two months' advance salary (for the strike period) till the disposal of petitions pending before it.

The court asked them to inform it about their stand in this regard by 8 May.

The samiti convener, Mr Baleshwar Jha, said no decision could be taken today in the absence of a formal copy of the court's directions. Any such decision would be taken after receiving the copy, he added.

The core committee will meet again on Friday to discuss on the alternative to their demand.

■ **Another report on page 8**

THE STATESMAN

- 3 MAY 2001

Court offers Balco workers incentive to return to work

New Delhi, May 1: The Supreme Court on Tuesday asked the Balco employees, who had challenged the disinvestment of 51 per cent of the company's equity to Sterlite Industries, if they could resume work on being paid two months salary in advance for the strike period. A three-judge bench comprising Justices B.N. Kiripal, U.C. Banerjee and Brijesh Kumar asked the counsel for the employees' unions to inform the court in this regard by May 8. The bench made it clear that the payment would be subject to adjustment in terms of the ultimate direction of the court.

The court also directed the Chhattisgarh government to state by next Tuesday which other companies were allocated tribal land. The directions came during the hearing of three petitions that came before it by way of transfer from the Chhattisgarh high court and the Delhi high court challenging the controversial disinvestment. The transfer of tribal land to Balco, in which Sterlite Industries bought a majority stake from the Union government, and some other companies was one of the issues raised by the state government. *(PTI)*

THE ASIAN AGE

2 MAY 2001

Godbole to lead Enron renegotiation

STATESMAN NEWS SERVICE

MUMBAI, April 30. – The Maharashtra government today formed a second renegotiation committee on the Enron project amid controversy over the possible termination of the project.

The nine-member panel will negotiate with the Dabhol Power Company to restructure the project, including separating the LNG facility, to bring down the power tariff. It will also talk about direct sale of surplus power, not needed by the MSEB, to third parties, including the Centre and central agencies. The committee has been given a month's time to submit report.

The committee comprises all the six members of the Godbole Committee that recently reviewed the project and will be headed by the former Union home secretary, Mr Madhav Godbole. Others on the committee include a Centre's representative, yet to be named by the Union finance secretary, the state finance secretary, Mr S K Srivastava, and chairman of the Maharashtra State Electricity Board, Mr Vinay Bansal.

The Godbole panel included Mr Deepak Parekh, HDFC chairman, Dr Rajendra Pachaury, director of the Tata Energy Research Institute, Dr EAS Sarma, former energy secretary and Union finance secretary, Dr Kirit Parikh, honorary professor, Indira Gandhi Institute of Developmental Research, and Mr VM Lal, energy secretary. An appointee from the Central Electricity Authority will be an invited member while secretarial assistance will be provided by the Industrial Development Finance Corporation.

The earlier Godbole committee submitted its report on 10 April and the state and Union governments decided on 23 April in New Delhi to renegotiate the PPA according to the panel's recommendation. Two days later, the DPC managing-director, Mr K Wade Cline, was authorised to pull the plug on the project.

But the Maharashtra government decided to form the new committee. The decision has been conveyed to the DPC.

The renegotiating committee is expected to issue a formal invitation to the DPC to join them for talks.

1 MAY 2001

India concerned over falling development aid, non-trade barriers

Sinha calls for ODA hike

PRESS TRUST OF INDIA

Yashwant Sinha

WASHINGTON, April 30. — Articulating developing nations' concern, India today cautioned against falling development assistance and urged the developed countries to increase their level of Overseas Development Assistance (ODA) flows, while reacting strongly against denial of market access by the continued practice of non-trade barriers.

"A number of developing countries including India have removed all quantitative restrictions, but the developed countries continue to build non-trade barriers," the finance minister, Mr Yashwant Sinha told a joint meeting of International Monetary and Financial Committee and Development Committee.

Mr Sinha is the joint chairman of the committee along with the British Chancellor of the Exchequer Mr Gordon Brown.

The finance minister listed textiles, garments and agriculture as areas of concern, where non-trade barriers were being consistently maintained to create unfavourable trade conditions for developing countries.

FM ALLAYS RUPEE FEARS

WASHINGTON, April 30. — The finance minister Mr Yashwant Sinha has said that he has no worries about the fall in rupee value, as it has depreciated less against the dollar than many other currencies in the floating regime. "Our currency is floating like many other currencies in the world, subject to the laws of supply and demand and market forces. So it is not really a matter of concern," Mr Sinha said at a joint press conference with Mr Gordon Brown and World Bank President Mr James Wolfensohn. — **PTI**

Regretting that development assistance had gone down drastically by 40 per cent in the nineties, Mr Sinha said there had to be much higher aid flow, particularly for poverty reduction programmes in countries like India which had managed their economies well, including their debts.

Plea to WB, IMF: India today asked the World Bank (WB) and the International Monetary Fund (IMF) to work out an action programme to "rejuvenate" economic growth in developing countries in the face of global economic slowdown and set appropriate framework along with WTO, for "free and fair" global trade.

"To my mind, the primary task before this assembly, is to work out an action programme aimed at rejuvenation and renewal of hope for the future with massive thrust for economic growth and development," Mr Sinha told the joint meeting of International Monetary and Financial Committee and Development Committee.

Asking IMF and World Bank to set appropriate ground rules with WTO for free and fair trade, Mr Sinha said, "we have to ensure that multilateralism and movement towards global free trade is at the centre of trade negotiations." "The IMF should become a stronger voice in terms of promoting further trade liberalisation on multilateral basis," he said.

THE STATESMAN

1 MAY 2001

PLOT THICKENS

Balco as a test case for better policy

PREDICTABLY, the Balco controversy has taken a new turn — from the question of underselling public assets to usage of tribal land. Ajit Jogi, the Chattisgarh chief minister who has discovered a surefire way to keep appearing in the national media, has now discovered deep injustice in the fact that a private company will operate Balco's Korba unit, which is built on tribal land. His logic is that it is perfectly all right for public sector units to set up ventures in such areas, but allowing private entrepreneurs violates principles of egalitarianism and social policy. This is, of course, a non-starter. The issue is not of public or private capital but that of development versus displacement, and the complexities of the problem lie far beyond what Jogi, or indeed the Centre, which opposes him, are prepared to confront. The core problem is that of finding the extremely difficult balance between mainstream industrial expansion and the need to preserve non-mainstream lifestyles and cultures. Almost no government has found this balance. However, the more enlightened of them have recognised that grievous errors are more likely when communities concerned are not consulted. Such decisions were made by the haute administrateur, the Nehruvian creature who was axiomatically supposed to possess the knowledge what is good for the rest of us, including tribals, who had no effective means to counter impositions in the name of state-sponsored modernity. The Congress was in power in the years when tribal land was leased out for industrialisation. It was in power when such industrialisation, mostly public sector, demonstrably failed to make lives better for local communities. It was also in power when the first small scale, typically agro-based private businesses were set up on tribal land. It saw and ignored the thuggery and thievery some of these private businesses indulged in. Other parties would have probably done exactly the same.

Thus, if the issue raised by Balco is to lead to anything meaningful, it has to go beyond Balco. The current system of real estate allocation for industrial purposes needs to be scrapped in favour of one that takes affected local communities into confidence — ideally via public hearings where the government and the investor will make public commitments. That won't be enough, however, since the best laid plans, in this context, can be subverted by corrupt monitoring agencies and administrators. This has in fact happened in India. From the BDO upwards, Indian administration has usually treated local communities as fodder for salary supplementing enterprises. The only solution is to take away the power to intervene, by giving the onus of monitoring industrial projects to local communities. This itself will not be problem-free. But hardly any solution in public policy is. It will, however, have the great virtue of situating all outcomes in the matrix of local democracy, automatically improving accountability. For a start, Jogi can ask the communities around the Balco plant what they would like.

THE STATESMAN

1 4 MAY 2001

Dabhol Phase II should be scrapped: Godbole panel

By Our Mantralaya Correspondent

MUMBAI: The Maharashtra government on Friday told Enron's top brass that it wanted the power company to continue its operations at Dabhol, albeit only the 750 MW Phase I project.

While the Madhav Godbole committee held talks with Enron officials at Hong Kong House in south Mumbai, Maharashtra's chief secretary V. Ranganathan called on governor P.C. Alexander to apprise him about the latest developments.

During talks with Enron, the Godbole panel is believed to have made it amply clear that Phase II, with a net capacity of 1,444 MW, which was "expensive", needed to be jettisoned. It insisted that the Liquified Natural Gas facility be de-linked from the power plant in a bid to bring down the tariff for the power purchased by the Maharashtra state electricity board (MSEB).

The committee also told Enron officials that the state was passing through a grave financial crisis and sought its assistance in hammering out an "honourable" settlement to the contentious issue.

"Presently, the government is struggling hard to come out of a financial crisis. Only last year, the Maharashtra government paid the MSEB a staggering Rs 3,000 crore to meet the latter's financial obligations to Enron. This has had an adverse impact on the development plan," a senior state official told this newspaper after participating in the talks with Enron. However, that much-hyped meeting could not come up with a concrete, time-bound policy to resolve the crisis for several reasons.

Firstly, talks were hampered because of the absence of a majority of members of the Godbole panel. While finance secretary S.K. Srivastava, energy secretary Vinay Mohan Lal and MSEB chairman Vinay Bansal and Mr Godbole were present, two nominees appointed by the Union government—India's solicitor-general Harish Salve and former IAS officer A.V. Gokak—were not present.

Four other nominees—HDFC chairman Deepak Parekh, Dr E.A.S. Sarma, Dr Rajendra Pachauri and Kirit Parekh—were also absent at the meeting. The Enron team, on the other hand, attended in full force.

Secondly, the first meeting was, as a senior civil servant pointed out, a preliminary exercise aimed at exploring avenues for a sustained dialogue. "We didn't expect any wonders in the very first round of talks," said the official.

THE TIMES OF INDIA

12 MAY 2001

PM meets ministers on divestment

STATESMAN NEWS SERVICE

NEW DELHI, May 10. – A day after the government decided to allow private sector entry and FDI in many sectors including defence production, banks and telecom, the Prime Minister held a meeting with the home, finance and disinvestment ministers today, triggering speculation of an imminent push on the disinvestment front.

The meeting is significant because it took place soon after the end of the Balco stir which had virtually held back the disinvestment drive.

There was no official word on the agenda or outcome of the meeting. Even Mr Arun Shourie remained tightlipped but for a remark that he had briefed the Prime Minister, scheduled to go abroad on Sunday, on the disinvestment front.

The meeting also assumes significance because of late, a section of the Sangh Parivar, notably its trade union wing BMS, has been trying to resist the Centre's disinvestment policy.

There is also considerable speculation on the likely fall-out of the poll outcome on the disinvestment front.

Also in the news was the recent blacklisting by Sebi of Sterlite, Videocon and BPL, which have stake in the divestment plans of Hindustan Copper, Hindustan Zinc, Indian Airlines and VSNL.

Mr Shourie might have briefed the Prime Minister about the advice he received from the law ministry on the question of the participation of the blacklisted firms in the divestment process.

The disinvestment ministry is expected to soon come out with guidelines in this regard and therefore Mr Shourie might have sought the advice of Mr Vajpayee and his senior ministerial colleagues in this regard.

With an ambitious Rs 12,000 crore annual target to achieve, the disinvestment ministry is eager to make progress.

GOVT SLAMMED FOR OPENING UP DEFENCE

STATESMAN NEWS SERVICE

NEW DELHI, May 10. – The Opposition has criticised the government's decision to open up defence production to the private sector with 26% FDI. It has accused the Centre of "compromising national security and moving towards privatising the PSUs in the defence sector".

The Congress spokesman, Mr Jaipal Reddy, said the "carefully-worded government announcement", in effect, "is a ploy to back-door privatisation of the PSUs in defence production which employs thousands of workers". He said: "The government, which is trying to privatise diplomacy through Hindujas, is now trying to privatise the defence sector". Mr Reddy said the government's justifying the move on the ground that it was buying defence products from private firms abroad "was not justifiable or as easy as it sounds given the fact that India has many PSUs in the defence sector which employ thousands of employees".

The CPI-M politburo said the decision which "is fraught with serious consequences... will compromise national security". The politburo, citing the Enron project, opposed the decision to open up the pharmaceutical and airport sectors to 100% FDI. It demanded the "rescinding of these decisions", while calling for taking up these matters "for a through discussion in Parliament".

The CPI central secretariat said the AB Vajpayee government "is continuing its mad spree of opening up the Indian economy to the foreign capital with some obnoxious decisions that would have far reaching consequences for national economy and our defence preparedness". The party said the decision to raise the FDI limit to 49% in banks "is far more serious than the privatisation of the nationalised banks that the government has been threatening because the decision has left our national resources at the disposal of the foreign capitalist who can always manage to take over effective control of the banks with domestic front companies".

The Aituc general secretary, Mr KL Mahendra, said the decisions will "increase the security risk and endanger our country's defence". Condemning the ongoing efforts to privatise PSUs, Mr Mahendra pointed out that "rate of growth of GDP, which stood at 5.8 at the beginning of liberalisation, has managed to grow only up to 6.4 per cent during the 10 years of economic reforms". He added the 0.8% increase in GDP "could have been reached without the sacrifices made in the public sector".

THE STATESMAN

11 MAY 2001

Action plan to ride out slowdown

FROM OUR SPECIAL CORRESPONDENT

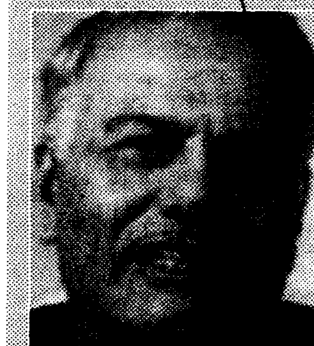
New Delhi, May 10: Finance minister Yashwant Sinha today promised a concrete action plan without "substantial tax sops" to crank up demand in the economy and ride out the hump because of the industrial slowdown.

"We will create a policy framework for the industries but we cannot provide substantial (tax) concessions. Nor is it necessary to provide free lunches", Sinha said after emerging from a series of meetings with top honchos from the world of automobiles, cement and construction — three of the sectors that have been roiled by the slowdown

Officials said the cornerstones of the plan are likely to be the creation of cheaper consumer credit delivery systems and cheaper export finance and guarantees.

Industry barons like Ratan Tata of the Tata group, Rahul Bajaj of Bajaj Auto, Jagdish Khattar of Maruti Udyog, and ACC chief M.L.Gupta were huddled with finance ministry officials for over three hours to decide the contours of the proposed plan.

KICKSTARTING GROWTH



Sinha: No free lunches

CORNERSTONES OF THE PLAN

- Cheaper consumer credit delivery systems
- Cheaper export credit and guarantee systems
- Govt rules out any further tax concessions

SECTORAL DEMANDS

- Automobile makers seek ban on all vehicles more than 12 years old in all metros
- Cement and construction sectors seek quick completion of expressway projects and tax sops for building houses

Sinha said the government had deliberately chosen to talk to the auto, construction and the cement sectors because they had taken the biggest hits in growth rates last year. Even this year, the index for industrial production for the month of February rose by a piffling 0.6 per cent, compared with last month. Industry expectations of growth for the next six months remain bleak with forecasts of negative growth for the auto sector and below 5 per cent growth for the other two sectors.

Finance ministry officials said the action plan was likely to be thrashed out with bank and financial institution chiefs at another meeting later this month. "All three groups wanted cheaper credit and tax sops to help people buy cars and build houses, so we need to work with bankers on this," a top finance ministry official said.

Tata told reporters that the meeting was "all about demand generation", adding the way out of the current impasse was the "need to have cheaper finance in the marketplace."

Ministry officials said they were willing to help by trying to persuade the banks to shovel out cash at cheaper rates but ruled out any further tax concessions since revenue collections have been way below expectations. As a result, the fiscal deficit has shot up to 5.3 per cent of the GDP.

Besides cheaper finance, the automobile industry representatives sought a ban on plying any vehicle, commercial or passenger, more than 12 years old in metropolitan cities, Rahul Bajaj told reporters.

The auto industry, which was also represented by Ford chief Philip Spender and Hyundai managing director Y.S. Kim, also sought help by way of cheaper and more liberal export finance. Bajaj said he had made it clear that the government still needed to do far more to help Indian industry beat world competition abroad "the way the US does."

The government had promised in the budget a higher rate of depreciation for commercial vehicle purchases this financial year. Late tonight, it notified that the depreciation rate would be increased to 50 per cent from the current level of 40 per cent.

Bajaj also sought 25 per cent depreciation on two-wheelers for individual buyers so that, "consumers would be encouraged to buy new vehicles." But ministry officials said this might be difficult to concede.

Cement industry representatives who included heads of Birla Cement and ACC also sought greater tax sops for those building houses besides quicker implementation of the government's planned golden quadrilateral expressway project. "That should boost demand," Gupta said.

THE TELEGRAPH
11 MAY 2001

Learning from the BALCO misadventure

Dialogue and divestment

DRIVING through Chhattisgarh some years back, I was struck by its lush landscape. My thoughts were interrupted only by the occasional mongoose that darted across the dirt road, the odd deer that peered from behind a leafy shrub, or a snake that slithered by. And the screeches of hawks dominated most other bird calls as they swooped down to pick up critters. While larger animals have been sighted in Chhattisgarh's forests, one mainly sees snakes and hawks there, much as they dominate the political landscape.

The dance between snakes, hawks, and sundry critters is similar to the one that has just played out by the cast of the BALCO privatisation adventure. The small critters had the weakest roles. The snakes and hawks dominated the scenes. Two sets of actors have a stake in BALCO: the workers employed at BALCO, and the people of India — all of whom own India's PSUs. It is these two actors who should have the title roles in the present privatisation imbroglio. Instead, these actors have been hounded off stage by a cast of snakes and hawks. Participation in decision-making at the local level is increasingly encouraged. In many parts of India, the transformation of the panchayat has paved the way. With local decisions increasingly more transparent, women and Dalits are able to participate more effectively than ever in these arenas.

In a very different arena, international labour and environmental organisations are making similar demands. The protests at the WTO meetings in Seattle, and at the meetings of the Americas in Canada, have really been demands by those 'outside the gates' to be heard. Whatever the merit of their specific proposals and protestations, few would argue that the fundamental impulse behind these protests is not worthwhile. We need to hear many more voices in our increasingly globalised world.

At the same time as the world is shrinking, the voices in the political/policy arena are growing exponentially. And a very significant proportion of these voices have Indian accents. There is a real danger that lobby groups and special interest organisations, which are not internally democratic, will hijack the process. However, the glare of international media is our best protection here. And of course the energetic debate in Internet chat-rooms offers us additional, if occasionally uncivil security. But if inclusion and engagement is possible at the local level and is beginning to emerge at the international level, it has sadly been missing in India when we start discussing divestment. The only voices heard are those of politicians driven by desires to build a mass base and trade unionists seeking to maintain their power. Together they brand the remaining voices as 'misguided', 'bourgeois', or 'anti-nationalist'. Why does protecting bricks and mortar at the expense of economic growth constitute patriotism? Is not protecting the interests of the workers at the plant and ensuring that the voices of the 'people' are heard what patriotism and democracy should be about? Where are the workers' and citizens' voices?

VIBHA PINGLE

The challenge is to find creative ways of engaging the worker and citizen in the privatisation process. The BALCO misadventure has highlighted what needs to be done

Who are our watchdogs when privatisation is the issue? For too long we have been encouraged to believe that trade unions are our watchdogs. Unfortunately these organisations seem to do little to protect the interests of the average worker. Their primary allegiance tends to be with national federations and political parties.

To counter this, India needs to strengthen regulatory bodies at the sectoral level to monitor the divestment process. Economic reforms have been frequently regarded as largely rolling back the government. It does involve scaling back the government, but it also involves restructuring the government. It requires strengthening regulatory commissions and monitoring agencies. It would help if the regulatory agencies reviewing privatisation included businessmen (with an established track record), concerned NGOs, environmental groups and civil servants. This would ensure that the various interested organisations have an arena in which to engage in productive discussion, rather than in mutually harmful pseudo-populist politics.

The regulatory commission's role would begin once the ministry of divestment has decided which PSUs need to be privatised. The commission's role would be to discuss and review the process of divestment, not whether a particular PSU should be privatised. These regulatory bodies should, on the one hand, focus on ensuring that the divestment process is transparent, and on the other, that the resultant firm is likely to be in the interest of the workers. The regulatory commission should also involve an analysis of all possible forms of privatisation such as management-employee-buy-out, cash sales, public offering at the stock exchange, mass/voucher privatisation, and so on. The nature and structure of the sector of which the PSU is a part influences the specific form of privatisation appropriate to it. This is where having a sector-specific regulatory commission reviewing the privatisation process would help.

The process of BALCO's privatisation adventure was flawed in multiple ways. To begin with, the process was not transparent. There are sound arguments in favour of divestment. Secrecy only undermines the government's stated agenda. The lack of transparency with regard to BALCO encouraged sundry hawks and snakes to enter the arena. Their voices are now heard the loudest. But it is their voices that we have been hearing for the past half a century at the expense of those of the citizens and workers. Their voices are the ones that ought to be drowned out. But once the snakes and hawks dominate the stage it is that much harder to move the privatisation process forward.

Hopefully the government will not repeat the mistakes it made with BALCO. Whether or not the government learns from this misadventure, India's NGOs need to provide better platforms to average citizens and to the workers at PSUs to express themselves and make themselves heard above the din. While sector-specific regulatory commissions would provide concerned organisations and interests with an arena in which to engage in discussion and ultimately to help define the process of privatisation, civil society organisations need to get involved as well.

The local and international political landscapes are slowly but surely changing in the direction of more inclusion and participation. The challenge before us is to find creative ways of engaging the average worker and citizen in the privatisation process. The BALCO misadventure has helped highlight what needs to be done. Is the government up to this?

The writer is an assistant professor of Sociology at the University of Notre Dame

INDIAN EXPRESS

11 MAY 2001

FINANCE MINISTRY TURNS DPC'S PLEA FOR APPOINTMENT OF A THIRD CONCILIATOR

Centre rejects Enron's proposal

By Our Correspondents in Mumbai and New Delhi

May 10: The appointment of third conciliator may deepen the controversy over the Enron promoted Dabhol project with Centre turning down Dabhol Power Company's plea for appointment of the third conciliator by London Court of International Arbitration or International Chamber of Commerce to resolve the payment dispute with Maharashtra State Electricity Board.

The finance ministry rejected the DPC proposal and put the view that the third conciliator should be appointed by the two conciliators named by the Government of India and DPC.

Favouring appointment of an Indian for the job, Centre also rejected the DPC demand that the third conciliator should not be a national of India or of the US, officials said, adding that such a stipulation (about nationality) is not absolutely necessary. Finance ministry conveyed to DPC that the appointment of the third arbitrator be left to the two conciliators or be selected by an institution based in India like the Indian council of arbitration or the International Centre for Alternate Dispute Resolution.

Maharashtra chief minister Vilasrao Deshmukh said the views held by DPC on re negotiating PPA with MSEB would be conveyed to the state government by Godbole committee, which is slated to meet US energy major representatives on Friday.

Mr Deshmukh said in Mumbai that the state government had empowered the Godbole committee to renegotiate the controversial power purchase agreement on its behalf with DPC.

Meanwhile, the Maharashtra government and state electricity board have refuted all charges levelled against them by the DPC in separate replies to the four international arbitration notices slapped on them by Enron.

The replies, which were dispatched to DPC on may eight by the state and MSEB, categorically deny the allegations mooted by the company, official sources said. "Instead, it is DPC which has to adjust the amount from the Rs 401 crores penalty slapped on it by MSEB for its February 28 default," the sources said. The state government, which replied to three notices, including non-compliance of state support agreement and supplemental state support agreement, has said that "since MSEB had already denied DPC's charges over non-payment, the question of the state paying on its behalf did not arise".

Meanwhile, Swadeshi Jagran Manch convenor Ravindra Mahajan said the group will be holding a seminar in Delhi at the end of May, in which "we will take up the Enron issue with the Central government".

'Talks with Enron on tariff a fraud'

By Olga Tellis

Mumbai, May 10: The discussion on tariff charged to the Maharashtra State Electricity Board by the Dabhol Power Company between the renegotiating committee and Enron will be based on flawed, fraudulent and inflated costs, Centre of Indian Trade Unions claimed on Thursday.

Enron's former managing director Rebecca Mark who negotiated the Dabhol power project in the early nineties had offered the 10,000 MW liquified natural gas-based power project with regassification at 4.9 cents per unit.

Dabhol has been charging seven cents, a clear difference of two and a half cents or an additional Rs 2,000 crores per year.

The Centre of Indian Trade Unions which is in possession of a copy of this letter questions the very basis on which the renegotiation committee is going to discuss tariff and said it can only be vitiated and can have serious implications on any negotiations.

Mr Vivek Monteiro, secretary Citu, Maharashtra told *The Asian Age* that "fraudulent and flawed tariff calculations provide the base matrix for corruption on a scale unprecedented in our nation's history. A one paise increase in Dabhol Power Company Phase II tariff translates into a Rs 17 crores extra earnings. A rupee one difference in tariff translates into Rs 1,700 crores per year. It must be remembered that the power purchase agreement is a 20 year contract.

So if this renegotiating committee brings down the project say by Rs 500 crores per year it would still leave a difference between what Dabhol Power Company is charging and what Ms Mark offered, a difference of more than Rs 2,000 per year, which leaves a lot of room for corruption." So the issue as the Centre of Indian Trade Unions posts it is "how can you negotiate on bogus figures? Therefore a judicial enquiry and proper financial audit is where the whole process should start. Something illegitimate cannot be negotiated upon," Mr Monteiro said.

Mr Monteiro said the cost of the project is as yet undetermined. The project does not have an approved financial package. As per Energy Review Committee documents in the possession of the renegotiating committee, the project does not have any approved financial package.

The implications on the power purchase agreement of an invalid tariff approval are extremely serious, said Mr Monteiro.

REFORMS HIGHWAY: GOVERNMENT GIVES NEW DIRECTION TO OLD ECONOMY

THE ASIAN AGE

11 MAY 2001

Not quitting: Sinha

By Alok Mukherjee

NEW DELHI, MAY 9. There was wild speculation here today that the Union Finance Minister had resigned — till Mr. Yashwant Sinha himself clarified that he had not and had no intentions of doing so.

The speculation was triggered by a news report in a financial daily that Mr. Sinha was contemplating resignation because of the "barbs" he had received from the Bhartiya Mazdoor Sangh (the trade union affiliate of the BJP) chief, Mr. Dattopant Thengadi. The report also quoted sources close to Mr. Sinha as saying that he would like to make a graceful exit from the Ministry rather than fight the Sangh Parivar on each and every issue.

The talk about Mr. Sinha being divested of the Finance portfolio has been cropping up periodically and some people close to him say that "vested interests, including from within the Finance Ministry keep getting at him at intervals." Various instances are quoted to emphasise this point, including the latest "leak" from the Ministry that the fiscal deficit target had slipped drastically.

"Though the final figures are not yet out, the slippage seems to be just a few decimal points from the target of 5.1 per cent of the gross domestic product (GDP). Yet it is being made out that the management of the economy has gone haywire. What is being forgotten is that in the past it has happened that a 4.7 per cent fiscal deficit target has ended up at 7.4 per cent by the end of the year. Yet, no one demanded the then Finance Minister's scalp," said a confidante.

The sources also refer to other incidents when attempts were made to embarrass him, as was done last year when the tax treaty with Mauritius was brought up and his daughter-in-law was also dragged into the controversy.

This time, the ostensible reason for "departure" of Mr. Sinha from North Block is said to be the Sangh Parivar's ire against the policies being pursued by him. But his confidants point to the fact that the policies are those of the Prime Minister, Mr. Atal Behari Vajpayee, and of the NDA Government. "No Finance Minister can run his independent economic agenda. It has to have the sanction and blessings of the Prime Minister and the approval of the entire Cabinet. Then why the ire against one individual?"

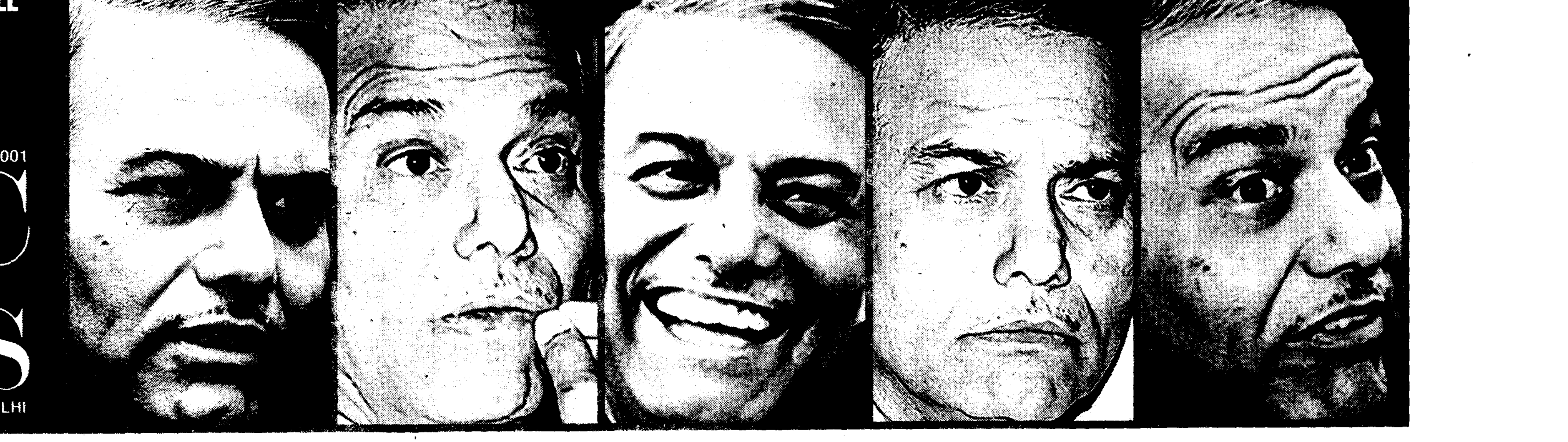
The Sinha camp followers also refer to stories about the likely replacements for the Finance Minister. The two names that have been mentioned are those of the Andhra Pradesh Governor, Dr. C. Rangarajan, and the former Director of the London School of Economics, Dr. I.G. Patel. These two names have been in circulation from the time of Dr. Manmohan Singh as Finance Minister, but what has intrigued the Sinha camp is that these two eminent economists are more pro-liberalisation than Mr. Sinha. Now, would that satisfy the Sangh Parivar, they ask.

BUDGET 2001-02 THE SPEECH THE FINANCE BILL

THE ECONOMIC TIMES

THURSDAY | MAR 1, 2001

AHMEDABAD | BANGALORE | KOLKATA | CHENNAI | HYDERABAD | MUMBAI | NEW DELHI



SINHA KICKS OFF GENEXT REFORMS

Sir,
I rise to present the Budget for the year 2001-2002.

2. I do so in all humility. The challenges we face this year are awesome, made more so by the tragedy and devastation caused by the Gujarat earthquake. I hope I shall get the understanding and support of the whole House in my endeavour to meet these challenges.

Economic Context

3. The Indian economy has continued to exhibit both growth and resilience that have characterized its performance in the past few years. Overall economic growth this year is expected to be about 6 per cent despite a series of unexpected setbacks. We have had a second successive year of irregular monsoon resulting in low agricultural growth. World petroleum prices have continued to stay at high levels placing strains on the economy as a whole, and have led to a significant increase in inflation over the past year. Fortunately, despite the increase in energy prices, the prices of essential commodities, and of manufactured products as a whole, have remained stable. Inflation, excluding energy, was around 4 per cent during the year. The economy remained secure with record levels of foreign exchange reserves and public food stocks. The creditable export performance recorded last year improved further: exports grew by over 20 per cent in dollar terms in April-December 2000.

4. It is now 10 years since economic reforms began in 1991. During this period, the economy has grown at an average rate of 6.4 per cent per year since 1992-93 compared to the 5.8 per cent recorded in the 1980s. Poverty has fallen from 36 per cent in 1993-94 to 26 per cent or less now.

5. While economic reforms have placed the country on a much more secure and sustained growth path, we still have some serious concerns and cannot afford to be complacent.

●Agricultural reforms have been inadequate and our agriculture continues to be subject to the vagaries of the monsoon.

●Despite major industrial sector reforms, industrial growth has not accelerated to the double-digit level as expected.

●Inadequate fiscal adjustment has remained the most intractable problem over the past decade.

• Interest payments now constitute over 69 per cent of the Centre's tax revenues.

• Subsidies continue to increase to unaffordable levels and do not necessarily reach the deserving beneficiaries.

• The pension liability of the Government is becoming onerous.

●Public investment in infrastructure and social sectors is inadequate due to falling total public sector savings.

●Private investment is constrained due to high real interest rates and inadequate infrastructure.

Budget Strategy

6. Thus, despite the many achievements of economic reforms over the past decade, much remains to be done if we have to achieve our full potential. There is urgent need to further deepen reforms to set the stage for higher growth over the next decade. We have to intensify our effort in fiscal adjustment so that the generations to come are not burdened by our borrowing excesses. The economy has achieved significant acceleration in growth over the last 20 years. Our aspiration must be to achieve still higher growth in the next 20 years.

7. The broad strategy of the budget, therefore, with this objective of growth in mind is to ensure:

●Speeding up of agricultural sector reforms and better management of the food economy.

●Intensification of infrastructure investment, continued reform in the financial sector and capital markets, and deepening of structural reforms through removal of remaining tiresome controls constraining economic activity.

●Human development through better educational opportunities and programmes of social security.

●Stringent expenditure control of non-productive expenditure, rationalisation of subsidies and improvement in the quality of Government expenditure.

●Acceleration of the privatisation process and restructuring of public enterprises.

●Revenue enhancement through widening of the tax base and administration of a fair and equitable tax regime.

Agriculture and Rural Development

8. As I have noted, reforms in the agriculture sector have been inadequate and must be speeded up. The Government has already announced the first ever National Policy in Agriculture.

9. The provision of adequate credit flow is critical for agricultural production. Total credit flow to agriculture through institutional channels of commercial banks, cooperative banks and regional rural banks is estimated to have reached a level of Rs 51,500 crore this year, an increase of about 15 per cent over last year. It is expected to increase to Rs 64,000 crore in 2001-2002 representing an increase of 24 per cent. In order to ensure continued healthy growth of the agricultural sector, I propose the following steps:

●The operation of the Rural Infrastructure Development Fund (RIDF), set up in 1995-96 with NABARD, has been very successful in upgrading rural infrastructure with about 000 projects sanctioned so far. To help the States, I have decided to reduce the interest rate charged by NABARD from 11.5 per cent to 10.5 per cent. The corpus of RIDF VII will be increased from Rs 4500 crore to Rs 5000 crore next year.

●The innovation of Kisan Credit Cards has proved to be very successful. Since the year of introduction in 1998-99, almost 110 lakh cards have been issued. I am asking our banks to accelerate this programme and cover all eligible agricultural farmers within the next 3 years.

●I am also asking the banks to provide a personal insurance package to the KCC holders, as is often done with other credit cards, to cover them against accidental death or permanent disability, upto maximum amount of Rs 50,000 and Rs 25,000 respectively. The premium burden will be shared by the card issuing institutions.

●NABARD and SIDBI were asked to link one lakh Self-Help Groups during the current year. NABARD by itself is well poised to exceed this target by the end of next month. I expect NABARD to link 1 lakh additional Self Help Groups during 2001-02, which would help in providing access to credit to an additional 20 lakh families. Share-croppers and tenant farmers will also become eligible for this scheme and special attention will be given to SC/ST groups. A micro finance development fund has also been set up in NABARD with contribution of Rs 40 crore each by NABARD and RBI.

●I had permitted NABARD to issue capital gains tax exemption bonds last year. This has helped NABARD to mobilise more than Rs 1000 crore at lower than normal interest rates thereby reducing its cost of funds. I propose to continue with this tax exemption.

●The resources from the Watershed Development Fund set up in NABARD would be used to promote people's participation and also enable water users' associations to implement, operate and maintain irrigation schemes.

10. In 1999, I had announced a credit linked subsidy scheme for construction of cold storages for perishable commodities. So far, NABARD and NCDC have provided Rs 161 crore of credit for creation of additional capacity of 9.69 lakh tonnes. A subsidy of Rs 78 crore for setting up these cold storages was provided during 2000-2001. I now propose to extend the coverage of this scheme to also cover rural godowns. The subsidy to be provided by the Government would be suitably enhanced to take care of increased coverage. The loans would carry an adequate long-term repayment period and would enable individuals, cooperative societies and others to build godowns by availing of loans from cooperative banks, commercial banks and RRBs.

11. This scheme will enable small farmers to enhance their holding capacity in order to sell their produce at remunerative prices. NABARD proposes to reduce its rate of interest for funding the storage of crops, from 10 per cent to 8.5 per cent. Small farmers will particularly benefit from this scheme by avoiding distress sales.

12. With the diversification and modernisation of agricultural practices, there is a need to augment support and extension services for agriculture. For this purpose, a scheme for setting up Agriclinics and Agribusiness Centres by agricultural graduates will be launched with the support of NABARD. These centres will provide a package of soil and input testing facilities and other consultancy services. They will strengthen transfer of technology and extension services and also provide self-employment opportunities to technically trained persons. Loans on attractive terms for setting up these centres will be provided by banks with refinance from NABARD.

13. There is a significant potential of improving crop productivity in the Eastern and North Eastern regions through crop diversification and adoption of improved technologies. These regions also have large untapped ground water resources. A sum of Rs 61 crore has been provided for the Centrally Sponsored Scheme on "On-Farm Water Management for Increasing Crop Production in Eastern India".

14. I am also happy to inform the House that I have provided Rs 38 crore for the "Technology Mission for Integrated Development of Horticulture in the North-Eastern States", announced by me last year.

Rural Roads

15. In my last Budget, I had announced the launching of a new scheme, the Pradhan Mantri Gramodaya Yojana (PMGY) with the objective of undertaking time bound programmes to fulfill the critical needs of the rural people. As a follow up, particularly with the objective of achieving rural connectivity, the Pradhan Mantri Gram Sadak Yojana has been launched by the Hon'ble Prime Minister on December 25, 2000. A Central allocation of Rs 2500 crore was provided for 2000-01. I am providing another allocation of Rs 2500 crore for the coming year. 50 per cent of the diesel cess is earmarked for development of rural roads.

Rural Electrification

16. It is a matter of concern that even after 50 years of planned development there are still about 80,000 villages, which do not have access to electricity. A package of initiatives is therefore being launched to improve the power distribution system in rural areas. This includes:

●Completion of electrification of bulk of the remaining villages in the next 6 years.

●Extension of assistance to the States for village electrification works under the PMGY whose funding is being augmented.

●Stepping up credit support from Rural Electrification Corporation to SEBs for speedy electrification of dalit bastis, households of scheduled tribes and other weaker sections of society.

●Improving the quality of power supply in villages, augmentation of distribution networks in rural areas supported by REC under the Accelerated Power Development Programme.

●Earmarking a sum of at least Rs 750 crore out of RIDF for rural electrification works.

●Augmenting the resources of REC, by allowing it to float capital gains tax exemption bonds along with NABARD and NHAI under Section 54 EC of the Income Tax Act.

Management of the Food Economy

17. Increased production and rising productivity makes the proper management of the food economy more critical then ever before. Our policy has to be transformed to deal with surpluses rather than only shortages. The present arrangement of Government of India procuring foodgrains and States managing the PDS has led to many problems. While the subsidy has increased from Rs 8210 crore at B.E. to Rs 12,125 crore at R.E. stage this year, the satisfaction level has gone down. I propose, therefore, to give an enlarged role to the State Governments in both procurement and distribution of foodgrains for PDS in their respective states. Instead of providing subsidised foodgrains, financial assistance will be provided to the State Governments to enable them to procure and distribute foodgrains to BPL families at subsidised rates. FCI will continue to procure foodgrains for maintaining food security reserves and for such State Governments who will assign it this task on their behalf. Details for operationalising these arrangements will be worked out in consultation with the State Governments at the earliest.

18. The agricultural sector continues to be constrained by the existence of a number of inhibiting controls and regulations. The Essential Commodities Act, 1955 provides for the control of production, supply and distribution of certain commodities identified as essential commodities under the Act to protect the interest of consumers. State Governments have issued a large number of Control Orders under this Act inhibiting free movement of some food and agriculture products. In the changed present situation undue restrictions on movement and stocking of foodgrains and agricultural produce is acting as a disincentive to farmers.

19. Government therefore proposes to review the operation of the Essential Commodities Act, 1955 and remove many of the restrictions that have been imposed on the free inter-State movement of foodgrains and agricultural produce and also on the storage and stocking of such commodities. It will also review the list of commodities declared as essential under the said Act and bring their number down to the minimum required. My colleague the Food Minister will issue necessary directions in this regard after consultations with the State Governments.

Infrastructure

20. Rapid development of the economy depends on adequate investment in infrastructure. A key issue here is imposition of appropriate user charges necessary to provide adequate returns on investment. Public resources have been invested in the public sector over the last 50 years for the provision of infrastructure services in the country. One consequence of this has been that user charges have inevitably become politically determined. User non-merit subsidies inherent in such low user charges have mounted to over 10 per cent of GDP, a figure similar to the total fiscal deficit of the Central and State Governments combined. Hence they are a major cause of the fiscal distress being experienced at all levels.

21. I believe that this issue is now so important that it needs urgent discussion throughout the country. The challenge is to achieve a consensus on the imposition of appropriate user charges in such a manner that the poor are protected while those who can pay are made to do so. Only then will we be able to accelerate investment in these essential services in both the public and private sectors. A prime example of this is the power sector.

Power

22. The importance of power in fuelling economic growth cannot be over emphasised. The total cost to the State Electricity Boards of implicit subsidies amounts to about Rs 36,000 crore this year. After accounting for cross subsidy and State subventions, actual commercial losses of all SEBs combined are estimated to be about Rs 24,000 crore. Hidden in these loss figures are extremely high T&D losses.

23. Although all of these losses are borne by SEBs and State Governments, I have to express my concern on this issue since this is a massive national loss and affects Central Government undertakings also. The total dues owed to Central Government utilities by SEBs and others now amount to over Rs 25,000 crore. If these resources were available, the country would have no difficulty in investing adequately in power sector expansion to the benefit of all. Theft of electricity must be stopped and economic tariffs levied.

24. The most vital element of the reform process is the restoration of financial viability of the State Electricity Boards (SEBs). On the basis of consensus that has progressively emerged in the National Development Council Resolution of 1992, the Common Minimum National Action Programme drawn up in 1996 and the Power Ministers' Conference of February 2000, the Central Government is accelerating the programme of reforms in SEBs on the basis of specific milestones that are being built into MOUs entered into with State Governments. These MOUs include specific milestones such as:

●A time bound programme for installation of 100 per cent metering by December 2001.

●Energy audit at all levels.

●A specific programme for reduction and eventual elimination of power theft.

●Tariff determination by SERCs and compliance thereof.

●Commercialisation of distribution and

●SEB restructuring.

To demonstrate the importance of this task, the Prime Minister will hold a meeting of State Chief Ministers on March 3, 2001.

25. MOUs have already been entered into with 5 States and we expect more States to adopt the reform process. Accordingly, plan allocation to the Accelerated Power Development Programme (APDP) has been stepped up to Rs 1500 crore next year from a level of Rs 1000 crore this year. Priority under APDP would be given to those states that undertake such reform. The key to restoration of financial viability is reform of distribution. Assistance from the Fiscal Reform Incentive Fund recommended by the 11th Finance Commission would also, inter-alia, be linked to the achievement of power reforms. The reforming States would also receive support from the Central Government in form of preferential allocation of power to SEBs from CPSUs, additional investment by CPSUs in generation and transmission, and preferential allocation of external aid.

26. In order to help accelerate the reform process in the power sector and to unify all existing central legislations in the sector, my colleague the Minister for Power will introduce the Electricity Bill 2001 within this session.

27. The Plan outlay for central sector power utilities is being raised from Rs 9,194 crore this year to Rs 10,030 crore for 2001-02. This demonstrates the commitment of the Central Government to accelerate public sector power investment along with power sector reforms.

Roads

28. The National Highway Development Programme (NHDP) represents a new road vision for this country. Its unprecedented scale is symbolic of government's earnestness to provide connectivity and mobility of an altogether different order. The key to government's success in accelerating the road development programme lies in its bold policy of levying a cess on petrol and diesel as a user charge for road usage. Resources for Phase I, to be completed by December 2003, have already been tied up. Work has already been awarded for more than 1500 Kms. of the golden quadrilateral in addition to the completed sections totalling 600 Kms. The balance portion is expected to be awarded by the middle of this year.

29. The cess has paved the way for integrated road development in the country, including village roads, district roads, state roads, and national highways. Rs 962 crore from the cess fund is being made available to States for state roads. The total plan outlay for this sector is being enhanced by 93 per cent to Rs 8727 crore in 2001-02.

Telecom

30. Another area of success is in the telecommunications sector. Almost all the policy measures announced in the New Telecom Policy 1999 regarding basic and cellular services, national long distance, Internet services, and corporatisation of Department of Telecom Services have been implemented. Competition is being introduced in all service segments.

31. By March 2001, overall teledensity is expected to reach 3.5 per hundred, about double the teledensity of only two years ago. Moreover, the new competition has already reduced prices for consumers. There are now almost 800,000 STD/ISD/Local booths around the country bringing telephone service within reach of almost all consumers, apart from generating considerable employment.

32. Looking ahead, having recognised the imperatives of technological change in this area, the Government proposes to introduce the Convergence Bill to cover telecommunications, information technology, and information and broadcasting sectors in an integrated manner.

Ports

33. Coming to the port sector, I am glad to report that policy initiatives designed to increase private sector participation in ports have also been successfully implemented. Overall, capacity in Indian major ports is expected to go up to 314 million tonnes this year and further to 376 million tonnes by the end of 2001-2002, along with substantial capacity addition in minor ports. There is now adequate capacity in major ports. Ships no longer have to wait for berths as was the case before.

34. Ennore port has already been corporatised and Jawahar Lal Nehru Port in New Mumbai is next, and with experience, other major ports can also be corporatized, enabling them to raise resources in the market. Successful investment is being enabled by the setting of economic tariff levels. With the formation of the Tariff Authority for Major Ports, these tariffs are being rationalised further on a continuing transparent and fair basis.

Financial Sector and Capital Markets

35. A great deal of progress has been made over the last few years in pursuing reforms in the financial sector and capital markets. I propose to continue reform in this sector.

Debt Market

36. The Indian equity market is the oldest in Asia. Since the creation of SEBI much greater transparency as well as automaticity has been introduced in the working of the equity market. The need now is to develop and deepen the debt market. This will be of great benefit to small investors and institutional investors alike. The infrastructure sector will be enabled to raise long term funds, particularly with the opening of the insurance sector.

37. In order to further develop a transparent and active debt market in general, and the Government securities market in particular, I propose to take the following measures:

●A Clearing Corporation will be set up under the active encouragement of the RBI, with State Bank of India as the chief promoter, and is expected to be in place by June 2001. It will also enable settlement of forex transactions.

●Trading of Government Securities, through order driven screen-based system will be implemented.

●An electronic Negotiated Dealing System will be set up by the RBI by June 2001 to facilitate transparent electronic bidding in auctions and dealings in Government securities on a real time basis.

●In order to ensure smooth and quick movement of funds, the Electronic Fund Transfer (EFT) and Real Time Gross Settlement Systems (RTGS) are being put in place by the Reserve Bank of India within the next year.

●Clarifications are being issued by CBDT to promote the issuance of STRIPS, zero coupon bonds, deep discount bonds, and the like.

●The old Public Debt Act will be replaced by Government Securities Act.

●Comprehensive legislation will be introduced on securitization.

38. I propose to set up a small group comprising the Reserve Bank of India, SEBI, the stock exchanges and Ministry of Finance to monitor and implement these developments so that the debt market becomes active next year.

Banking Sector

39. Banking sector reforms have proceeded apace in a phased manner over the past decade. However, the problem of non-performing assets with banks has continued. Special attention is being paid to recovery of NPAs:

●Public Sector Banks have recovered Rs 800 crore of NPAs from 2 lakh accounts in 2000-01.

●Net NPAs as percentage of net advances were almost half at 7.4 per cent in 1999-2000 compared to 14.5 per cent in 1993-94.

●22 Debt Recovery Tribunals (DRTs) and 5 Appellate Tribunals have been established.

●7 more DRTs will be set up during 2001-02.

40. I also propose to bring in a legislation that will facilitate foreclosure and enforcement of securities in cases of default in order to enable the intitutions to realise their dues.

41. In the light of new competition in the banking industry it is necessary to strengthen the management of the public sector banks. I propose to provide greater autonomy to bank managements. It is also essential to provide greater independence to bank managements in forming their own recruitment strategy and in implementing it. I therefore propose to abolish the Banking Services Recruitment Boards. This will be done in association with the Reserve Bank of India by July 31, 2001 or earlier. All future recruitments will be done by banks themselves.

Capital Account Liberalisation

42. Until about 10 years ago, all foreign exchange transactions were tightly controlled by the government and by the RBI. We have progressively loosened these controls and made the current account completely convertible. We have also liberalised the capital account for certain purposes. I propose to take further measures for liberalising the capital account. These are:

●Indian companies wishing to invest abroad may now invest up to US $50 million on an annual basis through the automatic route without being subject to the three year profitability condition.

●Companies which have issued ADRs/GDRs may henceforth make foreign investments up to 100 per cent of these proceeds; up from the current ceiling of 50 per cent.

●Companies with proven track record wishing to invest larger amounts may now get a block allocation in advance from the RBI for investments overseas.

●Indian companies that have issued ADRs/GDRs may acquire shares of foreign companies up to an amount of US $100 million or an amount equivalent to ten times of their exports in a year, whichever is higher.

●ADRs/GDRs will be provided two-way fungibility. Converted local shares may be reconverted to ADRs/GDRs while being subject to sectoral caps, wherever applicable.

●Indian companies will now be permitted to list in foreign stock exchanges by sponsoring ADR/GDR issues against block share holding. This facility would have to be offered to all categories of shareholders.

The Reserve Bank of India will be issuing these guidelines separately.

43. Investments by Registered partnership firms and companies providing professional services have not, so far, been permitted to make overseas investments. This ban is now being removed. Similarly, Indian employees who have the benefit of ESOP schemes in foreign owned companies can now make investments abroad up to US $20,000 annually instead of in a block of 5 years.

Foreign Investment

44. Progressive liberalization has taken place in the provisions relating to foreign investment. I propose to take the following further measures:

●Foreign Institutional Investors (FIIs) can invest in a company under the portfolio investment route up to 24 per cent of the paid up capital of the company. This can be increased to 40 per cent with the approval of the General Body of the shareholders by a special resolution. I propose to increase this limit to 49 per cent.

●Foreign Direct Investment (FDI) in Non-Banking Financial Companies (NBFCs) is permitted on a case by case basis upto 100 per cent but with a condition that a minimum of 25 per cent of their holding is divested in the domestic market. This condition is being removed, provided the foreign investors bring in a minimum of US $50 million. FDI in NBFCs will now be put on the automatic route subject to RBI guidelines.

Structural Reforms

45. In order to accelerate growth in the Indian economy, we have now to address some of the difficult areas of reform that have not been tackled so far.

46. There are four significant areas where a price and distribution control regime exists. These are the areas of petroleum, fertilizer, sugar and drugs.

Administered Pricing Mechanism (APM)

Petroleum

47. As Hon'ble Members are aware, Government had, in November 1997, notified the details of dismantling of the Administered Pricing Mechanism (APM) in the petroleum sector by March 2002. I propose to adhere to this deadline. A time bound action programme is being prepared for the deregulation of APM by March, 2002. My colleague the Minister of Petroleum and Natural Gas will be outlining the road map for this separately.

Fertilizer

48. Hon'ble Members will recall that I have in the past referred to the rationalisation of fertilizer pricing with the objective of phasing out the existing retention price scheme (RPS) in the medium-term. Government has now decided to implement the recommendations of the Expenditure Reforms Commission for a phased programme of complete decontrol of urea by April 1, 2006. The following steps would be taken in the first phase commencing from April 1, 2001:

●The unit specific RPS will be replaced by a Group Concession Scheme. The current MRP arrangement will be continued and the concession for each group calibrated to enable the units to sell urea at the stipulated MRP.

●The rate of concession for urea units based on naphtha/FO/LSHS will be linked to international prices of these feed stocks.

Sugar

49. Government is committed to complete decontrol of sugar. But this must be irreversible. Government has decided to introduce futures/forward trading in sugar within the coming year, a step that is necessary before full decontrol. Sugar under the Public Distribution System will continue to be supplied to ration cardholders in the special category states, hill states, island territories and to BPL families in other states and UTs. Such supplies can even continue after sugar is completely decontrolled. The retail issue price of sugar under the PDS is being revised to Rs 13.25 per kg. with effect from March 1, 2001.

Drug Price Control

50. The domestic drugs and pharmaceutical industry needs support in order to meet the challenges and to avail of the opportunities arising out of liberalisation of our economy and the impending advent of the product patent regime. Government has been considering measures to lessen the rigours of the present price control mechanism where they have become counter productive. Towards this end, we have decided that the span of price control will be reduced substantially. However, keeping in view the interest of the weaker sections of society, Government will retain the power to intervene comprehensively in cases where prices behave abnormally. Changes in the Pharmaceutical Policy are being made accordingly.

Industrial Restructuring

51. Government had constituted a high level committee on law relating to revival, reconstruction and/or winding up of companies. The Committee has submitted its report and Government has accepted its key recommendations. It is proposed to repeal the SICA and also to amend the Companies Act in order to set up a National Company Law Tribunal. These legislative proposals are proposed to be introduced during the current session by my colleague, the Minister for Law, Justice and Company Affairs.

Labour Market

52. Along with these changes, it is also necessary to address the contentious issue of rigidities in our labour legislations. Some existing provisions in the Industrial Disputes Act have made it almost impossible for industrial firms to exercise any labour flexibility. The Government is now convinced that some change is necessary in this legislation. Chapter VB of the ID Act stipulates that employers in specified industrial establishments must obtain prior approval of the appropriate government authority for effecting lay-off, retrenchment and closure, after following the prescribed procedure. It is proposed that these provisions may now apply to industrial establishments employing not less than 1000 workers instead of 100. The separation compensation will be increased from 15 days to 45 days for every completed year of service. The enhancement of compensation would act as a deterrent on employers to take recourse to lay-off, retrenchment and closure in a routine manner.

53. Similarly, rigidities inherent in the existing legislation regarding Contract Labour inhibit growth in employment in many service activities. Section 10 of the existing Act envisages prohibition of contract labour in work/process/operation if the conditions set therein like perennial nature of job etc. are fulfilled. Section 10 enables the contract labour engaged in prohibited jobs to become direct employees of the principal employer. To overcome this difficulty and at the same time ensure the protection of labour, it is proposed to bring an amendment to facilitate outsourcing of activities without any restrictions as well as to offer contract appointments. It would not differentiate between core and non-core activities, and provide protection to labour engaged in outsourced activities in terms of their health, safety, welfare, social security, etc. It would also provide for larger compensation based on last drawn wages as retrenchment compensation for every year of service.

54. These measures will promote industrial investment in labour intensive, and export oriented activities providing for renewed industrial growth, while, at the same time safeguarding the interest of workers. My colleague, the Minister for Labour will introduce appropriate legislation to amend the Industrial Disputes Act and Contract Labour Act within this session.

Ashraya Bima Yojana

55. I am conscious of the short-term impact on organized labour force of the on-going liberalization of the economy. I therefore propose to introduce a new scheme of group insurance viz. "Ashraya Bima Yojana" to extend security cover to such affected workers. The policy will provide compensation of up to 30 per cent of last drawn annual pay for a period of one year to workers who lose their jobs. It is proposed that the policy will initially cover all employees drawing a salary up to Rs 10,000 per month. The four Government owned general insurance companies will administer this policy on a "No Profit No Loss" basis and will announce full details including premium rates of the proposed policy by the end of June 2001.

Small Scale Industries

56. Government's commitment to the Small Scale sector has been repeatedly demonstrated. A comprehensive policy package for this sector was announced by the Prime Minister on 30, August, 2000.

57. In order to encourage production and employment in this sector, the exemption limit has been doubled to Rs 1 crore from September 1, 2000.

58. The new Credit Guarantee Scheme of August 2000 has been provided budgetary support of Rs 100 crore in the current year. The limit of loan without collateral which was earlier fixed at Rs 10 lakh has been raised to Rs 25 lakh under this scheme. Already 7 banks have entered into an agreement with the Credit Guarantee Fund Trust that has been created to implement the scheme. A credit linked capital subsidy scheme for technology upgradation was launched in October 2000 envisaging 12 per cent capital subsidy. It is expected that loans to the extent of Rs 5000 crore would be made available to the SSI sector over the next 5 years under the scheme.

59. Our small-scale entrepreneurs have proved their competitiveness in providing over 35 per cent of national exports. To enable further new investment and technology upgradation in some of the key export oriented sectors, it is now proposed to dereserve another 14 items related to leather goods, shoes and toys.

Textiles

60. The Government has recently announced a New Textile Policy aimed at preparing industry for the new challenges of global competition. I am happy to announce a textile package comprising the following schemes:

●A scheme for setting up Integrated Apparel Parks is being initiated. This will enable the dereserved readymade garment industry to set up modern units with the best infrastructure. A budget provision of Rs 10 crore has been provided for the year 2001-02.

●A strong and modern weaving sector is very critical for this purpose. At least 50,000 new shuttleless looms and the modernisation of 2.5 lakh plain looms to automatic looms is expected to take place by 2004 through funding from the Technology Upgradation Fund Scheme (TUFS). The budget provision under TUFS is being raised from Rs 50 crore this year to Rs 200 crore in the next year.

●The Cotton Technology Mission is being continued and strengthened. The budget provision is being increased from Rs 15 crore to Rs 25 crore.

●The budget allocation for Ministry of Textiles is being enhanced substantially from Rs 457 crore in 2000-01 to Rs 650 crore in 2001-02.

●I shall provide the details of the proposed fiscal changes in Part B of my speech.

Human Development

Health and Family Welfare

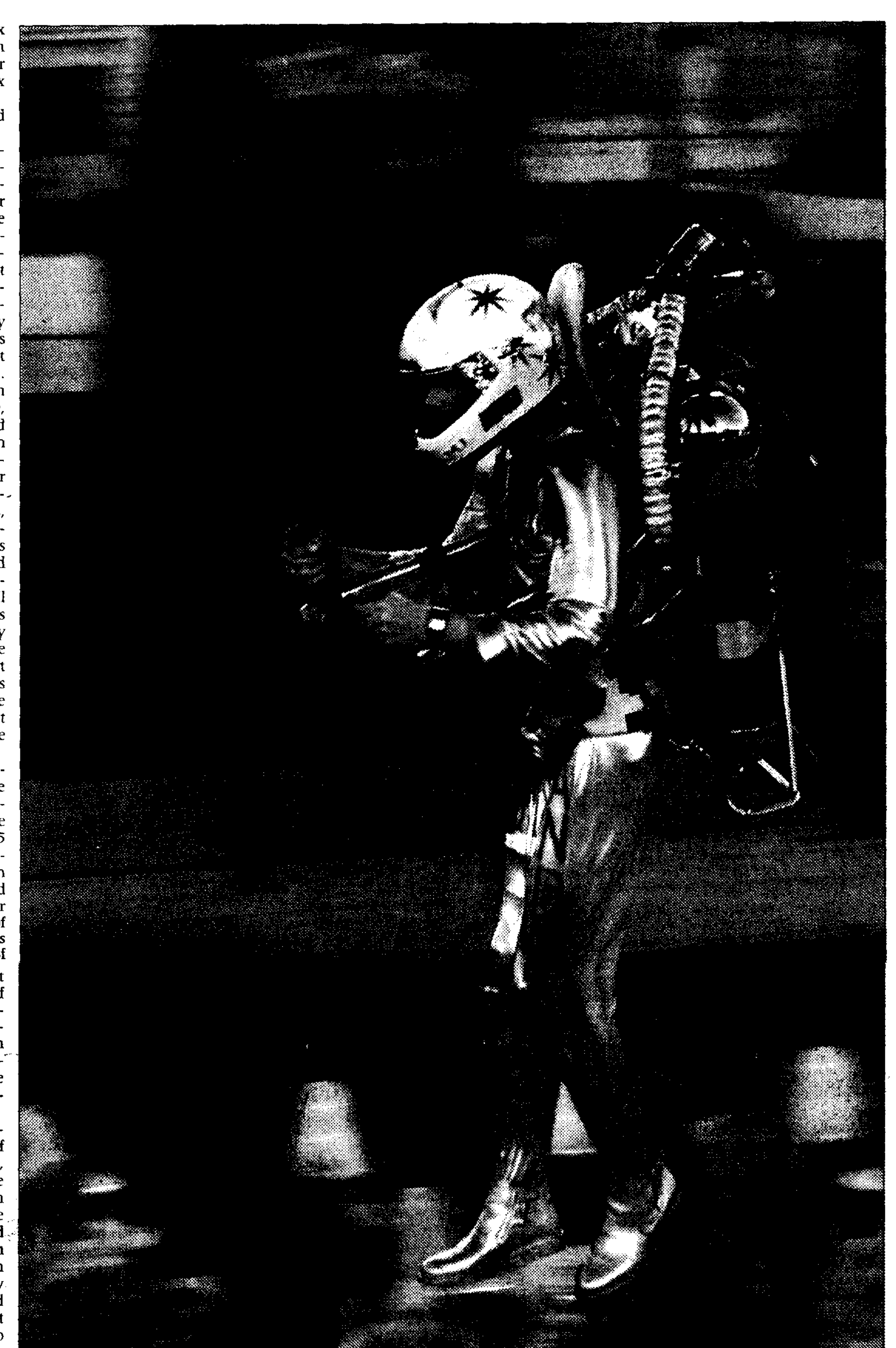
61. Recognizing the need for increasing investments in social sectors, the Plan allocation for the Ministry of Health & Family Welfare has been stepped up from Rs 4920 crore to Rs 5780 crore. This includes an allocation of Rs 180 crore for HIV/Aids Control Programme.

Indian System of Medicine

62. There is now a great interest worldwide in herbal products as people look for gentler forms of treatment devoid of side effects. We are establishing a Traditional Knowledge Digital Liberary to bring the knowledge already in the public domain in international languages to prevent the grant of patents. We are also introducing a new scheme for strengthening the State Drug Testing Laboratories and pharmacies. We propose to provide Indian Systems of Medicine and Homeopathy benefits similar to the pharmaceutical industry.

Education

63. An integrated National Education Programme – the Sarva Siksha Abhiyan has been launched for universalising elementary education and a National Mission constituted with the Prime Minister as Chairman. The programme aims to provide eight years of quality elementary education for all children upto the age of 14 years in a Mission mode with a thrust on community ownership, disadvantaged group and girls' quality education and alternative modes of education. All existing schemes on elementary education will converge with this scheme after the Ninth Plan and it will cover all districts in the country by March, next year.



IS IT A GREAT LEAP INTO THE NEW MILLENNIUM?

HARD-NOSED ECONOMICS WINS THE DAY

64. We are determined to maintain and strengthen our competitiveness in the field of technology education. A task force set up for this purpose under the HRD Minister has made wide ranging recommendations to upgrade and expand this area of education. The Roorkee Engineering College will be upgraded in to an IIT and funding for IIT, Guwahati has been stepped up to ensure its early completion. The base of IITs is to be expanded, regional engineering colleges are to be strengthened and new institutes will be set up with public private partnership. The role of the private sector will be encouraged. A new Centrally Sponsored Scheme for computer literacy and studies in schools is being launched and other initiatives planned for encouraging IT education from school to college levels.

65. Last year, I announced the availability of 100 per cent deduction from income tax of payments made to institutions for vocational education and training by the private sector set up in rural areas and small towns. I propose to make the same deduction available for payments to engineering institutions also.

Educational Loans for Students

66. Mr Speaker Sir, I have personally experienced poverty and faced problems in pursuing higher studies. I, therefore, feel that no deserving student in the country should be deprived of higher and technical education for want of finances. I am glad that the Indian Banks Association (IBA) has formulated a new comprehensive Educational Loan Scheme, which will cover all courses in schools and colleges in India and abroad. Loans will be available under this scheme up to Rs 7.5 lakh for studies in India, and Rs 15 lakh for studies abroad. No collateral or margin will be stipulated for loans up to Rs 4 lakh, the interest of which will not exceed the prime lending rate (PLR). The interest rate will not exceed PLR plus 1 per cent for loans above Rs 4 lakh. The loans would be repaid over a period of 5 to 7 years with provision of a grace period. I hope that this scheme will enable needy children to pursue higher and technical studies both inside and outside India.

Women

67. The year 2001 is being observed as Women's Empowerment Year. My colleague, the Deputy Chairman of the Planning Commission is heading a Task Force to review the programmes for women. Meanwhile I propose to:

- Strengthen the Rashtriya Mahila Kosh for providing micro credit to poor assetless women through NGOs.
- Launch an integrated scheme for women's empowerment in 650 blocks through women's self help groups.
- Start a new scheme for women in difficult circumstances like widows of Vrindavan, Kashi and other places, destitute women and other disadvantaged women groups.

Scheduled Castes and Scheduled Tribes

68. In keeping with Government's commitment to improve the Welfare of the scheduled tribes, a separate National Scheduled Tribes Finance & Development Corporation with an authorised share capital of Rs 500 crore has been set up. The allocation for the schemes for welfare of scheduled tribes in the Ministry of Tribal Affairs has been enhanced from Rs 786 crore this year to Rs 986 crore in the coming year.

69. Similarly, the allocation for the schemes for welfare and upliftment of scheduled castes in the Ministry of Social Justice & Empowerment has been enhanced from Rs 709 crore this year to Rs 790 crore in the coming year.

Social Security

70. Hon'ble Members may recall my announcement in the last budget, of a new Group Insurance Scheme, the "Janashree Bima Yojana" to extend Social Security cover to the poorest sections of society. The said scheme was launched by the Prime Minister on 10, August, 2000 and has been well received. 332 Schemes have been approved so far covering 99,750 people in the BPL segment.

71. I believe that the Social Security cover needs to be widened to minimize the miseries of our people below the poverty line. Accordingly, I propose to introduce two more schemes during the next financial year:

(i) A special scheme for landless agricultural labourers, the Khetihar Mazdoor Bima Yojana, which will provide benefits of insurance cover as available under Janashree Bima Yojana and a pension of Rs 100 per month, to the beneficiary on attaining the age of 60 years. In the case of beneficiaries who join the scheme at a young age, some periodical payments at the end of every ten years are also envisaged. The beneficiaries will be required to make a small contribution towards the premium.

(ii) A Shiksha Sahyog Yojana, to provide an education allowance of Rs 100 per month to the children of parents living below the poverty line, to meet the expenses of education during their studies from 9th to 12th standard, so that a needy student is not deprived of the opportunity to continue his/her education for want of funds. This will be available to subscribers of the Janashree Bima Yojana.

These schemes will be managed by LIC.

72. Meanwhile, I have some good news for workers. The wage ceiling for coverage under the EPF and MP Act, 1952 has been enhanced from Rs 5000 to Rs 6500. To promote the welfare of employees I propose to enhance the ceiling for Government contribution of 1.16 per cent of monthly wage of employees to the Pension Fund from Rs 5000 to Rs 6000 per month. The extra expenditure on this account is estimated to be Rs 77 crore per annum.

73. Whereas the organised sector is at present covered by various pension, provident fund and gratuity schemes, the unorganised sector does not have adequate social security coverage. I am asking the Insurance Regulatory Development Authority to look into all these issues and provide a road map for pension reforms by October 1, 2001.

Journalists Welfare Fund

74. Journalists have to increasingly take greater risks in covering terrorist and other violence prone incidents. As an acknowledgement of their services and sacrifices, and with the expectation of a better treatment at their hands, I propose to set up a Journalists Welfare Fund with a contribution of Rs 1 crore under the grants of Ministry of I&B. My colleague the I&B Minister will announce the details of the scheme.

Entertainment

75. Our entertainment industry, particularly the film industry not only provides the much needed fantasy to millions of our people who live in an otherwise harsh and cruel world, it has also emerged as an important segment of our economy and holds great promise for the future. Two years ago, I provided for this industry the same tax exemption that was available for merchandise exports. A few months ago, the Government issued a notification under the IDBI Act whereby entertainment industry including films has been declared as an industrial concern. Banks are in the process of finalising guidelines for financing such projects that are bankable. I hope that the film industry will take full advantage of these measures to bring about a greater degree of professionalism and transparency in its operations, and will not do things chupke chupke and certainly not chori chori.

Fiscal Consolidation

76. As I have already stated the most serious problem confronting the economy is the poor state of the fiscal health of both the Central and State Governments. The combined fiscal deficit of the two together is in the region of 10 per cent of GDP. I have often been described as a fiscal fundamentalist. Some have gone to the extent of calling me a fiscal terrorist. Why am I so concerned about the fiscal deficit? Let me try to explain. The total receipts of the Central Government in the current year according to BE are about Rs 281,000 crore. Of this amount, Rs 72,000 crore is States' share of the Central taxes and grants. The Central Government is, therefore, left with Rs 209,000 crore. On the expenditure side, about Rs 101,000 crore was to be spent on interest, Rs 59,000 crore on defence, Rs 23,000 crore on major subsidies and Rs 16,000 crore on pensions. The net amount left for meeting all other Government expenditure totalling Rs 123,000 crore was, therefore, only Rs 12,000 crore. I have, therefore, to borrow Rs 111,000 crore in the current year to make both ends meet. The most worrisome aspect is that over 70 per cent of my borrowing, i.e., Rs 77,000 crore was for financing unproductive revenue expenditure. This will add to my interest burden next year forcing me to borrow more and ultimately fall into a debt trap. I am deeply conscious of the burden which is being placed on future generations, by our extravagance. I cannot allow this situation to continue.

77. As promised in my earlier Budget Speeches, I appointed the Expenditure Reforms Commission last year and introduced the Fiscal Responsibility Bill in this House in the last session. The bill seeks to reduce the fiscal deficit to 2 per cent and completely eliminate the revenue deficit over the next five years.

78. A number of initiatives have already been taken to contain, in particular, the growth of non-plan expenditure. I have not allowed any increase in non-plan expenditure this year. Consequently, for the first time in many years, the fiscal deficit target fixed in the budget has indeed been achieved, and remains at 5.1 per cent in the RE of the current year. The target of 3.6 per cent revenue deficit has also been achieved.

Expenditure Management

79. I intend to carry forward the process of bringing about structural changes in the composition of Central Government expenditure and effect economy in non-plan revenue expenditure with greater vigour while improving the quality of plan expenditure. For this, I propose to take the following initiatives:

- User charges for services provided by government and its agencies will be revised keeping in view the increased cost of these services. A portion of this increase will be provided to enhance the maintenance and quality of these services.
- Similarly, postal rates will be revised moderately to contain the rising postal deficit.
- All requirements of recruitment will be scrutinized to ensure that fresh recruitment is limited to 1 per cent of total civilian staff strength. As about 3 per cent of staff retire every year, this will reduce the manpower by 2 per cent per annum, achieving a reduction of 10 per cent in five years as announced by the Prime Minister.
- The Surplus Pool under the Department of Personnel will be streamlined and equipped to redeploy and retrain surplus staff. Employees in the Surplus Pool will also be offered an attractive VRS package.
- Standard licence fee (rent) on government accommodation will be enhanced by 50 per cent for Group A, 25 per cent for Group B and 15 per cent for other categories of staff with effect from April 1, 2001.
- Facility of LTC to Central Government employees will be suspended for 2 years for the remaining part of the four-year block period except for employees who are entitled to last LTC before retirement.
- Use of Information Technology in government activities with large public interface will be maximized to promote efficiency. For this purpose, operations like GPF, pension, pay and accounts offices, passports, income tax, customs, central excise, will be fully computerized by March 31, 2002. Public sector banks and insurance companies are also being asked to complete computerization of their operations within this period.

80. The Expenditure Reforms Commission, which was set up last year, has presented reports concerning downsizing in 6 Ministries and Departments. These include Department of Economic Affairs, Ministry of Information & Broadcasting, Ministry of Coal, Department of Heavy Industry, Department of Public Enterprises and Ministry of Small Scale Industries. Reports of the Commission concerning other Departments will also be received within the next six months. These recommendations will be implemented by July 31, 2001 and identified surplus staff transferred to the Surplus Pool.

81. Charity, it is said, must begin at home. I believe austerity, too, must begin at home. To lead by example, based on the recommendations of the Expenditure Reforms Commission, I propose to abolish three secretary/special secretary level and two joint secretary level posts in the Department of Economic Affairs. This will be done in stages by 31, July. In addition, another 44 posts of directors and below will be abolished, as against 31 recommended by the ERC. 1675 posts are being abolished in the Currency and Coinage Division which will be restructured and corporatised. The National Savings Organisation is to be downsized from a level of 1191 staff to about 25. I have asked ERC to provide their recommendations in respect of the Departments of Revenue and Expenditure also. I am confident that this will expedite the process of right sizing the establishments in all the Ministries/Departments of Government.

82. The Planning Commission has commenced the task of preparing the Tenth Plan. Given the severity of resource constraints, improvement in the quality of government spending is of the essence. It has therefore been decided to subject all existing schemes, both at the Central and State levels, to zero based budgeting and to retain only those that are demonstrably efficient and essential. Furthermore, all schemes that are similar in nature will be converged to eliminate duplication. Centrally sponsored schemes that can be transferred to States will be identified. Resource flows will be linked to performance. Necessary procedural changes will also be made to speed up the decision making process for approval of schemes. Utmost importance will be given to decentralized planning.

Pension Reforms

83. The Central Government pension liability has reached unsustainable proportions: as a percentage of GDP, it has risen from about 0.5 per cent in 1993-94 to 1 per cent in 2000-2001. As such it is envisaged that those who enter central government services after October 1, 2001 would receive pension through a new pension programme based on defined contributions. In order to review the existing pension system and to provide a roadmap for the next steps to be taken by the Government, I propose to constitute a High Level Expert Group, which would give its recommendations within 3 months.

Interest Rates

84. I have drawn your attention to the increasing share of debt service burden in the expenditure budget caused by rising government debt and exacerbated by the prevalence of high real interest rates. Most interest rates in the economy are now market determined. But, their movement downward is constrained by the rigidities inherent in the administered interest rates governing the contractual saving sphere i.e. Provident Fund and Small Savings Schemes. I have examined this issue very carefully. I find that the interest rates provided in all these schemes seldom exceeded consumer price inflation by more than 3 per cent between 1980 and 1998. Since then, this difference has risen to 6 to 8 per cent. Not only are such high real interest rates putting an unsustainable burden on both Central and State Governments but the resulting high cost of capital is also inhibiting economic growth all round. I am therefore reducing most administered rates by 1.5 per cent as of March 1, 2001. Government guarantee and tax incentives for these schemes will continue. For the future, I propose to explore a better system for the determination of these rates. I propose to appoint an Expert Committee to provide recommendations on this issue.

85. The benefit of reduction in interest rates on Small Savings Deposits will be fully passed on to the States. This will reduce their borrowing cost from Small Savings by 100 to 150 basis points. In addition, I am also reducing the interest rate on loans portion of Central assistance to State Plans by 50 basis points. Alignment of interest rates on GPF by the State Governments along with the reduced provident funds interest rates at the Centre will further reduce the interest burden of State Governments. Moreover, because of the anticipated increase in gross tax collection of the Centre, devolution of central taxes to States is expected to increase by over Rs 9000 crore in 2001-02 over the current year. All these measures will help in reducing the debt burden of the States and improve their fiscal position.

State Fiscal Reforms

86. Along with fiscal consolidation at the Centre, it will be our endeavour to work jointly with the States to reform their finances. Pursuant to the recommendations of the Eleventh Finance Commission, an Incentive Fund of Rs 10,607 crore has been earmarked for the next 5 years to encourage States to implement monitorable fiscal reforms. These reforms will essentially be the States' own programmes and considerable flexibility has been provided for individual States to design their programmes. In the fiscal year 2001-02, I have provided an amount of Rs 4243 crore towards this Incentive Fund.

Public Sector Restructuring and Privatization

87. Our public sector has expanded in almost every area of economic activity. In many ways, it has served the nation well; capability has been developed all round and a strong industrial base built up. These enterprises must now be strengthened to compete and prosper in the new environment. Last year I had defined government's policy in this regard clearly.

88. Financial and business restructuring plans of a number of PSUs including SAIL and HMT have been approved. Since 1998 financial restructuring support to viable and potentially viable PSUs amounting to more than Rs 13,000 crore has been provided to 23 PSUs. Government has also decided to close down 8 non-viable PSUs during the current year. A package of measures for revival and closure of the various mills of National Textiles Corporation has also been approved.

89. The procedure for privatization of public sector enterprises has now been considerably streamlined. The Department of Disinvestment has been set up to accelerate the privatization process. To maximise returns to government, our approach has shifted from the disinvestment of small lots of shares to strategic sales of blocks of shares to strategic investors. The Government has already approved privatization of 27 companies in which the process of disinvestment is expected to be completed during the course of the year. These companies include among others VSNL, Air India, and Maruti Udyog Limited.

90. Given the advanced stage of the process of disinvestment in many of these companies, I am emboldened to take credit for a receipt of Rs 12000 crore from disinvestment during the next year. An amount of Rs 7000 crore out of this will be used for providing restructuring assistance to PSUs, safety net to workers and reduction of debt burden. A sum of Rs 5000 crore will be used to provide additional budgetary support for the Plan primarily in the social and infrastructure sectors. This additional allocation for the plan will be contingent upon realization of the anticipated receipts. In consultation with Planning Commission I shall come up with sectoral allocation proposals during the course of the year.

Gujarat Earthquake

91. The earthquake in Gujarat has been a terrible and unprecedented tragedy in terms of loss of life and damage to property. Although I am confident that the inherent resilience and entrepreneurial spirit so characteristic of the people of Gujarat will result in quick restoration of economic activity, I would like to assure the House that we have the capacity to fully meet the challenges of such natural calamities without deflecting from our path of pursuing our economic goals.

92. To enable the State Government to deal with the situation, Government of India is extending the following assistance:

- Rs 500 crore was made available to the State immediately from the National Calamity Contingency Fund.
- The National Calamity Contingency Fund, set up with initial corpus of Rs 500 crore as a result of the Eleventh Finance Commission recommendations, is being augmented by the imposition of a 2 per cent surcharge on personal income tax and corporate tax.
- Assistance will be provided to the State Government under various Centrally Sponsored Schemes for reconstruction of roads, bridges, power installations, school buildings, public utilities and other public infrastructure.
- Arrangements have been tied up with the World Bank and Asian Development Bank for obtaining a line of credit of US $ 800 million. A joint team has already visited Gujarat and substantial additional funds are expected to be negotiated.
- RBI has instructed banks to make special arrangements for freezing of recoveries and extension of new loans on a liberal terms for borrowers in the affected areas.
- The National Housing Bank and HUDCO have set apart adequate funds for housing reconstruction. I also propose to allocate a special quota of tax free bonds of the order of Rs 2000 crore between the two institutions.
- As was done after the Orissa cyclone, cement and steel used for construction in the Indira Awas Yojana, by HUDCO and by agencies identified by the State Government, would be exempt from excise duty.
- The Government of Gujarat will be enabled to raise funds by floating tax free earthquake relief bonds which will be open to subscription in Rupees to individuals and others including Non-Resident Indians through the Reserve Bank of India.
- All goods intended for relief have been exempted from excise and customs duties; direct tax assessees have been given extension of time for filing their returns.

93. A natural calamity of this magnitude has also highlighted the need to set up permanent institutional arrangements for management of national disasters. The National Committee on Disaster Management under the Chairmanship of Prime Minister will be making recommendations for laying down effective long term strategy for this purpose.

BUDGET estimates

Revised Estimates for 2000-2001

94. We have been able to adhere to the Budget target of fiscal deficit despite pressures on public finances on account of deceleration in disinvestment programme, natural calamities and the relief to consumers of petroleum products. The revised estimates for the current fiscal year show a marginal decrease in expenditure of Rs 2,965 crore as compared to the Budget estimates.

95. Net tax revenues for the Centre are estimated to be Rs 1,44,403 crore compared to the Budget estimates of Rs 1,46,209 crore, thereby reflecting a shortfall of Rs 1806 crore. The shortfall is mainly due to lower collection of Customs and Union Excise duties which were reduced to provide relief to POL consumers. Non tax revenue is estimated at Rs 61,763 crore, Rs 4299 crore more than the estimated level of Rs 57,464 crore. However, disinvestment receipts are expected to be lower at Rs 2500 crore against the Budget target of Rs 10,000 crore.

96. The fiscal deficit as a percentage of the GDP is expected to be on target at 5.1 per cent.

Budget Estimates for 2001-2002

97. In the budget estimates for 2001-2002, the total expenditure is estimated at Rs 3,75,223 crore, of which Rs 100,100 crore is for plan and Rs 275,123 crore for non-plan.

Plan Expenditure

98. The budget support for Central, State and UT Plans has been placed at Rs 100,100 crore, an increase of Rs 13,862 crore over revised estimates 2000-2001. This amounts to an increase of 16 per cent. Gross budgetary support for the Central Plan is being enhanced from Rs 48,269 crore in the revised estimates 2000-2001 to Rs 59,456 crore in 2001-2002. Central Plan assistance to States and Union Territories in 2001-2002 is also proposed to be increased to Rs 40,644 crore from Rs 37,969 crore in the revised estimates 2000-2001.

Non Plan Expenditure

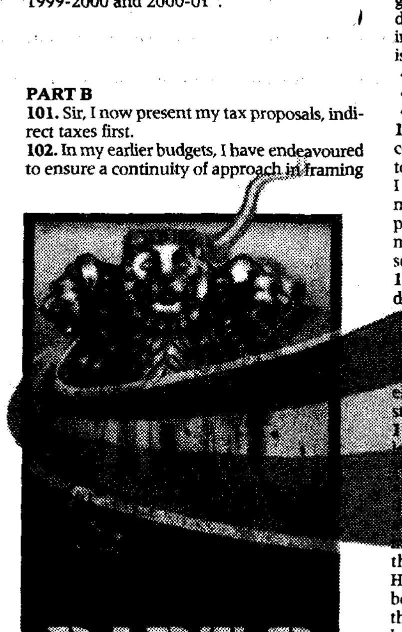
99. Non-plan expenditure in 2001-2002 is estimated to be Rs 2,75,123 crore compared to Rs 2,49,284 crore in Revised estimates for 2000-2001. The increase in non-plan expenditure is mainly in interest payments (Rs 11,633 crores), defence (Rs 7,539 crore) and Grants to State Governments (Rs 2,221 crore).

In order to practice greater accountability and transparency, I am attaching with the budget papers this year a new report on "Implementation of Budget Announcements, 1999-2000 and 2000-01".

PART B

101. Sir, I now present my tax proposals, indirect taxes first.

102. In my earlier budgets, I have endeavoured to ensure a continuity of approach in framing



my revenue proposals. The principles that have guided me have been the need for growth in revenues, simplification and rationalization of the tax regime, and effective tax compliance through measures, which are friendly for the honest taxpayer, and a deterrent to the evader. I have reduced the number of rates in both customs and excise duties, simplified procedures and introduced measures to improve tax compliance. I have given up my discretionary power to grant excise and customs duty exemptions in individual cases thus saving hundreds of crore of revenue for Government. The policy of penalties against tax evaders has also been made non-discretionary. With all these steps I have sought to put an end to a system that pressure groups or lobbies could influence. My attempt this year is to take this process to its logical conclusion.

103. In my last budget, I had introduced the rate of 16% as the rate of Central Value Added Tax (CENVAT). I had also rationalized the rates of special excise duty to three, namely, 8%, 16% and 24%. The single rate of CENVAT now contributes about 68% of the total excise revenues from ad valorem duties.

104. I now propose to reduce the three rates of special excise duty to a single rate of 16%. As a consequence, I propose to abolish the 8% special excise duty on the following items:

(1) Glazed tiles
(2) Mattresses and articles of bedding
(3) Carpets and floor coverings
(4) Painted canvas, studio back cloth, etc
(5) Linoleum and textile wall coverings etc.
(6) Scooters and motorcycles, and
(7) Taxis

These items will now be charged to CENVAT only at the rate of 16%.

105. White cement and other special cements, yachts and pleasure boats, arms and ammunition for private use and articles of fur skins, will attract SED of 16% and a total duty of 32%.

106. The special excise duty on aerated soft drinks, soft drink concentrates supplied to vending machines, and motorcars will be reduced to 16%, thus putting an end to the rate of 24% special excise duty. These items will also now bear a total duty of 32%. There will be no change in respect of products, which already attract this rate of 32%.

107. There are a few items that currently attract CENVAT at half the rate, namely, 8%. All these items will henceforth be charged to the normal rate of 16% except cotton yarn including sewing thread, LPG, kerosene and diesel engines up to 10 HP, which I am leaving at 8% for the present in the larger public interest.

108. After these rationalization measures about 80% of the revenue in respect of ad valorem duties will come from the single rate of 16% and about 17% from the combined rate of 32%.

109. India is the world's second largest producer of fruits and vegetables. However, most of these are wasted in the absence of proper storage and processing facilities. Food-processing industry dealing in perishable fruits and vegetables needs special support. I, therefore, propose to exempt food preparations based on fruits and vegetables completely from excise duty. This will include a very wide range of products of common use like pickles, sauces, ketchup and juices, etc. This, along with the support I have given to creation of better storage facilities will give a fillip to the food processing industry and will go a long way in improving the rural economy of our country.

110. The Eleventh Finance Commission has recommended a special levy for the replenishment of the National Calamity Contingency Fund. As an ad hoc measure, this was provided for in the current year through a special surcharge on corporate taxes. I propose to establish this funding on a regular basis through a special surcharge of excise on a range of products the use of which should be discouraged on health grounds. I propose to levy a surcharge of 15% on cigarettes. The duty on biris would increase from Rs 6 to Rs 7 per thousand biris. The total duty on pan masala would be 55%/60%. Miscellaneous tobacco products like chewing tobacco would be charged to a total duty of 60%.

111. Excise duty on High Speed Diesel was reduced from 16% to 12% in September last year. I propose to restore it to the normal CENVAT rate of 16%. I also propose to restore special excise duty on motor spirit to the previous rate of 16%. The burden of increase in duty is not proposed to be passed on to the consumers except for any technical corrections.

112. LPG is charged to excise duty at 8%. I propose to apply the same rate of duty to Compressed Natural Gas, which is exempt at present.

113. A special scheme of charging excise duty from independent textile processors on compounding basis was introduced in December 1998. The working of this scheme has resulted in serious distortions. I have therefore decided to revert to the ad valorem duty structure for independent textile processors with effect from 1, March 2001. Independent processors would be allowed to take CENVAT credit of the duty paid on inputs on a deemed basis.

114. There is no economic logic to continue with excise duty exemption on garments sold under a registered trade name. I propose to impose a duty of 16% on such garments.

115. Products of SSI units are exempt from excise duty up to Rs one crore. This exemption is intended to provide fiscal support to the genuinely small producers. I propose to withdraw this exemption in respect of the following items, in which misuse of the exemption is more than likely:

- Cotton yarn
- Ball or roller bearings
- Arms and ammunition for private use

116. The excise duty structure on matches comprises rates of duty ranging from 25 paise to Rs 2.40 per hundred boxes of 50 sticks each. I propose to rationalise the existing rates to a more rational structure with a duty rate of 50 paise for the handmade sector, Re.1 for the middle sector, Rs 2 for the semi-mechanized sector and Rs 3 for the mechanized sector.

117. Mr. Speaker, Sir, in the matter of rates of duties of excise I have almost achieved the ultimate with only one basic rate of CENVAT and one rate of special excise duty. The procedures of excise have also been made modern. I can reasonably claim that excise duty is now a model of value added tax up to the manufacturing stage.

118. The only issue, which remains to be tackled now, is the issue of individual exemptions. The regime of exemptions is incompatible with a simple, equitable and rational tax structure that has now been put in place. I am not doing away with the exemptions altogether, realizing that this may come as a sudden shock to those who are accustomed to exemptions. However, I will like to give notice to them to be prepared to pay duties like anyone else. For the present, I am making a modest beginning by imposing a nominal duty of 4% on some items like goggles, imitation jewellery, rubberized mattresses etc. which in four equal annual installments will be taken to 16%. More and more items will be put on this escalator every year.

119. Structural changes have taken place in the economy with the service sector growing faster than other sectors. I am expanding the net of service tax and I propose to add the following services to the list of taxable services:

- Specified Banking and Financial Services
- Authorized Service Stations for servicing of vehicles including two wheelers
- Port Services
- Broadcasting Services
- Photographic Services
- Convention Services
- Sound Recording Services
- Scientific and Technical Consulting Services
- Telex Services
- Telegraph Services
- Facsimile Services
- On-line Information & Data Base Retrieval services
- Video Tape Production Services
- Services auxiliary to Insurance

120. I propose to bring the service provided to lease circuit line holders also in the tax net.

121. I now turn to my proposals relating to customs duties.

122. In my previous budgets, I have reduced the total number of major customs duty rates to four, that is, 35%, 25%, 15% and 5%. I do not wish to propose any further reduction in the number of customs duty rates this year. However, I propose to discontinue the surcharge of 10%. With this, peak level of customs duty will decline marginally from 38.5% to 35%.

123. All agricultural produce already attracts the peak rate of duty of 35% or more. Current tariffs on major cereals are: Wheat (50%), Rice (70%/80%) and Maize (50%). I now propose to increase the customs duty on tea, coffee, copra, and coconut and desiccated coconut from the present 35% to 70%.

124. Similarly, I propose to increase the rate of duty on crude edible oils ranging from 35% to 55% at present to a uniform rate of 75% and on refined oils from 45%/65% to 85%. A lower rate of 45% would apply to soyabean oil on account of WTO binding. I also propose to enhance the rate of customs duty on the import of crude palm oil by vanaspati manufacturers from 25% to 55% and restrict this concession to sick vanaspati units only. The others will pay 75%. I wish to assure the House that in order to safeguard the interest of our farmers we shall move swiftly whenever any perceptible threat on account of imports is noticed.

125. The House is aware that Government has committed itself to abolish customs duty on IT and telecom products and their inputs and components under the ITA I Schedule by 2003. The customs duty on these products is proposed to be reduced to 15% from 1, March 2001 from current levels.

126. Mr. Speaker, Sir, with the abolition of the remaining Quantitative Restrictions in April this year second hand cars will also become freely importable. To allay the fears of surge in import of second hand cars, the rate of basic customs duty on their import will be raised to 105%, which is three times the peak rate. The total duty now applicable to second hand cars will be more than 180%. I propose a similar structure of duty for the import of old multi utility vehicles, scooters and motor cycles.

127. In order to provide a level playing field for domestic liquor producers, I propose to levy CVD at a suitable rate on imported liquor, taking into account the levies of state excise on domestic production.

128. Our textile industry has to modernize itself and acquire the latest technology in order to face global competition and attain high quality of production. I propose to reduce the basic customs duty on specified textile machines, including shuttle-less looms, from 15% to 5%. As a measure of further relief to the textile sector, I propose, to reduce the customs duty on silk waste, cotton waste and flax fibre from 35% /25% to 15%.

129. There are some cases of anomaly in customs duty between raw materials and intermediate goods on the one hand, and intermediate goods and final products on the other. DMT, PTA, MEG and Caprolactum are raw materials for production of man-made fibers and yarns. However, the customs duty on these materials is higher than the rate applicable to fibers and yarn. I propose to reduce the customs duty on DMT, PTA, MEG and Caprolactum from 25% to 20%, which is the WTO bound rate for synthetic fibers and yarns. Similarly, soda ash is an input for the production of glassware, detergents etc. and currently attracts the peak customs duty of 35% along with the final products. I propose to reduce it to 20%. I also propose to reduce the customs duty on polyester chips and nylon chips for the manufacture of fibers and yarns from 35% to 25%.

130. On the same analogy, the customs duty on high quality DBM, seawater magnesia and fused magnesia is being reduced from 25% to 15%.

131. Gems and jewellery have considerable potential for export. I propose to reduce the customs duty on cut and polished coloured gem stones from 35% to 15%. I also propose to reduce the customs duty on specified equipment when imported by training institutes sponsored by the Gem and Jewellery Export Promotion Council from 25% to 15%. The rate of customs duty on rough diamonds would now be 5%.

132. CNG kits and their parts attract low duty at 5%. I propose to extend the same treatment to LPG conversion kits and their parts.

133. LNG is not produced in India. The burden of CVD on the import of LNG adds to the cost of LNG projects. I therefore propose to exempt LNG from CVD.

134. For the same reason, I also propose to exempt wattle extract from the application of CVD.

135. I propose to reduce the customs duty on cement, and clinkers from 35% to 25%. I am confident that this reduction would help softening of domestic prices of cement for the benefit of consumers.

136. Mr. Speaker, Sir, accredited pressmen and cameramen are allowed to import cameras, computers, fax machine etc. up to a value of one lakh rupees for their professional use without payment of customs duty once in five years. In view of many good photographs they have taken of use, I propose to reduce this long waiting period from five years to two years.

137. In order to encourage better quality of cinematography I propose to reduce the customs duty on cinematographic cameras, projectors and certain other related equipment used by the film industry from 25% to 15%.

138. In order to discourage smuggling I propose to reduce the duty on gold from Rs 400 per 10 grams to Rs 250 per 10 grams.

139. Several industry associations have pointed out that the CVD on the imported consumer products should also be charged on the basis of maximum retail price; otherwise it does not provide a level playing field. I accept the logic of their argument. The Finance Bill contains the enabling provision to implement this decision.

140. I propose to withdraw the exemption from customs duty on a few items and impose on them a nominal duty of 5%.

141. I have already promised that our customs tariff would be brought down to East Asian levels. I will like to move progressively within three years to reduce the number of rates to the minimum with a peak rate of 20%. The modalities for this will be worked out in time for the next budget.

142. Sir, a number of steps are also being taken for greater procedural and administrative efficiency.

143. A new Manual of Procedures and Instructions on Central Excise and Customs would be brought out by 1, September 2001. The emphasis would be on simplicity, brevity and transparency. I also propose to simplify the central excise rules to make them user friendly.

144. My proposals on the excise side are estimated to result in a revenue gain of Rs 4677 crore in a year. On the customs side my proposals are estimated to result in a revenue loss of Rs 2128 crore. I estimate that the indirect tax revenue next year would be Rs 1,40,992 crore.

145. Copies of the notifications issued to give effect to the changes in excise and customs duties shall be laid on the Table of the House in due course.

146. In Direct Taxes, my thrust during the last three years has been on providing stability of tax rates, widening the tax base, rationalizing and simplifying the tax laws and giving impetus to economic growth. These efforts have resulted in increasing the direct tax revenue from Rs 46,428 crore in 1998-99 to an estimated Rs 74,467 crore this year. In addition, the number of assessees has increased significantly from a little over one crore in March 1998 to 2.3 crore at the beginning of this year. I, therefore, propose to continue with the same rates this year also. Co-operative Societies, however, will henceforth pay 30% tax instead of 35%.

147. While imposing the surcharge of 10 % on corporates and non-corporates in my budget of 1999-2000, I had promised that this would be a temporary levy. However, I was constrained to increase the surcharge on non-corporate tax payers at the higher income levels to 15% due to the unexpected expenditure burden of Kargil. During the course of this financial year I had further levied a surchage of 1% on corporates towards the National Calamity Contingency Fund and an additional 2% on all tax payers for the Gujarat Earthquake relief. I now propose to remove all surcharges payable by corporates and non-corporates except the surcharge of 2 % for relief to quake hit areas of Gujarat. Individuals having an income of up to Rs 60,000/- will not be subject to this surcharge.

148. As a welfare measure, Sir, I propose to allow 100% deduction for donations to the National Trust for welfare of persons with autism, cerebral palsy, mental retardation and multiple disabilities.

149. Hon'ble Members are aware that the modified one-by-six scheme, which I introduced in the Finance Act, 1998 to identify potential income-tax assessees and to bring them into the tax net, has paid rich dividends. I, therefore, propose to extend the one-by-six scheme to all urban areas in the country as defined by the 1991 Census. Changes arising out of the 2001 census will be incorporated subsequently.

150. Certain companies are not filing their returns of income, presumably on the plea that they are not having any taxable income. These companies go out of fiscal discipline and their financial transactions during the initial years escape scrutiny. I therefore, propose that all companies should file their returns even if they incur a loss.

151. Sir, another effective measure of widening the tax base is to further enlarge the scope of deduction of tax at source. Income tax at source will henceforth be deductible at the rate of 10 % on income by way of commission or brokerage exceeding Rs 2,500/-, except on transactions relating to shares and securities.

152. Winnings from lotteries, crossword puzzles etc. are currently taxed at 40%. As the marginal personal income tax rates have now stabilized at 30%, this income will also now be taxed at 30%. Television game shows are very popular these days. I wish the winners well. At the same time, I propose that income tax at the rate of 30% will be deducted at source from the winnings of these and all similar game shows.

153. At present, tax is deducted at source on income from interest on time deposits only if such income exceeds Rs 10,000/- in respect of deposits with a Bank or Housing Finance Company and Rs 5,000/- in other cases. These threshold limits have led to the erosion of tax base and under-reporting of taxable income due to splitting up of deposits. I, therefore, propose to lower this limit to Rs 2,500/- in all cases.

154. With economic liberalization, the pay package of salaried class is undergoing many changes. It is being divided into various components and the forms of perquisites and benefits or amenities provided by the employers are assuming new dimensions. To align our tax system with the present structure of pay packages, I propose that the value of perquisites, benefits or amenities shall be determined on the basis of their cost to the employer, except in respect of houses and cars where different criteria will be adopted for simplicity.

155. Sir, I also propose to provide relief to salaried persons in the lower income range having income up to rupees one lakh. Such persons will get an enhanced tax rebate at the rate of 30% in respect of their eligible investments under section 88 of the Income Tax Act, as against 20% at present.

156. In the case of Export Oriented Units, and units located in Export Processing Zones, Free Trade Zones and Software Technology Parks 25% of their sales in the domestic market are currently tax exempt. I propose to provide for the taxation of profits from these domestic sales of such units.

157. I.T. Sector continues to do well and should be encouraged to do better. I, therefore, propose that profits derived by the units located in the software technology parks from the export of "on-site" services will be eligible for deduction like their other export income. Units located outside these zones will also get the benefit of tax exemption on such export earnings. I further propose that the condition relating to transfer of ownership of companies in sections 10A and 10B of the Income-tax Act shall not apply in respect of companies in which public are substantially interested.

158. The income of NABARD, National Housing Bank and Small Industries Development Bank of India (SIDBI) was exempted from tax in order to provide fiscal support in the initial years of their functioning. Now these institutions have come of age and are working on commercial lines. I, therefore, propose to withdraw the tax exemption available to these institutions.

159. The interest payable on certain External Commercial Borrowings (ECBs) is currently exempt from tax. Having regard to the fact that interest received by the lender is taxable in the country of his residence and he would get a credit for any tax paid by him in India, any exemption from tax liability in the host country does not benefit the lender but only results in reducing our tax revenues. I, therefore, propose that the tax exemption in respect of interest paid on such External Commercial Borrowings will not be available for such borrowings made on or after the first day of June 2001.

160. Certain interest income up to a limit of Rs 12,000 is deductible at present under section 80L. In addition, income from Government securities is also deductible up to Rs 3,000. I propose to reduce the maximum limit of this deduction to Rs 9,000.

161. The tax payable on the distribution of dividends of domestic companies and income in respect of Units of Mutual Funds and UTI was increased from 10% to 20% last year. To provide a stimulus to the growth of capital market, I propose to reduce this tax to 10%.

162. To help revive investor-interest in primary issues I propose to exempt long-term capital gains arising from the sale of securities and Units if such gains are reinvested in primary issues of shares of public companies.

163. Sir, the tax incentives in the form of tax holidays for infrastructure facilities are proposed to be further rationalized and enlarged. For the core sectors of infrastructure namely, roads, highways, rail system, water treatment and supply, irrigation, sanitation and solid waste management systems, I now propose a ten-year tax holiday which may be availed of during the initial twenty years. In the case of airports, ports, inland ports and waterways, industrial parks and generation and distribution of power, which also become commercially viable only in the long run, a tax holiday of ten years is being proposed to be availed of during the initial fifteen years. The period of commencement of business for power and industrial parks is also being extended up to 31, March 2006.

164. The five-year tax holiday and 30 % deduction for next five years was available to the telecommunications sector till 31, March 2000. I propose to reintroduce this concession retrospectively for the units commencing their operations on or before 31, March 2003. These concessions will also be extended to internet service providers and broadband networks.

165. Sir, in addition to the tax holiday proposed for development of infrastructure, tax incentives have also been provided for the investors providing long-term finance or investing in the equity capital of the enterprises engaged in infrastructure facility. Any income by way of interest, dividends or long-term capital gains from such investments is fully exempt. I propose to extend this concession to guarantee commissions and credit enhancement fees earned by financial institutions from infrastructure enterprises. Co-operative Banks will also be eligible for exemption of their income from investments in approved infrastructure facilities.

166. To be globally competitive, our companies need to increase their investment and expenditure for Research and Development. Currently, a weighted deduction of 150% of the expenditure on in-house research and development in certain areas is allowed to companies. Sir, I propose to extend this weighted deduction to biotechnology as well for clinical trials, filing patents and obtaining regulatory approvals. I also propose that the entire amount paid to specified projects under the India Millennium Mission, 2020 will be eligible for 125 % weighted deduction.

167. To encourage development of industrial infrastructure, I had provided 100% deduction of export profits for a period of ten years to units operating in the Special Economic Zones last year. I now propose to give further tax incentives for the development of these zones. The concessions available for infrastructure by way of a 10-year tax holiday will be available to the developers of Special Economic Zones on the same lines as developers of industrial parks. The income of investors making long term investment for the development of SEZs will also be exempt.

168. The storage of food grains and their transportation are our major concern. Sir, I propose to provide a tax holiday for five years and 30% deduction of profits for the next five years to the enterprises engaged in the integrated business of handling, transportation and storage of food-grains.

169. Sir, for promoting the industry that provides the cup that cheers, I propose to increase the development allowance available for tea from 20% to 40%. This additional allowance will be used only for re-plantation, rejuvenation, and modernization of tea plantations and processing facilities.

170. There has been a long-standing demand from the Shipping Industry that the rate of depreciation available in respect of ships and inland water vessels may be increased. I propose to increase this rate of depreciation to 25%.

171. To encourage investments in weaving, processing and garment sectors of the textile industry, I propose to allow accelerated depreciation at the rate of 50% on plants and machinery purchased under the Technology Up-gradation Fund Scheme.

172. In order to give a boost to the commercial vehicles sector presently facing recession, I propose to allow accelerated depreciation at the rate of 50% on new commercial vehicles for one year.

173. Each of my past three budgets has provided for increasing tax incentives for the housing sector. Sir, continuing with this practice, I propose to further increase the maximum amount of deduction available for interest payable on housing loans for self-occupied houses from rupees one lakh to rupees one and a half lakhs.

174. For persons having income from house property, the present deduction of 25 % of annual value for repairs etc. is proposed to be enhanced to 30%. However, there will be no further deductions, except for the expenditure incurred by way of interest payment on housing loans.

175. I propose to extend the tax incentives allowed by way of deduction or rebate on payments of LIC premium to all insurance companies that have been approved by the Insurance Regulatory and Development Authority

176. The presence of multinational enterprises in India and their ability to allocate profits in different jurisdictions by controlling prices in intra-group transactions has made the issue of transfer pricing a matter of serious concern. I had set up an Expert Group in November 1999 to examine the issues relating to transfer pricing. Their report has been received, proposing a detailed structure for transfer pricing legislation. Necessary legislative changes are being made in the Finance Bill based on these recommendations.

177. The foreign telecasting channels will henceforth be taxed in India, on their income computed in accordance with the provisions of the Income-tax Act.

178. Sir, I propose to bring about a number of measures that will be friendly to the taxpayer. The time limits for issue of refunds, reassessment and reopening of assessments by the Income-tax Department are proposed to be reduced. The Department will also no longer have power to withhold the refund due to an assessee. Similarly, there will be no requirement to obtain a Tax Clearance Certificate under section 230A from the Assessing Officer before transfer of immovable property. I also propose to remove the discretion presently available in deciding the quantum of penalties. Henceforth, a fixed amount of penalty will be leviable for most of the defaults.

179. Certain educational and medical institutions are required to be approved for claiming tax exemption. At present, these institutions have to file their application for approval to the Central Board of Direct Taxes. Sir, I propose to delegate this power to Chief Commissioners of Income-tax.

180. To sum up, Sir, my proposals made in this Budget on the Direct Taxes will result in a revenue loss of Rs 5,500 crore, which I propose to make up with tax buoyancy and increased voluntary compliance. I estimate that the direct tax revenue in 2001-2002 would be Rs 84,800 crore.

181. Mr. Speaker, Sir, with these proposals I estimate total tax revenue receipts for the Centre at Rs 163031 crore and the fiscal deficit at Rs 116314 crore or 4.7% of GDP. I could have managed a lesser fiscal deficit but that would have been possible only at the cost of growth, which was unacceptable.

182. This is a budget for carrying forward the second generation of economic reforms. This is a budget for growth. This is a budget for equity with efficiency. This is a budget for a new deal to the people of India in the new millennium.

183. Mr. Speaker, Sir, with these words, I commend the budget to this august house.

AS INTRODUCED IN LOK SABHA
ON 28TH FEBRUARY, 2001

Bill No. 17 of 2001

THE FINANCE BILL, 2001
A
BILL

to give effect to the financial proposals of the Central Government for the financial year 2001-2002.

BE it enacted by Parliament in the Fifty-second Year of the Republic of India as follows:—

CHAPTER I
PRELIMINARY

1. (1) This Act may be called the Finance Act, 2001.
(2) Save as otherwise provided in this Act, sections 2 to 95 shall be deemed to have come into force on the 1st day of April, 2001.

CHAPTER II
RATES OF INCOME-TAX

2. (1) Subject to the provisions of sub-sections (2) and (3), for the assessment year commencing on the 1st day of April, 2001, income-tax shall be charged at the rates specified in Part I of the First Schedule and such tax as reduced by the rebate of income-tax calculated under Chapter VIII-A of the Income-tax Act, 1961 (hereinafter referred to as the Income-tax Act) shall be increased,—
(a) in the cases to which Paragraphs A, B, C and D of that Part apply, by a surcharge for purposes of the Union; and
(b) in the cases to which Paragraph E of that Part applies, by a surcharge,
calculated in each case in the manner provided therein.
(2) In the cases to which Paragraph A of Part I of the First Schedule applies, where the assessee has, in the previous year, any net agricultural income exceeding six hundred rupees, in addition to total income, and the total income exceeds fifty thousand rupees, then,—
(a) the net agricultural income shall be taken into account, in the manner provided in clause (b) [that is to say, as if the net agricultural income were comprised in the total income after the first fifty thousand rupees of the total income but without being liable to tax], only for the purpose of charging income-tax in respect of the total income; and
(b) the income-tax chargeable shall be calculated as follows:—
(i) the total income and the net agricultural income shall be aggregated and the amount of income-tax shall be determined in respect of the aggregate income at the rates specified in the said Paragraph A, as if such aggregate income were the total income;
(ii) the net agricultural income shall be increased by a sum of fifty thousand rupees, and the amount of income-tax shall be determined in respect of the net agricultural income as so increased at the rates specified in the said Paragraph A, as if the net agricultural income as so increased were the total income;
(iii) the amount of income-tax determined in accordance with sub-clause (i) shall be reduced by the amount of income-tax determined in accordance with sub-clause (ii) and the sum so arrived at shall be the income-tax in respect of the total income:
Provided that the amount of income-tax so arrived at, as reduced by the amount of rebate of income-tax calculated under Chapter VIII-A, shall be increased by a surcharge for purposes of the Union calculated in each case in the manner provided in that Paragraph and the sum so arrived at shall be the income-tax in respect of the total income.
(3) In cases to which the provisions of Chapter XII or Chapter XII-A or sub-section (1A) of section 161 or section 164 or section 164A or section 167B of the Income-tax Act apply, the tax chargeable shall be determined as provided in that Chapter or that section, and with reference to the rates imposed by sub-section (1) or the rates as specified in that Chapter or section, as the case may be:
Provided that the amount of income-tax computed in accordance with the provisions of sections 112 and 113 shall be increased by a surcharge for purposes of the Union or surcharge as provided in Paragraph A, B, C, D or E, as the case may be, of Part I of the First Schedule:
Provided further that in respect of any income chargeable to tax under sections 115A, 115AB, 115AC, 115ACA, 115AD, 115B, 115BB, 115BBA, 115E and 115JB of the Income-tax Act, the amount of income-tax computed under this sub-section shall be increased,—
(a) by a surcharge for purposes of the Union, calculated,—
(i) in the case of a co-operative society, a firm and a local authority, at the rate of twelve per cent. of such income-tax;
(ii) in the case of a person other than a company, a co-operative society, a firm and a local authority,—
(A) at the rate of twelve per cent. of such income-tax where the total income exceeds sixty thousand rupees but does not exceed one lakh fifty thousand rupees; or
(B) at the rate of seventeen per cent. of such income-tax where the total income exceeds one lakh fifty thousand rupees; and
(b) by a surcharge calculated at the rate of thirteen per cent. of such income-tax in the case of a domestic company.
(4) In cases in which tax has to be charged and paid under section 115-O or section 115R or section 115U of the Income-tax Act, the tax shall be charged and paid at the rate as specified in those sections and shall be increased by a surcharge for purposes of the Union, calculated at the rate of two per cent. of such tax:
Provided that no surcharge shall be payable by a foreign company.
(5) In cases in which tax has to be deducted under sections 193, 194, 194A, 194B, 194BB, 194D and 195 of the Income-tax Act, at the rates in force, the deduction shall be made at the rates specified in Part II of the First Schedule and shall be increased by a surcharge for purposes of the Union, calculated in each case in the manner provided therein.
(6) In cases in which tax has to be deducted under sections 194C, 194E, 194EE, 194F, 194G, 194H, 194-I, 194J, 194K, 194L, 196A, 196B, 196C and 196D of the Income-tax Act, the deduction shall be made at the rates specified in those sections and shall be increased by a surcharge for purposes of the Union, calculated at the rate of two per cent. of such tax:
Provided that no surcharge shall be payable by a foreign company.
(7) In cases in which tax has to be collected under the proviso to section 194B or under section 206C of the Income-tax Act, the collection shall be made at the rates specified in that section or at the rates specified in Part II of the First Schedule, as the case may be, and shall be increased, by a surcharge for purposes of the Union, calculated in each case in the manner provided therein.
(8) Subject to the provisions of sub-section (9), in cases in which income-tax has to be charged under sub-section (4) of section 172 or sub-section (2) of section 174 or section 175 or sub-section (2) of section 176, of the Income-tax Act or deducted under section 192 of the said Act from income chargeable under the head "Salaries" or in which the "advance tax" payable under Chapter XVII-C of the said Act has to be computed, at the rate or rates in force, such income-tax or, as the case may be, "advance tax" shall be so charged, deducted or computed at the rate or rates specified in Part III of the First Schedule and such tax as reduced by the rebate of income-tax calculated under Chapter VIII-A of the said Act shall be increased for purposes of the Union, calculated in each case in the manner provided therein:
Provided that in cases to which the provisions of Chapter XII or Chapter XII-A or section 115JB or sub-section (1A) of section 161 or section 164 or section 164A or section 167B of the Income-tax Act apply, "advance tax" shall be computed with reference to the rates imposed by this sub-section or the rates as specified in that Chapter or section, as the case may be:
Provided further that the amount of income-tax computed in accordance with the provisions of sections 112 and 113 of the Income-tax Act shall be increased by a surcharge for purposes of the Union as provided in Paragraph A, B, C, D or E, as the case may be, of Part III of the First Schedule:
Provided also that in respect of any income chargeable to tax under sections 115A, 115AB, 115AC, 115ACA, 115AD, 115B, 115BB, 115BBA, 115E and 115JB of the Income-tax Act, "advance tax" computed under the first proviso shall be increased by a surcharge for purposes of the Union, calculated at the rate of two per cent. of such tax:
Provided that no surcharge shall be payable by a foreign company.
(9) In cases to which Paragraph A of Part III of the First Schedule applies, where the assessee has, in the previous year or, if by virtue of any provision of the Income-tax Act, income-tax is to be charged in respect of the income of a period other than the previous year, in such other period, any net agricultural income exceeding five thousand rupees, in addition to total income and the total income exceeds fifty thousand rupees, then, in charging income-tax under sub-section (2) of section 174 or section 175 or sub-section (2) of section 176 of the said Act or in computing the "advance tax" payable under Chapter XVII-C of the said Act, at the rate or rates in force,—
(a) the net agricultural income shall be taken into account, in the manner provided in clause (b) [that is to say, as if the net agricultural income were comprised in the total income after the first fifty thousand rupees of the total income but without being liable to tax], only for the purpose of charging or computing such income-tax or, as the case may be, "advance tax" in respect of the total income; and
(b) such income-tax or, as the case may be, "advance tax" shall be so charged or computed as follows:—
(i) the total income and the net agricultural income shall be aggregated and the amount of income-tax or "advance tax" shall be determined in respect of the aggregate income at the rates specified in the said Paragraph A, as if such aggregate income were the total income;
(ii) the net agricultural income shall be increased by a sum of fifty thousand rupees, and the amount of income-tax or "advance tax" shall be determined in respect of the net agricultural income as so increased at the rates specified in the said Paragraph A, as if the net agricultural income were the total income;
(iii) the amount of income-tax or "advance tax" determined in accordance with sub-clause (i) shall be reduced by the amount of income-tax or, as the case may be, "advance tax" determined in accordance with sub-clause (ii) and the sum so arrived at shall be the income-tax or, as the case may be, "advance tax" in respect of the total income:
Provided that the amount of income-tax or "advance tax" so arrived at, as reduced by the rebate of income-tax calculated under Chapter VIII-A of the said Act, shall be increased by a surcharge for purposes of the Union, calculated in each case in the manner provided therein.
(10) For the purposes of this section and the First Schedule,—
(a) "domestic company" means an Indian company or any other company which, in respect of its income liable to income-tax under the Income-tax Act for the assessment year commencing on the 1st day of April, 2001, has made the prescribed arrangements for the declaration and payment within India of the dividends (including dividends on preference shares) payable out of such income;
(b) "insurance commission" means any remuneration or reward, whether by way of commission or otherwise, for soliciting or procuring insurance business (including business relating to the continuance, renewal or revival of policies of insurance);
(c) "net agricultural income", in relation to a person, means the total amount of agricultural income, from whatever source derived, of that person computed in accordance with the rules contained in Part IV of the First Schedule;
(d) all other words and expressions used in this section and the First Schedule but not defined in this sub-section and defined in the Income-tax Act shall have the meanings respectively assigned to them in that Act.

CHAPTER III
DIRECT TAXES
Income-tax

3. In section 2 of the Income-tax Act,—
(a) after clause (12), the following clause shall be inserted with effect from the 1st day of June, 2001, namely:—
'(12A) "books or books of account" include ledgers, day-books, cash books, account-books and other books, whether kept in the written form or as print-outs of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device;';
(b) after clause (22A), the following clause shall be inserted with effect from the 1st day of June, 2001, namely:—
'(22AA) "document" includes an electronic record as defined in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000;';
(c) in clause (24), in sub-clause (ix), the following Explanation shall be inserted with effect from the 1st day of April, 2002, namely:—
'Explanation.—For the purposes of this sub-clause,—
(i) "lottery" includes winnings, from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called;
(ii) "card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;';
(d) after clause (28B), the following clause shall be inserted with effect from the 1st day of April, 2002, namely:—
'(28BB) "insurer" means an insurer being an Indian insurance company, as defined under clause (7A) of section 2 of the Insurance Act, 1938, which has been granted a certificate of registration under section 3 of that Act;'.
4. In section 9 of the Income-tax Act, in sub-section (1), in clause (vi), in Explanation 2, with effect from the 1st day of April, 2002,—
(i) after clause (iv), the following clause shall be inserted, namely:—
"(iva) the use or right to use, any industrial, commercial or scientific equipment;";
(ii) in clause (vi), for the words, brackets and figures "sub-clauses (i) to (v)", the words, brackets, figures and letter "sub-clauses (i) to (iv), (iva) and (v)" shall be substituted.
5. In section 10 of the Income-tax Act,—
(a) in clause (10C),—
(i) after sub-clause (vii), the following sub-clause shall be inserted, namely:—
"(viia) any State Government; or";
(ii) after sub-clause (viia) as so inserted, the following sub-clause shall be inserted with effect from the 1st day of April, 2002, namely:—
"(viib) the Central Government; or";
(b) in clause (15), with effect from the 1st day of April, 2002,—
(i) in sub-clause (iv),—
(A) for item (a), the following item shall be substituted, namely:—
"(a) by Government or a local authority on moneys borrowed by it before the 1st day of June, 2001 from, or debts owed by it before the 1st day of June, 2001 to, sources outside India;";
(B) in item (b), for the words "a loan agreement entered into with any such financial institution", the words, figures and letters "a loan agreement entered into before the 1st day of June, 2001 with any such financial institution" shall be substituted;
(C) in item (c), for the words "moneys borrowed or debt incurred by it", the words, figures and letters "moneys borrowed or debt incurred by it before the 1st day of June, 2001" shall be substituted;
(D) in items (d) and (e), for the words "any moneys borrowed by it from sources outside India", the words, figures and letters "any moneys borrowed by it from sources outside India before the 1st day of June, 2001" shall be substituted;
(E) in item (f), for the words "a loan agreement approved by the Central Government", the words, figures and letters "a loan agreement approved by the Central Government before the 1st day of June, 2001" shall be substituted;
(ii) for Explanation 1A to sub-clause (iv), the following Explanation shall be substituted, namely:—
'Explanation 1A.—For the purposes of this sub-clause, the expression "interest" shall not include interest paid on delayed payment of loan or on default if it is in excess of two per cent. per annum over the rate of interest payable in terms of such loan.';
(c) in clause (23AAB), with effect from the 1st day of April, 2002,—
(i) in the opening portion, for the words "under a pension scheme", the words "or any other insurer under a pension scheme" shall be substituted;
(ii) in sub-clause (ii), after the words "the Controller of Insurance", the words, brackets and figures "or the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999, as the case may be" shall be inserted;
(d) after clause (23BBC), the following clause shall be inserted, namely:—
'(23BBD) any income of the Secretariat of the Asian Organisation of the Supreme Audit Institutions registered as "ASOSAI-SECRETARIAT" under the Societies Registration Act, 1860 for three previous years relevant to the assessment years beginning on the 1st day of April, 2001 and ending on the 31st day of March, 2004;';
(e) in clause (23C), with effect from the 1st day of April, 2002,—
(a) in the third proviso,—
(i) in clause (a), after the words "the objects for which it is established", the words, figures and letters "and in a case where any income is accumulated on or after the 1st day of April, 2001, the period of such accumulation shall in no case exceed five years" shall be inserted;
(ii) in clause (b),—
(A) after sub-clause (i), the following sub-clause shall be inserted, namely:—
"(ia) any asset, being equity shares of a public company, held by any university or other educational institution or any hospital or other medical institution where such assets form part of the corpus of any university or other educational institution or any hospital or other medical institution as on the 1st day of June, 1998;";
(B) in sub-clause (iii), after the word, brackets and figure "sub-clause (i)", the words, brackets, figure and letter "and sub-clause (ia)" shall be inserted;
(b) after the eighth proviso, the following proviso shall be inserted, namely:—
"Provided also that where the total receipts of the fund or institution referred to in sub-clause (iv) or of any trust or institution referred to in sub-clause (v) exceed ten lakh rupees or where the total receipts of any university or other educational institution referred to in sub-clause (vi) or of any hospital or other institution referred to in sub-clause (via) exceed one crore rupees in any previous year, the fund or trust or institution or university or other educational institution or hospital or other institution, as the case may be, shall—
(i) publish its accounts in a local newspaper; and
(ii) furnish along with the application prescribed in the first proviso to this clause, the copy of the local newspaper in which such accounts have been published;";
(f) in clause (23FB),—
(a) the Explanation shall be numbered as Explanation 1 thereof, and in Explanation 1 as so numbered, in clause (b), for sub-clause (i), the following sub-clause shall be substituted, namely:—
"(i) operating under a trust deed registered under the provisions of the Registration Act, 1908 or operating as a venture capital scheme made by the Unit Trust of India established under the Unit Trust of India Act, 1963;";
(b) after Explanation 1 as so numbered, the following Explanation shall be inserted, namely:—
"Explanation 2.—For the removal of doubts, it is hereby declared that the income of a venture capital company or venture capital fund shall continue to be exempt if the shares of the venture capital undertaking, in which the venture capital company or venture capital fund has made the initial investment, are subsequently listed in a recognised stock exchange in India;";
(g) in clause (23G), with effect from the 1st day of April, 2002,—
(a) after the words "an infrastructure capital fund or an infrastructure capital company", the words "or a co-operative bank" shall be inserted;
(b) for the words, brackets and figures "any enterprise wholly engaged in the business of (i) developing, (ii) maintaining and operating, or (iii) developing, maintaining and operating any infrastructure facility", the words, brackets, figures and letters "any enterprise or undertaking wholly engaged in the business referred to in sub-section (4) of section 80-IA" shall be substituted;
(c) in Explanation 1,—
(i) clause (c) shall be omitted;
(ii) after clause (d), the following clauses shall be inserted, namely:—
'(e) "co-operative bank" shall have the meaning assigned to it in clause (dd) of section 2 of the Deposit Insurance and Credit Guarantee Corporation Act, 1961;
(f) "interest" includes any fee or commission received by a financial institution for giving any guarantee to, or providing credit rating in respect of, an enterprise which has been approved by the Central Government for the purposes of this clause.';
(h) in clause (33), after sub-clause (iii), the following proviso shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 2000, namely:—
"Provided that this clause shall not apply to any income arising from transfer of units of the Unit Trust of India or a mutual fund to a person other than the Unit Trust of India or such mutual fund.".
6. In section 10A of the Income-tax Act,—
(a) in sub-section (1),—
(i) in the second proviso, for the words "undertaking was first set up", the words "undertaking began to manufacture or produce such articles or things or computer software" shall be substituted;
(ii) the third proviso shall be omitted with effect from the 1st day of April, 2002;
(b) for sub-section (4), the following sub-section shall be substituted, namely:—
"(4) For the purposes of sub-section (1), the profits derived from export of articles or things or computer software shall be the amount which bears to the profits of the business of the undertaking, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the undertaking.";
(c) after sub-section (9),—
(i) in Explanation 1, for the words "in the case of a company", the words "in the case of a company, not being a company in which the public are substantially interested," shall be substituted;
(ii) in Explanation 2, in clause (iv), for the words "in respect of export", the words "in respect of export by the undertaking" shall be substituted;
(iii) after Explanation 2, the following Explanation shall be inserted at the end, namely:—
"Explanation 3.—For the removal of doubts, it is hereby declared that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.".
7. In section 10B of the Income-tax Act,—
(a) in sub-section (1), the second proviso shall be omitted with effect from the 1st day of April, 2002;
(b) for sub-section (4), the following sub-section shall be substituted, namely:—
"(4) For the purposes of sub-section (1), the profits derived from export of articles or things or computer software shall be the amount which bears to the profits of the business of the undertaking, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the undertaking.";
(c) after sub-section (9),—
(i) in Explanation 1, for the words "in the case of a company", the words "in the case of a company , not being a company in which the public are substantially interested," shall be substituted;
(ii) in Explanation 2, in clause (iii), for the words "in respect of export", the words "in respect of export by the undertaking" shall be substituted;
(iii) after Explanation 2, the following Explanation shall be inserted at the end, namely:—
"Explanation 3.—For the removal of doubts, it is hereby declared that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.".
8. After section 10B of the Income-tax Act, the following section shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 1994, namely:—
'10BB. The profits and gains derived by an undertaking from the production of computer programmes under section 10B, as it stood prior to its substitution by section 7 of the Finance Act, 2000, shall be construed as if for the words "computer programmes", the words "computer programmes or processing or management of electronic data" had been substituted in that section.'.
9. In section 11 of the Income-tax Act, in sub-section (2), after the proviso, the following proviso shall be inserted with effect from the 1st day of April, 2002, namely:—
'Provided further that in respect of any income accumulated or set apart on or after the 1st day of April, 2001, the provisions of this sub-section shall have effect as if for the words "ten years" at both the places where they occur, the words "five years" had been substituted.'.
10. In section 12A of the Income-tax Act, after clause (b), the following clause shall be inserted with effect from the 1st day of April, 2002, namely:—
"(c) where the total income of the trust or institution as computed under this Act without giving effect to the provisions of sections 11 and 12 exceeds ten lakh rupees in any previous year, the trust or institution—
(i) publishes its accounts in a local newspaper, before the due date for furnishing the return of income under sub-section (4A) of section 139; and
(ii) furnishes a copy of such newspaper along with such return.".
11. After section 14 of the Income-tax Act, the following section shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 1962, namely:—
"14A. For the purposes of computing the total income under this Chapter, no deduction shall be allowed in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income under this Act.".
12. In section 16 of the Income-tax Act, for clause (ii), the following clause shall be substituted with effect from the 1st day of April, 2002, namely:—
"(ii) a deduction in respect of any allowance in the nature of an entertainment allowance specifically granted by an employer to the assessee who is in receipt of a salary from the Government, a sum equal to one-fifth of his salary (exclusive of any allowance, benefit or other perquisite) or five thousand rupees, whichever is less;".
13. In section 17 of the Income-tax Act,—
(a) in clause (2),—
(i) in sub-clause (iii),—
(A) in item (c), for the words "twenty-four thousand rupees", the words "fifty thousand rupees" shall be substituted with effect from the 1st day of April, 2002;
(B) in the proviso, for the words "the Employees' Stock Option Plan or Scheme of the said company", the words and figures "the Employees' Stock Option Scheme or Employees' Stock Purchase Scheme, offered to such employees in accordance with the guidelines issued by the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992" shall be substituted;
(ii) after sub-clause (vii), the following sub-clause shall be inserted with effect from the 1st day of April, 2002, namely:—
"(viii) the value of any other fringe benefit or amenity as may be prescribed.";
(b) in clause (3), after sub-clause (ii) and the Explanation relating thereto, the following sub-clause shall be inserted with effect from the 1st day of April, 2002, namely:—
"(iii) any amount due to or received, whether in lump sum or otherwise, by any assessee from any person—
(A) before his joining any employment with that person; or
(B) after cessation of his employment with that person.".
14. For section 23 of the Income-tax Act, the following section shall be substituted with effect from the 1st day of April, 2002, namely:—
"23. (1) For the purposes of section 22, the annual value of any property shall be deemed to be—
(a) the sum for which the property might reasonably be expected to let from year to year; or
(b) where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable; or
(c) where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable:
Provided that the taxes levied by any local authority in respect of the property shall be deducted (irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting regularly employed by him) in determining the annual value of the property of that previous year in which such taxes are actually paid by him.
Explanation.—For the purposes of clause (b) or clause (c) of this sub-section, the amount of actual rent received or receivable by the owner shall not include, subject to such rules as may be made in this behalf, the amount of rent which the owner cannot realise.
(2) Where the property consists of a house or part of a house which—
(a) is in the occupation of the owner for the purposes of his own residence; or
(b) cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him,
the annual value of such house or part of the house shall be taken to be nil.
(3) The provisions of sub-section (2) shall not apply if—
(a) the house or part of the house is actually let during the whole or any part of the previous year; or
(b) any other benefit therefrom is derived by the owner.
(4) Where the property referred to in sub-section (2) consists of more than one house—
(a) the provisions of that sub-section shall apply only in respect of one of such houses, which the assessee may, at his option, specify in this behalf;
(b) the annual value of the house or houses, other than the house in respect of which the assessee has exercised an option under clause (a), shall be determined under sub-section (1) as if such house or houses had been let.".
15. For section 24 of the Income-tax Act, the following section shall be substituted with effect from the 1st day of April, 2002, namely:—
'24. Income chargeable under the head "Income from house property" shall be computed after making the following deductions, namely:—
(a) a sum equal to thirty per cent. of the annual value;
(b) where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital:
Provided that in respect of property referred to in sub-section (2) of section 23; the amount of deduction shall not exceed thirty thousand rupees:
Provided further that where the property referred to in the first proviso is acquired or constructed with capital borrowed on or after the 1st day of April, 1999 and such acquisition or construction is completed before the 1st day of April, 2003, the amount of deduction under this clause shall not exceed one lakh fifty thousand rupees.
Explanation.— Where the property has been acquired or constructed with borrowed capital, the interest, if any, payable on such capital borrowed for the period prior to the previous year in which the property has been acquired or constructed, as reduced by any part thereof allowed as deduction under any other provision of this Act, shall be deducted under this clause in equal instalments for the said previous year and for each of the four immediately succeeding previous years.'.
16. In section 25 of the Income-tax Act, the words "annual charge or" shall be omitted with effect from the 1st day of April, 2002.
17. In section 25A of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) after the words, brackets, letter and figures "under clause (x) of sub-section (1) of section 24", the words and figures "as it stood immediately before its substitution by the Finance Act, 2001" shall be inserted;
(b) after the words and figures "under section 23 or section 24", the words and figures "as it stood immediately before its substitution by the Finance Act, 2001" shall be inserted.
18. After section 25A of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 2002, namely:—
'25AA. Where the assessee cannot realise rent from a property let to a tenant and subsequently the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head "Income from house property" and accordingly charged to income-tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in that previous year.'.
19. In section 25B of the Income-tax Act, for the words "a sum equal to one-fourth of such amount for repairs of, and collection of rent from, the property", the words "a sum equal to thirty per cent. of such amount" shall be substituted with effect from the 1st day of April, 2002.
20. In section 27 of the Income-tax Act, clauses (iv) and (v) shall be omitted with effect from the 1st day of April, 2002.
21. In section 32 of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) in sub-section (1), in clause (ii), after Explanation 4, the following Explanation shall be inserted, namely:—
"Explanation 5.—For the removal of doubts, it is hereby declared that the provisions of this sub-section shall apply whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income;";
(b) for sub-section (2), the following sub-section shall be substituted, namely:—
"(2) Where, in the assessment of the assessee, full effect cannot be given to any allowance under sub-section (1) in any previous year, owing to there being no profits or gains chargeable for that previous year, or owing to the profits or gains chargeable being less than the allowance, then, subject to the provisions of sub-section (2) of section 72 and sub-section (3) of section 73, the allowance or the part of the allowance to which effect has not been given, as the case may be, shall be added to the amount of the allowance for depreciation for the following previous year and deemed to be part of that allowance, or if there is no such allowance for that previous year, be deemed to be the allowance for that previous year, and so on for the succeeding previous years.".
22. In section 33AB of the Income-tax Act, in sub-section (1), for the words "a sum equal to twenty per cent. of the profits", the words "a sum equal to forty per cent. of the profits" shall be substituted with effect from the 1st day of April, 2002.
23. In section 35 of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) in sub-section (2AA),—
(i) for the words "University or an Indian Institute of Technology", the words "University or an Indian Institute of Technology or a specified person" shall be substituted;
(ii) in the Explanation, after clause (c), the following clause shall be inserted, namely:—
'(d) "specified person" means such person as is approved by the prescribed authority.';
(b) in sub-section (2AB),—
(i) in clause (1), for the words "engaged in the business of", the words "engaged in the business of bio-technology or in the business of" shall be substituted;
(ii) after clause (1), the following Explanation shall be inserted, namely:—
'Explanation.—For the purposes of this clause, "expenditure on scientific research", in relation to drugs and pharmaceuticals, shall include expenditure incurred on clinical drug trial, obtaining approval from any regulatory authority under any Central, State or Provincial Act and filing an application for a patent under the Patents Act, 1970.'.
24. After section 35DD of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 2002, namely:—
"35DDA. (1) Where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement, in accordance with any scheme or schemes of voluntary retirement, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years:
Provided that such payment is made under the scheme or schemes framed in accordance with the guidelines prescribed under the proviso to clause (10C) of section 10.
(2) No deduction shall be allowed in respect of the expenditure mentioned in sub-section (1) under any other provision of this Act.".
25. In section 43B of the Income-tax Act, with effect from the 1st day of April, 2002,—
(i) in clause (e), the word "or" shall be inserted at the end;
(ii) after clause (e), the following clause shall be inserted, namely:—
"(f) any sum payable by the assessee as an employer in lieu of any leave at the credit of his employee,";
(iii) in the first proviso, after the word, brackets and letter "clause (e)", the words, brackets and letter "or clause (f)" shall be inserted;
(iv) after Explanation 3A, the following Explanation shall be inserted, namely:—
"Explanation 3B.—For the removal of doubts, it is hereby declared that where a deduction in respect of any sum referred to in clause (f) of this section is allowed in computing the income, referred to in section 28, of the previous year (being a previous year relevant to the assessment year commencing on the 1st day of April, 2001, or any earlier assessment year) in which the liability to pay such sum was incurred by the assessee, the assessee shall not be entitled to any deduction under this section in respect of such sum in computing the income of the previous year in which the sum is actually paid by him.".
26. In section 44AB of the Income-tax Act,—
(a) in the second proviso, after the words "and a further report", the words "by an accountant" shall be inserted;
(b) in the Explanation occurring at the end, for clause (ii), the following clause shall be substituted, namely:—
'(ii) "specified date", in relation to the accounts of the previous year relevant to an assessment year, means,—
(a) where the assessee is a company, the 31st day of October of the assessment year;
(b) in any other case, the 31st day of July of the assessment year.'.
27. In section 47 of the Income-tax Act,—
(a) in clause (iii), in the proviso, for the words "the Employees' Stock Option Plan or Scheme", the words and figures "the Employees' Stock Option Scheme or Employees' Stock Purchase Scheme framed in accordance with the guidelines issued by the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992" shall be substituted;
(b) in clause (viia), for the word "shares", the words "Global Depository Receipts" shall be substituted with effect from the 1st day of April, 2002.
28. In section 49 of the Income-tax Act, after sub-section (2A), the following sub-section shall be inserted, namely:—
"(2AA) Where the capital gain arises from the transfer of the shares, debentures or warrants, the value of which has been taken into account while computing the value of perquisite under clause (2) of section 17, the cost of acquisition of such shares, debentures or warrants shall be the value under that clause.".
29. In section 54EC of the Income-tax Act, in the Explanation occurring at the end, for clause (b), the following clause shall be substituted with effect from the 1st day of April, 2002, namely:—
'(b) "long-term specified asset" means any bond redeemable after three years, issued,—
(i) on or after the 1st day of April, 2000, by the National Bank for Agriculture and Rural Development established under section 3 of the National Bank for Agriculture and Rural Development Act, 1981 or by the National Highways Authority of India constituted under section 3 of the National Highways Authority of India Act, 1988;
(ii) on or after the 1st day of April, 2001, by the Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956.'.
30. After section 54EC of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 2002, namely:—
'54ED. (1) Where the capital gain arises from the transfer of a long-term capital asset, being listed securities or unit (the capital asset so transferred being hereafter in this section referred to as the original asset), and the assessee has, within a period of six months after the date of such transfer, invested the whole or any part of the capital gain in acquiring equity shares forming part of an eligible issue of capital (such equity shares being hereafter in this section referred to as the specified equity shares), the said capital gain shall be dealt with in accordance with the following provisions of this section, that is to say,—
(a) if the cost of the specified equity shares is not less than the capital gain arising from the transfer of the original asset, the whole of such capital gain shall not be charged under section 45;
(b) if the cost of the specified equity shares is less than the capital gain arising from the transfer of the original asset, so

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much of the capital gain as bears to the whole of the capital gain the same proportion as the cost of the specified equity shares acquired bears to the whole of the capital gain shall not be charged under section 45.
Explanation.—For the purposes of this sub-section—
(i) "eligible issue of capital" means an issue of equity shares which satisfies the following conditions, namely:—
(a) the issue is made by a public company formed and registered in India;
(b) the shares forming part of the issue are offered for subscription to the public;
(ii) "listed securities" shall have the same meaning as in clause (a) of the Explanation to sub-section (1) of section 112;
(iii) "unit" shall have the meaning assigned to it in clause (b) of the Explanation to section 115AB.
(2) Where the specified equity shares are sold or otherwise transferred within a period of one year from the date of their acquisition, the amount of capital gain arising from the transfer of the original asset not charged under section 45 on the basis of the cost of such specified equity shares as provided in clause (a) or, as the case may be, clause (b), of sub-section (1) shall be deemed to be the income chargeable under the head "Capital gains" relating to long-term capital assets of the previous year in which such equity shares are sold or otherwise transferred.
(3) Where the cost of the specified equity shares has been taken into account for the purposes of clause (a) or clause (b) of sub-section (1), a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88.'.
31. In section 54H of the Income-tax Act, for the figures and letters "54EA, 54EB", the figures and letters "54EC" shall be substituted.
32. In section 55 of the Income-tax Act, in sub-section (2), in clause (a), after the words "goodwill of a business", the words "or a trade mark or brand name associated with a business" shall be inserted with effect from the 1st day of April, 2002.
33. In section 72A of the Income-tax Act, in sub-section (7), after clause (a), the following clause shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 2000, namely:—
'(aa) "industrial undertaking" means any undertaking which is engaged in—
(i) the manufacture or processing of goods; or
(ii) the manufacture of computer software; or
(iii) the business of generation or distribution of electricity or any other form of power; or
(iv) mining; or
(v) the construction of ships, aircrafts or rail systems;'.
34. In section 80CCC of the Income-tax Act, in sub-section (1), after the words "Life Insurance Corporation of India", the words "or any other insurer" shall be inserted with effect from the 1st day of April, 2002.
35. In section 80D of the Income-tax Act, in sub-section (2), for the proviso, the following proviso shall be substituted with effect from the 1st day of April, 2002, namely:—
"Provided that such insurance shall be in accordance with a scheme framed in this behalf by—
(a) the General Insurance Corporation of India formed under section 9 of the General Insurance Business (Nationalisation) Act, 1972 and approved by the Central Government in this behalf; or
(b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999.".
36. In section 80DD of the Income-tax Act, in sub-section (1), in clause (b), for the words "Unit Trust of India", the words "any other insurer or Unit Trust of India" shall be substituted with effect from the 1st day of April, 2002.
37. In section 80G of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) in sub-section (1), in clause (i), after the words, brackets, figures and letters "or sub-clause (iiihi)", the words, brackets, figures and letters "or sub-clause (iiihj)" shall be inserted;
(b) in sub-section (2), in clause (a), after sub-clause (iiihi), the following sub-clause shall be inserted, namely:—
"(iiihj) the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities constituted under sub-section (1) of section 3 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999; or".
38. In section 80GG of the Income-tax Act, in the proviso, in clause (ii), for the words, brackets, figures and letters "under sub-clause (i) of clause (a) or, as the case may be, clause (b) of sub-section (2) of section 23", the words, brackets, letters and figures "under clause (a) of sub-section (2) or, as the case may be, clause (a) of sub-section (4) of section 23" shall be substituted with effect from the 1st day of April, 2002.
39. In section 80HHE of the Income-tax Act, after sub-section (1), the following Explanation shall be inserted, namely:—
"Explanation.—For the removal of doubts, it is hereby declared that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.".
40. In section 80-IA of the Income-tax Act,—
(a) for sub-section (1), the following sub-section shall be substituted with effect from the 1st day of April, 2002, namely:—
"(1) Where the gross total income of an assessee includes any profits and gains derived by an undertaking or an enterprise from any business referred to in sub-section (4) (such business being hereinafter referred to as the eligible business), there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to hundred per cent. of profits and gains derived from such business for ten consecutive assessment years.";
(b) in sub-section (2), for the proviso, the following proviso shall be substituted with effect from the 1st day of April, 2002, namely:—
'Provided that where the assessee develops or operates and maintains or develops, operates and maintains any infrastructure facility referred to in clause (a) or clause (b) or clause (c) of the Explanation to clause (i) of sub-section (4), the provisions of this sub-section shall have effect as if for the words "fifteen years", the words "twenty years" had been substituted.';
(c) after sub-section (2), the following sub-section shall be inserted, namely:—
"(2A) Notwithstanding anything contained in sub-section (1) or sub-section (2), the deduction in computing the total income of an undertaking providing telecommunication services, specified in clause (ii) of sub-section (4), shall be hundred per cent. of the profits and gains of the eligible business for the first five assessment years commencing at any time during the periods as specified in sub-section (2) and thereafter, thirty per cent. of such profits and gains for further five assessment years.";
(d) in sub-section (3), for the words "industrial undertaking" wherever they occur, the word "undertaking" shall be substituted with effect from the 1st day of April, 2002;
(e) in sub-section (4),—
(i) in clause (i),—
(A) for the words, brackets and figures "of (i) developing, (ii) maintaining and operating or (iii) developing, maintaining and operating", the words, brackets and figures "of (i) developing or (ii) operating and maintaining or (iii) developing, operating and maintaining" shall be substituted with effect from the 1st day of April, 2002;
(B) for sub-clause (b), the following sub-clause shall be substituted with effect from the 1st day of April, 2002, namely:—
"(b) it has entered into an agreement with the Central Government or a State Government or a local authority or any other statutory body for (i) developing or (ii) operating and maintaining or (iii) developing, operating and maintaining a new infrastructure facility;";
(ii) for the Explanation, the following Explanation shall be substituted with effect from the 1st day of April, 2002, namely:—
'Explanation.—For the purposes of this clause, "infrastructure facility" means—
(a) a road including toll road, a bridge or a rail system;
(b) a highway project including housing or other activities being an integral part of the highway project;
(c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system;
(d) a port, airport, inland waterway or inland port.';
(iii) for clause (ii), the following clause shall be substituted, namely:—
"(ii) any undertaking which has started or starts providing telecommunication services whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services on or after the 1st day of April, 1995, but on or before the 31st day of March, 2003;";
(iv) in clause (iii),—
(A) after the words "an industrial park", the words "or special economic zone" shall be inserted with effect from the 1st day of April, 2002;
(B) for the words, figures and letters "the 31st day of March, 2002", the words, figures and letters "the 31st day of March, 2006" shall be substituted;
(v) in clause (iv),—
(A) for the words "industrial undertaking" at both the places where they occur, the word "undertaking" shall be substituted with effect from the 1st day of April, 2002;
(B) in sub-clauses (a) and (b), for the words, figures and letters "ending on the 31st day of March, 2003" the words, figures and letters "ending on the 31st day of March, 2006" shall be substituted with effect from the 1st day of April, 2002;
(f) in sub-section (7), for the words "industrial undertaking" at both the places where they occur, the word "undertaking" shall be substituted with effect from the 1st day of April, 2002;
(g) in sub-section (8), with effect from the 1st day of April, 2002,—
(i) for the word "goods" wherever it occurs, the words "goods or services" shall be substituted;
(ii) for the Explanation, the following Explanation shall be substituted, namely:—
'Explanation.—For the purposes of this sub-section, "market value", in relation to any goods or services, means the price that such goods or services would ordinarily fetch in the open market.';
(h) in sub-section (9), for the words "industrial undertaking" at both the places where they occur, the word "undertaking" shall be substituted with effect from the 1st day of April, 2002.
41. In section 80-IB of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) in sub-section (1), for the brackets, figures and word "(3) to (11)", the brackets, figures, words and letter "(3) to (11) and (11A)" shall be substituted;
(b) after sub-section (11), the following sub-section shall be inserted, namely:—
"(11A) The amount of deduction in a case of an undertaking deriving profit from the integrated business of handling, storage and transportation of foodgrains, shall be hundred per cent. of the profits and gains derived from such undertaking for five assessment years beginning with the initial assessment year and thereafter, twenty-five per cent. (or thirty per cent. where the assessee is a company) of the profits and gains derived from the operation of such business in a manner that the total period of deduction does not exceed ten consecutive assessment years and subject to fulfilment of the condition that it begins to operate such business on or after the 1st day of April, 2001.";
(c) in sub-section (14), in clause (c), after sub-clause (iii), the following sub-clause shall be inserted at the end, namely:—
"(iv) in the case of an undertaking engaged in the integrated business of handling, storage and transportation of foodgrains, means the assessment year relevant to the previous year in which the undertaking begins such business".
42. In section 80L of the Income-tax Act, in sub-section (1), with effect from the 1st day of April, 2002,—
(a) in clause (x), for the words "twelve thousand" at both the places where they occur, the words "nine thousand" shall be substituted;
(b) the proviso below clause (x) shall be omitted.
43. In section 88 of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) in sub-section (1), after the proviso, the following proviso shall be inserted, namely:—
'Provided further that an individual shall be entitled to a deduction of an amount equal to thirty per cent. of the aggregate of the sums referred to in sub-section (2) if his income chargeable under the head "Salaries"—
(a) does not exceed one lakh rupees during the previous year before allowing deduction under section 16; and
(b) is not less than ninety per cent. of his gross total income as defined in sub-section (5) of section 80B.';
(b) in sub-section (2), in clause (xiiia), after the words "Life Insurance Corporation", the words "or any other insurer" shall be inserted.
44. For section 92 of the Income-tax Act, the following sections shall be substituted with effect from the 1st day of April, 2002, namely:—
'92. (1) Any income arising from an international transaction shall be computed having regard to the arm's length price.
(2) In computing income under sub-section (1), the allowance for any expense or interest shall also be determined having regard to the arm's length price.
(3) Where in an international transaction, two or more associated enterprises enter into a mutual agreement or arrangement for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises, the cost or expense allocated or apportioned to, or, as the case may be, contributed by, any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility, as the case may be.
92A. (1) For the purposes of this section and sections 92, 92B, 92C, 92D, 92E and 92F, "associated enterprise", in relation to another enterprise, means an enterprise—
(a) which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or
(b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.
(2) Two enterprises shall be deemed to be associated enterprises if, at any time during the previous year,—
(a) one enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent. of the voting power in the other enterprise; or
(b) any person or enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent. of the voting power in each of such enterprises; or
(c) a loan advanced by one enterprise to the other enterprise constitutes not less than fifty-one per cent. of the book value of the total assets of the other enterprise; or
(d) one enterprise guarantees not less than ten per cent. of the total borrowings of the other enterprise; or
(e) more than half of the board of directors or members of the governing board, or one or more executive directors or executive members of the governing board of one enterprise, are appointed by the other enterprise; or
(f) more than half of the directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons; or
(g) the manufacture or processing of goods or articles or business carried out by one enterprise is wholly dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or
(h) ninety per cent. or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise, or by persons specified by the other enterprise, and the prices and other conditions relating to the supply are influenced by such other enterprise; or
(i) the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or
(j) where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or
(k) where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family, or by a relative of a member of such Hindu undivided family, or jointly by such member and his relative; or
(l) where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than ten per cent. interest in such firm, association of persons or body of individuals; or
(m) there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.
92B. (1) For the purposes of this section and sections 92, 92C, 92D and 92E, "international transaction" means a transaction between two or more associated enterprises, either or both of whom are non-residents, in the nature of purchase, sale or lease of tangible or intangible property, or provision of services, or lending or borrowing money, or any other transaction having a bearing on the profits, income, losses or assets of such enterprises and shall include a mutual agreement or arrangement between two or more associated enterprises for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises.
(2) A transaction entered into by an enterprise with a person other than an associated enterprise shall, for the purposes of sub-section (1), be deemed to be a transaction entered into between two associated enterprises, if there exists a prior agreement in relation to the relevant transaction between such other person and the associated enterprise; or the terms of the relevant transaction are determined in substance between such other person and the associated enterprise.
92C. (1) The arm's length price in relation to an international transaction shall be determined by any of the following methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe, namely:—
(a) comparable uncontrolled price method;
(b) resale price method;
(c) cost plus method;
(d) profit split method;
(e) transactional net margin method;
(f) such other method as may be prescribed by the Board.
(2) The most appropriate method referred to in sub-section (1) shall be applied, for determination of arm's length price, in the manner as may be prescribed:
Provided that where more than one price may be determined by the most appropriate method, the arm's length price shall be taken to be the arithmetical mean of such prices.
(3) Where during the course of any proceeding for the assessment of income, the Assessing Officer is, on the basis of material or information or document in his possession, of the opinion that—
(a) the price charged or paid in an international transaction has not been determined in accordance with sub-sections (1) and (2); or
(b) any information and document relating to an international transaction have not been kept and maintained by the assessee in accordance with the provisions contained in sub-section (1) of section 92D and the rules made in this behalf; or
(c) the information or data used in computation of the arm's length price is not reliable or correct; or
(d) the assessee has failed to furnish, within the specified time, any information or document which he was required to furnish by a notice issued under sub-section (3) of section 92D,
the Assessing Officer may proceed to determine the arm's length price in relation to the said international transaction in accordance with sub-sections (1) and (2), on the basis of such material or information or document available with him:
Provided that an opportunity shall be given by the Assessing Officer by serving a notice calling upon the assessee to show cause, on a date and time to be specified in the notice, why the arm's length price should not be so determined on the basis of material or information or document in the possession of the Assessing Officer.
(4) Where an arm's length price is determined by the Assessing Officer under sub-section (3), the Assessing Officer may compute the total income of the assessee having regard to the arm's length price so determined:
Provided that no deduction under section 10A or section 10B or under Chapter VI-A shall be allowed in respect of the amount of income by which the total income of the assessee is enhanced after computation of income under this sub-section.
92D. (1) Every person who has entered into an international transaction shall keep and maintain such information and document in respect thereof, as may be prescribed.
(2) Without prejudice to the provisions contained in sub-section (1), the Board may prescribe the period for which the information and document shall be kept and maintained under that sub-section.
(3) The Assessing Officer or the Commissioner (Appeals) may, in the course of any proceeding under this Act, require any person who has entered into an international transaction to furnish any information or document in respect thereof, as may be prescribed under sub-section (1), within a period of thirty days from the date of receipt of a notice issued in this regard:
Provided that the Assessing Officer or the Commissioner (Appeals) may, on an application made by such person, extend the period of thirty days by a further period not exceeding thirty days.
92E. Every person who has entered into an international transaction during a previous year shall obtain a report from an accountant and furnish such report on or before the specified date in the prescribed form duly signed and verified in the prescribed manner by such accountant and setting forth such particulars as may be prescribed.
92F. In sections 92, 92A, 92B, 92C, 92D and 92E, unless the context otherwise requires—
(i) "accountant" shall have the same meaning as in the Explanation below sub-section (2) of section 288;
(ii) "arm's length price" means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, in uncontrolled conditions;
(iii) "enterprise" means a person who is, or has been, or is proposed to be, engaged in any activity, relating to the production, storage, supply, distribution, acquisition or control of articles or goods, or know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights, or the provision of services of any kind, or in investment, or providing loan or in the business of acquiring, holding, underwriting or dealing with shares, debentures or other securities of any other body corporate, whether such activity or business is carried on, directly or through one or more of its units or divisions or subsidiaries, or whether such unit or division or subsidiary is located at the same place where the enterprise is located or at a different place or places;
(iv) "specified date" means—
(a) where the assessee is a company, the 31st day of October of the relevant assessment year;
(b) in any other case, the 31st day of July of the relevant assessment year;
(v) "transaction" includes an arrangement, understanding or action in concert,—
(A) whether or not such arrangement, understanding or action is formal or in writing; or
(B) whether or not such arrangement, understanding or action is intended to be enforceable by legal proceeding.'.
45. In section 94 of the Income-tax Act, with effect from the 1st day of April, 2002,—
(a) after sub-section (6) but before the Explanation, the following sub-section shall be inserted, namely:—
"(7) Where—
(a) any person buys or acquires any securities or unit within a period of three months prior to the record date;
(b) such person sells or transfers such securities or unit within a period of three months after such date;
(c) the dividend or income on such securities or unit received or receivable by such person is exempt,
then, the loss, if any, arising to him on account of such purchase and sale of securities or unit, to the extent such loss does not exceed the amount of dividend or income received or receivable on such securities or unit, shall be ignored for the purposes of computing his income chargeable to tax.";
(b) in the Explanation occurring at the end,—
(i) after clause (a), the following clause shall be inserted, namely:—
'(aa) "record date" means such date as may be fixed by a company or a Mutual Fund or the Unit Trust of India for the purposes of entitlement of the holder of the securities or the unit-holder, to receive dividend or income, as the case may be;';
(ii) after clause (c), the following clause shall be inserted at the end, namely:—
'(d) "unit" shall have the meaning assigned to it in clause (b) of the Explanation to section 115AB.'.
46. In section 115AB of the Income-tax Act, in the Explanation, in clause (a), for the words "Central Government", the words and figures "Securities and Exchange Board of India, established under the Securities and Exchange Board of India Act, 1992," shall be substituted with effect from the 1st day of June, 2001.
47. For section 115AC of the Income-tax Act, the following section shall be substituted with effect from the 1st day of April, 2002, namely:—
'115AC. (1) Where the total income of an assessee, being a non-resident, includes—
(a) income by way of interest on bonds of an Indian company issued in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf, or on bonds of a public sector company sold by the Government, and purchased by him in foreign currency; or
(b) income by way of dividends, other than dividends referred to in section 115-O, on Global Depository Receipts—
(i) issued in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf, against the initial issue of shares of an Indian company and purchased by him in foreign currency through an approved intermediary; or
(ii) issued against the shares of a public sector company sold by the Government and purchased by him in foreign currency through an approved intermediary; or
(iii) re-issued in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf, against the existing shares of an Indian company purchased by him in foreign currency through an approved intermediary; or
(iv) issued in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf, and purchased by him in foreign currency through an approved intermediary, against the shares of an Indian company arising out of disinvestment by such company in its subsidiary company, and the shares of both such Indian companies are listed in a recognised stock exchange in India; or
(c) income by way of long-term capital gains arising from the transfer of bonds referred to in clause (a) or, as the case may be, Global Depository Receipts referred to in clause (b),
the income-tax payable shall be the aggregate of—
(i) the amount of income-tax calculated on the income by way of interest or dividends other than dividends referred to in section 115-O, as the case may be, in respect of bonds referred to in clause (a) or Global Depository Receipts referred to in clause (b), if any, included in the total income, at the rate of ten per cent.;
(ii) the amount of income-tax calculated on the income by way of long-term capital gains referred to in clause (c), if any, at the rate of ten per cent.; and
(iii) the amount of income-tax with which the non-resident would have been chargeable had his total income been reduced by the amount of income referred to in clauses (a), (b) and (c).
(2) Where the gross total income of the non-resident—
(a) consists only of income by way of interest or dividends other than dividends referred to in section 115-O in respect of bonds referred to in clause (a) of sub-section (1) or, as the case may be, Global Depository Receipts referred to in clause (b) of that sub-section, no deduction shall be allowed to him under sections 28 to 44C or clause (i) or clause (iii) of section 57 or under Chapter VI-A;
(b) includes any income referred to in clause (a) or clause (b) or clause (c) of sub-section (1), the gross total income shall be reduced by the amount of such income and the deduction under Chapter VI-A shall be allowed as if the gross total income as so reduced, were the gross total income of the assessee.
(3) Nothing contained in the first and second provisos to section 48 shall apply for the computation of long-term capital gains arising out of the transfer of long-term capital asset, being bonds or Global Depository Receipts referred to in clause (c) of sub-section (1).
(4) It shall not be necessary for a non-resident to furnish under sub-section (1) of section 139 a return of his income if—
(a) his total income in respect of which he is assessable under this Act during the previous year consisted only of income referred to in clauses (a) and (b) of sub-section (1); and
(b) the tax deductible at source under the provisions of Chapter XVII-B has been deducted from such income.
(5) Where the assessee acquired Global Depository Receipts or bonds in an amalgamated or resulting company by virtue of his holding Global Depository Receipts or bonds in the amalgamating or demerged company, as the case may be, in accordance with the provisions of sub-section (1), the provisions of that sub-section shall apply to such Global Depository Receipts or bonds.
Explanation.—For the purposes of this section,—
(a) "approved intermediary" means an intermediary who is approved in accordance with such scheme as may be notified by the Central Government in the Official Gazette;
(b) "Global Depository Receipts" shall have the same meaning as in clause (a) of the Explanation to section 115ACA.'.
48. In section 115ACA of the Income-tax Act, for sub-section (1), the following sub-section shall be substituted, namely:—
'(1) Where the total income of an assessee, being an individual, who is a resident and an employee of an Indian company engaged in specified knowledge based industry or service, or an employee of its subsidiary engaged in specified knowledge based industry or service (hereafter in this section referred to as the resident employee), includes—
(a) income by way of dividends, other than dividends referred to in section 115-O, on Global Depository Receipts of an Indian company engaged in specified knowledge based industry or service, issued in accordance with such Employees' Stock Option Scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf and purchased by him in foreign currency; or
(b) income by way of long-term capital gains arising from the transfer of Global Depository Receipts referred to in clause (a),
the income-tax payable shall be the aggregate of—
(i) the amount of income-tax calculated on the income by way of dividends, other than dividends referred to in section 115-O, in respect of Global Depository Receipts referred to in clause (a), if any, included in the total income, at the rate of ten per cent.;
(ii) the amount of income-tax calculated on the income by way of long-term capital gains referred to in clause (b), if any, at the rate of ten per cent.; and
(iii) the amount of income-tax with which the resident employee would have been chargeable had his total income been reduced by the amount of income referred to in clauses (a) and (b).
Explanation.—For the purposes of this sub-section,—
(a) "specified knowledge based industry or service" means—
(i) information technology software;
(ii) information technology service;
(iii) entertainment service;
(iv) pharmaceutical industry;
(v) bio-technology industry; and
(vi) any other industry or service, as may be specified by the Central Government, by notification in the Official Gazette;
(b) "subsidiary" shall have the meaning assigned to it in section 4 of the Companies Act, 1956 and includes subsidiary incorporated outside India.'.
49. In section 115BB of the Income-tax Act, in clause (i), for the words "forty per cent.", the words "thirty per cent." shall be substituted with effect from the 1st day of April, 2002.
50. In section 115-O of the Income-tax Act, in sub-section (1), for the words "twenty per cent.", the words "ten per cent." shall be substituted with effect from the 1st day of June, 2001.
51. In section 115P of the Income-tax Act, for the words "one and one-half per cent.", the words "one and one-fourth per cent." shall be substituted with effect from the 1st day of June, 2001.
52. In section 115R of the Income-tax Act, in sub-sections (1) and (2), for the words "twenty per cent.", the words "ten per cent." shall be substituted with effect from the 1st day of June, 2001.
53. In section 115S of the Income-tax Act, for the words "one and one-half per cent.", the words "one and one-fourth per cent." shall be substituted with effect from the 1st day of June, 2001.
54. In section 139 of the Income-tax Act, for sub-section (1), the following sub-section shall be substituted, namely:—
'(1) Every person,—
(a) being a company; or
(b) being a person other than a company, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax,
shall, on or before the due date, furnish a return of his income or the income of such other person during the previous year, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed:
Provided that a person referred to in clause (b), who is not required to furnish a return under this sub-section and residing in such area as may be specified by the Board in this behalf by notification in the Official Gazette, and who at any time during the previous year fulfils any one of the following conditions, namely:—
(i) is in occupation of an immovable property exceeding a specified floor area, whether by way of ownership, tenancy or otherwise, as may be specified by the Board in this behalf; or
(ii) is the owner or the lessee of a motor vehicle other than a two-wheeled motor vehicle, whether having any detachable side car having extra wheel attached to such two-wheeled motor vehicle or not; or
(iii) is a subscriber to a telephone; or
(iv) has incurred expenditure for himself or any other person on travel to any foreign country; or
(v) is the holder of a credit card, not being an "add-on" card, issued by any bank or institution; or
(vi) is a member of a club where entrance fee charged is twenty-five thousand rupees or more,
shall furnish a return, of his income during the previous year, on or before the due date in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed:
Provided further that the Central Government may, by notification in the Official Gazette, specify the class or classes of persons to whom the provisions of the first proviso shall not apply:
Provided also that every company shall furnish on or before the due date the return in respect of its income or loss in every previous year.
Explanation 1.—For the purposes of this sub-section, the expression "motor vehicle" shall have the meaning assigned to it in clause (28) of section 2 of the Motor Vehicles Act, 1988.
Explanation 2.—In this sub-section, "due date" means,—
(a) where the assessee is a company, the 31st day of October of the assessment year;
(b) in the case of a person other than a company, referred to in the first proviso to this sub-section, the 31st day of October of the assessment year;
(c) in the case of any other assessee, the 31st day of July of the assessment year.
Explanation 3.—For the purposes of this sub-section, the expression "travel to any foreign country" does not include travel to the neighbouring countries or to such places of pilgrimage as the Board may specify in this behalf by notification in the Official Gazette.'.
55. In section 139A of the Income-tax Act, with effect from the 1st day of June, 2001,—
(a) after sub-section (5), the following sub-sections shall be inserted, namely:—
"(5A) Every person receiving any sum or income or amount from which tax has been deducted under the provisions of Chapter XVIIB, shall intimate his permanent account number to the person responsible for deducting such tax under that Chapter:
Provided that nothing contained in this sub-section shall apply to a non-resident referred to in sub-section (4) of section 115AC, or sub-section (2) of section 115BBA, or to a non-resident Indian referred to in section 115G:
Provided further that a person referred to in this sub-section, shall intimate the General Index Register Number till such time permanent account number is allotted to such person.
(5B) Where any sum or income or amount has been paid after deducting tax under Chapter XVIIB, every person deducting tax under that Chapter shall quote the permanent account number of the person to whom such sum or income or amount has been paid by him—
(i) in the statement furnished in accordance with the provisions of sub-section (2C) of section 192;
(ii) in all certificates furnished in accordance with the provisions of section 203;
(iii) in all returns prepared and delivered or caused to be delivered in accordance with the provisions of section 206 to any income-tax authority:
Provided that the Central Government may, by notification in the Official Gazette, specify different dates from which the provisions of this sub-section shall apply in respect of any class or classes of persons:
Provided further that nothing contained in sub-sections (5A) and (5B) shall apply in case of a person whose total income is not chargeable to income-tax or who is not required to obtain permanent account number under any provision of this Act if such person furnishes to the person responsible for deducting tax, a declaration referred to in section 197A in the form and manner prescribed thereunder to the effect that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil.
(5C) Every buyer referred to in section 206C shall intimate his permanent account number to the seller referred to in that section.
(5D) Every seller collecting tax in accordance with the provisions of section 206C shall quote the permanent account number of every buyer referred to in that section—
(i) in all certificates furnished in accordance with the provisions of sub-section (5) of section 206C;
(ii) in all returns prepared and delivered or caused to be delivered in accordance with the provisions of sub-section (5A) or sub-section (5B) of section 206C to an income-tax authority.";
56. In section 140A of the Income-tax Act, after sub-section (1), the following sub-sections shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 1989, namely:—
'(1A) For the purposes of sub-section (1), interest payable under section 234A shall be computed on the amount of the tax on the total income as declared in the return as reduced by the advance tax, if any, paid and any tax deducted or collected at source.
(1B) For the purposes of sub-section (1), interest payable under section 234B shall be computed on an amount equal to the assessed tax or, as the case may be, on the amount by which the advance tax paid falls short of the assessed tax.
Explanation.—For the purposes of this sub-section, "assessed tax" means the tax on the total income as declared in the return as reduced by the amount of tax deducted or collected at source, in accordance with the provisions of Chapter XVII, on any income which is subject to such deduction or collection and which is taken into account in computing such total income.'.
57. In section 143 of the Income-tax Act, in sub-section (1), with effect from the 1st day of June, 2001,—
(a) in the second proviso, for the words "two years from the end of the assessment year in which the income was first assessable", the words "one year from the end of the financial year in which the return is made" shall be substituted;
(b) after the second proviso, the following proviso shall be inserted, namely:—
"Provided also that where the return made is in respect of the income first assessable in the assessment year commencing on the 1st day of April, 1999, such intimation may be sent at any time up to the 31st day of March, 2002.".
58. In section 149 of the Income-tax Act, in sub-section (1), for clauses (a) and (b), the following clauses shall be substituted with effect from the 1st day of June, 2001, namely:—
"(a) if four years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b);
(b) if four years, but not more than six years, have elapsed from the end of the relevant assessment year unless the income chargeable to tax which has escaped assessment amounts to or is likely to amount to one lakh rupees or more for that year.".
59. In section 153 of the Income-tax Act, with effect from the 1st day of June, 2001,—
(a) in sub-section (2),—
(i) for the words "two years", the words "one year" shall be substituted;

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"(2) The provisions of sub-section (1) shall not apply to cases where the duty had become payable or ought to have been paid before the date on which the Finance Bill, 2001 receives the assent of the President.".

120. In section 11BB of the Central Excise Act, for the words "not below ten per cent.", the words "not below five per cent." shall be substituted.

121. In section 35 of the Central Excise Act, in sub-section (1),—
(a) for the words "within three months", the words "within sixty days" shall be substituted;
(b) for the proviso, the following proviso shall be substituted, namely:—
"Provided that the Commissioner (Appeals) may, if he is satisfied that the appellant was prevented by sufficient cause from presenting the appeal within the aforesaid period of sixty days, allow it to be presented within a further period of thirty days.".

122. In section 35A of the Central Excise Act,—
(a) in sub-section (3), for the portion beginning with the words and brackets "The Commissioner (Appeals) may" and ending with the words "additional evidence, if necessary:", the following shall be substituted, namely:—
"The Commissioner (Appeals) shall, after making such further inquiry as may be necessary, pass such order, as he thinks just and proper, confirming, modifying or annulling the decision or order appealed against:";
(b) after sub-section (4), the following sub-section shall be inserted, namely:—
"(4A) The Commissioner (Appeals) shall, where it is possible to do so, hear and decide every appeal within a period of six months from the date on which it is filed.".

123. In section 35E of the Central Excise Act, in sub-section (1), after the words "direct such Commissioner", the words "or any other Commissioner" shall be inserted.

124. In section 35F of the Central Excise Act, after the proviso, the following proviso shall be inserted, namely:—
"Provided further that where an application is filed before the Commissioner (Appeals) for dispensing with the deposit of duty demanded or penalty levied under the first proviso, the Commissioner (Appeals) shall, where it is possible to do so, decide such application within thirty days from the date of its filing.".

125. After section 38 of the Central Excise Act, the following section shall be inserted and shall be deemed to have been inserted on and from the 28th day of February, 1944, namely:—
"38A. Where any rule, notification or order made or issued under this Act or any notification or order issued under such rule, is amended, repealed, superseded or rescinded, then, unless a different intention appears, such amendment, repeal, supersession or rescinding shall not—
(a) revive anything not in force or existing at the time at which the amendment, repeal, supersession or rescinding takes effect; or
(b) affect the previous operation of any rule, notification or order so amended, repealed, superseded or rescinded or anything duly done or suffered thereunder; or
(c) affect any right, privilege, obligation or liability acquired, accrued or incurred under any rule, notification or order so amended, repealed, superseded or rescinded; or
(d) affect any penalty, forfeiture or punishment incurred in respect of any offence committed under or in violation of any rule, notification or order so amended, repealed, superseded or rescinded; or
(e) affect any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid,
and any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if the rule, notification or order, as the case may be, had not been amended, repealed, superseded or rescinded.".

126. Any action taken or anything done or omitted to be done or purporting to have been taken or done or omitted to be done under any rule, notification, or order made or issued under the Central Excise Act, or any notification or order issued under such rule at any time during the period commencing on and from the 28th day of February, 1944 and ending with the day, the Finance Bill, 2001 receives the assent of the President shall be deemed to be and to have always been, for all purposes, as validly and effectively taken or done or omitted to be done as if the amendment made by section 125 of the Finance Act, 2001 had been in force at all material times and, accordingly, notwithstanding anything contained in any judgment, decree or order of any court, tribunal or other authority,—
(a) any action taken or anything done or omitted to be done, during the said period in respect of any excisable goods under any of such rule, notification or order, shall be deemed always to have been, as validly taken or done or omitted to be done as if the amendment made by section 125 of the Finance Act, 2001 had been in force at all material times;
(b) no suit or other proceedings shall be maintained or continued in any court, tribunal or other authority for any action taken or anything done or omitted to be done, in respect of any excisable goods under any of such rule, notification or order and no enforcement shall be made by any court, of any decree or order relating to such action taken or anything done or omitted to be done as if the amendment made by section 125 of the Finance Act, 2001 had been in force at all material times;
(c) recovery shall be made of all such amounts of duty or interest or penalty or fine or credit of duty in respect of inputs or capital goods or other charges which have not been collected or, as the case may be, which have been refunded, as if the amendment made by section 125 of the Finance Act, 2001 had been in force at all material times.
Explanation.—For the removal of doubts, it is hereby declared that no act or omission on the part of any person shall be punishable as an offence which would not have been so punishable if this section had not come into force.

Central Excise Tariff

127. In the Central Excise Tariff Act, 1985 (hereinafter referred to as the Central Excise Tariff Act),—
(a) the First Schedule shall be amended in the manner specified in the Fourth Schedule;
(b) the Second Schedule shall be amended in the manner specified in the Fifth Schedule.

128. The Additional Duties of Excise (Goods of Special Importance) Act, 1957 (hereinafter referred to as the Additional Duties of Excise Act), shall be amended in the manner specified in the Sixth Schedule.

129. (1) In the case of goods specified in the Seventh Schedule, being goods manufactured or produced, there shall be levied and collected for the purposes of the Union, by surcharge, a duty of excise, to be called the National Calamity Contingent duty (hereinafter referred to as the National Calamity duty), at the rates specified in the said Schedule.
(2) The National Calamity duty chargeable on the goods specified in the Seventh Schedule shall be in addition to any other duties of excise chargeable on such goods under the Central Excise Act, 1944 or any other law for the time being in force.
(3) The provisions of the Central Excise Act, 1944 and the rules made thereunder, including those relating to refunds and exemptions from duties and imposition of penalty, shall, as far as may be, apply in relation to the levy and collection of the National Calamity duty leviable under this section in respect of the goods specified in the Seventh Schedule as they apply in relation to the levy and collection of the duties of excise on such goods under that Act or those rules, as the case may be.

CHAPTER V
SERVICE TAX

130. In the Finance Act, 1994, with effect from such date as the Central Government may, by notification in the Official Gazette, appoint,—
(a) for section 65, the following section shall be substituted, namely:—
'65. In this Chapter, unless the context otherwise requires,—
(1) "actuary" has the meaning assigned to it in clause (1) of section 2 of the Insurance Act, 1938;
(2) "advertisement" includes any notice, circular, label, wrapper, document, hoarding or any other audio or visual representation made by means of light, sound, smoke or gas;
(3) "advertising agency" means any commercial concern engaged in providing any service connected with the making, preparation, display or exhibition of advertisement and includes an advertising consultant;
(4) "air travel agent" means any person engaged in providing any service connected with the booking of passage for travel by air;
(5) "Appellate Tribunal" means the Customs, Excise and Gold (Control) Appellate Tribunal constituted under section 129 of the Customs Act, 1962;
(6) "architect" means any person whose name is, for the time being, entered in the register of architects maintained under section 23 of the Architects Act, 1972 and also includes any commercial concern engaged in any manner, whether directly or indirectly, in rendering services in the field of architecture;
(7) "assessee" means a person liable to pay the service tax and includes his agent;
(8) "authorised service station" means any service station, or centre, authorised by any automobile manufacturer, to carry out any service or repair of any automobile manufactured by such manufacturer;
(9) "banking" and "banking company" shall have the meanings assigned to them in clauses (b) and (c) of section 5 of the Banking Regulation Act, 1949, respectively;
(10) "banking and other financial services" means, the following services provided by a banking company or a financial institution including a non-banking financial company, namely:—
(i) financial leasing services including equipment leasing and hire-purchase by a body corporate;
(ii) credit card services;
(iii) merchant banking services;
(iv) securities and foreign exchange (forex) broking;
(v) asset management including portfolio management, all forms of fund management, pension fund management, custodial depository and trust services, but does not include cash management;
(vi) advisory and other auxiliary financial services including investment and portfolio research and advice, advice on mergers and acquisitions and advice on corporate restructuring and strategy; and
(vii) provision and transfer of information and data processing;
(11) "Board" means the Central Board of Excise and Customs constituted under the Central Boards of Revenue Act, 1963;
(12) "body corporate" shall have the meaning assigned to it in clause (7) of section 2 of the Companies Act, 1956;
(13) "broadcasting" has the meaning assigned to it in clause (c) of section 2 of the Prasar Bharati (Broadcasting Corporation of India) Act, 1990;
(14) "cab" means a motor cab or maxi cab;
(15) "caterer" means any person who supplies, either directly or indirectly, any food, edible preparations, alcoholic or non-alcoholic beverages or crockery and similar articles or accoutrements for any purpose or occasion;
(16) "clearing and forwarding agent" means any person who is engaged in providing any service, either directly or indirectly, connected with the clearing and forwarding operations in any manner to any other person and includes a consignment agent;
(17) "computer network" has the meaning assigned to it in clause (j) of sub-section (1) of section 2 of the Information Technology Act, 2000;
(18) "consulting engineer" means any professionally qualified engineer or an engineering firm who, either directly or indirectly, renders any advice, consultancy or technical assistance in any manner to a client in one or more disciplines of engineering;
(19) "convention" means a formal meeting or assembly which is not open to the general public, and does not include a meeting or assembly the principal purpose of which is to provide any type of amusement, entertainment or recreation;
(20) "courier agency" means a commercial concern engaged in the door-to-door transportation of time-sensitive documents, goods or articles utilising the services of a person, either directly or indirectly, to carry or accompany such documents, goods or articles;
(21) "credit rating agency" means any commercial concern engaged in the business of credit rating of any debt obligation or of any project or programme requiring finance, whether in the form of debt or otherwise, and includes credit rating of any financial obligation, instrument or security, which has the purpose of providing a potential investor or any other person any information pertaining to the relative safety of timely payment of interest or principal;
(22) " custom house agent" means a person licensed, temporarily or otherwise, under the regulations made under sub-section (2) of section 146 of the Customs Act, 1962;
(23) "data" has the meaning assigned to it in clause (o) of sub-section (1) of section 2 of the Information Technology Act, 2000;
(24) "electronic form" has the meaning assigned to it in clause (r) of sub-section (1) of section 2 of the Information Technology Act, 2000;
(25) "facsimile" (FAX) means a form of telecommunication by which fixed graphic images, such as printed texts and pictures are scanned and the information converted into electrical signals for transmission over the telecommunication system;
(26) "financial institution" has the meaning assigned to it in clause (c) of section 45-I of the Reserve Bank of India Act, 1934;
(27) "general insurance business" has the meaning assigned to it in clause (g) of section 3 of the General Insurance Business (Nationalisation) Act, 1972;
(28) "goods" has the meaning assigned to it in clause (7) of section 2 of the Sale of Goods Act,1930;
(29) "information" has the meaning assigned to it in clause (v) of sub-section (1) of section 2 of the Information Technology Act, 2000;
(30) "Insurance Agent" has the meaning assigned to it in clause (10) of section 2 of the Insurance Act, 1938;
(31) "insurance auxiliary service" means any service provided by an actuary, an intermediary or insurance intermediary or an insurance agent in relation to general insurance business and includes risk assessment, claim settlement, survey and loss assessment;
(32) "intermediary or insurance intermediary" has the meaning assigned to it in sub-clause (f) of clause (1) of section 2 of the Insurance Regulatory and Development Authority Act, 1999;
(33) "insurer" means any person carrying on the general insurance business in India;
(34) "interior decorator" means any person engaged whether directly or indirectly, in the business of providing by way of advice, consultancy, technical assistance or in any other manner, services related to planning, design or beautification of spaces, whether man-made or otherwise and includes a landscape designer;
(35) "leased circuit" means a dedicated link provided between two fixed locations for exclusive use of the subscriber and includes a speech circuit, data circuit or a telegraph circuit;
(36) "magnetic storage device" includes wax blanks, discs or blanks, strips or films for the purpose of original sound recording;
(37) "management consultant" means any person who is engaged in providing any service, either directly or indirectly, in connection with the management of any organisation in any manner and includes any person who renders any advice, consultancy or technical assistance, relating to conceptualising, devising, development, modification, rectification or upgradation of any working system of any organisation;
(38) "mandap" means any immovable property as defined in section 3 of the Transfer of Property Act, 1882 and includes any furniture, fixtures, light fittings and floor coverings therein let out for consideration for organising any official, social or business function;
(39) "mandap keeper" means a person who allows temporary occupation of a mandap for consideration for organising any official, social or business function;
(40) "manpower recruitment agency" means any commercial concern engaged in providing any service, directly or indirectly, in any manner for recruitment of manpower, to a client;
(41) "market research agency" means any commercial concern engaged in conducting market research in any manner, in relation to any product, service or utility, including all types of customised and syndicated research services;
(42) "maxi cab" has the meaning assigned to it in clause (22) of section 2 of the Motor Vehicles Act, 1988;
(43) "motor cab" has the meaning assigned to it in clause (25) of section 2 of the Motor Vehicles Act, 1988;
(44) "non-banking financial company" means a company as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934;
(45) "on-line information and database access or retrieval" means providing data or information, retrievable or otherwise, to a customer, in electronic form through a computer network;
(46) "pager" means an instrument, apparatus or appliance which is a non-speech, one way personal calling system with alert and has the capability of receiving, storing and displaying numeric or alpha-numeric messages;
(47) "photography" includes still photography, motion picture photography, laser photography, aerial photography and fluorescent photography;
(48) "photography studio or agency" means any professional photographer or a commercial concern engaged in the business of rendering service relating to photography;
(49) "policy holder" has the meaning assigned to it in clause (2) of section 2 of the Insurance Act, 1938;
(50) "port" has the meaning assigned to it in clause (q) of section 2 of the Major Port Trusts Act, 1963;
(51) "port services" means any service rendered by a port, in any manner, in relation to a vessel or goods;
(52) "practising chartered accountant" means a person who is a member of the Institute of Chartered Accountants of India and is holding a certificate of practice granted under the provision of the Chartered Accountants Act, 1949 and includes any concern engaged in rendering services in the field of chartered accountancy;
(53) "practising cost accountant" means a person who is a member of the Institute of Cost and Works Accountants of India and is holding a certificate of practice granted under the provisions of the Cost and Works Accountants Act, 1959 and includes any concern engaged in rendering services in the field of cost accountancy;
(54) "practising company secretary" means a person who is a member of the Institute of Company Secretaries of India and is holding a certificate of practice granted under the provisions of the Company Secretaries Act, 1980 and includes any concern engaged in rendering services in the field of company secretaryship;
(55) "prescribed" means prescribed by rules made under this Chapter;
(56) "real estate agent" means a person who is engaged in rendering any service in relation to sale, purchase, leasing or renting, of real estate and includes a real estate consultant;
(57) "real estate consultant" means a person who renders in any manner, either directly or indirectly, advice, consultancy or technical assistance, in relation to evaluation, conception, design, development, construction, implementation, supervision, maintenance, marketing, acquisition or management, of real estate;
(58) "recognised stock exchange" has the meaning assigned to it in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956;
(59) "rent-a-cab scheme operator" means any person engaged in the business of renting of cabs;
(60) "scientific or technical consultancy" means any advice, consultancy, or scientific or technical assistance, rendered in any manner, either directly or indirectly, by a scientist or a technocrat, or any science or technology institution or organisation, to a client, in one or more disciplines of science or technology;
(61) "securities" has the meaning assigned to it in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;
(62) "security agency" means any commercial concern engaged in the business of rendering services relating to the security of any property, whether movable or immovable, or of any person, in any manner and includes the services of investigation, detection or verification, of any fact or activity, whether of a personal nature or otherwise, including the services of providing security personnel;
(63) "service tax" means tax leviable under the provisions of this Chapter;
(64) "ship" means a sea-going vessel and includes a sailing vessel;
(65) "shipping line" means any person who owns or charters a ship and includes an enterprise which operates or manages the business of shipping;
(66) "sound recording" means recording of sound on a magnetic storage device and editing thereof, in any manner;
(67) "sound recording studio or agency" means any commercial concern engaged in the business of rendering any service relating to sound recording;
(68) "steamer agent" means any person who undertakes, either directly or indirectly,—
(a) to perform any service in connection with the ship's husbandry or dispatch including the rendering of administrative work related thereto; or
(b) to book, advertise or canvass for cargo for or on behalf of a shipping line; or
(c) to provide container feeder services for or on behalf of a shipping line;
(69) "stock-broker" means a person who has either made an application for registration or is registered as a stock-broker in accordance with the rules and regulations made under the Securities and Exchange Board of India Act, 1992;
(70) "sub-broker" means a sub-broker who has either made an application for registration or is registered as a sub-broker in accordance with the rules and regulations made under the Securities and Exchange Board of India Act, 1992;
(71) "subscriber" means a person to whom any service of a telephone connection or a facsimile or a leased circuit or a pager or a telegraph or a telex has been provided by the telegraph authority;
(72) "taxable service" means any service provided,—
(a) to an investor, by a stock-broker in connection with the sale or purchase of securities listed on a recognised stock exchange;
(b) to a subscriber, by the telegraph authority in relation to a telephone connection;
(c) to a subscriber, by the telegraph authority in relation to a pager;
(d) to a policy holder, by an insurer carrying on general insurance business in relation to general insurance business;
(e) to a client, by an advertising agency in relation to advertisement, in any manner;
(f) to a customer, by a courier agency in relation to door-to-door transportation of time-sensitive documents, goods or articles;
(g) to a client, by a consulting engineer in relation to advice, consultancy or technical assistance in any manner in one or more disciplines of engineering;
(h) to a client, by a custom house agent in relation to the entry or departure of conveyances or the import or export of goods;
(i) to a shipping line, by a steamer agent in relation to a ship's husbandry or dispatch or any administrative work related thereto as well as the booking, advertising or canvassing of cargo, including container feeder services;
(j) to a client, by a clearing and forwarding agent in relation to clearing and forwarding operations, in any manner;
(k) to a client, by a manpower recruitment agency in relation to the recruitment of manpower, in any manner;
(l) to a customer, by an air travel agent in relation to the booking of passage for travel by air;
(m) to a client, by a mandap keeper in relation to the use of mandap in any manner including the facilities provided to the client in relation to such use and also the services, if any, rendered as a caterer;
(n) to any person, by a tour operator in relation to a tour;
(o) to any person, by a rent-a-cab scheme operator in relation to the renting of a cab;
(p) to a client, by an architect in his professional capacity, in any manner;
(q) to a client, by an interior decorator in relation to planning, design or beautification of spaces, whether man-made or otherwise, in any manner;
(r) to a client, by a management consultant in connection with the management of any organisation, in any manner;
(s) to a client, by a practising chartered accountant in his professional capacity, in any manner;
(t) to a client, by a practising cost accountant in his professional capacity, in any manner;
(u) to a client, by a practising company secretary in his professional capacity, in any manner;
(v) to a client, by a real estate agent in relation to real estate;
(w) to a client, by a security agency in relation to the security of any property or person, by providing security personnel or otherwise and includes the provision of services of investigation, detection or verification of any fact or activity;
(x) to a client, by a credit rating agency in relation to credit rating of any financial obligation, instrument or security;
(y) to a client, by a market research agency in relation to market research of any product, service or utility, in any manner;
(z) to a client, by an underwriter in relation to underwriting, in any manner;
(za) to a client, by a scientist or a technocrat, or any science or technology institution or organisation, in relation to scientific or technical consultancy;
(zb) to a customer, by a photography studio or agency in relation to photography, in any manner;
(zc) to a client, by any commercial concern in relation to holding of convention, in any manner;
(zd) to a subscriber, by the telegraph authority in relation to a leased circuit;
(ze) to a subscriber, by the telegraph authority in relation to a communication through telegraph;
(zf) to a subscriber, by the telegraph authority in relation to a communication through telex;
(zg) to a subscriber, by the telegraph authority in relation to a facsimile communication;
(zh) to a customer, by a commercial concern, in relation to on-line information and database access or retrieval or both in electronic form through computer network, in any manner;
(zi) to a client, by a video production agency in relation to video-tape production, in any manner;
(zj) to a client, by a sound recording studio or agency in relation to any kind of sound recording;
(zk) to a client, by a broadcasting agency or organisation in relation to broadcasting, in any manner;
(zl) to a policy holder by an actuary, or intermediary or insurance intermediary or insurance agent, in relation to insurance auxiliary services;
(zm) to a customer, by a banking company or a financial institution including a non-banking financial company, in relation to banking and other financial services;
(zn) to any person, by a port, in relation to port services, in any manner;
(zo) to a customer, by an authorised service station, in relation to any service or repair of automobiles, in any manner;
and the term "service provider" shall be construed accordingly;
(73) "telegraph" has the meaning assigned to it in clause (1) of section 3 of the Indian Telegraph Act, 1885;
(74) "telegraph authority" has the meaning assigned to it in clause (6) of section 3 of the Indian Telegraph Act,1885 and includes a person who has been granted a licence under the first proviso to sub-section (1) of section 4 of that Act;
(75) "telex" means a typed communication by using teleprinters through telex exchanges;
(76) "tour" means a journey from one place to another irrespective of the distance between such places;
(77) "tourist vehicle" has the meaning assigned to it in clause (43) of section 2 of the Motor Vehicles Act, 1988;
(78) "tour operator" means any person engaged in the business of operating tours in a tourist vehicle covered by a permit granted under the Motor Vehicles Act,1988 or the rules made thereunder;
(79) "underwriter" has the meaning assigned to it in clause (f) of rule 2 of the Securities and Exchange Board of India (Underwriters) Rules, 1993;
(80) "underwriting" has the meaning assigned to it in clause (g) of rule 2 of the Securities and Exchange Board of India (Underwriters) Rules, 1993;
(81) "vessel" has the meaning assigned to it in clause (z) of section 2 of the Major Port Trusts Act, 1963;
(82) "video production agency" means any professional videographer or any commercial concern engaged in the business of rendering services relating to video-tape production;
(83) "video-tape production" means the process of any recording of any programme, event or function on a magnetic tape and editing thereof, in any manner;
(84) words and expressions used but not defined in this Chapter and defined in the Central Excise Act, 1944 or the rules made thereunder, shall apply, so far as may be in relation to service tax as they apply in relation to a duty of excise.';
(b) for section 66, the following section shall be substituted, namely:—
"66 (1) On and from the commencement of this Chapter, there shall be levied a tax (hereinafter referred to as the service tax), at the rate of five per cent. of the value of the taxable services referred to in sub-clauses (a), (b) and (d) of clause (72) of section 65 and collected in such manner as may be prescribed.
(2) With effect from the date notified under section 85 of the Finance (No. 2) Act, 1996, there shall be levied a service tax at the rate of five per cent. of the value of the taxable services referred to in sub-clauses (c), (e) and (f) of clause (72) of section 65 and collected in such manner as may be prescribed.
(3) With effect from the date notified under section 88 of the Finance Act, 1997, there shall be levied a service tax at the rate of five per cent. of the value of the taxable services referred to in sub-clauses (g), (h), (i), (j), (k), (l), (m), (n) and (o) of clause (72) of section 65 and collected in such manner as may be prescribed.
(4) With effect from the date notified under section 116 of the Finance (No. 2) Act, 1998, there shall be levied a service tax at the rate of five per cent. of the value of the taxable services referred to in sub-clauses (p), (q), (r), (s), (t), (u), (v), (w), (x), (y) and (z) of clause (72) of section 65 and collected in such manner as may be prescribed.
(5) With effect from the date notified under section 130 of the Finance Act, 2001, there shall be levied a service tax at the rate of five per cent. of the value of the taxable services referred to in sub-clauses (za), (zb), (zc), (zd), (ze), (zf), (zg), (zh), (zi), (zj), (zk), (zl), (zm), (zn) and (zo) of clause (72) of section 65 and collected in such manner as may be prescribed.";
(c) for section 67, the following section shall be substituted, namely:—
"67. For the purposes of this Chapter, the value of any taxable service shall be the gross amount charged by the service provider for such service rendered by him.
Explanation.- For the removal of doubts, it is hereby declared that the value of a taxable service, as the case may be, includes,—
(a) the aggregate of commission or brokerage charged by a broker on the sale or purchase of securities including the commission or brokerage paid by the stock-broker to any sub-broker;
(b) the adjustments made by the telegraph authority from any deposits made by the subscriber at the time of application for telephone connection or pager or facsimile or telegraph or telex or for leased circuit;
(c) the amount of premium charged by the insurer from the policy holder;
(d) the commission received by the air travel agent from the airline;
(e) the commission received by an actuary, or intermediary or insurance intermediary or insurance agent from the insurer; and
(f) the reimbursement received by the authorised service station from manufacturer for carrying out any service of any automobile manufactured by such manufacturer,
but does not include,—
(a) initial deposit made by the subscriber at the time of application for telephone connection or pager or facsimile or telegraph or telex or for leased circuit;
(b) the cost of unexposed photography film, unrecorded magnetic tape or such other storage devices if any, sold to the client during the course of providing the service; and
(c) the cost of parts or accessories, if any, sold to the customer during the course of service or repair of automobiles.";
(d) in section 69, for the words "Central Excise Officer", the words "Superintendent of Central Excise" shall be substituted;
(e) for sections 70 and 71, the following sections shall be substituted, namely:—
"70. Every person liable to pay the service tax shall himself assess the tax due on the services provided by him and shall furnish to the Superintendent of Central Excise, a return in such form and in such manner and at such frequency as may be prescribed.

71. (1) The Superintendent of Central Excise may, on the basis of information contained in the return filed by the assessee under section 70, verify the correctness of the tax assessed by the assessee on the services provided.
(2) The Superintendent of Central Excise may require the assessee to produce any accounts, documents or other evidence as he may deem necessary for such verification as and when required.
(3) If on verification under sub-section (2), the Superintendent of Central Excise is of the opinion that service tax on any service provided has escaped assessment or has been under-assessed, he may refer the matter to the Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise, who may pass such order of assessment as he thinks fit.";
(f) in section 72,—
(a) for the words "Central Excise Officer", wherever they occur, the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(b) in clause (b), for the words, brackets and figures "to comply with all the terms of a notice issued under sub-section (1) of section 71,", the words and figures "to comply with the provisions of section 71," shall be substituted;
(g) in section 73,—
(i) for clause (a), the following clause shall be substituted, namely:—
"(a) the Assistant Commissioner of Central Excise or, as the case may be, the Deputy Commissioner of Central Excise has reason to believe that by reason of omission or failure on the part of the assessee, to make a return under section 70 for any prescribed period or to disclose wholly or truly all material facts required for verification of the assessment under section 71, the value of taxable service has escaped assessment or has been under-assessed or any sum has erroneously been refunded, or";
(ii) in clause (b), for the portion beginning with the words "Central Excise Officer has", and ending with the words "has been under-assessed" the following shall be substituted, namely:—
"Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise has in consequence of information in his possession, reason to believe that the value of any taxable service assessable in any prescribed period has escaped assessment or has been under-assessed or any sum has erroneously been refunded";
(iii) the following Explanation shall be inserted at the end, namely :—
"Explanation.-Where the service of notice is stayed by an order of a court, the period of such stay shall be excluded in computing the period of five years or six months, as the case may be, under this section.";
(h) in section 74, for the words "Central Excise Officer", wherever they occur, the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(i) in section 75, for the words "at the rate of one and one-half per cent. for every month or part of the month", the words "at the rate of twenty-four per cent. per annum for the period" shall be substituted;
(j) after section 75, the following section shall be inserted, namely:—
"75A. Any person, liable to pay service tax in accordance with the provisions of section 68 or the rules made thereunder, fails to make an application for registration under section 69, shall pay, by way of penalty, a sum of five hundred rupees.";
(k) in section 77, for the words " a sum which shall not be less than one hundred rupees but which may extend to two hundred rupees for every week or part thereof during which such failure continues", the words "a sum which may extend to one thousand rupees" shall be substituted;
(l) in section 78, for the words "Central Excise Officer", wherever they occur, the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(m) in section 79, for the portion beginning with the words "If the Central Excise Officer" and ending with the word and figures "section 71,", the following shall be substituted, namely:—
"If the Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise in the course of any proceedings under this Chapter is satisfied that any person has failed to comply with the provisions of section 71,";
(n) in section 82, for the words "Central Excise Officer", the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(o) in section 84,—
(a) in sub-section (1), for the words "Central Excise Officer subordinate to him", the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(b) in sub-section (3), for the words "Central Excise Officer", the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(p) in section 85, for the words "Central Excise Officer", wherever they occur, the words "Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise" shall be substituted;
(q) in section 86,—
(a) for sub-section (2), the following sub-sections shall be substituted, namely:—
"(2) The Board may, if it objects to any order passed by the Commissioner of Central Excise under section 84, direct the Commissioner of Central Excise to appeal to the Appellate Tribunal against the order.
(2A) The Commissioner of Central Excise may, if he objects to any order passed by the Commissioner of Central Excise (Appeals) under section 85, direct the Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise to appeal to the Appellate Tribunal against the order.";
(b) in sub-section (3), for the words, brackets and figure "or sub-section (2)", the words, brackets, figures and letter "or sub-section (2) or sub-section (2A)" shall be substituted;
(c) in sub-section (4), for the portion beginning with the words "The Central Excise Officer" and ending with the words, brackets and figure "or sub-section (2),", the following shall be substituted, namely:—
"The Commissioner of Central Excise or Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise or the assessee, as the case may be, on receipt of a notice that an appeal against the order of the Commissioner of Central Excise or the Commissioner of Central Excise (Appeals) has been preferred under sub-section (1) or sub-section (2) or sub-section (2A)";
(d) in sub-section (6), for the words, brackets and figure " in sub-section (2)", the words, brackets, figures and letter " in sub-section (2) or sub-section (2A)" shall be substituted.

CHAPTER VI
Miscellaneous

131. In the Indian Post Office Act, 1898, with effect from such date as the Central Government may, by notification in the Official Gazette, appoint, for the First Schedule, the following Schedule shall be substituted, namely:—
"THE FIRST SCHEDULE
(See section 7)
INLAND POSTAGE RATES

Letters	
For a weight not exceeding twenty grams	Rs. 4.00
For every twenty grams, or fraction thereof, exceeding twenty grams	Rs. 4.00.
Letter-cards	
For a letter-card	Rs. 2.00.
Post cards	
Post cards (not being post cards containing printed communication or competition post cards)	
Single	50 paise
Reply	Re. 1.00
Printed post cards	
Post cards containing printed communication (not being competition post cards)	
For a post card	Rs. 3.00.

Explanation.—A post card shall be deemed to contain a printed communication, if any matter (except the name and address of, and other particulars relating to, the sender and the place and date of despatch) is recorded by printing or by cyclostyling or by any other mechanical process, not being typewriting, on any part of the post card except the right hand half of the address-side thereof.

Competition post cards	
For a post card	Rs. 5.00.

Explanation.—A post card shall be deemed to be a competition post card if it is used in response to any competition organised on or through television, radio, newspapers, magazine or any other media.

Book, pattern and sample packets	
For the first fifty grams or fraction thereof	Rs. 3.00
For every additional fifty grams, or fraction thereof, in excess of fifty grams	Rs. 4.00.
Registered newspapers	
For a weight not exceeding fifty grams	25 paise
For a weight exceeding fifty grams but not exceeding one hundred grams	50 paise
For every additional one hundred grams, or fraction thereof, exceeding one hundred grams	20 paise.
In the case of more than one copy of the same issue of a registered newspaper being carried in the same packet-	
For a weight not exceeding one hundred grams	50 paise
For every additional one hundred grams, or fraction thereof, exceeding one hundred grams	20 paise:

Provided that such packet shall not be delivered at any addressee's residence but shall be given to a recognised agent at the Post Office.

Parcels	
For a weight not exceeding five hundred grams	Rs.16.00
For every five hundred grams, or fraction thereof, exceeding five hundred grams	Rs.15.00.".

132. In the Central Sales Tax Act, 1956, in section 14,—
(a) after clause (iic), the following clause shall be inserted, namely:—
'(iid) Aviation Turbine Fuel sold to a Turbo-Prop Aircraft.
Explanation.—For the purposes of this clause, "Turbo-Prop Aircraft" means an aircraft deriving thrust, mainly from propeller, which may be driven by either turbine engine or piston engine;';
(b) in clause (iv), in sub-clause (i), for the words "pig iron and", the words "pig iron, sponge iron and" shall be substituted.

133. Section 55 of the National Bank for Agriculture and Rural Development Act, 1981 shall be omitted with effect from the 1st day of April, 2002.

134. Section 48 of the National Housing Bank Act, 1987 shall be omitted with effect from the 1st day of April, 2002.

135. Section 50 of the Small Industries Development Bank of India Act, 1989 shall be omitted with effect from the 1st day of April, 2002.

THE FIRST SCHEDULE
(See section 2)
PART I
INCOME-TAX
Paragraph A

In the case of every individual or Hindu undivided family or association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which any other Paragraph of this Part applies,—

Rates of income-tax

(1) where the total income does not exceed Rs. 50,000	Nil;
(2) where the total income exceeds Rs. 50,000 but does not exceed Rs. 60,000	10 per cent. of the amount by which the total income exceeds Rs. 50,000;
(3) where the total income exceeds Rs. 60,000 but does not exceed Rs. 1,50,000	Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 60,000;
(4) where the total income exceeds Rs. 1,50,000	Rs. 19,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 1,50,000.

Surcharge on income-tax
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph or in section 112 or section 113 shall,—
(i) in the case of every individual or Hindu undivided family, or association of persons or body of individuals having a total income exceeding sixty thousand rupees, be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A, and the income-tax as so reduced, be increased by a surcharge for purposes of the Union calculated—
(A) at the rate of twelve per cent. of such income-tax where the total income exceeds sixty thousand rupees but does not exceed one lakh fifty thousand rupees; or
(B) at the rate of seventeen per cent. of such income-tax where the total income exceeds one lakh fifty thousand rupees;
(ii) in the case of every person other than those mentioned in item (i),
be increased by a surcharge for purposes of the Union calculated at the rate of twelve per cent. of such income-tax:
Provided that in case of persons mentioned in sub-item (A) of item (i) above having a total income exceeding sixty thousand rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of sixty thousand rupees by more than the amount of income that exceeds sixty thousand rupees:

Provided further that in case of persons mentioned in sub-item (B) of item (i) above having a total income exceeding one lakh fifty thousand rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax and surcharge on a total income of one lakh fifty thousand rupees by more than the amount of income that exceeds one lakh fifty thousand rupees.

Paragraph B

In the case of every co-operative society,—

Rates of income-tax

(1) where the total income does not exceed Rs. 10,000 — 10 per cent. of the total income;

(2) where the total income exceeds Rs.10,000 but does not exceed Rs. 20,000 — Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 10,000

(3) where the total income exceeds Rs. 20,000; — Rs. 3,000 plus 35 per cent. of the amount by which the total income exceeds Rs. 20,000.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph, or in section 112 or section 113, shall, in the case of every co-operative society, be increased by a surcharge for purposes of the Union calculated at the rate of twelve per cent. of such income-tax.

Paragraph C
In the case of every firm,—
Rate of income-tax
On the whole of the total income — 35 per cent.
Surcharge on income-tax
The amount of income-tax computed at the rate hereinbefore specified, or in section 112 or section 113, shall, in the case of every firm, be increased by a surcharge for purposes of the Union calculated at the rate of twelve per cent. of such income-tax.

Paragraph D
In the case of every local authority,—
Rate of income-tax
On the whole of the total income — 30 per cent.
Surcharge on income-tax
The amount of income-tax computed at the rate hereinbefore specified, or in section 112 or section 113, shall, in the case of every local authority, be increased by a surcharge for purposes of the Union calculated at the rate of twelve per cent. of such income-tax.

Paragraph E
In the case of a company,—
Rates of income-tax
I. In the case of a domestic company — 35 per cent. of the total income;
II. In the case of a company other than a domestic company,—
(i) on so much of the total income as consists of,—
(a) royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961 but before the 1st day of April, 1976, or
(b) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964 but before the 1st day of April, 1976,
and where such agreement has, in either case, been approved by the Central Government — 50 per cent.;
(ii) on the balance, if any, of the total income — 48 per cent.
Surcharge on income-tax
The amount of income-tax computed in accordance with the preceding provisions of item I of this Paragraph, or in section 112 or section 113, shall, in the case of every domestic company, be increased by a surcharge calculated at the rate of thirteen per cent. of such income-tax.

PART II

RATES FOR DEDUCTION OF TAX AT SOURCE IN CERTAIN CASES

In every case in which under the provisions of sections 193, 194, 194A, 194B, 194BB, 194D and 195 of the Income-tax Act, tax is to be deducted at the rates in force, deduction shall be made from the income subject to the deduction at the following rates:—

Rate of income-tax

1. In the case of a person other than a company—
(a) where the person is resident in India—
(i) on income by way of interest other than "Interest on securities" — 10 percent
(ii) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort — 30 percent
(iii) on income by way of winnings from horse races — 30 percent
(iv) on income by way of insurance commission — 10 percent
(v) on income by way of interest payable on— — 10 percent
(A) any debentures or securities other than a security of the Central or State Government for money issued by or on behalf of any local authority or a corporation established by a Central, State or Provincial Act;
(B) any debentures issued by a company where such debentures are listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder
(vi) on any other income — 20 percent
(b) where the person is not resident in India—
(i) in the case of a non-resident Indian—
(A) on any investment income — 20 percent
(B) on income by way of long-term capital gains referred to in section 115E — 10 percent
(C) on other income by way of long-term capital gains — 20 percent
(D) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency — 20 percent
(E) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort — 30 percent
(F) on income by way of winnings from horse races — 30 percent
(G) on the whole of the other income — 30 percent
(ii) in the case of any other person—
(A) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency — 20 percent
(B) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort — 30 percent
(C) on income by way of winnings from horse races — 30 percent
(D) on income by way of long-term capital gains — 20 percent
(E) on the whole of the other income — 30 percent
2. In the case of a company—
(a) where the company is a domestic company—
(i) on income by way of interest other than "Interest on securities" — 20 percent
(ii) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort — 30 percent
(iii) on income by way of winnings from horse races — 30 percent
(iv) on any other income — 20 percent
(b) where the company is not a domestic company—
(i) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort — 30 percent
(ii) on income by way of winnings from horse races — 30 percent
(iii) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency — 20 percent
(iv) on income by way of royalty payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1976, where such royalty is in consideration for the transfer of all or any rights (including the granting of a licence) in respect of copyright in any book on a subject referred to in the first proviso to sub-section (1A) of section 115A of the Income-tax Act, to the Indian concern, or in respect of any computer software referred to in the second proviso to sub-section (1A) of section 115A of the Income-tax Act, to a person resident in India—
(A) where the agreement is made before the 1st day of June, 1997 — 30 percent
(B) where the agreement is made on or after the 1st day of June, 1997 — 20 percent
(v) on income by way of royalty [not being royalty of the nature referred to in sub-item (b)(iv)] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy—
(A) where the agreement is made after the 31st day of March, 1961 but before the 1st day of April, 1976 — 50 percent
(B) where the agreement is made after the 31st day of March, 1976 but before the 1st day of June, 1997 — 30 percent
(C) where the agreement is made on or after the 1st day of June, 1997 — 20 percent
(vi) on income by way of fees for technical services payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy—
(A) where the agreement is made after the 29th day of February, 1964 but before the 1st day of April, 1976 — 50 percent
(B) where the agreement is made after the 31st day of March, 1976 but before the 1st day of June, 1997 — 30 percent
(C) where the agreement is made on or after the 1st day of June, 1997 — 20 percent
(vii) on income by way of long-term capital gains — 20 percent
(viii) on any other income — 48 percent
Explanation.—For the purpose of item 1(b)(i) of this Part, "investment income" and "non-resident Indian" shall have the meanings assigned to them in Chapter XII-A of the Income-tax Act.
Surcharge on income-tax
The amount of income-tax deducted in accordance with the provisions of this Part shall be increased by a surcharge for purposes of the Union, calculated at the rate of two per cent. of such income-tax:
Provided that no surcharge shall be payable by a foreign company.

PART III

RATES FOR CHARGING INCOME-TAX IN CERTAIN CASES, DEDUCTING INCOME-TAX FROM INCOME CHARGEABLE UNDER THE HEAD "SALARIES" AND COMPUTING "ADVANCE TAX"

In cases in which income-tax has to be charged under sub-section (4) of section 172 of the Income-tax Act or sub-section (2) of section 174 or section 175 or sub-section (2) of section 176 of the said Act or deducted under section 192 of the said Act from income chargeable under the head "Salaries" or in which the "advance tax" payable under Chapter XVII-C of the said Act has to be computed at the rate or rates in force, such income-tax or, as the case may be, "advance tax" [not being "advance tax" in respect of any income chargeable to tax under Chapter XII or Chapter XII-A or section 115JB or sub-section (1A) of section 161 or section 164 or section 164A or section 167B of the Income-tax Act at the rates as specified in that Chapter or section or surcharge on such "advance tax" in respect of any income chargeable to tax under section 115A or section 115AB or section 115AC or section 115ACA or section 115AD or section 115B or section 115BB or section 115BBA or section 115E or section 115JB] shall be charged, deducted or computed at the following rate or rates:—

Paragraph A

In the case of every individual or Hindu undivided family or association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which any other Paragraph of this Part applies,—

Rates of income-tax

(1) where the total income does not exceed Rs. 50,000 — Nil
(2) where the total income exceeds Rs. 50,000 but does not exceed Rs. 60,000 — 10 per cent. of the amount by which the total income exceeds Rs. 50,000;
(3) where the total income exceeds Rs. 60,000 but does not exceed Rs. 1,50,000 — Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 60,000;
(4) where the total income exceeds Rs. 1,50,000; — Rs. 19,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 1,50,000.

Surcharge on income-tax
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph or in section 112 or section 113 shall,—
(i) in the case of every individual or Hindu undivided family, or association of persons or body of individuals having a total income exceeding sixty thousand rupees, be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A, and the income-tax as so reduced, be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax;
(ii) in the case of every person other than those mentioned in item (i), be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax:
Provided that in case of persons mentioned in item (i) above having a total income exceeding sixty thousand rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of sixty thousand rupees by more than the amount of income that exceeds sixty thousand rupees.
Paragraph B
In the case of every co-operative society,—
Rates of income-tax
(1) where the total income does not exceed Rs. 10,000 — 10 per cent. of the total income;
(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 20,000 — Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 10,000;
(3) where the total income exceeds Rs. 20,000 — Rs. 3,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 20,000.
Surcharge on income-tax
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph, or in section 112 or section 113 shall, in the case of every co-operative society, be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax.
Paragraph C
In the case of every firm,—
Rate of income-tax
On the whole of the total income — 35 per cent.
Surcharge on income-tax
The amount of income-tax computed at the rate hereinbefore specified, or in section 112 or section 113, shall, in the case of every firm, be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax.
Paragraph D
In the case of every local authority,—
Rate of income-tax
On the whole of the total income — 30 per cent.
Surcharge on income-tax
The amount of income-tax computed at the rate hereinbefore specified, or in section 112 or section 113, shall, in the case of every local authority, be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax.
Paragraph E
In the case of a company,—
Rates of income-tax
I. In the case of a domestic company — 35 per cent. of the total income;
II. In the case of a company other than a domestic company—
(i) on so much of the total income as consists of—
(a) royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961 but before the 1st day of April, 1976, or
(b) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964 but before the 1st day of April, 1976,
and where such agreement has, in either case, been approved by the Central Government — 50 per cent.;
(ii) on the balance, if any, of the total income — 48 per cent.

Surcharge on income-tax
The amount of income-tax computed in accordance with the preceding provisions of item I of this Paragraph, or in section 112 or section 113, shall, in the case of every domestic company, be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax.

PART IV

[See section 2(10)(c)]

RULES FOR COMPUTATION OF NET AGRICULTURAL INCOME

Rule 1.—Agricultural income of the nature referred to in sub-clause (a) of clause (1A) of section 2 of the Income-tax Act shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from other sources" and the provisions of sections 57 to 59 of that Act shall, so far as may be, apply accordingly:
Provided that sub-section (2) of section 58 shall apply subject to the modification that the reference to section 40A therein shall be construed as not including a reference to sub-sections (3) and (4) of section 40A.
Rule 2.—Agricultural income of the nature referred to in sub-clause (b) or sub-clause (c) of clause (1A) of section 2 of the Income-tax Act [other than income derived from any building required as a dwelling house by the receiver of the rent or revenue of the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c)] shall be computed as if it were income chargeable to income-tax under that Act under the head "Profits and gains of business or profession" and the provisions of sections 30, 31, 32, 36, 37, 38, 40, 40A [other than sub-sections (3) and (4) thereof], 41, 43, 43A, 43B and 43C of the Income-tax Act shall, so far as may be, apply accordingly.
Rule 3.—Agricultural income of the nature referred to in sub-clause (c) of clause (1A) of section 2 of the Income-tax Act, being income derived from any building required as a dwelling-house by the receiver of the rent or revenue or the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c) shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from house property" and the provisions of sections 23 to 27 of that Act shall, so far as may be, apply accordingly.
Rule 4.—Notwithstanding anything contained in any other provisions of these rules, in a case—
(a) where the assessee derives income from sale of tea grown and manufactured by him in India, such income shall be computed in accordance with rule 8 of the Income-tax Rules, 1962, and sixty per cent. of such income shall be regarded as the agricultural income of the assessee;
(b) where the assessee derives income from sale of centrifuged latex or cenex manufactured by him from rubber grown by him in India, such income shall be computed in accordance with rule 7A of the Income-tax Rules, 1962, and sixty-five per cent. of such income shall be regarded as the agricultural income of the assessee;
(c) where the assessee derives income from sale of coffee grown and manufactured by him in India, such income shall be computed in accordance with rule 7B of the Income-tax Rules, 1962, and sixty per cent. of such income shall be regarded as the agricultural income of the assessee.
Rule 5.—Where the assessee is a member of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) which in the previous year has either no income chargeable to tax under the Income-tax Act or has total income not exceeding the maximum amount not chargeable to tax in the case of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) but has any agricultural income, then, the agricultural income or loss of the association or body shall be computed in accordance with these rules and the share of the assessee in the agricultural income or loss so computed shall be regarded as the agricultural income or loss of the assessee.
Rule 6.—Where the result of the computation for the previous year in respect of any source of agricultural income is a loss, such loss, shall be set off against the income of the assessee, if any, for that previous year from any other source of agricultural income:
Provided that where the assessee is a member of an association of persons or a body of individuals and the share of the assessee in the agricultural income of the association or body, as the case may be, is a loss, such loss shall not be set off against any income of the assessee from any other source of agricultural income.
Rule 7.—Any sum payable by the assessee on account of any tax levied by the State Government on the agricultural income shall be deducted in computing the agricultural income.
Rule 8.—(1) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 2001, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous years relevant to the assessment years commencing on the 1st day of April, 1993 or the 1st day of April, 1994 or the 1st day of April, 1995 or the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 is a loss, then, for the purposes of sub-section (2) of section 2 of this Act,—
(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1993, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1994 or the 1st day of April, 1995 or the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000,
(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1994, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1995 or the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000,
(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1995, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000,
(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1996, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000,
(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1997, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000,
(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1998, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1999 or the 1st day of April, 2000,
(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1999, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2000,
(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2000,
shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 2001.
(2) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 2002 or, if by virtue of any provision of the Income-tax Act, income-tax is to be charged in respect of the income of a period other than that previous year, in such other period, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous years relevant to the assessment years commencing on the 1st day of April, 1994 or the 1st day of April, 1995 or the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001 is a loss, then, for the purposes of sub-section (9) of section 2 of this Act,—
(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1994, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1995 or the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001,
(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1995, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1996 or the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001,
(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1996, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1997 or the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001,
(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1997, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001,
(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1998, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001,
(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1999, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2000 or the 1st day of April, 2001,
(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2000, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2001,
(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2001,
shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 2002.
(3) Where any person deriving any agricultural income from any source has been succeeded in such capacity by another person, otherwise than by inheritance, nothing in sub-rule (1) or sub-rule (2) shall entitle any person, other than the person incurring the loss, to have it set off under sub-rule (1) or, as the case may be, sub-rule (2).
(4) Notwithstanding anything contained in this rule, no loss which has not been determined by the Assessing Officer under the provisions of these rules or the rules contained in Part IV of the First Schedule to the Finance Act, 1993 (38 of 1993), or of the First Schedule to the Finance Act, 1994 (32 of 1994), or of the First Schedule to the Finance Act, 1995 (22 of 1995), or of the First Schedule to the Finance (No.2) Act, 1996 (33 of 1996), or of the First Schedule to the Finance Act, 1997 (26 of 1997), or of the First Schedule to the Finance (No.2) Act, 1998 (21 of 1998), or of the First Schedule to the Finance Act, 1999 (27 of 1999), or of the First Schedule to the Finance Act, 2000 (10 of 2000), shall be set off under sub-rule (1) or, as the case may be, sub-rule (2).
Rule 9.—Where the net result of the computation made in accordance with these rules is a loss, the loss so computed shall be ignored and the net agricultural income shall be deemed to be nil.
Rule 10.—The provisions of the Income-tax Act relating to procedure for assessment (including the provisions of section 288A relating to rounding off of income) shall, with the necessary modifications, apply in relation to the computation of the net agricultural income of the assessee as they apply in relation to the assessment of the total income.
Rule 11.—For the purposes of computing the net agricultural income of the assessee, the Assessing Officer shall have the same powers as he has under the Income-tax Act for the purposes of assessment of the total income.

THE SECOND SCHEDULE
[See section 113 (a)]
In the First Schedule to the Customs Tariff Act,—
(1) in Chapter 8, for the entries in column (4) and column (5) occurring against each of the sub-heading Nos. 0801.11 and 0801.19, the entries "70%" and "60%" shall respectively be substituted;
(2) in Chapter 9,—
(i) for the entries in column (4) and column (5) occurring against each of the sub-heading Nos. 0901.11, 0901.12, 0901.21, 0901.22 and 0901.90, the entries "70%" and "70% less 13 paise per kg." shall respectively be substituted;
(ii) for the entries in column (4) and column (5) occurring against each of the sub-heading Nos. 0902.10, 0902.20, 0902.30 and 0902.40, the entries "70%" and "70% less 26 paise per kg." shall respectively be substituted;
(3) in Chapter 12, for the entries in column (4) and column (5) occurring against sub-heading No. 1203.00, the entries "70%" and "60%" shall respectively be substituted;
(4) in Chapter 49, in sub-heading No. 4906.00, for the entry in column (4), the entry " 25 %" shall be substituted;
(5) in Chapter 50, in sub-heading Nos. 5003.10 and 5003.90, for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(6) in Chapter 51,—
(i) in sub-heading No. 5111.11, for the entry in column (4), the entry "30% or Rs. 135 per sq. mtr., whichever is higher" shall be substituted;
(ii) in sub-heading No. 5111.19, for the entry in column (4), the entry "30% or Rs. 150 per sq. mtr., whichever is higher" shall be substituted;
(iii) in sub-heading No. 5111.20, for the entry in column (4), the entry "30% or Rs. 80 per sq. mtr., whichever is higher" shall be substituted;
(iv) in sub-heading No. 5111.30, for the entry in column (4), the entry "30% or Rs. 75 per sq. mtr., whichever is higher" shall be substituted;
(v) in sub-heading No. 5111.90, for the entry in column (4), the entry "30% or Rs. 90 per sq. mtr., whichever is higher" shall be substituted;
(vi) in sub-heading No. 5112.11, for the entry in column (4), the entry "30% or Rs. 125 per sq. mtr., whichever is higher" shall be substituted;
(vii) in sub-heading No. 5112.19, for the entry in column (4), the entry "30% or Rs. 155 per sq. mtr., whichever is higher" shall be substituted;
(viii) in sub-heading No. 5112.20, for the entry in column (4), the entry "30% or Rs. 85 per sq. mtr., whichever is higher" shall be substituted;
(ix) in sub-heading No. 5112.30, for the entry in column (4), the entry "30% or Rs. 110 per sq. mtr., whichever is higher" shall be substituted;
(x) in sub-heading No. 5112.90, for the entry in column (4), the entry "30% or Rs. 135 per sq. mtr., whichever is higher" shall be substituted;
(7) in Chapter 52,—
(i) in sub-heading Nos. 5202.10, 5202.91 and 5202.99, for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(ii) in sub-heading No. 5208.39, for the entry in column (4), the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(iii) in sub-heading No. 5208.42, for the entry in column (4), the entry "30% or Rs. 37 per sq.mtr., whichever is higher" shall be substituted;
(iv) in sub-heading No. 5208.52, for the entry in column (4), the entry "30% or Rs. 23 per sq. mtr., whichever is higher" shall be substituted;
(v) in sub-heading No. 5208.53, for the entry in column (4), the entry "30% or Rs. 35 per sq. mtr., whichever is higher" shall be substituted;
(vi) in sub-heading No. 5208.59, for the entry in column (4), the entry "30% or Rs. 50 per sq. mtr., whichever is higher" shall be substituted;
(vii) in sub-heading Nos. 5209.31, 5209.32 and 5209.39, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(viii) in sub-heading No. 5209.41, for the entry in column (4), the entry "35% or Rs. 32 per sq. mtr., whichever is higher" shall be substituted;
(ix) in sub-heading No. 5209.42, for the entry in column (4), the entry "30% or Rs. 25 per sq. mtr., whichever is higher" shall be substituted;
(x) in sub-heading No. 5209.43, for the entry in column (4), the entry "35% or Rs. 30 per sq. mtr., whichever is higher" shall be substituted;
(xi) in sub-heading No. 5209.49, for the entry in column (4), the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(xii) in sub-heading Nos. 5209.51 and 5209.52, for the entry in column (4) occurring against each of them, the entry "30% or Rs. 30 per sq. mtr., whichever is higher" shall be substituted;
(xiii) in sub-heading No. 5209.59, for the entry in column (4), the entry "30% or Rs. 38 per sq. mtr., whichever is higher" shall be substituted;
(xiv) in sub-heading No. 5210.39, for the entry in column (4) , the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(xv) in sub-heading No. 5210.42, for the entry in column (4), the entry "35% or Rs. 25 per sq. mtr., whichever is higher" shall be substituted;
(xvi) in sub-heading No. 5210.51 for the entry in column (4), the entry "30% or Rs. 15 per sq. mtr., whichever is higher" shall be substituted;
(xvii) in sub-heading No. 5210.59, for the entry in column (4), the entry "30% or Rs. 15 per sq. mtr., whichever is higher" shall be substituted;
(xviii) in sub-heading Nos. 5211.31, 5211.32 and 5211.39, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(xix) in sub-heading No. 5211.41, for the entry in column (4), the entry "35% or Rs. 44 per sq. mtr., whichever is higher" shall be substituted;
(xx) in sub-heading No. 5211.43, for the entry in column (4), the entry "35% or Rs. 40 per sq. mtr., whichever is higher" shall be substituted;
(xxi) in sub-heading No. 5211.49, for the entry in column (4), the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(xxii) in sub-heading Nos. 5211.51, 5211.52 and 5211.59, for the entry in column (4) occurring against each of them, the entry "30% or Rs. 18 per sq. mtr., whichever is higher" shall be substituted;
(8) in Chapter 54,—
(i) in sub-heading No. 5407.41, for the entry in column (4), the entry "25% or Rs. 30 per sq. mtr., whichever is higher" shall be substituted;
(ii) in sub-heading No. 5407.42, for the entry in column (4), the entry "30% or Rs. 60 per sq. mtr., whichever is higher" shall be substituted;
(iii) in sub-heading No. 5407.43, for the entry in column (4), the entry "30% or Rs. 67 per sq. mtr., whichever is higher" shall be substituted;
(iv) in sub-heading No. 5407.44, for the entry in column (4), the entry "30% or Rs. 58 per sq. mtr., whichever is higher" shall be substituted;
(v) in sub-heading No. 5407.52, for the entry in column (4), the entry "30% or Rs. 38 per sq. mtr., whichever is higher" shall be substituted;
(vi) in sub-heading No. 5407.53, for the entry in column (4), the entry "30% or Rs. 50 per sq. mtr., whichever is higher" shall be substituted;
(vii) in sub-heading No. 5407.54, for the entry in column (4), the entry "30% or Rs. 20 per sq. mtr., whichever is higher" shall be substituted;
(viii) in sub-heading No. 5407.61, for the entry in column (4), the entry "25% or Rs. 150 per kg., whichever is higher" shall be substituted;
(ix) in sub-heading No. 5407.69, for the entry in column (4), the entry "30% or Rs. 60 per sq. mtr., whichever is higher" shall be substituted;
(x) in sub-heading No. 5407.72, for the entry in column (4), the entry "25% or Rs. 24 per sq. mtr., whichever is higher" shall be substituted;
(xi) in sub-heading No. 5407.73, for the entry in column (4), the entry "30% or Rs. 60 per sq. mtr., whichever is higher" shall be substituted;
(xii) in sub-heading No. 5407.74, for the entry in column (4), the entry "30% or Rs. 38 per sq. mtr., whichever is high-

er" shall be substituted;
(xiii) in sub-heading No. 5407.82, for the entry in column (4), the entry "30% or Rs. 42 per sq. mtr., whichever is higher" shall be substituted;
(xiv) in sub-heading No. 5407.83, for the entry in column (4), the entry "30% or Rs. 67 per sq.mtr., whichever is higher" shall be substituted;
(xv) in sub-heading No. 5407.84, for the entry in column (4), the entry "30% or Rs. 38 per sq.mtr., whichever is higher" shall be substituted;
(xvi) in sub-heading No. 5407.92, for the entry in column (4), the entry "30% or Rs. 67 per sq. mtr., whichever is higher" shall be substituted;
(xvii) in sub-heading No. 5407.93, for the entry in column (4), the entry "30% or Rs. 45 per sq. mtr., whichever is higher" shall be substituted;
(xviii) in sub-heading No. 5407.94, for the entry in column (4), the entry "30% or Rs. 67 per sq. mtr., whichever is higher" shall be substituted;
(xix) in sub-heading No. 5408.22, for the entry in column (4), the entry "30% or Rs. 45 per sq. mtr., whichever is higher" shall be substituted;
(xx) in sub-heading No. 5408.23, for the entry in column (4), the entry "30% or Rs. 47 per sq. mtr., whichever is higher" shall be substituted;
(xxi) in sub-heading No. 5408.24, for the entry in column (4), the entry "30% or Rs. 87 per sq. mtr., whichever is higher" shall be substituted;
(xxii) in sub-heading No. 5408.31, for the entry in column (4), the entry "30% or Rs. 25 per sq. mtr., whichever is higher" shall be substituted;
(xxiii) in sub-heading No. 5408.32, for the entry in column (4), the entry "30% or Rs. 44 per sq. mtr., whichever is higher" shall be substituted;
(9) in Chapter 55,—
(i) in sub-heading No. 5512.19, for the entry in column (4), the entry "30% or Rs. 42 per sq. mtr., whichever is higher" shall be substituted;
(ii) in sub-heading No. 5512.29, for the entry in column (4), the entry "30% or Rs. 47 per sq. mtr., whichever is higher" shall be substituted;
(iii) in sub-heading No. 5513.23, for the entry in column (4), the entry "35% or Rs. 125 per kg. or Rs. 25 per sq. mtr., whichever is highest" shall be substituted;
(iv) in sub-heading No. 5513.31, for the entry in column (4), the entry "30% or Rs. 21 per sq. mtr., whichever is higher" shall be substituted;
(v) in sub-heading No. 5513.33, for the entry in column (4), the entry "35% or Rs. 22 per sq. mtr., whichever is higher" shall be substituted;
(vi) in sub-heading No. 5513.39, for the entry in column (4), the entry "35% or Rs. 125 per kg. or Rs. 30 per sq. mtr., whichever is highest" shall be substituted;
(vii) in sub-heading No. 5513.41, for the entry in column (4), the entry "30% or Rs. 25 per sq. mtr., whichever is higher" shall be substituted;
(viii) in sub-heading No. 5513.42, for the entry in column (4), the entry "35% or Rs. 12 per sq. mtr., whichever is higher" shall be substituted;
(ix) in sub-heading No. 5513.43, for the entry in column (4), the entry "35% or Rs. 20 per sq. mtr., whichever is higher" shall be substituted;
(x) in sub-heading No. 5514.21, for the entry in column (4), the entry "35% or Rs. 100 per kg. or Rs. 30 per sq. mtr., whichever is highest" shall be substituted;
(xi) in sub-heading No. 5514.31, for the entry in column (4), the entry "35% or Rs. 64 per sq. mtr., whichever is higher" shall be substituted;
(xii) in sub-heading No. 5514.32, for the entry in column (4), the entry "30% or Rs. 43 per sq. mtr., whichever is higher" shall be substituted;
(xiii) in sub-heading No. 5514.39, for the entry in column (4), the entry "30% or Rs. 31 per sq. mtr., whichever is higher" shall be substituted;
(xiv) in sub-heading No. 5514.41, for the entry in column (4), the entry "30% or Rs. 26 per sq. mtr., whichever is higher" shall be substituted;
(xv) in sub-heading No. 5514.43, for the entry in column (4), the entry "35% or Rs. 31 per sq. mtr., whichever is higher" shall be substituted;
(xvi) in sub-heading No. 5515.11, for the entry in column (4), the entry "30% or Rs. 40 per sq. mtr., whichever is higher" shall be substituted;
(xvii) in sub-heading No. 5515.19, for the entry in column (4), the entry "30% or Rs. 45 per sq. mtr., whichever is higher" shall be substituted;
(xviii) in sub-heading No. 5515.21, for the entry in column (4), the entry "35% or Rs. 79 per sq. mtr., whichever is higher" shall be substituted;
(xix) in sub-heading No. 5515.29, for the entry in column (4), the entry "30% or Rs. 30 per sq. mtr., whichever is higher" shall be substituted;
(xx) in sub-heading No. 5515.91, for the entry in column (4), the entry "35% or Rs. 57 per sq. mtr., whichever is higher" shall be substituted;
(xxi) in sub-heading No. 5515.92, for the entry in column (4), the entry "35% or Rs. 55 per sq. mtr., whichever is higher" shall be substituted;
(xxii) in sub-heading No. 5515.99, for the entry in column (4), the entry "30% or Rs. 35 per sq. mtr., whichever is higher" shall be substituted;
(xxiii) in sub-heading No. 5516.12, for the entry in column (4), the entry "35% or Rs. 35 per sq. mtr., whichever is higher" shall be substituted;
(xxiv) in sub-heading No. 5516.13, for the entry in column (4), the entry "35% or Rs. 40 per sq. mtr., whichever is higher" shall be substituted;
(xxv) in sub-heading Nos. 5516.22 and 5516.23, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(xxvi) in sub-heading No. 5516.94, for the entry in column (4), the entry "35% or Rs. 40 per sq. mtr., whichever is higher" shall be substituted;
(10) in Chapter 58,—
(i) in sub-heading No. 5801.35, for the entry in column (4), the entry "25% or Rs. 68 per sq. mtr., whichever is higher" shall be substituted;
(ii) in sub-heading No. 5802.30, for the entry in column (4), the entry "35% or Rs. 150 per kg., whichever is higher" shall be substituted;
(11) in Chapter 61,—
(i) in sub-heading No. 6104.19, for the entry in column (4), the entry "35% or Rs. 460 per piece, whichever is higher" shall be substituted;
(ii) in sub-heading Nos. 6104.62 and 6104.63, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 98 per piece, whichever is higher" shall be substituted;
(iii) in sub-heading Nos. 6105.10 and 6105.20, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 83 per piece, whichever is higher" shall be substituted;
(iv) in sub-heading No. 6105.90, for the entry in column (4), the entry "35% or Rs. 90 per piece, whichever is higher" shall be substituted;
(v) in sub-heading No. 6106.10, for the entry in column (4), the entry "35% or Rs. 90 per piece, whichever is higher" shall be substituted;
(vi) in sub-heading No. 6107.11, for the entry in column (4), the entry "35% or Rs. 24 per piece, whichever is higher" shall be substituted;
(vii) in sub-heading Nos. 6108.21 and 6108.22, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 25 per piece, whichever is higher" shall be substituted;
(viii) in sub-heading No. 6108.91, for the entry in column (4), the entry "35% or Rs. 65 per piece, whichever is higher" shall be substituted;
(ix) in sub-heading No. 6108.92, for the entry in column (4), the entry "35% or Rs. 60 per piece, whichever is higher" shall be substituted;
(x) in sub-heading No. 6109.10, for the entry in column (4), the entry "35% or Rs. 45 per piece, whichever is higher" shall be substituted;
(xi) in sub-heading No. 6109.90, for the entry in column (4), the entry "35% or Rs. 50 per piece, whichever is higher" shall be substituted;
(xii) in sub-heading No. 6110.20, for the entry in column (4), the entry "35% or Rs. 85 per piece, whichever is higher" shall be substituted;
(xiii) in sub-heading No. 6110.30, for the entry in column (4), the entry "35% or Rs. 110 per piece, whichever is higher" shall be substituted;
(xiv) in sub-heading No. 6110.90, for the entry in column (4), the entry "35% or Rs. 105 per piece, whichever is higher" shall be substituted;
(12) in Chapter 62,—
(i) in sub-heading No. 6201.13, for the entry in column (4), the entry "35% or Rs. 320 per piece, whichever is higher" shall be substituted;
(ii) in sub-heading No. 6201.92, for the entry in column (4), the entry "35% or Rs. 210 per piece, whichever is higher" shall be substituted;
(iii) in sub-heading No. 6201.93, for the entry in column (4), the entry "35% or Rs. 180 per piece, whichever is higher" shall be substituted;
(iv) in sub-heading No. 6202.12, for the entry in column (4), the entry "35% or Rs. 210 per piece, whichever is higher" shall be substituted;
(v) in sub-heading No. 6202.92, for the entry in column (4), the entry "35% or Rs. 160 per piece, whichever is higher" shall be substituted;
(vi) in sub-heading No. 6203.32, for the entry in column (4), the entry "35% or Rs. 440 per piece, whichever is higher" shall be substituted;
(vii) in sub-heading No. 6203.33, for the entry in column (4), the entry "35% or Rs. 320 per piece, whichever is higher" shall be substituted;
(viii) in sub-heading No. 6203.39, for the entry in column (4), the entry "35% or Rs. 755 per piece, whichever is higher" shall be substituted;
(ix) in sub-heading No. 6203.42, for the entry in column (4), the entry "35% or Rs. 135 per piece, whichever is higher" shall be substituted;
(x) in sub-heading Nos. 6203.43 and 6203.49, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 110 per piece, whichever is higher" shall be substituted;
(xi) in sub-heading Nos. 6204.11 and 6204.13, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 550 per piece, whichever is higher" shall be substituted;
(xii) in sub-heading No. 6204.19, for the entry in column (4) , the entry "35% or Rs. 500 per piece, whichever is higher" shall be substituted;
(xiii) in sub-heading No. 6204.31, for the entry in column (4), the entry "35% or Rs. 370 per piece, whichever is higher" shall be substituted;
(xiv) in sub-heading No. 6204.32, for the entry in column (4), the entry "35% or Rs. 650 per piece, whichever is higher" shall be substituted;
(xv) in sub-heading No. 6204.33, for the entry in column (4), the entry "35% or Rs. 390 per piece, whichever is higher" shall be substituted;
(xvi) in sub-heading No. 6204.39, for the entry in column (4), the entry "35% or Rs. 350 per piece, whichever is higher" shall be substituted;
(xvii) in sub-heading No. 6204.42, for the entry in column (4), the entry "35% or Rs. 116 per piece, whichever is higher" shall be substituted;
(xviii) in sub-heading Nos. 6204.62 and 6204.69, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 135 per piece, whichever is higher" shall be substituted;
(xix) in sub-heading No. 6205.20, for the entry in column (4), the entry "35% or Rs. 85 per piece, whichever is higher" shall be substituted;
(xx) in sub-heading No. 6205.30, for the entry in column (4), the entry "35% or Rs. 120 per piece, whichever is higher" shall be substituted;
(xxi) in sub-heading No. 6205.90, for the entry in column (4), the entry "35% or Rs. 95 per piece, whichever is higher" shall be substituted;
(xxii) in sub-heading No. 6206.30, for the entry in column (4), the entry "35% or Rs. 95 per piece, whichever is higher" shall be substituted;
(xxiii) in sub-heading No. 6206.40, for the entry in column (4), the entry "35% or Rs. 120 per piece, whichever is higher" shall be substituted;
(xxiv) in sub-heading No. 6207.11, for the entry in column (4), the entry "35% or Rs. 28 per piece, whichever is higher" shall be substituted;
(xxv) in sub-heading No. 6207.19, for the entry in column (4), the entry "35% or Rs. 30 per piece, whichever is higher" shall be substituted;
(xxvi) in sub-heading No. 6207.99, for the entry in column (4), the entry "35% or Rs. 70 per piece, whichever is higher" shall be substituted;
(xxvii) in sub-heading No. 6208.11, for the entry in column (4), the entry "35% or Rs. 80 per piece, whichever is higher" shall be substituted;
(xxviii) in sub-heading No. 6208.19, for the entry in column (4), the entry "35% or Rs. 60 per piece, whichever is higher" shall be substituted;
(xxix) in sub-heading No. 6208.91, for the entry in column (4), the entry "35% or Rs. 95 per piece, whichever is higher" shall be substituted;
(xxx) in sub-heading No. 6208.92, for the entry in column (4), the entry "35% or Rs. 65 per piece, whichever is higher" shall be substituted;
(xxxi) in sub-heading Nos. 6210.40 and 6210.50, for the entry in column (4) occurring against each of them, the entry "35% or Rs. 65 per piece, whichever is higher" shall be substituted;
(xxxii) in sub-heading No. 6214.10, for the entry in column (4), the entry "35% or Rs. 390 per piece, whichever is higher" shall be substituted;
(13) in Chapter 63, in sub-heading No. 6301.20, for the entry in column (4), the entry "35% or Rs. 275 per piece, whichever is higher" shall be substituted;
(14) in Chapter 70,—
(i) in sub-heading No. 7019.19, for the entry in column (4), the entry "20% " shall be substituted;
(ii) in sub-heading No. 7019.51, for the entry in column (4), the entry "25% " shall be substituted;
(15) in Chapter 84,—
(i) in sub-heading No. 8456.91 for the entry in column(4) , the entry "Free" shall be substituted;
(ii) in sub-heading Nos. 8469.11, 8470.10, 8470.21 ,8470.29, 8470.30 ,8470.40 ,8470.50 ,8470.90, 8473.21 and 8473.29 for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(16) in Chapter 85,—
(i) in sub-heading Nos. 8517.11, 8517.19, 8517.21 , 8517.22 , 8517.30 , 8517.50 ,8517.80 , 8520.20 , 8523.11, 8523.12, 8523.13 , 8523.20 , 8523.90 , 8524.31, 8524.40, 8524.91, 8525.20, 8531.20, 8532.10, 8532.22, 8532.23, 8532.25, 8532.29 and 8532.30, for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(ii) in sub-heading No. 8543.11, for the entry in column (4), the entry " Free" shall be substituted;
(iii) in sub-heading Nos. 8543.81 and 8544.70, for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(17) in Chapter 87,—
(i) in sub-heading Nos. 8703.10, 8703.21, 8703.22, 8703.23, 8703.24, 8703.31, 8703.32, 8703.33 and 8703.90, for the entry in column (4) occurring against each of them, the entry "105%" shall be substituted;
(ii) in sub-heading Nos. 8711.10, 8711.20, 8711.30, 8711.40, 8711.50 and 8711.90, for the entry in column (4) occurring against each of them, the entry "105%" shall be substituted;
(18) in Chapter 90,—
(i) in sub-heading Nos. 9009.11, 9009.21, 9009.90, 9026.10 and 9030.40, for the entry in column (4) occurring against each of them, the entry "15%" shall be substituted;
(ii) in sub-heading No. 9031.41, for the entry in column (4), the entry "Free" shall be substituted.

THE THIRD SCHEDULE

[See section 113 (b)]

PART I

In the First Schedule to the Customs Tariff Act,—
(1) for the words "heading No." and "headings Nos.", wherever they occur, the word "heading" and "headings" shall respectively be substituted;
(2) for the words "sub-heading No." and "sub-headings Nos.", wherever they occur, the words "sub-heading" and "sub-headings" shall respectively be substituted ;
(3) in Chapter 3,—
(i) in NOTE 1, clauses (b) and (c) shall be renumbered as clauses (c) and (d) respectively and for clause (a) , the following clauses shall be substituted, namely:—
"(a) Mammals of heading 01.06;
(b) Meat of mammals of heading 01.06 (heading 02.08 or 02.10);";
(ii) in heading No. 03.05, in sub-heading No. 0305.20, for the entry in column(3), the following shall be substituted, namely:—
"-Livers and roes of fish, dried, smoked, salted or in brine";
(4) in Chapter 4, in SUBHEADING NOTE 1, for the word "purpose", the following word shall be substituted, namely:—
"purposes";
(5) in Chapter 5, in NOTE 3, for the words "elephant, walrus", the following words shall be substituted, namely:—
"elephant, hippopotamus, walrus";
(6) in Chapter 7, in heading No. 07.11, sub-heading No. 0711.10 and the entries relating thereto shall be omitted;
(7) in Chapter 8,—
(i) in heading No.08.05, sub-heading No. 0805.30 and the entries relating thereto shall be omitted;
(ii) in heading No.08.12, sub-heading No.0812.20 and the entries relating thereto shall be omitted;
(8) in Chapter 11,—
(i) in NOTE 1, for clause (b), the following clause shall be substituted, namely:—
"(b) Prepared flours, groats, meals or starches of heading 19.01;";
(ii) in NOTE 2, in clause (A), for the words " or ground is always classified", the words " or ground, is always classified" shall be substituted;
(iii) in heading No. 11.03, sub-heading Nos. 1103.12 and 1103.14 and the entries relating thereto shall be omitted;
(iv) in heading No. 11.04, sub-heading Nos. 1104.11 and 1104.21 and the entries relating thereto shall be omitted;
(9) in Chapter 12,-
(i) after NOTE 5, the following SUBHEADING NOTE shall be inserted, namely:—
'SUBHEADING NOTE
1. For the purposes of sub-heading 1205.10, the expression "low erucic acid rape or colza seeds" means rape or colza seeds yielding a fixed oil which has an erucic acid content of less than 2% by weight and yielding a solid component which contains less than 30 micromoles of glucosinolates per gram.';
(ii) in heading No.12.07, sub-heading No. 1207.92 and the entries relating thereto shall be omitted;
(iii) in heading No.12.12,—
(a) in sub-heading No.1212.30, for the entry in column(3), the following shall be substituted, namely:—
"-Apricot, peach(including nectarine) or plum stones and kernels";
(b) sub-heading No. 1212.92 and the entries relating thereto shall be omitted;
(10) in Chapter 13, in NOTE 1, clauses (f) to (j) shall be renumbered as clauses (g) to (k) respectively and before clause (g) as so renumbered, the following clause shall be inserted, namely:—
"(f) Concentrates of poppy straw containing not less than 50% by weight of alkaloids (heading 29.39);";
(11) in Chapter 15,—
(i) after NOTE 4, the following SUBHEADING NOTE shall be inserted, namely:-
'SUBHEADING NOTE
1. For the purposes of sub-headings 1514.11 and 1514.19, the expression "low erucic acid rape or colza oil" means the fixed oil which has an erucic acid content of less than 2% by weight.';
(ii) in heading No. 15.15, sub-heading No. 1515.60 and the entries relating thereto shall be omitted;
(12) in Chapter 19,—
(i) for NOTE 2, the following NOTE shall be substituted, namely:—
'2. For the purposes of heading 19.01:
(a) The term "groats" means cereal groats of Chapter 11;
(b) The terms "flour" and "meal" mean:
(1) Cereal flour and meal of Chapter 11, and
(2) Flour, meal and powder of vegetable origin of any Chapter, other than flour, meal or powder of dried vegetables (heading 07.12), of potatoes (heading 11.05) or of dried leguminous vegetables (heading 11.06).';
(ii) in heading No. 19.01, for the entry in column (3), the following entry shall be substituted, namely:—
"Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included";
(iii) in heading No. 19.04, for the entry in column (3), the following entry shall be substituted, namely:—
"PREPARED FOODS OBTAINED BY THE SWELLING OR ROASTING OF CEREALS OR CEREAL PRODUCTS (FOR EXAMPLE, CORN FLAKES);cereals [other than maize (corn)] in grain form or in the form of flakes or other worked grains (except flour, groats and meal), pre-cooked or otherwise prepared, not elsewhere specified or included";
(13) in Chapter 20,—
(i) NOTE 5 shall be renumbered as NOTE 6 and before NOTE 6 as so renumbered, the following NOTE shall be inserted, namely:—
'5. For the purposes of heading 20.07, the expression "obtained by cooking" means obtained by heat treatment at atmospheric pressure or under reduced pressure to increase the viscosity of a product through reduction of water content or other means.';
(ii) after SUBHEADING NOTE 2, the following SUBHEADING NOTE shall be inserted, namely:—
'3. For the purposes of sub-headings 2009.12, 2009.21, 2009.31, 2009.41, 2009.61 and 2009.71, the expression "Brix value" means the direct reading of degrees Brix obtained from a Brix hydrometer or of refractive index expressed in terms of percentage sucrose content obtained from a refractometer, at a temperature of 20oC or corrected for 20oC if the reading is made at a different temperature.';
(iii) in heading No. 20.01, sub-heading No. 2001.20 and the entries relating thereto shall be omitted;
(iv) in heading No. 20.07, in column (3), for the words "being cooked preparations", the words "obtained by cooking " shall be substituted;
(v) in heading No. 20.08, in sub-heading No. 2008.70, for the entry in column(3), the following shall be substituted, namely:—
"-Peaches, including nectarines";
(14) in Chapter 22, in heading No. 22.08, in column(3), for the word "UNDENATURATED", the word "UNDENATURED" shall be substituted;
(15) in Chapter 23, after NOTE, the following SUBHEADING NOTE shall be inserted, namely:—
'SUBHEADING NOTE
1. For the purposes of sub-heading 2306.41, the expression "low erucic acid rape or colza seeds" means seeds as defined in Subheading Note 1 to Chapter 12.';
(16) in Chapter 25,—
(i) in NOTE 4, for the words "broken pottery", the words "broken pieces of pottery, brick or concrete" shall be substituted;
(ii) in heading No. 25.18,-
(a) for the entry in column (3), the following entry shall be substituted, namely:—
"Dolomite, whether or not calcined or sintered, including dolomite roughly trimmed or merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape; dolomite ramming mix ";
(b) in sub-heading No. 2518.10, for the entry in column (3), the following entry shall be substituted, namely:- " – Dolomite, not calcined or sintered";
(c) in sub-heading No. 2518.20 , for the entry in column (3), the following entry shall be substituted, namely:- " – Calcined or sintered dolomite";
(d) in sub-heading No. 2518.30, for the entry in column (3), the following entry shall be substituted, namely:- " – Dolomite ramming mix";
(iii) heading No. 25.27 and the entries relating thereto shall be omitted;
(iv) in heading No. 25.30, sub-heading No. 2530.40 and the entries relating thereto shall be omitted;
(17) in Chapter 26,—
(i) in NOTE 1, clauses (c) to (f) shall be renumbered as clauses (d) to (g) respectively and before clause (d) as so renumbered, the following clause shall be inserted, namely:—
"(c) Sludges from the storage tanks of petroleum oils, consisting mainly of such oils (heading 27.10);";
(ii) for NOTE 3, the following NOTE shall be substituted, namely:—
"3. Heading 26.20 applies only to:
(a) Ash and residues of a kind used in industry either for the extraction of metals or as a basis for the manufacture of chemical compounds of metals, excluding ash and residues from the incineration of municipal waste (heading 26.21); and
(b) Ash and residues containing arsenic, whether or not containing metals, of a kind used either for the extraction of arsenic or metals or for the manufacture of their chemical compounds.";
(iii) after NOTE 3, the following SUBHEADING NOTES shall be inserted, namely:—
' SUBHEADING NOTES
1. For the purposes of sub-heading 2620.21, "leaded gasoline sludges and leaded anti-knock compound sludges" mean sludges obtained from storage tanks of leaded gasoline and leaded anti-knock compounds (for example, tetraethyl lead), and consisting essentially of lead, lead compounds and iron oxide.
2. Ash and residues containing arsenic, mercury, thallium or their mixtures, of a kind used for the extraction of arsenic or those metals or for the manufacture of their chemical compounds, are to be classified in sub-heading 2620.60.';
(iv) in heading No. 26.20,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
" ash and residues (other than from the manufacture of iron or steel), containing arsenic, metals or their compounds";
(b) sub-heading No. 2620.50 and the entries relating thereto shall be omitted;
(18) in Chapter 27,—
(i) after NOTE 2, the following NOTE shall be inserted, namely:—
'3. For the purposes of heading 27.10, "waste oils" means waste containing mainly petroleum oils and oils obtained from bituminous minerals (as described in Note 2 to this Chapter), whether or not mixed with water. These include:
(a) Such oils no longer fit for use as primary products (for example, used lubricating oils, used hydraulic oils and used transformer oils);
(b) Sludge oils from the storage tanks of petroleum oils, mainly containing such oils and a high concentration of additives (for example, chemicals) used in the manufacture of the primary products; and
(c) Such oils in the form of emulsions in water or mixtures with water, such as those resulting from oil spills, storage tank washings, or from the use of cutting oils for machining operations.';
(ii) for SUBHEADING NOTE 3, the following SUBHEADING NOTES shall be substituted, namely:—
'3.For the purposes of sub-headings 2707.10, 2707.20, 2707.30, 2707.40 and 2707.60, the terms "benzol (benzene)", "toluol (toluene)", "xylol (xylenes)", "naphthalene" and "phenols" apply to products which contain more than 50% by weight of benzene, toluene, xylenes, naphthalene or phenols, respectively.
4.For the purposes of sub-heading 2710.11, " light oils and preparations" are those of which 90% or more by volume (including losses) distil at 210o C (ASTM D 86 method).' ;
(iv) in heading No. 27.07,—
(a) in sub-heading No. 2707.10, for the entry in column (3), the following entry shall be substituted, namely:—
" - Benzol (benzene)";
(b) in sub-heading No. 2707.20, for the entry in column (3), the following entry shall be substituted, namely:—
" - Toluol (toluene)";
(c) in sub-heading No. 2707.30, for the entry in column (3), the following entry shall be substituted, namely:—
" - Xylol (xylenes)";
(19) in Chapter 28,—
(i) in NOTE 3, for clause (d), the following clause shall be substituted, namely:—
"(d) Inorganic products of a kind used as luminophores, of heading 32.06; glass frit and other glass in the form of powder, granules or flakes, of heading 32.07;";
(ii) in heading No. 28.09, for the entry in column (3), the following entry shall be substituted, namely:—
"Diphosphorous pentaoxide; phosphoric acid; polyphosphoric acids, whether or not chemically defined";
(iii) in heading No. 28.27, sub-heading No. 2827.38 and the entries relating thereto shall be omitted;
(iv) in heading No. 28.30, for the entry in column (3), the following entry shall be substituted, namely:—
"Sulphides;polysulphides, whether or not chemically defined";
(v) in heading No.28.34, sub-heading No. 2834.22 and the entries relating thereto, shall be omitted;
(vi) in heading No. 28.35, for the entry in column (3), the following entry shall be substituted, namely:—
"Phosphinates (hypophosphites), phosphonates (phosphites) and phosphates; polyphosphates, whether or not chemically defined";
(vii) in heading No. 28.36, in sub-heading No. 2836.70, for the entry in column(3), the following shall be substituted, namely:—
"- Lead carbonates";
(viii) in heading No. 28.41, sub-heading No. 2841.40 and the entries relating thereto shall be omitted;
(ix) in heading No. 28.42,—
(a) for the entry in column(3), the following shall be substituted, namely:—
"Other salts of inorganic acids or peroxoacids (including aluminosilicates whether or not chemically defined), other than azides";
(b) in sub-heading No. 2842.10, for the entry in column(3), the following shall be substituted, namely:—
"-Double or complex silicates, including aluminosilicates whether or not chemically defined";
(20) in Chapter 29,—
(i) in NOTE 1, for clause (c), the following clause shall be substituted, namely:—
"(c) The products of headings 29.36 to 29.39 or the sugar ethers, sugar acetals and sugar esters, and their salts, of heading 29.40, or the products of heading 29.41, whether or not chemically defined;";
(ii) after NOTE 7, the following NOTE shall be inserted, namely:—
' 8. For the purposes of heading 29.37:
(a) the term "hormones" includes hormone-releasing or hormone-stimulating factors, hormone inhibitors and hormone antagonists (anti-hormones);
(b) the expression "used primarily as hormones" applies not only to hormone derivatives and structural analogues used primarily for their hormonal effect, but also to those derivatives and structural analogues used primarily as intermediates in the synthesis of products of this heading.';
(iii) in heading No. 29.03, sub-heading No. 2903.16 and the entries relating thereto shall be omitted;
(iv) in heading No. 29.07, —
(a) after sub-heading No.2907.19 and the entries relating thereto, in column (3), for the word "- Polyphenols:", the following words shall be substituted, namely:-
" - Polyphenols; phenol-alcohols:";
(b) sub-heading No. 2907.30 and the entries relating thereto shall be omitted;
(v) in heading No. 29.14, in sub-heading No.2914.31, in column (3), for the brackets, figures and words "(1-phenylpropan -2- one)", the brackets, words and figure "(phenylpropan-2-one)" shall be substituted;
(vi) in heading No. 29.15, in sub-heading No. 2915.60, for the entry in column (3), the following shall be substituted, namely:—
" - Butanoic acids, pentanoic acids, their salts and esters ";
(vii) in heading No. 29.18, sub-heading No. 2918.17 and the entries relating thereto shall be omitted;
(viii) in Sub-Chapter VIII, for the title, the following shall be substituted, namely:—
"VIII.—ESTERS OF INORGANIC ACIDS OF NON-METALS AND THEIR SALTS, AND THEIR HALOGENATED, SULPHONATED, NITRATED OR NITROSATED DERIVATIVES";
(ix) in heading No. 29.20, for the entry in column (3), the following entry shall be substituted, namely:—
" Esters of other inorganic acids of non-metals (excluding esters of hydrogen halides) and their salts; their halogenated, sulphonated, nitrated or nitrosated derivatives";
(x) in heading No. 29.22,—
(a) in the portion occurring immediately after heading No. 29.22, in column (3), for the words "-Amino-alcohols, their ethers and esters, other than those containing more than one kind of oxygen function; salts thereof:", the following words shall be substituted, namely:—
"-Amino-alcohols, other than those containing more than one kind of oxygen function, their ethers and esters; salts thereof:";
(b) after sub-heading No. 2922.19 and the entries relating thereto, in column (3), for the words "-Amino-naphthols and other amino phenols, their ethers and esters, other than those containing more than one kind of oxygen function; salts thereof:", the following shall be substituted, namely:—
"-Amino-naphthols and other amino-phenols, other than those containing more than one kind of oxygen function, their ethers and esters; salts thereof:";
(xi) in heading No. 29.23, for the entry in column (3), the following entry shall be substituted, namely:—
"Quaternary ammonium salts and hydroxides; lecithins and other phosphoaminolipids, whether or not chemically defined";
(xii) in heading No. 29.34,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
"Nucleic acids and their salts, whether or not chemically defined; other heterocyclic compounds";
(b) in sub-heading No. 2934.20, for the entry in column (3), the following entry shall be substituted, namely:—
" -Compounds containing in the structure a benzothiazole ring-system (whether or not hydrogenated), not further fused";
(c) in sub-heading No. 2934.30, for the entry in column (3), the following entry shall be substituted, namely:—
" -Compounds containing in the structure a phenothiazine ring-system (whether or not hydrogenated), not further fused";
(xiii) in heading No.29.39, sub-heading No. 2939.70 and the entries relating thereto shall be omitted;
(xiv) in heading No. 29.40, in sub-heading No. 2940.00, for the entry in column (3), the following entry shall be substituted, namely:—
"Sugars, chemically pure, other than sucrose, lactose, maltose, glucose and fructose; sugar ethers, sugar acetals and sugar esters, and their salts, other than products of heading 29.37, 29.38 or 29.39";
(21) in Chapter 30,—
(i) in NOTE 1, for clause (a), the following clause shall be substituted, namely:—
"(a) Foods or beverages (such as dietetic, diabetic or fortified foods, food supplements, tonic beverages and mineral waters), other than nutritional preparations for intravenous administration (Section IV);";
(ii) in NOTE 4,—
(a) in clause (g), the word "and" occurring at the end shall be omitted;
(b) for clause (h), the following clauses shall be substituted, namely:—
" (h) Chemical contraceptive preparations based on hormones, on other products of heading 29.37 or on spermicides;";
(ij) Gel preparations designed to be used in human or veterinary medicine as a lubricant for parts of the body for surgical operations or physical examinations or as a coupling agent between the body and medical instruments; and
(k) Waste pharmaceuticals, that is, pharmaceutical products which are unfit for their original intended purpose due to, for example, expiry of shelf life.";
(iii) in heading No. 30.04,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
" Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therApeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale";
(b) in sub-heading No. 3004.32, for the entry in column (3), the following entry shall be substituted, namely:—
"—Containing corticosteroid hormones, their derivatives and structural analogues";
(iv) in heading No. 30.06, in sub-heading No. 3006.60, for the entry in column (3), the following entry shall be substituted, namely:—
" -Chemical contraceptive preparations based on hormones, on other products of heading 29.37 or on spermicides";
(22) in Chapter 32, in heading No. 32.06, in sub-heading No. 3206.11, in column (3), for the words "on the dry weight", the words " on the dry matter" shall be substituted;
(23) in Chapter 34,—
(i) in heading No. 34.01, for the entry in column (3), the following entry shall be substituted, namely:—
"Soap; organic surface-active products and preparations for use as soap, in the form of bars, cakes, moulded pieces or shapes, whether or not containing soap; organic surface-active products and preparations for washing the skin, in the form of liquid or cream and put up for retail sale, whether or not containing soap; paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent";
(ii) in heading No. 34.04, in sub-heading No. 3404.20, for the entry in column (3), the following entry shall be substituted, namely:—
"-Of poly(oxyethylene) (polyethylene glycol)";
(24) in Chapter 35, in heading No. 35.06, in sub-heading No. 3506.91, for the entry in column (3), the following entry shall be substituted, namely:—
"—Adhesives based on polymers of headings 39.01 to 39.13.or on rubber";
(25) in Chapter 38,—

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(i) in NOTE 1,—
(a) in clause (a),for sub-clause(4), the following sub-clauses shall be substituted, namely:—
"(4) Certified reference materials specified in Note 2 below;
(5) Products specified in Note 3 (a) or 3 (c) below;";
(b) in clause (b), for the brackets , words and figures " (generally , heading No. 21.06).", the brackets, words and figures "(generally, heading 21.06);" shall be substituted;
(c) clauses (c) and (d) shall be renumbered as (d) and (e) and before clause (d) as so renumbered, the following clause shall be inserted, namely:—
"(c) Ash and residues (including sludges, other than sewage sludge), containing metals, arsenic or their mixtures and meeting the requirements of Note 3 (a) or 3 (b) to Chapter 26 (heading 26.20);";
(d) in clause (d) so renumbered, for the brackets, words and figures "(heading No. 30.03 or 30.04).", the brackets , words and figures "(heading 30.03 or 30.04); or" shall be substituted;
(ii) NOTE 2 shall be renumbered as NOTE 3 and before NOTE 3 as so renumbered, the following NOTE shall be inserted, namely:—
'2. (A) For the purpose of heading 38.22, the expression "certified reference materials" means reference materials which are accompanied by a certificate which indicates the values of the certified properties, the methods used to determine these values and the degree of certainty associated with each value and which are suitable for analytical, calibrating or referencing purposes.
(B) With the exception of the products of Chapter 28 or 29, for the classification of certified reference materials, heading 38.22 shall take precedence over any other heading in the Nomenclature.';
(iii) after NOTE 3 as so renumbered, the following NOTES AND SUBHEADING NOTE shall be inserted, namely:—

'4. Throughout the Nomenclature, "municipal waste" means waste of a kind collected from households, hotels, restaurants, hospitals, shops, offices, etc., road and pavement sweepings, as well as construction and demolition waste. Municipal waste generally contains a large variety of materials such as plastics, rubber, wood, paper, textiles, glass, metals, food materials, broken furniture and other damaged or discarded articles. The term " municipal waste", however, does not cover:
(a) Individual materials or articles segregated from the waste, such as wastes of plastics, rubber, wood, paper, textiles, glass or metals and spent batteries which fall in their appropriate headings of the Nomenclature;
(b) Industrial waste;
(c) Waste pharmaceuticals, as defined in Note 4 (k) to Chapter 30; or
(d) Clinical waste, as defined in Note 6 (a) below.
5. For the purposes of heading 38.25, "sewage sludge" means sludge arising from urban effluent treatment plant and includes pre-treatment waste, scourings and unstabilised sludge. Stabilised sludge when suitable for use as fertiliser is excluded (Chapter 31).
6. For the purposes of heading 38.25, the expression "other wastes" applies to:
(a) Clinical waste, that is, contaminated waste arising from medical research, diagnosis, treatment or other medical, surgical, dental or veterinary procedures, which often contain pathogens and pharmaceutical substances and require special disposal procedures (for example, soiled dressings, used gloves and used syringes);
(b) Waste organic solvents;
(c) Wastes of metal pickling liquors, hydraulic fluids, brake fluids and anti-freezing fluids; and
(d) Other wastes from chemical or allied industries.
The expression "other wastes" does not, however, cover wastes which contain mainly petroleum oils or oils obtained from bituminous minerals (heading 27.10).
SUBHEADING NOTE
1. For the purposes of sub-headings 3825.41 and 3825.49, "waste organic solvents" are wastes containing mainly organic solvents, not fit for further use as presented as primary products, whether or not intended for recovery of the solvents.';
(iv) in heading No. 38.22, in sub-heading No. 3822.00, for the entry in column (3), the following shall be substituted, namely:—
"Diagnostic or laboratory reagents on a backing, prepared diagnostic or laboratory reagents whether or not on a backing, other than those of heading 30.02 or 30.06; certified reference materials";
(v) in heading No. 38.24, for the entry in column (3), the following entry shall be substituted, namely:—
"Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries (including those consisting of mixtures of natural products), not elsewhere specified or included";
(26) in Chapter 39,—
(i) for the words "SUBHEADING NOTE", the words "SUBHEADING NOTES" shall be substituted;
(ii) the existing SUBHEADING NOTE shall be numbered as SUBHEADING NOTE 1 thereof and after SUBHEADING NOTE 1 as so numbered, the following SUBHEADING NOTE shall be inserted, namely:—
'2.For the purposes of sub-heading 3920.43, the term "plasticisers" includes secondary plasticisers.';
(iii) in heading No. 39.04,—
(a) in sub-heading No. 3904.10, in column (3), for the words "Polyvinyl chloride", the following words and brackets shall be substituted, namely:—
"Poly (vinyl chloride)" ;
(b) after sub-heading No. 3904.10 and the entries relating thereto, in column (3), for the words "-Other polyvinyl chloride:", the following words and brackets shall be substituted, namely:—
" -Other poly (vinyl chloride):";
(iv) in heading No. 39.05,—
(a) in the portion occurring immediately after heading No. 39.05, in column (3), for the words "-Polyvinyl acetate:", the following words and brackets shall be substituted, namely:—
" -Poly (vinyl acetate):";
(b) in sub-heading No. 3905.30, in column (3), for the words "Polyvinyl alcohol", the following words and brackets shall be substituted, namely:—
"Poly (vinyl alcohol)";
(v) in heading No. 39.06, in sub-heading No. 3906.10, for the entry in column (3), the following entry shall be substituted, namely:—
" -Poly (methyl methacrylate)";
(vi) in heading No. 39.07, in sub-heading No. 3907.60, for the entry in column (3), the following entry shall be substituted, namely:—

" -Poly (ethylene terephthalate)";
(vii) in heading No. 39.20,—
(a) in sub-heading No. 3920.51, for the entry in column (3), the following entry shall be substituted, namely:—
" —Of poly(methyl methacrylate)";
(b) in sub-heading No. 3920.62, for the entry in column (3), the following entry shall be substituted, namely:—
" —Of poly(ethylene terephthalate)";
(c) in sub-heading No. 3920.91, for the entry in column (3), the following entry shall be substituted, namely:—
" —Of poly(vinyl butyral)";
(viii) in heading No. 39.22,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
"Baths, shower-baths, SINKS, wash-basins, bidets, lavatory pans, seats and covers, flushing cisterNs and similar sanitary ware, of plastics";
(b) in sub-heading No. 3922.10, for the entry in column (3), the following entry shall be substituted, namely:—
"-Baths, shower-baths, sinks and wash-basins";
(ix) in heading No. 39.26, in sub-heading No. 3926.20, for the entry in column (3), the following entry shall be substituted, namely:—
" -Articles of apparel and clothing accessories (including gloves, mittens and mitts)";
(27) in Chapter 40,—
(i) in NOTE 2, in clause (f), for the word "gloves", the words "gloves, mittens and mitts" shall be substituted;
(ii) in heading No. 40.15,—
(a) in column (3), for the brackets and words "(INCLUDING gloves) ", the brackets and words " (INCLUDING gloves, mittens and mitts)" shall be substituted;
(b) in the portion occurring immediately after heading No. 40.15, in column (3), for the word "-Gloves:", the following words shall be substituted, namely:—
" -Gloves, mittens and mitts:" ;
(28) in Chapter 41,—
(i) NOTE 2 shall be renumbered as NOTE 3 and before NOTE 3 as so renumbered, the following NOTE shall be inserted, namely:—
'2. (A) Headings 41.04 to 41.06 do not cover hides and skins which have undergone a tanning (including pre-tanning) process which is reversible (headings 41.01 to 41.03, as the case may be).
(B) For the purposes of headings 41.04 to 41.06, the term "crust" includes hides and skins that have been retanned, coloured or fat-liquored (stuffed) prior to drying.';
(ii) in NOTE 3 as so renumbered, for the words and figures " heading No. 41.11", the word and figures " heading 41.15" shall be substituted;
(29) in Chapter 42,—
(i) in NOTE 1, in clause (b), for the brackets and words "(except gloves)", the brackets and words "(except gloves, mittens and mitts)" shall be substituted;
(ii) in NOTE 3, for the words and brackets "gloves (including sports gloves)", the words and brackets "gloves, mittens and mitts (including those for sport or for protection)" shall be substituted;
(iii) in heading No. 42.02, for the entry in column (3), the following entry shall be substituted, namely:—
"Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper";
(30) in Chapter 43,—
(i) in NOTE 2, in clause (c), for the word "Gloves", the words " Gloves, mittens and mitts," shall be substituted;
(ii) in heading No. 43.01, sub-heading Nos. 4301.20, 4301.40 and 4301.50 and the entries relating thereto shall be omitted;
(iii) in heading No. 43.02, sub-heading No. 4302.12 and the entries relating thereto shall be omitted;
(31) in Chapter 44,—
(i) for SUBHEADING NOTE, the following shall be substituted, namely:—

SUBHEADING NOTE

'1. For the purposes of sub-headings 4403.41 to 4403.49, 4407.24 to 4407.29, 4408.31 to 4408.39 and 4412.13 to 4412.99, the expression "tropical wood" means one of the following types of wood:
Abura, Acajou d'Afrique, Afrormosia, Ako, Alan, Andiroba, Aningre, Avodire, Azobe, Balau, Balsa, Bosse clair, Bosse fonce, Cativo, Cedro, Dabema, Dark Red Meranti, Dibetou, Doussie, Framire, Freijo, Fromager, Fuma, Geronggang, Ilomba, Imbuia, Ipe, Iroko, Jaboty, Jelutong, Jequitiba, Jongkong, Kapur, Kempas, Keruing, Kosipo, Kotibe, Koto, Light Red Meranti, Limba, Louro, Macaranduba, Mahogany, Makore, Mandioqueira, Mansonia, Mengkulang, Meranti Bakau, Merawan, Merbau, Merpauh, Mersawa, Moabi, Niangon, Nyatoh, Obeche, Okoume, Onzabili, Orey, Ovengkol, Ozigo, Padauk, Paldao, Palissandre de Guatemala, Palissandre de Para, Palissandre de Rio, Palissandre de Rose, Pau Amarelo, Pau Marfim, Pulai, Punah, Quaruba, Ramin, Sapelli, Saqui-Saqui, Sepetir, Sipo, Sucupira, Suren, Teak, Tauari, Tiama, Tola, Virola, White Lauan, White Meranti, White Seraya, Yellow Meranti.';
(ii) in heading No. 44.07, in column (3), for the words "FINGER-JOINTED", the words "END-JOINTED" shall be substituted;
(iii) in heading No. 44.08, for the entry in column (3), the following entry shall be substituted, namely:—
"SHEETS FOR VENEERING (INCLUDING THOSE OBTAINED BY SLICING LAMINATED WOOD), FOR PLYWOOD OR FOR OTHER SIMILAR LAMINATED WOOD AND OTHER WOOD, SAWN LENGTHWISE, SLICED OR PEELED, WHETHER OR NOT PLANED, SANDED, SPLICED OR END-JOINTED, OF A THICKNESS NOT EXCEEDING 6 MM.";
(iv) in heading No. 44.09, in column (3), for the words "edges or faces, whether or not planed, sanded or finger-jointed", the words "edges, ends or faces, whether or not planed, sanded or end-jointed" shall be substituted;
(32) in Chapter 46, in heading No. 46.01, sub-heading No. 4601.10 and the entries relating thereto shall be omitted;
(33) in Chapter 47,—
(i) in sub-heading No. 4707.10, for the entry in column (3), the following entry shall be substituted, namely:—
"-Unbleached kraft paper or paperboard or corrugated paper or paperboard";
(ii) in sub-heading No. 4707.20, in column (3), for the words "Of other paper", the words "Other paper" shall be substituted;
(iii) in sub-heading No. 4707.30, in column (3), for the words "Of paper", the word "Paper" shall be substituted;
(34) in Chapter 48,—
(i) NOTES 1 to 11 shall be renumbered as NOTES 2 to 12 respectively and before NOTE 2 as so renumbered, the following NOTE shall be inserted, namely:—
'1. For the purposes of this Chapter, except where the context otherwise requires, a reference to "paper" includes references to paperboard (irrespective of thickness or weight per m2).';
(ii) in NOTE 3 as so renumbered, for the word and figure "Note 6", the word and figure "Note 7" shall be substituted;
(iii) for NOTE 5 as so renumbered, the following NOTE shall be substituted, namely:—
'5. For the purposes of heading 48.02, the expressions "paper and paperboard, of a kind used for writing, printing or other graphic purposes" and "non perforated punch-cards and punch tape paper" mean paper and paperboard made mainly from bleached pulp or from pulp obtained by a mechanical or chemi-mechanical process and satisfying any of the following criteria:
For paper or paperboard weighing not more than 150 g/m2:
(a) containing 10% or more of fibres obtained by a mechanical or chemi-mechanical process, and
1. weighing not more than 80 g/m2, or
2. coloured throughout the mass; or

(b) containing more than 8% ash, and
1. weighing not more than 80 g/m2, or
2. coloured throughout the mass; or
(c) containing more than 3% ash and having a brightness of 60% or more; or
(d) containing more than 3% but not more than 8% ash, having a brightness less than 60%, and a burst index equal to or less than 2.5 kPa. m2/g; or
(e) containing 3% ash or less, having a brightness of 60% or more and a burst index equal to or less than 2.5 kPa.m2/g.
For paper or paperboard weighing more than 150 g/m2:
(a) coloured throughout the mass; or
(b) having a brightness of 60% or more, and
1. A caliper of 225 micrometres (microns) or less, or
2. A caliper of more than 225 micrometres (microns) but not more than 508 micrometres (microns) and an ash content of more than 3%; or
(c) having a brightness of less than 60%, a caliper of 254 micrometres (microns) or less and an ash content of more than 8%.
Heading 48.02 does not, however, cover filter paper or paperboard (including tea-bag paper) or felt paper or paperboard.';
(iv) for NOTE 8 as so renumbered, the following NOTE shall be substituted, namely:—
"8. Headings 48.01 and 48.03 to 48.09 apply only to paper, paperboard, cellulose wadding and webs of cellulose fibres:
(a) in strips or rolls of a width exceeding 36 cm; or
(b) in rectangular (including square) sheets with one side exceeding 36 cm and the other side exceeding 15 cm in the unfolded state.";
(v) for SUBHEADING NOTE 3, the following SUBHEADING NOTE shall be substituted, namely:—
'3. For the purposes of sub-heading 4805.11, "semi-chemical fluting paper" means paper, in rolls, of which not less than 65% by weight of the total fibre content consists of unbleached hardwood fibres obtained by a semi-chemical pulping process, and having a CMT 30 (Corrugated Medium Test with 30 minutes of conditioning) crush resistance exceeding 1.8 newtons/g/m2 at 50% relative humidity, at 230C.';
(vi) SUBHEADING NOTES 4 and 5 shall be renumbered as SUBHEADING NOTES 6 and 7 respectively and before SUBHEADING NOTE 6 as so renumbered, the following SUBHEADING NOTES shall be inserted, namely:—
"4. Sub-heading 4805.12 covers paper, in rolls, made mainly of straw pulp obtained by a semi-chemical process, weighing 130 g/m2 or more, and having a CMT 30 (Corrugated Medium Test with 30 minutes of conditioning) crush resistance exceeding 1.4 newtons/g/m2 at 50% relative humidity, at 230C.
5. Sub-headings 4805.24 and 4805.25 cover paper and paperboard made wholly or mainly of pulp of recovered (waste and scrap) paper or paperboard. Testliner may also have a surface layer of dyed paper or of paper made of bleached or unbleached non-recovered pulp. These products have a Mullen burst index of not less than 2 kPa. m2/g.";
(vii) in SUBHEADING NOTE 7 as so renumbered, for the figures " 4810.21", the figures "4810.22" shall be substituted;
(viii) in heading No. 48.02, for the entry in column (3), the following entry shall be substituted, namely:—
"Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and non perforated punch-cards and punch tape paper, in rolls or rectangular (including square) sheets, of any size, other than paper of heading 48.01 or 48.03; hand-made paper and paperboard";
(ix) in heading No. 48.05, in column (3), for the word and figure "Note 2", the word and figure "Note 3" shall be substituted;
(x) in heading No. 48.11, for the entry in column (3), the following entry shall be substituted, namely:—
"Paper, paperboard, cellulose wadding and webs of cellulose fibres, coated, impregnated, covered, surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size, other than goods of the kind described in heading 48.03, 48.09 or 48.10";
(xi) in heading No. 48.23, after sub-heading No. 4823.40 and the entries relating thereto, the words "-Other paper and paperboard, of a kind used for writing, printing or other graphic purposes:" and the sub-heading Nos. 4823.51 and 4823.59 and the entries relating thereto shall be omitted;
(35) in Chapter 49,—
(i) in NOTE 2, for the words "of a computer", the words " of an automatic data processing machine" shall be substituted;
(ii) in heading No. 49.07, for the entry in column(3), the following entry shall be substituted, namely:—
"Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognised face value; stamp-impressed paper; bank notes; cheque forms; stock, share or bond certificates and similar documents of title";
(36) in Section XI,—
(i) in SUBHEADING NOTE 1, after the portion beginning with brackets and letters (ij) and ending with the words " yarns or fabrics within the above categories", the following paragraph shall be inserted, namely:—
"The definitions at (e) to (ij) above apply, mutatis mutandis, to knitted or crocheted fabrics.";
(ii) in SUBHEADING NOTE 2, in clause (A), for the figures and word "50 to 55", the figures and words "50 to 55 or of heading 58.09" shall be substituted;
(37) in Chapter 53, in heading No.53.08, sub-heading No. 5308.30 and the entries relating thereto shall be omitted;
(38) in Chapter 54, in heading No. 54.08, in sub-heading No. 5408.10, in column(3), for the words " yarn ,of viscose rayon", the words " yarn of viscose rayon" shall be substituted;
(39) in Chapter 56, in heading No. 56.07, sub-heading No. 5607.30 and the entries relating thereto shall be omitted;
(40) in Chapter 58, in heading No. 58.04, in column (3), for the words and figures " heading no. 60.02", the words and figures "headings 60.02 to 60.06" shall be substituted;
(41) in Chapter 59,—
(i) in NOTE 1, for the words and figures "heading No. 60.02", the words and figures "headings 60.02 to 60.06" shall be substituted;
(ii) in NOTE 4, in clause (b), for the words and figures " of heading No. 56.04;", the words and figures " of heading 56.04; and" shall be substituted;
(iii) in heading No. 59.03, in sub-heading No. 5903.10, for the entry in column (3), the following entry shall be substituted, namely:—
"poly (vinyl chloride)";
(42) in Chapter 64,—
(i) in NOTE 3, in clause (b), for the words and figures "heading Nos. 41.04 to 41.09", the words and figures " headings 41.07 and 41.12 to 41.14" shall be substituted;
(43) in Chapter 68,—
(i) in NOTE 1, in clause (b), for the word "paper", wherever it occurs, the words "paper and paperboard" shall be substituted;
(ii) in heading No. 68.12, sub-headings Nos. 6812.10, 6812.20, 6812.30 and 6812.40 and the entries relating thereto shall be omitted;
(44) in Chapter 73, in heading No. 73.02, sub-heading No. 7302.20 and the entries relating thereto shall be omitted;
(45) in Section XVI,—
(i) in NOTE 1,—
(a) in clause (e), for the words " conveyor belts", the words " conveyor belts or belting," shall be substituted;
(b) in clause (o), the word "or" occurring at the end shall be omitted;
(c) for clause (p), the following clauses shall be substituted, namely:—
"(p) Articles of Chapter 95; or
(q) Typewriter or similar ribbons, whether or not on spools or in cartridges (classified according to their constituent material, or in heading 96.12 if inked or otherwise prepared for giving impressions).";
(ii) in NOTE 2, in clause (a), for the words and figures "Chapter 84 or Chapter 85", the words and figures "Chapter 84 or 85" shall be substituted;
(iii) for NOTE 3, the following NOTE shall be substituted, namely:—
"3. Unless the context otherwise requires, composite machines consisting of two or more machines fitted together to form a whole and other machines designed for the purpose of performing two or more complementary or alternative functions are to be classified as if consisting only of that component or as being that machine which performs the principal function.";
(46) in Chapter 84,—
(i) in NOTE 1, for clause (e), the following clause shall be substituted, namely:—
"(e) Electro-mechanical domestic appliances of heading 85.09; digital cameras of heading 85.25; or";
(ii) in heading No. 84.15,—
(a) in sub-heading No. 8415.10, for the entry in column (3), the following entry shall be substituted, namely:—
'-Window or wall types, self-contained or "split-system"';
(b) in sub-heading No. 8415.81, for the entry in column (3), the following entry shall be substituted, namely:—
"—Incorporating a refrigerating unit and a valve for reversal of the cooling / heat cycle (reversible heat pumps)";
(iii) in heading No. 84.19, in column (3), for the words " ELECTRICALLY HEATED, FOR THE TREATMENT OF MATERIALS BY A PROCESS", the words, brackets and figures "ELECTRICALLY HEATED (EXCLUDING FURNACES, OVENS AND OTHER EQUIPMENT OF HEADING 85.14), FOR THE TREATMENT OF MATERIALS BY A PROCESS" shall be substituted;
(iv) in heading No. 84.30, sub-heading No. 8430.62 and the entries relating thereto shall be omitted;
(v) in heading No. 84.43, for the entry in column (3), the following entry shall be substituted, namely:—
"PRINTING MACHINERY USED FOR PRINTING BY MEANS OF THE PRINTING TYPE, BLOCKS, PLATES, CYLINDERS AND OTHER PRINTING COMPONENTS OF HEADING 84.42; INK-JET PRINTING MACHINES, OTHER THAN THOSE OF HEADING 84.71; MACHINES FOR USES ANCILLARY TO PRINTING";
(vi) in heading No. 84.61, sub-heading No. 8461.10 and the entries relating thereto shall be omitted;
(vii) in heading No. 84.67, for the entry in column (3), the following entry shall be substituted, namely:—
"TOOLS FOR WORKING IN THE HAND, PNEUMATIC, HYDRAULIC OR WITH SELF-CONTAINED ELECTRIC OR NON-ELECTRIC MOTOR";
(viii) in heading No. 84.71, in sub-heading No. 8471.50, in column (3), for the words and figures " sub-headings 8471.41 and 8471.49", the words and figures " sub-heading 8471.41 or 8471.49" shall be substituted;
(ix) in heading No. 84.81, in sub-heading No. 8481.30, for the entry in column (3), the following entry shall be substituted, namely:—
"-Check (nonreturn) valves";
(x) in heading No. 84.83, in sub-heading No. 8483.90, for the entry in column (3), the following entry shall be substituted, namely:—
"-Toothed wheels, chain sprockets and other transmission elements presented separately; parts";
(47) in Chapter 85,—
(i) in NOTE 3,—
(a) in clause (a), for the words "Vacuum cleaners", the words "Vacuum cleaners, including dry and wet vacuum cleaners" shall be substituted;
(b) after clause (b), in the paragraph, for the brackets, words and figures "(heading No. 85.08)", the brackets, word and figures "(heading 84.67)" shall be substituted;
(ii) for NOTE 6, the following NOTE shall be substituted, namely:—
" 6. Records, tapes and other media of heading 85.23 or 85.24 remain classified in those headings when presented with the apparatus for which they are intended.
This Note does not apply to such media when they are presented with articles other than the apparatus for which they are intended.";
(iii) after NOTE 7, for the words "SUBHEADING NOTE", the words "SUBHEADING NOTES" shall be substituted;
(iv) the existing SUBHEADING NOTE shall be numbered as SUBHEADING NOTE 1 thereof and after SUBHEADING NOTE 1 as so numbered, the following SUBHEADING NOTE shall be inserted, namely:—
'2. For the purposes of sub-heading 8542.10, the term "smart cards" means cards which have embedded in them an electronic integrated circuit (microprocessor) of any type in the form of a chip and which may or may not have a magnetic stripe.';
(v) in heading No. 85.06, in sub-heading No.8506.80, for the entry in column (3), the following entry shall be substituted, namely:—
"-Other primary cells and primary batteries";
(vi) heading No. 85.08 and sub-heading Nos. 8508.10, 8508.20, 8508.80 and 8508.90 and the entries relating thereto shall be omitted;
(vii) in heading No. 85.09, in sub-heading No. 8509.10, for the entry in column (3), the following entry shall be substituted, namely:—
" -Vacuum cleaners, including dry and wet vacuum cleaners";
(viii) in heading No. 85.14,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
"INDUSTRIAL OR LABORATORY ELECTRIC FURNACES AND OVENS (INCLUDING THOSE FUNCTIONING BY INDUCTION OR DIELECTRIC LOSS); OTHER INDUSTRIAL OR LABORATORY EQUIPMENT FOR THE HEAT TREATMENT OF MATERIALS BY INDUCTION OR DIELECTRIC LOSS";
(b) in sub-heading No. 8514.20, for the entry in column (3), the following entry shall be substituted, namely:—
"-Furnaces and ovens functioning by induction or dielectric loss";
(c) in sub-heading No. 8514.40, for the entry in column (3), the following entry shall be substituted, namely:—
"-Other equipment for the heat treatment of materials by induction or dielectric loss";
(ix) in heading No. 85.18,—
(a) for the entry in column (3), the following entry shall be substituted, namely:—
"Microphones and stands therefor; loudspeakers, whether or not mounted in their enclosures; headphones and earphones, whether or not combined with a microphone, and sets consisting of a microphone and one or more loudspeakers; audio-frequency electric amplifiers; electric sound amplifier sets";
(b) in sub-heading No. 8518.30, for the entry in column (3), the following entry shall be substituted, namely:—
"-Headphones and earphones, whether or not combined with a microphone, and sets consisting of a microphone and one or more loudspeakers";
(x) in heading No. 85.25,—
(a) in column (3), for the words "still image video cameras and other video camera recorders", the words "still image video cameras and other video camera recorders; digital cameras" shall be substituted;
(b) in sub-heading No. 8525.40, for the entry in column (3), the following entry shall be substituted, namely:—
" -Still image video cameras and other video camera recorders; digital cameras";
(48) in Chapter 87,—
(i) in heading No. 87.13, for the entry in column (3), the following entry shall be substituted, namely:—
" Carriages for disabled persons, whether or not motorised or otherwise mechanically propelled ";
(ii) in heading No. 87.14, in sub-heading No. 8714.20, for the entry in column (3), the following entry shall be substituted, namely:—
" - Of carriages for disabled persons";
(49) in Chapter 90,—
(i) in NOTE 1, in clause (h), for the words, brackets and figures " still image video cameras and other video camera recorders (heading No. 85.25); radar apparatus, radio navigational aid apparatus or radio remote control apparatus (heading No. 85.26);", the words, brackets and figures " still image video cameras, other video camera recorders and digital cameras (heading 85.25); radar apparatus, radio navigational aid apparatus or radio remote control apparatus (heading 85.26); numerical control apparatus of heading 85.37;" shall be substituted;
(ii) for NOTE 6, the following NOTES shall be substituted, namely:—
'6. For the purposes of heading 90.21, the expression " orthopaedic appliances" means appliances for:
- Preventing or correcting bodily deformities; or
- Supporting or holding parts of the body following an illness, operation or injury.
Orthopaedic appliances include footwear and special insoles designed to correct orthopaedic conditions, provided that they are either (1) made to measure or (2) mass-produced, presented singly and not in pairs and designed to fit either foot equally.
7. Heading 90.32 applies only to:
(a) Instruments and apparatus for automatically controlling the flow, level, pressure or other variables of liquids or gases, or for automatically controlling temperature, whether or not their operation depends on an electrical phenomenon which varies according to the factor to be automatically controlled, which are designed to bring this factor to, and maintain it at, a desired value, stabilised against disturbances, by constantly or periodically measuring its actual value; and
(b) Automatic regulators of electrical quantities, and instruments or apparatus for automatically controlling non-electrical quantities the operation of which depends on an electrical phenomenon varying according to the factor to be controlled, which are designed to bring this factor to, and maintain it at, a desired value, stabilised against disturbances, by constantly or periodically measuring its actual value.';
(iii) in heading No. 90.09,—
(a) in column (3), for the words "Photo-copying", the word " Photocopying" shall be substituted;
(b) in the portion occurring immediately after heading No. 90.09, in column (3), for the words "photo-copying", the word "photocopying" shall be substituted;
(c) in the portion occurring immediately after sub-heading No. 9009.12, in column (3), for the words "photo-copying", the word "photocopying" shall be substituted;
(iv) in heading No. 90.12, in sub-heading No. 9012.10, for the entry in column (3), the following entry shall be substituted, namely:—
"- Microscopes other than optical microscopes; diffraction apparatus";
(v) in heading No. 90.15, in sub-heading No. 9015.20, for the entry in column (3), the following entry shall be substituted, namely:—
"-Theodolites and tachymeters (tacheometers)";
(50) in Chapter 95,—
(i) in NOTE 1, in clause (u), for the word "gloves", the words "gloves, mittens and mitts" shall be substituted;
(ii) after NOTE 3, the following NOTE shall be inserted, namely:—
'4. Heading 95.03 does not cover articles which, on account of their design, shape or constituent material, are identifiable as intended exclusively for animals, e.g., "pet toys" (classification in their own appropriate heading)
(iii) in heading No. 95.04, in sub-heading No. 9504.30, for the entry in column (3), the following entry shall be substituted, namely:—
"-Other games, operated by coins, banknotes (paper currency), discs or other similar articles, other than bowling alley equipment";
(51) in Chapter 96, in heading No. 96.13, sub-heading Nos. 9613.30 and the entries relating thereto shall be omitted;
(52) in Chapter 97,—
(i) in NOTE 1, for clause (a), the following clause shall be substituted, namely:—
" (a) Unused postage or revenue stamps, postal stationery (stamped paper) or the like, of heading 49.07;";
(ii) in heading No. 97.04, in column (3), for the words " used, or if unused not of current or new issue in the country to which they are destined", the words and figures " used or unused, other than those of heading 49.07" shall be substituted.

THE FOURTH SCHEDULE
[See section 127 (a)]

PART I
In the First Schedule to the Central Excise Tariff Act,—
(1) in Chapter 21, for NOTE 3, the following NOTE shall be substituted, namely:—
'3. In this Chapter, "Pan masala" means any preparation containing betel-nuts and any one or more of the following ingredients, namely:—
(i) lime; and
(ii) kattha (catechu),
but not tobacco, whether or not containing any other ingredients, such as cardamom, copra and menthol.';
(2) in Chapter 24, after NOTE 5, the following NOTE shall be inserted, namely:—
'6. In this Chapter, "Pan masala containing tobacco", commonly known as 'gutkha' or by any other name, means any preparation containing betel-nuts and tobacco and any one or more of the following ingredients, namely:—
(i) lime; and
(ii) kattha (catechu),
whether or not containing any other ingredients, such as cardamom, copra and menthol.';
(3) in Chapter 27,—
(i) after NOTE 9, the following NOTE shall be inserted, namely:—
'10. In relation to natural gas falling under heading No. 27.11, the process of compression of natural gas (even if it does not involve liquefaction), for the purpose of marketing it as Compressed Natural Gas (CNG), for use as a fuel or for any other purpose, shall amount to "manufacture".';
(ii) in sub-heading No. 2711.21, for the entry in column (4), the entry "16%" shall be substituted;
(4) in Chapter 34, in sub-heading No. 3406.10, for the entry in column (4), the entry "16%" shall be substituted;
(5) in Chapter 48, in sub-heading No. 4819.12, for the entry in column (4), the entry "16%" shall be substituted;
(6) in Chapter 52, after NOTE 3, the following NOTE shall be inserted, namely:—
'4. For the purposes of this Chapter, "denim" means fabrics of yarns of different colours, of 3-thread or 4-thread twill, including broken twill, warp faced, the warp yarns of which are of one and the same colour and the weft yarns of which are unbleached, bleached, dyed grey or coloured a lighter shade of the colour of the warp yarns.' ;
(7) in Chapter 62,—
(i) after NOTE 2, the following NOTES shall be inserted, namely:—
'3. In relation to a product of this Chapter, "brand name" means a brand name, whether registered or not, that is to say, a name or a mark, such as a symbol, monogram, label, signature or invented word or any writing which is used in relation to a product, for the purposes of indicating, or so as to indicate, a connection in the course of trade between the product and some person using such name or mark with or without any indication of the identity of that person.
4. In relation to a product of this Chapter, affixing a brand name on the product, labelling or relabelling of its containers and repacking from bulk packs to retail packs or the adoption of any other treatment to render the product marketable to the consumer, shall amount to "manufacture".';
(ii) in sub-heading Nos. 6201.00 and 6202.00, for the entry in column (4) occurring against each of them, the entry "16%" shall be substituted;
(8) in Chapter 64, in sub-heading No. 6401.12, for the entry in column (4), the entry "16%" shall be substituted;
(9) in Chapter 71, in sub-heading No. 7101.50, for the entry in column (4), the entry "16%" shall be substituted;
(10) in Chapter 85, in sub-heading No. 8539.10, for the entry in column (4), the entry "16%" shall be substituted;
(11) in Chapter 87,—
(i) for NOTE 3, the following NOTE shall be substituted, namely:—
'3. For the purposes of this Chapter, building a body or fabrication or mounting or fitting of structures or equipment on the chassis falling under heading No. 87.06 shall amount to "manufacture" of a motor vehicle.';
(ii) in heading No.87.07, in sub-heading No. 8707.00, for the entry in column (3), the following entry shall be substituted, namely:—

"Bodies (including cabs), for the motor vehicles of heading Nos. 87.01 to 87.05";
(12) in Chapter 90, in sub-heading No. 9004.90, for the entry in column (4), the entry "16%" shall be substituted;
(13) in Chapter 96, in sub-heading No. 9603.00, for the entry in column (4), the entry "16%" shall be substituted.

PART II

Heading No. (1)	Sub-heading No. (2)	Description of goods (3)	Rate of duty (4)

In the First Schedule to the Central Excise Tariff Act,-
(1) in Chapter 24, for sub-heading No. 2404.40 and the entries relating thereto, the following shall be substituted, namely:-

		"- Chewing tobacco and preparations containing chewing tobacco; pan masala containing tobacco:	
	2404.41	— Chewing tobacco and preparations containing chewing tobacco	16%
	2404.49	— Pan masala containing tobacco	16% ";

(2) in Chapter 52,-
(i) for sub-heading Nos. 5207.10, 5207.21, 5207.22, 5207.23 and 5207.29 and the entries relating thereto, the following shall be substituted, namely:-

"5207.10	- Denim fabrics, whether or not processed	16%
5207.20	- Other fabrics, not subjected to any process	16%
	- Other fabrics subjected to the process of bleaching, mercerising, dyeing, printing, water-proofing, organdie processing or any other process or any one or more of these processes:	
5207.31	— Bleached woven fabrics	16%
5207.32	— Dyed woven fabrics	16%
5207.33	— Printed woven fabrics	16%
5207.39	— Other woven fabrics	16%";

(ii) for sub-heading Nos. 5208.10, 5208.21, 5208.22, 5208.23 and 5208.29 and the entries relating thereto, the following shall be substituted, namely:-

"5208.10	- Denim fabrics, whether or not processed	16%
5208.20	- Other fabrics, not subjected to any process	16%
	- Other fabrics subjected to the process of bleaching, mercerising, dyeing, printing, water-proofing, organdie processing or any other process or any one or more of these processes:	
5208.31	— Bleached woven fabrics	16%
5208.32	— Dyed woven fabrics	16%
5208.33	— Printed woven fabrics	16%
5208.39	— Other woven fabrics	16%";

THE FIFTH SCHEDULE

[See section 127 (b)]

PART I

In the Second Schedule to the Central Excise Tariff Act, in sub-heading Nos. 2106.00, 2108.10, 2201.20, 2202.20, 2401.90, 2404.50, 2404.99, 2502.21, 2502.30, 2502.40, 2502.50, 2502.90, 4301.00, 8703.90, 8704.90, 8706.39, 8706.49, 8903.00, 8907.00, 9302.00, 9303.00, 9304.00, 9305.00, 9306.00 and 9307.00, for the entry in column (4) occurring against each of them, the entry "16%" shall be substituted;

PART II

Heading No.	Sub-heading No.	Description of Goods of excise	Rate of special duty
(1)	(2)	(3)	(4)

In the Second Schedule to the Central Excise Tariff Act,—
(1) in heading No. 24.04, for sub-heading No. 2404.40 and the entries relating thereto, the following shall be substituted, namely:-

	"- Chewing tobacco and preparations containing chewing tobacco; pan masala containing tobacco:	
2404.41	— Chewing tobacco and preparations containing chewing tobacco	16%
2404.49	— Pan masala containing tobacco	16% ";

(2) heading No. 57.02, sub-heading No. 5702.19 and the entries relating thereto shall be omitted;
(3) heading No. 57.03, sub-heading No. 5703.90 and the entries relating thereto shall be omitted;
(4) heading No. 59.04, sub-heading Nos. 5904.10, 5904.91 and 5904.92 and the entries relating thereto shall be omitted;
(5) heading No. 59.05, sub-heading No. 5905.00 and the entries relating thereto shall be omitted;
(6) heading No. 59.07, sub-heading No. 5907.90 and the entries relating thereto shall be omitted;
(7) heading No. 69.05, sub-heading No. 6905.10 and the entries relating thereto shall be omitted;
(8) heading No. 69.06, sub-heading No. 6906.10 and the entries relating thereto shall be omitted;
(9) heading No. 87.11, sub-heading Nos. 8711.20 and 8711.90 and the entries relating thereto shall be omitted; and
(10) heading No. 94.04, sub-heading No. 9404.00 and the entries relating thereto shall be omitted.

THE SIXTH SCHEDULE
(See section 128)

PART I

In the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act,—

(1) in sub-heading Nos. 2404.50 and 2404.99, for the entry in column (4) occurring against each of them, the entry "18%" shall be substituted;
(2) in sub-heading Nos. 5110.10, 5110.21, 5110.22, 5110.23, 5110.29, 5111.10, 5111.21, 5111.22, 5111.23 and 5111.29, for the entry in column (4) occurring against each of them, the entry "8%" shall be substituted.

PART II

Heading No.	Sub-heading No.	Description of goods	Rate of additional duty
(1)	(2)	(3)	(4)

In the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act,—
(i) for sub-heading No. 2404.40 and the entries relating thereto, the following shall be substituted, namely:—

	"- Chewing tobacco and preparations containing chewing tobacco; pan masala containing tobacco:	
2404.41	— Chewing tobacco and preparations containing chewing tobacco	18%
2404.49	— Pan masala containing tobacco	18% ";

(ii) for sub-heading Nos. 5207.10, 5207.21, 5207.22, 5207.23 and 5207.29 and the entries relating thereto, the following shall be substituted, namely:—

"5207.10	- Denim fabrics, whether or not processed	8%
5207.20	- Other fabrics, not subjected to any process	Nil
	- Other fabrics subjected to the process of bleaching, mercerising, dyeing, printing, water-proofing, organdie processing or any other process or any one or more of these processes:	
5207.31	— Bleached woven fabrics	8%
5207.32	— Dyed woven fabrics	8%
5207.33	— Printed woven fabrics	8%
5207.39	— Other woven fabrics	8%";

(iii) for sub-heading Nos. 5208.10, 5208.21, 5208.22, 5208.23 and 5208.29 and the entries relating thereto, the following shall be substituted, namely:—

"5208.10	- Denim fabrics, whether or not processed	8%
5208.20	- Other fabrics, not subjected to any process	Nil
	- Other fabrics subjected to the process of bleaching, mercerising, dyeing, printing, water-proofing, organdie processing or any other process or any one or more of these processes:	
5208.31	— Bleached woven fabrics	8%
5208.32	— Dyed woven fabrics	8%
5208.33	— Printed woven fabrics	8%
5208.39	— Other woven fabrics	8%";

THE SEVENTH SCHEDULE

(See section 129)

NOTES

1. In this Schedule, "heading", "sub-heading" and "Chapter" mean respectively a heading, sub-heading and Chapter in the First Schedule to the Central Excise Tariff Act.
2. The rules for the interpretation of the First Schedule to the Central Excise Tariff Act, the Section and Chapter Notes and the General Explanatory Notes of the First Schedule shall apply to the interpretation of this Schedule.

Heading No.	Sub-heading No.	Description of goods	Rate of duty
(1)	(2)	(3)	(4)
21.06	2106.00	Pan masala	23%
24.03	2403.11	— Other than filter cigarettes, of length not exceeding 60 millimetres	Rs.20 per thousand
	2403.12	— Other than filter cigarettes, of length exceeding 60 millimetres but not exceeding 70 millimetres	Rs.60 per thousand
	2403.13	— Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) not exceeding 70 millimetres	Rs.90 per thousand
	2403.14	— Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 70 millimetres but not exceeding 75 millimetres	Rs.145 per thousand
	2403.15	— Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 75 millimetres but not exceeding 85 millimetres	Rs.190 per thousand
	2403.19	— Other	Rs.235 per thousand
	2403.20	- Cigarettes of tobacco substitutes	Rs.150 per thousand
24.04	2404.10	- Smoking mixtures for pipes and cigarettes	45%
	2404.31	— Other than paper rolled biris, manufactured without the aid of machines	Re.1.00 per thousand
	2404.39	— Other	Rs.2.00 per thousand
	2404.41	— Chewing tobacco and preparations containing chewing tobacco	10%
	2404.49	— Pan masala containing tobacco	10%
	2404.50	- Snuff of tobacco and preparations containing snuff of tobacco in any proportion	10%
	2404.99	— Other	10%

THE EIGHTH SCHEDULE

[See section 109 (1)]

1.	G.S.R. 465(E)- dated the 3rd May, 1990 (169/90-CUSTOMS, dated the 3rd May, 1990)	(i) In the said notification, after condition (ii) and before the Explanation, the following condition shall be inserted, namely,— "(iii) where the licensing authority grants an extension of the period for fulfilment of export obligation in terms of, and subject to satisfaction of such conditions as may be specified in a Public Notice of the Government of India in the Ministry of Commerce in this regard, the said period of fulfilment of export obligation may be extended, but shall in no case be extended beyond the 31st March, 2002."	3rd May, 1990
2.	G.S.R. 423(E),-dated the 20th April, 1992 (160/92-CUSTOMS, dated the 20th April, 1992)	(i) In the said notification, after condition (iii), the following condition shall be inserted, namely,- "(iv) where the licensing authority grants an extension of the period for fulfilment of export obligation or regularisation of shortfall in export obligation not exceeding 5% of such export obligation, in terms of, and subject to satisfaction of such conditions as may be specified in a Public Notice of the Government of India in the Ministry of Commerce in this regard, the said period of fulfilment of export obligation may be extended, but shall in no case be extended beyond the 31st March, 2002, and the said short fall in export obligation condoned by the Assistant Commissioner of Customs or the Deputy Commissioner of Customs, as the case may be.".	20th April,1992
3.	G.S.R. 946(E)-dated the 28th December, 1992(307/92-CUSTOMS, dated the 28th December, 1992)	In the said notification, after condition (iv), the following condition shall be inserted, namely,— "(v) where the licensing authority grants an extension of the period for fulfilment of export obligation or regularisation of shortfall in export obligation not exceeding 5% of such export obligation, in terms of, and subject to satisfaction of such conditions as may be specified in a Public Notice of the Government of India in the Ministry of Commerce in this regard, the said period of fulfilment of export obligation may be extended, but shall in no case be extended beyond the 31st March, 2002, and the said short fall in export obligation condoned by the Assistant Commissioner of Customs or the Deputy Commissioner of Customs, as the case may be.".	28th December, 1992
4.	G.S.R. 417(E), dated the 14th May, 1993 (122/93-CUSTOMS, dated the 14th May, 1993)	In the said notification, after condition (iii) and before the Explanation, the following condition shall be inserted, namely,— "(v) where the licensing authority grants an extension of the period for fulfilment of export obligation or regularisation of shortfall in export obligation not exceeding 5% of such export obligation, in terms of, and subject to satisfaction of such conditions as may be specified in a Public Notice of the Government of India in the Ministry of Commerce in this regard, the said period of fulfilment of export obligation may be extended, but shall in no case be extended beyond the 31st March, 2002, and the said short fall in export obligation condoned by the Assistant Commissioner of Customs or the Deputy Commissioner of Customs, as the case may be"	14th May, 1993

STATEMENT OF OBJECTS AND REASONS

The object of the Bill is to give effect to the financial proposals of the Central Government for the financial year 2001-2002. The notes on clauses explain the various provisions contained in the Bill.

YASHWANT SINHA.

NEW DELHI;
The 28th February, 2001.

Notes on clauses

Income-tax

Clause 2, read with the First Schedule to the Bill, seeks to specify the rates at which income-tax is to be levied on income chargeable to tax for the assessment year 2001-2002. Further, it lays down the rates at which tax is to be deducted at source during the financial year 2001-2002 from income subject to such deduction under the Income-tax Act; and the rates at which "advance tax" is to be paid, tax is to be deducted at source from income chargeable under the head "Salaries" and tax is to be calculated and charged in special cases for the financial year 2001-2002.

Rates of income-tax for the assessment year 2001-2002

Part I of the First Schedule to the Bill specifies the rates at which income is liable to tax for the assessment year 2001-2002. These rates are the same as those specified in Part III of the First Schedule to the Finance Act, 2000, for the purposes of deduction of tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the financial year 2000-2001.

Rates for deduction of tax at source during the financial year 2001-2002 from income other than "Salaries"

Part II of the First Schedule to the Bill specifies the rates at which income-tax is to be deducted at source during the financial year 2001-2002 from incomes other than "Salaries". These rates are broadly the same as those specified in Part II of the First Schedule to the Finance Act, 2000, for the purposes of deduction of income-tax at source during the financial year 2000-2001. However, the rates of tax to be deducted on income by way of winnings from lotteries and crossword puzzles, and income by way of winnings from horse races, have been reduced from forty per cent. to thirty per cent. Tax on income by way of winnings from card games and other games of any sort is required to be deducted at source at the rate of thirty per cent.The amount of tax so deducted shall be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such income-tax except in the case of a foreign company.

Rates for deduction of tax at source from "Salaries" computation of "advance tax" and charging of income-tax in special cases during the financial year 2001-2002

Part III of the First Schedule to the Bill specifies the rates at which income-tax is to be deducted at source from "Salaries" and also the rates at which "advance tax" is to be paid and income-tax is to be calculated or charged in special cases for the financial year 2001-2002.

Paragraph A of this Part specifies the rates of income-tax in the case of every individual or Hindu undivided family or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which any other Paragraph of Part III applies. No change is proposed in the rate structure.

Paragraph B of this Part specifies the rates of income-tax in the case of every co-operative society. In such cases, the rates of tax will continue to be the same as those specified for assessment year 2001-2002, except for co-operative societies having income above thirty thousand rupees where the tax payable will be three thousand rupees plus thirty per cent. of the amount by which the total income exceeds twenty thousand rupees.

Paragraph C of this Part specifies the rate of income-tax in the case of every firm. In such cases, the rate of tax will continue to be the same as that specified for assessment year 2001-2002.

Paragraph D of this Part specifies the rate of income-tax in the case of every local authority. In such cases, the rate of tax will continue to be the same as that specified for assessment year 2001-2002.

Paragraph E of this Part specifies the rates of income-tax in the case of companies. In such cases, the rates of tax will continue to be the same as those specified for assessment year 2001-2002. The rate of tax in the case of domestic companies will continue to be thirty-five per cent. and in the case of foreign companies it will be forty-eight per cent.

In the case of every person being an individual, Hindu undivided family, association of persons or body of individuals whose income exceeds sixty thousand rupees and where income-tax is to be deducted at source or "advance tax" is payable in accordance with the provisions of this Part such amount of income-tax after allowing rebate under Chapter VIII-A, is proposed to be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such tax.

In the case of every artificial juridical person, co-operative society, firm, local authority or domestic company where income-tax is to be computed in accordance with the provisions of this Part, such amount of income-tax is proposed to be increased by a surcharge for purposes of the Union calculated at the rate of two per cent. of such tax.

Clause 3 seeks to amend section 2 of the Income-tax Act relating to definitions.

Sub-clause (a) seeks to insert a new sub-clause (12A) to define "books or books of account" to include ledgers, day-books, cash books, account-books and other books whether kept in the written form or as print-outs of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device.

Sub-clause (b) seeks to insert a new sub-clause (22AA) to define "document" to include electronic record as defined in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000.

These amendments will take effect from 1st June, 2001.

The existing section 194B of the Income-tax Act, inter alia, provides for deduction of income-tax at source on the income by way of winnings from any lottery at the rates in force. It is proposed to amend the said section 194B vide clause 65 of the Bill to provide for deduction of income-tax at source on the income by way of winnings from card game and other game of any sort. Section 115BB of the Income-tax Act provides for the rate at which income-tax shall be payable on the income by way of winnings from any lottery or card game and other game of any sort. Sub-clause (ix) of clause (24) of section 2 defines the expression "income" to include, inter alia, any winnings from lotteries or card games and other games of any sort.

Sub-clause (c) seeks to insert an Explanation in the said sub-clause (ix) to define the expressions "lottery" to include winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever under any scheme or arrangement by whatever name called; and "card game and other game of any sort" to include any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

Sub-clause (d) seeks to define the expression "insurer" used in the proposed amendments vide clauses 34 to 36 and 43. The insurer shall mean an Indian insurance company which has been granted a certificate of registration under the Insurance Act, 1938.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 4 seeks to amend section 9 of the Income-tax Act relating to income deemed to accrue or arise in India.

Under the existing provision contained in clause (vi) of sub-section (1) of the said section, income by way of royalty payable shall be deemed to accrue or arise in India subject to certain conditions specified in that clause. The term "royalty" has been defined in Explanation 2 to this clause.

It is proposed to include the use or right to use any industrial, commercial or scientific equipment within the scope of the said Explanation.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 5 seeks to amend section 10 of the Income-tax Act relating to incomes not included in the total income.

Under the existing provision contained in clause (10C), any amount received by an employee of a public sector company or any other company or an authority established under a Central, State or Provincial Act or a local authority or a co-operative society or a University or an Indian Institute of Technology or a notified institute of management, at the time of his voluntary retirement, or termination of his service in accordance with any scheme or schemes of voluntary retirement, or in the case of a public sector company, a scheme of voluntary separation, to the extent such amount does not exceed five lakh rupees, is not included in computing his total income.

Sub-clause (a) seeks to enlarge the scope of the exemption by extending it to an employee of any State Government.

The amount received by employees under scheme or schemes of voluntary retirement of any State Government shall be exempt with effect from 1st April, 2001 in accordance with the proposed amendment.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

This sub-clause also proposes to enlarge the scope of the exemption by extending it to an employee of the Central Government.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Sub-clause (b) seeks to substitute item (a) and amend items (b), (c), (d), (e) and (f) of sub-clause (iv) of clause (15) so as to provide that the interest payable on any moneys borrowed, or on moneys borrowed under an agreement approved before 1st June, 2001 by Government or a local authority or by an industrial undertaking or by any other financial institution or a banking company under the Banking Regulation Act, 1949 or by certain Government companies as specified in those items, shall not be included in the total income.

This sub-clause also proposes to substitute Explanation 1A so as to provide that the expression "interest" shall not include any interest paid on delayed payment of loan or on default if it is in excess of two per cent. per annum over the rate of interest payable in terms of such loan.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Under the existing provision contained in clause (23AAB), any income of a fund set up by the Life Insurance Corporation of India on or after 1st October, 1996 under a pension scheme to which contribution is made by any person and which is approved by the Controller of Insurance, is exempt from income-tax.

Sub-clause (c) seeks to provide that income of any fund set up by any other insurer who is approved by the Insurance Regulatory and Development Authority shall also be eligible for exemption.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Sub-clause (d) seeks to insert a new clause (23BBD) so as to exempt any income of the Secretariat of the Asian Organisation of the Supreme Audit Institutions, registered as ASOSAI SECRETARIAT under the Societies Registration Act, 1860, for a period of three previous years relevant to the assessment years beginning on the 1st day of April, 2001.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment years 2001-2002, 2002-2003 and 2003-2004.

Under the existing provision, the income of any fund or institution referred to in sub-clause (iv) or any trust or institution referred to in sub-clause (v) or any university or other educational institution or hospital or other medical institution referred to in sub-clauses (vi) and (via) of clause (23C) of section 10, is not exempt under the said sub-clauses unless the income is applied or accumulated for application, wholly and exclusively to the objects for which the fund, etc., is established. At present, no maximum time has been provided for accumulation of such income.

Sub-clause (e) seeks to provide that after 1st April, 2001, if any income of the fund or trust or institution or university or other educational institution or hospital or other medical institution, has not been applied to the objects for which the fund, etc., is established and such income is accumulated, the maximum period of such accumulation will be limited to five years only.

This sub-clause further proposes to amend third proviso to this clause so as so provide that the educational and medical institutions referred to in sub-clauses (vi) and (via) holding any assets in the form of equity shares of a public company, including bonus shares thereon, and forming part of their corpus before 1st June, 1998, will not be denied exemption, even if these are not invested in the assets specified under sub-section (5) of section 11 of the Income-tax Act.

This sub-clause also seeks to insert a new proviso after the eighth proviso so as to provide that an institution or trust having total receipts of more than ten lakh rupees, or a university or other educational institution or hospital or other medical institution having total receipts exceeding one crore rupees, shall publish its accounts in a local newspaper and furnish a copy of such newspaper along with the application prescribed in clause (23C).

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Under the existing provision contained in clause (23FB), any income of a venture capital company or a venture capital fund set up to raise funds for investment in a venture capital undertaking is not included in the total income of the previous year. As per the Explanation to this clause, "venture capital undertaking" means a domestic company whose shares are not listed in a recognised stock exchange in India. If the shares of such venture capital undertaking get listed subsequently in a recognised stock exchange and if the initial investment made continues, the venture capital company and venture capital fund may lose exemption by virtue of this Explanation.

Sub-clause (f) seeks to insert another Explanation in clause (23FB) to clarify that the income of a venture capital company or venture capital fund shall continue to be exempt even if the shares of the venture capital undertaking in which the venture capital company or venture capital fund has made the initial investment, are subsequently listed in a recognised stock exchange in India.

The "venture capital fund" has been defined in clause (23FB) as a fund operating under a trust deed registered under the provisions of the Registration Act, 1908. It is also proposed to clarify that the fund operating as a venture capital scheme made by the Unit Trust of India established under the Unit Trust of India Act, 1963, shall be within the scope of the said clause.

These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Sub-clause (g) seeks to amend clause (23G). Under the existing provision contained in this clause, any income by way of dividends, other than dividends referred to in section 115-O, interest or long-term capital gains of an infrastructure capital fund or an infrastructure capital company from investments made by way of shares or long-term finance in any enterprise wholly engaged in the business of (i) developing, (ii) maintaining and operating, or (iii) developing, maintaining and operating any infrastructure facility and which has been approved by the Central Government, is exempt. It is proposed to enlarge the scope of the exemption by extending it to co-operative banks also.

This sub-clause further seeks to provide that any income by way of dividends, other than dividends referred to in section 115-O, interest or long-term capital gains of an infrastructure capital fund or an infrastructure capital company, from investments in any enterprise or undertaking wholly engaged in the business referred to in sub-section (4) of section 80-IA shall not be included in computing the total income.

This sub-clause also seeks to omit clause (c) to Explanation 1 and to include and define the expressions "co-operative banks" and "interest" for the purposes of the said clause.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Under the existing provisions contained in sub-clauses (ii) and (iii) of clause (33), any income by way of income received in respect of units from the Unit Trust of India or units of a mutual fund specified under clause (23D) is not included while computing the total income.

Sub-clause (h) seeks to amend the said clause (33) so as to clarify that income received, in respect of units of Unit Trust of India or a mutual fund on transfer of such units to persons other than Unit Trust of India or a mutual fund shall not be exempt.

This amendment will take effect retrospectively from 1st April, 2000 and will, accordingly, apply in relation to the assessment year 2000-2001 and subsequent years.

Clause 6 seeks to amend section 10A of the Income-tax Act relating to newly established undertakings in free trade zone, etc.

Under the existing provision contained in sub-section (1) of the said section, any profits and gains derived by an assessee from an undertaking to which this section applies shall not be included in the total income of the assessee in respect of ten consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or computer software.

The second proviso to sub-section (1) provides that where an undertaking initially located in any free trade zone or export processing zone is subsequently located in a special economic zone by reason of conversion of such free trade zone or export processing zone into a special economic zone, the said period of ten consecutive assessment years is reckoned from the assessment year relevant to the previous year in which such undertaking was first set up in such free trade zone or export processing zone.

Item (i) of sub-clause (a) seeks to amend the second proviso to sub-section (1) so as to provide that such period of ten consecutive assessment years shall be reckoned from the assessment year relevant to the previous year in which such undertaking began to manufacture or produce such articles or things or computer software in the free trade zone or export processing zone.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Under the existing provision contained in the third proviso to sub-section (1), the profits and gains derived from such domestic sales of articles or things or computer software as do not exceed twenty-five per cent. of total sales of such undertaking shall be deemed to be the profits and gains derived from the export of articles or things or computer software.

Item (ii) of sub-clause (a) seeks to omit the third proviso to disallow the profits and gains derived from such domestic sales included in the profits and gains derived from the export of such articles or things or computer software.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Under the existing provision contained in sub-section (4), the profits derived from export of articles or things or computer software shall be the amount which bears to the profits of the business, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the assessee.

Sub-clause (b) seeks to clarify that such proportions shall be calculated with reference to the profits and gains of the business of the undertaking and not from any other business carried on by the assessee.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Item (i) of sub-clause (c) seeks to amend Explanation 1 to the said section so as to clarify that the company referred to in the Explanation shall be the company in which the public are not substantially interested. The company in which the public are substantially interested has been defined in clause (18) of section 2 of the Income-tax Act.

Item (ii) of sub-clause (c) seeks to amend clause (iv) of Explanation 2 to the said sub-section to clarify that the "export turnover" for computation of profits would relate to profits of the undertaking and not to the business as a whole.

Item (iii) of sub-clause (c) seeks to insert Explanation 3 to the aforesaid sub-section to clarify that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Clause 7 seeks to amend section 10B of the Income-tax Act relating to newly established hundred per cent. export-oriented undertakings.

Under the existing provision contained in sub-section (1) of the said section, any profits and gains derived by an assessee from a hundred per cent. export-oriented undertaking to which this section applies shall not be included in the total income of the assessee for ten consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or computer software.

Under the existing provision contained in the second proviso to the said sub-section (1), the profits and gains derived from such domestic sales of articles or things or computer software as do not exceed twenty-five per cent. of total sales of such undertaking shall be deemed to be the profits and gains derived from the export of articles or things or computer software.

Sub-clause (a) seeks to omit the second proviso to disallow the profits and gains derived from such domestic sales included in the profits and gains derived from the export of such articles or things or computer software.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Under the existing provision contained in sub-section (4) of the said section, the profits derived from export of articles or things or computer software shall be the amount which bears to the profits of the business, the same proportion as the export turnover in respect of such articles or things or computer software bears to the total turnover of the business carried on by the assessee.

Sub-clause (b) seeks to clarify that such proportion shall be calculated with reference to the profits and gains of the business of the undertaking and not from any other business carried on by the assessee.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Item (i) of sub-clause (c) seeks to amend Explanation 1 to the aforesaid section so as to clarify that the company referred to in the said Explanation shall be the company in which the public are not substantially interested. The company in which the public are substantially interested has been defined in clause (18) of section 2 of the Income-tax Act.

Item (ii) of sub-clause (c) seeks to amend clause (iii) of Explanation 2 to the said sub-section (4) to clarify that the "export turnover" for computation of profits would relate to profits of the undertaking and not to the business as a whole.

Item (iii) of sub-clause (c) seeks to insert Explanation 3 to the aforesaid section to clarify that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Clause 8 seeks to insert new section 10BB in the Income-tax Act relating to meaning of computer programmes in certain cases.

It is proposed to insert a new section so as to clarify that the profits and gains derived by an undertaking from the production of computer programmes under section 10B as it stood prior to its substitution by section 7 of the Finance Act, 2000 shall be construed as if for the words "computer programmes", the words "computer programmes or processing or management of electronic data" had been substituted in that section.

This amendment will take effect retrospectively from 1st April, 1994 and will, accordingly, apply in relation to the assessment year 1994-1995 and subsequent years.

Clause 9 seeks to amend section 11 of the Income-tax Act relating to income from property held for charitable or religious purposes.

Under the existing provision contained in sub-section (2) of the said section, if seventy-five per cent. of the income derived from property held for charitable or religious purposes is not applied for such purposes, then, the portion not applied is permitted to be accumulated or set apart for application for such purposes for a period of ten years.

It is proposed to amend the said sub-section so as to reduce the period of accumulation in respect of the income accumulated after 1st April, 2001 from ten years to five years.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 10 seeks to amend section 12A of the Income-tax Act relating to conditions as to registration of trusts, etc.

Section 12A provides that two conditions of registration and audit of its accounts must be fulfilled by any trust or institution before claiming exemption under sections 11 and 12. It is proposed to add two more conditions so as to provide that where the total income of the trust or institution as computed under the Income-tax Act without giving effect to the provisions of sections 11 and 12 exceeds ten lakh rupees in any previous year, the trust or institution, as the case may be, shall publish its accounts in a local newspaper and furnish a copy of such newspaper along with the return of income.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 11 seeks to insert a new section 14A in the Income-tax Act relating to expenditure incurred in relation to income not includible in the total income.

The new section seeks to provide that no deduction shall be made in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income under the Act.

This amendment will take effect retrospectively from 1st April, 1962 and will, accordingly, apply in relation to the assessment year 1962-63 and subsequent years.

Clause 12 seeks to amend section 16 of the Income-tax Act relating to deductions from salaries.

Under the existing provision contained in sub-clause (a) of clause (ii), a deduction of entertainment allowance is allowed to an assessee who is in receipt of a salary from the Government. The deduction allowable in such cases is a sum equal to one-fifth of the salary or five thousand rupees, whichever is less. Sub-clause (b) of clause (ii) provides for a similar deduction in case of other assessees in receipt of entertainment allowance who have been continuously in receipt of such allowance regularly from the present employer from a date before the 1st day of April, 1955. The deduction in such cases is restricted to the entertainment allowance received from such employer before the 1st day of April, 1955 or a sum equal to one-fifth of salary or seven thousand five hundred rupees, whichever is the least.

It is proposed to delete the said clause (ii) to discontinue deduction for entertainment allowance provided in sub-clause (b) to the persons other than those employed in the Government.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 13 seeks to amend section 17 of the Income-tax Act relating to the definitions of "salary", "perquisite" and "prof-

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its in lieu of salary".
Under the existing provision contained in clause (2) of the said section, the value of any benefit or amenity granted or provided free of cost or at concessional rate by an employer to an employee (not being a director of a company or a person who has a substantial interest in the company) is not regarded as "perquisite" received by the employee where the salary exclusive of the value of perquisites other than by way of monetary payment of such employee does not exceed twenty-four thousand rupees.
Sub-clause (a) seeks to amend item (c) of sub-clause (iii) of clause (2) to increase the monetary limit of salary from twenty-four thousand rupees to fifty thousand rupees and also seeks to insert a new sub-clause (viii) in the said clause (2) so as to provide that the value of any fringe benefit or amenity provided to an employee shall be determined in such manner as may be prescribed.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Under the existing provision contained in sub-clause (iii) of clause (2) of the said section, the value of any benefit or amenity granted or provided free of cost or at concessional rate in the cases specified therein shall be included in the perquisite. The proviso to sub-clause (iii) provides that the said sub-clause (iii) shall not apply to the value of any benefit provided directly or indirectly by a company free of cost or at a concessional rate to its employees by way of allotment of shares, debentures or warrants under the Employees' Stock Option Plan or Scheme of the said company.
It is further proposed to amend the proviso to sub-clause (iii) to provide that the provision contained in the said sub-clause (iii) shall not apply if the shares, debentures or warrants are allotted by a company to its employees under the Employees' Stock Option Scheme or Employees' Stock Purchase Scheme in accordance with the guidelines issued by the Securities and Exchange Board of India.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
It is also proposed to insert a new sub-clause (viii) in clause (2).
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (b) seeks to insert a new sub-clause (iii) in clause (3) of the said section so as to include any amount due to or received, whether in lump sum or otherwise, by any assessee from any person before joining any employment, or after cessation of such employment as income of that person under the head "Salaries".
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 14 seeks to substitute new section for section 23 of the Income-tax Act relating to determination of annual value of house property.
The existing provision of the said section provides for the determination of annual value of a property in certain circumstances including where the property is let, or is self-occupied, or is vacant, or is partially let, or is let for part of the year. The annual value so determined is subject to the deductions allowable under section 24, including deductions on account of vacancy for any part of the year in respect of the property let, and on account of rent which cannot be realised.
It is proposed to substitute the said section so as to provide for determination of annual value in certain circumstances specified in the proposed new section after allowing deductions in computing the annual value on account of vacancy and unrealised rent.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 15 seeks to substitute new section for section 24 of the Income-tax Act relating to deductions from income from house property.
Under the existing provisions contained in the said section, the income chargeable under the head "Income from house property" is, in certain cases, computed after making deductions of one-fourth of the annual value in respect of repairs of, and collection of rent from, the property; the amount of insurance premium paid; any annual charge in respect of the property (not being a charge created by the assessee voluntarily or a capital charge); ground rent; interest on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property; land revenue or any other tax levied by the State Government; part of the annual value proportionate to the period during which a property which is let was vacant; and the amount of rent subject to rules made in this behalf which the assessee cannot realise.
It is proposed to substitute the said section so as to provide for a deduction of an amount equal to thirty per cent. of the annual value while computing the income chargeable under the head "Income from house property".
It is also proposed, inter alia, to provide for a deduction up to an amount of one lakh fifty thousand rupees payable as interest on capital borrowed on or after 1st April, 1999 for the acquisition and construction of a property, where such acquisition or construction is completed before 1st April, 2003 and to be occupied or occupied by the assessee for his own residence.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 16 seeks to amend section 25 of the Income-tax Act relating to amounts not deductible from income from house property.
Under the existing provision of the said section, any annual charge or interest chargeable to tax under the Income-tax Act, which is payable outside India, on which tax has not been paid or deducted under Chapter XVIIB of the said Act and in respect of which there is no person in India who may be treated as an agent under section 163, shall not be deducted in computing the income chargeable under the head "Income from house property".
It is proposed to omit reference to annual charge in the said section. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 17 seeks to amend section 25A of the Income-tax Act relating to special provision for cases where unrealised rent allowed as deduction is realised subsequently.
Under the existing provision contained in the said section, where a deduction has been made under section 24 in the assessment for any year in respect of rent from property which the assessee cannot realise, and subsequently during any previous year, the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head "Income from house property" and shall be charged to tax without making any deduction under section 23 or section 24 as the income of that previous year, whether the assessee is the owner of the property in that year or not.
It is proposed to amend the said section so as to provide that the provision of this section shall apply so far as it relates to deduction under section 23 or section 24, as it stood immediately before its substitution proposed in the Bill. Sections 23 and 24 of the Income-tax Act are proposed to be substituted vide clauses 14 and 15 of the Bill. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 18 seeks to insert a new section 25AA in the Income-tax Act relating to unrealised rent received subsequently to be charged to income-tax.
It is proposed to amend the said section so as to provide that the provision of this section shall apply so far as it relates to deduction under section 23 or section 24, as it stood immediately before its substitution proposed in the Bill. Sections 23 and 24 of the Income-tax Act are proposed to be substituted vide clauses 14 and 15 of the Bill. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 18 seeks to insert a new section 25AA in the Income-tax Act relating to unrealised rent received subsequently to be charged to income-tax.
It is proposed to insert a new section to provide that where the assessee cannot realise rent from a property let to a tenant and subsequently the assessee has realised any amount in respect of such rent, the amount so realised shall be deemed to be income chargeable under the head "Income from house property" and accordingly charged to income-tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in that previous year. Sections 23 and 24 are proposed to be substituted vide clauses 14 and 15 of the Bill. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 19 seeks to amend section 25B of the Income-tax Act relating to special provision for arrears of rent received.
Under the existing provision, where the assessee receives any amount by way of arrears of rent from property not charged to income-tax for any previous year, the amount received, after deducting a sum equal to one-fourth of such amount for repairs of, and collection of rent from, the property is deemed to be the income chargeable under the head "Income from house property" of the year in which such rent is received.
It is proposed to amend the said section to provide that the amount of arrears of rent so received, after deducting a sum equal to thirty per cent. of such amount instead of the said one-fourth of such amount, shall be deemed to be such income chargeable under the head "Income from house property" of such previous year. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 20 seeks to amend section 27 of the Income-tax Act relating to the definition of the expressions "owner of house property" and "annual charge", etc.
The existing provision of the said section provides definitions, inter alia, of the expressions "annual charge" and "capital charge".
It is proposed to omit definitions of the expressions "annual charge" and "capital charge". The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 21 seeks to amend section 32 of the Income-tax Act relating to depreciation.
Sub-clause (a) seeks to insert a new Explanation 5 in clause (ii) of sub-section (1) of the said section so as to clarify that the provisions of sub-section (1) of section 32 shall apply whether or not the assessee has claimed the deduction for depreciation in computing his total income.
Sub-clause (b) seeks to substitute sub-section (2) so as to provide that where full effect cannot be given to the depreciation allowance in any previous year owing to there being no profits or gains chargeable for that previous year or owing to the profits or gains chargeable being less than the allowance, the depreciation allowance or part thereof to which effect has not been given shall be added to the amount of allowance for depreciation for the following previous year, or for the succeeding previous years till such time the full effect has been given to the depreciation allowance claimed by the assessee.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 22 seeks to amend section 33AB of the Income-tax Act relating to tea development account.
Under the existing provision contained in sub-section (1), if an assessee carrying on the business of growing and manufacturing tea in India has, during the previous year, deposited with the National Bank for Agriculture and Rural Development any amount in a special account maintained by such assessee with that Bank in accordance with the scheme approved in this behalf by the Tea Board or if an assessee opens an account, to be known as Tea Deposit Account, in accordance with a scheme framed by the Tea Board with the previous approval of the Central Government, such assessee is allowed a deduction of the amount so deposited during the previous year or twenty per cent. of the profits from the business of growing or manufacturing tea in India, whichever is less.
It is proposed to amend the said sub-section (1) so as to enhance the said limit of deduction from twenty per cent. to forty per cent.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 23 seeks to amend section 35 of the Income-tax Act relating to expenditure on scientific research.
Under the existing provision contained in sub-section (2AA), any sum paid by an assessee to an approved National Laboratory or a University or an Indian Institute of Technology for carrying out approved programme of scientific research is eligible for weighted deduction of one and one-fourth times of the sum so paid.
Sub-clause (a) proposes to extend the said sub-section to such specified persons as may be approved by the prescribed authority.
Under the existing provision contained in clause (1) of sub-section (2AB), a company engaged in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipments, chemicals or any other article or thing notified by the Board is allowed a deduction of a sum equal to one and one-half times of the expenditure incurred by it on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility, as approved by the prescribed authority.
Sub-clause (b) proposes to amend the said clause so as to allow the aforesaid deduction to a company engaged in the business of bio-technology also.
This sub-clause also proposes to insert an Explanation to clause (1) of sub-section (2AB) so as to provide that the expenditure on scientific research on in-house research and development in relation to drugs and pharmaceuticals under the said clause shall include expenditure incurred on clinical drug trial, obtaining approval from any regulatory authority under any Central, State or Provincial Act and filing an application for a patent under the Patents Act, 1970.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 24 seeks to insert a new section 35DDA in the Income-tax Act relating to amortisation of expenditure incurred under voluntary retirement scheme.
Sub-section (1) of the said new section proposes to provide that where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement under any scheme of voluntary retirement framed in accordance with the guidelines prescribed under clause (10C) of section 10, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years.
Sub-section (2) of the said new section proposes to provide that no deduction shall be allowed in respect of the expenditure mentioned in sub-section (1) under any other provision of the said Act.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years.
Clause 25 seeks to amend section 43B of the Income-tax Act relating to certain deductions to be allowed only on actual payment.
Sub-clause (ii) of this clause seeks to insert a new clause (f) in section 43B so as to extend the scope of this section to include any sum payable by an employer in lieu of any leave at the credit of his employee as a deduction only in computing the income of that previous year in which such sum is actually paid.
Sub-clause (iii) seeks to insert the words, brackets and letter "or clause (f)" in the first proviso to the said section so as to make the proviso applicable to clause (f).
Sub-clause (iv) seeks to insert Explanation 3B so as to provide that where a deduction in respect of any sum referred to in clause (f) of the said section is allowed in computing the income referred to in section 28 of the previous year (being a previous year relevant to the assessment year commencing on the 1st day of April, 2001, or any earlier assessment year) in which the liability to pay such sum was incurred by the assessee, the assessee shall not be entitled to any deduction under this section in respect of such sum in computing the income of the previous year in which the sum is actually paid by him.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years.
Clause 26 seeks to amend section 44AB of the Income-tax Act relating to audit of accounts of certain persons carrying on business or profession.
Under the existing provision contained in the second proviso to the said section, where a person is required by or under any other law to get his accounts audited, it shall be sufficient compliance with the provisions of that section if such person gets his accounts audited under such law before the specified date and furnishes by that date, the report of the audit as required under such other law and a further report in the form prescribed under the aforesaid section.
Sub-clause (a) proposes to amend the second proviso so as to provide that the said further report shall be furnished by an accountant.
Under the existing provision contained in clause (ii) of Explanation to the said section, the specified date in the case of an assessee being a company for getting his accounts of the previous year audited by an accountant and furnishing the report of such audit in the prescribed form is the 30th November of the assessment year and in any other case, the specified date is the 31st October of the assessment year.
Sub-clause (b) proposes to substitute the said clause (ii) of the Explanation to provide that the specified date in the case of an assessee being a company shall be the 31st October and in any other case the specified date shall be the 31st July of the assessment year.
These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Clause 27 seeks to amend section 47 of the Income-tax Act relating to transactions not regarded as transfer.
Under the existing provision contained in clause (iii) of section 47, any transfer of a capital asset under a gift or will or an irrevocable trust is not regarded as transfer. The proviso to the said clause (iii) provides that the provisions contained in clause (iii) shall not apply to a transfer under a gift or an irrevocable trust of a capital asset being shares, debentures or warrants allotted by a company directly or indirectly to its employees under the Employees' Stock Option Plan or Scheme.
It is proposed to amend the said proviso to clause (iii) to provide that the provisions contained in that clause shall not apply if the shares, debentures or warrants are allotted by a company to its employees under the Employees' Stock Option Scheme or Employees' Stock Purchase Scheme in accordance with the guidelines issued by the Securities and Exchange Board of India.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Under the existing provisions contained in clause (viia) of section 47, any transfer of a capital asset, being bonds or shares referred to in sub-section (1) of section 115AC, made outside India by a non-resident to another non-resident is not regarded as a transfer.
It is proposed to substitute section 115AC vide clause 47 of the Bill. As a consequence to this, it is proposed to substitute the word "shares" used in clause (viia) of section 47 with the words "Global Depository Receipts". The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 28 seeks to amend section 49 of the Income-tax Act relating to cost with reference to certain modes of acquisition.
It is proposed to insert a new sub-section (2AA) to provide that where the capital gain arises from the transfer of a share, debenture or warrant, which has been taken into account while computing the value of perquisite under clause (2) of section 17, the cost of acquisition of such share, debenture or warrant shall be the value under that sub-section.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Clause 29 seeks to amend section 54EC of the Income-tax Act which provides that the capital gain is not to be charged on investment in certain bonds.
The capital gain arising from the transfer of a long-term capital asset is exempt from tax if such capital gain is invested in a long-term specified asset, being any bond redeemable after three years, issued on or after 1st April, 2000 by the National Bank for Agriculture and Rural Development or the National Highways Authority of India.
It is proposed to substitute item (b) of the Explanation below sub-section (3) of the said section to extend the benefit of exemption under the said section to the bonds of the Rural Electrification Corporation Limited, a company formed and registered under the Companies Act, 1956, if the capital gain arising from the transfer of a long-term capital asset is invested in a long-term specified asset, being any bond redeemable after three years, issued on or after 1st April, 2001, by the said Corporation.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 30 seeks to insert section 54ED in the Income-tax Act to provide that capital gain on transfer of certain listed securities or units shall not be charged in certain cases.
Sub-section (1) of the proposed new section seeks to provide that the capital gain arising from transfer of a long-term capital asset, being listed securities or unit of a mutual fund or of the Unit Trust of India shall be exempt from tax if such capital gain is invested in equity shares forming part of an eligible issue of capital, offered for subscription to the public. If part of the capital gain is so invested in acquiring the said equity shares, proportionate exemption will be available.
Explanation to the proposed sub-section (1) defines the expressions "eligible issue of capital", "listed securities" and "unit" for the purposes of the said sub-section.
Clause 30 seeks to insert section 54ED in the Income-tax Act to provide that capital gain on transfer of certain listed securities or units shall not be charged in certain cases.
Sub-section (1) of the proposed new section seeks to provide that the capital gain arising from transfer of a long-term capital asset, being listed securities or unit of a mutual fund or of the Unit Trust of India shall be exempt from tax if such capital gain is invested in equity shares forming part of an eligible issue of capital, offered for subscription to the public. If part of the capital gain is so invested in acquiring the said equity shares, proportionate exemption will be available.
Explanation to the proposed sub-section (1) defines the expressions "eligible issue of capital", "listed securities" and "unit" for the purposes of the said sub-section.
Sub-section (2) of the proposed new section seeks to provide that the exemption allowed under sub-section (1) will be subject to the condition that the said equity shares are held for a minimum period of one year, failing which the exemption allowed on the basis of such investment will be disallowed and the amount so disallowed will be deemed to be the income chargeable to tax under the head "Capital gains" of the previous year in which such equity shares are sold or otherwise transferred.
Sub-section (3) of the proposed new section seeks to provide that where the cost of the specified equity shares has been taken into account for the purposes of clause (a) or clause (b) of sub-section (1), a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 31 seeks to amend section 54H of the Income-tax Act relating to extension of time for acquiring new asset or depositing or investing amount of capital gain.
Under the existing provisions contained in section 54H, where the transfer of original asset is by way of compulsory acquisition under any law and the amount of compensation awarded for such acquisition is not received by the assessee on the date of such transfer, the period of acquiring the new asset by the assessee referred to in sections 54, 54B, 54D, 54EA, 54EB and 54F or, as the case may be, the period available to the assessee under the said sections, for depositing or investing the amount of capital gain in relation to such compensation as is not received on the date of transfer, shall be reckoned from the date of receipt of such compensation. Section 54EC was inserted by the Finance Act, 2000 to provide for exemption from tax on long-term capital gains on investments in select bonds, directed exclusively at agricultural and rural finance and highway infrastructure. Sections 54EA and 54EB were omitted by the said Act.
It is proposed to omit reference to sections 54EA and 54EB and insert reference to section 54EC in section 54H. The proposed amendment is of consequential nature.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Clause 32 seeks to amend section 55 of the Income-tax Act relating to meaning of the expressions "adjusted", "cost of improvement" and "cost of acquisition".
Under the existing provision contained in clause (a) of sub-section (2), the cost of acquisition in relation to a capital asset, being goodwill of a business or a right to manufacture, produce or process any article or thing, tenancy rights, stage carriage permits or loom hours, shall be taken to be the purchase price in case the asset is purchased by the assessee from a previous owner and in any other case such cost shall be taken to be nil.
It is proposed to amend clause (a) of sub-section (2) to provide that the cost of acquisition in relation to a trade mark or brand name associated with a business shall also be taken to be the purchase price in case the asset is purchased from a previous owner and nil in any other case.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 33 seeks to amend section 72A of the Income-tax Act relating to carry forward and set-off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger, etc.
Under the existing provision contained in sub-section (1), the set-off and carry forward of loss and allowance for depreciation under the Income-tax Act is allowed in the case of an amalgamation of a company owning an industrial undertaking or a ship with another company.
It is proposed to amend sub-section (7) to define the expression "industrial undertaking" so as to mean any undertaking engaged in the manufacture or processing of goods or the manufacture of computer software or the business of generation or distribution of electricity or any other form of power or mining or the construction of ships, aircrafts or rail systems.
This amendment will take effect retrospectively from 1st April, 2000 and will, accordingly, apply in relation to the assessment year 2000-2001 and subsequent years.
Clause 34 seeks to amend section 80CCC of the Income-tax Act, relating to deduction in respect of contribution to certain pension funds.
Under the existing provision contained in sub-section (1), an individual is eligible for deduction of any amount paid or deposited by him in an annuity plan of the Life Insurance Corporation of India for receiving pension from a fund set up by the said Corporation, referred to in clause (23AAB) of section 10. The deduction shall be restricted to ten thousand rupees.
The proposed amendment seeks to provide that any amount paid or deposited for keeping in force any annuity plan of any other insurer shall also be eligible for deduction.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 35 seeks to amend section 80D of the Income-tax Act, relating to deduction in respect of medical insurance premia.
Under the existing provision contained in the said section, deduction of a sum not exceeding fifteen thousand rupees paid to effect or keep in force an insurance on the health of the assessee or his wife or her husband, or dependant parent or any member of his family who is a senior citizen, is allowed if such insurance is in accordance with a scheme framed in this behalf by the General Insurance Corporation of India and approved by the Central Government in this behalf.
It is proposed to substitute the proviso to sub-section (2) of the said section to provide that the amount paid under any scheme of any other insurer which is approved by the Insurance Regulatory and Development Authority shall also be eligible for deduction.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 36 seeks to amend section 80DD of the Income-tax Act, relating to deduction in respect of maintenance including medical treatment of handicapped dependant.
The existing provision contained in the said section provides for a deduction in respect of maintenance including medical treatment of handicapped dependant provided such amount is deposited in a scheme framed in this behalf by the Life Insurance Corporation of India or the Unit Trust of India.
The proposed amendment seeks to provide that the amount deposited in any scheme of any other insurer who is approved by the Insurance Regulatory and Development Authority shall also be eligible for deduction.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 37 seeks to amend section 80G of the Income-tax Act, relating to deduction in respect of donations to certain funds, charitable institutions, etc.
Under the existing provisions, an assessee is allowed a deduction from his total income in respect of donations made by him. In respect of donations to certain funds, hundred per cent. deduction is allowed.
It is proposed by clauses (a) and (b) to provide hundred per cent. deduction in respect of donations made to the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities constituted by the Central Government under sub-section (1) of section 3 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 38 seeks to amend section 80GG of the Income-tax Act relating to deductions in respect of rents paid.
Under the existing provision contained in the said section, in computing the total income of an assessee, not being an assessee having any income falling within clause (13A) of section 10, a deduction is allowable in respect of expenditure incurred by him towards payment of rent in respect of any residential accommodation occupied by him to the extent of the limits specified in the said section. However, such deduction is not allowable if any residential accommodation is owned, inter alia, by the assessee at the place where he ordinarily resides, etc., or is owned by the assessee at any other place being accommodation in the occupation of the assessee, the value of which is to be determined under sub-clause (i) of clause (a) or, as the case may be, clause (b) of sub-section (2) of section 23.
Clause 14 of the Bill seeks to substitute section 23 by a new section. It is, accordingly, proposed to amend section 80GG to substitute reference of new section 23. The proposed amendment is of consequential nature.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 39 seeks to amend section 80HHE of the Income-tax Act relating to deduction in respect of profits from export of computer software, etc.
It is proposed to insert an Explanation after sub-section (1) of the said section so as to clarify that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Clause 40 seeks to amend section 80-IA of the Income-tax Act relating to deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc.
Under the existing provision contained in sub-section (1), the deduction of hundred per cent. of profits and gains for the first five assessment years and thereafter twenty-five per cent. is allowed.
Sub-clause (a) proposes to substitute the said sub-section (1) so as to provide a deduction of hundred per cent. of profits and gains for ten consecutive assessment years for the undertakings referred in the said sub-section.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Under the existing provision contained in the proviso to sub-section (2), an assessee at his option can claim deduction for any ten consecutive assessment years out of twenty years beginning from the year in which the undertaking or the enterprise is engaged in a highway project including housing or other activities being integral part of the highway project.
Sub-clause (b) proposes to substitute the said proviso to provide that where the assessee develops, or operates and maintains or develops, operates and maintains any infrastructure facility being (a) a road including toll road, a bridge or a rail system; (b) a highway project including housing or other activities being integral part of the highway project; and (c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system, he may at his option claim deduction for any ten consecutive assessment years out of twenty years beginning from the year in which the undertaking or the enterprise is engaged in the said infrastructure facility. For infrastructure facility being port, airport, inland waterway or inland port, ten year tax holiday may be availed in a block of fifteen years.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (c) proposes to insert new sub-section (2A) to provide that an undertaking providing telecommunication services, specified in clause (ii) of sub-section (4) shall be allowed hundred per cent. deduction of the profits and gains of the eligible business for the first five assessment years commencing at any time during the periods as specified in sub-section (2) and thereafter, thirty per cent. of such profits and gains for further five assessment years.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Sub-clause (d) proposes, inter alia, to amend sub-section (3) by substituting the word "undertaking" for the words "industrial undertaking".
It is also proposed to substitute item (b) of sub-clause (i) of sub-section (4) to do away with the condition that the infrastructure facility shall be transferred to the Central Government, State Government, local authority or such other statutory body as is specified under the existing provisions.
This sub-clause also proposes to substitute the Explanation of infrastructure facility to mean (a) a road including toll road, a bridge or a rail system; (b) a highway project including housing or other activities being integral part of the highway project; (c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system; and (d) port, airport, inland waterways or inland port.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Under the existing provision contained in clause (ii) in sub-section (4), any undertaking which has started or starts providing telecommunication services whether basic or cellular, including radio paging, domestic satellite service, network of trunking, and electronic data interchange services at any time on or after 1st April, 1995, but before 31st March, 2000, is allowed deduction. It is proposed to substitute the said clause (ii) so as to include "broadband network" and "internet services" for the purposes of eligibility for deduction and also extend the said time limit up to the 31st March, 2003.
This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.
Under the existing provision contained in clause (iii) of sub-section (4), deduction is available to an undertaking which develops, develops and operates or maintains and operates an industrial park notified by the Central Government. It is proposed to include special economic zone to provide the same benefits as are available to such industrial park. It is further proposed to extend the period available to 31st March, 2006.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 43 seeks to amend section 88 of the Income-tax Act, relating to rebate on life insurance premia, contribution to provident fund, etc.
Under the existing provision contained in clause (iii) of sub-section (4), deduction is available to an undertaking which develops, develops and operates or maintains and operates an industrial park notified by the Central Government. It is proposed to include special economic zone to provide the same benefits as are available to such industrial park. It is further proposed to extend the period available to 31st March, 2006.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (e) also proposes to amend clause (iv) by substituting the word "undertaking" for the words "industrial undertaking". It is further proposed to extend the period available for the undertaking engaged in generation, generation and distribution, laying a network of transmission or distribution lines from the 31st March, 2003 to the 31st March, 2006.
This amendment will take effect from the 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (f) seeks to amend sub-section (7) by substituting the word "undertaking" for the words "industrial undertaking".
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (g) seeks to amend sub-section (8) to include "services" for the purposes of the sub-section.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Sub-clause (h) seeks to amend sub-section (9) by substituting the word "undertaking" for the words "industrial undertaking".
This amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 41 seeks to amend section 80-IB of the Income-tax Act relating to deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings.
Sub-clause (a) seeks to insert the reference of the proposed sub-section (11A) in sub-section (1) of the said section. The amendment is of consequential nature.
Sub-clause (b) seeks to insert a new sub-section (11A) in the said section so as to provide that an undertaking deriving profit from the integrated business of handling, storage and transportation of food grains, shall be allowed hundred per cent. deduction of such profits and gains for five assessment years beginning with the initial assessment year and thereafter, twenty-five per cent. (or thirty per cent. where the assessee is a company) of the profits and gains derived from the operation of such business in a manner that the total period of deduction does not exceed ten consecutive assessment years and subject to fulfillment of the condition that it begins to operate such business on or after 1st April, 2001.
Sub-clause (c) seeks to insert a new sub-clause (iv) in clause (c) of sub-section (14) to define the "initial assessment year" in relation to the integrated business of handling, storage and transportation of foodgrains.
These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 42 seeks to amend section 80L of the Income-tax Act relating to deductions in respect of interest on certain securities, dividends, etc.
It is proposed to reduce the deduction allowed to an assessee in computing his total income from twelve thousand rupees to nine thousand rupees. It is also proposed to omit the proviso below clause (x) which allows additional deduction of three thousand rupees received as interest on Government securities.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 43 seeks to amend section 88 of the Income-tax Act, relating to rebate on life insurance premia, contribution to provident fund, etc.
Under the existing provision of section 88 of the Income-tax Act, a person is allowed tax rebate of twenty per cent. on the investments made by him in a specified security up to the specified limit. Proviso to sub-section (1) of section 88 gives the benefit of higher rebate of twenty-five per cent. in the case of sportsman, play-wright, author, etc.
Sub-clause (a) seeks to provide that in the case of an individual having income chargeable under the head "Salaries" which does not exceed one lakh rupees before allowing deduction under section 16 and which is not less than ninety per cent. of his gross total income, the rate of rebate under section 88 shall be thirty per cent. instead of twenty per cent.
The existing provision contained in clause (xiiia) of sub-section (2) provides for tax rebate in respect of any sum paid or deposited to effect or to keep in force a contract for such annuity plan of the Life Insurance Corporation of India as the Central Government may, by notification in the Official Gazette, specify.
Sub-clause (b) seeks to provide that the annuity plan of any other insurer approved by the Insurance Regulatory and Development Authority shall also be eligible for tax rebate.
These amendments will take effect from the 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.
Clause 44 seeks to substitute section 92 of the Income-tax Act, relating to income from transactions with non-residents, how computed in certain cases.
It is proposed to substitute the said section by new sections 92, 92A, 92B, 92C, 92D, 92E and 92F relating to computation of income from international transactions having regard to the arm's length price, meaning of associated enterprise, meaning of international transaction, computation of arm's length price, maintenance of information and documents by persons entering into international transactions, furnishing of a report from an accountant by persons entering into international transaction and definitions of certain expressions occurring in the new sections.
It is proposed to substitute section 92 by a new section to provide that any income arising from an international transaction shall be computed having regard to arm's length price. It further provides that the cost or expenses allocated or apportioned between two or more associated enterprises shall be at arm's length price.
The proposed new sections 92A and 92B provide meanings of the expressions "associated enterprise" and "international transaction" with reference to which the income is to be computed under the new section 92.
The proposed new section 92C provides for computation of arm's length price. The section provides that the arm's length price in relation to an international transaction shall be determined by (a) comparable uncontrolled price method; or (b) resale price method; or (c) cost plus method; or (d) profit split method; or (e) transactional net margin method; or (f) any other method which may be prescribed by the Central Board of Direct Taxes. One of these methods shall be the most appropriate method which shall be applied for computation of arm's length price in the manner as may be specified by the rules to be made by the Central Board of Direct Taxes in this behalf. In a case where more than one price can be determined by the most appropriate method, in such case the arm's length price shall be the arithmetical mean of such two or more prices. The new section further provides that where during the course of any proceeding for the assessment of income the Assessing Officer is, on the basis of material or information or document in his possession, of the opinion that the price charged in the international transaction has not been determined in accordance with sub-sections (1) and (2) or information and documents relating to the international transaction have not been kept and maintained by the

assessee in accordance with the provisions contained in sub-section (1) of section 92D, and the rules made in this behalf or the information or data used in computation of the arm's length price is not reliable or correct or the assessee has failed to furnish, within the specified time, any information or document which he was required to furnish by a notice issued under sub-section (3) of section 92D, the Assessing Officer may proceed to determine, after giving an opportunity of being heard to the assessee, the arm's length price in relation to the said transaction in accordance with sub-sections (1) and (2) of this section, on the basis of such material or information or documents available with him.

The new section 92D seeks to provide that every person who has entered into an international transaction shall keep and maintain such information and documents as may be specified by rules made by the Central Board of Direct Taxes. The Central Board of Direct Taxes may also specify by the rules the period for which the information and documents are required to be retained. During the course of any proceedings under the Act, an Assessing Officer or Commissioner (Appeals) may require any person who has entered into an international transaction to furnish any of the information and documents specified under the rules within a period of thirty days from the date of receipt of a notice issued in this regard, and such period may be extended by a further period not exceeding thirty days.

The new section 92E seeks to provide that every person who has entered into an international transaction during a previous year shall obtain a report of an accountant and furnish such report on or before the specified date in the prescribed form and manner.

The new section 92F defines the expressions "accountant", "arm's length price", "enterprise", "specified date" and "transaction" used in the proposed new sections 92, 92A, 92B, 92C, 92D and 92E.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 45 seeks to amend section 94 of the Income-tax Act, relating to avoidance of tax by certain transactions in securities.

Under the existing provision contained in the said section, transactions of sale and purchase of securities which result in the interest or dividend in respect of such securities being received by a person not being the owner of the securities, are to be ignored and the interest or dividend from such securities is required to be included in the total income of the owner.

Sub-clause (a) seeks to insert a new sub-section (7) in the said section so as to provide that where any person buys or acquires securities or unit within a period of three months prior to the record date fixed for declaration of dividend or distribution of income in respect of the securities or unit, and sells or transfers the same within a period of three months after such record date, and the dividend or income received or receivable is exempt, then, the loss, if any, arising from such purchase or sale shall be ignored to the extent such loss does not exceed the amount of such dividend or interest, in the computation of the income, chargeable to tax, of such person.

Sub-Clause (b) seeks to insert new expressions "record date" and "unit" as clauses (aa) and (d) in the Explanation.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 46 seeks to amend section 115AB of the Income-tax Act relating to tax on income from units purchased in foreign currency or capital gains arising from their transfer.

Explanation (a) to section 115AB defines "overseas financial organisation" to mean any fund, institution, association or body, whether incorporated or not, established under the laws of a country outside India, which has entered into an arrangement for investment in India with any public sector bank or public financial institution or a mutual fund specified under clause (23D) of section 10 and such arrangement is approved by the Central Government for this purpose.

It is proposed to amend the said Explanation to provide that the Securities and Exchange Board of India shall be the authority to grant approval in respect of the above-mentioned arrangement instead of the Central Government.

This amendment will take effect from 1st June, 2001.

Clause 47 seeks to substitute section 115AC of the Income-tax Act relating to tax on income from bonds or Global Depository Receipts purchased in foreign currency or capital gains arising from their transfer.

Sub-section (1) of the proposed new section seeks to provide that in the case of an assessee who is a non-resident assessee, the income-tax payable shall be the aggregate of—

(i) ten per cent. of the income by way of interest in respect of bonds of an Indian company issued in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf, and on bonds of public sector company sold by the Government and purchased by him in foreign currency, if any;

(ii) ten per cent. of the income by way of dividends (other than dividends referred to in section 115-O) in respect of Global Depository Receipts of an Indian company—

(a) issued in accordance with a scheme notified by the Central Government in the Official Gazette against the initial issue of underlying shares of an Indian company and purchased by the non-resident in foreign exchange through an approved intermediary; or

(b) issued against the shares of a public sector company sold by the Government through an approved intermediary; or

(c) re-issued against the existing underlying shares of an Indian company in accordance with such scheme as the Central Government may notify in the Official Gazette, and purchased by the non-resident in foreign exchange through an approved intermediary; or

(d) issued against the shares of a listed Indian company on the disinvestments by such company of its shareholding in its listed subsidiary company, in accordance with such scheme as the Central Government may notify in the Official Gazette, and purchased by the non-resident in foreign exchange through an approved intermediary,

if any;

(iii) ten per cent. in case of long-term capital gains arising from the transfer of the aforesaid bonds and Global Depository Receipts, if any, and

(iv) the amount of income-tax on the total income as reduced by the income from the said bonds and Global Depository Receipts.

Sub-section (2) of the proposed new section seeks to provide that in the case of aforesaid non-resident assessee, no deduction shall be allowed under any provisions of this Act, where the gross total income consists only of income from aforesaid bonds or Global Depository Receipts. However, where the gross total income includes income from aforesaid bonds or Global Depository Receipts, the deduction under any provisions of the Act shall be allowed as if the gross total income does not include the income from the aforesaid bonds and Global Depository Receipts.

Sub-section (3) of the proposed new section provides that the first and second provisos of section 48 relating to the computation of capital gains shall not apply in case of transfer of aforesaid bonds and Global Depository Receipts of the Indian company purchased by the non-resident assessee in foreign currency.

Sub-section (4) of the proposed new section provides that a non-resident shall not be required to furnish his return of income under section 139(1) if his total income consists only of income referred to in clauses (a), (b) and (c) of sub-section (1) and tax has been deducted at source as per the provisions of Chapter XVII-B from such income.

Sub-section (5) of the proposed new section provides that where an assessee acquires bonds or Global Depository Receipts, as the case may be, in a resulting or amalgamated company by virtue of his holding Global Depository Receipts or bonds in the amalgamating or demerged company in accordance with the provisions of sub-section (1), the provisions of the said sub-section shall apply to such bonds or Global Depository Receipts.

The Explanation to the new section defines the expressions "approved intermediary" and "Global Depository Receipts".

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 48 seeks to amend section 115ACA of the Income-tax Act relating to tax on income from Global Depository Receipts purchased in foreign currency or capital gains arising from their transfer.

Under the existing provision contained in section 115ACA, in the case of an assessee who is a resident and employee of an Indian company engaged in information technology software and information technology services, income by way of interest or dividend (other than dividends referred to in section 115-O) and long-term capital gains arising from bonds or shares of an Indian company issued in accordance with an Employees' Stock Option Scheme as the Central Government may specify by notification in the Official Gazette, and purchased by the resident individual employee in foreign exchange is taxed at ten per cent.

It is proposed to amend section 115ACA so as to extend the concessional tax rate on income by way of interest or dividend (other than dividends referred to in section 115-O) and long-term capital gains to employee of a subsidiary company, whether domestic or foreign, of an Indian company engaged in specified knowledge-based industry or service on shares issued by such an Indian company in accordance with notified stock option scheme and purchased by the resident individual employee in foreign currency.

It is also proposed to define the term "specified knowledge-based industry or service" so as to include within its ambit, entertainment service, pharmaceuticals, bio-technology, and any other industry or service as may be notified by the Central Government in addition to the existing sectors information technology software and information technology services.

It is also proposed to define the term "subsidiary" used in the proposed new section.

These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Clause 49 seeks to amend section 115BB of the Income-tax Act relating to tax on winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or gambling or betting of any form or nature whatsoever.

Under the existing provisions, any income by way of winnings from any lottery or crossword puzzle or race including horse race (not being income from the activity of owning and maintaining race horses) or card game and other game of any sort or from gambling or betting of any form or nature whatsoever, is chargeable to tax at the rate of forty per cent. under clause (i) of section 115BB.

It is proposed to amend the said clause so as to provide that such winnings shall be taxed at the rate of thirty per cent. as against the existing rate of forty per cent.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 50 seeks to amend section 115-O of the Income-tax Act relating to tax on distributed profits of domestic companies.

Under the existing provision contained in sub-section (1) of the said section, any amount declared, distributed or paid by way of dividends (whether interim or otherwise) by a domestic company shall be charged to additional income-tax at a flat rate of twenty per cent. in addition to the normal income-tax chargeable in respect of the total income of the company.

It is proposed to reduce the said rate of additional income-tax from twenty per cent. to ten per cent.

This amendment will take effect from 1st June, 2001.

Clause 51 seeks to amend section 115P of the Income-tax Act relating to interest payable for non-payment of tax by domestic companies.

Under the existing provision, the principal officer of a domestic company and the company are liable to pay simple interest at the rate of one and one-half per cent. for every month or part thereof if he or it fails to pay the whole or any part of the tax on distributed profits in accordance with the provisions contained in section 115-O.

The proposed amendment seeks to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 52 seeks to amend section 115R of the Income-tax Act relating to tax on distributed income to unit holders.

Under the existing provision contained in sub-sections (1) and (2) of the said section, any amount of income distributed by the Unit Trust of India or a Mutual Fund to its unit holders shall be chargeable to income-tax at a flat rate of twenty per cent. to be payable by the Unit Trust of India or a Mutual Fund, as the case may be.

It is proposed to amend the said sub-sections (1) and (2) of the aforesaid section so as to reduce the said rate of income-tax from the existing twenty per cent. to ten per cent.

This amendment will take effect from 1st June, 2001.

Clause 53 seeks to amend section 115S of the Income-tax Act relating to interest payable for non-payment of tax.

Under the existing provision, the person responsible for making payment of the income distributed by the Unit Trust of India or a Mutual Fund and the Unit Trust of India or the Mutual Fund, as the case may be, is liable to pay simple interest at the rate of one and one-half per cent. for every month or part thereof if he or it fails to pay the tax in accordance with the provision contained in section 115R.

The proposed amendment seeks to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 54 seeks to amend section 139 of the Income-tax Act relating to return of income.

Under the existing provision contained in sub-section (1), every person, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income tax, is required to file a return of such income on or before the due date in the prescribed form and manner.

It is proposed to provide that every person, being a company, shall file a return of its income on or before the due date whether or not its total income during the previous year is chargeable to income-tax.

Under the existing provision contained in the first proviso to sub-section (1), a person not furnishing a return under the said sub-section and residing in such area as may be specified by the Central Board of Direct Taxes and who at any time during the previous year fulfils any one of the six conditions specified in that proviso, is also required to furnish a return of his income during the previous year, on or before the due date in the prescribed form and manner.

It is proposed to retain the criteria mentioned in the first proviso to sub-section (1).

Under the existing provision contained in Explanation 1 to sub-section (1), the due date is specified to be the 30th November of the assessment year in the case of the assessee being a company, and where the assessee is a person other than a company, the due date is specified to be (a) the 31st October of the assessment year in a case where accounts of the assessee are required to be audited or where a report of an accountant is required to be furnished; (b) the 31st August of the assessment year in a case where the total income includes income from business or profession, not being a case falling under (a) above; and (c) the 30th June of the assessment year in any other case.

It is proposed to revise the due dates for filing returns by different classes of assessees and to provide that in the case of a company, the 31st October of the assessment year shall be the due date for filing the return. In the case of a person other than a company, referred to in the first proviso to sub-section (1), the 31st October of the assessment year shall be the due date for filing the return. In the case of any other assessee, the 31st July of the assessment year shall be the due date for filing the return.

These amendments will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

Clause 55 seeks to amend section 139A of the Income-tax Act relating to permanent account number.

Under the existing provision contained in sub-section (5), every person shall quote his permanent account number in all his returns to, or correspondence with, any income-tax authority, in all challans for the payment of any sum due under this Act and in all documents pertaining to such transactions entered into by him as may be prescribed by the Central Board of Direct Taxes in the interests of the revenue.

It is proposed to insert a new sub-section (5A) so as to provide that every person receiving any sum or income or amount from which tax has been deducted under the provisions of Chapter XVIIB shall intimate his permanent account number to the person responsible for deducting such tax under that Chapter. This requirement shall not apply to a non-resident referred to in section 115AC or section 115BBA and to a non-resident Indian referred to in section 115G, for whom it is not necessary to furnish a return under sub-section (1) of section 139.

It is also proposed to insert a new sub-section (5B) so as to provide that where any sum or income or amount has been paid after deducting tax under Chapter XVIIB, every person deducting tax under that Chapter shall quote the permanent account number of the person, to whom such sum or income or amount has been paid by him, in a statement furnished in accordance with the provisions of sub-section (2C) of section 192, in all certificates furnished in accordance with the provision of section 203, and in all returns prepared and delivered or caused to be delivered in accordance with the provision of section 206.

It is proposed to insert two provisos to provide that the Central Government, however, may have the power to notify separately the dates from which these provisions shall apply in respect of any class or classes of persons and that the proposed sub-sections (5A) and (5B) shall not apply in case of a person whose total income is not chargeable to income-tax or who is not required to obtain permanent account number under any provision of this Act if such person furnishes to the person responsible for deducting tax a declaration referred to in section 197A in the form and manner prescribed thereunder to the effect that the tax on his estimated total income of the previous year to which such income relates will be nil.

It is also proposed to insert a new sub-section (5C) so as to provide that every buyer referred to in section 206C shall intimate his permanent account number to the seller referred to in that section.

It is also proposed to insert a new sub-section (5D) so as to provide that every seller collecting tax in accordance with the provisions of section 206C shall quote the permanent account number of every buyer, referred to in that section, in all certificates furnished in accordance with the provisions of sub-section (5) of section 206C and in all returns prepared and delivered or caused to be delivered in accordance with the provision of sub-section (5A) or sub-section (5B) of section 206C to an income-tax authority.

These amendments will take effect from 1st June, 2001.

Clause 56 seeks to amend section 140A of the Income-tax Act relating to self-assessment.

It is proposed to insert new sub-section (1A) in the said section to provide that interest payable under section 234A shall be computed on the amount of tax on the total income as declared in the return as reduced by the advance tax, if any, paid and any tax deducted or collected at source.

It is further proposed to insert new sub-section (1B) in the said section to provide that interest payable under section 234B shall be computed on the assessed tax or, as the case may be, on the amount by which the advance tax paid falls short of the assessed tax.

It is also proposed to insert an Explanation to new sub-section (1B) so as to clarify that for the purposes of computing the interest payable under section 234B as required under section 140A, "assessed tax" shall mean tax on the total income as declared in the return as reduced by the amount of tax deducted or collected at source, in accordance with the provisions of Chapter XVII, on any income which is subject to such deduction or collection and which is taken into account in computing such total income.

These amendments will take effect retrospectively from 1st April, 1989 and will, accordingly, apply in relation to the assessment year 1989-1990 and subsequent years.

Clause 57 seeks to amend section 143 of the Income-tax Act relating to assessment.

Sub-section (1) of the said section, inter alia, provides that an intimation shall be sent to the assessee in cases where any tax or interest is found to be payable by him, or a refund is due to him, on the basis of the return filed by him. However, under the existing provision contained in the second proviso to sub-section (1), no such intimation shall be sent after the expiry of two years from the end of the assessment year in which the income was first assessable.

It is proposed to amend the second proviso to sub-section (1) to provide that no such intimation shall be sent after the expiry of one year from the end of the financial year in which the return of income is made. The time-limit of two years, however, will continue to apply in respect of returns already furnished for the assessment year 1999-2000.

This amendment will take effect from 1st June, 2001.

Clause 58 seeks to amend section 149 of the Income-tax Act relating to time-limit for issue of notice under section 148.

Under the existing provision contained in sub-section (1), a notice under section 148 can be issued within a period of four, seven or ten years from the end of the relevant assessment year. An assessment which has already been completed may be reopened by issue of notice under the said sub-section up to the period of four years from the end of relevant assessment year. For any period beyond four years but up to seven years, such notice may be issued when the amount of escaped income is not less than rupees fifty thousand but does not exceed rupees one lakh. Where the amount of escaped income is likely to be rupees one lakh or more, a notice may be issued up to ten years from the end of the relevant assessment year.

It is proposed to amend sub-section (1) to provide that the notice under section 148 can be issued only within four years from the end of the relevant assessment year or within six years from the end of the relevant assessment year in cases where the amount of income chargeable to tax which has escaped assessment amounts to or is likely to amount to rupees one lakh or more for that year.

This amendment will take effect from 1st June, 2001.

Clause 59 seeks to amend section 153 of the Income-tax Act relating to time-limit for completion of assessments and reassessments.

Under the existing provision contained in sub-section (2), no order of assessment or reassessment or recomputation shall be made under section 147 after the expiry of two years from the end of the financial year in which the notice under section 148 was served. Further, sub-section (2A) provides that an order of fresh assessment under section 146, or in pursuance of an order, under section 250, section 254, section 263 or section 264, setting aside or cancelling an assessment, may be made at any time before the expiry of two years from the end of the financial year in which the order under section 146 cancelling the assessment is passed by the Assessing Officer or the order under section 250 or section 254 is received by the Chief Commissioner or Commissioner or, as the case may be, the order under section 263 or section 264 is passed by the Chief Commissioner or Commissioner.

It is proposed to amend sub-section (2) to provide that no order of assessment or reassessment or recomputation shall be made under section 147 after the expiry of one year from the end of the financial year in which the notice under section 148 was served. However, where the notice under section 148 has been served on or after 1st April, 1999 but before 1st April, 2000, such assessment, reassessment or recomputation may be made at any time up to 31st March, 2002.

It is further proposed to substitute sub-section (2A) to provide that an order of fresh assessment in pursuance of an order under section 250, section 254, section 263 or section 264, setting aside or canceling an assessment, may be made at any time before the expiry of one year from the end of the financial year in which the order under section 250 or section 254 is received by the Chief Commissioner or Commissioner or, as the case may be, the order under section 263 or section 264 is passed by the Chief Commissioner or Commissioner. However, where any such order has been received or has been passed, as the case may be, on or after the 1st April, 1999 but before the 1st April, 2000, an order of fresh assessment may be made at any time up to the 31st March, 2002.

It is also proposed to omit clause (i) of sub-section (3), which is of consequential nature.

These amendments will take effect from 1st June, 2001.

Clause 60 seeks to amend section 154 of the Income-tax Act relating to rectification of a mistake.

Under the existing provision, no amendment of any order passed by the income-tax authority or any intimation under sub-section (1) of section 143 can be made after the expiry of four years from the end of the financial year in which the order sought to be amended was passed.

It is proposed to insert a new sub-section (8) to provide that where an application for amendment under this section is made by the assessee on or after 1st June, 2001 to an income-tax authority referred to in sub-section (1), the authority shall pass an order within six months from the end of the month in which the application is received by it, either making the amendment or refusing to allow the claim.

This amendment will take effect from 1st June, 2001.

Clause 61 seeks to amend section 158B of the Income-tax Act relating to definitions.

Under the existing provision contained in clause (a) of the said section, the expression "block period" means the previous years relevant to ten assessment years preceding the previous year in which the search was conducted under section 132 or any requisition was made under section 132A, and includes, in the previous year in which such search was conducted or requisition was made, the period up to the date of commencement of such search or, as the case may be, the date of such requisition.

It is proposed to substitute the said clause (a) so as to provide that the expression "block period" shall mean the previous years relevant to six assessment years preceding the previous year in which the search was conducted or any requisition was made. In cases where search was conducted or requisition was made before the 1st June, 2001, the block period would continue to be previous years relevent to ten assessment years as per the existing provisions.

This amendment will take effect from 1st June, 2001.

Clause 62 seeks to amend section 158BFA of the Income-tax Act relating to levy of interest and penalty in certain cases.

Under the existing provision contained in sub-section (1) of the said section, the assessee is liable to pay simple interest at the rate of two per cent. for every month or part of a month on the tax on undisclosed income determined under clause (c) of section 158BC for defaults in furnishing the return of total income including undisclosed income for the block period.

It is proposed to amend the said sub-section so as to reduce the rate of interest from two per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 63 seeks to insert a new sub-section (2C) in section 192 of the Income-tax Act relating to salary .

The proposed amendment seeks to provide that any person responsible for paying salary shall furnish to the person who receives salary a statement giving particulars of perquisites or profits in lieu of salary provided to him in the prescribed form.

This amendment will take effect from 1st June, 2001.

Clause 64 seeks to amend section 194A of the Income-tax Act relating to deduction of income-tax at source from interest other than interest on securities.

The existing clause (i) of sub-section (3) of the said section provides that the deduction of income-tax at source under sub-section (1) shall not be made in cases where the amount of income by way of interest does not exceed five thousand rupees. The proviso below the said clause provides that in the cases of time deposits with a banking company or with a co-operative society engaged in carrying on the business of banking or deposit with a housing finance company, the said limit for deduction of income-tax shall be ten thousand rupees.

The proposed amendment seeks to provide that the limit for tax deduction at source for the purpose of the aforesaid section shall be two thousand five hundred rupees.

This amendment will take effect from 1st June, 2001.

Clause 65 seeks to amend section 194B of the Income-tax Act relating to winnings from lottery or crossword puzzle.

Under the existing provision, the person responsible for paying to any person any income by way of winnings from any lottery or crossword puzzle in an amount exceeding five thousand rupees shall, at the time of payment thereof, deduct income-tax thereon at the rates in force.

It is proposed to provide for deduction of income-tax at source at the rates in force also on winnings from card game and other game of any sort.

This amendment will take effect from 1st June, 2001.

Clause 66 seeks to insert a new section 194H of the Income-tax Act relating to commission or brokerage.

Under the proposed new section 194H, the person responsible for paying any income by way of commission or brokerage for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing (not being securities), shall deduct income-tax thereon at the rate of ten per cent. However, no such deduction shall be made where the amount of payment or the aggregate amount of payments, in a financial year, does not exceed two thousand five hundred rupees. The new section will not apply when payments are made by individuals or Hindu undivided families. The expressions "commission or brokerage", "professional services" and "securities" are being defined in the Explanation to the proposed section.

This amendment will take effect from 1st June, 2001.

Clause 67 seeks to amend section 196C of the Income-tax Act relating to income from foreign currency bonds or shares of Indian company.

Under the existing provisions contained in section 196C, the person responsible for making any payment to a non-resident by way of interest or dividend in respect of bonds or shares referred to in section 115AC or by way of long-term capital gains arising from transfer of such bonds or shares, is required to deduct tax at the rate of ten per cent.

It is proposed to substitute section 115AC vide clause 47 of the Bill. As a consequence, it is proposed to substitute the word "shares" occurring at both the places in section 196C, with the words "Global Depository Receipts".

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 68 seeks to amend section 201 of the Income-tax Act relating to consequences of failure to deduct or pay the tax.

Under the existing provisions contained in sub-section (1) of the said section, the person, the principal officer and the company, referred to in that sub-section, is deemed to be an assessee in default if he does not deduct or after deducting fails to pay the tax as required by or under the Act. Sub-section (1A) of that section provides that such person or such principal officer or such company shall be liable to pay simple interest at the rate of eighteen per cent. per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

It is proposed to clarify that provisions of sub-sections (1) and (1A) shall apply whether such person or such principal officer or such company fails to deduct the whole or any part of the tax.

This amendment will take effect retrospectively from 1st April, 1962 and will, accordingly, apply in relation to the assessment year 1962-63 and subsequent years.

It is further proposed to reduce the said rate of interest from eighteen per cent. to fifteen per cent. per annum in sub-section (1A).

This amendment will take effect from 1st June, 2001.

Clause 69 seeks to amend section 206C of the Income-tax Act relating to profits and gains from the business of trading in alcoholic liquor, forest produce, scrap, etc.

Under the existing provision contained in sub-section (7) of the said section, if the seller does not collect the tax or after collecting the tax fails to pay it as required under the said section, he shall be liable to pay simple interest at the rate of two per cent. per month or part thereof on the amount of such tax.

It is proposed to amend the said sub-section (7) so as to reduce the rate of interest from two per cent. to one and one-fourth per cent. per month or part thereof, on the amount of tax payable by the seller under that sub-section.

This amendment will take effect from 1st June, 2001.

Clause 70 seeks to amend section 220 of the Income-tax Act as to when the tax is payable and when an assessee is deemed to be in default.

Under the existing provision contained in sub-section (2) of the said section, if the amount specified in any notice of demand under section 156 is not paid within thirty days of the service of the notice, the assessee is liable to pay simple interest at the rate of one and one-half per cent. for every month or part of a month comprising the periods specified in that section.

The proposed amendment seeks to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof.

This amendment will take effect from 1st June, 2001.

Clause 71 seeks to omit section 230A of the Income-tax Act relating to restrictions on registration of transfers of immovable property in certain cases.

Under the existing provision of the said section, any document purporting to transfer, assign, limit or extinguish the right, title or interest of any person to or in any property valued at more than five lakh rupees shall not be registered under the Registration Act, 1908, unless the Assessing Officer certifies that such person has either paid or made satisfactory provision for payment of all existing tax liabilities or that the registration of the document will not prejudicially affect the recovery of any existing tax liability.

With a view to simplifying the procedures, it is proposed to omit the said section.

This amendment will take effect from 1st June, 2001.

Clause 72 seeks to amend section 234A of the Income-tax Act relating to payment of interest for defaults in furnishing return of income.

Under the existing provision contained in sub-sections (1) and (3) of section 234A, the assessee is liable to pay simple interest at the rate of one and one-half per cent. for every month or part of a month for default in furnishing the return of income for the period specified in the said section.

It is proposed to amend sub-sections (1) and (3) of the said section to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

It is further proposed to omit Explanation 4 to sub-section (1) of the said section which is of consequential nature.

This amendment will take effect retrospectively from 1st April, 1989 and will, accordingly, apply in relation to the assessment year 1989-1990 and subsequent years.

Clause 73 seeks to amend section 234B of the Income-tax Act relating to interest for defaults in payment of advance tax.

Under the existing provision, the assessee is liable to pay simple interest at the rate of one and one-half per cent. for every month or part of a month for default in payment of advance tax for the period specified in the said section.

It is proposed to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

It is further proposed to substitute Explanation 1 to sub-section (1) of the said section, which is of consequential nature.

This amendment will take effect retrospectively from 1st April, 1989 and will, accordingly, apply in relation to the assessment year 1989-90 and subsequent years.

Clause 74 seeks to amend section 234C of the Income-tax Act relating to payment of interest for deferment of advance tax.

Under the existing provision, the assessee is liable to pay simple interest at the rate of one and one-half per cent. for every month or part of a month for deferment of advance tax on the amount of the shortfall specified in the said section.

The proposed amendment seeks to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part thereof, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 75 seeks to omit section 241 of the Income-tax Act relating to power to withhold refund in certain cases.

Under the existing provision, the Assessing Officer may, with the previous approval of the Chief Commissioner or Commissioner, withhold the refund of any amount due to the assessee till such time as the Chief Commissioner or Commissioner determines, under the circumstances specified in the said section if the grant of refund is likely to adversely affect the revenue.

It is proposed to omit the said section to withdraw the powers conferred upon the Assessing Officer to withhold the refund.

This amendment will take effect from 1st June, 2001.

Clause 76 seeks to amend section 244A of the Income-tax Act relating to interest on refunds.

Under the existing provision contained in sub-section (1), where refund of any amount becomes due to the assessee under the Income-tax Act, the assessee is entitled to receive, in addition to the said amount, simple interest thereon at the rate of one per cent. for every month or part of a month comprised in the period of delay specified in the said section.

It is proposed to amend the said sub-section so as to reduce the rate of interest from one per cent. to three-fourth per cent. for every month or part of a month, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 77 seeks to amend section 251 of the Income-tax Act relating to powers of the Commissioner (Appeals).

Under the existing provisions contained in sub-section (1), where an appeal is filed before the Commissioner (Appeals), against an order of assessment, the Commissioner (Appeals) may confirm, reduce, enhance or annul the assessment; or he may set aside the assessment and refer the case back to the Assessing Officer for making a fresh assessment in accordance with the directions given by him and after making such further enquiry as may be necessary.

With a view to help bringing an early finalisation to the assessment and to avoid prolonging the process of litigation, it is proposed to amend clause (a) of the aforesaid section so as to provide that, where an appeal is filed before the Commissioner (Appeals), against an order of assessment, the Commissioner (Appeals) may not set aside the assessment or refer the case back to the Assessing Officer for making fresh assessment.

This amendment will take effect from 1st June, 2001.

Clause 78 seeks to amend section 254 of the Income-tax Act relating to orders of the Appellate Tribunal.

Under the existing provision contained in sub-section (2A) of the said section, the Appellate Tribunal, where it is possible, may hear and decide an appeal filed by the assessee under sub-section (1) of section 253 within a period of four years from the end of the financial year in which such appeal is filed.

It is proposed to provide that where, in an appeal filed by the assessee, the Appellate Tribunal passes an order granting stay, the Tribunal shall hear and decide such appeal within a period of one hundred and eighty days from the date of passing such order granting stay, failing which the stay granted shall stand vacated on the expiry of the aforesaid period.

This amendment will take effect from 1st June, 2001.

Clause 79 seeks to amend section 264 of the Income-tax Act relating to revision of other orders.

Under the existing provision contained in the said section, the Commissioner may, either of his own motion or on an application by the assessee for revision, revise any order passed by an authority subordinate to him. Sub-section (5) of the said section provides that every application by an assessee for revision under this section shall be accompanied by a fee of twenty-five rupees.

It is proposed to amend the said sub-section to enhance the fee from twenty-five rupees to five hundred rupees.

This amendment will take effect from 1st June, 2001.

Clause 80 seeks to amend section 271 of the Income-tax Act relating to failure to furnish returns, comply with notices, concealment of income, etc.

Under the existing provision contained in sub-section (1), if the Assessing Officer or the Commissioner (Appeals), in the course of any proceedings under the Income-tax Act, is satisfied that any person has failed to comply with a notice under sub-section (1) of section 142 or sub-section (2) of section 143 or fails to comply with a direction issued under sub-section (2A) of section 142 of the said Act, he may direct that such person shall pay by way of penalty, in addition to any tax payable by him, a sum which shall not be less than one thousand rupees but which may extend to twenty-five thousand rupees for each such failure.

It is proposed to amend clause (ii) of sub-section (1) so as to provide for a fixed amount of penalty of ten thousand rupees for each such failure.

This amendment will take effect from 1st June, 2001.

Clause 44 of the Bill proposes to substitute section 92 by a new section 92 and insert new sections 92A, 92B, 92C, 92D, 92E and 92F relating to computation of income arising from an international transaction.

It is proposed to insert a new Explanation 7 to sub-section (1) of section 271 to provide that where in the case of an assessee who has entered into an international transaction defined in section 92B, any amount is added or disallowed in computing the total income under sub-section (4) of section 92C, then, the amount so added or disallowed shall be deemed to represent income in respect of which particulars have been concealed or inaccurate particulars have been furnished. However, the provisions of this Explanation shall not apply where the assessee proves to the satisfaction of the Assessing Officer or the Commissioner (Appeals) that the price charged or paid in such transaction has been determined in accordance with section 92C in good faith and with due diligence.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 81 seeks to amend section 271A of the Income-tax Act relating to failure to keep, maintain or retain books of account, documents, etc.

Under the existing provision, if any person fails to keep and maintain in respect of any previous year such books of account and other documents as required by section 44AA or the rules made thereunder or to retain such books of account and other documents for the period specified in the said rules, the Assessing Officer or the Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum which shall not be less than two thousand rupees but which may extend to one hundred thousand rupees.

It is proposed to provide for the levy of a fixed amount of penalty of twenty-five thousand rupees instead of a penalty of a sum which shall not be less than two thousand rupees but may extend to one hundred thousand rupees.

This amendment will take effect from 1st June, 2001.

Clause 82 seeks to insert a new section 271AA in the Income-tax Act relating to penalty for failure to keep and maintain information and documents, in respect of each international transaction.

The new section seeks to provide that if any person who has entered into an international transaction as defined in section 92B fails to keep and maintain any such information and documents as required by sub-section (1) or sub-section (2) of section 92D, the Assessing Officer or Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to two per cent. of the value of the international transaction entered into by such person.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 83 seeks to insert a new section 271BA in the Income-tax Act relating to penalty for failure to furnish a report from an accountant under section 92E.

The new section seeks to provide that if any person fails to furnish a report from an accountant as required by section 92E, the Assessing Officer may direct that such person shall pay by way of penalty, a sum of one hundred thousand rupees.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply to the assessment year 2002-2003 and subsequent years.

Clause 84 seeks to amend section 271F of the Income-tax Act relating to penalty for failure to furnish return of income.

Under the existing provision, if a person who is required to furnish a return of his income, as required under sub-section (1) of section 139, fails to furnish such return before the end of the relevant assessment year, he shall be liable to pay, by way of penalty, a sum of one thousand rupees.

Further, if a person who is required to furnish a return of his income, as required by the proviso to sub-section (1) of section 139, fails to furnish such return on or before the due date, he shall be liable to pay, by way of penalty, a sum of five hundred rupees.

It is proposed to enhance the said penalties from one thousand rupees to five thousand rupees and from five hundred rupees to five thousand rupees, respectively.

These amendments will take effect from 1st June, 2001.

Clause 85 seeks to insert a new section 271G in the Income-tax Act relating to penalty for failure to furnish certain information or document, under section 92D.

The new section seeks to provide that if any person who has entered into an international transaction fails to furnish any such information or document under sub-section (3) of section 92D, the Assessing Officer or the Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to two per cent. of the value of the international transaction, for each such failure.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply to the assessment year 2002-2003 and subsequent years.

Clause 86 seeks to amend section 272A of the Income-tax Act relating to penalty for failure to answer questions, sign statements, furnish information, returns or statements, allow inspections, etc.

Under the existing provision contained in sub-section (1), if a person fails to comply with any of the requirements specified therein, he is liable to pay by way of penalty a sum which shall not be less than five hundred rupees but which may extend to ten thousand rupees for each such default or failure.

It is proposed to amend the said sub-section (1) so as to provide for a fixed amount of penalty of ten thousand rupees for each such default or failure.

This amendment will take effect from 1st June, 2001.

It is further proposed to insert a new clause (i) in sub-section (2) so as to provide penalty for failure to furnish a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to an employee.

This amendment will take effect from 1st April, 2002.

Clause 87 seeks to amend section 272BB of the Income-tax Act relating to penalty for failure to comply with the provisions of section 203A.

Under the existing provision contained in sub-section (1), if a person fails to comply with the provision of section 203A, he shall, on an order passed by the Assessing Officer, pay, by way of penalty, a sum which may extend to five thousand rupees.

It is proposed to amend the said sub-section to enhance the penalty and to provide for levy of a fixed amount of penalty of a sum of ten thousand rupees.

This amendment will take effect from 1st June, 2001.

Clause 88 seeks to amend section 273B of the Income-tax Act relating to penalty not to be imposed in certain cases.

The existing provision of the said section provides that no penalty shall be imposable on the person or the assessee, as the case may be, for any failure referred to in certain sections specified in the said section, if he proves that there was reasonable cause for the said failure.

Clauses 82, 83 and 85 of the Bill seek to insert section 271AA, section 271BA and section 271G in the Income-tax Act, relating to penalties for failure, on the part of a person who has entered into an international transaction defined in the proposed new section 92B, to keep and maintain such information and document as may be prescribed, or to furnish a report from an accountant, or to furnish information or documents required by the Assessing Officer.

It is proposed to amend section 273B to provide that no penalty shall be imposable on the person or the assessee, as the case may be, for any failure referred to in sections 271AA, 271BA and section 271G, if he proves that there was reasonable cause for such failure. The proposed amendment is of consequential nature.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 89 seeks to amend rule 68A of the Second Schedule to the Income-tax Act relating to acceptance of property in satisfaction of amount due from the defaulter.

Under the existing provision contained in sub-rule (3) of the said rule, where the price of the property agreed upon between the Assessing Officer and the defaulter under sub-rule (1) exceeds the amount due from the defaulter, such excess shall be paid by the Assessing Officer to the defaulter within a period of three months from the date of delivery of possession of the property to the Assessing Officer and where the Assessing Officer fails to pay such excess within the period aforesaid, the Central Government is required to pay simple interest at the rate of twelve per cent. per annum to the defaulter on such amount for the period of delay.

It is proposed to amend sub-rule (3) so as to reduce the rate of interest which is payable by the Central Government under that sub-rule from twelve per cent. to nine per cent. per annum.

This amendment will take effect from 1st June, 2001.

Wealth-tax

Clause 90 seeks to amend section 17 of the Wealth-tax Act relating to wealth escaping assessment.

Under the existing provision contained in sub-section (1A), a notice under sub-section (1) of the said section may be issued within a period of four, seven or ten years from the end of the relevant assessment year. An assessment which has already been completed may be re-opened by issue of notice under sub-section (1) up to the period of four years from the end of the relevant assessment year. For any period beyond four years but up to seven years, such notice may be issued when the amount of escaped net wealth is not less than five lakh rupees but does not exceed ten lakh rupees. Where, the amount of escaped net wealth is likely to be ten lakh rupees or more, a notice may be issued up to ten years from the end of the relevant assessment year.

It is proposed to amend the said sub-section (1A) to provide that the notice under sub-section (1) of the said section may be issued only within four years from the end of relevant assessment year, or within six years from the end of the relevant assessment year in cases where the amount of net wealth chargeable to tax which has escaped assessment amounts to or is likely to amount to ten lakh rupees or more for that year.

This amendment will take effect from 1st June, 2001.

Clause 91 seeks to amend section 17A of the Wealth-tax Act relating to time-limit for completion of assessment and re-assessment.

Under the existing provision contained in sub-section (2), no order of assessment or re-assessment shall be made under section 17 after the expiry of two years from the end of the financial year in which the notice under sub-section (1) of that section was served. Further, sub-section (3) provides that an order of fresh assessment in pursuance of an order passed on or after the 1st day of April, 1975, under section 23 or section 24 or section 25, setting aside or cancelling an assessment, may be made at any time before the expiry of two years from the end of the financial year in which the order under section 23 or section 24 is received by the Chief Commissioner or Commissioner or, as the case may be, the order under section 25 is passed by the Commissioner.

It is proposed to amend sub-section (2) to provide that no order of assessment or re-assessment shall be made under section 17 after the expiry of one year from the end of the financial year in which the notice under sub-section (1) of that section was served. However, where the notice under the said sub-section (1) has been served on or after 1st April, 1999 but before 1st April, 2000, such assessment or re-assessment may be made at any time up to 31st March, 2002.

It is further proposed to omit the Explanation in the said sub-section, which is of consequential nature.

It is also proposed to amend sub-section (3) to substitute references to section 23 with references to section 23A, and to provide that an order of fresh assessment in pursuance of an order under section 23A or section 24 or section 25, setting aside or cancelling an assessment, may be made at any time before the expiry of one year from the end of the financial year in which the order under section 23A or section 24 is received by the Chief Commissioner or Commissioner or, as the case may be, the order under section 25 is passed by the Commissioner. However, where any such order has been received or has been passed, as the case may be, on or after 1st April, 1999 but before 1st April, 2000, an order of fresh assessment may be made at any time up to 31st March, 2002.

These amendments will take effect from 1st June, 2001.

Clause 92 seeks to amend section 17B of the Wealth-tax Act relating to payment of interest for defaults in furnishing return of net wealth.

Under the existing provision contained in section 17B, the assessee is liable to pay simple interest at the rate of two per cent. for every month or part of a month for default in furnishing the return of net wealth for the period specified in the said section.

It is proposed to amend sub-sections (1) and (3) of the said section so as to reduce the rate of interest from two per cent. to one and one-fourth per cent. for every month or part of a month, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 93 seeks to amend section 31 of the Wealth-tax Act which provides when tax, interest, penalty, fine or any other sum is payable by an assessee who is deemed to be in default.

Under the existing provision contained in section 31, if the amount specified in a notice of demand under section 30 is not paid within thirty days of the service of the notice, the assessee is liable to pay simple interest at the rate of one and one-half per cent. for every month or part of a month.

It is proposed to amend sub-section (2) of the said section so as to reduce the rate of interest payable by the assessee from one and one-half per cent. to one and one-fourth per cent. for every month or part of a month, as the case may be.

This amendment will take effect from 1st June, 2001.

Clause 94 seeks to amend section 34A of the Wealth-tax Act relating to refunds.

Under the existing provision contained in sub-section (3) of the said section, where a refund is due to the assessee in pursuance of an order referred to in sub-section (1) and the Assessing Officer does not grant the refund within a period of six months from the date of such order, the Central Government shall pay to the assessee simple interest at fifteen per cent. per annum on the amount of refund due for the period specified in the said sub-section.

Sub-clause (a) seeks to amend the said sub-section (3) so as to reduce the rate of interest from fifteen per cent. per annum to nine per cent. per annum.

Under the existing provision contained in clause (a) of sub-section (4B) of the said section, where refund of any amount becomes due to the assessee under the said Act, he shall be entitled to receive, in addition to the said amount, simple interest thereon calculated at the rate of one per cent. for every month or part of a month for the period specified in the said clause.

Sub-clause (b) seeks to amend the said clause (a) of sub-section (4B) so as to reduce the rate of interest from one per cent. to three-fourth per cent. for every month or part thereof, as the case may be.

These amendments will take effect from 1st June, 2001.

Expenditure-tax

Clause 95 seeks to amend section 14 of the Expenditure-tax Act relating to interest on delayed payment of expenditure-tax.

Under the existing provision contained in clause (a) of sub-section (4B) of the said section, where refund of any amount becomes due to the assessee under the said Act, he shall be entitled to receive, in addition to the said amount, simple interest thereon calculated at the rate of one per cent. for every month or part of a month for the period specified in the said clause.

Sub-clause (b) seeks to amend the said clause (a) of sub-section (4B) so as to reduce the rate of interest from one per cent. to three-fourth per cent. for every month or part thereof, as the case may be.

These amendments will take effect from 1st June, 2001.

Expenditure-tax

Clause 95 seeks to amend section 14 of the Expenditure-tax Act relating to interest on delayed payment of expenditure-tax.

Under the existing provision, every person responsible for collecting expenditure-tax and paying it to the credit of the Central Government, who fails to credit the tax to the account of the Central Government within the period specified in section 7 shall pay simple interest at the rate of one and one-half per cent. for every month or part of a month by which such crediting of tax is delayed.

The proposed amendment seeks to reduce the rate of interest from one and one-half per cent. to one and one-fourth per cent. for every month or part of a month, as the case may be.

This amendment will take effect from 1st June, 2001.

Customs

Clause 96 seeks to amend section 27A of the Customs Act so as to reduce the minimum rate of interest from ten per cent. to five per cent. on delayed refund of Customs duty.

Clause 97 seeks to amend section 28 of the Customs Act so as to provide for-

(i) time-limit of one year within which the proper officer shall determine the duty or interest liability in cases of suppression of facts, etc., where it is possible;

(ii) time-limit of six months within which the proper officer shall determine the duty or interest liability in all other cases, where it is possible; and

(iii) voluntary payment of duty by an assessee, without having to wait for service of a show cause notice.

Clause 98 seeks to amend section 28AA of the Customs Act so as to make it inapplicable in respect of cases where duty or interest becomes payable or ought to be paid on and after the date of enactment of the Finance Act, 2001.

Clause 99 seeks to amend section 28AB of the Customs Act so as to provide that in respect of cases of short-levy where the duty becomes payable after the enactment of Finance Act, 2001, the interest on delayed payment shall be payable from the first day of the month succeeding the month in which the duty ought to have been paid.

Clause 100 seeks to amend section 61 of the Customs Act, so as to reduce the interest-free period in respect of warehoused goods from six months to 30 days. This clause shall come into effect from a date to be notified in the Official Gazette.

Clause 101 seeks to amend section 112 of the Customs Act so as to rationalise the penal provision in respect of improperly imported goods.

Clause 102 seeks to amend section 114 of the Customs Act so as to rationalise the penal provision in respect of goods attempted to be exported improperly.

Clause 103 seeks to amend section 128 of the Customs Act so as to reduce the time limit for filling an appeal before Commissioner (Appeals) to 60 days, with provision for extension up to 30 days, on sufficient cause being shown;

Clause 104 seeks to amend section 128A of the Customs Act so as to,–

(i) provide that where it is possible, the Commissioner (Appeals) shall decide every appeal within a period of six months of it being filed;

(ii) withdraw the powers of the Commissioner (Appeals) to remand matters to the adjudicating authority for fresh consideration.

Clause 105 seeks to amend section 129D of the Customs Act so as to provide that direction by the Board for filing an appeal before the Customs Excise and Gold (Control) Appellate Tribunal may be given either to the adjudicating Commissioner or to any other Commissioner.

Clause 106 seeks to amend section 129E of the Customs Act so as to provide that the Commissioner (Appeals) may take decision on an application for waiver of pre-deposit of duty and interest or penalty within 30 days of it being filed, wherever it is possible.

Clause 107 seeks to insert a new section 159A of the Customs Act so as to make provisions with retrospective effect to save any action taken or anything done or omitted to be done, whenever any rule, regulation, notification or order made or issued under the Customs Act or any notification or order issued under such rule or regulation, is amended, repealed, superseded or rescinded.

The provisions of the new section shall have retrospective effect from the date of commencement of the said Act. This has become necessary in order to remove legal lacunae in the rules, orders, notifications etc. issued under the said Act that arose due to certain judicial pronouncements.

Clause 108 proposes to validate certain action taken under the various rules, notifications, orders etc. under the Customs Act. This has become necessary in order to validate certain action affected by certain judicial pronouncements.

Clause 109 seeks to amend certain notifications issued under section 25 (1) of the Customs Act in the manner specified in the Eighth Schedule with retrospective effect.

Clause 110 seeks to amend section 3 of the Customs Tariff Act to–

(i) empower the Central Government to fix rates of additional duty on alcoholic liquors for human consumption chargeable to different rates of excise duty in the States and in case the like alcholic liquor is not produced in any State, then, having regard to the excise duty leviable on the class or description of alcholic liquor to which the imported alcholic liquor belongs;

(ii) provide for levy of additional duty on imported article on the basis of retail sale price, if like goods or similar goods produced or manufactured in India are subject to Central excise duty on this basis.

These shall come into effect immediately.

Clause 111 seeks to amend section 8B of the Customs Tariff Act–

(i) to make provisions for levy of concessional safeguard duty within Tariff Rate Quota to be fixed by the Central Government;

(ii) to provide that the levy of safeguard duty shall not be applicable to imports made by 100% export oriented undertakings, units in free trade zones and Special economic zones, unless specifically provided in the notification.

Clause 112 seeks to amend section 9A of the Customs Tariff Act to provide that the levy of anti-dumping duty shall not be applicable to imports made by 100% export oriented undertakings, units in free trade zones and Special economic zones, unless specifically provided in the notification.

Clause 113 seeks to amend the First Schedule to the Customs Tariff Act,

Sub clause (a) read with the Second Schedule seeks to-

reduce the customs duty in respect of articles falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 50 (heading No. 50.03), 51 (heading Nos. 51.11 and 51.12), 52 (heading No. 52.02 and sub-heading Nos. 5209.42 and 5209.59), 58 (sub-heading No. 5801.35), 61 (heading Nos. 61.05 and 61.09 and sub-heading Nos. 6104.19, 6104.62, 6104.63, 6106.10, 6107.11, 6108.21, 6108.22, 6108.91, 6108.92, 6110.20, 6110.30, 6110.90), 62 (sub-heading Nos. 6201.13, 6201.92, 6201.93, 6202.12, 6202.92, 6203.32, 6203.33, 6203.39, 6203.42, 6203.43, 6203.49, 6204.11, 6204.13, 6204.19, 6204.31, 6204.32, 6204.33, 6204.39, 6204.42, 6204.62, 6204.69, 6205.20, 6205.30, 6205.90, 6206.30, 6206.40, 6207.11, 6207.19, 6207.99, 6208.11, 6208.19, 6208.91, 6208.92, 6210.40, 6210.50 and 6214.10), 63 (sub-heading No. 6301.20), 70 (sub-heading Nos. 7019.19 and 7019.51), 84 (heading No. 84.70 and sub-heading Nos. 8456.91, 8469.11, 8473.21 and 8473.29), 85 (sub-heading Nos. 8517.11, 8517.19, 8517.21, 8517.22 , 8517.30, 8517.50, 8517.80, 8520.20, 8523.11, 8523.12, 8523.13, 8523.20, 8523.90, 8524.31, 8524.40, 8524.91, 8525.20, 8531.20 , 8532.10, 8532.22, 8532.23, 8532.25, 8532.29, 8532.30, 8543.11, 8543.81 and 8544.70), 90 (sub-heading Nos. 9009.11, 9009.21, 9009.90, 9026.10, 9030.40 and 9031.41)

increase the customs duty in respect of articles falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 8 (sub-heading Nos. 0801.11 and 0801.19), 9 (heading Nos. 09.01 and 09.02), 12 (sub-heading No. 1203.00), 49 (sub-heading No. 4906.00), 52 (sub-heading Nos. 5208.42, 5208.52, 5208.53, 5208.59, 5209.51, 5209.52, 5210.51, 5210.59, 5211.51, 5211.52 and 5211.59), 87(heading Nos.87.03 and 87.11);

change the mode of levy from ad valorem to ad valorem or specific, whichever is higher, in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 52 (sub-heading Nos. 5208.39, 5209.31, 5209.32, 5209.39, 5209.49, 5210.39, 5211.31, 5211.32, 5211.39 and 5211.49), 54 (sub-heading Nos. 5407.61 and 5407.69), 55 (sub-heading Nos. 5516.22 and 5516.23), 58 (sub-heading No. 5802.30);

change the mode of levy from ad valorem or specific (Rs. per kg.), whichever is higher, to ad valorem or specific (Rs. per sq. mtr.), whichever is higher, in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 52 (sub-heading Nos. 5209.41, 5209.43, 5210.42, 5211.41 and 5211.43), 54 (sub-heading Nos. 5407.41, 5407.42, 5407.43, 5407.44, 5407.52, 5407.53, 5407.54, 5407.72, 5407.73, 5407.74, 5407.82, 5407.83, 5407.84, 5407.92, 5407.93, 5407.94, 5408.22, 5408.23, 5408.24, 5408.31 and 5408.32), 55 (sub-heading Nos. 5512.19, 5512.29, 5513.31, 5513.33, 5513.41, 5513.42, 5513.43, 5514.31, 5514.32, 5514.39, 5514.41, 5514.43, 5515.11, 5515.19, 5515.21, 5515.29, 5515.91, 5515.92,5515.99, 5516.12, 5516.13 and 5516.94);

change the mode of levy from ad valorem or specific (Rs. per kg.), whichever is higher, to ad valorem or specific (Rs. per sq. mtr. and Rs. per kg.), whichever is highest, in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapter 55 (sub-heading Nos. 5513.23, 5513.39 and 5514.21);

Sub-clause (b), read with the Third Schedule seeks to amend the First Schedule to the Customs Tariff Act, 1975 so as to incorporate some amendments approved by the Customs Cooperation Council (World Customs Organisation) in the legal text of the Harmonised Commodity Description and Coding System (Harmonised System) in order that the First Schedule is in line with the Harmonised System.

Excise

Clause 114 seeks to amend section 3 of the Central Excise Act so as to make its provisions applicable to special economic zones as defined therein.

Clause 115 seeks to omit section 3A of the Central Excise Act.

Clause 116 seeks to amend section 5A of the Central Excise Act to make its provision applicable to special economic zones.

Clause 117 seeks to amend section 11A of the Central Excise Act so as to provide for–

(i) time-limit of one year within which the proper officer shall determine the duty liability in cases of suppression of facts, etc., where it is possible;

(ii) time-limit of six months within which the proper officer shall determine the duty liability in all other cases, where it is possible; and

(iii) voluntary payment of duty by an assessee, without having to wait for service of a show cause notice.

Clause 118 seeks to amend section 11AA of the Central Excise Act so as to make it inapplicable in respect of cases where the duty becomes payable or ought to be paid on or after the date of enactment of the Finance Act, 2001.

Clause 119 seeks to amend section 11AB of the Central Excise Act so as to provide that in respect of cases of short levy where the duty becomes payable after the enactment of Finance Act, 2001, the interest on delayed payment shall be payable from the first day of the month succeeding the month in which the duty ought to have been paid.

Clause 120 seeks to amend section 11BB of the Central Excise Act so as to reduce the minimum rate of interest from ten per cent. to five per cent. on delayed refund of excise duty.

Clause 121 seeks to amend section 35 of the Central Excise Act so as to reduce the time limit for filing an appeal before the Commissioner (Appeals) to 60 days, with provision for extension up to 30 days, on sufficient cause being shown.

Clause 122 seeks to amend section 35A of the Central Excise Act so as to, –

(i) provide that where it is possible, the Commissioner (Appeals) shall decide every appeal within a period of six months of its being filed;

(ii) withdraw the powers of the Commissioner (Appeals) to remand matters back to the adjudicating authority for fresh consideration.

Clause 123 seeks to amend section 35E of the Central Excise Act so as to provide that direction by the Board for filing an appeal before the Customs Excise and Gold (Control) Appellate Tribunal may be given either to the adjudicating Commissioner or to any other Commissioner.

Clause 124 seeks to amend section 35F of the Central Excise Act so as to provide that Commissioner (Appeals) may take decision on an application for waiver of pre-deposit of interest or penalty within 30 days of it being filed, wherever it is possible.

Clause 125 seeks to insert a new section 38A in the Central Excise Act so as to make provisions with retrospective effect to save any rule, notification or order made or issued under the Central Excise Act which were later on amended, repealed, superseded or rescinded. This has become necessary as in some judicial pronouncements it has been held that section 6 of the General Clauses Act is not applicable in respect of subordinate legislation.

Clause 126 proposes to validate certain action taken under the various rules/notifications, orders etc. under the Central Excise Act. This has become necessary in order to validate certain action affected by certain judicial pronouncements.

Clause 127 read with the Fourth and Fifth Schedule seeks to amend the First and Second Schedule of the Central Excise Tariff Act.

Sub clause (a) seeks to amend the said First Schedule so as to–

increase the excise duty in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 27 (sub-heading No. 2711.21), 34 (sub-heading No. 3406.10), 48 (sub-heading No. 4819.12), 62 (heading Nos.

repealed, superseded or rescinded. This has become necessary as in some judicial pronouncements it has been held that section 6 of the General Clauses Act is not applicable in respect of subordinate legislation.

Clause 126 proposes to validate certain action taken under the various rules/notifications, orders etc. under the Central Excise Act. This has become necessary in order to validate certain action affected by certain judicial pronouncements.

Clause 127 read with the Fourth and Fifth Schedule seeks to amend the First and Second Schedule of the Central Excise Tariff Act.

Sub clause (a) seeks to amend the said First Schedule so as to–

increase the excise duty in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 27 (sub-heading No. 2711.21), 34 (sub-heading No. 3406.10), 48 (sub-heading No. 4819.12), 62 (heading Nos. 62.01 and 62.02), 64 (sub-heading No. 6401.12), 71 (sub-heading No. 7101.50), 85 (sub-heading No. 8539.10), 90 (sub-heading No. 9004.90) and 96 (heading No. 96.03) ;

amend the Chapter Notes and the tariff descriptions so as to,-

(i) amend Note 3 of Chapter 21 to define the words 'Pan masala';

(ii) insert Note 6 to Chapter 24 to define the words 'Pan masala containing tobacco';

(iii) insert Note 10 to Chapter 27 so as to provide that the process of compression (even if it does not involve liquefaction) of natural gas amounts to manufacture;

(iv) insert Chapter Note 4 to Chapter 52 so as to define word 'denim';

(v) insert sub-heading No. 5207.10 and renumber existing sub-heading Nos. 5207.10, 5207.21, 5207.22, 5207.23 and 5207.29;

(vi) insert sub-heading No. 5208.10 and renumber existing sub-heading Nos. 5208.10, 5208.21, 5208.22, 5208.23 and 5208.29;

(vii) insert Chapter Notes 3 and 4 to Chapter 62 so as to define 'brand name' and to specify that certain processes amount to manufacture respectively;

(viii) amend Chapter Note 3 to Chapter 87 so as to clarify the scope of body built on the chassis of heading No. 87.06;

(ix) amend the tariff description of heading No. 87.07 so as to clarify that the body built on the chassis of heading No. 87.06 does not fall under this heading.

Sub clause (b) seeks to amend the Second Schedule so as to-

reduce the excise duty in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 21 (sub-heading Nos. 2106.00 and 2108.10), 22 (sub-heading Nos. 2201.20 and 2202.20), 24 (sub-heading Nos. 2401.90, 2404.41, 2404.49, 2404.50 and 2404.99), 87 (sub-heading Nos. 8703.90, 8704.90, 8706.39 and 8706.49);

increase the excise duty in respect of goods falling under the following Chapters, heading and sub-heading Nos., namely:-

Chapters 25 (sub-heading Nos. 2502.21, 2502.30, 2502.40, 2502.50 and 2502.90), 43 (sub-heading No. 4301.00), 89 (sub-heading Nos. 8903.00 and 8907.00), 93 (sub-heading Nos. 9302.00, 9303.00, 9304.00, 9305.00, 9306.00 and 9307.00);

omit heading Nos. 57.02, 57.03, 59.04, 59.05, 59.07, 69.05, 69.06, 87.11 and 94.04.

Clause 128 seeks to amend the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act so as to-

(a) increase the duty on goods falling under sub-heading Nos. 2404.41, 2404.50, 2404.99, 5110.10, 5110.21, 5110.22, 5110.23, 5110.29, 5111.10, 5111.21, 5111.22, 5111.23 and 5111.29;

(b) insert sub-heading No. 5207.10 and renumber the existing sub-heading Nos. 5207.10, 5207.21, 5207.22, 5207.23 and 5207.29;

(c) insert sub-heading No. 2404.49 to impose the additional duty on Pan masala containing tobacco;

(d) insert sub-heading No. 5208.10 and renumber the existing sub-heading Nos. 5208.10, 5208.21, 5208.22, 5208.23 and 5208.29.

Clause 129 seeks to levy National Calamity Contingent duty for purposes of the Union as a surcharge of excise duty on goods specified in the Seventh Schedule at the rates specified therein.

Service tax

Clause 130 seeks to amend Chapter V of the Finance Act, 1994 relating to service-tax.

Sub-clauses (a), (b) and (c) substitute sections 65, 66 and 67 so as to levy a tax on services rendered by-

(i) a scientist or a technocrat or any science or technology institution or organisation, in relation to scientific or technical consultancy;

(ii) a photography studio or agency in relation to photography, in any manner;

(iii) any commercial concern in relation to holding of convention, in any manner;

(iv) the telegraph authority, in relation to a communication through facsimile, telegraph, telex or leased circuit;

(v) a commercial concern, in relation to on-line information and database access or retrieval or both in electronic form through computer network, in any manner;

(vi) a video production agency in relation to video-tape production, in any manner;

(vii) a sound recording studio or agency in relation to any kind of sound recording;

(viii) a broadcasting agency or organisation, in relation to broadcasting, in any manner;

(ix) an actuary, or intermediary or insurance intermediary or insurance agent, in relation to insurance auxiliary services;

(x) a banking company or a financial institution including a non-banking financial company, in relation to banking and other financial services;

(xi) a port, in relation to port services, in any manner; and

(xii) an authorised service station, in relation to any service or repair of automobiles, in any manner.

Service tax is sought to be levied on the above services at the rate of five per cent. on the gross amount charged to the client or customer or subscriber or policy holder or any other person, as the case may be, provided by the service provider.

Sub-clause (d) seeks to amend section 69 of the said Act so that a person liable to pay service tax make application for registration to Superintendent of Central Excise.

Sub-clause (e) seeks to substitute sections 70 and 71 of the said Act so as to provide for self-assessment of service tax due on the services provided by the assessee and to provide for verification of the correctness of the service tax assessed by the assessee, for requiring the assessee to produce documents, accounts or other evidences as and when required and for passing an order by Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise, in case where service tax on any service provided has escaped assessment or has been under assessed, respectively.

Sub-clause (f) seeks to amend section 72 of the said Act so that the Assistant Commissioner of Central Excise or, Deputy Commissioner of Central Excise, as the case may be, are empowered to act instead of Central Excise Officer for the purpose of assessment of service tax.

Sub-clause (g) seeks to amend section 73 of the said Act so as to give power of assessment of service tax on the value of escaped assessment or under-assessment or on erroneous refund, and to exclude the period of stay by an order of a Court for the purpose of computing the period of five years or six months as the case may be specified in that section.

Sub-clause (h) seeks to amend section 74 of the said Act so as to empower the Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise, as the case may be, to rectify any mistake apparent from the record.

Sub-clause (i) seeks to amend section 75 of the said Act so as to prescribe the interest at the rate of twenty four per cent. per annum on delayed payment of service tax.

Sub-clause (j) seeks to insert new section 75A in the said Act so as to prescribe a penalty for failure to register under section 69.

Sub-clause (k) seeks to amend section 77 of the said Act so as to revise the penalty to a sum which may extend to one thousand rupees for failure to furnish prescribed return.

Sub-clauses (l) and (m) seek to amend sections 78 and 79 of the said Act so as to empower Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise to direct any person to pay a penalty for suppressing value of taxable service and for failure to comply with the provisions of section 71, respectively.

Sub-clause (n) seeks to amend section 82 of the said Act so as to authorise Assistant Commissioner of Central Excise or, as the case may be, Deputy Commissioner of Central Excise to search premises.

Sub-clause (o) seeks to amend section 84 of the said Act so as to provide, the Commissioner of Central Excise shall communicate the order passed by him under that sub-section to the assessee, Assistant Commissioner of Central Excise, or Deputy Commissioner of Central Excise and the Board.

Sub-clauses (p) and (q) seek to amend sections 85 and 86 of the said Act so as to empower the Commissioner of Central Excise or, Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise, as the case may be, to appeal to the Commissioner of Central Excise (Appeals) or the Appellate Tribunal, respectively.

Miscellaneous

Clause 131 seeks to substitute the First Schedule to the Indian Post Office Act, 1898 so as to provide for the revised rates for letters, post cards, printed post cards, competition post cards, registered newspapers, book, pattern and sample packets, registered newspapers and parcels.

These revised rates will be effective from a date to be notified in the Official Gazette after the Bill is passed and receives the assent of the President.

Clause 132 seeks to amend section 14 of the Central Sales Tax Act, so as to include Aviation Turbine Fuel sold to a Turbo-Prop Aircraft and sponge iron for the purpose of declaring it the goods of special importance in inter-State trade or commerce.

Clause 133 seeks to omit section 55 of the National Bank for Agriculture and Rural Development Act, 1981.

Section 55 of the said Act provides that notwithstanding anything contained in the Income-tax Act, 1961, or the Companies (Profits) Surtax Act, 1964, or any other enactment for the time being in force relating to tax on income, profits or gains, the National Bank for Agriculture and Rural Development shall not be liable to pay income-tax, surtax or any other tax in respect of any income, profits or gains derived or any amount received by it.

It is proposed to omit the said section to make the National Bank for Agriculture and Rural Development liable to pay income-tax or any other tax in respect of any income, profits or gains derived, or any amount received by it.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 134 seeks to omit section 48 of the National Housing Bank Act, 1987.

Section 48 of the said Act provides that notwithstanding anything contained in the Income-tax Act, 1961, or any other enactment for the time being in force relating to tax on income, profits or gains, the National Housing Bank shall not be liable to pay income-tax or any other tax in respect of its income, profits or gains derived.

It is proposed to omit the said section to make the National Housing Bank liable to pay income-tax or any other tax in respect of the income, profits or gains derived by it.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

Clause 135 seeks to omit section 50 of the Small Industries Development Bank of India Act, 1989.

Section 50 of the said Act provides that notwithstanding anything to the contrary contained in the Income-tax Act, 1961 or in any other enactment for the time being in force relating to income-tax or any other tax on income, profits or gains, the Small Industries Development Bank of India shall not be liable to pay income-tax or any other tax in respect of (a) any income, profits or gains accruing or arising to the Small Industries Development Assistance Fund or any amount received in that Fund; and (b) any income, profits or gains derived or any amount received by it.

It is proposed to omit the said section to make the Small Industries Development Bank of India liable to pay income-tax or any other tax in respect of any income, profits or gains accruing or arising to the Small Industries Development Assistance Fund or any amount received in that Fund and any income, profits or gains derived or any amount received by it.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years.

MEMORANDUM REGARDING DELEGATED LEGISLATION

Clause 13 of the Bill seeks to insert a new sub-clause (viii) in clause (2) of section 17 of the Income-tax Act relating to definitions of "Salary", "perquisite" and "profits in lieu of salary". The amendment proposed by this clause confers power upon the Central Board of Direct Taxes to prescribe, by rules, the value of any other fringe benefit or amenity to be included in "Salary".

Clause 14 of the Bill seeks to substitute section 23 of the Income-tax Act relating to determination of annual value of house property. The Explanation to sub-section (1) of the proposed new section empowers the Central Board of Direct Taxes to prescribe, by rules, the conditions in which the amount of rent which the owner cannot realise shall not be included in the actual rent received or receivable.

Clause 23 of the Bill seeks to amend section 35 of the Income-tax Act relating to expenditure on scientific research. Sub-clause (a), which seeks to amend sub-section (2AA) of the said section, empowers the Central Board of Direct Taxes to specify, by rules, the authority which will approve the specified person and the scientific research programme.

Clause 44 of the Bill seeks to substitute section 92 in the Income-tax Act relating to income from transactions with non-residents, how computed in certain cases.

Clause (m) of sub-section (2) of the proposed new section 92A empowers the Central Board of Direct Taxes to specify any relationship of mutual interest between two enterprises, the existence of which shall deem the enterprises to be associated enterprises.

Sub-section (1) of the proposed new section 92C empowers the Central Board of Direct Taxes to prescribe the factors having regard to which any of the methods specified in the sub-section shall be taken to be the most appropriate method for determination of the arm's length price in relation to an international transaction. Clause (f) of the said section also empowers the Central Board of Direct Taxes to prescribe any other method for determination of the said arm's length price.

Clause 44 of the Bill seeks to substitute section 92 in the Income-tax Act relating to income from transactions with non-residents, how computed in certain cases.

Clause (m) of sub-section (2) of the proposed new section 92A empowers the Central Board of Direct Taxes to specify any relationship of mutual interest between two enterprises, the existence of which shall deem the enterprises to be associated enterprises.

Sub-section (1) of the proposed new section 92C empowers the Central Board of Direct Taxes to prescribe the factors having regard to which any of the methods specified in the sub-section shall be taken to be the most appropriate method for determination of the arm's length price in relation to an international transaction. Clause (f) of the said section also empowers the Central Board of Direct Taxes to prescribe any other method for determination of the said arm's length price.

Sub-section (2) of the proposed new section 92C empowers the Central Board of Direct Taxes to prescribe the manner in which the most appropriate method is to be applied for determination of the arm's length price in relation to an international transaction.

Sub-section (1) of the proposed new section 92D empowers the Central Board of Direct Taxes to prescribe the information and documents which a person, who has entered into an international transaction, is required to keep and maintain. Sub-section (2) empowers the Central Board of Direct Taxes to prescribe the period for which the information and documents referred to in sub-section (1) shall be kept and maintained.

The proposed new section 92E empowers the Central Board of Direct Taxes to prescribe, by rules, the form and the manner of verification of, and the particulars to be set forth in, the report to be furnished by a person who has entered into an international transaction during a previous year.

Clause 47 of the Bill seeks to substitute section 115AC of the Income-tax Act relating to tax on income from bonds or shares purchased in foreign currency or capital gains arising from their transfer.

Clauses (a) and (b) of sub-section (1) of the proposed new section empower the Central Government to specify by notification in the Official Gazette, a scheme for issue of bonds and Global Depository Receipts by an Indian Company for purchase by non-residents in foreign currency.

The proposed new section also empowers the Central Government to specify by notification in the Official Gazette, the scheme under which "intermediary" may be approved.

Clause 48 of the Bill seeks to amend section 115ACA of the Income-tax Act relating to tax on income from Global Depository Receipts purchased in foreign currency or capital gains arising from their transfer.

The amendment proposed by clause (a) of sub-section (1) empowers the Central Government to specify, by notification in the Official Gazette, the Employees' Stock Option Scheme whereby an Indian company engaged in specified knowledge-based industry or service may issue Global Depository Receipts to a resident employee. The amendment proposed by the Explanation to sub-section (1) empowers the Central Government to specify, by notification in the Official Gazette, any other industry or service as specified knowledge based industry or service.

Clause 54 of the Bill seeks to amend section 139 of the Income-tax Act relating to return of income.

The proposed new sub-section (1) empowers the Central Board of Direct Taxes to prescribe, by rules, the form and manner of verification of, and the particulars to be set forth in, the return to be furnished by the person. The proposed proviso to the said sub-section empowers the Central Board of Direct Taxes to specify, by notification in the Official Gazette, the area in which the person, being a person other than a company, who is not required to furnish a return under this sub-section, resides and who on fulfilling at any time during the previous year any one of the six conditions specified in the said section, shall furnish a return of his income during the previous year on or before the due date in the form and manner prescribed as aforesaid.

The proposed second proviso of the proposed new sub-section (1) empowers the Central Government, to specify, by notification in the Official Gazette, the class or classes of persons to whom the provisions of the first proviso shall not apply. Explanation 3 to the said sub-section empowers the Central Board of Direct Taxes to specify, by notification in the Official Gazette, the neighbouring countries or such places of pilgrimage which are not included in "travel to any foreign country".

Clause 55 of the Bill seeks to amend section 139A of the Income-tax Act relating to permanent account number.

The first proviso to the proposed new sub-section (5B) empowers the Central Government, to specify, by notification in the Official Gazette, different dates from which the provisions of the said sub-section shall apply in respect of any class or classes of persons.

Clause 63 of the Bill seeks to amend section 192 of the Income-tax Act relating to "Salary".

The proposed new sub-section (2C) empowers the Central Board of Direct Taxes to prescribe the form and manner of furnishing a statement giving correct and complete particulars of perquisites or profits in lieu of salary and the value thereof to which a person, responsible for paying any income chargeable under the head "Salaries", shall furnish to the person to whom such payment is made.

Clause 99(a) of the Bill seeks to amend section 28AB of the Customs Act, 1962. The amendment proposed by this clause confers powers upon the Central Government to fix rate of interest at such rate not below eighteen per cent and not exceeding thirty six per cent. per annum on delayed refunds, by notification in the Official Gazette.

Clause 110(a) of the Bill seeks to amend section 3 of the Customs Tariff Act, 1975. The amendment proposed by this clause confers power upon the Central Government to specify the rate of additional duty on imported alcoholic liquor having regard to the excise duty for the time being leviable on the like alcoholic liquor produced or manufactured in different States, and in case the like alcoholic liquor is not produced or manufactured in any State, then, having regard to the excise duty leviable on the class or description of alcoholic liquor to which the imported alcoholic liquor belongs, by notification in the Official Gazette.

Clause 111(a) of the Bill seeks to amend section 8B of the Customs Tariff Act, 1975. The amendment proposed by this clause confers powers upon the Central Government to exempt the quantity of any article, when imported from any country or territory into India, by notification in the Official Gazette.

Clause 113(b) of the Bill seeks to amend the First Schedule to the Customs Tariff Act, 1975. This clause also confers powers upon the Central Government to appoint the date to bring into force the said amendment by notification in the Official Gazette.

Clause 119(a) of the Bill seeks to amend section 11 AB of the Central Excise Act, 1944. The amendment propose by this clause confers powers upon the Central Government to fix rate of interest at such rate not below eighteen per cent. and not exceeding thirty-six per cent. per annum on delayed refunds, by notification in the Official Gazette.

Clause 130 of Bill seeks to amend the Finance Act, 1994. Sub-clause (a) of the said clause proposes to substitute section 66 of the said Act. Sub-sections (1), (2), (3), (4) and (5) of the proposed new section 66 empower the Central Government to make rules to provide the manner of collection of service-tax levied under those sub-sections. Sub-clause (e) of the said clause proposes to substitute new sections 70 and 71 of the Finance Act, 1994. The proposed section 70 empowers the Central Government to make rules to provide form and manner in which and the frequency at which a return shall be furnished under that section.

Clause 131 seeks to substitute the First Schedule tot he Indian Post Office Act, 1898.

The proposed amendment empowers the Central Government to revise the rates for letters, post cards, printed post cards, competition post cards, book, pattern and sample packets, registered newspapers and parcels from a date to be notified

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in the Official Gazette after the Bill is passed and receives the assent of the President.
The matters in respect of which notifications may be issued or rules may be made in accordance with the aforesaid provisions of the Bill are matters of procedure and detail and it is not practicable to provide for them in the Bill itself.
The delegation of legislative power is, therefore, of a normal character.
LOK SABHA

A BILL to give effect to the financial proposals of the Central Government for the financial year 2001-2002.

(Shri Yashwant Sinha,
Minister of Finance.)

EXPLANATORY MEMORANDUM

FINANCE BILL, 2001
PROVISIONS RELATING TO DIRECT TAXES
The provisions in Finance Bill, 2001, in the sphere of direct taxes relate to the following matters:-

(i) Prescribing the rates of income-tax on incomes liable to tax for the assessment year 2001-2002; the rates at which tax will be deductible at source during the financial year 2001-2002 from interest (including interest on securities), winnings from lotteries or crossword puzzles, winnings from horse races, card games and other categories of income liable to deduction of tax at source under the Income-tax Act; rates for computation of "advance tax", deduction of income-tax from 'Salaries' and charging of income-tax on current incomes in certain cases for the financial year 2001-2002.

(ii) Amendment of the Income-tax Act, 1961, interalia, with a view to providing incentives for infrastructure development, housing, tea industry, providing measures for social welfare, industrialization, measures for development of capital markets, widening of tax base, checking tax evasion and avoidance, rationalization of certain provisions and tax payer friendly measures.

(iii) Amendment of the Wealth-tax Act, 1957.
(iv) Amendment of the National Bank for Agriculture and Rural Development Act, 1981.
(v) Amendment of the Expenditure-tax Act, 1987.
(vi) Amendment of the National Housing Bank Act, 1987.
(vii) Amendment of the Finance Act, 2000.
(viii) Amendment of the Small Industries Development Bank of India Act, 1989.

2. Subject to certain exceptions, which have been indicated while dealing with the relevant provision, the Bill follows the principle that changes in the provisions of the tax laws, should ordinarily be made operative prospectively in relation to current incomes and not in relation to incomes of past years. The substance of the main provision in the Bill relating to direct taxes is explained in the following paragraphs: -

INCOME-TAX
I. Rates of income-tax in respect of incomes liable to tax for the assessment year 2001-2002.
In respect of incomes of all categories of tax payers (corporate as well as non-corporate) liable to tax for the assessment year 2001-2002, the rates of income-tax have been specified in Part I of the First Schedule to the Bill and are the same as those laid down in Part III of the First Schedule to the Finance Act, 2000, for the purposes of computation of "advance tax", deduction of tax at source from "Salaries" and charging of tax payable in certain cases during the financial year 2000-2001. It is also specified that in the case of individuals, Hindu undivided families, association of persons and body of individuals having total income above Rs. 60,000 but not exceeding Rs. 1,50,000, the tax so computed after rebate under Chapter VIII-A shall be enhanced by a surcharge of twelve percent. It is further specified that in the case of individuals, Hindu undivided families, association of persons and body of individuals having total income above Rs. 1,50,000, the tax so computed, after rebate under Chapter VIII-A shall be increased by a surcharge of seventeen per cent. In the case of an artificial juridical person, a firm, a local authority, and a co-operative society, the tax so computed shall be increased by a surcharge of twelve per cent. In the case of domestic company, the tax so computed shall be enhanced by a surcharge of thirteen per cent.

II. Rates for deduction of income-tax at source during the financial year 2001-2002 from income other than "Salaries".
The rates for deduction of income-tax at source during the financial year 2001-2002 from incomes other than "Salaries", have been specified in Part II of the First Schedule to the Bill. These rates apply to income by way of interest on securities, interest other than interest on securities, insurance commission, winnings from lotteries or crossword puzzles, winnings from horse races and income of non-resident Indians). These rates are broadly the same as those specified in Part II of the First Schedule to the Finance Act, 2000, for the purposes of deduction of income-tax at source during the financial year 2000-2001 except that the rate of tax to be deducted from winnings from lotteries or crossword puzzles and winnings from horse races has been reduced from forty per cent. to thirty per cent. Tax will be deducted at source also from winnings from card games and other games of any sort at the rate of thirty per cent. The tax deducted at source in each case shall be enhanced by a surcharge of two per cent. However, no surcharge will be payable by a foreign company.

III. Rates for deduction of income-tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the financial year 2001-2002.
The rates for deduction of income-tax at source from "Salaries" during the financial year 2001-2002 and also for computation of "advance tax" payable during that year in the case of all categories of tax payers have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for charging income-tax during the financial year 2001-2002 on current incomes in cases where accelerated assessments have to be made, e.g., provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during that financial year or assessment of persons who are likely to transfer property to avoid tax, etc. The salient features of the rates specified in the said Part III are indicated in the following paragraphs:-

A. Individuals, Hindu undivided families, etc.
Paragraph A of Part III of the First Schedule specifies the rates of income-tax in the case of individuals, Hindu undivided families, association of persons, etc.
No change is proposed in the rate structure. However, the tax payable would be enhanced by a surcharge for the purposes of the Union at the rate of two per cent. of the tax payable (after allowing rebate under Chapter VIII-A) in cases of persons having total income exceeding Rs.60,000/-. No surcharge would be payable by persons having incomes of Rs.60,000/- or below. Marginal relief would be provided to ensure that the additional amount of income-tax payable, including surcharge, on the excess of income over Rs.60,000/- is limited to the amount by which the income is more than Rs.60,000/-.
The Table below gives the income slabs and the rates of income-tax. Column (a) specifies the rates given in Paragraph A of Part I of the First Schedule to the Bill; and column (b) specifies the rates given in Paragraph A of Part III of the First Schedule to the Bill.

TABLE

Income slab	(a) Rates as specified in Part I of First Schedule to the Bill (i.e., existing rates)	Income slab	(b) Rates as specified in Part II of First Schedule to the Bill (i.e., proposed rates)
Upto Rs. 50,000/-	Nil	Upto Rs. 50,000/-	Nil
Rs.50,001/- to Rs.60,000/-	10 %	Rs.50,001/- to Rs.60,000/-	10 %
Rs.60,001/- to Rs.1,50,000/-	20 % 1	Rs.60,001/- to Rs.1,50,000/-	20 % 2
Above Rs.1,50,000/-	30 % 3	Above Rs.1,50,000/-	30 % 4

1 Persons in this slab would be required to pay twelve per cent. surcharge on the total income-tax payable after rebate under Chapter VIII-A.
2 Persons in this slab would be required to pay two per cent. surchage on the total income-tax payable after rebate under Chapter VIII-A.
3 Persons in this slab would be required to pay seventeen per cent. surchage on the total income-tax payable after rebate under Chapter VIII-A.
4 Persons in this slab would be required to pay two per cent. surcharge on the total income-tax payable after rebate under Chapter VIII-A.
The impact of levy of surcharge in the case of individuals, HUFs, etc. at different income levels would be as under :-

Total income (Rs.)	Existing Tax liability (Rs.)	New Tax liability (Rs.)	Tax saving (Rs.)	Tax saving (%)
50,000	Nil	Nil	Nil	Nil
55,000	500	500	Nil	Nil
60,000	1,000	1,000	Nil	Nil
60,010	1,010	* 1,010	* Nil	Nil
60,020	1,020	* 1,020	* Nil	Nil
60,050	1,050	* 1,030	20	1.90
60,100	1,100	* 1,040	60	5.45
60,200	1,165	1,061	104	8.93
65,000	2,240	2,040	200	8.93
75,000	4,480	4,080	400	8.93
1,50,000	21,280	19,380	1,900	8.93
1,50,100	21,380	@ 19,411	1,969	9.21
1,50,500	21,780	@ 19,533	2,247	10.32
2,00,000	39,780	34,680	5,100	12.82
3,00,000	74,880	65,280	9,600	12.82
4,00,000	1,09,980	95,880	14,100	12.82
5,00,000	1,45,080	1,26,480	18,600	12.82
10,00,000	3,20,580	2,79,480	41,100	12.82

* Marginal relief would be provided to ensure that the additional income-tax payable, including surcharge, on the excess of income over Rs.60,000/- is limited to the amount by which the income is more than Rs.60,000/-.
@ Marginal relief would be provided to ensure that the additional income tax payable, including surcharge, on the excess of income over Rs.1,50,000/- is limited to the amount by which the income is more than Rs.1,50,000/-.

B. Co-operative societies
In the case of co-operative societies, the rates of income-tax have been specified in Paragraph B of Part III of the First Schedule to the Bill. These rates are the same as those specified in the corresponding Paragraph of Part I of the First Schedule to the Bill, except that the maximum marginal rate leviable on the incomes above Rs. 20,000/- has been reduced to 30 % from the existing 35%. However, the tax payable would be enhanced by a surcharge for the purposes of the Union at the rate of two per cent. of the tax payable.
C. Firms
In the case of firms, the rate of income-tax has been specified in Paragraph C of Part III of the First Schedule to the Bill. This rate remains at 35 per cent. However, the tax payable by resident firms would be enhanced by a surcharge for the purposes of the Union at the rate of two per cent. of the tax payable.
D. Local authorities
In the case of local authorities, the rate of income-tax has been specified in Paragraph D of Part III of the First Schedule to the Bill. This rate is the same as that specified in the corresponding Paragraph of Part I of the First Schedule to the Bill. However, the tax payable would be enhanced by a surcharge for the purposes of the Union at the rate of two per cent. of the tax payable.
E. Companies
In the case of companies, the rate of income-tax has been specified in Paragraph E of Part III of the First Schedule to the Bill. There is no change in the existing rates of 35 per cent for domestic companies and 48 per cent. for foreign companies. However, the tax payable by domestic companies would be enhanced by a surcharge for the purposes of the Union at the rate of two per cent. of the tax payable.
[Clause 2 & First Schedule]
MEASURES TO ACCELERATE ECONOMIC DEVELOPMENT

Liberalisation of tax holiday provisions for Infrastructure
Under the existing provisions of section 80-IA, roads, highways, bridges, airports, ports and rail systems are regarded as infrastructure facilities and the enterprises engaged in developing or operating and maintaining or developing, operating and maintaining such infrastructure are entitled to a tax holiday for five years and a deduction of 30% of profits for the next five years. The benefit may be availed by an enterprise in ten consecutive years out of fifteen years beginning with the year in which such enterprise develops the infrastructure facility.
An enterprise claiming such benefit has to enter into an agreement with the Central or State Government or a local authority or any other statutory authority, to which the enterprise which develops such facility, has to transfer such facility to the Government or public authority after the stipulated period. In other words, the required condition for availing of this benefit is that transfer under BOT (Build, Own, Transfer) or BOOT (Build, Own, Operate and Transfer) schemes has to be met.
Investments in infrastructure has to compete with investment in other sectors and must therefore, be attractive. There is, in particular, a need to encourage investment in the area of surface transport, water supply, water treatment system, irrigation project, sanitation and sewerage system or solid waste management systems.
The Bill therefore, proposes to relax the existing two tier benefit to provide a ten year tax holiday. Keeping in view the capital intensive nature, the higher allowances of depreciation in the initial years in such enterprise and the need for improved cash flows, it is further proposed that for an infrastructure facility in the nature of a road including a toll road, bridge, rail system, highway project, water supply project, water treatment system, irrigation project, sanitation, sewerage and solid waste management system in place of two-tier tax holiday, a ten year tax holiday may be availed consecutively out of twenty years beginning from the year in which the undertaking begins operating the infrastructure facility. In the case of other infrastructure, namely, for airport, port, inland port and inland waterways, it is also proposed to relax the existing two tier fiscal incentive. The Bill proposes an identical ten year tax holiday that may be availed in a block of fifteen years. It is also proposed to do away with the mandatory requirement that such infrastructure facility shall be transferred to the Central Government, State Government, local authority or any other statutory authority.
The proposed amendment will take effect with effect from 1st April, 2002, and will, apply in relation to assessment years 2002-2003 and subsequent years. [Clause 40]

Tax holiday for broadband networks and internet services
Under the existing provisions of section 80-IA, a five year tax holiday in respect of profits and gains of an undertaking set up on or before 31.3.2000 and engaged in providing telecommunication services is allowed with a further deduction of 25% of profits (30% in case of companies) of such business in the next five years.
The country's telecommunication services are modernizing rapidly. In light of these developments, it is proposed to re-introduce the two-tier benefit available to undertakings, and to extend it to internet service providers and broadband networks, with a view to promoting communication capacity and convergence by encouraging investment levels in these segments. The Bill proposes that all undertakings, which provide these services on or before 31.3.2003 shall be eligible for the benefit.
The proposed amendment will take effect retrospectively from 1st April, 2001 and will apply in relation to assessment year 2001-2002 and subsequent years. [Clause 40]

Tax holiday for power generation, transmission and distribution networks
Under the provisions of section 80-IA, a five year tax holiday and a deduction of 25% (30% in case of companies) of profits in the subsequent five years is allowed to an undertaking engaged in the business of generation, or generation and distribution of power, which commences generation of power on or before 31.3.2003.
As the generation of power is still to reach targeted levels, it is proposed to extend the tax holiday period to undertakings commencing generation of power or laying a network of new transmission and distribution lines on or before 31.3.2006. The fiscal benefit available has been further relaxed and such undertakings shall be entitled to a ten year tax holiday in place of the existing two- tier tax benefit out of initial fifteen years.
The proposed amendment will take effect from 1st April, 2002 and will apply in relation to assessment year 2002-2003 and subsequent years. [Clause 40]

Tax holiday to developers of Special Economic Zones and Industrial Parks
Under the provisions of section 80 -IA, any undertaking which begins to develop or develop and operate or operate and maintain an industrial park after 1st April, 1997 but before 31st day of March, 2002, is entitled to a five year tax holiday and a deduction of 30% out of profits in the subsequent five years. The two-tier benefit may be availed within a period of any ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking develops an industrial park.
As part of a medium term strategy to provide an export thrust by creating new infrastructure, it is proposed to extend this benefit to developers of Special Economic Zones. This benefit will be available to the developers of new special economic zones and also to developers of industrial parks, if such economic zones and industrial parks are developed on or before 31.3.2006. The existing two tier benefit has also been further liberalized to provide a ten year tax holiday, which may be availed in ten consecutive assessment years in a block of fifteen years.
The proposed amendment will take effect from 1st April, 2002 and will, accordingly apply in relation to assessment years 2002-2003 and subsequent years. [Clause 40]
Co-operative Banks to be eligible investors under section 10(23G)
The expressions "infrastructure capital company" and "infrastructure capital fund" have been defined in section 10(23G). At present, co-operative banks being neither a company nor a fund operating under the provisions of the Registration Act are not covered by these definitions.
It is proposed to amend clause (23G) of section 10 so as to provide that income of a co-operative bank by way of interest, dividends (other than dividends referred to in section 115-O) and long term capital gains from investments made by way of equity or long term finance in an approved enterprise will also be exempt from payment of income-tax.
The proposed amendments will take effect with effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 5(g)]
Income by way of fee or guarantee commission received by financial institutions for providing financial guarantee to be exempt under section 10(23G)
It is further proposed to amend clause (23G) of section 10 so as to extend the exemption under this clause to income received by way of credit enhancement fees or guarantee commission by a financial institution from providing credit enhancements or financial guarantees to an approved enterprise.

The proposed amendments will take effect with effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years. [Clause 5(g)]
Housing
Under the existing provisions contained in section 24, interest payable on capital borrowed on or after 1st April, 1999 for acquiring or constructing one self-occupied house is deductible upto Rs. 1 lakh where such acquisition or construction is completed before 1st April, 2003.
It is proposed to increase the limit on deduction of such interest payable on housing loans for self-occupied houses from the existing rupees one lakh to rupees one lakhs fifty thousand.
This amendment will take effect from 1st April, 2002, and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 15]

Enhanced tax incentive for tea industry
Under the existing provisions of sub-section (1) of section 33AB of the Income-tax Act, where an assessee carrying on the business of growing and manufacturing tea in India has, before the expiry of six months from the end of the previous year or before filing of return, whichever is earlier, deposited with the National Bank for Agriculture and Rural Development or in the Tea Deposit Account, any amount in accordance with and for the purposes specified in the approved scheme, the assessee shall be allowed a deduction of the amount so deposited or twenty per cent. of the profits of such business, whichever is less.
With a view to enable the tea industry to generate resources for rejuvenation and re-plantation and modernization of processing facilities so as to enhance its productivity and competitiveness, it is proposed to enhance the limit for the purpose of deduction from the existing twenty per cent. to forty per cent.
The amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to assessment year 2002-2003 and subsequent years. [Clause 22]
Tax concessions for scientific research
Under the existing provisions of sub-section (2AA) of section 35 of the Income-tax Act, any sum paid by an assessee to an approved National Laboratory or a University or an Indian Institute of Technology for carrying out approved programme of scientific research is eligible for weighted deduction of one and one-fourth times of the sum so paid.
The Bill proposes to make this deduction also available in respect of any sum paid to specified persons, approved by the prescribed authority, for carrying out scientific research undertaken under a programme approved by the prescribed authority.
The amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 23]
Weighted deduction in respect of expenditure on in-house Research & Development
Under the existing provisions contained in clause (1) of sub-section (2AB) of section 35 of the Income-tax Act, a company engaged in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipments, chemicals or any other article or thing notified by the Board is allowed a deduction of a sum equal to one and one-half times of the expenditure incurred on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility, as approved by the prescribed authority.
With a view to give further boost to research and development activities and provide impetus to economic growth, it is proposed to provide that the weighted deduction on expenditure for research and development shall also be available for the business of bio-technology. It is further proposed to provide that for the purpose of the said sub-section, expenditure on scientific research shall include expenditure incurred on clinical trial, regulatory approval and filing of patent.
The amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 23]
GDRs issued to employees under ESOPs extended to subsidiary companies and other knowledge based industries
Under the existing provisions contained in section 115ACA, income by way of dividends or long term capital gains in respect of Global Depository Receipts (GDRs) of an Indian company purchased by a resident employee of such company engaged in information technology software and information technology services, in accordance with a notified Employees' Stock Option Scheme (ESOP), is taxable at the rate of ten per cent.
It is proposed to extend this concessional rate of taxation to income in respect of GDRs purchased by employees of companies engaged in other knowledge based sectors also, viz., entertainment service, pharmaceuticals, bio-technology and other industry or service as may be notified by the Central Government. The concessional rate of taxation is also proposed to be extended to income from the GDRs purchased by employees of subsidiary companies, whether domestic or foreign, of the above-mentioned companies.
These proposed amendments will take effect retrospectively from 1st April, 2001 and will accordingly, apply in relation to the assessment year 2001-2002 and subsequent assessment years. [Clause 48]
Rural Infrastructure
Exemption under section 54EC to be extended to investment in bonds issued by the Rural Electrification Corporation Ltd.
Under the existing provision of section 54EC , an exemption from tax in respect of capital gains arising from the transfer of a long-term capital asset is provided to the extent of the gains invested in a long-term specified asset. The explanation at the end of this section defines long-term specified asset to mean any bond redeemable after 3 years issued on or after 1st April, 2000 by the National Bank for Agriculture and Rural Development (NABARD) or by the National Highways Authority of India (NHAI).
Since rural electrification, including electrification of villages and energization of pump sets in rural areas, is a matter of priority for the Government, it is proposed to amend the Explanation in section 54EC to provide that a long-term specified asset for the purposes of this section shall also include bonds redeemable after 3 years issued on or after 1st April, 2001 by the Rural electrification Corporation Ltd.
This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 29]
Tax holiday for undertakings engaged in the integrated handling, storage and transportation of foodgrains.
Under the existing provisions of section 80-IB of the Income-tax Act, a deduction is allowed, in computing the taxable income, in respect of profits derived from a new industrial undertaking, or a ship or the business of a hotel. To address the country's basic concerns relating to enhanced food security and agricultural development, upgradation and modernization of infrastructure for storage, handling and transportation of foodgrains is a central concern in which introduction of modern technology would bring greater efficiency in the grain management system and minimize post harvest foodgrain losses.
The Bill proposes to encourage building of storage capacities, by providing that any undertaking engaged in integrated bulk handling, storage and transportation would be allowed hundred per cent deduction for the first five years and thirty per cent deduction for the next five years.

The proposed amendment will come into effect from 1st April, 2002 and will, accordingly, apply in relation to assessment year 2002-2003 and subsequent years. [Clause 41]

Modification of provisions related to undertakings in Free Trade Zones, Export Processing Zones, Special Economic Zones and Export Oriented Units.
Under section 10A of the Income-tax Act, newly established undertakings in free trade zones are entitled to a tax holiday for a ten year period. Similarly, section 10B of the Income-tax Act provides for a ten year tax holiday in respect of newly established hundred per cent export oriented undertakings. The Finance Act, 2000 substituted sections 10A and 10B of the Income-tax Act. One of the conditions provided in the new provisions is that an undertaking would lose the benefit of deduction if its ownership or beneficial interest is transferred to another person. An Explanation applicable in cases of companies further provides that where 51% of shares are not beneficially held by persons, who held these shares at the time of setting up of the unit, it will be deemed to be a transfer of ownership.
The Bill proposes to clarify that the Explanation to sub-section (9) would not be applicable to companies in which public are substantially interested. In other words, such companies would not lose the benefit of these provisions, even if there is a change in the shareholding pattern.
The Bill further proposes to clarify that export of computer software shall include development of software at the client's site abroad which would also be eligible for the benefit under these provisions. A similar amendment is being made to the provision of section 80 HHE of the Act.
The proposed amendments being clarificatory, will take retrospective effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-02 and subsequent years. [Clauses 6,7 and 39]
Amendment for providing level playing field to private insurers
Under sections 80CCC, 80D, 80DD of the Income-tax Act, deduction in respect of contribution to certain pension funds, in respect of medical insurance premia, and for maintenance of handicapped dependents are allowed. Under section 88, rebate is available on specified investments and on life insurance premia. With the opening of the insurance sector, the Bill proposes to amend these provisions, so that, the private insurers and their policy holders are provided the same incentives as are available to the Life Insurance Corporation and its policy holders. Consequential amendments are made to define "insurer" for the purposes of the Income-tax Act in section 2(28BB) and amend section 10 (23AAB) of the Act related to exemption to the income of a pension fund of any approved insurer.
The amendments will take effect from the 1st April, 2002, and will, accordingly apply in relation to the assessment year 2002-2003 and subsequent years. [Clauses 3,5, 34,35,36 and 43]

MEASURES FOR DEVELOPMENT OF CAPITAL MARKET
Tax on distributed profits of Domestic Companies
Under the existing provisions of section 115-O, in addition to the income-tax chargeable in respect of the total income of a domestic company, any amount declared, distributed or paid by way of dividends is charged to additional income-tax at the rate of twenty per cent.
To provide a boost to the capital market, it is proposed to amend Section 115-O so as to reduce the tax on distributed profits of domestic companies from twenty per cent. to ten per cent.
This amendment will take effect from the 1st day of June, 2001. [Clause 50]
Tax on income distributed by Unit Trust of India and Mutual Funds
Under the existing provisions, any amount of income distributed by the Unit Trust of India or by Mutual Funds to their unit holders is chargeable to tax and the Unit Trust of India or Mutual Funds are liable to pay tax on such distributed income at the rate of twenty per cent.
To provide a boost to the capital market, it is proposed to amend Section 115R so as to reduce the tax on income distributed by the Unit Trust of India or by a Mutual Fund from twenty per cent. to ten per cent.
This amendment will take effect from the 1st day of June, 2001. [Clause 52]
Long Term Capital Gains on securities and units exempt if reinvested in primary issues
In order to improve the sentiment in the capital markets, and to promote development of the primary market, it is proposed to insert a new section 54ED in the Income-tax Act, to provide that the capital gains arising from transfer of a long-term capital asset, being listed securities or unit of a mutual fund or of the Unit Trust of India shall be exempt from tax to the extent such capital gain is invested in equity shares forming part of an eligible issue of capital, made by a public company, and offered for subscription to public.
It is further proposed to provide for a lock-in period of one year and if the newly acquired shares are sold or transferred during this period, the capital gains from the original asset will be charged to tax in the year of sale or transfer.
It is also proposed to provide that where the cost of the new equity shares has been taken into account for the purposes of this section, a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88.
The proposed amendment will take effect from 1st April, 2002, and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 30]
Concessional rate of tax under section 115AC extended to other notified schemes
Under the existing provisions contained in section 115AC, in the case of an assessee who is a non-resident, income by way of interest or dividend (other than dividends referred to in section 115-O) and long-term capital gains arising from bonds or shares of an Indian company issued in accordance with a scheme as the Central Government may specify by notification in the Official Gazette, and purchased by the non-resident assessee in foreign exchange, is taxed at 10% only. This section also provides that such income on bonds or shares of a public sector company sold by the Government and purchased by the non-resident assessee in foreign currency would also be taxed at 10%.
It is proposed to substitute the existing section 115AC with a new section. Presently, the concessional rate of taxation is available with reference to the bonds or shares of an Indian company issued in accordance with Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 which refers to shares issued by way of Global Depository Receipts (GDRs). Under the new substituted section, it is, therefore, proposed to use the term 'Global Depository Receipts' in place of 'share'.
It is proposed to extend the concessional tax rate to GDRs issued under other notified schemes of the Central Government also. These include :-
(a) GDRs issued in accordance with a scheme notified by the Central Government in the Official Gazette against the initial issue of underlying shares of an Indian company and purchased by the non-resident in foreign currency through an approved intermediary;
(b) GDRs issued against the shares of a public sector company sold by the Government and purchased by the non-resident in foreign currency through an approved intermediary;
(c) GDRs re-issued against the existing underlying shares of an Indian company in accordance with such scheme as the Central Government may notify in the Official Gazette, and purchased by the non-resident in foreign currency through an approved intermediary;
(d) GDRs issued against the shares of a listed Indian company on the disinvestment of such company of its shareholdings in its listed subsidiary company, in accordance with such scheme as the Central Government may notify in the Official Gazette, and purchased by the non-resident in foreign currency through an approved intermediary.
Consequential amendments are also proposed to made in sections 47 and 196C of the Income-tax Act.
The proposed amendments will take effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years. [Clause 27, 47 & 67]
MEASURES TO WIDEN THE TAX BASE
Compulsory filing of returns by companies
Under the existing provisions contained in sub-section (1) of section 139 of the Income-tax Act, every person, if his total income, or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income tax, is required to file a return of such income on or before the due date in the prescribed form and manner.
It has been observed that a number of companies which have incurred losses are not filing returns on the plea that they have not earned any income. It is, therefore, proposed to amend section 139(1) to provide that every company is required to file a return of income, even if it incurs a loss.
This amendment will take effect retrospectively from 1st April, 2001. [Clause 54]
Compulsory quoting of Permanent Account Number (PAN) by every person deducting or collecting tax at source in certain returns and certificates
Persons responsible for deducting tax from certain payments, and persons responsible for collecting tax from buyers of certain goods, are required to deliver returns and issue certificates in respect of such tax deducted or collected by them. The forms prescribed for delivering such returns or issuing such certificates contain columns for mentioning the permanent account number (PAN) of the persons from whose income the tax is deducted, or from whom the tax is collected. However, in many cases, such number is not so mentioned.
With a view to enable processing of the information contained in such returns or certificates for the purposes of unearthing undisclosed income and discovering new taxpayers, it is proposed to insert new sub-sections (5A), (5B), (5C) and (5D) in section 139A to make it obligatory for every person receiving income from which tax has been deducted or from whom tax is collectible, to furnish his PAN to the person responsible for deducting or collecting such tax, and also to make it obligatory for the person deducting or collecting tax to quote the PAN of such persons in the returns of tax deducted or collected at source prescribed under sections 206 and 206C respectively and in the certificates issued under sections 203 and 206C(5) respectively. Such number will also be required to be quoted in statements of perquisites proposed to be provided for vide clause 63 of the Bill. The requirement will not apply in respect of certain persons who are not required to file returns of income. Further, the Government may notify separately the dates from which such requirement will apply in respect of any class or classes of persons.
The proposed amendment will take effect from 1st June, 2001. [Clause 55]
Sunset clause for exemption of interest on certain External Commercial Borrowings
Under the existing provisions contained in parts (a), (b), (c), (d), (e) and (f) of sub-clause (iv) of clause (15) of section 10, income by way of interest payable by specified Indian entities on certain borrowings in foreign currency (external commercial borrowings) is currently exempted from tax.
Having regard to the fact, that interest received by the lender is taxable in the country of his residence and he would get a credit for any tax paid by him in India on such interest income, any exemption from tax liability in India does not really benefit the lender but only results in reducing our tax revenues.
It is, therefore, proposed to amend parts (a), (c), (d) and (e) of section 10(15)(iv) so as to provide that the exemptions under these parts shall not be available for any moneys borrowed on or after the 1st day of June, 2001. Similarly, parts (b) and (f) of section 10(15)(iv) are proposed to be amended so as to provide that interest paid on moneys borrowed in pursuance to an agreement that has been entered into on or after the 1st day of June, 2001 will be includible in computing the total income.
The proposed amendments will take effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years. [Clause 5(b)]

TDS on winnings from game shows
Under the existing provisions of section 194B of the Income-tax Act, tax is required to be deducted at source at the rates in force in respect of income by way of winnings from any lottery or crossword puzzle.
The proposed amendment seeks to widen the scope of the section so as to make it applicable to any income by way of winnings from card game and other game of any sort.
The proposed amendment will take effect from the 1st June, 2001. [Clause 65]

Modification of provisions relating to tax deduction at source on interest income
Under the existing provisions contained in section 194A of the Income-tax Act, no tax is required to be deducted at source on income by way of interest other than interest on securities where the aggregate amounts of such income credited or paid or likely to be credited or paid during the financial year does not exceed Rs.10,000/- in respect of time deposit with a branch of bank or deposit with a branch of housing finance company and Rs.5,000/- in other cases.
It is proposed to revise the above monetary limits to Rs.2,500/- in all cases.
The amendment will take effect from 1st June, 2001. [Clause 64]
Deduction of tax at source from income in the nature of commission or brokerage
Income by way of commission (not being insurance commission referred to in section 194D) and brokerage is, at present, not subject to deduction of tax at source. The Bill seeks to insert a new section 194H relating to deduction of tax at source. Under the proposed section, the person responsible for paying any income by way of commission or brokerage for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing (not being securities), shall deduct income-tax thereon at the rate of ten per cent. However, no such deduction will be made where the amount of payment or the aggregate amount of payments, in a financial year, does not exceed two thousand five hundred rupees. The new section will not apply when payments are made by individuals or Hindu undivided families. The expressions "commission or brokerage", "professional services" and "securities" are being defined in the Explanation to the proposed section.
The amendment will take effect from 1st June, 2001. [Clause 66]

National Bank for Agriculture and Rural Development, National Housing Bank and Small Industries Development Bank of India liable to pay income-tax.

Certain statutory bodies have been exempted from payment of any income-tax or wealth-tax by having a provision for the same in the Act through which these bodies were set up. These entities are claiming exemption not through the provisions of the Direct Tax statutes but by a non-obstante clause in the Act under which they were set up.

National Bank for Agriculture and Rural Development (NABARD) is exempted from payment of income tax and other taxes on any income, profits or gains derived or any amount received by it, under section 55 of the National Bank for Agriculture and Rural Development Act, 1981.

National Housing Bank (NHB) is exempted from payment of income tax and other taxes on any income, profits or gains derived or any amount received by it, under section 48 of the National Housing Bank Act, 1987.

Small Industries Development Bank of India (SIDBI) and Small Industries Development Assistance Fund is exempted from payment of income tax and other taxes on any income, profits or gains derived or any amount received by it, under section 50 of the Small Industries Development Bank of India Act, 1989.

These institutions are in existence for a considerable period now and are working on commercial basis and there is no rationale for providing them tax exemption while similar institutions are paying their taxes.

It is, therefore, proposed to amend these Acts by omitting section 55 of the National Bank for Agriculture and Rural Development Act, 1981, section 48 of the National Housing Bank Act, 1987 and section 50 of the Small Industries Development Bank of India Act, 1989.

The proposed amendments will take effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years. [Clauses 133, 134 & 135]

WELFARE MEASURES

Hundred per cent deduction to donations made to the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities

Under the existing provisions of section 80G of the Income-tax Act, a deduction of 50% of the contribution is allowed in the computation of income of the donor. However, in respect of donations to certain funds, 100% deduction is allowed.

For alleviating the suffering of those with autism, cerebral palsy, mental retardation and multiple disabilities, it is proposed to provide the benefit of 100% deduction to donations made to the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities.

The proposed amendment will take effect from the 1st day of April, 2002, and will, accordingly apply to assessment year 2002-2003 and subsequent years. [Clause 37]

TAX-PAYER FRIENDLY MEASURES

Relief for low paid salaried employees

Section 88 of the Income-tax Act provides relief on life insurance premia, contribution to provident fund etc. to individuals or Hindu Undivided Families. The rebate is twenty per cent of the aggregate amount or twenty five per cent in the case of an author, playwright, artist, musician or sportsman, of the amount specified in the provision.

With a view to provide greater incentive for the marginal savings, the Bill proposes to provide that in the case of a taxpayer having a gross salary income which does not exceed rupees one lakh (before allowing deduction under section 16) and which is not less than 90% of his gross total income from all sources, the amount of rebate on savings would be 30% instead of normal rebate of 20%.

The proposed amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 43]

Requirement of clearance certificate under section 230A for registration of transfer of immovable property in certain cases to be abolished

Under the existing provision of section 230A, any document purporting to transfer, assign, limit, or extinguish the right, title or interest of any person to, or in a property valued at more than five lakh rupees, cannot be registered unless the Assessing Officer certifies that such person has either paid or made satisfactory provision for payment of all existing tax liabilities or that the registration of the document will not prejudicially affect the recovery of any existing tax liability.

With a view to removing the hassle of obtaining a prior clearance from the Income-tax Department and to simplify procedures, it is proposed to omit the said section.

This amendment will take effect from 1st June, 2001. [Clause 71]

Time-limits for issue of refunds, re-assessment, rectification and re-opening of assessments to be reduced

A period of two years for sending an intimation alongwith refund or demand notice, if any, to the assessee is provided for in section 143(1). In view of the computer aids now available in the Department, it is proposed to amend the second proviso to sub-section (1) of section 143 to provide that such intimation shall be sent within one year from the end of the financial year in which the return of income is made. The time-limit of two years, however, will continue to apply in respect of returns already filed for the assessment year 1999-2000.

Under the existing provision contained in section 149(1) of the Income-tax Act, a notice under section 148 for assessment, reassessment or recomputation of income of any year can be issued within a period of four, seven or ten years from the end of the relevant assessment year, depending on whether an assessment was made earlier for the relevant year, and the amount of income escaping assessment.

In order to provide certainty of finalisation of assessment within a smaller period, it is proposed to amend sub-section (1) of section 149 to provide that the notice under section 148 can be issued only within four years from the end of the relevant assessment year, or within six years from the end of the relevant assessment year in cases where the amount of income chargeable to tax which has escaped assessment amounts to, or is likely to amount to rupees one lakh or more for that year.

Sub-sections (2) and (2A) of section 153 of the Income-tax Act provide for time-limits for completion of assessments, re-assessments or re-computation of income in different circumstances. With a view to bringing about an early finalisation of such proceedings, it is proposed to amend sub-sections (2) and (2A) of section 153 to reduce the time-limits specified therein for making such orders of assessment, re-assessment or re-computation from two years to one year. However, where the notice under section 148 has been served, or any such order mentioned in section 153(2A) has been received or passed, as the case may be, on or after 1st April, 1999, but before 1st April, 2000, such assessment, re-assessment or re-computation may be made at any time upto 31st March, 2002.

It is also proposed to omit clause (i) of sub-section (3) of section 153, which is consequential in nature.

Similar amendments are proposed in sections 17 and 17A of Wealth-tax Act, 1957.

Considering the absence of any specific time-limits in respect of disposal of applications for rectification under section 154, it is proposed to insert a new sub-section (8) in section 154 to provide that where an application for amendment under this sub-section is made by an assessee on or after 1st June, 2001 to an income-tax authority referred to in the said section, the authority shall pass an order within six months from the end of the month in which the application is received by it, either making the amendment or refusing to allow the claim.

These amendments will take effect from 1st June, 2001. [Clauses 57, 58, 59, 60, 90 & 91]

Exemption of amount received under VRS extended to Central and State Government employees

Under the existing provisions contained in clause (10C) of section 10, any amount received by an employee of a public sector company or any other company or an authority established under a Central, State or Provincial Act or a local authority or a co-operative society or a university or an Indian Institute of Technology or a notified institute of management, at the time of his voluntary retirement is not included in computing his total income. The exemption is available for amounts received upto rupees five lakhs and if the payment is in accordance with a voluntary retirement scheme or a voluntary separation scheme framed by the employer as per the prescribed guidelines.

It is, proposed to amend clause (10C) of section 10 so as to extend the exemption to the employees of Central and State Governments also.

This proposed amendment will take effect from 1st April, 2002 and will accordingly, apply in relation to the assessment year 2002-2003 and subsequent assessment years. However, in the case of employees of State Government, the amendment will take retrospective effect from 1st April, 2001 relevant to the assessment year 2001-2002 and subsequent years. [Clause 5(a)]

MEASURES TO CURB TAX AVOIDANCE

New Legislation to curb tax avoidance by abuse of transfer pricing

The increasing participation of multinational groups in economic activities in the country has given rise to new and complex issues emerging from transactions entered into between two or more enterprises belonging to the same multinational group. The profits derived by such enterprises carrying on business in India can be controlled by the multinational group, by manipulating the prices charged and paid in such intra-group transactions, thereby, leading to erosion of tax revenues.

With a view to provide a statutory framework which can lead to computation of reasonable, fair and equitable profits and tax in India, in the case of such multinational enterprises, new provisions are proposed to be introduced in the Income-tax Act. These provisions relate to computation of income from international transactions having regard to the arm's length price, meaning of associated enterprise, meaning of international transaction, determination of arm's length price, keeping and maintaining of information and documents by persons entering into international transactions, furnishing of a report from an accountant by persons entering into such transactions and definitions of certain expressions occurring in the said sections.

It is proposed to substitute section 92 with a new section to provide that any income arising from an international transaction shall be computed having regard to the arm's length price. It further provides that the costs or expenses allocated or apportioned between two or more associated enterprises shall be at arm's length prices.

The proposed new sections 92A and 92B provide meanings of the expressions "associated enterprise" and "international transaction" with reference to which the income is to be computed under the new section 92.

The proposed new section 92C provides for computation of arm's length price. The section provides that the arm's length price in relation to an international transaction shall be determined by (a) comparable uncontrolled price method; or (b) resale price method; or (c) cost plus method; or (d) profit split method; or (e) transactional net margin method; or (f) any other method which may be prescribed by the Board. One of these methods shall be the most appropriate method which shall be applied for computation of arm's length price in the manner as may be specified by the rules to be made by the Board in this behalf. In a case where more than one price can be determined by the most appropriate method, the arm's length price shall be the arithmetical mean of such two or more prices. The new section further provides that where during the course of any proceeding for the assessment of income the Assessing Officer is, on the basis of material or information or documents in his possession, of the opinion that the price charged in the international transaction has not been determined in accordance with sub-sections (1) and (2), or information and documents relating to the international transaction have not been kept and maintained by the assessee in accordance with the provisions contained in sub-section (1) of section 92D and the rules made in this behalf, or the information or data used in computation of the arm's length price is not reliable or correct, or the assessee has failed to furnish, within the specified time, any information or document which he was required to furnish by a notice issued under sub-section (3) of section 92D, the Assessing Officer may proceed to determine, after giving an opportunity of being heard to the assessee, the arm's length price in relation to the said transaction in accordance with sub-sections (1) and (2) of this section, on the basis of such material or information or documents available with him, and compute the total income of the assessee accordingly.

The new section 92D seeks to provide that every person who has undertaken an international transaction shall keep and maintain such information and documents as may be specified by rules made by the Board. The Board may also specify by rules the period for which the information and documents are required to be retained. During the course of any proceedings under the Act, an Assessing Officer or Commissioner (Appeals) may require any person who has undertaken an international transaction to furnish any of the information and documents specified under the rules within a period of thirty days from the date of receipt of a notice issued in this regard, and such period may be extended by a further period not exceeding thirty days.

The new section 92E seeks to provide that every person who has entered into an international transaction during a previous year shall obtain a report from an accountant and furnish such report on or before the specified date in the prescribed form and manner.

The new section 92F defines the expressions "accountant" "arm's length price", "enterprise", "specified date" and "transaction" used in the proposed new sections 92, 92A, 92B, 92C, 92D and 92E.

With a view to ensure that multinational enterprises comply with the requirements of the new sections, it is also proposed to amend section 271 and insert new sections 271AA, 271BA and 271G in the Income-tax Act, so as to provide for penalty to be levied in cases of non-compliance with the procedural requirements, and in cases of understatement of profits through fraud or willful negligence.

It is proposed to insert a new Explanation 7 in sub-section (1) of section 271 to provide that where in the case of an assessee who has entered into an international transaction defined in section 92B, any amount is added or disallowed in computing the total income under sub-section (4) of section 92C, then, the amount so added or disallowed shall be deemed to represent income in respect of which particulars have been concealed or inaccurate particulars have been furnished. However, the provisions of this Explanation shall not apply where the assessee proves to the satisfaction of the Assessing Officer or the Commissioner (Appeals) that the price charged or paid in such transaction has been determined in accordance with section 92C in good faith and with due diligence.

It is further proposed to insert a new section 271AA to provide that if any person who has entered into an international transaction as defined in section 92B fails to keep and maintain any such information and documents as required by sub-section (1) or sub-section (2) of section 92D, the Assessing Officer or Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to two percent of the value of each such international transaction entered into by such person.

It is also proposed to insert a new section 271BA to provide that if any person fails to furnish a report from an accountant as required by section 92E, the Assessing Officer may direct that such person shall pay by way of penalty, a sum of one lakh rupees.

It is also proposed to insert a new section 271G to provide that if any person who has entered into an international transaction fails to furnish any such information or documents under sub-section (3) of section 92D, the Assessing Officer or the Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to two percent of the value of the international transaction.

It is also proposed to amend section 273B to provide that no penalty under sections 271AA, 271BA and 271G shall be imposable if the assessee proves that there was reasonable cause for such failures.

These amendments will take effect from 1st April, 2002 and will accordingly apply to the assessment year 2002-2003 and subsequent years. [Clauses 44, 80, 82, 83, 85 & 88]

Measures to curb creation of short-term losses by certain transactions in securities and units

Under the existing provision contained in section 94, transactions of sale and purchase of securities which result in the interest or dividend in respect of such securities being received by a person not being the owner of the securities, are to be ignored and the interest or dividend from such securities is required to be included in the total income of the owner. It has been pointed out that the purchase and resale of securities, including units of equity oriented mutual funds, is being carried on for the purposes of creating short-term losses. These losses are set off against other incomes and thus an unintended benefit flows to the taxpayer. This practice popularly known as dividend stripping is being widely used to reduce the tax which would have been otherwise payable by the taxpayers.

It is proposed to insert a new sub-section (7) in the said section to provide that where any person buys or acquires securities or unit within a period of three months prior to the record date fixed for declaration of dividend or distribution of income in respect of the securities or unit, and sells or transfers the same within a period of three months after such record date, and the dividend or income received or receivable is exempt, then, the loss, if any, arising from such purchase or sale shall be ignored to the extent such loss does not exceed the amount of such dividend or income, in the computation of the income, chargeable to tax, of such person.

Definitions of the terms "record date" and "unit" are also proposed to be provided.

The proposed amendment will take effect from 1st April, 2002, and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 45]

MEASURES FOR RATIONALIZATION AND SIMPLIFICATION

Rationalization of provisions related to undertakings in Free Trade Zones, Export Processing Zones, Special Economic Zones and Export Oriented Units.

Under section 10A of the Income-tax Act, newly established undertakings in free trade zones are entitled to a tax holiday for a ten year period. Similarly, section 10B of the Income-tax Act provides for a ten year tax holiday in respect of newly established hundred per cent export oriented undertakings. The Finance Act, 2000 substituted sections 10A and 10B of the Income-tax Act. The newly substituted provisions of sections 10A and 10B provide for deduction from profits and gains of business derived by an undertaking engaged in the manufacture of products or articles or things or computer software for a period of ten consecutive assessment years in a manner that the deductions are gradually phased out over the subsequent period.

The Bill proposes to amend the definition of "export turnover" to clarify that the working of the proportionate deduction on export profits are meant to be of the undertaking, and not of the business, as a whole and to further clarify that in the event of conversion of a Free Trade Zone into Special Economic Zone the period of ten years shall be reckoned from the date the unit first began to manufacture or produce articles or things or computer software.

The proposed amendments being clarificatory, will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years.

The Bill also proposes to omit the provision which provides for deduction of profits on sales made in domestic tariff area.

The proposed amendment will take effect from assessment year 2002-2003. [Clauses 6 and 7]

Tax on winnings from lottery, crossword puzzle, etc.

Under the existing provisions of clause (i) of section 115BB, any income by way of winnings from any lottery or crossword puzzle or race including horse race (not being income from the activity of owning and maintaining race horses) or card game and other game of any sort or from gambling or betting of any form or nature whatsoever, is chargeable to tax at the rate of 40%.

As a measure of rationalisation, it is proposed to reduce the rate of tax on such winnings from forty per cent, to thirty per cent.

It is also proposed to clarify that "lottery" shall include winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever under any scheme or arrangement by whatever name called. It is further proposed to clarify that the "card game and other game of any sort" shall include any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

These amendments will take effect from 1st April, 2002 and will, accordingly, apply in relation to assessment year 2002-2003 and subsequent years. [Clause 3 and 49]

Insertion of provisions of section 10BB of the Income-tax Act.

Under section 10B of the Income-tax Act, newly established hundred per cent export oriented undertakings are entitled to a 100% deduction of export profits. Prior to its substitution, section 10B has been operative from 1.4.1989. With a view to enlarging the scope of the tax holiday to hundred per cent EOUs approved by the prescribed authority, an Explanation for the term "produce" had been inserted in section 10B to include production of computer programmes by the Finance Act, 1994. Doubts have been raised whether companies engaged in the activity of processing and management of electronic data, would be covered by the aforesaid explanation.

With a view to clarify the matter beyond doubt and to reflect the policy of the Central Government, a retrospective amendment is proposed to section 10B, as it stood prior to its amendment by the Finance Act, 2000 by inserting new section 10BB.

The amendment proposes to clarify that the term "produce" in section 10B, as it stood prior to its substitution by the Finance Act, 2000 would include "processing and management of electronic data".

The proposed amendment will take effect from 1st April, 1994 and will apply in relation to assessment year 1994-95 and subsequent years. [Clause 8]

Consequential amendment of section 54H

The Finance Act, 2000, inserted a new section 54EC providing for exemption from long-term capital gains on investments in select bonds, targeted exclusively at agricultural and rural finance and highway infrastructure. By the same Act, provisions of sections 54EA and 54EB were omitted. However consequential amendments remained to be made in section 54H.

It is therefore proposed to amend section 54H by deleting reference to sections 54EA and 54EB and inserting reference to section 54EC.

This amendment will take effect retrospectively from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 31]

Providing for a definition of the term " industrial undertaking" in section 72A

Under the existing provision contained in sub-section (1) of section 72A, the set- off and carry forward of loss and allowance for depreciation under the Income-tax Act is allowed in the case of amalgamation of a company owning an industrial undertaking or a ship with another company. However, the term " industrial undertaking" has not been defined in the provision. It has been pointed out that interpretation of this term could become the subject matter of litigation.

It is proposed to provide such a definition, consistent with the intention underlying section 72A, by which the term "industrial undertaking" shall mean any undertaking engaged in the manufacture or processing of goods, or the manufacture of computer software or the business of generation or distribution of electricity or any other form of power or mining or the construction of ships, aircrafts or rail systems.

This amendment will take effect retrospectively from 1st April, 2000, and will, accordingly, apply in relation to assessment year 2000-2001 and subsequent years. [Clause 33]

Definition of 'Infrastructure facility' in section 10(23G) to be same as that in section 80-IA(4)

Under the existing provisions contained in clause (23G) of section 10, any income of an infrastructure capital fund or an infrastructure capital company by way of interest, dividend (other than dividends referred to in section 115-O) and long term capital gains from investment made by way of equity or long-term finance in an approved enterprise wholly engaged in the business of (i) developing, (ii) maintaining and operating or (iii) developing, maintaining and operating an infrastructure facility shall not be included in computing the total income.

Fiscal incentives for development of infrastructure have been provided in the Income-tax Act as a package, so that tax holiday is allowed under section 80-IA and income from long term investment is exempt under section 10(23G). Thus, whenever a decision is taken to revise the scope of fiscal incentives to infrastructure by amending section 80-IA, necessary amendments are required to be made in section 10(23G) as well.

Thus, as a measure of rationalisation, it is proposed to provide that income by way of interest, dividend or long term capital gains of an infrastructure capital fund or an infrastructure capital company, from investments in any enterprise or undertaking wholly engaged in the business referred to in sub-section (4) of section 80-IA will not be included in computing the total income. This will remove the requirement of consequential amendment in section 10(23G) as a result of any future change in section 80-IA regarding infrastructure.

The proposed amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to assessment year 2002-2003 and subsequent assessment years. [Clause 5(g)]

Rationalization of quantum of penalties-sections 271, 271A, 271F, 272A, and 272BB

Penalties are prescribed under the Income-tax Act for failure to comply with procedural requirements. In some of these provisions, the minimum and the maximum amounts of penalty which may be levied are prescribed, and the actual amount of penalty to be levied is left to the discretion of the Assessing Officer. With a view to eliminate such discretion, it is proposed to replace the range of amounts of penalty prescribed in these provisions by definite but reasonable amounts. It is, accordingly, proposed –

i) to amend clause (ii) of sub-section (1) of section 271 relating to failure to comply with certain notices or directions issued in the course of assessment proceedings so as to provide for a fixed amount of penalty of ten thousand rupees for each such failure, instead of the existing penalty of a sum ranging from one thousand rupees to twenty-five thousand rupees for each failure;

ii) to amend section 271A relating to failure on the part of certain persons carrying on profession or business to keep, maintain, or retain books of account and documents, so as to provide for levy of a fixed amount of penalty of twenty-five thousand rupees instead of the existing penalty of a sum ranging from two thousand rupees to one hundred thousand rupees;

iii) to amend section 272A (1) relating to failure to answer questions, produce books of account, comply with the provisions relating to permanent account number, etc., so as to provide for a fixed amount of penalty of ten thousand rupees for each such default or failure, instead of the existing penalty of a sum ranging from five hundred rupees to ten thousand rupees for each such default or failure;

iv) to amend section 272BB relating to failure to apply for tax-deduction account number or to quote such number in certain documents, so as to enhance the penalty and to provide for levy of a fixed amount of penalty of a sum of ten thousand rupees, as against the existing penalty, which could extend to five thousand rupees.

With a view to rationalize the amounts of penalty prescribed for failure to furnish returns of income within certain periods, it is proposed to amend section 271F to enhance the penalty for failure to furnish return of income as required under section 139(1) before the end of the assessment year, and under the proviso to section 139(1) before the due date, from one thousand rupees to five thousand rupees and from five hundred rupees to five thousand rupees, respectively.

These proposed amendments will take effect from 1st June, 2001. [Clauses 80, 81, 84, 86 and 87]

Defining 'Books of Account' and 'Document' so as to include electronic records etc.

With the passing of the Information Technology Act, 2000, it is accordingly proposed to insert definitions of 'books or books of account' and 'document' in section 2 of the Income-tax Act, as follows:

"books or books of account" include ledgers, day- books, cash books, account-books and other books whether kept in written form or as print-outs of data stored in a floppy disc, tape or any other form of electro-magnetic data storage device;

"document" includes an electronic record as defined in clause (t) of section 2 of the Information Technology Act, 2000.

The proposed amendment will take effect from 1st June, 2001. [Clause 3]

Rationalising the definition of block period

Under the existing provisions contained in clause (a) of section 158B of the Income-tax Act relating to assessment in cases of search or requisition, "block period" means the previous years relevant to ten assessment years preceding the previous year in which the search was conducted under section 132 or requisition was made under section 132A, and includes, in the year in which the search was conducted or requisition was made, the period upto the date of commencement of such search or, as the case may be, the date of such requisition.

In line with the amendment proposed in section 149 to reduce the maximum time period for issue of notice under section 148 for initiating reassessment proceedings, etc., from ten years to six years, it is proposed to amend the definition of "block period" to mean the period comprising the previous years relevant to six assessment years preceding the previous year in which the search was conducted or requisition was made, and including the period upto the date of commencement of such search or, as the case may be, the date of such requisition, in the year of search or requisition.

The proposed amendment will take effect from 1st June, 2001, and will apply in relation to searches initiated or requisitions made on or after that date. [Clause 61]

Due dates for filing returns to be rationalized

Under the existing provisions contained in sub-section (1) of section 139, the due date for filing of return of income is specified to be 30th November of the assessment year in the case of a company, and where the assessee is a person other than a company, the due date is specified to be –

(a) 31st October of the assessment year in a case where accounts of the assessee are required to be audited or where a report of an accountant is required to be furnished;

(b) 31st August of the assessment year in a case where the total income includes income from business or profession, not being a case falling under (a) above; and

(c) 30th June of the assessment year in any other case.

The accounting year in all such cases ends on 31st March of every year. A period of three to four months (other than in the case of a company) is adequate for finalization of accounts and filing of the return. It is, therefore, proposed to reduce the number of due dates from four to two, and to provide that in the case of a company, 31st October of the assessment year shall be the due date for filing the return. In case of a person other than a company, referred to in the first proviso, to sub-section (1) of section 139, 31st October of the assessment year and in case of any other assessee, 31st July of the assessment year shall be the due date for filing the return.

This amendment will take effect retrospectively from 1st April, 2001, and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 54]

Specified date for getting accounts audited and furnishing report of such audit to be rationalised

Under the existing provisions contained in clause (ii) of the Explanation below section 44AB of the Income-tax Act, the "specified date", in relation to the accounts of the previous year relevant to an assessment year means the 30th day of November of the assessment year, where the assessee is a company, and 31st day of October of the assessment year in any other case.

In line with the proposed revision of due dates for filing of returns of income it is proposed to revise the specified dates for getting the accounts audited by different classes of assessees and to provide that in case of a company, 31st October of the assessment year shall be the specified date, and in case of a person other than a company, 31st July of the assessment year.

The proposed amendment will take effect from 1st June, 2001, and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 26]

Providing for cost of acquisition of certain intangible capital assets

Sub-section (2) of section 55 of the Income-tax Act provides that the cost of acquisition of an intangible capital asset, being goodwill of a business or a right to manufacture, produce or process any article or thing, tenancy rights, stage carriage permits or loom hours, shall be the purchase price in case the asset is purchased by the assessee from a previous owner, and nil in any other case. It has been pointed out that certain similar intangible assets like brand name or a trade mark may not be considered to form part of the goodwill of a business.

It is therefore proposed to amend clause (a) of sub-section (2) to provide that the cost of acquisition in relation to trade mark or brand name associated with a business shall also be taken to be the purchase price in case the asset is purchased from a previous owner, and nil in any other case.

This amendment will take effect from 1st April, 2002, and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 32]

Rationalisation of provisions relating to income from house property

The existing provision contained in section 23 of the Income-tax Act provides for determination of annual value of the property in certain circumstances including where the property is let, or is self-occupied, or is vacant, or is partially let, or is let for part of the year. The annual value so determined is subject to deductions allowable under section 24, including deductions on account of vacancy for any part of the year in respect of the property let, and on account of rent which cannot be realised. With the various amendments made over the years in this section, the provisions have become quite complicated and difficult for the taxpayer to understand.

It is therefore proposed to substitute the said section so as to provide for a simplified determination of annual value in certain circumstances specified in the proposed new section, after allowing deductions in computing the annual value on account of vacancy and unrealised rent.

Under the existing provisions contained in section 24, the income chargeable under the head "Income from house property" is, in certain cases, computed after making deductions of one-fourth of the annual value in respect of repairs or collection charges, interest on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property, and other deductions on account of insurance premium, ground rent, annual charge, etc.

It is proposed to substitute the said section so as to provide for only two deductions, namely an amount equal to thirty percent of the annual value, and the interest paid on capital borrowed for acquiring, constructing, repairing, renewing or reconstructing the property.

It is also proposed to make consequential amendments by inserting a new section 25AA and amending section 25, 25A, 25B, 27 and 80GG of the Income-tax Act.

These amendments will take effect from 1st April, 2002, and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clauses14, 15, 16, 17, 18, 19, 20 and 38]

Collection of short TDS from payer of income

Under the existing provisions of sub-section (1) of section 201 of the Income-tax Act, the payer of the income is deemed to be an assessee in default in respect of the tax if he does not deduct or after deducting fails to pay the tax as required by or under the Act. Sub-section (1A) provides that such person shall also be liable to pay simple interest at the prescribed rate on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

The Bill seeks to clarify that the provisions of sub-sections (1) and (1A) shall apply whether such person fails to deduct the whole or any part of the tax.

This amendment will take effect retrospectively from 1st April, 1962. [Clause 68]

Withdrawal of power to withhold refunds

Under the existing provisions of section 241 of the Income-tax Act, the Assessing Officer may, with the previous approval of the Chief Commissioner or Commissioner, withhold the refund of any amount due to the assessee till such time as the Chief Commissioner or Commissioner determines, under the circumstances specified in the said section if the grant of refund is likely to adversely affect the revenue.

As a measure of rationalisation, the Bill proposes to omit the said section so as to withdraw the powers conferred upon the Assessing Officers to withhold the refund.

This amendment will take effect from 1st June, 2001. [Clause 75]

Modification of provisions relating to interest chargeable in certain cases

Under the existing provisions of sections 234A and 234B of the Income-tax Act, interest is levied for defaults in furnishing return of income and in payment of advance tax respectively. Recently, the issue whether interest under these sections is chargeable on the basis of tax on returned income or assessed income has become a subject matter of litigation.

It is proposed to clarify that the assessee shall be liable to pay interest under the said sections with reference to tax on the assessed income and not on returned income. It is further proposed to clarify that for the purposes of section 140A, interest payable under sections 234A and 234B shall be computed with reference to tax on returned income.

The proposed amendments will take effect retrospectively from 1st April, 1989. [Clauses 56,72 and 73]

Rationalisation of interest chargeable from the assessees

Under the existing provisions, the rates of interest chargeable from the assessees for various defaults vary from 15% to 24% per annum. In order to rationalise these rates the Bill proposes to prescribe a uniform rate of 15% per annum for various defaults. Accordingly, it is proposed to decrease the rate from 1.5% or 2% for every month or part of a month, as the case may be, to 1.25% for every month or part of a month in respect of interest chargeable under sections 115P, 115S, 158BFA(1), 206C(7), 220(2), 234A, 234B and 234C of the Income-tax Act. It is further proposed to reduce the rate from 18% to 15% per annum in respect of interest chargeable under sub-section (1A) of section 201.

Similar amendments are also proposed in sections 17B and 31 of the Wealth Tax Act and section 14 of the Expenditure Tax Act.

The proposed amendments will take effect from 1st June, 2001. [Clauses 51,53,62,68,69,70,72,73,74,92,93 and 95]

Modifications of the provisions relating to interest payable to the assessee

Under the existing provisions of the Income-tax Act, interest is payable to the assessee at the rate of 1% for every month or part of a month or 12% per annum.

The Bill seeks to reduce the aforesaid rate of interest from one per cent. to three-fourth per cent. for every month or part of a month and from 12% to 9% per annum, as the case may be. Accordingly, it is proposed to amend section 244A and sub-rule (3) of rule 68A of the Second Schedule to the Income-tax Act.

Similar amendments are also proposed in section 34A of the Wealth-tax Act.

The proposed amendments will take effect from 1st June, 2001. [Clauses 76,89 and 94]

Modification of provisions relating to allowance of depreciation

Under the existing provisions of sub-section (2) of section 32 of the Income-tax Act, carry forward and set off of unabsorbed depreciation is allowed for 8 assessment years.

With a view to enable the assessees to conserve sufficient funds to replace capital assets, specially in an era where obsolescence takes place so often, the Bill proposes to dispense with the restriction of 8 years for carry forward and set off of unabsorbed depreciation.

It is further proposed to clarify that in computing the profits and gains of business or profession for any previous year, deduction of depreciation under section 32 shall be mandatory.

The proposed amendments will take effect from the 1st April, 2002, and will, accordingly, apply in relation to assessment year 2002-2003 and subsequent years. [Clause 21]

Amortization of expenditure incurred under Voluntary Retirement Scheme

The Bill proposes to insert a new provision to provide for amortization of expenditure incurred on payments to employees on their voluntary retirement under voluntary retirement scheme framed in accordance with the guidelines prescribed under clause (10C) of section 10. The deduction shall be allowed over a period of 5 years.

The amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 24]

Modifications of the provisions relating to deduction in respect of certain liabilities

Under the existing provisions of section 43B of the Income-tax Act, deduction for certain amounts payable by the assessee is allowed in computing the income of that previous year in which the sum is actually paid.

It is proposed to amend the section to provide that the deduction for any sum payable by an employer in lieu of any leave at the credit of his employee shall also be allowed only on actual payment basis.

This amendment will take effect from 1st April, 2002 and will, accordingly, apply in relation to the assessment year 2002-2003 and subsequent years. [Clause 25]

Modification of provisions relating to audit of accounts of certain persons

Under the existing provisions of section 44AB of the Income-tax Act, every person carrying on business or profession is required to get his accounts audited by an "accountant", as defined in the Explanation below section 288(2), if his total sales, turnover or gross receipts in business or profession are in excess of certain limits or the profits are lower than the prescribed presumptive profits. Such person is required to get his accounts audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant. The second proviso to the said section lays down that where such person is required by or under any other law to get his accounts audited, it shall be sufficient compliance with the provisions of the said section if such person gets his accounts audited under such other law before the specified date and furnishes by that date the report of the audit as required under such other law and a further report in the form prescribed under the said section.

It is proposed to amend the said section to provide that in the cases where the accounts are required to be audited by or under any other law, it shall be sufficient compliance with the provisions of the said section if the person gets the accounts audited under such law before the specified date and furnishes by that date, the report of the audit under such other law and a further report from an accountant in the form prescribed under the said section.

The amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clause 26]

Clarifications in respect of Stock Options

Prior to the amendments effected by the Finance Act, 2000, stock options were taxed at two stages. Firstly, as perquisite on the amount representing the difference between the exercise price and the fair market value on the date of exercise and secondly, as capital gains. The Finance Act, 2000 sought to tax stock options only once, at the time of sale as capital gains.

The Bill proposes to clarify that in cases where tax has been levied as perquisite at the time of the exercise of the option by the employees, its fair market value at the time of exercise of option shall be the cost of the share for working out the capital gain.

The proposed amendment will take effect w.e.f. 1st April, 2001 and will, accordingly apply in relation to the assessment year 2001-2002 and subsequent years. [Clauses 13,27 and 28]

Modification of provisions relating to deduction of interest from certain specified investments

Under the existing provisions of sub-section (1) of section 80L of the Income-tax Act, 1961, deduction is allowed in computing gross total income of an assessee, being an individual or a Hindu Undivided Family in respect of income derived from certain specified deposits and securities etc. The deduction is, however, subject to a ceiling of Rs.12,000. An exclusive amount of Rs.3,000 can be availed if it is derived from interest on any security of Central or State Government.

The Bill proposes to reduce the limit of Rs.12,000/- to Rs.9,000/-. The deduction of Rs.3,000 for government deduction separately available is proposed to be omitted.

The proposed amendment will come into effect from 1st April, 2002 and will, accordingly, apply in relation to assessment years 2002-2003 and subsequent years. [Clause 42]

Modifications in respect of provisions relating to salaries and perquisites

Under the existing provision of section 16, certain deductions from salaries are allowed. A deduction to the extent of the entertainment allowance or 1/5th of salary or Rs.7500, whichever is the least is available to an assessee who is in receipt of entertainment allowance continuously in the same employment since the 1st April, 1955. Under the provisions of section 17, perquisites are taxable for employees in receipt of a monetary salary exceeding twenty-four thousand rupees, and other specified employees, who are directors or persons with substantial interest. Under the existing provisions certain perquisites are specified as taxable.

The Bill proposes to omit the provision relating to deduction of entertainment allowance in the case of employees in continuous employment since the 1st April, 1955 under section 16. It also proposes to revise the limit of taxing perquisites in the case of employees where the monetary payment of salary is in excess of fifty thousand rupees. To avoid ambiguity, the Bill proposes that details of perquisites are to be fixed in the manner prescribed in the Income-tax Rules. It also proposes to provide that 'profits in lieu of salary' include amounts received in lumpsum or otherwise, prior to employment or after cessation of employment for the purposes of taxation.

An obligation is cast on the person responsible for paying income under the head "salaries" to file details of perquisite and profits in lieu of salary. In consequence of failure to make compliance, a penal provision is provided under section 272A.

The proposed amendment shall come into effect from 1st April, 2002 and shall, accordingly, apply to assessment year 2002-2003 and subsequent years. [Clauses 12,13,63 and 86]

No deduction for expenditure incurred in respect of exempt income against taxable income

Certain incomes are not includible while computing the total income as these are exempt under various provisions of the Act. There have been cases where deductions have been claimed in respect of such exempt income. This in effect means that the tax incentive given by way of exemptions to certain categories of income is being used to reduce also the tax payable on the non-exempt income by debiting the expenses incurred to earn the exempt income against taxable income. This is against the basic principles of taxation whereby only the net income, i.e., gross income minus the expenditure, is taxed. On the same analogy, the exemption is also in respect of the net income. Expenses incurred can be allowed only to the extent they are relatable to the earning of taxable income.

It is proposed to insert a new section 14A so as to clarify the intention of the legislature since the inception of the Income-tax Act, 1961, that no deduction shall be made in respect of any expenditure incurred by the assessee in relation to income which does not form part of the total income under the Income-tax Act.

The proposed amendment will take effect retrospectively from 1st April, 1962 and will accordingly, apply in relation to the assessment year 1962-1963 and subsequent assessment years. [Clause 11]

Exemption of income received in respect of Units of UTI and mutual funds not to include income arising on transfer of such Units.

The Finance Act, 1999 amended clause (33) of section 10 so as to provide that any income by way of income received in respect of units from the Unit Trust of India and units of a mutual fund specified in section 10(23D) shall not be included while computing the total income.

The provisions of sub-clause (ii) and (iii) of clause (33) of section 10 are being interpreted in a manner so as to claim exemption also in respect of capital gains arising on the sale of the units of UTI or mutual funds by the unit holders in the secondary market by treating the same as income received in respect of units of UTI or mutual funds.

It is proposed to amend section 10(33) to clarify that nothing contained in this clause shall apply to any income arising from the transfer of the units of UTI or mutual funds by the unit-holders to persons other than UTI or such Mutual Fund.

The proposed amendment will take effect retrospectively with effect from 1st April, 2000 and will accordingly, apply in relation to the assessment year 2000-2001 and subsequent assessment years. [Clause 5(h)]

Modifications of provisions relating to charitable trusts

Under the existing provisions contained in section 11, income from property held under a trust and used wholly and exclusively for charitable or religious purposes is exempt from payment of income-tax. This exemption is confined only

Enron: FM backs State's stance

AGENCIES
MUMBAI, MAY 9

UNION Finance Ministry has upheld the Maharashtra Government's decision not to provide escrow cover and increase the limit under letter of credit to Enron-promoted Dabhol Power Company (DPC) as per the demand of the energy major's global and domestic lenders last week.

In the reply, sent to the lenders including IDBI yesterday, the Ministry has communicated the State Government's refusal to "tow the line" to an array of "diktats" put forward by them to Union Finance Secretary Ajit Kumar, State Government sources told PTI here today. A copy of the reply was faxed to the State Government this afternoon, they said. "We are pleased to note that the Centre has upheld our view and let justice prevail," a senior bureaucrat said. In a letter dated May 1 to Kumar, the consortium of banks — ABN Amro, Credit Suisse First Boston, Citibank N A, ANZ Export Finance Ltd and Bank of America — and IDBI had asked for payment of the disputed Rs 213 crore December and January bills, an escrow cover, increase in the letter of credit amount and "henceforth" honour the counter-guarantees and its obligations in the power purchase agreement (PPA).

The Centre has also reiterated State Government's strong exception over the non-payment of December and January bills of Rs 213 crore as it had opted for resolving by way of arbitration, the process for which would be on soon in London. Meanwhile, the State yesterday appointed Singapore-based lawyer Quentin Loh as its representative for the three arbitration cases and MSEB would be represented by former Bombay HC judge M L Pendse. Over Maharashtra Government's stand on the Escrow cover, the official justified its refusal to activate the same and said "given the circumstances presented by DPC for invoking the political forced majeure, how can we even think of even granting them such concessions like escrow and increased limit in LC."

Interestingly, the Centre has also made no specific changes in Maharashtra and its electricity board (MSEB) reply and forwarded it to the lenders, the official added. In May 6 reply, both the state and MSEB had expressed their surprise by the financial institutions' belief that the board's Rs 401 crore penalty on DPC was 'frivilous' and should be withdrawn.

INDIAN EXPRES

More import tariffs to protect farmers

HQ-1 10/5

By Our Special Correspondent

NEW DELHI, MAY 9. The Prime Minister, Mr. Atal Behari Vajpayee, today reassured farmers that import tariffs on agricultural products could be raised further to protect their interests. Though the markets had been opened to imports after lifting of the quantitative restrictions, customs duties had already been raised to a high level. "We can hike the customs duty further to provide a cushion to farmers," he said.

Addressing a rally after dedicating the Jamnagar-Loni LPG pipeline, longest of its kind in the world, to the nation, he said domestic markets were opened to foreign goods due to compulsions of an agreement signed by the previous Government. Even so, the high customs duties would make the imports costlier.

These include hike in the duties on tea, coffee, copra, coconut and dessicated coconut oil in the 2001-2 Budget from 35 to 70 per cent. The duty on crude edible oils was also up from 35 to 55 per cent to 75 per cent while levies on refined oils were up from 45 to 65 per cent to 85 per cent.

The Government would move to protect farmers' interests whenever any threat was noticed due to imports. Referring to his recent trip to Iran, he said talks were under way to export surplus foodgrains while importing surplus Iranian oil. On the proposed Iran-India pipeline, he said discussions were on to resolve the problems dogging it. Earlier, the Petroleum Minister, Mr. Ram Naik, said the pipeline, built at an estimated Rs. 1,250 crores, was completed in less than a year without any cost or time overruns.

Mr. Vajpayee said the economic reforms had created job opportunities adding that many people did not agree with this assessment. Reforms also brought prosperity and progress apart from improving employment avenues.

On development of a road network, he said a massive programme to connect all parts of the country through quality roads with special emphasis on rural areas, had been launched. The Centre would take up rehabilitation and widening of the 9 km.-long Loni-Modinagar road.

The 1.7-million tonne capacity pipeline, equivalent to 3.5 lakh domestic cylinders, would be enhanced to 2.5 million tonnes by 2011-12. The pipeline passes through Kandla, Jamnagar, Okha, Hazira and Gandhar to Haryana, Palanpur, Ajmer, Jaipur, Piyala, Madanpur-Khadar and on to Loni. The LPG is evacuated at Ajmer and Jaipur in Rajasthan, Piyala in Haryana, Madanpur-Khadar in Delhi and Loni. It is drawn from the Reliance refinery at Jamnagar and the Indian Oil Corporation's import unit at Kandla.

The Prime Minister, Mr. Atal Behari Vajpayee, dedicating to the nation the LPG pipeline at Loni, Uttar Pradesh on Wednesday. Others from left are Mr. Kalraj Mishra, Mr. Rajnath Singh, Chief Minister, and Mr. Vishnukant Shastri, Governor. — Photo: Anu Pushkarna

THE HINDU

India all set to transform commerce in developed world

Until a few months ago, Marc Vollenweider was a partner in the Delhi office of McKinsey. Vollenweider, who is Swiss, is still in Delhi, but in a line of business that sounds almost plebeian by comparison: back-office work. He and his partner (lured from running the Delhi arm of IBM's research centre) have set up Evalueserve, a firm that undertakes various business processes for clients in Europe and North America, offering cheaper, better and faster service than they can deliver themselves.

Vollenweider and his partner, Alok Aggarwal, were seduced by an irresistible proposition. First-world companies do lots of things that are expensive and necessary, and yet peripheral to their "core competence". The main requirement for these tasks is an intelligent English-speaking workforce —which India has in abundance, at a small fraction of rich-country wages. So why not ship the work electronically to India, which missed out when the West sent much of its manufacturing to China and other points east? With admittedly suspicious precision, Vollenweider has calculated that a typical western bank can outsource 17-24% of its cost base, reducing its cost-to-income ratio by 6-9 percentage points, and in many cases doubling its profits.

Such calculations have created a new industry in India that could, in theory, transform commerce in the developed world. The fizziest forecasts have come from Michael Dertouzos, director of MIT's Laboratory of Computer Science. He reckons that India has some 50m English-speakers who could each earn $20,000 a year —making a total of $1 trillion, twice India's current GDP —doing "office work proffered across space and time".

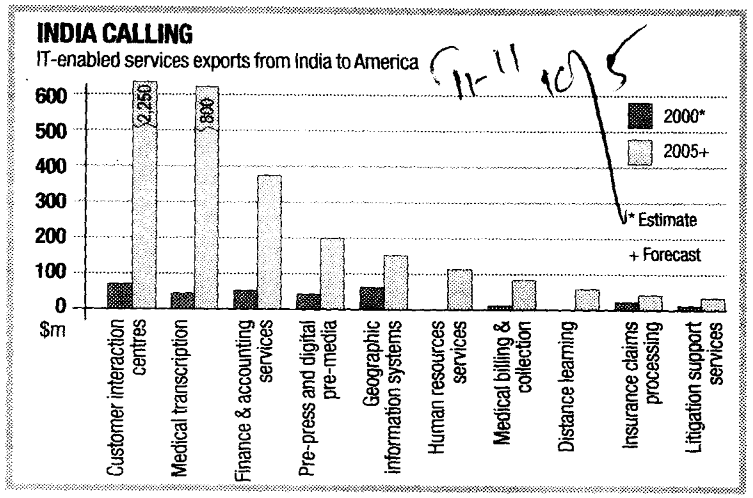
Other predictions are more restrained, but still heady. NASSCOM, thinks India will employ 1.1m people and earn $17 billion from what it calls IT-enabled services —what this article will term teleworking — by 2008. A report to the Electronics and Computer Software Export Promotion Council (ESC), a government body, sees the industry's exports to America growing from $264m in 2000 to over $4 billion in 2005. Yet India has been doing white-collar work for the rest of the world long enough to know that reaching targets such as these will not be easy. The new-born industry is already old enough to have tasted failure.

Indian entrepreneurs look at riding the wave, says Sanjay Jain, a partner in Accenture, a consultancy. Earlier waves were the power industry, telecommunications and dotcoms. "Now the latest buzzword is IT-enabled services", he says.

The first riders of this particular wave have been of two types. One is captive operations of big western companies looking to reduce back-office costs without outsourcing. The other is more fleeting arrangements between western clients and subcontractors in India, often brokered by middlemen. The first sort, which provide the bulk of employment in the business, have prospered. GE Capital Services opened India's first international call centre in the mid-1990s. It now employs more than 5,000 people, whose jobs range from such relatively simple tasks as collecting money from delinquent credit-card users to such complex ones as data-mining.

Such companies often save 40-50% by shifting work from their home base to India. The savings may grow, because India's telecoms costs, which are higher than in rich countries, are falling thanks to liberalisation. Shipping out more sophisticated services could also produce higher savings, because the salary gap between, say, an American or an Indian accountant is larger than that between an American high-school graduate and an Indian college graduate doing the same job.

Money is not the only attraction. No company will direct white-collar work to India for long if it does not get standards of service at least as high as those it is used to at home. Many Indian teleworking bosses claim to raise service quality. eFunds International, part of a company spun off from Deluxe, the biggest American printer of cheques, says that in Gurgaon it has cut the number of errors in data processing for one client by 90%, and also cut the number of days taken to close the clients monthly accounts from five to three. Rajeev Grover, eFunds head of shared services, says that Indian teleworkers outperform Americans in similar jobs because they treat them as serious careers, and also because they are better-educated than their American counterparts, who are often college drop-outs.



Shifting office work to India can also provide an opportunity to upgrade technology and service. Citigroup, an American financial giant, has an affiliate in Mumbai called e-Serve International, which employs 2,000 people to provide such services as the processing of documentation for letters of credit and the handling of questions over money transfers. Outsourcing of work handled by call centres (now transformed into "contact centres" that can handle e-mail, fax and other media as well) is expected to go to India.

Into this arena is stepping a new breed of entrepreneur, flaunting international savvy, management finesse and venture-capital finance. He does not skimp on bandwidth or any other technology; and nobody can describe his premises as a data sweatshop. His employees are encouraged to ponder careers with the company, and might even own stakes in it. He aspires to the professionalism of a GE or an American Express, but aims to serve many masters. Messrs Vollenweider and Aggarwal belong to this breed. So does Sanjeev Aggarwal, who set up Daksh.com, a contact centre that now employs 500 people. Yet another is Raman Roy, who left GE Capital Services to set up Spectramind.

Many of the charismatic captives are themselves joining the ranks of the independents. eFunds has landed a second client and is eager for more; e-Serve is scouting avidly. British Airways and Swissair are selling services outside their groups. All are eyeing the $200 billion of business-process outsourcing that Dun & Bradstreet, a research firm, says is farmed out by companies worldwide. They see no reason why India should not claim a big chunk of that. Indian animators are putting virtual flesh on the skeleton ideas of American film makers. Indian lawyers are doing research for British and American firms. Indian engineers are designing construction projects. At the most rarefied end of the spectrum, Indian scientists are conducting basic research and development for western firms. In some cases, the availability of low-cost, high-quality expertise in India could transform the economics of the industries that they serve.

Recession is less likely to hurt teleworkers, and may even help them. Cuts in IT investment by customers are leaving Indian software programmers idle. But teleworking firms are offering to reduce the cost of back-office processes that are indispensable. Thus, while the notoriously profitless Amazon.com has cut customer-service jobs in Seattle, it has added positions in Gurgaon through Daksh.com.

White-collar work may shift to India even faster than some forecasters expect. Consider exlService, a teleworking outfit started in 1999 by Gary Wendt, ex-head of GE Capital. Wendt later became boss of Conseco, a financial group in Indiana, and soon persuaded it to buy his Indian firm for $53m. Exl is now doing a roaring business: Conseco plans to shift 2,000 jobs from Indiana to India, saving over $30m a year. In America these jobs suffered from high turnover and quality problems over customer service. If moving to Exl solves these problems, as well as saving money, other American companies seem sure to join the stampede that is turning India into the world's back office. *(The Economist)*

Doors opened wide for foreign capital

HT Correspondent
New Delhi, May 9

HT-9 10/5

THE VAJPAYEE Government on Wednesday began the second generation of economic reforms with a bang.

It opened up new sectors to foreign investment, raised sectoral caps in a large number of industries and allowed defence production by domestic private companies with up to 26 per cent foreign equity.

The foreign investment limit in the banking sector has also been increased to 49 per cent.

This appears to have been done to give a push to economic growth, reverse the deceleration in FDI flows and achieve the avowed target of $10 billion foreign investment annually.

The sweeping changes in the foreign investment policy is part of the mid-term fiscal strategy earlier suggested by the Prime Minister's Office to the Finance Ministry to achieve an annual GDP growth of 9 per cent.

Briefing newspersons after a marathon Cabinet meeting here, Information Technology and Parliamentary Affairs Minister Pramod Mahajan said the Government has decided to end the status of the defence industries sector as an exclusive domain of the public sector.

"The defence industries will now stand transferred to the licensable category. The Defence Ministry will, from time to time, announce the areas where private participation will be allowed," he said.

The drug and pharmaceutical sector, airports, township development, hotels and tourism, courier service and mass rapid transport systems will be open to 100 per cent foreign direct investment.

In the telecom sector, FDI up to 74 per cent has been permitted for internet service providers with gateways, radio paging and end-to-end bandwidth.

The banking sector too will be a big beneficiary of the new-wave liberalisation. The FDI limit in banks has been put at 49 per cent from all sources.

Till now, non-resident Indians could invest up to 40 per cent, while FDI up to 20 per cent was permitted.

As a sop to NRI investors, the centre has made all investments made by them in foreign exchange fully repatriable. This is a departure from the past when NRI investments were not repatriable in foreign exchange.

In the drug and pharmaceutical sector, 100 per cent FDI has been allowed.

Besides, such investments will now be put on the automatic route. Also, the stipulation that 26 per cent of equity be offloaded within five years has been done away with.

But the raise in the sectoral cap is not applicable to licensed drugs and bulk drugs manufactured with DNA technology. Right now, 76 drugs fall under this category.

Hundred per cent FDI funding will be allowed in airport projects, but this will be subject to clearance by the Foreign Investment Promotion Board (FIPB). But for FDI up to 74 per cent in airports, no FIPB approval is required and the investment can come in through the automatic route.

Development of townships has also been opened to 100 per cent foreign participation, up from 75 per cent now.

Foreign investors will have to get the FIPB nod and also adhere to land usage guidelines issued by the Urban Development Ministry.

Foreign investors will be expected to undertake infrastructure development in their township projects.

Mass rapid transport systems have for the first time been thrown open to 100 per cent foreign investment on the automatic route in all metros. Investors are free to undertake commercial development.

Similarly, the hotel and tourism industry will be allowed to have 100 per cent FDI through the automatic route.

There will be no disinvestment stipulation. Courier services have been allowed to have 100 per cent FDI but they have been debarred from distributing letters.

OPEN SE[illegible]ME

- Defence prod[illegible]on opened to private compa[illegible]
- 26 % foreign equity allowed in defence
- FDI limit raised to 49 per cent in banks
- NRI investors allowed to repatriate in foreign exchange
- 100 per c[illegible] foreign investment on automatic route allowed in pharmaceutical sector, airports townships
- 26 % divestment norm in pharma companies removed
- Hotels, tourism, cou[illegible]ier services, rapid mass transport system included in 100 % FDI list
- 74 % FDI permitted in ISPs with gateways, [illegible]dio paging, end-to-end bandwidth

THE HINDUSTAN TIMES
10 MAY 2001

Balco stir ends, TU agrees to sign pact with management

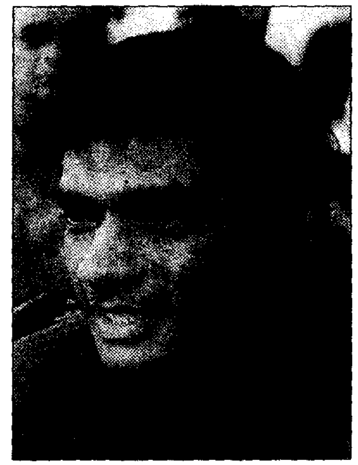
Our Delhi Bureau

NEW DELHI 8 MAY

THE OVER two-month-old strike by the Balco workers ended on Tuesday night with the union agreeing to sign a pact offered by the management. The accord envisages two months wages as advance, adjustable against the salary later, no retrenchment, retention of existing service rules and conditions, no victimisation of workers, speedy wage revision and a VRS scheme covering the office staff and the working class.

Earlier in the day, the Supreme Court forced the Chhattisgarh government to go on the defensive on the issue of cancelling Balco's land deed. The court asked the government to justify its stand in cancelling the land allotment to Balco while permitting such allotment to two other private companies — Daewoo Power and Essar Steel.

The state government told the apex court that similar notices would be issued to Daewoo Power and Essar Steel as well. They would be asked to show cause why their land deed could not be cancelled on the lines of notices given to Balco. While the state government has adopted this posture before the court, it would be a surprise if it actually goes around scrapping the biggest investments in the state.



Ajit Jogi: End of the road!

When contacted, an Essar spokesperson said it has not received any notice so far and the company would respond only after receiving the notice. Earlier, the state government had issued notices to Balco asking it to show cause why its land deed could not be cancelled with the privatisation of the company as the scheduled land was acquired from the tribals for the government-owned company.

Attorney General of Chhattisgarh Ravindra Srivastava informed the three-judge Bench headed by Justice B.N. Kirpal that the state government would act most impartially and Daewoo Power and Essar would be dealt with similarly. "We do not intend to discriminate. The principle will be uniform and the notices will be issued to Daewoo and Essar also," said Mr Srivastava.

The Bench then issued notices to Daewoo and Essar saying they needed to be impleaded as the outcome of the hearing would affect these two companies.

The court directed the Chhattisgarh government to furnish details of the tribal land falling in the scheduled area which were leased out to private parties. The matter would now come up for hearing on July 17.

Meanwhile, the court on Tuesday said its hope that the situation at Balco would improve had been belied as the workers have rejected the new management's offer to take two months' salary advance and join work. It also said that it could not direct the employees to return to work.

For the Balco management, senior advocate Ashok Desai said the management was still ready to give the two months' salary advance and negotiate all industrial demands with the workers, but not the issue of disinvestment.

Supporting him, attorney general Soli Sorabjee said the workers could not demand that the Balco disinvestment deal be cancelled and a judicial inquiry be ordered into it.

The Economic Times

9 MAY 20

LF:

(Continued from page 1)

has not been fully reflected, the news magazine said while releasing the results.

On the other hand, the Outlook-CMS poll predicted that the Congress was on the winning side in three of the states going to the polls next week.

In Tamil Nadu, the AIADMK-led front is likely to get 165-175 seats, leaving 60-65 seats to the DMK-led front.

Predicting a close finish in West Bengal, the magazine said the Left's tally is expected to be 145-155 seats, a loss of 47-57 seats from the 1996 poll. The Trinamul-Congress combine is projected to win 129-139 seats.

In Kerala, the UDF is expected to corner 78 to 83 of 140 seats while the LDF is projected to win in 54 to 59 constituencies.

THE STATESMAN

9 MAY 2001

Railway budget passed without discussion

STATESMAN NEWS SERVICE

NEW DELHI, April 20. — For the first time in the history of the Indian Parliament, the Lok Sabha passed the railway budget today without any discussion or amendment to the original proposals tabled in the House on 26 February amidst pandemonium created by the Congress and the RJD whose members refused to participate in the proceedings.

It is a measure of the eroding credibility of the parliamentary system that the Speaker of the Lok Sabha, Mr GMC Balayogi, had to issue a circular to all the Lok Sabha members saying, "Under the prevailing atmosphere in the House, it does not appear possible either to have a discussion on the demands for grants or to move cut motions".

"I am constrained to put straight away the demands for grants in respect to budget (Railways) for the year 2001-2002", the Speaker added in his note to the members before calling the railway minister, Mr Nitish Kumar, to seek approval of the House on the budget proposals of the Railways.

And it took less than 15 minutes for the House to approve the budget demands out one by one item-wise. That the Congress and the RJD would not allow the House to transact its normal business was clear yesterday when the Leader of the Opposition, Mrs Sonia Gandhi, turned down an appeal by the Speaker to participate in the deliberations at least during the passage of the budgets.

The CPI-M members too joined the chorus of protests and entered the well of the House along with the Congress members albeit for a different reason." We protest the railway budget being passed without any discussion", said the Left party MPs. The Congress members had different slogans. "We want JPC".

None of the Trinamul Congress members including former railway minister, Miss Mamata Banerjee, who had presented the railway budget in the Lok Sabha in February, was present when Mr Kumar sought the approval of the House on demands of grants for the budget.

When the Lok Sabha reassembled at 3 p.m. after adjournment during Zero Hour, Mr Madhavrao Scindia rose to remind the government that without a policy of "give and take" the ruling alliance should not expect cooperation from the main Opposition party.

As tempers began to soar, the Speaker called the railway minister to put the demands. The Congress members rushed to the well of the House raising slogans and opposing the government's move to bulldoze the budget on the strength of its brute majority in the House.

The fallout outside the Lok Sabha was equally bitter as the Congress and the BJP accused each other of tarnishing the parliamentary history of the country. The Congress spokesman, Mr S Jaipal Reddy said, "The ruling party has set a bad precedent and I wonder if the BJP should go for treatment for its allergy to JPC".

The BJP on the other hand, while expressing "satisfaction" over passage of the railway budget, expressed regret that it was done in a manner unheard of in Parliament.

The BJP spokesman, Prof VK Malhotra said, " Such shameless demonstration of unruly behaviour of the Congress members inside the House was never witnessed earlier".

As the stand-off between the Congress and the government continues, there is every possibility of the general budget meeting the same fate in the Lok Sabha when demands for grants are placed for approval in the House on Wednesday.

THE STATESMAN

21 APR 2001

Cong. divided over Enron probe

By Prakash Joshi
The Times of India News Service

MUMBAI: To be tough or not is the question before the Congress party. Faced with the Enron problem, the party seems divided over the state government's handling of the issue.

It may be recalled that the Madhav Godbole committee, which was appointed by the state government to study the deal signed between the state government and Dabhol Power Corporation, recently submitted its recommendations to the Democratic Front (DF) government.

While chief Minister Vilasrao Deshmukh seems to have adopted a wait-and-watch attitude, the cabinet -- despite a detailed discussion -- failed to reach a conclusion on the Godbole panel's recommendation to renegotiate the deal with Enron. With the curtailment of the seven-week budget session on Wednesday, even the legislative assembly could not discuss the report.

However, according to sources, hawks in the Congress want the government to adopt a tough stand on the issue.

A powerful faction in the Congress wants the government to order a judicial probe into the Enron deal even though this suggestion was not accepted by a majority of members of the Godbole panel. Industries minister Patangrao Kadam is reportedly among those in favour of such a probe.

However, the chief minister's camp does not approve of such an "adventurist" step. It apprehends serious trouble from within the DF combine if such a probe is ordered. However, the anti-Enron lobby within the Congress reasons that if a judicial probe is ordered, then three parties -- the Nationalist Congress Party (NCP), the Shiv Sena and the Bharatiya Janata Party (BJP) -- would be in trouble since their leaders had approved the power project. NCP president Sharad Pawar was the main architect of the first phase of the project, while the more controversial second phase was approved by the Shiv Sena-BJP government.

Sharad Pawar's NCP, a DF partner, is clearly opposed to a judicial inquiry. Even before Mr Godbole submitted his report, Mr Pawar had openly opposed a judicial probe on the grounds of it being a time-consuming exercise.

However, the Peasants and Workers Party (PWP), the Janata Dal (Secular), the Samajwadi Party -- other partners of the ruling DF -- want a probe. They point out that though there was a split in the Godbole committee on this vital point, the government should order a probe in the larger interest of the state.

THE TIMES OF INDIA

2 0 APR 2001
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PM promises integrity in public life

Our Political Bureau

NEW DELHI 16 APRIL

PRIME MINISTER Atal Behari Vajpayee, on Monday, used a conference of the Comptroller & Auditor-General (CAG) of India to promise acceleration of the reforms process, transparent disinvestment process and better targeting of developmental funds.

"Corruption is the biggest enemy of development. I wish to emphasise our government's commitment to fighting corruption and ensuring probity in administration and in public life," Mr Vajpayee said inaugurating the 21st conference of CAG. His assertions assume significance in the light of charges against the banking sector, financial institutions, stock markets and the privatisation process.

The Prime Minister said CAG had an important role to play in maintaining transparency and accountability as people's expectations from the government were on the rise, necessitating proper use of scarce public resources to produce results. "With the onset of economic reforms, the need for accountability has increased and not decreased," he added. He also expressed government's commitment to greater fiscal responsibility and said it was determined to contain public debt and budgetary deficits.

On privatisation of public sector undertakings, Mr Vajpayee said this had brought about a new situation with regard to accounting.

"An issue that needs debate is the nature of accountability mechanism to be established for companies transferred to private management but where government continues to have a substantial financial stake," he said. Mr Vajpayee added while some control might be necessary in such cases, it should not act as deterrent to the entrepreneurial initiative of the management.

BMS accuses govt of bowing to WTO will

Our Political Bureau

NEW DELHI 16 APRIL

COMPARING THE government to "an elephant gone berserk," the RSS trade union affiliate Bharatiya Mazdoor Sangh (BMS), on Monday, slammed the country's economic policies as "anti-labour and anti-farmer" and accused the Vajpayee regime of "accelerating PSU selloff and phase-out of quantitative restrictions under pressure from the US and other multilateral agencies."

Addressing a massive rally of BMS workers at the Ramlila grounds here on Monday, Sangh ideologue and founder of the BMS and Swadeshi Jagaran Manch (SJM) Dattopant Thengadi targeted finance minister Yashwant Sinha for "overstepping his jurisdiction" by legalising the contract labour system through his Budget announcement of doing away with mandatory permission for companies to lay off workers if their total workforce was under 1,000.

"Mr Sinha encroached upon the legitimate jurisdiction of the labour ministry by reintroducing the contract labour system," alleged Mr Thengadi.

Attacking the liberalisation policies, Mr Thengadi questioned Mr Sinha if his accelerated reforms had given a major boost to FDI. "How much of the touted FDI has come? Have you reached the targeted growth rate?" he asked. Taking up the workers' pressing issue of disinvestment of PSUs, Mr Thengadi dismissed the Balco deal as "fraudulent and even called for an inquiry into what had led politicians and bureaucrats to "hurriedly" sign the Enron agreement during the Vajpayee government's 13-day rule in 1998.

Describing the selloff of profit-making PSUs as "killing the goose that lays golden eggs," the RSS leader alleged that "most of the bureaucrats are purchaseable and most have already been purchased. We should not allow such anti-nationals to thrive."

The Economic Times

17 APR 2001

BALCO unions ready for six-month-long strike

The Times of India News Service

RAIPUR: With the tripartite talks on BALCO ending in a deadlock in New Delhi on Monday, the ongoing strike by the company's workers may continue for at least six more months, according to the trade unions.

The state government on Monday evening admitted that there was a deadlock and the talks could not succeed.

Industries minister Mahendra Karma, who represented the Chhattisgarh government in the first round of talks, is returning here on Tuesday. Sources close to Mr Karma said since the Centre was reluctant in revising its stand, the talks could not proceed.

At the same time, chief minister Ajit Jogi clarified that he was neither leading nor involved in the movement by the BALCO workers. He also claimed that it was purely a movement of the workers and they would decide the future course of action.

In the aborted talks, the Sterlite management, which now holds majority stake in BALCO, was not represented on the insistence of the CM and the workers. Though the chairman and managing director of the new management were present in New Delhi, they did not join the talks.

The trade unions representing different political parties met here in the morning and decided to contribute one day's wages to the workers. The labour leaders claimed they had collected one day's wages from all the labour unions throughout the country.

They hope the fund collected by the unions would help enable the strike at BALCO sustain for at least six more months. The Bhilai Steel Plant workers' contribution alone was over Rs 1 crore, the unions claimed.

A group of workers' leaders from New Delhi led by CPM leader Sitaram Yechuri is visiting Korba on April 19 to contribute money for the workers. The unions claim they can easily pay Rs 50 per day to the contract workers for six months.

In the tripartite talks, the seven union leaders representing the BALCO workers supported the state government's stand opposing the disinvestment and insisted that the Centre should either hand over the plant to the Chhatisgarh government for Rs 552 crores or change the share ratio of Sterlite to minority character so that the Centre could keep 51 per cent of the equity.

According to sources in New Delhi, the state government and the union representatives remained adamant on their stand resulting in the deadlock.

Though Union mines minister Sunderlal Patwa, who had initiated the talks on Sunday at the intervention of the CM, tried to persuade the parties to agree to arrive at an amicable settlement to the dispute, he failed in view of the state government's rigid stand on handing over the plant to it or to reduce the equity of the new management

THE TIMES OF INDIA

17 APR 2001

FREE TRADE-II

Social Order Must Be Built From The Base

By AMLAN DATTA

A REFERENCE must be made to certain consequences of "population explosion" in the less developed countries, particularly those which are already densely populated, of which India is an instance. With growth of population, the boundaries of human settlement extend, resulting in a strong tendency to cut down trees and reduce forest land, with little attention paid to its long-term damaging consequences. This is a matter for serious concern as it adversely affects rainfall, natural storage and distribution of water and reduces the productive powers of the soil, sometimes to such an extent as to afflict a whole region with the perils of desertification.

In India, the size of population has roughly trebled since Independence. Besides checking the rise in per capita income, this has been an important factor contributing to a steady increase in chronic unemployment and underemployment. This sets a problem which deserves to be deeply thought over afresh.

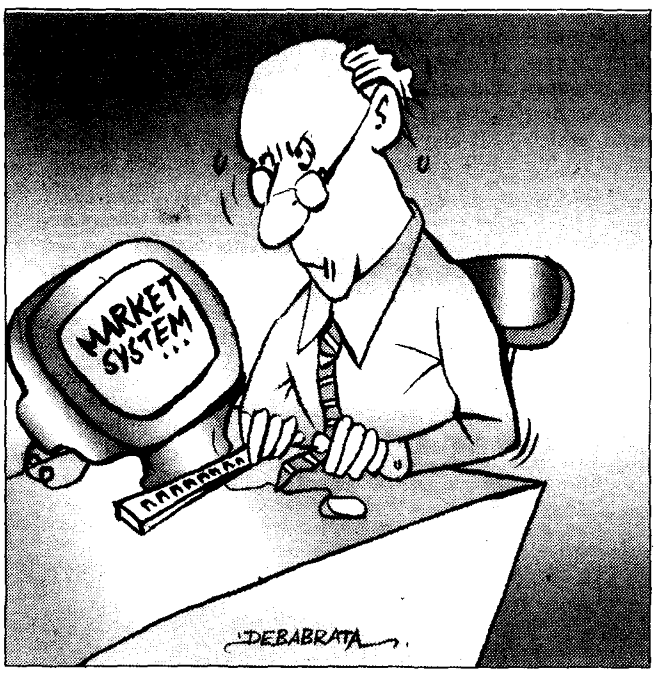
TWO TRACKS

For our conventional economists, the most important objective is a higher rate of growth of national income, and the preferred strategy is further liberalisation along with fiscal discipline which would hopefully help achieve a substantial increase in both exports and foreign direct investment. Our imports would also climb up at the same time so that our balance of trade might well continue to remain adverse. A higher rate of growth will not only raise per capita income faster than before and very substantially improve the position of the top 20 per cent of our population, but also pull up the incomes of people lower down. This is the view of an important section of our established economists.

Now, there are elements of truth in the argument sketched above. Our earlier economic policy was based on an "export pessimism" which has turned out to be largely unrealistic. As far as the organised sector of our economy is concerned, there is a strong case for making it export-oriented. As regards the pull-up effect on incomes of people below the top ranks, this can be expected to work for employees who are in a position to organise themselves effectively and voice their demands sufficiently loudly. However, it is an error to believe that we can get rid of the problem of unemployment and underemployment by simply courting a policy of "globalisation", whatever the rate of growth it may produce.

Many of our establishments are overstaffed — a fact often concealed by a poor work culture — and an "exit policy" is imperative to enhance efficiency without which we cannot compete on the world market. Over the next 20 years, whatever the rate of industrial growth we may hopefully achieve, the problem of unemployment and underemployment is going to stay with us unless we can at the same time carry through a reorganisation of the unorganised or "informal" sector of our economy, more profound than anything that has occupied the thought of our mainstream economists.

At this point, it will be useful to pause and ponder the consequences of a failure to solve the problem of unemployment and more particularly rural underemployment in India. Thanks



to the persistence of the problem, cities receive a larger influx of job-seeking people from rural areas than it can healthily accommodate. A social sickness spreads all over the land, including cities and villages, often taking monstrous forms as it gets entangled with politics and illegal trade. How can we stop this rot? Mainstream economists, preoccupied with the Western model, think in terms of one uniform policy based on the market system for the economy as a whole. But that model has become outmoded while ideas continue to lag behind changing reality.

The Indian economy, in fact the world economy, is a multi-level and multiform economic order. And a policy which is appropriate at one level may be inappropriate at another. This is an idea which needs to be incorporated in our new economic thinking.

UNEMPLOYMENT

Explaining "A New Economics for the 21st Century", James Robertson, whom we have already cited, observes: "The new economic order ... must treat the 21st-century economy as a multi-level one-world economy." He makes a distinction between "an economy for the sane, humane, ecological (SHE) future as opposed to the Hyper-Expansionist (HE) future." It is this HE outlook which provides the main motivation for the currently recognised economists framing recommendations for the future. This does not mean that the ecological or environmental factors are avowedly ignored by these economists, but growth and expansion stay as the overriding objective.

These economists are unable to bring themselves to accept the idea that there is no feasible rate of industrialisation along conventional lines which can remove the insufficiency of jobs for our growing labour force. They seem to have a compulsive need to stay wedded to the idea that the formal sector of which they are an integral part can take care of the problem of unemployment in the foreseeable future or some poverty-alleviation projects can cope with whatever is left over elsewhere.

It is this lingering illusion which stands in the way of the necessary reorientation of conventional economic thought. What we additionally need is an alternative conception of rural reconstruction where locally available surplus labour, depending mainly on locally available resources, can carry out well-coordinated activities aiming chiefly at the satisfaction of urgent local needs, material as well as cultural. To quote Robertson again, "The 21st century economy must be systematically enabling. Instead of extending dependency, it must systematically foster self-reliance and the capacity for self-development". While the market and the state are the star performers of the formal sector, co-operation and self-reliance must be the hallmarks of the other sector.

Time is running out. People glibly talk of the next millennium. A millennium is too long a period. We have to think of the next 20 or 30 years to reorganise our economy and society. Two sectors of the economy have to stay side by side.

LOOMING CRISIS

One of these will have to be oriented towards the world market, hospitable to foreign capital, strict in the enforcement of law as the basis of democracy, determined to improve work culture complete with an exit policy to be adopted wherever it is necessary for achieving greater efficiency and a better allocation of resources.

The other sector will have the character of a neighbourhood economy, aiming to provide as much productive work for the local people as possible, basically oriented towards the satisfaction of the needs of the local community rather than distant markets, bent on devising new technology suited to its chosen aims and striving to achieve a "communitarian" character which sweeps aside the barriers of caste and narrow sectarianism, inspired by a vision of positive freedom through wider fellowship. This is not a social order which can be imposed from above, it has to be built up from the base.

Fortunately there are people who have already started working in that direction, although they are still few in number and have not received as much attention from the press and other channels of mass communication as they deserve. Yet the fate of mankind in the 21st century will depend on how much they can achieve rather than on cynics who laugh them out as utopians. Vital to the success of this new experiment is a reorientation of education which puts the stress not simply on literacy, but on the fostering and nurturing of the skills and cultural attitudes required for the building up of this alternative social order.

What we face today is a civilisational crisis, including yet far transcending the question of the wealth of nations. Can political economy reorient itself so as to make its message relevant to the task of overcoming that crisis? Its status in the 21st century depends on the answer to that question.

(Concluded)

SOLVING THE MARKET CRISIS

THE STOCK MARKET crisis has claimed its first significant victim. Last week the much touted merger between the Global Trust Bank (GTB) and the UTI Bank, two new generation private banks but with vastly different ethos, was called off. Announced in mid-January with a lot of fanfare the merger was intended to create the biggest private sector bank. The decision not to proceed with the merger was taken after the shareholders of the two banks had given their approvals. In normal course the RBI's approval to seal the merger would have been a mere formality. Meanwhile, there have been persistent allegations against the GTB and its top management. Unsavoury links with the now fallen "big bull", Mr. Ketan Parekh, and insider trading have been the two serious charges. The Bank has vigorously denied those and independent investigations by the RBI and the SEBI are still pending. However, by walking out of the merger, the two banks have merely bowed to the reality. The environment is so full of suspicion and innuendoes that there was no way a healthy alliance of the two was possible, even assuming that the GTB and its team comes out clean in the end.

Which brings into focus the central issues of the latest crisis which has its origins in the share market collapse days after the presentation of the Union budget. All of a sudden — and we need to be constantly reminded of the timing — there was a rude awakening that all was not well with the market mechanism and especially the country's best known stock exchange, the Bombay Stock Exchange. What were until that time acceptable — even desirable — practices became suspect with everyone in authority trying to distance themselves from the newly discovered shenanigans and their alleged perpetrators. A case in point of course is the working of the BSE: that its broker-members were occupying the highest positions in its governing council was not considered odd all these years. Mr. Anand Rathi as president of the BSE could even host an American President and an Indian Prime Minister. Today he stands accused of using his position to tap privileged information for boosting his brokerage business.

Even more spectacular has been Mr. Ketan Parekh's fall. From being a bull who could not make any wrong calls and who could effortlessly access several hundred crores of rupees, he now faces serious charges including one of criminal conspiracy and collusion with an obscure Ahmedabad-based cooperative bank. Most certainly Mr. Ramesh Gelli, chief promoter of the GTB, is also a victim of the changed circumstances. Often referred to as the only entrepreneur among the new private bank promoters, he did take his bank far under most conventional parameters, of profitability, market capitalisation and so on. Today he has to bear the cross of a messed up merger deal, and of being over generous to brokers.

The regulators, the SEBI and the RBI, are accused of inaction. Obviously they share with the rest of the policy machinery responsibility in persisting with the status quo in the market, even after its rotten parts were getting steadily exposed. Yet there is a danger in generalising — and sensationalising — what appear to be manageable problems. A comparison with the 1992 crisis is not justifiable on many counts. Principally there is no evidence now of a banker-broker nexus. Till date only one bank has been affected. Hopefully more incriminating material will not surface. The biggest worry now is the fear, suspicion and mutual recrimination. They can be best contained by a resolute action under existing laws and regulation.The case for a new JPC looks weak at this stage.

Supreme Court to hear all Balco cases

HT Correspondent
New Delhi, April 9

THE SUPREME Court will decide the "validity" of the Centre's decision to sell 51 per cent shares in Bharat Aluminium Company (Balco) to Sterlite Industries for Rs 551.5 crore. Transferring to itself three writ petitions filed in different High Courts, the Supreme Court said the matter would be decided by a three-judge Bench.

The decision followed a petition by the Centre seeking transfer to the Supreme Court of all writ petitions on the issue. While moving the apex court, the Centre had also sought intervention for laying down the parameters of judicial review in such matters for avoiding litigation challenging the Government's disinvestment policies.

Allowing the Centre's plea, a Bench comprising Justice B N Kirpal and Justice Ruma Pal summoned all related records from High Courts while directing the Centre to file its response to the petitions within two weeks.

The petitions the Supreme Court would now be hearing include those filed by the Balco Employees' Union and lawyer B L Wadhera in the Delhi High Court besides a Balco worker, Suman Singh Kanwar's petition before the Chhattisgarh High Court.

All these petitions had challenged the Government's decision, saying that it was contrary to the Disinvestment Commission's report. It was also contended that the Balco deal did not protect the workers' interest.

Representing the Centre, Attorney General Soli Sorabjee said the Supreme Court would be the best forum to decide the question of judicial review in view of the public importance of the matter.

He submitted that the Supreme Court could hear writ petitions pending before more than one High Court on the same issue.

Senior counsel Kapil Sibal, who represented the Chhattisgarh Government, however, contended that in many cases the Supreme Court had allowed the High Courts to deal with such issues to get the benefit of their decisions.

Sibal also questioned the Centre's locus standi in the matter as the High Courts concerned have not yet issued notices in response to the petitions before them.

For this reason alone, he maintained, the petitions cannot technically be treated as pending.

THE HINDUSTAN TIMES

before 31.3.2003 (present limit 31.3.2001).

SOCIAL SECTORS

1.38 Plan and non-plan expenditure of the Central Government on various components of social sectors has increased from of Rs. 9608 crore in 1992-93 to Rs. 36,270 crore in 2000-01 (BE), an increase of about four times in a matter of just eight years. As a proportion of total expenditure, the combined plan and non plan expenditure of the Centre rose from 8.1 per cent in 1992-93 to 10.7 per cent in 2000-01. The plan expenditure of the Centre, as a percentage of GDP at current market prices on major schemes of social sectors has been hovering between 1.1-1.2 per cent during the last decade. However, the central plan outlay in 2000-01(BE), as compared to the previous year's revised estimate increased by 24.3 per cent for the education sector as a whole and 26.5 per cent for elementary education programmes; by 29.8 per cent for health sector programmes; by 16.8 per cent for women and child development; and by 12.8 per cent for family welfare schemes.

1.39 National programmes combatting major public health problems have resulted in steady improvement in basic indicators of human development. While the crude death rate declined from 12.5 per thousand in 1981 to 9.8 in 1991, and further to 8.7 in 1999, the infant mortality rate per thousand declined from 110 in 1981 to 80 in 1991 and further to 70 in 1999. As far as the educational status of population is concerned, the literacy rate had increased from 43.6 per cent in 1981 to 52.2 per cent in 1991 and to 62 per cent in 1997 as a result of intensifying the efforts under the national literacy mission.

1.40 In the seven years of post-reform period, from 1992-93 to 1998-99, the average annual real wage for non-agricultural sector was Rs. 2.64 compared to Rs. 2.29 for the pre-reform period, i.e. 1987-88 to 1991-92, for which all-India estimates are available.

1.41 Alleviation of poverty remains a major challenge before the nation. A comprehensive All India Household Consumer Expenditure Survey is undertaken roughly every 5 years which also forms the basis for estimating the level of poverty in the country. Comparable estimates based on a consistent methodology and data set are available until 1993-94. The estimated magnitude of poverty remained fairly high until the late 1970s. The proportion of people below the poverty line has been declining since the early 1980s along with the achievement of higher economic growth. The 1993-94 estimates placed the all India poverty ratio at 36 per cent (Table 1.8).

1.42 Some of the key results of the 55th Round of the Household Consumer Expenditure Survey of the National Sample Survey Organisation (NSSO) covering the period July 1999 to June 2000, have now become available showing a very significant decline in poverty to 26 per cent based on a 30-day recall and 23.3 per cent on a 7-day recall methodology. These two sets of estimates may not be strictly comparable to the earlier estimates of poverty. Nonetheless, they provide clear evidence indicating a substantial decline in the overall poverty ratio in the country during the 1990s.

1.43 Stabilising population is an essential requirement for promoting sustainable development and its equitable distribution. The National Population Policy (NPP-2000) recognises the fact that population stabilisation is as much a function of making reproductive health care affordable, as other life quality improving services such as primary and secondary education, sanitation, drinking water, housing, transport, communication and empowering women and enhancing scope for their employment. In pursuance of the NPP 2000, a national commission on population has been set up. State level commissions on population have also been set up with the objective of ensuring implementation of the policies.

1.44 National health programmes are implemented to control communicable and non-communicable diseases like malaria, tuberculosis, leprosy, blindness, AIDS, cancer etc. Strengthening of disease surveillance and response systems has also been undertaken to prevent outbreak of infectious diseases. HIV/AIDS is now sought to be projected as a socio-economic issue and not merely as a public health matter. The second phase of national AIDS control programme was launched in November 1999 at an estimated cost of Rs.1,425 crore over the next five years. Efforts have been to achieve zero incidence of polio by the end of the year 2001. The incidence of polio has sharply declined with many states reporting not a single case or only one or two cases of wild polio virus. The virus is, however, reported to be still active in U.P. and Bihar.

1.45 The National Housing and Habitat Policy, 1998, has been formulated with the objective of creating 20 lakh dwelling units each year. It also seeks to ensure that housing, along with supporting services, is treated as a priority sector at par with infrastructure. The central theme of this policy is the much expanded role of private sector for tackling housing and infrastructure problems. The Government recognises the urgent need to provide fiscal concessions and carry out legal and regulatory reforms for creating a conducive environment for housing construction.

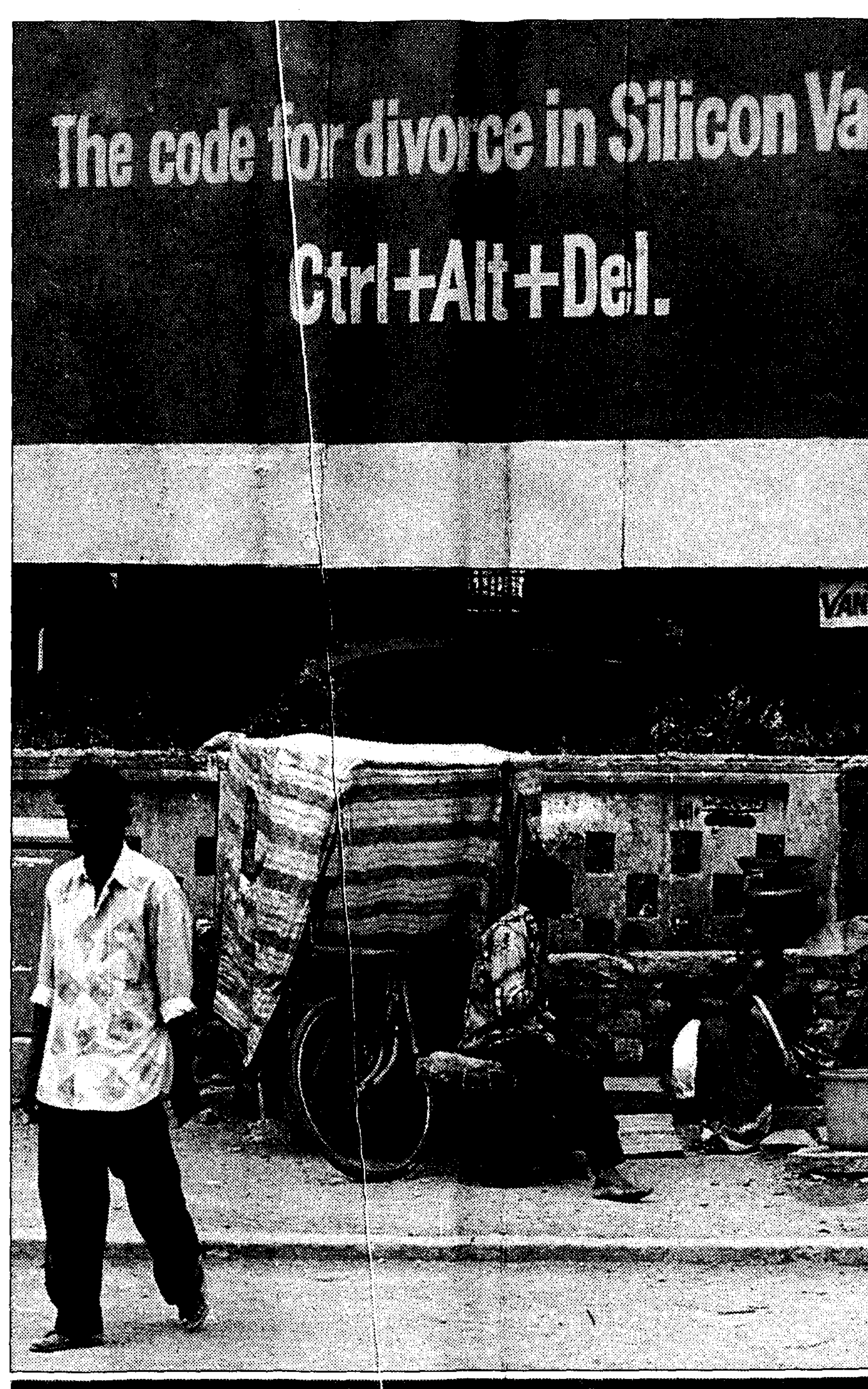
1.46 The total flow of funds sanctioned to the housing sector in 1999-2000 was Rs. 21623.51 crore for 32.15 lakh housing units in the country under various housing finance schemes. This represented an increase of 27.34 per cent over the previous year. In the current year (upto September, 2000) a total of Rs. 11791.27 crore has been sanctioned for 19.63 lakh housing units. In terms of disbursements, a total of Rs. 19475.88 crore was disbursed for 28.55 lakh housing units in 1999-2000, representing an increase of 23.81 per cent over the previous year. In the current year (upto September, 2000) a total of Rs. 8481.97 crore have been disbursed for 6.93 lakh housing units.

FISCAL DEVELOPMENTS

Union Budget : 2000-2001

1.47 The Budget for 2000-2001 was formulated in the backdrop of a series of exceptional exogenous events such as the 50 day war in Kashmir, long months of political uncertainty before the general election, the super cyclone in Orissa, a somewhat weak monsoon and the continued fragility in world economic recovery. These developments led to an unanticipated expenditure on national defense, elections and the super cyclone during 1999-2000. Furthermore, the residual impact of the Fifth Central Pay Commission, the need for special fiscal assistance to the states combined with shortfalls in receipts from disinvestment and revenue, exacerbated the fiscal deficit during 1999-2000. As a proportion of GDP, the Centre's gross fiscal deficit (exclusive of states' & UT's share of small savings) estimated at 5.6 per cent in the revised estimate for 1999-2000 now stands at 5.5 per cent on the basis of provisional and unaudited figures. The Budget for 2000-2001 envisaged a fiscal deficit target of 5.1 per cent of the GDP. The primary deficit (fiscal deficit net of interest payments), which reflects the current fiscal stance of the Government, is budgeted at 0.5 per cent of GDP in 2000-01 as against 0.8 per cent in 1999-2000 (Table 1.9).

1.48 With a view to put India on a higher growth path, the Union Budget (2000-2001) indicated a seven fold strategy which included the following elements: To strengthen the foundations of growth of the rural economy, nurture knowledge based industries, strengthen and modernize traditional industries, remove infrastructure bottlenecks, accord high priority to human resource development with special emphasis on poorest and weakest sections of society, strengthen the country's role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management, and establish a credible framework of fiscal discipline.



East or west, home is best

The Fiscal Responsibility and Budget Management Bill

1.49 The Fiscal Responsibility and Budget Management Bill, 2000, was introduced in the Lok Sabha in December 2000. The Bill provides for a legal and institutional framework to eliminate revenue deficit, bring down the fiscal deficit, contain the growth of public debt and stabilise debt as a proportion of GDP within a time frame. The proposed law casts an obligation on the Government itself for strengthening the institutional framework for conduct of prudent and accountable fiscal policy and pave the way for promoting greater macro-economic stability. This covers only the finances of the Central Government. The principles of fiscal responsibility have been defined in relation to deficit, borrowing and debt.

1.50 The Bill focuses on two deficit indicators, viz., revenue deficit and fiscal deficit, and provides normative ceilings within a time frame for chosen fiscal indicators. The Bill proposes elimination of revenue deficit and progressive reduction of the fiscal deficit to not more than 2 per cent of Gross Domestic Product within a period of five financial years following the promulgation of the law. Besides, the proposed Bill contains provisions, which will ensure flexibility in fiscal management under extraordinary circumstances like natural calamities and war. Under borrowing related principles, it is proposed to prohibit certain types of borrowing from the Reserve Bank of India and under the debt related principles, it is proposed to prescribe a limit on the debt stock. Accordingly, the Bill envisages that within a period of ten financial years, the total liabilities (including external debt at current exchange rate) would not exceed fifty per cent of the estimated GDP.

Fiscal and budgetary developments in 2000-2001

1.51 The fiscal parameters for the nine months of the current fiscal year (April-December 2000) reveals a decline in gross fiscal deficit from Rs. 67082 crore in April-December 1999 to Rs. 64628 crore in April-December 2000 due to better revenue receipts and lower growth in expenditure in the current year. Revenue receipts (net to Centre) increased by 15.3 per cent; other receipts (mainly disinvestment receipts) were only a miniscule Rs.236 crore (against a budgeted target of Rs.10000 crore. Total expenditure at Rs. 204821 crore had an increase of only 7.7 per cent over the same period of last year. Borrowings and other liabilities at Rs. 64628 crore indicates a decline of 3.7 per cent over last year.

1.52 The data available for gross collections from major direct and indirect taxes for the first nine months (April-December, 2000) of the current year show strong recovery in direct tax collections. Collections from personal income tax and corporation tax increased by 30.5 per cent in April-December 2000 compared with an increase by 15.3 per cent in April-December 1999. Collections from excise and custom duties posted a growth of 7.1 per cent compared with an increase of 19 per cent in April-December 1999.

Expenditure management

1.53 Over the years the composition of central Government expenditure has acquired rigidity on account of growing number of pre-committed items of expenditure. With a view to curb built-in expenditure growth and bring about structural changes in the composition of expenditure, the Union Budget (2000-01) proposed a number of initiatives which inter alia, included the following: all ongoing schemes will be subjected to rigorous zero-base budgeting scrutiny; the manpower requirements of Government departments will be reassessed by reviewing the norms for creation of posts and fresh recruitment in Government departments and institutions will be limited to minimum essential needs; the scheme for redeployment of surplus staff will be made more effective and a voluntary retirement scheme (VRS) will also be introduced for staff in the surplus pool; all subsidies would be reviewed with a view to bring in cost-based user charges wherever feasible; budgetary support to autonomous institutions would be reviewed and they will be encouraged to maximise generation of internal resources; the interest rate on general provident funds has reduced by 1 per cent to 11 per cent effective from April 1, 2000, for aligning it with the overall interest rate structure; and the Budget earmarked Rs.1,000 crore out of disinvestment proceeds for retiring Government debt.

1.54 During the course of the year, the Government took a series of measures for controlling growth in non-plan, non-developmental expenditure which include, a mandatory 10 per cent cut in the budgetary allocation for non-plan non-salary expenditure of all ministries/departments and autonomous institutions; a complete ban on purchase of new vehicles for one year; ten per cent cut in the consumption and allocation of funds for expenditure on POL for staff cars; ban on creation of new posts for one year; and ban on foreign travel for study tours, seminars etc.

TAX REFORMS

1.55 The thrust of the direct tax proposals in the Budget was to retain stability in tax rates and widen the tax base. A new regime for venture capital funds (VCFs), which allows complete pass through status, was put in place for stimulating the growth of knowledge based industries. Provisions relating to amalgamations, demergers and slump sales have been further rationalised to provide tax-neutrality of corporate restructuring. Minimum Alternate Tax (MAT) is to be charged at 7.5 per cent of the "book profits" by all companies as determined under the Companies Act.

1.56 All tax concessions relating to earnings in foreign exchange are being phased out in a five-year period. With a view to expand the tax base, the "one-by-six" criteria introduced for identifying potential tax payers was extended to 79 more cities (from 54 cities) having a population of 2 lakh or more, as per the 1991 Census.

1.57 On the indirect tax front, the process of reduction in the dispersal, rationalisation and simplification of duty rates was carried forward to reduce the transaction and compliance costs. The system of central excise was overhauled with the introduction of a uniform Central Value Added Tax (CENVAT) of 16 per cent ad valorem on all manufactured goods with few exceptions. This will also encourage the States/Union Territories to implement their agreed programme for converting their sales taxes into VAT by April 1, 2002. In addition to CENVAT, three rates of special excise of 8 per cent, 16 per cent and 24 per cent respectively have been prescribed. These apply to certain specified goods like aerated water, tobacco products, motor vehicles, cosmetics etc. Rules and procedures for availing of CENVAT credit have been made short, simple and transparent. All inputs (except high-speed diesel and motor spirit) and all capital goods are eligible for input tax credit. Also, all finished goods (except matches) have been brought under the CENVAT credit scheme. The basis for payment of excise was changed to "transaction value" instead of "deemed wholesale price".

1.58 In the area of customs duty, the objective has been to reduce the high levels of tariffs gradually, so as to reduce the cost of production and improve the competitiveness of the user industry while allowing reasonable time to the domestic industry to adjust against competition from imports.

1.59 The move towards Asian levels of tariffs was reassured with peak protective customs tariff rate scaled down from 40 per cent to 35 per cent ad valorem and reducing the existing five major ad valorem rates of basic customs duty to 4 ad valorem rates viz. 5 per cent, 15 per cent, 25 per cent and 35 per cent. Several consumer goods and a large number of agricultural products were placed on the free list for imports effective from April 1, 2000. These goods are subject to the peak customs tariff rate of 35 per cent plus surcharge. The basic customs duties on crude petroleum and petroleum products were reduced in the Budget and were further scaled down to 10 per cent and 20 per cent respectively during the course of the year consequent to the rise in international oil prices.

INFLATION

1.60 The year 1999-2000 witnessed a gradual fall in the rate of inflation due to bumper production of foodgrains and an efficient supply-demand management for essential commodities by the Government. The annual average rate of inflation in terms of the Consumer Price Index (CPI) declined sharply from 13.1 per cent in 1998-99 to 3.4 per cent in 1999-2000 despite an increase in fiscal deficit and sharp increase in energy prices. There was also a fall in the annual average rate of inflation in terms of the Wholesale Price Index (WPI) from 5.9 per cent in 1998-99 to 3.3 per cent in 1999-2000.

1.61 The year 2000-01 began with an inflation rate of 6.75 per cent. Over three fourths of this inflation rate may be attributed to the increase in the administered prices of fuel products like liquid petroleum gas (LPG), aviation turbine fuel (ATF) and kerosene in March 2000. But for the increase in the prices of these administered items, inflation would have been close to 4 per cent at the beginning of the current fiscal year. Inflation rate hovered a little over 6 per cent in the first half of the year (April-September), when a further increase in the prices of petroleum products - LPG, kerosene, diesel and petrol - at the end of September, caused the inflation rate to cross the 7 per cent level.

1.62 The annual rate of inflation (provisional) based on the Wholesale Price Index (WPI), for the week ending January 27, 2000 was 8.2 per cent on point to point basis compared with 3.6 per cent on the corresponding date a year ago. The 52 week average inflation rate on the same date was 6.6 per cent compared with 3.4 per cent on the corresponding date of 1999-2000.

1.63 The Wholesale Price Index of all commodities recorded an increase of 4.8 per cent during the first 44 weeks of the current financial year, The wholesale price index for primary articles increased by only 1.4 per cent during this period. The WPI of manufactured products also recorded a modest increase of 3.6 per cent during the first 44 weeks of the current year. Stability in prices of the primary and manufactured products had a sobering effect on the inflation rate, despite the hike in administered prices of energy products.

1.64 Movement in retail prices commonly measured by the Consumer Price Index for Industrial Workers (CPI-IW) remained moderate during the year. CPI (IW) based inflation rate was 5.5 per cent in April 2000 which decelerated continuously thereafter to reach a low of 3.5 per cent in December 2000. This reflects that retail prices of most of the essential commodities of daily use remained stable during the year.

MONEY SUPPLY

1.65 The year-on-year growth of broad money supply (M3) was 15.8 per cent as on January 12, 2001 as against 16.7 per cent as on January 14, 2000. This reflected expansion in monetary base through the India Millennium Deposits in November 2000. Driven by the increase in the net foreign exchange assets of the RBI, reserve money increased by 5.1 per cent till January 12 in current financial year compared with negligible growth in the corresponding period of the previous year. The year-on-year growth in deposits of scheduled commercial banks (SCBs) as on January 12, 2001 at 17.9 per cent was above the RBI's projected growth rate of 15.5 per cent. However, this reflected the inclusion of Rs. 25,662 crore from the India Millennium Deposits (IMD) which grew at 15.7 per cent till January 12 in the current financial year compared to 13 per cent in the corresponding period of the previous year. Currency with the public expanded at a lower pace of 10.0 per cent till January 12, 2001 as against 14.9 per cent in the corresponding period of 1999-2000.

FINANCIAL DEVELOPMENTS

1.66 The important monetary measures undertaken in the current financial year relate to transition to a full-fledged Liquidity Adjustment Facility, increase in the permissible level of commercial banks' exposure to the capital market, improvements in credit delivery system with special focus on the small scale industry, and renewed efforts aimed at speedier recovery of funds locked up in the non-performing assets of commercial banks. The impact of banking sector reforms on asset quality is discernible from the remarkable reduction in the ratio of incremental NPAs to the incremental total loan assets of SCBs from 16.9 per cent in 1998-99 to 2.8 per cent in 1999-2000. As per the revised guidelines for NPA recovery in respect of NPAs with outstanding balances of upto Rs. 5 crore, the public sector banks could recover about Rs. 546 crore till the end of December, 2000.

1.67 In order to enable financially sound banks to play a greater role in resource mobilisation for investment and growth, they have been permitted to enter the insurance business with prior approval of RBI. Similarly, well-managed non-banking financial companies (NBFCs) have also been allowed to enter insurance business with prior approval of RBI. Other measures include, revised norms for entry of new banks in the private sector, reduction in the minimum maturity of Certificates of Deposits from 3 months to 15 days, issuance of final guidelines on Commercial Papers imparting greater flexibility to corporates, especially those in the service sector in resource mobilisation, mandatory rating for term deposits accepted by AIFIs, and move towards consolidated supervision of banks and their subsidiaries by incorporating the balance sheets of subsidiaries in the balance sheet of the parent bank.

1.68 Till January 12, 2001, non-food credit from SCBs registered a growth of 11.9 per cent as against 10.5 per cent last year. There has been growing concern over the deceleration in industrial production despite higher flow of non-food credit. The acceleration in credit flow is not however due to an increase in credit to the oil sector. The credit flow to the petroleum sector till January 12, 2001 in the current financial year declined by Rs. 79 crore compared with an increase of Rs. 210 crore in the corresponding period of the previous year.

1.69 There was significant improvement in sanctions made by the All India Financial Institutions (AIFIs). The sanctions made by the AIFIs increased by 17.5 per cent in April-December 2000 compared with 5.0 per cent in April-December 1999. Disbursements made by the AIFIs increased by 12.4 per cent in the same period of the current year compared with 19.0 per cent last year.

1.70 A number of policy measures have been taken to improve the financial health and operational efficiency of commercial banks in India. The major policy measures include, legislative initiative to reduce the minimum Government shareholding in nationalised banks to 33 per cent, annoucement of revised norms for entry of new banks in the private sector, move towards consolidated supervision by incorporating the balance sheets of subsidiaries into the balance sheet of the parent bank, in-house arrangements by banks for collecting and collating credit and other related information required by the proposed Credit Information Bureau, close monitoring of accounts on an on-going basis and a simplified, non-discretionary and non-discriminatory mechanism for recovery of non-performing assets (NPAs). In addition to these measures, a few notable initiatives aimed at enhancing opportunities for the relatively stronger banks in financial intermediation relating to entry into insurance business and increase in the permissible level of exposure to capital markets.

1.71 The year 1999-2000 witnessed significant decline in non-performing loans. For SCBs as a whole, gross non-performing loans declined from 14.7 per cent of gross advances at the end of March 1999 to 12.8 per cent at the end of March 2000. The corresponding decline in respect of public sector banks was from 15.9 per cent to 14.0 per cent whereas for private sector banks, it was from 10.8 per cent to 8.5 per cent. In the case of foreign banks, the corresponding decline was less than 1 percentage point from 7.6 per cent to 7.0 per cent. The decline in the percentage of net non-performing loans to net advances was less significant. For SCBs as a whole, net non-performing loans declined from 7.6 per cent of net advances as on March 31, 1999 to 6.8 per cent as on March 31, 2000. In the case of public sector banks, the corresponding decline was from 8.1 per cent as on March 31, 1999 to 7.4 per cent as on March 31, 2000, whereas in the case of private sector banks, it was from 7.4 per cent to 5.6 per cent. Net non-performing loans of foreign banks declined from 2.9 per cent to 2.4 per cent during the same period.

1.72 It is also meaningful to look at the magnitude of non-performing assets (NPAs) in relation to total assets. For SCBs as a whole, NPAs accounted for 5.5 per cent and 2.7 per cent of total assets in gross and

The Kids Aren't All Right

INDIA'S neglect of basic health and hygiene standards extracts a terrible toll. It has one of the highest incidences of infant mortality - the number of children who die in infancy - among all nations today.

- In 1998, 70 out of every 1,000 children born in India would die in infancy. This is lower than the figure for 1980, when 115 out of every 1,000 kids would die.
- But even today's infant mortality figure is unacceptably high by global standards. Developed countries like the US and UK have infant mortality rates of seven and six per 1,000 live births, respectively. Japan, Sweden and Switzerland do even better, with only four out of every 1,000 kids born expected to die in infancy.
- But even developing nations like Algeria and Egypt, with infant mortality rates of 35 and 49, respectively, do better than India. So do Argentina (19), Brazil (33), Mexico (30) and Chile (10). In Asia, China (31), Malaysia (8), Thailand (29) and Sri Lanka (sixteen) take better care of their newborns than India does.

KEY INDICATORS

	1997-98	1998-99	1999-2000	2000-01	1997-98	1998-99	1999-2000	2000-01
	Absolute values				Per cent change over previous period			
Gross national product (Rs. thousand crore)								
At current prices	1376.8	1601.1P	1771.1Q	1972.7A	11.9	16.3P	10.60	11.4A
At 1993-94 prices	1005.6	1071.1P	1140.4Q	1209.8A	4.8	6.5P	6.50	6.1A
Gross domestic product (Rs. thousand crore)								
At current prices	1390.0	1616.0P	1786.4Q	1989.5A	11.8	16.3P	10.50	11.4A
At 1993-94 prices	1016.3	1083.0P	1152.0Q	1221.2A	4.8	6.6P	6.40	6.0A
Agriculture and allied sectors (Rs. crore) (at 1993-94 prices)	269383	288401P	290534Q	293050A	-2.4	7.1P	0.70	0.9A
Index of agricultural production(1)	165.3	178.1	176.8	170.6P	-6.1	7.7	-0.7P	-3.5P
Foodgrains production (million tonnes)	192.3	203.5	208.9	199.0P	-3.6	5.8	2.7P	-4.7P
Index of industrial production(2)	139.5	145.2	154.7	159.8#	6.7	4.1	6.5	5.7#
Electricity generated (billion KwH)	421.7	448.5	480.7	372.8#	6.5	6.4	7.2	4.7#
Wholesale price index(3)	134.6	141.7	150.9	158.1*	4.5	5.3	6.5	8.2*
Consumer price index for industrial workers(4)	380.0	414.0	434.0	446.0@	6.3	8.9	4.8	3.5@
Money supply (M3)(5) (Rs. thousand crore)	821.3	981.0	1117.2P	1262.2(6)	18.0	19.4	13.9	15.8(6)
Imports at current prices								
(Rs. crore)	154176	178332	204583P	173116#	11.0	15.7	14.7P	14.3#
(US$ million)	41484	42389	47212P	38160#	6.0	2.2	11.4P	9.0#
Exports at current prices								
(Rs. crore)	130101	139753	162925P	146552#	9.5	7.4	16.8P	26.4#
(US$ million)	35006	33218	37599P	32268#	4.6	-5.1	13.2P	20.4#
Foreign currency assets(7)								
(Rs. crore)	102507	125412	152924	171032(8)	27.5	22.3	21.9	16.4(8)
(US$ million)	25975	29522	35058	36861(8)	16.1	13.7	18.8	9.4(8)
Exchange rate (Rs/US$)(9)	37.16	42.07	43.33	45.51(10)	-4.5	-11.7	-2.9	-4.8

Note: Gross national product and Gross domestic product figures are at factor cost (base 1993-94).
Q-Quick estimates; A-Advance estimates; P-Provisional;
* As on 27.1.2001 (provisional). @ December 2000. # April-December, 2000.
1. Index of agricultural production (of 46 crops, including plantations) with base triennium ending 1981-82=100.
2. Index of industrial production, base 1993-94=100.
3. Index (with base 1993-94=100) at the end of fiscal year.
4. Index (with base 1982=100) at the end of fiscal year.
5. Outstanding at the end of financial year.
6. As on January 12, 2001.
7. Outstanding at the end of fiscal year.
8. At the end of January, 2000-01.
9. Per cent change indicates the rate of appreciation/depreciation (-) of the Rupee vis-à-vis the US Dollar.
10. Average for April-January, 2000-01.

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net terms respectively. The corresponding figures in respect of public sector banks were 6.0 per cent and 2.9 per cent compared with 3.6 per cent and 2.3 per cent for private sector banks. It is mentionable that in the case of old private sector banks, these figures were higher at 5.1 per cent and 3.2 per cent in gross and net terms respectively as against much lower figures of 1.6 per cent and 1.1 per cent in the case of new private sector banks. In the case of foreign banks, the figure for gross NPAs was rather high at 3.2 per cent as against only 1.0 per cent in case of net NPAs.

CAPITAL AND MONEY MARKETS

1.73 The capital market witnessed subdued activity in the current financial year. During April-December 2000 resource mobilisation through public and rights issues was about 26 per cent lower than the amount raised in the corresponding period of the previous year. Though the amount raised through debt registered greater decline by about 32 per cent the amount raised through equity issues also declined by around 22 per cent during this period. This mirrored the relatively weaker investor sentiment in the secondary market, which was also reflected in the net FII investment. Net FII investment (as per estimates by the SEBI) in April-December 2000 constituted hardly one-third of that in the corresponding period of 1999.

1.74 Contrary to the buoyant conditions witnessed in the stock market in 1999-2000, there has been significant decline in share prices in the current financial year. The Bombay Stock Exchange (BSE) Sensitive Index declined by 13.5 per cent from 5001 at the close of March 2000 to 4327 at the close of January 2001. The National Stock Exchange (NSE) Index (S&P CNX Nifty) also exhibited similar trends in share prices. It declined by 10.2 per cent from 1528 to 1372 during the same period. This erosion in share prices reflected the influence of share price movements abroad, specially at the tech-heavy NASDAQ. Nevertheless, the decline at BSE and NSE was much less than that at NASDAQ where the index declined by 39.4 per cent from 4573 at the close of March 2000 to 2773 at it close of January 2001.

1.75 The Securities and Exchange Board of India (SEBI) has carried further the process of capital market reforms with the objective of moving towards a market, which is modern in terms of infrastructure as well as international best practices, investor friendly, efficient, safe and globally competitive. The major reforms undertaken in the capital market in course of the year include the following:

●Tightening of entry norms for IPOs through modifications of SEBI (Disclosure and Investor Protection) Guidelines,

●Relaxation of IPO norms for companies in all sectors by reducing the minimum level of public offering from 25 per cent to 10 per cent of post-equity issue,

●Compulsory book building in respect of IPOs by companies without proper track record, including the stipulation that 60 per cent of the offer be allotted to qualified institutional buyers,

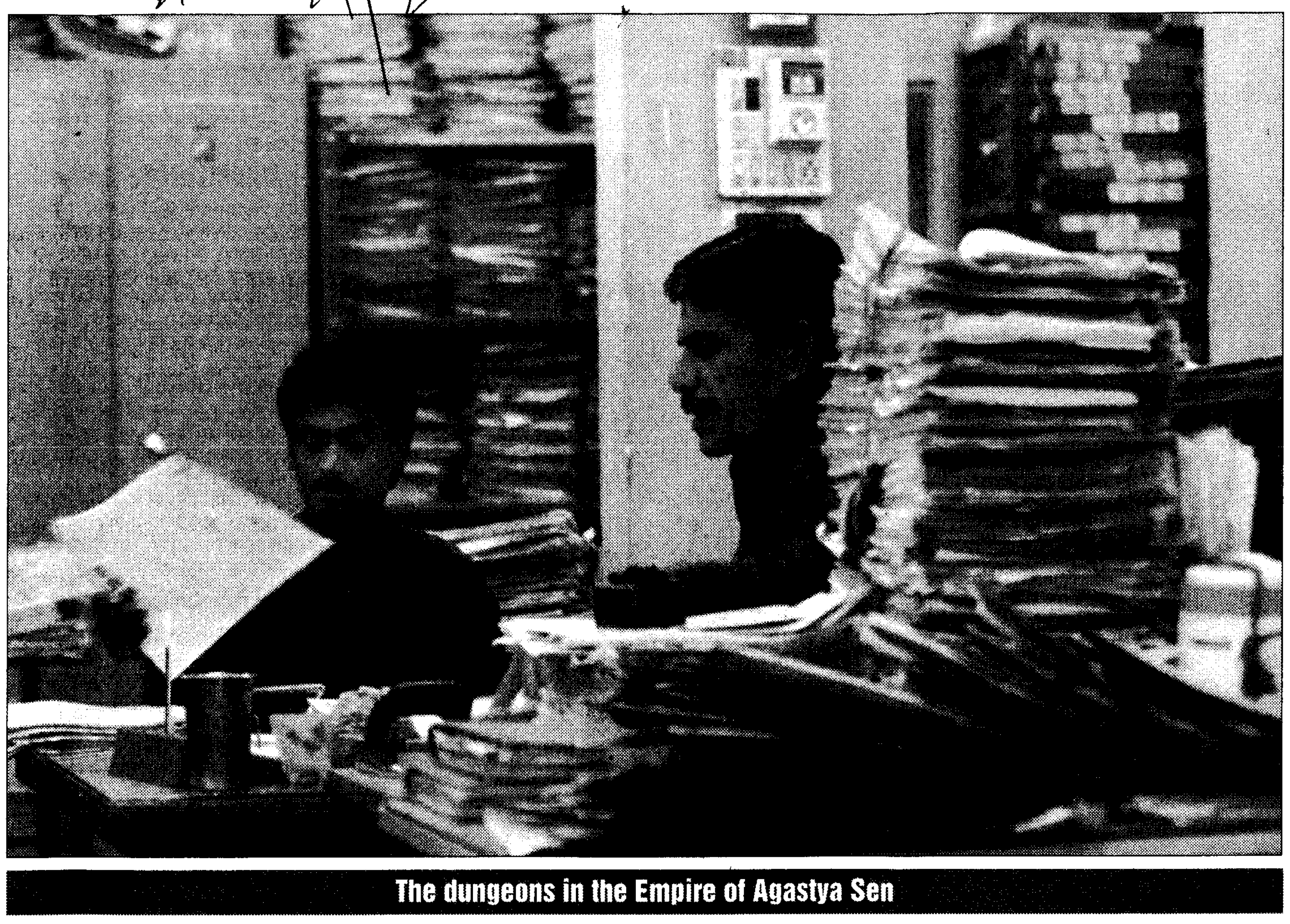
● Permission for 100 per cent one-stage book building with bidding centres at all cities with stock exchanges and liberalisation of investment norms for mutual funds by allowing open-ended schemes to invest up to 10 per cent of their net asset value (NAV) in equity shares or in equity-related instruments of unlisted companies,

●Relaxation of permissible level of funds of commercial banks for investment in capital market by replacing the earlier ceilings of 5 per cent of previous year's incremental deposits by 5 per cent of outstanding credit and

●Setting up of Investor Grievance Redressal Cell in Department of Company Affairs to coordinate the efforts of regulatory agencies, viz., RBI, SEBI and the Department of Company Affairs.

●Introduction of derivatives trading based on stock index futures.

1.76 An important measure designed to further enhance the efficiency of the money market taken in June this year was relating to the transition to a full-fledged Liquidity Adjustment Facility (LAF) involving injection and absorption of liquidity via variable rate reverse repo auctions and variable rate repo auctions respectively. Regulatory powers have been given to RBI under amendment to the Securities Contracts (Regulation) Act, 1956 to regulate dealings in Government and money market securities. The measures for further deepening and widening the Government securities market include permission to entities, who have been allotted securities in primary auctions, to sell them on the allotment date itself, and permission to all entities having SGL and current account with RBI Mumbai office to undertake repos in Treasury Bills and Central/State Government dated securities.



The dungeons in the Empire of Agastya Sen

EXTERNAL SECTOR

International economic environment

1.77 The global economic and financial situation that was under pressure following the crises in Asia and Russia staged a rapid recovery in 1999 and gained strength in 2000. Global output is expected to grow at 4.7 per cent in 2000 compared with 3.4 per cent in 1999 and 2.6 per cent in 1998. Growth of world trade volume in goods and services recovered to 5.1 per cent in 1999 from 4.3 per cent in 1998 and is estimated to have almost doubled to 10 per cent in 2000. World trade prices of manufactures in US Dollar value, which continued to be on the downslide for five years since 1996, are expected to rise by 1.1 per cent only in 2001. World trade prices of non-fuel primary commodities, which had displayed downward trends in the last four years, are estimated to have increased by 3.2 per cent in 2000 with prospects for further increase in 2001. International oil prices increased by 37.5 per cent in 1999 and strengthened further by 47.5 per cent in 2000. They are expected to soften (by about 13 per cent) in 2001. All these trends will have favourable impact upon the economic prospects and balance of payments of the developing countries, including India.

BALANCE OF PAYMENTS

Current account deficit

1.78 India's balance of payments situation remained comfortable in 1999-2000. The deficit on the current account increased only marginally from US $ 4 billion in 1998-99 to US $ 4.2 billion in 1999-2000, despite an unfavourable environment in international trade and finance and almost two-third hike in India's oil import bill, reflecting the sharp increase in international prices of crude oil. This was made possible because of a strong recovery of exports and a surge in net inflow of invisibles reflecting sharp increases in software exports and private transfers. Net inflow of invisibles at US $ 12.9 billion covered 76 per cent of the deficit on trade account in 1999-2000, leaving a financing gap of US $ 4.2 billion on the current account. As percentage of GDP, the current account deficit recorded a marginal decline from 1 per cent in 1998-99 to 0.9 per cent in 1999-2000.

1.79 With the continued increase in oil prices and further increase of India's oil import bill, the current account deficit is expected to widen to 1.5-1.7 per cent of GDP in 2000-2001. According to the latest quarterly estimates of BOP made by the Reserve Bank of India (RBI), current account deficit widened to nearly US $ 4 billion in April-September 2000 from US $ 2.9 billion in April-September 1999. While net invisibles increased by only US $ 0.5 billion from US $ 4.7 billion in April-September 1999 to US $ 5.2 billion in April-September 2000, trade deficit on BOP basis increased by US $ 1.7 billion from US $ 7.5 billion to US $ 9.2 billion during the same period (Table 1.10).

TRADE DEFICIT

1.80 The trade deficit on the BOP account widened to US $17.1 billion or 3.8 per cent of GDP in 1999-2000 from US $ 13.2 billion (3.2 per cent of GDP) in 1998-99. Exports made a welcome recovery from a negative growth of (-) 3.9 per cent in 1998-99 to 11.6 per cent in 1999-2000. Total imports, on payment basis, also rose sharply by 16.5 per cent in 1999-2000 mainly due to a 63 per cent increase in the oil import bill.

1.81 According to the latest quarterly estimates of BOP by RBI, exports increased by 22.1 per cent and imports by 22.2 per cent, resulting in a widening of trade deficit by 22.3 per cent to US $ 9.2 billion in April-September 2000. Imports of crude and petroleum products showed a substantial increase from US $ 4.5 billion in April-September 1999 to US $ 8.3 billion in April-September 2000 due to continued pressure on international prices of oil.

1.82 Export growth has accelerated further in the current financial year. According to DGCI&S data, merchandised exports in US Dollar value in April-December 2000 have witnessed a strong growth of 20.4 per cent, much higher than 10.3 per cent in April-December 1999. Imports grew by 9.0 per cent in April-December 2000 compared to 10.7 per cent in April-December, 1999. The rise in imports was primarily due to the continued surge in oil imports, which increased sharply by 78.2 per cent due to hardening of international oil prices. The spurt in POL imports has, however, been offset by non-POL imports, which have declined by 8.3 per cent, reflecting weak domestic demand and subdued industrial activity. The continued buoyancy in exports and the declining trend in non-POL imports has resulted in a substantial decline in customs trade deficit from US $ 8.2 billion in April-December 1999 to US $ 5.9 billion in April-December 2000.

TRENDS OF MAJOR MACROECONOMIC INDICATORS : 1990-91-2000-01

ITEMS	1990-91	1991-92	1997-98	1998-99	1999-00	2000-01
1. Growth rates (per cent):						
GDP at constant factor cost	5.6	1.3	4.8	6.6P	6.4Q	6.0A
Industrial production (IIP)	8.2	0.6	6.7	4.1	6.6	5.7a
of which: Electricity	7.8	8.5	6.6	6.5	6.6	4.6a
Agricultural production	3.8	-2.0	-6.1	7.7	-0.7P	-3.5P
Foodgrains production	3.1	-4.5	-3.6	5.8	2.7P	4.0b
Exports (BOP in terms of US $)	9.0	-1.1	4.5	-3.9	11.6	20.4b
Imports (BOP in terms of US $)	14.4	-24.5	4.6	-7.1	16.5	9.0b
of which POL	60.0	-11.7	-18.7	-21.6	63.8	78.2b
2. Foodgrains prodn. (million tonnes)	176.4	168.4	192.3	203.5	208.9	199.0E
3. Electricity generated (million Kwh)	264.3	287.0	421.7	448.6	480.7	372.6c
4. Average exchange rate (Rs/ US$)	17.94	24.85	37.17	42.07	43.33	45.51d
5. Growth rate of money supply (M3)	15.1	19.3	18.0	19.4	13.9	15.8e
6. Average rate of inflation (per cent)						
in terms of WPI	12.1	13.6	4.8	6.9	3.3	6.6f
in terms of CPI	13.6	13.9	8.8	13.1	3.4	4.0g
7. As per cent of GDP at current market prices :						
Gross domestic savings (GDS)	23.1	22.0	23.5	22.0	22.3	
Gross domestic investment (GDI)	26.3	22.5	25.0	23.0	23.3	
Central Government expenditure	17.3	16.2	14.2	14.6	15.3PU	15.5BE
Central Government receipts	15.3	16.2	14.2	14.6	15.3PU	15.5BE
Gross fiscal deficit of central Govt.	6.6	4.7	4.8	5.1	5.5PU	5.1BE
Exports fob (BOP)	5.8	6.9	8.7	8.2	8.5	
Imports cif (BOP)	8.8	7.9	12.5	11.4	12.3	
Trade balance	-3.0	-1.0	-3.8	-3.2	-3.8	
Net invisibles	-0.1	0.7	2.4	2.2	2.9	
Current account balance	-3.1	-0.3	-1.4	-1.0	-0.9	
Total capital flows	2.7	1.7	2.3	1.9	2.3	
Total foreign investment net (BOP)	0.03	0.05	1.3	0.6	1.1	
Foreign direct investment (FDI)net	0.03	0.05	0.9	0.6	0.4	
Portfolio investment	Negl.	Negl.	0.4	-0.02	0.7	
8. Parameters for external debt:						
External debt/GDP ratio (per cent)	28.7	38.7	24.3	23.6	21.9	20.7h
Debt service ratio (per cent)	35.3	30.2	19.0	18.0	16.0	
Debt/ exports ratio	454	467	262	285	257	
Short term debt to total debt ratio (%)	10.2	8.3	5.4	4.5	4.1	4.6h
9. Foreign exch. reserves (US$ bln)	5.8	9.2	29.4	32.5	38.0	41.1*
Imports cover of foreign exch. reserves (in no. of months of imports)	2.5	5.3	6.9	8.2	8.2	

A : Advance estimate, P : Provisional estimate, Q : Quick estimate, PU : Provisional and unaudited (as reported by Controller General of Accounts, Department of Expenditure).
RE : Revised estimate, BE : Budget estimate, E : Expected, Negl. : Negligible.
a During April-December 2000.
b During April-December 2000 (DGCI&S data).
c During April-December 2000.
d Average for April-January 2000-01.
e Annual growth rate as on 12 January 2001.
f As on January 27, 2001.
g For December 2000.
h At the end of September 2000.
* At the end of January 2001.

TRADE POLICY

1.83 Trade policy reforms and changes during 2000-01 included the following :

●Peak rate of basic customs duty was reduced from 40 per cent to 35 per cent and the total number of slabs in customs duty rates was rationalised from five to four (i.e. 35, 25, 15 and 5 per cent).

●Duty on various items (mostly consumer goods and agriculture products) on which quantitative restrictions have been lifted have been placed at peak rate (35 per cent plus surcharge) to accord adequate tariff protection to these items.

●Setting up of Special Economic Zones (SEZ) to encourage export production free from the plethora of rules and regulations governing imports and exports.

●Evolution of a scheme for granting assistance to States based on their export performance for development of export related infrastructure.

●Rationalisation of existing export promotion schemes including abolition of Special Import License (SIL) from April 1, 2001.

●Sector specific initiatives to accelerate exports announced for core areas,

●Permission to import second hand capital goods which are less than 10 years old without obtaining any license on surrender of SIL.

●Deemed export benefits rationalised by extending benefits uniformly to eligible categories and expanding the definition of capital goods.

●Dereservation of the garment sector from the purview of SSI reservation in the new textile policy to boost garment exports.

SECTORAL REAL GROWTH RATES IN GDP (AT FACTOR COST)

ITEM	1980-81 to 1991-92	1992-93 to 2000-01	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 (P)	1999-2000 (Q)	2000-2001 (A)
	Percentage change over the previous year									
I. Agriculture and allied	3.9	3.3	4.1	5.0	-0.9	9.6	-2.4	7.1	0.7	0.9
II. Industry	6.3	6.5	5.2	10.2	11.6	7.1	4.3	3.4	6.4	6.6
1.Mining and quarrying	8.4	4.0	1.4	9.3	5.9	0.5	9.8	1.3	1.7	4.5
2.Manufacturing	6.1	7.4	8.5	12.0	14.9	9.7	1.5	2.5	6.8	6.4
3.Electricity, gas & water supply	9.0	5.9	[illegible]	[illegible]	[illegible]	5.4	[illegible]	6.4	5.2	5.6
4.Construction	5.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.1	8.1	8.7
III.Services	6.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.2	9.6	8.3
5.Trade, hotels, transport and communications	5.5	8.5	7.1	10.4	13.3	7.8	7.7	7.1	8.0	8.0
6.Financial, real estate & business services	9.4	8.8	13.1	5.6	8.2	7.0	11.6	8.4	10.1	9.6
7.Community, social and personal services	5.6	7.4	3.5	3.2	7.9	6.3	11.7	9.9	11.8	7.6
IV.Total GDP	5.4	6.4	6.9	7.8	7.3	7.8	4.8	6.6	6.4	6.0

A : Advance estimates Q : Quick estimates P : Provisional
Source : Central Statistical Organisation.

INVISIBLE ACCOUNT

1.84 Net inflow of invisible earnings reached an all time high of US $12.9 billion in 1999-2000 from US $9.2 billion in 1998-99. Gross invisible receipts increased by 17.7 per cent to US $30.3 billion in 1999-2000 as a result of the continued buoyancy in private transfers and software service exports. Private transfer receipts increased by 18.8 per cent to US $12.3 billion in 1999-2000. Software service exports had grown at an annual rate of over 50 per cent during the four years ended 1998-99. The growth momentum was sustained in 1999-2000, when they recorded a growth of 53 per cent and reached US $4.02 billion.

1.85 Gross invisible payments recorded a moderate increase of about 5.0 per cent in 1999-2000 to US $17.4 billion from US $16.6 billion in 1998-99, reflecting reasonable increase in payments on account of interest and dividends, financial services, management services, advertising, royalties and license fees.

1.86 Invisible flows continued to be buoyant in 2000-01. As per the quarterly BOP estimates by RBI, net invisibles increased from US $ 4.7 billion in April-September 1999 to US $ 5.2 billion in April-September 2000 mainly due to an increase of private transfer from US $ 5.8 billion to US $ 6.7 billion during the same period.

CAPITAL ACCOUNT

1.87 Capital flows improved significantly in 1999-2000. Net inflows of capital on the capital account of BOP increased by US $ 2.4 billion from an aggregate of US $ 7.9 billion in 1998-99 to US $ 10.3 billion in 1999-2000. This improvement was mainly due to a sharp recovery in portfolio investments and continued buoyancy in non-resident deposits. Fresh inflow of funds by the Foreign Institutional Investors (FIIs) increased to US $ 2135 million in 1999-2000 in contrast to an outflow of US $ 390 million in 1998-99. Net inflows of non-resident deposits in 1999-2000 was US $ 2140 million. Gross disbursement of external assistance rose moderately by US $ 3074 million in 1999-2000 compared to US $ 2726 million in 1998-99. Gross borrowing on commercial terms at US $ 3187 million in 1999-2000 was only marginally higher than such borrowings (excluding borrowings through Resurgent India Bonds) at US $ 2995 billion in 1998-99.

1.88 During the first half of 2000-01, net inflows of capital amounted to only US $ 2.5 billion compared with US $ 3.7 billion in April-September 1999. The fall in net capital inflows was due to net outflows on external assistance and external commercial borrowing accounts, although foreign investment and non-resident deposits performed well. The capital flows were augmented by the funds raised by the SBI from NRIs/OCBs through India Millennium Deposits (IMD) amounting to US $5.51 billion in October-November 2000.

Capital account reforms

●Foreign Direct Investment (FDI) up to 100 per cent has been permitted in e-commerce subject to specific conditions.

●The dividend balancing condition for FDI in twenty-two consumer goods industries has been removed.

●The existing upper limit of Rs.1500 crore for FDI in projects involving electricity generation, transmission and distribution (other than atomic reactor plants) has been dispensed with.

●For facilitating greater inflow of foreign funds in the crucial oil-refining sector, ceiling for FDI under the automatic route in oil refining was increased to 100 per cent from the existing 49 per cent.

●FDI under the automatic route has been permitted up to 100 per cent for all manufacturing activities in Special Economic zones (SEZs) except certain activities.

●Foreign Institutional Investors (FIIs) have been permitted greater leverage in the primary and secondary markets by allowing enhancement of the aggregate FII investment ceiling in the issued and paid up capital of Indian companies from the normal ceiling of 24 per cent to 40 per cent subject to specific conditions.

●Foreign equity participation up to 26 per cent in insurance sector is allowed under the automatic route subject to obtaining necessary license from the Insurance Regulatory and Development Authority.

●ECB guidelines have been liberalised. A series of policy liberalisations have been effected for facilitating the use of ECB as a window for resource mobilisation.

●Policies pertaining to international offerings through ADR/GDR by Indian companies have been further liberalised.

●100 per cent FDI has also been allowed (with certain conditions) in telecommunications sector, for Internet service providers not providing gateways, infrastructure providers providing dark fibre, electronic mail and voice mail.

FOREIGN EXCHANGE RESERVES

1.89 The foreign exchange reserves consist of foreign currency assets held by the RBI, gold holdings of the RBI and SDRs. The moderation in current account deficit and the sharp increase in net capital inflows in 1999-2000 resulted in an increase of foreign exchange reserves by US $6.1 billion on top of an increase of US $3.8 billion in 1998-99.

1.90 During the first half of 2000-2001, foreign currency reserves showed declining trend due to excess demand for foreign currency caused by the huge import bill on oil. As per quarterly BOP estimates, foreign exchange reserves declined by US $1460 million in April-September 2000 compared with an increase of US $ 821 million in April-September 1999. Subsequently, as mentioned earlier, the issues of India Millennium Deposits by SBI helped to raise foreign currency assets amounting to US $ 5.51 billion, which were added to RBI's foreign currency reserves in November 2000.

Total foreign exchange reserves (including gold and SDRs) at the end of January 2001 amounted to over US $ 41 billion, providing cover for 8 months of projected imports in 2000-01.

EXCHANGE RATE

1.91 The exchange rate of the Rupee against the US Dollar continues to be broadly market determined. During 1999-2000, the exchange rate market displayed reasonable stability, with the Rupee depreciating by about 2.9 per cent. The year 2000-01 witnessed significant downward pressures on the Rupee-Dollar rate from mid-May 2000. The forex markets were affected by considerable uncertainty with the Rupee depreciating by 6.7 per cent between end-April and end-October 2000. Since November 2000, the situation has shown large improvement and the forex markets have been relatively stable and the exchange rate of Rupee against the US dollar has also recovered partially. At the end of January 2001, the exchange rate of the Rupee was Rs.46.415 per US Dollar, showing a depreciation of 6.1 per cent, compared with the rate of Rs.43.605 at the end of March 2000.

EXTERNAL DEBT

1.92 The external debt to GDP ratio has been declining continuously over the years. The rates improved from 23.6 per cent at the end of March 1999 to 21.9 per cent at end-March 2000 and further to 20.7 per cent at end-September 2000. The absolute value of external debt rose marginally from US $ 97.68 billion at end-March 1999 to US $ 98.44 billion at end-March 2000 before decreasing to US $ 97.86 billion at the end of September 2000. The share of short-term debt to total debt was 4.6 per cent at end-September 2000 compared to 4.1 per cent at end-March 2000. The debt service ratio fell from 18 per cent in 1998-99 to 16.0 per cent in 1999-2000.

Teach Your Children

India is supposed to be building a knowledge economy. But is there enough education going around?

● India's last census results, published exactly 10 years ago, showed that 52.2 per cent of the population was literate. Today, that means about 480 million Indians do not know how to read and write. India has the largest population of illiterates among all nations.

● In the late 1990s, about 77 per cent of all children in the school-going age got enrolled in schools. About 60 per cent made it to secondary schooling. In contrast, every child of school going age in countries like Argentina, Mexico, China and Sri Lanka is enrolled.

● State government mismanagement is the real reason for the failure of publicly funded primary education to take off. Madhya Pradesh, which has freed local bodies to administer their own education programmes, has reported a sharp increase in literacy levels over the last few years.

ISSUES AND PRIORITIES

1.93 The previous decade can be described as the decade of reforms for the Indian economy. While the early years of the decade witnessed the first phase of structural reforms in industrial, financial and external sectors, the final years saw the beginning of the second phase of economic restructuring. The decade of reform was successful in eliciting supply responses as evidenced in the higher growth of GDP, comfortable foreign exchange reserves, improving short term debt profile, moderate inflation and buoyant exports.

CURRENT SITUATION

1.94 The economy is currently at a difficult stage. Some problems of growth are likely to be faced in the coming year. Because of irregular rainfall for the second successive year, agricultural growth has been low or absent in 2000-2001. Industrial growth seems to have slowed down and the sentiment for new investment has not improved. The problem is compounded by the persistence of high international oil prices and the slowdown of the American economy, which is likely to affect the rest of the world. Although the major industries of Gujarat have fortunately escaped the worst effects of the recent massive earthquake, the impact of dislocations on the growth process cannot be ignored. It is therefore essential that the unfolding economic situation be watched carefully. Measures need to be taken to instill confidence in the economy so that the growth momentum of the 1990s can be improved upon.

1.95 Despite the positive response of economic agents to reforms, identifiable gaps in the reform process continue to cloud the long-term growth prospects of the economy. The fiscal situation has worsened since 1996-97. Outstanding Liabilities (non-RBI) of the Central Government has risen to 51.8 per cent of GDP in 1999-2000. More disturbing, it has been on an uptrend since 1996-97 when it reached a low of 46.4 per cent of GDP. This, more than any other indicator, encapsulates the issue of fiscal unsustainability, while more conventional indicators serve to flesh out the picture.

1.96 The central fiscal deficit has risen to 5.5 per cent of GDP in 1999-2000, up from a low of 4.1 per cent of GDP in 1996-97. The revenue deficit showed a similar pattern and at 3.5 per cent in 1999-2000 is now higher than the 3.3 per cent in 1990-91. Though the primary deficit of 0.8 per cent of GDP in 1999-2000 is 2 percentage points lower than in 1990-91, this is primarily due to a 1.9 percentage point reduction in capital expenditure. Interest payments have risen to 4.7 per cent of GDP in 1999-2000 from 3.8 per cent of GDP in 1990-91. Though the Union Budget of 2000-01 has tried to reverse these trends, sustained efforts will be required in this direction in the face of exogenous shocks like the Gujarat earthquake.

1.97 The key problem affecting the Indian economy is the persistence of high fiscal deficit at both the central and state levels. There is need to bring down the overall centre and states gross fiscal deficit of 10 per cent of GDP. The persistence of high fiscal deficit has reflected itself in an increasing share of debt service in the expenditure budget of both the central and state Governments. Consequently, the ability of Government at any level to undertake significant public investment has been seriously eroded. This has led to a decline in demand for Indian industrial goods. The lack of public investment has also slowed down private investment in infrastructure. The continued high borrowing, as a result or the high fiscal deficit has also kept real interest rates high in the economy. Thus, industry faces extremely high real interest rates of 8 per cent to 10 per cent, which would be among the highest in the world. It is therefore difficult for private industry, both foreign and domestic, to undertake new investment with any degree of confidence. The key area for action, for instilling confidence in the economy, pertains to a credible medium term programme for fiscal improvement. This has acquired new urgency at this juncture.

KEY PROBLEMS

1.98 The changes in the components of fiscal deficit over the last decade give an indication of the reasons as well as potential solutions to

FREE TRADE-I

The Need For Social Reconstruction

By AMLAN DATTA

SINCE the 1970s two streams of economic thought have been flowing side by side. There is the mainstream, indisputably dominant in academic circles. There is also an alternative stream, regarded with scant respect and scarcely noticed by professional economists.

The mainstream has passed through several "epochs", classical and neo-classical, Keynesian and post-Keynesian. Yet when we look at it in a broad way, we notice that there has been surprisingly little change in its fundamentals. There is a well known French saying which, when rendered in English, reads, "the more it changes, the more it is the same thing." This aptly describes the course of the venerated mainstream of economic thought. It will be useful to dwell on this point a little longer.

The mainstream of political economy stems from Adam Smith, one of the truly most distinguished writers and thinkers that economics has produced. As an exponent of the market economy, his ideas have been accepted as basically valid for the last two hundred years and more.

LABOUR

Growth of wealth depends on increasing division of labour, which facilitates mechanisation of methods of production, in other words, technological progress, and all these depend on the extent of the market. This is as true of the national economy as of the global economy. This simple argument fits very well with what we today call "globalisation" complete with free trade.

The case for strictly temporary protection for infant industry can be easily accommodated within the broad limits of the economic outlook indicated above. Furthermore it is worth mentioning that Adam Smith carefully noted "a great revolution in the art of war" and went to the extent of justifying certain departures from free trade in the interest of national defence because "defence is of more importance than opulence."

Modern economists pleading for free trade and the market economy yet admit the importance of the role of the government in respect of economic activities. For instance, the government has a special duty and responsibility to help provide the necessary infrastructure for comprehensive economic development. Here, again, Adam Smith stated the basic idea with remarkable clarity. Among the essential duties of the sovereign he included "that of erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit could never repay the expense to any individual or small number of individuals" and which, therefore, could not be left entirely to the care of private enterprise.

It is worth noting that both "public works" and "public institutions" are explicitly mentioned in the statement quoted above. In other words, the sovereign, in modern parlance the government, should not only play a leading role in providing the material infrastructure for promoting trade and industry, but also take an active interest in advancing such relatively non-material goods as public education and public health. Thus, special reference was made to the duty of the sovereign to maintain "institutions for instruction of two kinds: those for the education of the youth, and those for the instruction of people of all ages".

There are certain kinds of public expenditure which are justified mainly by considerations of social welfare irrespective of their effect on economic growth. Such, for instance, are old-age pensions. The case for investment on education and health, as part of a programme of social security, stands on a different foundation. While it is related to welfare, it also helps increase productivity of labour and so contributes to growth of the wealth of the nation. It is easy, therefore, to include it under the duty of the government to strengthen the infrastructure of economic activities.

TREND

"Globalisation", as it is understood today, is new in the sense that it is surrounded and supported now by certain organisations for which there were no counterparts in earlier times. But the basic ideas about freedom of trade and a market economy not confined to any particular nation but linking all parts of the globe along with special duties assigned to the state to facilitate the working of this system have been part of the conventional wisdom among professional economists for a long time. India's new economic policy, which had been struggling unsteadily to take shape in the 1980s and was finally adopted in 1991, is in line with this dominant trend of thought which prevails in the East and the West.

The Stalinist challenge which attempted to indicate an alternative path of industrialisation was effectively overcome a generation ago. It has few takers in India today, despite criticism voiced here against the "conditionalities" prescribed by the international lending institutions. The comments of Jagdish Bhagwati, a very distinguished Indian economist, in his book *India in Transition* are worth quoting in this connection. "The reaction of some," writes Bhagwati, "that these (conditionalities) were alien ideas being imposed by the World Bank and the IMF on India was ludicrous. These ideas had been evolved by some of us ... and had made their way into these institutions."

Does that mean that there is no real alternative to the conventional yet prevailing trend in economic thought? This would be surprising if true. In the last half a century there have been very significant changes in physical and social conditions the world over, bringing along with them new problems which cannot be ignored. These cannot fail to make an impact on the social sciences. Economics claims to be the best organised among the social sciences. Being the most weighty, it may be the hardest to move. But changing circumstances hardly leave it with any real choice: it has to move beyond the horizons set for it by earlier thinkers. The material changes alluded to above are, in fact, so well known that it will be tiresome to state them at great length. It should be enough to make some brief and illustrative references.

OIL CRISIS

Although Gandhiji was deeply concerned with the question of a sustainable economy, this received little attention among academic economists of his time. "Conventional economics treats the natural world as an infinite pool of resources and an infinite sink for wastes," so wrote James Robertson in a book significantly entitled *Future Wealth, A New Economics for the 21st Century*. It is only in the wake of the oil crisis of the 1970s that problems associated with non-renewable resources, such as fossil fuel, became a subject of wide interest. There are two problems involved here. In the first place, as the stock of non-renewable resources is strictly limited, economic growth cannot be indefinitely sustained by dependence on it.

There is also a second problem. Excessive burning of fossil fuels pollutes the environment as it releases into the atmosphere a number of toxic gases, such as carbon dioxide. It also leads to global warming of which the consequences have been widely discussed in recent years. These problems have been further aggravated by the process of deforestation which has been growing apace in many parts of the world. This upsets the balancing relationship between humans and plants because men absorb oxygen and exhale carbon while plants absorb carbon and release oxygen.

An obvious inference from the facts stated above is that we need a far-reaching change in the technological basis of our productive activities to keep the earth habitable for the human race. But technology and social institutions are so closely interrelated that a radical change in the first must also mean a radical reconstruction of society. An inquiry into the nature of this social reconstruction should be a matter of prime concern for all social scientists, including economists.

(To be concluded)

The author, a noted economist, is former Vice Chancellor, Viswa Bharati.

THE STATESMAN
9 APR 2001

No end in sight to BALCO issue

By Our Principal Correspondent

RAIPUR, APRIL 6. Even as the Chattisgarh Chief Minister, Mr. Ajit Jogi, today headed straight for Korba after briefing the Congress president, Ms. Sonia Gandhi, on the controversial Bharat Aluminium Corporation Ltd (BALCO) issue in New Delhi on Thursday, the possibility of any solution to the stand-off appeared grim.

Mr. Jogi, who had flown to the Capital from Bilaspur on Thursday, returned to Raipur via Korba this evening.

"I briefed 'madam' on the BALCO issue in New Delhi and attended a tribal sammelan at Korba," he told reporters here. Referring to a question on response from the Union Mines Minister, Mr. Sunder Lal Patwa, on his letter in which he had offered to participate in the negotiations, the Chief Minister said they had not received any reply from the Central Government so far. "The ball is now in their court," he said.

On the other hand, the striking trade unions seem to be in no mood to compromise. "There is no question of any trade union talking to Sterlite Industries. We do not recognise the new management and talks will be held only when the Government takes over the management," said Mr. M. Ansari, working president of the CITU. He also said talks would be held in the presence of Mr. Jogi and could be scheduled in Raipur or Bilaspur but certainly not New Delhi. Since the Sterlite management has refused to hold negotiations at Korba apprehending law and order problem, Raipur or Bilaspur were the two possible options, he added.

Regarding Mr. Patwa's reported statement that talks would be held to discuss the employees working conditions, Mr. Ansari pointed out that the issue was not only of the BALCO employees but disinvestment as a policy.

Within two hours of the BALCO sale, the Orissa Chief Minister announced the sale of two mines to the company as it would provide employment to 1,000 people from the State. Mr. Ansari said it showed that the intentions of the Sterlite Industries were not genuine right from the beginning.

Admitting that the condition of the striking employees, particularly the contract labourers, was deteriorating and the level of frustration had gone up considerably, Mr. Ansari said the labourers and their families were being fed in the 'langar' run from donations by various trade unions. Mr. Ansari said trade unions have decided to organise a dharna outside Supreme Court on April 9 when the case would be taken up.

I did not speak to Jogi: Surjeet

By Our Special Correspondent

NEW DELHI, APRIL 6. **Mr. Harkishan Singh Surjeet, general secretary of the Communist Party of India (Marxist), today denied he had discussed the plight of workers at BALCO's Korba plant with the Chhattisgarh Chief Minister, Mr. Ajit Jogi.**

Describing the report as "baseless", Mr. Surjeet, said as far as the party was concerned, it fully supported the struggle of BALCO workers against privatisation of the concern. In a statement, he said, the CPI(M) was confident that the united struggle of the workers would succeed in retaining BALCO in the public sector.

A report from Raipur had mentioned that Mr. Surjeet had impressed upon Mr. Jogi on the need to resolve the strike keeping in mind the fate of BALCO employees.

THE HINDU

7 APR 2001

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BALCO revisited

By Rahul P. Dave

A PANELIST in a television programme recently expounded the view that the government of the day could, presumably by executive action, privatise any government company without taking any kind of approval or passing any legislation. Not only is this an erroneous approach, but it also appears that in the heat and dust of the BALCO controversy some important Constitutional and Company Law issues have been overlooked.

Privatisation is the process of denationalisation, which does not appear to fit comfortably within the four corners of our Constitution. The Constitution, as a whole, clearly supports the process of nationalisation. The introduction of the word "Socialist" in the Preamble to the Constitution initially posed somewhat of a problem in legal interpretation. This confusion was caused by the vagueness of the word which was ultimately found to mean an elimination of inequality of income, status and standards of life. Though it has been held that the Preamble cannot be regarded as a source of power, its role being limited to explain any ambiguity, it has also been held that the Preamble must be given a liberal interpretation as it embodies the philosophy behind the Constitution.

However, the Directive Principles of State Policy found in Part IV of the Constitution have, from its inception, charted a path to a welfare state. These DP's are not enforceable by any Court but are nevertheless fundamental in the governance of the country. Article 37 further provides that it is the duty of the State to apply these principles in making laws. Article 39, found in this part, is the one with which we are concerned, and this calls upon the State to direct its policy, in particular, towards securing that the ownership and control of the material resources of the community be so distributed as best to subserve the common good, and further, to secure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

On the other hand, the Constitution is almost silent when it comes to denationalisation. The only flicker of hope is contained in Article 298 which vests the Executive with the power to carry on any trade or business and acquire, hold and dispose of property and make contracts for any purpose. Even this power is subject to laws made by Parliament.

BALCO was set up as a Government Company in 1965 at Korba, M.P. A Government Company is defined in the Companies Act, 1956 as a company in which the Government holds not less than 51 per cent of the paid-up share capital. The Government is hence the majority shareholder in every such company. Since companies in this country are run in accordance with the majority principle, this means that it is the Government that holds the reins of management in every Government Company. The right of the shareholder holding a controlling interest in a company has been held to be a valuable right, which ought not to be compromised without receiving valuable consideration.

The shares of the Central Government are usually held in the name of the President for and on behalf of the people of India. The articles of association of a Government Company most usually contain a clause enabling the President to give directives to that company. The audit of the company is to be carried out by an auditor appointed by the Government on the advice of the Comptroller and Auditor General of India (CAG). The CAG has substantial powers to conduct supplementary audits and comment upon or supplement the audit report. The annual report on the working and affairs of a Government Company is laid before both Houses of Parliament together with a copy of the audit report and any comments made thereon by the CAG.

Parliament is always closely concerned with the affairs and well-being of every Government Company, as it should be, since these are the assets of the people and it is the representatives of the people who must be involved in any major decision pertaining to such assets. In the process of denationalisation the question arises who shall divest the people of India of their assets, and the answer can only be that it is the representatives of the people who have such power and no one else. Divestment is not part of ordinary trade or business and cannot be carried out by the Executive on its own. In this view of the matter, any divestment by the Government in respect of any Government Company has therefore to receive prior approval of Parliament.

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In the BALCO case, divestment faces an additional problem, which is by no means unique to BALCO, amongst Government Companies. In 1984, the undertaking of the Aluminum Corporation of India Limited at Bidhanbag, West Bengal, was acquired by an Act of Parliament (Act 43 of 1984) by the Central Government and by further notification issued thereunder, vested in BALCO. The Preamble to that Act of Parliament is itself a detailed policy statement as to why the acquisition was necessary. It was done specifically to give effect to the policy of the State towards securing the principles specified in Clause (b) of Article 39 that is to secure ownership and control of material resources of the community so that these are distributed as best to subserve the common good. Another reason stated therein is to secure the continued employment of the workmen employed in that undertaking. Such an Act of Parliament is given special protection under Article 31C of the Constitution, since it is a law giving effect to the policy of the State towards securing one of the Directive Principles. It is a point worth noting that in this Act, BALCO is defined as a Government Company within the meaning of the Companies Act. In other words, Parliament has given statutory recognition to the fact that BALCO is a Government Company in which the shareholding of the Government cannot fall below 51 per cent, at least not without statutory amendment. BALCO's disinvestment, therefore, should have been preceded by an Act of Parliament amending the 1984 Act. What amendment, is a moot question. Obviously the acquisition cannot be revoked, but to hand over the acquired undertaking to a stranger, or to provide that BALCO need no longer be a Government Company would fly in the face of the Directive Principles. In any case, this would have meant taking Parliament into confidence prior to the disinvestment and having the law amendment by Parliament before the Government signed its contract with Sterlite. This, as we have seen, was not feasible, as the Government does not command a majority in the Rajya Sabha.

As things stand, it seems that the Government's contract with Sterlite is *ultra vires* the 1984 Act and is in serious jeopardy unless with legal ingenuity this contract can be covered under one of the more general legislation, such as a Finance Act. If not, then to make matters worse, it cannot even be argued that the Government is estopped from denying the contract and must go through with it, since there is no estoppel against statute.

Whatever the outcome, the BALCO case will serve as an example to other Government Companies in which the shareholding of the Government has fallen below 51 per cent and in which the Government has compromised its controlling interest without bringing the matter before Parliament and without receiving valuable consideration.

(The writer is a Supreme Court advocate.)

THE HINDU
27 APR 01

Jogi pledges Rs 552 cr for Balco shares

New Delhi, April 5

THE CHHATTISGARH Government has sworn before the Supreme Court that it is ready to pay Rs 552 crore to buy 51 per cent equity share in Balco, which was sold to Sterlite Industries Ltd for Rs 551.5 crore.

Filing its affidavit challenging the company's disinvestments, the State Government accused the Centre of taking the decision in an arbitrary manner.

"The manner in which the decision of disinvestment in relation to a profit-making company, which is engaged in production of alloys required for strategic defence purposes, has been made, is completely non-transparent, unfair and unreasonable," the Chhattisgarh Government said.

Accusing the Centre of "grossly undervaluing" the company's assets, the State Government said: "There is a captive power plant of 275mw worth about Rs 1,200 crore, 2000 acres of land, mining leases, 4,000 houses besides the valuable plant, machinery and scrap."

"Therefore, if the Centre government is committed to maintain transparency in the process, the State Government is prepared and hereby offers to pay Rs 552 crore and buy the 51 per cent equity share in the company which has been sold out to M/s Sterlite Industries in Rs 551.5 crore," the Secretary, Commerce and Industries, Rural Industries and PSUs, Government of Chhattisgarh, said in a sworn affidavit.

The State blamed the new management of Balco for not taking serious efforts to solve the workers' agitation in protest against the Centre's decision to privatise the company.

"From the conduct of the new management, it also seems that they are not interested in making serious efforts to solve the issue," he said.

PTI

THE HINDUSTAN TIMES

- 6 APR 2001

Punjab faces new challenges over farmer suicides

New report shows alarming rise in number of deaths in Sangrur, Amritsar

BY ASIT JOLLY

Chandigarh, April 2: Last week two Punjab farmers — Nachhattar Singh and Amrik Singh — took the extreme step of ending their lives. Forty five-year-old Nachhattar of Ahmadgarh consumed some poison, possibly a farm pesticide, and Amrik of Borawal, who had just turned 32, hung himself to death.

Though little else is known about the circumstances that led to the two deaths, the local police is yet to register it as a suicide. There are whispers that the dead men — both marginal farmers — have left their respective families to contend with a considerable burden of debt. Villagers say Nachhattar had been depressed ever since he was forced to sell his five-acre plot of land to repay a loan he had taken some years ago. Amrik, who already owed the local cooperative banking society a sum of Rs 40,000, had recently mortgaged his two acres to marry of two younger sisters.

The deaths of Amrik Singh and Nachhattar Singh would, in normal times, have failed to evoke more than passing concern. But even as politicians and experts plan strategies to meet the new challenges of the emerging WTO regime, the twin suicides in Punjab's southwestern hinterland, signal the despondency that has already enveloped farmers across what was once India's most successful agricultural state.

Statistics generated by a Chandigarh-based human rights organisation — the Movement Against State Repression — based on data collected since early 1993, reveal that rural suicides, by farmers and agricultural labourers, have increased alarmingly in Punjab.

In a report submitted to chief minister Parkash Singh Badal some months back, the MASR listed as many as 40 deaths by suicide from June to August last year in 24 villages of the Lehra and Andana blocks of Sangrur district.

The MASR quoted equally shocking statistics from other independent surveys, which listed "300 suicides over a two-and-a-half year period in Amritsar district."

Not all the suicides were related to poverty and debt, but MASR convenor Inderjit Singh Jaijee insists that "an overwhelming majority of the deaths, particularly those of men, can be linked to mounting debt amidst almost non-existent returns from farming." Debt due to conspicuous consumption and high levels of drug abuse are also important causes that

SPOTLIGHT

lead to suicide in rural Punjab, but even in such cases the unviability of farming as an occupation is usually the basic reason.

And perhaps for the first time since the MASR's first report in 1997, the Punjab government, after years of trying to wish away the problem, has conceded that rural suicides are in fact a reality. In what many have described as a "belated and half-baked response," the Badal administration has allocated Rs two crores in the state budget "to compensate the families of farmers who are driven to suicide as a consequence of debt." Each family will henceforth stand to get Rs 250,000 once various government agencies have satisfied themselves that the death was in fact a suicide.

However, the Badal government's compensation package, which some believe, "will prompt families to report all deaths as suicides," notwithstanding, little or no attention is even now being focused on the real root of the problem.

The rising cost of agricultural inputs, non-remunerative grain prices, negative farm subsidies, fragmented land holdings and the necessity of having to service a continually mounting debt burden has not only rendered farming economically unviable but a downright nightmare for most small and marginal farmers in Punjab.

An estimated 80 per cent of the state's farmers can be categorised as "small" or "marginal" and their collective debt accounts for more than an eighth of the staggering Rs 6,000 crores agricultural debt facing the farming community. Of this, only a minuscule four per cent is owed to nationalised banks and 15 per cent belongs to cooperative credit societies. The major chunk of 81 per cent — for which the borrower is required to pay anything between 25 and 40 per cent annual interest — comes from private money-lender who may be the *arthiya* or commission agent at the local grain market, or the village *baniya*.

Small farmers in Punjab are now economically worse off than a farm labourer. Studies have shown that while a labourer's earnings average about Rs 70 per day, a farmer owning five acres is barely able to get Rs 40 after he and his entire family work the land.

Perhaps an even more telling analogy is that which states that "a Punjab farmer in 1960 could sell one quintal of wheat to buy a thousand bricks, a bag of cement and ten grams of gold, whereas the same quintal of wheat will now get him only ten bricks, a teaspoon of cement and one gram of gold."

THE ASIAN AGE

- 3 APR 2001

Planning Commission approves market access initiative

Maran aims $75 b exports

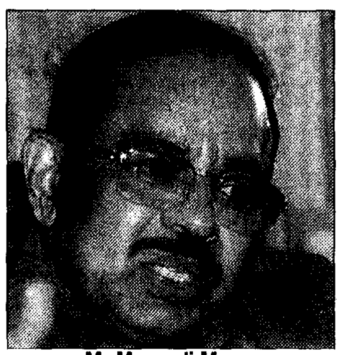
PRESS TRUST OF INDIA

NEW DELHI, April 1. — Commerce minister Mr Murasoli Maran today asserted that market access initiative announced in the Exim policy would strengthen commercial intelligence, in a bid to push up exports to $75 billion annually by 2004.

The initiative based on the US model, has already been cleared by the Planning Commission and "we are working out details," Mr Maran said. "The market access fund has been approved by the Planning Commission as a Plan programme and we are working out the scheme aimed at having enough funds, considering the magnitude of the success it has reached in USA," Mr Maran said in an interview.

Expressing confidence that the Exim policy would catapult exports to $75 billion annually in the next three years, Mr Maran clarified that this was different from the medium term strategy, aimed at raising India's share to one per cent of global trade by 2006-07.

Conceding that exporters were hit by high transactions costs in the country, the commerce and industry minister said, "a bold attempt would be made to rebate all indirect taxes affecting exports, besides a joint effort by the Centre, states and exporters to cut costs.


Mr Murasoli Maran

Elaborating on the market access initiative, Mr Maran said, "our strategy includes redefining the role of commercial attaches in our missions abroad."

Allaying fears of farmers that the Exim policy had opened the floodgates to cheap imports, Mr Maran said, on the contrary, the thrust was to establish "regional rural motors," by boosting agri-exports through various measures enunciated in the policy.

If internationalisation of India's agriculture takes place, the terms of trade, which have for long been in favour of industry, would shift in favour of agriculture, he felt.

It is estimated, that every one per cent switch will divert about Rs 8,500 crore additionally in favour of agriculture, and that about $20 billion will be transferred to the agriculture sector from non-agriculture sector in the next few years, he said.

Also, this additional rural purchasing power that will be created with the encouragement of agri-economic zone, will create a phenomenal effective demand in the country.

Mr Maran quoted statistics to say that the lifting of Quantitative Restrictions (QRs) of 714 items last year has not led to any surge in imports, and on the contrary, the non-oil imports has recorded a negative eight per cent growth "to our surprise".

He assured that the government would "jump into action," in the event of any unwarranted surge in imports of essential and farm products following total dismantling of QRs from today.

He said this was precisely for this reason that a "war room," comprising secretaries in the government has been set up, to monitor import levels of 300 sensitive items including poultry, milk, fruit and other edible items.

THE STATESMAN

2 APR 2001

MONDAY, APRIL 2, 2001

FROM SHORT-TERMISM TO STRATEGY

THE EXPORT-IMPORT Policy for 2001-2002 announced by the Union Minister for Commerce and Industry, Mr. Murasoli Maran, on Saturday, is much more than an exercise in continuity in trade policy liberalisation, which is an integral process of the Economic Reforms Agenda. As a logical sequel to the proactive Exim policy which Mr. Maran unveiled last year, the new policy package rightly emphasises the export imperative which the country needs to address in order to leverage its untapped resources for effective participation in global markets. Gratifying as the export performance during 2000-2001 has been, with a 20 per cent estimated rate of growth, India has but a minuscule share in global trade at less than 0.7 per cent. The Government's target of an 18 per cent export growth for 2001-2002 is not too ambitious in terms of the achievement during 2000-2001, but the looming uncertainties about the global growth rate and particularly the creeping slowdown in the U.S. economy can render the target rather elusive.

Although the dismantling of Quantitative Restrictions (QRs) on the last remaining 715 tariff lines, as mandated by the WTO Appellate Authority, is bound to be politically questioned and even seen by sections of Indian industry as signalling a traumatic period ahead, the apprehensions of a deluge of imports seem quite unwarranted. The removal of QRs in recent years has certainly not led to any conspicuous surge in non-petroleum imports. The removal of QRs is after all followed up with tariffication of the imports in question and with the peak customs duty at 35 per cent with the option of countervailing duties in cases of dumping, the Government can certainly ensure that the interests of the domestic producers, both of agricultural commodities and of manufactured products, are adequately safeguarded. Mr. Maran has responded alertly to the fears of flooding of the domestic markets by items of imports now freed from QRs, by setting up an Early Warning System at the Commerce Ministry for the requisite vigilance. Even apart from this, the question of any massive assault on the domestic markets by imports of merchandise (including second hand passenger cars) is not so much a matter of legal access as it is one of comparative landed costs, life-styles, logistics of moving imports into different markets and the comparative availability of locally manufactured products.

In the changing scenario of foreign trade where global openness (and two-way traffic of imports and exports) is the key element, there is a strong case for the Exim policy to move away from short-term balance-of-trade considerations to a medium-term perspective, for accelerating export growth as a platform for industrial development, employment generation and for foreign exchange earnings. This is precisely what the new policy initiatives seem to capture. As Mr. Maran has projected it, a one per cent share in total world export for India by the year 2004 would call for an export performance of the order of $75 billions, up from the current level of $43 billions. The achievement of this order (which is patently too modest in relation to what China has demonstrated over the years) will obviously call for a sustained, multi-pronged export strategy. A vital component of the strategy would be for Indian agriculture and industry to gear themselves for an active, if not aggressive, presence in global markets. Marketing initiatives which have hitherto remained fragmentary need to be brought upfront. That the new policy package is alive to this task is indeed a positive testimony. That Mr. Maran also looks at the involvement of the State Governments in the national export effort as a critical component, is another clear indication that the policy is shaped by strategic thinking. Beckoning to the Chinese-model Special Economic Zones as the winning strategy has its own merits but should not greater macro-economic attention be devoted to bringing down the transaction costs all-round before an export-led strategy can pay off?

Doors open for world of choice and threat

FROM OUR SPECIAL CORRESPONDENT

New Delhi, March 31: The Centre today removed barriers on import of 715 items ranging from meat products to automobiles and lifestyle goods, offering consumers unlimited choice and sparking concern among domestic manufacturers.

The government retained restrictions on 600 products on security, health and environment grounds. "Otherwise, we have opened up our markets totally," commerce minister Murasoli Maran said after unveiling the Export-Import (Exim) policy that takes effect from tomorrow.

India has now met the conditions of the World Trade Organisation treaty under which it has to lift the curbs on the products (**see chart**) by April 1, 2001.

The minister sought to allay the fears of domestic entrepreneurs by asserting that the removal of the import curbs "does not mean throwing the gates wide open". He indicated that a tariff shield will be built to protect farmers and small manufacturers. The government tonight imposed a 150 per cent duty on foreign liquor.

Big industry gave a thumbs-up to the policy. "They appreciate our role... the government has voted for industrialisation," said Hyundai India marketing chief B.V.R. Subu.

But the lifting of the curbs has triggered wails of anguish from domestic manufacturers. Colour television makers feel the import duty should be increased. Raghubir Singh Baweja, a Delhi-based small-scale toy-maker, said: "I have already been ruined by cheap Chinese toys coming in through Nepal. This opening-up will spell curtains for my factory."

Maran promised to plug the leak that has hurt manufacturers like Baweja and drawn sharp protests from both the Congress and hardliners in the BJP.

Maran promised a "war room which will track, collate and analyse data on 300 sensitive products which are of interest to the public". Import of all products of plant and animal origin will have to be licensed by the agriculture ministry after a risk analysis based on health and environmental norms. Rice, petrol and urea will have to be imported through government agencies.

Maran said a state-sponsored global retail chain will be set up to market and sell made-in-India brands.

■ See Business Telegraph

BE INDIAN, BUY FOREIGN

For the kitchen
Mutton, ham, beef, poultry (chicken, ducks, turkey), eggs, spices, rice, cereals, coconut oil, cauliflowers, broccoli, cabbages, grapes, potatoes, nuts, utensils, toasters

For the breakfast table
Milkfood, condensed milk, cheese butter, butter, ghee, dairy spread, coffee, tea

For the bar
Beer, wine, whisky, sherry, rum, gin, vodka, liqueurs

For the wardrobe
Overcoats, wind-cheaters, pullovers, suits, shirts, trousers, swimsuits, night-dresses, kidswear, shoes

For women
Diamonds, precious stones

For children
Toys, videogames

For the desk
Letter pads, notebooks, pens

For the living room
Colour TVs, cassette players, radios, wallclocks, lamps, bulbs

For the bedroom
Linen, pneumatic mattresses

For the bathroom
Towels, sanitary wares

Wheels
Motor cars, buses, jeeps, trucks, landrovers, motorcycles, autorickshaws, tractors

No import of left-hand drive vehicles and those which are over three-years-old

THE TELEGRAPH

- 1 APR 2001

FAILURE OF POLICY

THE HOLLOWNESS OF the Government's claim of dealing with the problems in Indian agriculture has been demonstrated once again by the decision to raise the minimum support price (MSP) for wheat by Rs. 30 a quintal, an increase of 5 per cent over last year's price. The Government is surely aware that a higher MSP will only add to stocks even as the Food Corporation of India's godowns are bursting at the seams with 25 million tonnes of wheat and, more ominously, make Indian wheat even higher priced than global market supplies, thereby opening the door for possible imports once wheat is removed from the negative list of imports at the end of the month. It does not require much to glean the reasons for the Government's decision. It has been pressured to do so by the two wheat surplus-producing States of Punjab and Haryana which for months have warned against the consequences of not raising the MSP of wheat. Since the two States are governed by constituents of the ruling National Democratic Alliance in New Delhi the Centre has had even less room for manoeuvre.

The reasons for the current mess in the food economy are obvious for all other than, it seems, the Government. A policy of consistently raising the MSP of wheat (and rice) by moderate to large amounts every year, combined with the occasional announcements of "bonuses" and a relaxation of standards for procurement, have led to FCI purchase prices ruling effectively higher than the market rates. This has resulted in bulging stocks (now at around 45 million tonnes of both cereals), a plummeting offtake and haphazard attempts to contain costs by self-defeating increases in issue prices. The Economic Survey of 2000-01 pointed out last month that since 1992 the MSPs of both wheat and rice have been rising at a substantially faster rate than either wholesale or consumer price inflation. The Commission on Agricultural Costs and Prices, which time and again has been over-ruled by the Government, recommended this year that the MSP for wheat could be kept at the same level as last year. But the NDA Government, pushed by powerful State Governments and fearful of conveying an "anti-farmer" image, has taken the easy way out. The latest increase in the MSP of wheat takes the price at which the FCI will buy it to above the current market rate. And it makes the domestic price of wheat at least 50 per cent more expensive than the world price.

There are deep-rooted problems in agriculture, but these cannot be tackled by raising procurement prices year after year. The price incentive is a quick-fix which may help cultivators tide over from one year to the next. Besides leaving the basic problems of farmers untouched, this approach causes other problems as evidenced in the current phenomenon of warehouses overflowing with expensive grain that is not saleable in either the domestic or world markets. However, governments and political formations have now got so accustomed to using price as an instrument to prop up farm incomes that they appear unable to visualise any other option. The more lasting solution must be found in raising agricultural productivity so that farmers can earn more even if market and FCI prices remain unchanged. That requires carrying out the more difficult job of promoting and implementing cost-saving measures that raise farm yields. It is therefore not a surprise that successive governments have opted instead for a higher MSP and a relaxation of product standards as a way to increase farm incomes. Yet another example of the failure of government policy on the food economy is that with the Union Budget for 2001-02 announcing a proposal to modify procurement operations so that the deficit States directly make purchases to meet their requirements, the State Governments will now be left having to deal with the consequences of the Centre continuously raising support prices.

THE HINDU

30 MAR 2001

Govt unlikely to lift import curbs on defence items

9-Gen Atm. 57-1 30/3

Jayanthi Iyengar &
G Ganapathy Subramaniam

NEW DELHI 29 MARCH

IMPORT CURBS on over 100 items, primarily in defence, flora, fauna and hazardous chemicals will remain even after the modified Export-Import Policy is announced on March 31.

On the defence list are items like guns and night vision glasses, which could be classified both as consumer as well as defence items.

Items like bombs, grenades, swords and mines will continue to be on the banned list of imports.

According to sources in the Directorate General of Foreign Trade (DGFT), the commerce ministry is currently under immense pressure to retain quantitative restrictions (QRs) on handlooms and handicrafts, though this decision will be taken only at the political level.

The DGFT has worked out the logic — threat to human life due to loss of livelihood — on the basis of which the QRs on textiles and handlooms could be retained, but the final decision will still be political.

The modified Exim Policy, scheduled to be announced by

RUN-UP TO THE
EXIM POLICY
2001-02

More reports: Page 4

commerce minister Murasoli Maran on March 31, may also retain Special Import Licences (SIL) for another year and allow concessional import of capital goods to garner a premium for exporters.

The retention of SIL is being contemplated as leading exporters like the Adanis and Tatas have argued that they have already entered into agreements with a margin for SIL and this calculation will go awry if this export-promotion instrument is phased out immediately.

These players have sought a one-year extension, though SIL will have little meaning after QR phaseout.

Sources said the modified Exim Policy will create a new body for Trade Remedial Measures which will bring safeguards, anti-dumping and countervailing duties under a common regulatory framework.

This measure is likely to be part of the steps taken by the government to strengthen the anti-dumping/safeguard mechanism.

Currently, while the anti-dumping directorate is under the commerce ministry, the directorate of safeguards is under the finance ministry.

■ **DGFT facelift: Page 4**
■ **The QRs List: Page 13**

The Economic Times

Dunlop can mortgage properties

Kolkata, March 28

THE BOARD for Industrial and Financial Reconstruction (BIFR), in a significant move, has allowed the management of ailing Dunlop India Limited to mortgage some of the company's properties to raise working capital.

MD Shukla, the president of Dunlop, told PTI over phone from Delhi that the Board for Industrial and Financial Reconstruction directive would help the company in meeting funds crisis, and the mortgaging of the properties would be arranged in a couple of days.

He said that BIFR, in its hearing today, had asked the company to continue as a 'holding operation' till the draft revival scheme (DRS) was passed by the board after incorporating some changes.

Regarding the objections raised by the banks, Shukla said that the company had suggested that the dues to the banks, particularly the State Bank of India and United Bank of India, would be met from the reserves which were initially earmarked for expansion of the company in the DRS.

Shukla said that this change would have to be incorporated before placing the DRS for sanction by BIFR. Regarding sale of properties, as envisaged in the DRS, Shukla said that BIFR has constituted a sales committee consisting of representatives from banks, the company, IDBI, the West Bengal Government, besides its own nominee.

As per the BIFR order, the money raised from sale of assets, considered to be the pivot for all revival schemes, would be put in an escrow account, Shukla said.

Hailing the Board for Industrial and Financial Reconstruction decision, Shukla said that Dunlop's future looked positive and the changes would be incorporated soon for speedy sanctioning of the revival scheme.

Meanwhile, the company had been confronted with a serious working capital crisis and the salaries and wages of employees and workers were already running at a backlog.

When asked whether the company would retain the same consortium of bankers after meeting their dues, Shukla said that if they wanted so, then Dunlop would be happy to do that.

Earlier, the banks, particularly the SBI and UBI, wanted BIFR to amend the DRS in the apprehension that once the package was sanctioned, then their exposure to the company would become unsecured.

PTI

THE HINDUSTAN TIMES

29 MAR 2001

BJP endorses economic policy

9 Feb AN 13 H/D 24/3

By Neena Vyas

NEW DELHI, MARCH 25. Brushing aside its earlier reservations, the Bharatiya Janata Party today virtually sang an ode to the Vajpayee Government's economic policies, praising even those decisions it had earlier criticised.

The four-page resolution adopted by the executive today, virtually justified the cut in interest rates on the ground that since inflation was down depositors were still getting comfortable returns on their investments. Yesterday, the party president, Mr. Jana Krishnamurthi, had requested the Government to reconsider the 1.5 per cent cut in view of problems faced by the small depositors.

Earlier, the party had been wary of the agricultural policy, because its own feedback from the ground had confirmed restiveness among farmers, and its allies and supporting parties such as the Telugu Desam Party had expressed dissatisfaction. Farmers were simply not able to get the promised minimum support price for their produce, and fears were expressed over agricultural imports under the World Trade Organisation adversely affecting farmers.

But the resolution gave the Government full marks for "promoting the agriculture sector," while it approvingly mentioned the recently announced increase in the minimum support price for wheat and oilseeds. It noted that the Government had announced "fiscal incentives" to food processing industries and encouraged increase of cold storage facilities, which in turn would help farmers save perishable vegetables and fruit. It mentioned extension of kisan credit card facilities, the budget announcement of increase in import duties on some edible oils, tea, coffee and coconut products and the "promise" by the Prime Minister that duties would be raised further if necessary.

Again, party leaders had been quite sceptical of the decision to virtually end the prime position of the Food Corporation of India in the carefully set up food security system. Many Chief Ministers, including those in BJP-ruled States were also reportedly not too happy at the prospect of this move towards decentralisation, but the resolution approved of the move. "The proposal to end the FCI monopoly in handling procurement and storage would lead to efficient and cost- effective handling of foodgrains to the benefit of consumers. Involving State Governments in handling the public distribution system would increase their accountability in implementation of the poor people oriented scheme."

Surprisingly, although party leaders had earlier not been too happy with the proposed amendment to labour laws making it easy for units employing less than 1,000 employees to sack workers, the resolution chose to describe it as a "healthy linkage between accountability and productivity" which would in the long run stimulate investment and increase job opportunities.

Finally, the party "requested" the Government to ensure continuance of second generation reforms, including changes in labour laws, and take "utmost care" to protect the poorer sections and workers."

The party resolved to take care of the "economic dimension" of government policy during the mass awareness campaign launched today at the Ramlila grounds in connection with the Tehelka episode. The party had emphasised that the political instability effort and economic disruption were the twin objectives of the Opposition's "political conspiracy".

PF interest rate cut to 10.25%

HT Correspondent
New Delhi, March 23

IN A big blow to the middle class, the EPF interest has been slashed from 11 per cent to 10.25 per cent with effect from April 1.

The decision was taken today by the EPF board of trustees, comprising representatives of trade unions, employers and the Government. The EPF deposits fetched 12 per cent return till last June. The interest has been revised for the second time in less than a year because of the "general cut in interest rates".

The interest was reduced as the EPF money invested in the Government's Special Deposit Schemes now earn only 9.5 per cent interest. Therefore, the EPF organisation would have to pay an interest of 10.25 per cent to EPF subscribers and suffer a "deficit" of Rs 177.6 crore in 2001-2002. The trustees asked the organisation to meet the deficit from the money kept in the interest suspense account which stood at Rs 274 crore on March 31, 2000.

The interest cut would affect nearly 2.36 crore employees of industrial and other establishments across the country. The Budget had cut the interest payable on Public Provident Funds (PPF) and General Provident Fund (GPF) deposits of Government employees from 11 per cent to 9.5 per cent.

If the EPF interest had remained unchanged, the EPF organisation would have paid a total interest of Rs 5,946 crore in 2001-2002. The cut in interest would bring the interest liability to Rs 5,541 crore, saving the organisation over Rs 405 crore

The EPF board was under pressure from the Finance Ministry to reduce the fund interest rate as the other interest rates had already been revised. The Labour Ministry wanted to refix the rate at 10 per cent, but the unions bargained for a slightly higher rate. It was suggested that the EPF interest be reduced to 9.5 per cent to level it with the GPF interest. But the unions rejected the suggestion because till 1988-89 the GPF interest was higher than EPF.

Cong reaction: The Congress today urged the Government to reconsider its decision to cut PF interest rate. Party spokesman Jaipal Reddy said: "A part of an employee's salary in the organised sector goes to the provident fund. The Government wants to punish the workers by reducing interest rates."

IA and Lufthansa jets in airmiss

AN INCIDENT of a near airmiss involving an Indian Airlines Airbus and a Lufthansa cargo jet occured 50 nautical miles east of Salem yesterday, directorate general of civil aviation (DGCA) sources said here today.

The incident occurred around 7 a.m. when IA Airbus A-320, which left Chennai for Kozhikode, was climbing to 31,000 ft, while the freighter jet of Lufthansa was ascending to 33,000 ft. The air traffic control at Bangalore reported a 'traffic resolutionary advise warning' because the separation between the two aircraft was only five nautical miles. The pilots of both the planes had informed the Bangalore ATC about the incident.

The Controller of Air Safety has commenced preliminary investigation into the incident.

PTI, Chennai

THE HINDUSTAN TIMES

24 MAR 2001

Share brokers' offices raided, Sensex slides

5P1

STATESMAN NEWS SERVICE

MUMBAI, March 23. — Several Stock Exchange, Mumbai, offices, including that of its former president Mr Anand Rathi, were raided today, causing the sensitive index to fall for the fifth Friday in a row.

Among others whose offices were raided by Income-Tax, Revenue Intelligence Directorate and the Enforcement Directorate were Mr Ketan Parekh, Mr Nirmal Bang, Mr Radhakrishna Damani, Mr Rakesh Jhunjunwala, and Mr Shankar Sharma. All of them are suspected to be behind the 2 March bear hammering which plunged the sensitive index by 178 points.

Mr Sharma of First Global Securities is a stake-holder in *tehelka.com*. He is believed to have left the country.

Rumours about Mr Ketan Parekh's caused the fall in the sensitive index which closed at 3635.28 points, 78.69 points lower than Thursday's close. The intra-day fall was 174.40 points.

The raids come as a snub to the Securities and Exchange Board of India which had announced an inquiry into the bourse crash. Fourteen broking firms are reportedly shortlisted for the probe, but the suspects continue to operate freely.

The Sebi doesn't have an inspiring track record in probing market irregularities. It's yet to complete the inquiry into the May-June 1998 price-rigging of three scrips — BPL, Sterlite and Videocon International.

The raids were ordered reportedly to probe whether there is any nexus between brokers, film personalities and the underworld.

While interrogating film financier Bharat Shah, police had come across certain incriminating information about Mr Ketan Parekh. This had led to the suspicion that underworld money was being laundered in the capital markets.

In a parallel move, the HDFC Bank is facing assessment by an internal auditor as well as the RBI. The bank is believed to have a huge role in the capital markets.

The Global Trust Bank is learnt to have froze the accounts of a few brokers who had procured loans against shares that were heavily devalued.

The brokers have been asked to pay their outstanding dues or increase the margin money substantially as compensation.

The raids, conducted by about 250 officers from the three agencies, were well-coordinated. (It's learnt the Union finance minister had recently called a meeting of the chiefs of the three intelligence agencies) The I-T is likely to go into the gains made by the brokers, ED will look into the FII dealings and the DRI will probe charges of insider trading and shady deals.

24/3

SINGHANIA RESIGNS

KOLKATA, March 23. - Calcutta Stock Exchange announced this evening that the pay-out for settlement number 150 has been completed in time, even as Mr Dinesh Singhania, one of the three major defaulting brokers, resigned from the CSE board.

The CSE executive director, Mr Tapas Datta, said a decision on them would be taken at a meeting of the CSE defaulters sub-committee scheduled for Monday. — **SNS**

■ **Details on page 10**

THE STATESMAN

24 MAR 2001

Tax swoop on big-gun brokers

FROM OUR CORRESPONDENT

Mumbai, March 23: Tax sleuths today swooped down on the premises of Big Bull Ketan Parekh, former Bombay Stock Exchange president Anand Rathi and a cartel of bear operators whose shenanigans sent the sensex on a perilous roller-coaster since March 2, lopping over 18 per cent of the value of all stocks listed on the country's oldest bourse.

About 120 income-tax officers, accompanied by CBI officials participating as observers, began their search operations at 3 pm. Besides Parekh and Rathi, the sleuths raided First Global's husband-and-wife duo of Shanker Sharma and Devina Mehra, the reclusive Nirmal Bang who has four broking cards on Dalal Street, a leading bear operator Rakesh Jhunjhunwala and R.S. Damani, the man who launched a hostile bid for VST Industries, thereby taking on global tobacco major BAT plc and its local affiliate, ITC Ltd.

First Global, which has a 15 per cent stake in Tehelka, has also been at the centre of an attempt by a pack of marauding bears who hammered the value of stocks and thus trapped bulls like Parekh. Bears bet that a stock will go down, while bulls reckon they will surge.

Parekh and Rathi

The huge search operation targeted 16 firms covering 50 premises. One IT official said they had sought the help of the CBI "in case there were any violations of the law". The raids will continue through the night. An official said the operation could last another 24 to 30 hours.

Sources said they were instructed to hold off on the raids till 3 pm so as not to precipitate another bloodbath on Dalal Street. Nevertheless, as soon as news of the raids hit the market, there was an avalanche of selling that sent the sensex reeling to close at 3635.28, a fall of 78.69 points.

It was learnt that the tax sleuths were focusing on stock transactions over the past six to eight weeks. The operation may cover a couple of more brokers, an official said. The director-general of income tax, G. Sharan, was not willing to talk to reporters.

At Parekh's residence, a senior tax official, who came on the line, told **The Telegraph**: "The six brokers are suspected to be responsible for several irregular deals on the market. While Ketan Parekh may not have been a member of the bear cartel, there are grounds to suspect that he was behind a price rigging operation and had used insider information."

Parekh has built up a reputation for being able to sniff out winners on the market and had built up a strong portfolio of telecom and infotech stocks. Last year, he was instrumental in sealing a three-way deal under which Australian magnate Kerry Packer picked up a 10 per cent stake in Himachal Futuristic Communications Ltd — one of the key stocks in Parekh's portfolio which has since been clobbered by the bears.

A member of Anand Rathi's family refused to talk about the raids. "We cannot talk to you now," he said.

■ **See Page 6 and Business Telegraph**

G.1 24/3

THE TELEGRAPH

24 MAR 2001

The triumph of neo-liberalism

40-12 19/3

By Achin Vanaik

This year's Union budget simply consolidates and extends the neo-liberal project of the 1990s despite the fact that by all reasonable standards this project has been a comprehensive failure.

NEO-LIBERALISM AS ideology has triumphed when it becomes impervious to refutation by empirical evidence. The hosannas for this year's budget are a measure of just how complete this victory is amongst the Indian elite. The budget simply consolidates and extends the neo-liberal project of the 1990s despite the fact that by all reasonable standards this project has been a comprehensive failure. Before assessing the scale of this failure let us look at the main, ideologically driven thrusts of this budget.

There are major tax giveaways to the corporate sector. But neo-liberalism demands as much — give more money to those in the private sector who already have the most because they are the true "heroes" of your economy, the ones whom you must rely upon to "lead" the economy by investing and producing more. Unfortunately, the ratio of tax revenues to GDP, which was 10.1 per cent in 1990-91 has come down to 8.8 per cent in 1999-2000 falsifying all prognostications about how lower tax rates would actually raise this ratio. But lowering direct taxes on the well off and making the tax structure even more regressive in its impact is still the right thing to do because "good" economics (i.e. neo-liberal orthodoxy) tells us so.

There is a real problem of the fiscal deficit, we are told. Actually the problem is not the fiscal deficit but the revenue deficit. But ideology demands that the former be made into the real "sinner" because you can reduce the fiscal deficit without reducing the latter. Simply raise capital receipts (disinvest in PSUs) and reduce public investment and social sector spending, i.e. progressively diminish the role of the state in the economy regardless of its human and other consequences because neo- liberal orthodoxy insists that public capital expenditure essentially "crowds out" private investment when all evidence in India has pointed to the opposite conclusion. Since the revenue deficit has not progressively declined, all claims by neo-liberal economists that the reforms of the 1990s would result in a progressively declining fiscal deficit have been belied.

Instead, the fiscal deficit has simply hovered between a low of 4 per cent and a high of 7 per cent since 1992-93 with the revenue deficit hovering between 2.4 per cent and 3.7 per cent. But if you are going to keep on lowering direct taxes (and there is a limit to how much you can increase indirect taxes which already constitute such a huge proportion of total tax revenues) and constantly increase defence expenditure then it is hardly surprising that with interest payments being what they are, the revenue deficit stubbornly refuses to fall as much as it should. But then defence expenditure is a "hard" item, not like "soft" and "unproductive" social sector spending.

Over the coming financial year, the budget proposes to privatise 27 PSUs with the BALCO privatisation providing something of a model. All evidence from South Korea to Europe shows that public sector firms can be as efficient as private ones and also meet their distinctive burden of fulfilling certain "social requirements" provided they have sufficient autonomy from Government interference, i.e. that ownership patterns in themselves have little effect on efficiency. However, neo-liberalism demands total privatisation of even profit-making PSUs. Public sector privatisation is an ideological imperative disguised as an economic necessity. According to a study by the Standing Conference of Public Enterprises (SCOPE) in conjunction with the Centre for Commercial and Industrial Research, the top 50 PSUs in 1997-98 earned a net return of 13 per cent as against 12 per cent for the top 50 private sector companies, and the ratio of net profit after tax of net worth for basic PSUs (excluding nationalised sick industries) at 5.4 is substantially higher than the 4.7 ratio of the domestic private sector.

The budget also traverses new ground in seeking to amend the Industrial Disputes Act and the existing laws on contract labour. The purpose is to make it easier for employers to 'hire and fire' workers because neo-liberal orthodoxy demands greater 'labour flexibility'. This simply means that at the bottom organised workers, i.e. trade unions, and not anyone else are really to blame for unemployment or poorly paid employment in industry because their 'unreasonable' wage demands or equally 'unreasonable' demands for job security undermine the economy and prevent it from flourishing. So please give more powers to the 'suffering' (even if much richer) employers and capital-owners. So now enterprises with less than 1,000 employees no longer require Government approval before getting rid of workers provided they meet enhanced severance pay requirements.

Actually it is the firms which have between 100 and 300 workers that most want the freedom to fire. The budget proposal is really the first move in a bargaining process that is now in motion. Severance pay requirements will be reduced significantly to please employers and the limit for freedom to fire will be lowered from 1,000 but will definitely remain over 300 in an apparent gesture at pleasing the unions. The overall result, of course, will greatly favour capital and cause considerable suffering to workers in an economy where industrial employment in the organised sector is declining.

But then, these measures are great because they will maintain the supposedly higher growth trajectory of the 1990s. This neo-liberal obsession with high growth rates is, of course, ideologically motivated. It serves as justification for ever increasing inequalities of wealth and income under the false assumption that this is necessary for benefiting all. The average annual growth rate for the 1990s was 5.7 per cent which is not a statistically significant increase over the 5.6 per cent annual average growth rate of the 1980s.

As for the other indicators of economic progress such as poverty, employment and inequalities the evidence is there for all who are willing to see. The less said about the statistical-methodological mess up of the 55th National Sample Survey Round which gives the absurd (non- comparable) figure of a 26 per cent poverty rate, the better. The most honest and serious of economic journalists and commentators have already explained why this figure cannot be taken seriously, especially since even neo-liberal economists claim that the key determinants of poverty decline are agricultural growth rates (which have declined in the second half of the 1990s relative to the past) and food prices, which in real terms have not behaved so as to support those claiming a significant poverty decline. As for employment, the 1990s even more than the 1980s were the decade of jobless growth.

As for inequalities, whether these are measured across the rural-urban divide, classes or States, these have all grown. Rural per capita income as a ratio of urban per capita income which improved between 1970-71 and 1980-81 went down from 42 per cent in 1980-81 to 38 per cent in 1993-94 and has continued downwards. Between 1985-86 and 1996-97 the share of wages in value-added (current prices) fell from 35 per cent to 20 per cent while the profit share (before tax but after depreciation and interest) went up by 15 percentage points. But the hosannas for the budget and for India's general neo-liberal direction will continue.

Reforms process will continue despite crisis

18/3

Our Delhi Bureau
NEW DELHI 17 MARCH

FINANCE MINISTER Yashwant Sinha on Saturday said the reforms process in the country would continue despite the current political crisis. He expressed hope that the Finance Bill would be passed by the House soon.

Speaking to reporters here after the first complementary meeting of the reconstituted board of Reserve Bank of India (RBI), Mr Sinha said: "The reforms will not be toned down." He added that "bureaucratic bottlenecks will not be allowed to come in the process of reforms".

Sinha: Billing & cooing

Speaking of the recent political development and its implication, he said: "I do not anticipate any derailment of the reforms attempted in the Budget in the face of the ongoing political crisis."

On likely difficulties to be faced in getting the Finance Bill passed, he said: "The Bill has to be passed. There is no way out." Speaking about the linkage of politics with the economy, he said: "In a democracy, politics will always influence economy. We can, however, restrict it by being more professional and creating consensus."

When asked about the decline in revenue collection in the February, Mr Sinha said: "I am hopeful that we will have a good month in March." He added: "If there is any further shortfall in revenue figures than revised estimates, there would be a matching savings in non-Plan expenditure."

The finance minister also indicated that the borrowings would not exceed target. Asked about the bank's exposure to the stock market, Mr Sinha said bank lending was well within norms and against a limit of five per cent of total credit, banks had parked less than two per cent.

"That is really not an area of concern," Mr Sinha added. Commenting on the deliberation of Saturday's customary meeting with the newly-constituted RBI board, Mr Sinha said the board had expressed satisfaction at the Budget. But the key issue now was implementation of policies outlined in the Budget and ongoing projects.

The Economic Times

18 MAR 2001

Chhattisgarh bandh on Balco evokes mixed response

Raipur, March 16

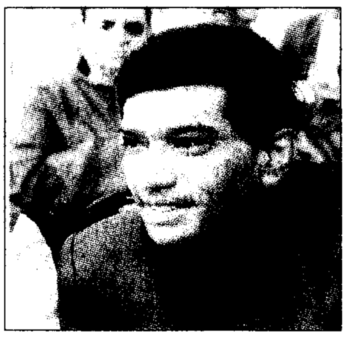
THE DAY-LONG Chhattisgarh bandh, called by the Congress and trade unions against disinvestment of Balco, evoked a mixed response in the State except Korba, where the plant is located.

The bandh was peaceful and no untoward incident was reported from any part of the State, the police said. Most of the shops were closed, but banks and kiosks remained open and buses plied in the morning.

Reports from tribal-dominated Bastar said the response to the bandh in the Naxalite-dominated Bastar, Kanker and Dantewada districts was near total. In the sensitive Korba district, all shops and business establishments remained. The Balco township was completely shut, but in the district headquarters almost all shops remained open till noon.

However, a few hundred workers from Balco Township came to the district headquarters and forcefully closed shops, leading to tension at some places.

Near Niharika cinema, shop owners objected to the forceful bandh by the employees leading to commotion, but prompt police



AJIT JOGI

intervention saved the situation from taking an ugly turn.

Supporting the bandh call, Chief Minister Ajit Jogi urged people to oppose the Balco disinvestment with full vigour, but maintain law and order during the bandh.

Elaborate security arrangement were made to protect key installations, Korba police said.

In pre-bandh violence at Korba, two Balco employees were reportedly assaulted. Last night, Congress workers attacked the State BJP office. The employees, who were going to the plant, were admitted to hospital after the attack. A case has been registered, but no arrests have been made so far.

Congress supporters attacked the BJP office with stones and burnt the signboard outside, party State unit general secretary Birendra Pandey said today.

Yogesh Tiwari, a Congress leader, led a mob of about 50 Congressmen and pulled down the huge signboard, Pandey claimed. They later set it ablaze after spraying kerosene and also threw stones, partially damaging property, he added. BJP supporters today sat in a day-long silent protest in front of Raj Bhawan.

Inspector-general of police Ramniwas said instructions had been issued to the police to take action against those involved in last night's violence.

He said elaborate security arrangements had been made to maintain law and order during the bandh. "No one will be allowed to take the law into their own hands," he said.

Hearing adjourned: A revenue court at Korba adjourned hearing in the Balco land acquisition cancellation case till April 19 following non-availability of copies of documents to the defendant Central Government and the Sterlite group. *PTI*

THE HINDUSTAN TIMES

17 MAR 2001

Anti-dumping duty imposed on EU rubber import

PRESS TRUST OF INDIA

NEW DELHI, March 15. — The government has imposed a provisional anti-dumping duty on import of high styrene rubber from the European Union and Poland.

The directorate general of anti-dumping and allied duties has imposed a provisional anti-dumping duty of up to $845.5 per ton on import of HSR from Poland and up to $886.3 per ton on imports from European Union.

The designated authority, under the ministry of commerce, observed that the domestic industry had suffered material injury by way of decline in its market share and financial losses due to low landed prices of the dumped goods. Based on the preliminary findings of anti-dumping investigation against import of HSR from European Union and Poland, the designated authority imposed an additional duty of $45.7 per ton on import of HSR from Firma Chemiczna Dwory SA of Poland and $845.5 per ton on other exporters from the country.

It also imposed an anti-dumping duty $799.25 per ton on Bayer International SA of Switzerland and $886.3 per ton on other European exporters.

The anti-dumping duty imposed has come into effect from 13 March.

Though the selling price of the domestic indsutry has increased in the period of investigation (January -September 2000) as compared to 1998-99 and 1997-98, the same has been however, below the non-injurious price on account of dumped imports.

THE STATESMAN

16/3

Jogi refuses to help new BALCO management

The Times of India News Service

RAIPUR: The new management of Bharat Aluminium Company Ltd (BALCO) has failed to get a positive response from chief minister Ajit Jogi. The CM is understood to have told the new managing director of the company, S.C. Krishnan, in categorical terms that the atmosphere might not be conducive for the Sterlite group to run the company as the workers were hostile. In any case, the state government was keen on running the company.

Mr Krishnan along with the chief executive officer of the London- based Dynastic Mines, Deb Bandhopadhya, had a meeting with Mr Jogi here.

According to the CM, the state would run the company as one of three options. He told Mr Krishnan that the Sterlite group would not get a positive response from the workers as they were against disinvestment. Besides, the raw material, bauxite, supplied from mines in Chhatisgarh, might not be available to the new management at concessional rates. Mr Jogi also made it clear that BALCO issue was a question of life and death for him. Speaking to reporters, Mr Jogi regretted the threat of the BALCO management to declare a lock-out in the plant and said the Union government should intervene. He said the state government would intervene on behalf of the plant's workers.

According to a report from Korba, tension was mounting in the industrial town following the lock-out threat. The authorities had intensified security measures in view of the apprehension of a breach of the peace. The workers continued their strike and took out rallies in the town. At his press conference, the CM said that he had read about the letter written by chief vigilance commissioner N. Vittal seeking details about the recipients of the kickback in the BALCO deal, but added that he had not read the letter so far. He said Mr Vittal was supposed to investigate the corruption charges against the bureaucrats. He was obviously referring to his charge that kickbacks had been accepted at the highest office of power in the country, "*satta ke sarvoch shikhar per baithe log*".

Mr Jogi also ridiculed disinvestment minister Arun Shourie's announcement that the Centre had rejected the offer of the Chhatisgarh government to buy 51 per cent shares of BALCO for Rs 552 crores. "Shourie has not even read the offer. How can he reject it without reading it?"

THE TIMES OF INDIA

15 MAR 2001

WEDNESDAY, MARCH 14, 2001

REGULATING FOR MARKET STABILITY

THE SEBI'S DECISION to remove all broker-directors from the governing council of the Bombay Stock Exchange (BSE) appears drastic to some and desperate to others. Though contrary to popular perception, those views have merit. It is drastic because there have been medium range plans to corporatise the exchange and place it under sound professional managers. That goal could be better achieved through other means such as by setting up a time-table. In the event, a major decision such as this one has been construed as a desperate fire-fighting act, another in an increasingly long list of apparently *ad hoc* moves. Far from bringing about a modicum of stability to the bourses, it aggravated the negative sentiment alarmingly. On Tuesday morning stock prices were heading for a free fall and the benchmark index, the Sensex, fell by an unprecedented 300 points early on. That such spectacular losses are accompanied by extreme volatility is especially disconcerting.

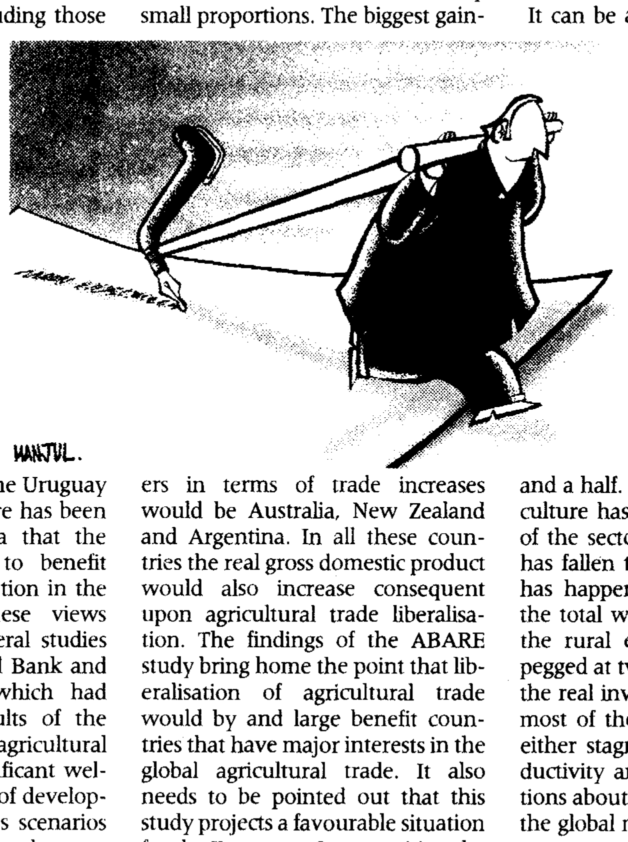
The Finance Minister has announced in the Rajya Sabha a more comprehensive plan to restore investor confidence. Not surprising at all, none of his action points are original but given that past piece-meal measures have backfired it is hoped that they will be implemented in full. An overhaul of the supervisory structure of country's oldest stock exchange and arguably the most visible of all its financial institutions is necessary. Quite inexplicably — this has been common knowledge — the firewalls between the stock market professionals and influential broker-directors exist only on paper. For the second time in less than three years a BSE President had to go under a cloud. The allegation that Mr. Anand Rathi was privy to certain sensitive information which he manipulated may or may not stand legal scrutiny but the fact that such charges are occurring so frequently cries for a change at its top echelons. If price-rigging continues to be the bane of our bourses, much of the blame ought to be placed on governmental inaction. For now there is one more strong reason to insulate the management of BSE from the supposedly ornamental role of its President and broker-directors. The National Stock Exchange (NSE) which was set up in the wake of previous crises in the BSE has clearly demonstrated what professional leadership can do to the stock market culture. On its part the BSE too has adapted well in key areas, for instance in technological absorption. Equally relevantly neither the market volatility of the recent past nor the controversy surrounding its high- profile President and some other office-bearers have led to a collapse of the payments system. Those impressive achievements notwithstanding, there has been no case whatsoever to persist with the *status quo*.

Leaving aside the specifics for the moment, the cause of investment would be better served by understanding the stock markets in their correct perspective. Only then can the exaggerated self-defeating responses to market behaviour be avoided. For instance, the present crisis has its origins in the wrong belief that the perverse market movements wiped out the gains of the latest Union budget. All the headline-grabbing news of the week — the notorious bear hug, the melting down of technology stocks following the Nasdaq's lead, price-rigging before the merger of two banks, the broker-banker nexus — all gained riveting attention only because of the disappointment over the post-budget price movements. Both investors and policy makers need to be educated to avoid the customary hype and understand the limitations of the markets. The Government and the SEBI will do well to convert the threat from the latest crisis into an opportunity by initiating proactive action.

Market access in agriculture

Liberalisation of agricultural trade would largely benefit countries that have major interests in the global agricultural trade, says **Biswajit Dhar**

THE much-awaited proposals of India in the WTO for the forthcoming negotiations for the review of the Agreement on Agriculture (AoA) have few surprises for those following the progress of the discussions that have taken place during the past few years. While the emphasis of the proposals are in line with the position that India has taken consistently over the past two years, which has been that the concerns of food security and livelihoods should be taken care of by the WTO discipline, there has been several other issues that the proposals have sought to include. These include the issues of market access and the reining in of subsidies, including those given for export promotion. The inclusion of the latter set of issues in the proposals is symptomatic of the pressures that the government is facing both from the exporters' lobbies at home and countries that are pushing for the trade liberalisation agenda in the area of agriculture. This has resulted in a diluting of the position that the country has taken thus far in Geneva.



Ever since the days of the Uruguay Round negotiations there has been a strong view in India that the country would stand to benefit from the trade liberalisation in the agricultural sector. These views were supported by several studies conducted by the World Bank and the erstwhile GATT, which had indicated that the results of the Uruguay Round in the agricultural sector would bring significant welfare gains for a number of developing countries. In various scenarios that were worked out by the analysts, developing countries as a whole were expected to witness major welfare gains. The broad conclusions drawn by these studies were that countries like India and China would gain substantially as a result of the introduction of the discipline under AoA.

The more recent years have, however, seen a degree of toning down of these projections. A recent study by the Australian Bureau of Agricultural and Resource Economics (ABARE) is a case in point. The study, which argues for substantial liberalisation of agricultural trade, has found that while there could be an increase in the real gross domestic product of some of the larger developing countries, including India and China as a result of agricultural trade liberalisation, this would not be without its costs. The estimates provided by the study indicate that in most of the developing countries included in the study the terms of trade and export price index would decline. In India's case, in addition to the above-mentioned negative effects, the real wage rates are also likely to decline.

Projections made by ABARE indicate that United States, European Union and Australia are some of the countries that would experience favourable terms of trade, albeit by small proportions. The biggest gainers in terms of trade increases would be Australia, New Zealand and Argentina. In all these countries the real gross domestic product would also increase consequent upon agricultural trade liberalisation. The findings of the ABARE study bring home the point that liberalisation of agricultural trade would by and large benefit countries that have major interests in the global agricultural trade. It also needs to be pointed out that this study projects a favourable situation for the European Communities, the group of countries that was expected to face substantial problems of adjustment in the 'disciplined' world of agricultural trade ushered in by the AoA.

The findings of the ABARE study should be taken as a signal for the country to decide on its future strategy in the ensuing negotiations for the review of AoA. A key issue in this respect is whether the country should support the position of the agricultural exporting countries, the Cairns group, for a rapid dismantling of the border protection measures so as to promote the cause of market access. Support for this position would naturally imply that India would also have to reduce the tariff protection that it is seeking to provide to the domestic producers after the import restrictions on agricultural products are removed from April 1, 2001.

The central issue that needs to be addressed in this context is whether or not Indian agriculture stands to benefit from supporting the position of the Cairns Group, which is seeking increased market access for agricultural products. This would require an objective assessment of India's export potential in these products by moving away from the highly polemical debates that have become commonplace lately.

It can be argued that Indian agriculture faces several fundamental problems at the present juncture, which could act as a major impediment in its participation in the global markets as a meaningful player. Most of these stem from the relative neglect of the agricultural sector during the past several decades. The most severe squeeze that this sector has faced has come during the past decade and a half. Real investment in agriculture has declined and the share of the sector in the country's GDP has fallen to a fourth. And all this has happened when the share of the total work force dependent on the rural economy has remained pegged at two thirds. The decline in the real investment has meant that most of the major crops now face either stagnating or declining productivity and this has raised questions about their competitiveness in the global marketplace. In such circumstances, India's emergence as a major exporter of agricultural products, which some analysts do not seem to be tired of pointing out, would only be realised if the investment priorities of the government and the private sector can be completely altered from the present patterns. Besides the investment in physical infrastructure, huge resources would have to be invested towards making the production processes in India conform to the very high food safety standards that prevail in the markets of the developed countries.

(The author works with RIS, Delhi. These are his personal views.)

The Economic Times

HINDUSTAN TIMES

14/3

Lessons from Balco

EVEN AS the Balco affair remains embroiled in political and legal battles, the events of the last few weeks provide an idea of the kind of obstacles which the disinvestment process is expected to face. Apart from the two distinct ideological positions for and against market economy and socialism, what the proponents of the Balco handover encountered were doubts about the fairness of the deal followed by labour unrest. Arguably, misgivings about virtually all the sales of the 'family silver', the name given to public sector units by 'socialists', are bound to be expressed by the latter. Such doubts are only to be expected in India where no one expects that a transaction between the government and a private buyer will be a clean one. Balco was no exception. It is imperative, therefore, that transparency should be the key word in all cases of disinvestment.

Even if the Centre expected opposition to the sale, it was probably taken by surprise at Chhattisgarh Chief Minister Ajit Jogi's proactive role in preventing the physical handover of the Balco establishment to its new management. Mercifully, order has now been restored and the Supreme Court has been assured by the state government that it will not only provide security to the workers but also restore water and power supply to the plant. There has been assurance from the union also that willing workers will be allowed to join their duties. The point to note in this context is that the Centre will have to remain prepared for the possibility of such unrest in future cases of disinvestment. Clearly, few of them will be simply a matter of signing a deal and handing over the company to a new management.

There is another, and more complicated, matter which concerns the sale of land in a scheduled area to a non-tribal. Where Balco is concerned, the issue is awaiting a judicial verdict. Whichever way it goes, the pronouncement will be a path-breaking one, for such 'protection' has been provided not only to tribals but also in areas like Kashmir and the north-east. Any decision in the context of one cannot but let the others remain unaffected. It is a sensitive topic which precludes an easy solution. It assumes importance, however, since a number of public sector units are located in the tribal areas. Clearly, the Centre has to evolve a consensus on this issue in consultation with other political parties, although that may be difficult in the present confrontationist atmosphere.

THE HINDUSTAN TIMES

14 MAR 2001

Jogi asks Sterlite to call off deal

By Aarti Dhar

RAIPUR, MARCH 13. The Chhatisgarh Chief Minister, Mr. Ajit Jogi, has told Sterlite Industries that under no circumstances would it be allowed to run the Bharat Aluminium Company Limited plant (BALCO) at Korba. Virtually warning the management that the Government would make working conditions difficult for it, Mr. Jogi said the BALCO issue was a matter connected with the pride of the State and its people.

During his meeting with the managing director of BALCO, Mr. S.C. Krishnan, here on Monday, the Chief Minister advised Sterlite Industries to call off the deal and reveal the names of those who received kick-backs. Mr. Krishnan met Mr. Jogi on behalf of the owner of Sterlite Industries, Mr. Anil Aggarwal, to seek his blessings. This was the first interaction between any Sterlite Industries official with the Government after the deal was signed on March 2.

Sources told *The Hindu* that Mr. Jogi did some tough talking at the meeting and clearly hinted at the possible steps his Government could take to make it difficult for Sterlite Industries to run the plant profitably.

Meanwhile, the Chief Minister today said the BALCO issue was linked to the fate of the Central Government. It would play a role in deciding the future of the Bharatiya Janata Party (BJP), he told reporters in an informal chat. Dismissing apprehensions that the controversy would have a negative impact on investments in the State, he said he had received offers from the Jindal group of industries and Daewoo last week regarding setting-up power plants here and a Japanese delegation was arriving here later in the week for another project.

Regarding his offer to buy the plant for Rs. 552 crores, Mr. Jogi said it was for the Centre to take a decision. "We are willing to accept any offer as long as the management remained with the Central or State Government, but the Centre is not responding now to their own suggestions," he said. The State would hire professionals to run the plant and modernise it. On the Central Vigilance Commissioner's (CVC) letter to the Central Bureau of Investigation to investigate the deal, Mr. Jogi said though he had not read the letter, the jurisdiction of the CVC was limited to Government officials only.

PTI reports

The State will submit a written proposal to the Supreme Court for buying 51 per cent stake in BALCO, Mr. Jogi said while rejecting the Centre's claim that the apex court had not taken notice of the reference made to this effect by the State counsel on Monday. The Government's offer to purchase the stake was "serious and reasonable" he said and added the apex court had agreed to hear it when the case came up again before the Bench. "We will submit our written submission."

Strike continues

With the strike by BALCO employees entering the eleventh day today, authorities tried to keep vital equipment in the plant in working condition.

RS defeat for NDA over Balco

HT Correspondent and PTI
New Delhi, March 12

THE NDA Government was today censured in the Rajya Sabha on the controversial Balco disinvestment with the passage of an Opposition-sponsored amendment to the motion of thanks to the President's address to Parliament.

The amendment moved by senior Congress member Pranab Mukherjee that the President's address did not mention the Government's decision to sell 51 per cent of its equity in the aluminium company to Sterlite Industries, was adopted by 103 votes to 64 votes.

This is the third time in India's parliamentary history that the Government suffered embarrassment with the passage of an Opposition-sponsored amendment on the motion of thanks to the President's address. The previous two occasions were in 1980 and 1989.

Moving the amendment, Mukherjee said he questioned the sale of Balco to because of its "doubtful integrity".

Vajpayee and Opposition leader Sonia Gandhi locked horns in the Lok Sabha today over Balco sale and most other contentious national issues including security, the nuclear doctrine and Kashmir.

In the three-day marathon discussion on the motion of thanks, Atal Bihari Vajpayee announced that he would soon hold talks with all parties in Jammu and Kashmir and unveiled a five-point programme to reform the judiciary.

In replies to both Houses of Parliament, Vajpayee asked pakistan to change its "unfriendly attitude" towards India and asserted it would soon hold talks with all parties to carry forward the peace process in Jammu and Kashmir.

Admitting that there had been some delay in initiating talks, Vajpayee said: "We are soon going to hold talks. We will have talks with all the parties and make efforts to find a solution to the Kashmir problem."

"We want to hold it before the ceasefire extension ends in May," he said adding the talks would be "transparent "and cover all aspects that were within the framework of country's constitution."

In reply to a query from senior Congress leader Arjun Singh whether the Government was committed to the resolution of declaring Pakistan-occupied Kashmir as part of India, Vajpayee said that "resolution stood" and there was no change in it.

Vajpayee also spoke of a change in international perspective on the Kashmir issue.

This was reflected in UN Secretary-General Kofi Annan's remarks in Pakistan when he endorsed the Lahore peace initiative by India, the Prime Minister said.

Sonia said the contrast between the President's Republic Day Eve address to the nation and the inaugural speech prepared could not be missed. The former was deep and insightful while the latter was shallow and carried vainglorious boasts of the Governments performance.

THE HINDUSTAN TIMES

13 MAR 2001

Congress accuses Shourie of misleading SC on BALCO issue

The Times of India News Service

NEW DELHI: The Congress on Sunday accused disinvestment minister Arun Shourie of misleading the supreme court on the BALCO issue, and the company's new management, Sterlite, which assumed charge on March 8, of closing down the company on its own.

Party spokesperson Jaipal Reddy said here on Sunday that the minister's statement that the Chhattisgarh government had not responded to the disinvestment secretary's fax message was not strictly true. The fax had been sent late on March 6 night and before the Chhattisgarh chief secretary could get to his office the next morning, the Union government had moved the supreme court.

Mr Shourie only made a pretence of making a request to the Chhattisgarh government, Mr Reddy said, and had thereby misled both the supreme court and both houses of Parliament.

The government's contention that since the state government was not cooperating, it had no recourse but to go to court was not correct, he said.

Mr Reddy also added that the Chhattisgarh government, too, had offered Rs 551 crore for 51 per cent of BALCO. Asked when it had done so, Mr Reddy said, "It was after the Sterlite deal was made public."

On Sterlite, he said, "The new management has not merely closed down the main unit but also the sensitive vital installation — the smelter plant."

"I recall Arun Shourie delivering sermon after sermon in both Houses on the incalculable harm that was being caused to certain vital installations because of the non-cooperation of the workers," Mr Reddy said, adding, "Although workers had gone on strike, they were attending to duties without punching their cards or taking their salaries just to keep these installations going. But the new management has taken the stand that either everyone returns to work or no one need come, and then closed down every unit of BALCO. This closure is illegal as it is not a lockout."

Expressing surprise at the closure, Mr Reddy said, "The company could have closed down the plant for two reasons: One, it wants to intimidate the workers into total submission, or else it is not interested in running BALCO at all."

He alleged that perhaps Sterlite, which had paid Rs 551 crore for 51 per cent stake of a company whose reserves totalled Rs 225 crore — the net payment therefore being Rs 326 crore — might be planning to sell away the 275 MW power plant which was built in 1988 and whose current cost would not be less than Rs 1200 crore."

THE TIMES OF INDIA

13 MAR 2001

Chattisgarh ready to buy BALCO for Rs. 552 cr., SC told

By Our Legal Correspondent

NEW DELHI, MARCH 12. Notwithstanding the differences with the Centre on the BALCO disinvestment issue, the Chattisgarh Government today assured the Supreme Court that it would maintain law and order, provide protection to workers and the management and also supply water and electricity to the plant. The senior counsel for the State Government, Mr. Kapil Sibal, who gave this assurance to the court also made an offer to the Attorney General (AG), Mr. Soli Sorabjee (without addressing the court) that the Government was prepared to buy BALCO for Rs. 552 crores.

Mr. Sorabjee retorted, "some time back the State Government was making a valuation of Rs. 1,500 crores. What happened to that?"

When Mr. Sibal told the AG that there was no transparency in the deal, the latter said "all these things are nice to be said outside the court. Let these allegations be made on oath so that necessary consequences could follow."

At one stage during the arguments, when the counsel on both sides made allegations against one another, the Bench comprising Mr. Justice B.N. Kirpal and Mrs. Justice Ruma Pal said "it is very unfortunate that the Centre and the State were fighting against each other on such an issue."

Earlier, Mr. Sibal contended that the apex court's directions on March 7, at the instance of the Centre, had caused considerable damage and pleaded for vacating the order.

The AG intervened and said these orders were perfectly justified and there could be no objection to this. Mr. Sibal asserted that maintenance of law and order was the responsibility of the State and said the Chhatisgarh Government had never abdicated its responsibility as projected by the Centre.

When the Bench asked Mr. Sibal whether he was prepared to give an undertaking on behalf of the State Government on the points contained in the interim order, he gave the undertaking. Thereupon, the Bench said in view of this undertaking "it is no longer necessary to continue with the March 7 order."

The Bench also recorded an undertaking from Mr. Rajeev Dhavan, senior counsel for the BALCO Employees Union that no worker who was willing to get back to work would be prevented from going in or coming out of the plant.

The Bench, in its order, directed the Chief Secretary and the DGP to ensure that "workers and the management are not in any way intimidated or prevented from willingly going to work in the plant." It also asked the State Government to look into the statement of BALCO's senior counsel, Mr. C.A. Sundaram, that 100 workers were still trapped inside the plant and take necessary steps in this regard.

During the course of arguments, Mr. Sibal brought to the notice of the court that the State Government had set up a high power committee comprising the Chief Secretary, the Director General of Police, the Principal Home Secretary and the Additional Director General of Police (Intelligence) to monitor the law and order situation.

Taking exception to the Centre's averments in the application, Mr. Sibal said "it is in the interest of the private entrepreneur and not in the interest of the Union Government."

Mr. Sibal also refuted the Centre's statement that the State Government was informed about filing of the application. He said a fax message was sent at 9 p.m. on March 6 when all the government offices were closed, that the application would be taken up by the Supreme Court on March 7.

When the AG sought stay of the proceedings initiated by the State Government as to why the lands allotted to the BALCO should not be cancelled, the Bench declined to do so.

The Bench, however, said Mr. Pradeep Baijal, Secretary, Disinvestment Department; Mr. S.C. Krishnan, Managing Director of BALCO and Mr. Anil Aggarwal, Chairman of Sterlite Industries, against whom notices were issued by the Sub- Divisional Officer (SDO) for their appearance at Korba on March 15, could represent through an authorised representative. It was made clear by the Bench that the SDO shall not pass orders on the proceedings.

The court asked the State Government to file its response to the Centre's application as well as to transfer the petition within two weeks and rejoinder within a week and posted the case for further hearing on April 9.

THE HINDU

13 MAR 2001

Ajit goes Rs 1 crore up on Arun

FROM RASHEED KIDWAI

New Delhi, March 11: The battle over Balco turned into a race for one-upmanship with the Congress-ruled Chhattisgarh offering to buy the aluminium company at Rs 1 crore more than the Rs 551.5 crore paid by the auction-winner, Sterlite Industries.

The unusual offer came after disinvestment minister Arun Shourie dared Chhattisgarh chief minister Ajit Jogi to find a buyer who would match Jogi's valuation of Balco. Jogi had claimed that Balco was worth Rs 5,000-crore, prompting Shourie to throw down the gauntlet. Before the controversy had erupted, Jogi's government had offered over Rs 400 crore for a 51 per cent stake in Balco.

The disinvestment case is coming up for hearing in the Supreme Court tomorrow. In Bangalore, Prime Minister Atal Bihari Vajpayee said the Balco controversy would not affect the government's resolve to disinvest in other companies.

But the Congress indicated that it would keep the Balco row alive, charging Shourie with misleading the Supreme Court and Parliament. The party also accused the new company management of "illegally" closing down the Korba unit without declaring a lockout. However, the management has contested this. (See Page 8)

Jogi arrived in the capital and briefed Sonia Gandhi about the Balco situation. The Congress convened a press conference on the issue, but Jogi did not attend. Instead, AICC spokesman Jaipal Reddy led the offensive. Congress sources conceded that Jogi's offer to better Sterlite's price is more "symbolic" than practical. Jogi's detractors within the party, mainly from Madhya Pradesh, termed it a "political gimmick".

Reddy said Shourie misled Parliament when the minister said he took the Chhattisgarh government into confidence before the sell-off deal was struck. Reddy said Shourie was wrong in stating that he sought the state government's cooperation in maintaining law and order through a letter faxed on the night of March 6.

"That was Id holiday and the letter could be replied to only on March 7. Apparently, Shourie made a pretence of a request to the Chhattisgarh government so as to go to the Supreme Court with a grievance," Reddy said. The Supreme Court had ordered the state not to disrupt the flow of essential services to the Balco plant.

THE TELEGRAPH

12 MAR 2001

Govt smarts under Balco setback in RS

FROM RADHIKA RAMASESHAN

New Delhi, March 12: The Vajpayee government was left red-faced today when an Opposition-sponsored amendment to the motion of thanks on the President's joint address to Parliament was carried in the Rajya Sabha.

The Congress amendment, which disapproved of the absence of any mention of the Balco disinvestment in the speech, was carried 103:64 in the Upper House, where the NDA lacks majority. The main official motion was then adopted by voice vote.

This is the third time in parliamentary history that an Opposition-sponsored amendment has been adopted, the earlier occasions being 1980 and 1989.

The amendment was jointly moved by Pranab Mukherjee and Suresh Pachouri (Congress); Nilotpal Basu, Dipankar Mukherjee and S. Ramachandran Pillai (CPM); and B.S Ramoowalia (Independent).

The amendment said that at the end of the motion the following lines should be added: "but regret that the address does not contain the Government's decision to sell out Balco, a cent per cent owned central PSU having a track record of continuous profit earning and having a huge cash reserve, to a private company whose track record of managing and running an aluminium manufacturing company is not known and is of doubtful nature."

That the amendment was carried has no impact on the stability of the government. But it is significant because this is the first time that the Opposition has closed ranks in Parliament since the NDA government took charge in 1999. All earlier attempts to nail the government have failed because of the reluctance of the Samajwadi Party and Nationalist Congress Party to allow the Congress to take the upper hand.

Opposition sources said both the Samajwadi and the NCP "willingly" collaborated with the Congress. Sources said the absence of Samajwadi MP Amar Singh, whose antipathy to Sonia Gandhi is well known, because of illness made the job easier.

Reacting to the victory, Congress spokesman Jaipal Reddy said it amounted to "moral disapprobation" of the Balco deal. His BJP counterpart, Jana Krishnamurthy, said: "It was expected but it does not count for anything because it is neither a constitutional nor a moral or legal defeat."

CPM MP Nilotpal Basu said it was an "expression of increasing unity across the Opposition both inside and outside Parliament, particularly on the Korba deal".

THE AMENDMENT

... but regret that the address does not contain the government's decision to sell out Balco... to a private company whose track record of managing and running an aluminium manufacturing company is not known and is of doubtful nature.

Opposition sources said the decision to move the amendment was taken a few days ago but kept under wraps for fear that the ruling coalition might split the ranks. "We did not want to go overboard but concentrated on ensuring that the government was defeated by a solid margin," a source said. He claimed there was "no problem" in bringing R.S. Kaushik of the Samajwadi and Praful Patel of the NCP around.

Kaushik said: "These are issues on which we cannot allow differences with the Congress to come in the way. Our party has always been against capitalism and the WTO."

Finishing touches to the strategy were given in a meeting held at 2 pm today. Only the ADMK and Asom Gana Parishad skipped the meet as their MPs were busy with Assembly poll preparations.

THE TELEGRAPH

Balco closed down on 8 March: Cong

5-1 12/3

STATESMAN NEWS SERVICE & AGENCIES

'CHHATTISGARH COULD BUY 51 % STAKE'

NEW DELHI, March 11. – The Congress today alleged that Sterlite illegally closed down Balco on 8 March. The party said "Chhattisgarh government will be ready to buy 51 per cent Balco shares for the same price Sterlite payed".

Congress spokesman Mr Jaipal Reddy accused disinvestment minister Mr Arun Shourie of "misleading" the Supreme Court and both Houses of Parliament.

Mr Reddy said the Sterlite management closed down Balco, including the sensitive smelter plant. "The closure is illegal as the management hadn't declared a lock-out," he said. The management had even closed down the sensitive smelter plant, which workers, though on strike, had taken care to "keep it going".

Mr Reddy said the management either "intends to intimidate workers to total submission or isn't interested in running Balco at all".

(Mr AB Vajpayee today said the Balco controversy won't deter the Centre from going ahead with disinvestment in PSUs.)

Mr Reddy suspected that Sterlite lacked interest to run the company because "they got 51 per cent shares for just Rs 512 crore and, in the process, also got a huge cash reserve, 400 hectares of land, mines, colonies and even a power plat, built in 1988, which if they give up will fetch them around Rs 1,200 crore".

Supporting Mr Ajit Jogi's demand that Sterlite resell two per cent shares to the government to help it retain majority stake, Mr Reddy said "the Chhattisgarh government will be ready to purchase 51 per cent Balco shares if it were given for the same Rs 512 crore".

The Congress spokesman challenged "Mr Shourie's complaint" to Supreme Court that the state government wasn't providing protection to workers.

Mr Reddy said, "Only at 9 p.m. of 6 March, a holiday, did Mr Shourie through the disinvestment department secretary send a fax to Chhattisgarh chief secretary knowing fully well the chief secretary will get to see the letter only when he comes to office next day. They didn't even bother to ring him up at his residence. And the next morning, Mr Shourie moved Supreme Court. Mr Shourie was making a pretence of a request to go to Supreme Court. I charge Mr Shourie of misleading Supreme Court on this count."

Mr Reddy dismissed as untrue Mr Shourie's statement in both Houses of Parliament that the Centre has taken the state government into confidence before the deal was struck. "I charge Mr Shourie with misleading both Houses of Parliament".

The Balco workers' strike entered its ninth day today.

THE STATESMAN

12 MAR 2...

CM extends deadline of review panel on Dabhol deal

By Our Mantralaya Correspondent

MUMBAI: After pulling off a successful political coup, chief minister Vilasrao Deshmukh has skilfully managed to put at bay the Enron controversy, at least for the time being.

On Friday, the CM extended the March 15 deadline of the Madhav Godbole committee which is reviewing the Power Purchase Agreement (PPA) of the Enron-promoted Dabhol Power Corporation (DPC).

The fresh deadline has not been announced. But it is unlikely it will be during the seven-week session of the legislature commencing here on March 12.

"The government has also decided to revise the earlier terms of reference of the review committee. As per the fresh changes, the Godbole committee has been armed with additional powers to hold negotiations with DPC officials on tariff and other issues," Mr Deshmukh said at a press conference held in Mantralaya on Friday after a meeting of the cabinet.

The state government's sudden change of heart in extending the review committee's deadline is not without reason, claim observers. It is being described as a well-designed strategy to avoid any embarrassment to the Democratic Front government during the budget session.

"Had the committee delivered its report on March 15, the opposition would have demanded that the document be tabled in the house. It would have meant one more trouble for the Deshmukh ministry," a Mantralaya official said.

Mr Deshmukh reiterated the poor state of finances of the MSEB, but agreed that the board was liable to make payments to the DPC.

"We agree that payments have to be made to the DPC but since the MSEB and the state are facing a financial crisis we have requested the Union government to bail us out," he said.

Interestingly, the DPC on Thursday had invoked the Centre's counter guarantee after the failure of the state and the Union government to pay Rs 104 crore towards the power purchased by the MSEB in December.

Mr Deshmukh took potshots at the affairs of the MSEB stating that the board had to take measures to scale down its transmission and distribution losses which account for 34 per cent. "It should be brought down to at least 18 per cent," he said.

Informing mediapersons of the MoU to be signed between the state and the Union government on reforms in the power sector, Mr Deshmukh said the agreement will be signed on March 31. "After we seal this agreement with the Centre, the state will get Rs 135 crore for its power programmes," the CM said.

Mr Deshmukh said budget session would pass off peacefully with the ruling coalition willing for debate and discussion with the opposition on all the crucial issues concerning the state.

Of the 20 new bills to be introduced in the house, the much-awaited bill on the slum policy, private coaching classes, cooperative societies and proposed changes to the municipal corporation Act will be tabled for discussion and passage, Mr Deshmukh said.

"The bill on private coaching classes has been revised. The proposed law will not be applicable to single-teacher private tutorials where the student capacity is less than 10.

The earlier clause that each private coaching class should have a separate toilet for girls and boys and parking space for cycles have been done away with," he said.

In another significant decision, the cabinet on Friday decided to initiate the concept of 15 per cent popular participation for all state-sponsored schemes.

"In any rural schemes where the beneficiaries contribute 15 per cent of the capital cost of the development project, such projects will be taken up on a priority basis with the state financing the rest 85 per cent.

In cases where the locals do not contribute towar ds the schemes, programmes will continue to be implemented subject to availability of funds," Mr Deshmukh said.

THE TIMES OF INDIA

10 MAR 2001

Balco deal: The real issues - II

This is the second and concluding part of the article published in these columns on March 9.

The decision on disinvestment in Balco marks a significant new broad vision on the positive possibilities of how the Government can distance itself from operational responsibilities in relation even to profit-making enterprises.

As the Finance Minister, Mr. Yashwant Sinha, has stated it, the Vajpayee Government now looks at disinvestment as a whole strategy of withdrawal from a range of industrial activities that are not strictly the domain of the government. The Economic Advisory Council (EAC) had, in fact, urged on such an approach.

The question why a profit-making enterprise such as Balco should at all be made over to a private sector such as Sterlite (to the extent of 51 per cent of the equity) is not difficult to answer in the new policy context.

That apart, the profitability of Balco had

POINT COUNTERPOINT

remained constricted for years with outdated smelter technology, inadequate supply of ore, dependence for power on the State electricity board in spite of having its captive generation plants and a sick Bidhanbag unit in West Bengal (which had been merged with Balco a few years ago).

Was the company's internal resource generation sufficient to help it modernise its operations? Few analysts would say that Balco with its market share of 21 per cent in primary aluminium in 1996-97 was exactly poised for a big leap.

The Disinvestment Commission, in fact, had concluded that in view of new capacities being built in the domestic market and import liberalisation, Balco should be categorised as a non-core PSE (rather than as a core PSE) for purposes of disinvestment.

In other words, the commission had held the view that the Government could disinvest a major part of its equity through a strategic sale to a partner followed by a public offer in the domestic market within two years.

Defence orientation?

An objection to Balco disinvestment voiced in Parliament recently was on the ground that the company had a "defence" significance about it.

The fact is that aluminium and extruded products have versatile applications in diverse areas of the economy including construction, transport and aviation. This is no reason for looking at the Sterlite induction in Balco as a security-related issue.

After all, there are hundreds of industrial units in the country including some SSI units that have defence contracts which do not automatically evoke security concerns.

Besides the woefully low per capita use of aluminium in India (at around 0.5 grams), the stark reality of a consumption pattern lagging far behind that in most developed countries, is what puts the prospects of the industry in positive light.

The Disinvestment Commission found that while at the global level, the electrical sector accounted for only 8 per cent of the total usage of aluminium, in India, it was as high as 34 per cent, (mainly because till 1989, the Aluminium Control Order had reserved 50 per cent of the production for the electrical sector).

Then again, packaging, building and construction are relatively high-aluminium usage sectors at the global level, but these had markedly low levels of consumption in India.

For companies such as Sterlite which can access vast capital resources from global markets, the scope for vertical integration of downstream projects with production of aluminium (supported by captive power projects) is indeed enormous.

Against Constitutional mandate?

The Balco deal is objected to because, among other things, it is seen to be coming in conflict with the Directive Principles of State Policy (DPSP) of the Constitution according to which the State should ensure that there is no concentration of economic power in the hands of a few persons.

It is often forgotten that the controlled economy and the system of planning evolved in this country with little or no Constitutional sanction and that many of the Directive Principles of State Policy including abolition of child labour and universalisation of primary education have remained dead-letters without the citizens having had any enforceable legal rights relating to them.

To say that the transfer of 51 per cent of the Government's equity in Balco to Sterlite will spell a new chapter of monopoly power in the aluminium industry is to ignore that in a highly capital-intensive industry such as aluminium, only a few big players can survive (unlike as in the downstream or application industries).

In an era of global competition, the concept of monopoly defined in terms of installed capacity or domestic market share is evidently anachronistic.

The transparency buzzword

The debate in Parliament on the Balco share transfer has lighted up a new-fangled passion for transparency. While Mr. Arun Shourie, Minister for Disinvestment, has gone to great lengths explaining how the process of share valuation in Balco has been gone through with meticulous non-partisan professional expertise and how competitive bidding has been obtained without any loophole being left for tampering with the system, sections of the Opposition have maintained with more vehemence than credibility that the Government had not been above board.

What more can on expect from a Government than the willingness to let the Comptroller and Auditor General (CAG) audit the entire records regarding the Balco deal? Mr. Shourie may well claim that this is a "new high" in transparency for any Government in Independent India.

But the rub is that if CAG audit is going to be sought for every transaction of the Government, accountability will soon substitute for executive decisions and performance.

For all practical purposes, protecting government transactions zealously from unhealthy and unconstitutional influences would be a sufficient expression of transparency without each competitive bid in transactions relating to strategic sale of PSEs being opened, as recently suggested by Mr. C. V. Ramakrishna, former Chairman of the Disinvestment Commission, in the presence of a TV crew! If it became necessary at all, would not a group comprising the Chief Justice of India, the Speaker of the Lok Sabha, the Leader of the Opposition and the Minister concerned, serve the cause better than the paparazzi?

THE HINDU

MAR 2001

10 MAR

BALCO, Congress and Parliament

By V. Krishna Ananth

THE EVENTS leading to the Lok Sabha "approving" the Union Government's decision to transfer the Bharat Aluminium Company (BALCO) to a private bidder have revealed again absurdities in the contemporary political discourse. For example, the view that the outcome of the Lok Sabha debate on the issue (under Rule 184) meant an approval of the Executive's decision.

The procedure does not call for any such approval by Parliament and the Executive is well within its rights to effect such a transfer. The transfer of BALCO was not contingent upon any approval by the two Houses of Parliament. It is another matter that what was "achieved" in this case cannot be described as approval by Parliament; for the Rajya Sabha had only debated the issue. Hence, it will be factually incorrect to conclude that the transfer has been "approved" by Parliament.

This aspect, however, pales into insignificance, if one looks at the voting figures in the Lok Sabha and the contents of the debate. The motion was defeated with the Opposition managing only 119 votes "against" the administrative decision. In other words, the transfer would have had the "approval" of the Lok Sabha even if some of those in the ruling combine had opposed the motion. The floor leaders of the Opposition parties — the Congress in particular — did nothing to ensure that their were present even when they knew that the motion on the BALCO transfer, after it was admitted under Rule 184, was going to be put to vote that day. The high command (Ms. Sonia Gandhi) did not care to instruct Mr. P. R. Dasmunshi (the chief whip) to ensure that the party MPs were present in the House and voted against the motion. This indeed is a pointer to the seriousness with which the Congress had taken the sale of BALCO.

It makes sense to single out the Congress in this context for more than one reason. In the first place, the high command seemed to have decided to leave its vassal in Chhatisgarh to fight the battle for BALCO alone. Second, it was the Congress that had insisted in the Lok Sabha that the discussion be under Rule 184. And, lastly, the fact that the idea of disinvestment of the Government's shares in public sector undertakings was initiated by the Congress.

And as for the "needle of suspicion" that the Congress' members in the two Houses were referring to and the charge by Mr. Ajit Jogi outside (of a few hundred crores changing hands), it is no different from similar charges against those in the Government when the 11-B mines in Madhya Pradesh's Bastar district, explored and developed by the National Mineral Development Corporation (NMDC), were transferred to Nippon-Denro, a Japanese corporation. The Congress was in power both in New Delhi and in Bhopal then. This happened in 1995. The Opposition, particularly the Left party MPs, had raised similar doubts even at that time; it is another matter that the BJP and its present allies had also joined the chorus.

The imperative for the Opposition, particularly the Congress, is to press for a debate on what Parliament's role should be in the disinvestment process.

The point here, to cut a long story short, is that transfer of the Government's stake in the industrial and mining sectors continues to be mired in controversies; and the focus has been on money changing hands. In other words, the same story as it was with the deal between the Union Government and Bofors. And such charges, even if they are made without any substantive evidence, tend to stick and contribute in a big way to the construction of a popular perception about the political class.

And, it is no longer one political party or any one formation against whom such charges are made. Instead, parties cutting across the spectrum are being placed in the same boat. After all, the people (and particularly the intelligentsia) cannot be blamed for the building of such a perception.

Take for instance the present case, and the charges against the Congress in the past — of having "sold" the nation's assets in Bailadilla; of having played a role in letting Harshad Mehta rig the stock market; that Mr. Sukh Ram, then in the Congress Cabinet, made a lot of money while opening up of basic telecom services to private entrepreneurs. Or the Dabhol Power Project (Enron), where the negotiations were carried out by not just the leaders of the Congress but several others including Mr. Bal Thackeray's own men. The outcome is there for all to see; this project, held out at one stage as the model for India's march into the new century, has now become an albatross around the people's neck.

What was striking in all these deals was that the state (and by extension the people) was taken for a ride by a set of political leaders and members of the civil administration. And in all these instances, the representative institutions — Parliament and the State Legislatures — were left to "discuss" the deals and stop with that. And even those who raised some valid doubts (based on technical facts) were derided as forces opposed to the nation's "development" not just by the organisations of employers but also by MPs of the ruling side; it is another matter that the rulers today are those who were on the other side a couple of years ago.

Looking at the BALCO affair in this larger context, one is led to conclude that Parliament as an institution is being reduced to a talking shop. It is this aspect of the sequence of events involving BALCO that strikes at the roots of the democratic set-up. Given that the Government is determined to transfer more and more PSUs to private entrepreneurs in the days to come, the imperative for the Opposition, particularly the Congress, is to press for a debate on what Parliament's role should be in the disinvestment process. In other words, to formulate an alternative to the disinvestment mechanism where the representative institutions are allowed to play a substantive role rather than merely raise a din. Ms. Sonia Gandhi, not to blame for the Congress' ommissions and commissions of the past, is better placed today to initiate a serious debate on such issues. Instead, she seems to have allowed herself to be persuaded by sections in the party that it is sufficient for the Opposition to merely raise a lot of dust over every move by the Executive and wait for the next elections.

The imperative for the Congress now is to reopen a debate within the party on what its position should be on disinvestment. The party's position on the issue, as it is, hardly provides any scope for meaningful debate. By putting off any serious debate within the party on this and other aspects of the economic policy, the Congress high command will only help push the party further to the margins of the political discourse. And this could further the distortion of the democratic set-up. But then, such concerns for the Congress have to compete with the desire of its leaders to somehow manage to remain in the reckoning; take for instance the developments in West Bengal where a number of the party's MLAs have crossed over to the Trinamool Congress or the common cause that Mr. Vilasrao Deshmukh is now seen making with Mr. Sharad Pawar and Mr. Bal Thackeray on the Enron affair in Maharashtra.

And this indeed is the tragedy. After all, the loser in this context is not merely one or other party. Instead, it is the very basis of the democratic set-up — Parliament as an institution — that is being exposed to ridicule. The manner in which the representatives of the various corporate groups reacted when the BALCO transfer was debated in Parliament — describing those who wanted a debate on the issue as disruptors — is only a pointer to what lies in store.

THE HINDU

10 MAR 2001

Balco deal — sifting real issues from canards

By S. Swaminathan

The disinvestment of Central Government equity in Bharat Aluminium Company (Balco) Ltd. to the extent of 51 per cent is both a bold strategic stroke by the NDA Government and a sure recipe for political confrontation.

The transfer of Government equity to Sterlite Industries at a price of Rs. 551 crores has already become *fait accompli*. The questions and allegations that surfaced in the Lok Sabha on the Balco disinvestment have, in the main, related to polemics about the propriety of disinvestment although our

POINT COUNTERPOINT

Parliamentarians seem to have feigned professional knowledge about "valuation accounting" — an area too dicey even for expert accountants.

This is a familiar game in political stonewalling of disinvestment. The Thatcherite blitzkrieg of privatisation in Britain was not totally immune from the accusations of the Labour Opposition of undervaluing "family silver" for making a success of an obstinate policy of Government withdrawal from industry and public utility services. "Pitch for unrealistic extortionate price bids for government enterprises and say that there are no takers." At whatever prices Government equity is sought to be transferred, blow the whistle and proclaim the suspicion of a sleaze. That is the art of sabotaging privatisation. There is ground for believing that it is this art which is now at work in New Delhi and Chattisgarh, with the difference that in the new State, there is a brazen show of jingoism as well. All this is not to say that the Department of Disinvestment has not made its own contribution to the confusion surrounding the whole deal.

Unseemly hurry?

The proposition that the Central Government could go for strategic sale of a large (though not dominant) part of its equity in Balco has been there for about five years now. In April 1997, the Disinvestment Commission made a comprehensive assessment of the strengths and debilities of Balco and summed up its views thus: "The Commission has evaluated various modes of disinvestment and has concluded that the sale of shares in a public offer may get a lower realisation than the sale to a strategic partner through a competitive bidding process from domestic and foreign partners." Of course, the United Front Government could not buy the proposition as it was besieged by internal contradictions on this and other areas of the reform agenda owing to Left obstinacy.

The truth is that only after Mr. Arun Jaitley was inducted as Law Minister into the NDA Government that the proposals regarding disinvestment came to be seriously examined. It is not difficult to believe that the modalities regarding competitive bidding for Government equity in Balco have been at work for months now. What is intriguing is why the Government seemed so keen on clinching the deal with Sterlite just on the eve of the presentation of the annual budget. Was it a case of juvenile excitement about telling the world that the NDA Government had, at long last, cracked the hard nut of disinvestment? That sense of hurry perhaps put the Opposition in a fit of uncontrollable rage and a consequent flurry of disinformation.

Why invite parliament hubbub?

Was it the NDA Government's extraordinary urge to show itself as an exemplar of transparency that led it to break the news about the Balco deal in Parliament and pave the way for voting on the issue? In strict terms of accountability to Parliament, perhaps, an executive decision regarding sale of equity in a public sector unit did not warrant discussion in Parliament much less a formal approval. To say that the Government won the day and thereby proved that the Lok Sabha had endorsed its policy of PSE disinvestment is at best a superfluous claim and at worst a bad precedent that would only shackle governments in the future.

The reality of it all is that the TINA (there is no alternative) factor came out in all its crudeness, putting to shame the Congress Party for its unabashed double-think on disinvestment and the Left parties for their comprehensive inability to see the writing on the wall. Or is this all an amateurish reading of the current phase of politics in New Delhi? Could it be that the BJP strategists deliberately stage-managed a stir in Parliament over the Balco deal to demonstrate that the NDA Government would stick together, rain or shine as the case may be?Much as the Minister for Disinvestment, Mr. Arun Shourie, attempted to educate the worthy members of the Lok Sabha on internationally recognised methods of fixing a fair value on equity shares in a "going concern", the battle seemed to veer round the question as to who is the more credible valuer — the MPs themselves or the professionals? It is pertinent to note that in 1996, the tangible net worth of Balco was around Rs. 760 crores and with little capital infusion since then and with even minimum levels of depreciation, it could not have soared much higher. That the bid made by Sterlite was higher, in fact, than the best value put on the shares by the professional valuers, cannot be dismissed as an irrelevant afterthought.

Enter enfant terrible

The queerest detour for the Balco deal has been provided by the irrepressible Chief Minister of Chattisgarh, Mr. Ajit Jogi. It is difficult to disentangle Mr. Jogi's frenzied loyalty to the Congress top-brass from his amazing unfamiliarity with the basics of Centre-State relations. His party has, after all, questioned the Vajpayee Government's zeal to hand over a profit-making PSE to a company in the private sector. He is not simply opposed to the Balco deal but as Chief Minister of Chattisgarh, he has virtually declared war against the Union of India! Whoever from Sterlite dare enter Korba to take over the management of the facilities there so long as Mr. Jogi as Chief Minister stands shoulder to shoulder with the 7,000 misguided employees of Balco? Other chief ministers might worry about how to foster employment but Mr. Jogi would risk forced unemployment at Korba rather than allow the sovereign Government of India to share its equity with Sterlite

The red-herring about tribal rights

Mr. Jogi has discovered that the lands on which the Balco facilities are sited constitute tribal lands in terms of the Fifth Schedule of the Constitution of India. According to him, the transfer of equity shares by the Central Government to Sterlite empowering the latter to assume managerial authority, amounts to the transfer or alienation of tribal lands in favour of Sterlite. This is not a tenable stand in law for the transfer of shares does not involve any change in the original lease of the lands by the Government of Madhya Pradesh in the early 1970s to Balco, a fully-owned public sector enterprise of the Central Government.

Mr. Jogi might have his political compulsions in over-reacting to a decision by the NDA Government on transferring 51 per cent of its equity holdings in Balco. But his repeated claim of knowledge about a party in the PMO in New Delhi having secured an illicit benefit amounting to Rs. 100 crores and his assertion that he would reveal his information only to a Joint Parliamentary Committee (if and when it is appointed) both belong to the theatre of the absurd! How is the Home Ministry going to deal with this new specimen on the Indian political firmament?

(To be concluded)

10-1-9 9/3

THE HINDU

DANGER TO PLANT PROMPTED DECISION: SHOURIE

Opposition slams Govt. for moving S.C. on BALCO

By Our Special Correspondent

NEW DELHI, MARCH 8. The Government came in for sharp criticism in Parliament today for approaching the Supreme Court on the BALCO issue on the basis of "false premises" to "thwart the strike" at the company's main plant in Korba.

The Opposition questioned the Government's propriety in moving the apex court on an issue concerning Centre-State relations without taking the State Government into confidence.

While the Opposition, mainly the Left, was unrelenting in the attack on the Government for approaching the apex court on behalf of a private company, the Disinvestment Minister, Mr. Arun Shourie, defended the action when the issue cropped up soon after question hour in the Upper House.

In the Lok Sabha, the CPI(M) leader, Mr. Somnath Chatterjee, said the Government was taking recourse to the judiciary to hustle through its disinvestment policy and destabilise the constitutional equilibrium.

In the Rajya Sabha, the Opposition's line of attack was encapsulated by the senior Congress leader, Mr. Arjun Singh, during a crisp intervention. While Mr. Shourie claimed that the BALCO plant was in danger, the workers had promised that no untoward incident would be allowed to take place, he said. "You don't deserve to be a Minister if you have gone to the Supreme Court on the basis of false premises," he told Mr. Shourie.

During the debate on the motion of thanks to the President's address on Wednesday, Mr. Singh had sought to know from the Prime Minister, Mr. A. B. Vajpayee, whether the spirit of the Constitution had been followed in the BALCO disinvestment. He asked whether the Government wished to amend Schedule 5 of the Constitution, which directs States to protect tribals against exploitation and preserve valuable endowments of their land since it was coming in the way of disinvestment.

Financial burden

During several interventions interrupted by the Opposition today, Mr. Shourie said the Government petitioned the Supreme Court late yesterday on four counts. The Centre had received "alarming information about imminent danger to the BALCO plant"; no reply was received to the Centre's missive to the Chhatisgarh Chief Secretary about the law and order situation; the Government would also have to bear the financial implication of a loss due to sabotage as it still held 49 per cent of the equity; the striking workers had not submitted any charter of demands; and, some State political leaders had made inflammatory statements at the plant gate.

Mr. Shourie's arguments were contested by the CPI(M)'s Mr. Dipankar Mukherjee who assailed the Government for giving a non-factual reply. All BALCO unions had promised that the smelter would be kept operational with no worker claiming wages and that the strike would be peacefully conducted until the deal with Sterlite was cancelled.

Mr. Shourie was asked by the Rajya Sabha Chairman, Mr. Krishan Kant, to recant his charges against the Chhatisgarh Chief Minister, Mr. Ajit Jogi, as he had not given notice before attacking the State Government. A short while later, Mr. Shourie was told not to read the apex court's order in the House and when he sought to reply to the CPI(M)'s Mr. Nilotpal Basu, who was the first to raise the issue, Mr. Pranab Mukherjee wanted to know whether the Minister's proclivity to reply to each observation would become a precedent.

Unfortunate: BJP

Meanwhile, the BJP criticised the Opposition charge saying, "it was unfortunate that they chose to question the apex court judgment while taking a contrary stand when some Sangh Parivar outfits claim that in matter of religion, the courts cannot decide." The party spokesman, Mr. Vijay Kumar Malhotra, said the issue had turned contentious due to the ongoing leadership tussle between Mr. Jogi and the Congress leader, Mr. V. C. Shukla.

Mr. Malhotra said moving the Supreme Court was one of the constitutional remedies the Centre had in mind, and warned that Mr. Jogi could be hauled for contempt of court in case he did not follow the apex court order.

Uproar in Assembly: Page 9

We had no other option: PM

By Our Special Correspondent

NEW DELHI, MARCH 8. The Prime Minister, Mr. Atal Behari Vajpayee, today declared that seeking legal remedy was the only solution to the crisis created by the strike at the Korba unit of the Bharat Aluminium Company (BALCO) in Chhatisgarh. Refuting suggestions that other methods to resolve the issue could have been explored, he said, "it would have been too late by then".

Responding to questions at a tea party organised on the occasion of International Women's Day, he said threats had been made to cut off water and electricity to the plant. Besides, there was a real danger to the plant which might have suffered irreparable damage at the hands of the striking employees. There was no option but to immediately seek court intervention, he felt.

Mr. Vajpayee also criticised the statements of Mr. Ajit Jogi, on the issue saying "this is not the way for a Chief Minister to behave."

The Congress president, Ms. Sonia Gandhi, present on the occasion, said the Chief Minister was free to do what he liked in such a situation.

Meanwhile, five central trade unions — AITUC, BMS, CITU, HMS and INTUC — urged the Centre to "respect the feelings of the people and cancel the BALCO deal immediately".

THE HINDU

9 MAR 2001

Battle over Balco

The Supreme Court directive comes as a face-saver for Jogi

EVEN if the method the Centre found for disciplining the Chhattisgarh government over the Balco deal — approaching the Supreme Court with an urgent application — is questionable, the latter has only itself to blame for the denouement. It is one thing to take a position on disinvestment in a public sector company and quite another to disrupt the handing over of the company to the buyer. Chhattisgarh Chief Minister Ajit Jogi has been on a confrontationist course ever since Sterlite emerged the winner in the bid for the public sector aluminium company. Though such a stance was surprising given the fact that the Congress concurs generally with the policy of disinvestment, it would have made sense if Jogi had relied on strong arguments and statistics to buttress his viewpoint. Far from that, he made allegations to the effect that Sterlite was favoured because of the bribe it paid to some influential person in the prime minister's Secretariat. Let alone naming the alleged recipient of the bribe, Jogi even failed to substantiate his charge that he was not consulted on the sale of Balco. But all this pales into insignificance when it is compared to what he did subsequently, when he allegedly incited the Balco workers to go on strike.

It was quite unusual for a chief minister, entrusted with the responsibility of maintaining law and order, to get involved in a strike in this manner. It is doubtful if the workers would have gone on strike in the light of the assurances given by the new management that there would be no retrenchment or anti-labour policies but for the encouragement given by the state government. Failure of the state to provide protection to the workers who wanted to work amidst fears of a critical and costly component of the Balco factory getting irreparably damaged did not show the Jogi government in a good light. Naturally questions were raised whether the chief minister was using the unwary workers of Balco to settle a score with the Central government. However, the apex court's directive to the state government to refrain from cutting the supply of water and power to the company and to provide protection to the workers willing to join duty should be seen as a warning to Jogi to cease his theatrics. At the same time, whether the political leadership in the state and at the Centre realises it or not, the judicial intervention is a poor reflection of its commitment to administrative and political decorum.

It is significant that the court's order does not prevent the Chhattisgarh government from pursuing the notice it served on Balco to show cause why land allotted to the company should not be cancelled in view of its proprietorship falling into the hands of a private party. In other words, what the court seeks to prevent are only the 'illegal' actions of the government. It is a question of interpretation whether the sale of Balco infringes the safety clause against alienation of tribal land in scheduled areas as contended by Jogi or not. This will hopefully be settled once and for all by the apex court, which is seized of the matter. Till then, the chief minister will do well not to stoke the flames at Balco. In fact, he should consider the court's directive as a face-saver to withdraw from his confrontationist stance.

INDIAN EXPRESS

2001

Govt under attack in House over Balco

HT Correspondent
New Delhi, March 8

THE GOVERNMENT today came under attack in Parliament over its decision to move the Supreme Court on Balco disinvestment without taking the Chhattisgarh State into confidence.

The Left parties in particular put the blame on the government for going to the apex court without paying heed to the federal set-up as envisaged in the Constitution.

In Lok Sabha, CPI-M leader Somnath Chatterjee said he was not raising the matter of "Centre going to the Supreme Court" but the question of propriety. He accused the government of taking recourse to the judiciary for going ahead with its "sinister disinvestment policy" and destabilising the constitutional equilibrium.

Countering the Opposition charges during Zero Hour, Disinvestment Minister Arun Shourie told the Lok Sabha that the Centre had received alarming reports that water and electricity to the Balco plant would be cut and the managerial staff would not be allowed to enter the plant.

He added that the issue had turned into a law-and-order problem after an ambulance was burnt and a CISF van damaged by activists.

Mr Shourie dismissed the Opposition's charge that the State Government had not been consulted. He said the Disinvestment Secretary had written to the Chhattisgarh Chief Secretary about the disturbing reports and the possibility of damage to the plant. But there was no response, he said.

Mr Shourie told agitated Opposition members that experts were of the view that irretrievable harm could be caused to the plant if immediate action was not taken. The losses could amount to Rs 100 crore.

In the Rajya Sabha, Mr Nilotpal Basu of the CPI(M) raised the issue during zero hour. He said the Government was trying to "throttle" the legitimate rights of workers.

Mr Shourie told the Elders that political leaders of Chhattisgarh had said the plant would not be allowed to function till the Government reversed its decision. This, he said had been reported in the Chhattisgarh and Madhya Pradesh Press.

Mr Shourie, however, withdrew his words in the Rajya Sabha when Chairman Krishan Kant said he could not make such a statement on a State without giving notice.

THE HINDUSTAN TIMES

Uproar in Chhatisgarh House over BALCO

HD-9/3

By Aarti Dhar

RAIPUR, MARCH 8. The Chhatisgarh Assembly was today adjourned until March 13 without transacting any business, for the second consecutive day, following pandemonium over the controversial Bharat Aluminium Company Limited (BALCO) issue.

The House was adjourned twice this morning as the Opposition insisted on a debate on the matter even as the ruling party MLAs refused to concede. When all efforts to pacify the members failed, the Speaker, Mr. R. P. Shukla, adjourned the House until next week.

Trouble began when the Kathghora MLA, Mr. Banwari Lal Aggarwal (BJP), rose to read a statement on the deteriorating law and order situation at Balco Nagar after visiting the site on Wednesday evening, along with his colleagues. However, his request was turned down by the ruling party members, which led to a fierce argument resulting in an adjournment. When the House reassembled another argument ensued leading to a second adjournment. Things did not change even then and the House was adjourned till March 13.

Workers enter plant

9 feet

At Korba, the striking unions started sending workers inside the plant to prevent a total shutdown. The first batch of 35 workers was sent in early this morning, and by evening the necessary 73 men would report at the smelting plant, as demanded by the management. However, the staff going in did not punch their cards and said they would not take any wages for this duty as the work was being done voluntarily to keep the plant running which was their first priority. The unions even appealed to the officers inside the plan to participate in the strike and also keep the plant running.

The decision to send in people was taken on the appeal made by Mr. C. W. Devras, general manager (works), saying irreparable damage would be caused if action was not taken within 12 hours. Though the men were to be sent in yesterday itself the arrival of the BJP MLAs from Raipur had delayed the process.

Meanwhile, a move by the BJP MLA, Mr. Nanki Ram Garg, to ensure the entry and exit of "willing workers" to resume duties under police protection failed to take off as he himself went off to Raipur to attend the House, and no one volunteered to take a vehicle, provided by the police, across the campus to transport the men. Mr. Garg had yesterday sought a written assurance from the Superintendent of Police that they would provide security to the workers wanting to resume work. Similar directions had been issued by the Supreme Court to the Chief Minister.

Submit or quit, BJP tells Jogi

NEW DELHI, MARCH 8. The BJP today said the Chhatisgarh Chief Minister, Mr. Ajit Jogi, should either submit to the rule of law on the BALCO disinvestment issue or step down from office.

Party spokesman, Mr. V.K. Malhotra, said that it was highly improper for the Chief Minister to abet and encourage lawlessness, disregarding his Constitutional obligations.

He said Mr. Jogi knew the Centre's limitations in invoking Art. 356 of the Constitution as the NDA Government lacked majority in the Rajya Sabha and that was why he was encouraging activities which tend to disturb law and order. The Chief Minister, Mr. Malhotra said, should not forget that by doing so he could render himself liable to contempt of court as the Supreme Court has already expressed its views on the issue.

Mr. Malhotra also assailed the Opposition for criticising the Supreme Court's directions to Mr. Jogi to provide full security to workers and the management of the strike-hit aluminium plant and said this exposed their "duplicity". The spokesman said "on Ramjanambhoomi-Babri Masjid issue they insist that everybody should abide by the court verdict while in this case they are criticising the court instead of appreciating its directive".

Mr. Malhotra said his party was not in favour of interference by the judiciary in the domain of the executive, but in this case, the court was justified since the person who is encouraging lawlessness was none other than the Chief Minister of the State.

Referring to Budget proposals, he said some members had made certain suggestions with regard to reduction of excise duty on ready-made garments as also giving some relief to the salaried class. The members could meet the Finance Minister to discuss the matter, he said. — PTI

THE HINDU

9 MAR 2001

BSE chief quits as SEBI orders investigation

HT Correspondent
Mumbai, March 8

THE GOVERNING board of the Bombay Stock Exchange (BSE) met here today and accepted the resignation of its president, Anand Rathi.

While the board expressed complete confidence in his integrity, it appointed the BSE vice-president, Dina Mehta, who is the only woman broker director on the governing board, to officiate as its interim president. The next BSE chief would be appointed on April 1, 2001.

The board, which had called a press conference cancelled it and instead issued a statement stating that Rathi's resignation was being accepted in order to maintain the dignity of the BSE president's office and the highest standards of public morality.

However, sources said that the real reason for cancelling the press meet was to avoid answering uncomfortable questions which would have created further controversy. This was evident from the release which said that the BSE board wanted Sebi to expedite the probe into the bear run.

The BSE Sensex today recorded a nominal increase of 10.05 points to close at 4056.94 points. The trading was highly subdued as most players were watching with keen interest the possible fallout of the crash of March 2 which has already cost Rathi his job.

Amongst the technology stocks HFCL lost about 15 per cent to Rs 389. It may be mentioned here that big bull Ketan Parekh has large holdings of HFCL which sold its 10 per cent equity stake to Australian media mogul Kerry Packer last year at a price of over Rs 1,100 per share and raised Rs 1,400 crores.

Informed sources said it was essentially a fight between big bulls and even bigger bears. The later apparently got sensitive information relating to the tight liquidity position of leading bulls who in the recent months made a fortune in technology stocks. One of the leading bulls was undoubtedly Ketan Parekh. The bears used the information to unload their stocks pushing values to a new low. Thus, while they made money the bulls lost heavily.

A CEO of a leading mutual fund said one leading bull could have lost as much as Rs 300 crore in the last two months. In a way he said the crisis of March 2 was a culmination of the fight certain bear quarters had egged on to its logical conclusion. The alleged leakage of market sensitive information played a crucial role in the bears calling it quits even as the bulls had more than doubled their wealth in the last one year.

17 broking firms under scanner

HT Correspondent
Mumbai, March 8

THE SECURITIES and Exchange Board of India (Sebi) has initiated investigations into the activities of 17 broking firms allegedly involved in the bear hammering in Dalal Street two days after the Budget was presented.

Sebi chairman D R Mehta said the regulator has put together a team of 40 officials from NSE, BSE, CSE and Sebi, to investigate the bear run as part of the first round of investigations. Is the transcript containing the conversation between BSE president Anand Rathi and Surveillance chief S Gerela on the leak of sensitive market information being studied to establish a possible nexus between brokers and BSE officials?

"Sebi is a court. I, therefore, cannot tell you," Mr Mehta told Hindustan Times. "Neither have I got a magic wand, nor am I investigating this personally. Since we have to collect data and interpret it. I would not like to go into the details now."

However, independent investigations by *Hindustan Time[s]* indicated that the audio detail[s] in the hard disc of the compute[r] kept in the BSE's stock watc[h] room have been recorded in sep[a]rate audio tapes and a tran[s]script prepared.

Mehta is perplexed that mar[]kets should crash just afte[r] the Budget, which was generall[y] perceived to be industry friendly.

The Sebi chairman did no[t] seem to rule out manipulations.

Give security to Balco staff: SC

STATESMAN NEWS SERVICE & PTI

NEW DELHI, March 7. – The Supreme Court today ordered the Chhattisgarh government to provide security to the workers and the new management of Balco and not to disrupt supply of water, electricity and food to the Korba plant or the township.

A Division Bench, comprising Mr Justice BN Kirpal and Mr Justice VN Khare, issued the order on an interim application moved by the Centre.

The court asked the state's chief secretary and the DGP to ensure "full protection to the workers, their families and the management inside and outside the Balco plant at Korba", to ensure that "workers and the management are not in any way intimidated"or "prevented from willingly going to work in the plant".

The government is also "restrained from disrupting supply of water, electricity or food to the Balco plant or township."

The Chhattisgarh government tonight said it would comply with the Supreme Court order, a report from Raipur adds. "The government respects the apex court order and assures protection to those who want to work in the Balco plant," an official said.

The Bench also issued directions that only the Supreme Court would deal with the cases related to the Balco disinvestment deal.

Shortly after the order was issued, a relieved disinvestment minister, Mr Arun Shourie, said he hoped the Chhattisgarh government "would now see reason". He said the Centre had moved the court as the matter had impinged on the Centre-state relations and this was best course open to resolve the controversy.

The "state-sponsored" strike at the Korba plant may cause "irreparable harm", necessitating the Centre's intervention, he said.

The state government had issued notices to the Centre asking it to show cause why the land acquired for the plant would not cancelled after the disinvestment. The Bench, which sat at the residence of Mr Justice Kirpal, said the state government could proceed with the notices but would not pass any order.

The Centre, on the other hand, said: "Since the land was leased to the company, the question of cancelling the lease could never arise." Giving details of the sale agreement, it said "all employees of the company on date shall continue in the employment of the company.

"The strategic partner shall not retrench any part of labour force of the company for a period of one year from the closing date other than by dismissal or termination of employees in accordance with law."

In Chhattisgarh Assembly, the chief minister, Mr Ajit Jogi, came under attack for supporting the Balco workers' strike. The Opposition alleged Mr Jogi's action had created a constitutional crisis.

But Mr Jogi claimed the strike would give a new direction to the country's economy and the disinvestment policy.

THE STATESMAN

8 MAR 2001

Shourie seeks audit of BALCO deal

By Our Special Correspondent

NEW DELHI, MARCH. 7. Even as the Disinvestment Minister, Mr. Arun Shourie, has written to the Comptroller and Auditor-General seeking an audit of the BALCO sale transaction, an apex industry chamber has described the entire controversy as "embarrassing" in an open letter to the Chhatisgarh Chief Minister, Mr. Ajit Jogi.

The Federation of Indian Chambers of Commerce and Industry (FICCI) has pointed out that the developments have come in the midst of a dialogue with a U.S. investment team where Chhatisgarh has been identified as a prominent investment destination. "To talk of foreign investment when executives are put under 'arrest' by recalcitrant labour and functioning plants closed down is a travesty of the entire effort," it says.

With the strike by the BALCO employees at Korba continuing, Mr. Shourie has asked the CAG, Mr. V.K. Shunglu, to assign officials to see the records of BALCO's strategic sale to Sterlite Industries and "conduct the audit". He said the officers of the Department of Disinvestment and the Mines Ministry would assist the designated team to complete the audit and complete the report "at an early date".

While announcing the sale to Sterlite, Mr. Shourie had stressed that all documents would be handed over the CAG for audit to ensure complete transparency in the transaction. The letter to the CAG is evidently meant to fulfil this commitment.

FICCI concern

Simultaneously, the FICCI has entered the fray with its president, Mr. Chirayu R. Amin, in an open letter to Mr. Jogi, pointing out that it has included Chhatisgarh as a prominent investment destination for the mining and metals sector in today's presentation to U.S. investors.

The letter expresses concern at the Korba strike and the immobilisation of the plant resulting in national wastage of productive facilities set up with public money. The smelter and the pot at the Korba plant have been laid to rest and unless these are re-ignited immediately and taken to higher temperatures, these will be damaged beyond repair, it is pointed out.

"The implications are that fresh expenditure of over Rs. 100 crore will be required to put up new facilities," the letter states. This would also mean production loss for a long time and consequent loss to the company. According to the FICCI, the steps now being resorted to by the BALCO labour unions are "suicidal" and can make a viable, smoothly functioning, profitable unit slip into industrial sickness.

The FICCI has expressed the view that other legitimate statements could have been invoked in case there are valid reasons for opposing the privatisation deal. "After all, BALCO is a national property and the national exchequer must get the right price for the asset. There are no two opinions on that. However, we strongly believe that what is happening in Korba is certainly not the right approach," the letter says.

More reports on Page 13

9 Fu Atr

Protect workers, says SC

NEW DELHI, MARCH 7. The controversy over privatising the BALCO took a new turn today with the Supreme Court directing the Chhatisgarh Government to provide full protection to workers and the new management of the strike-bound aluminium plant.

On an urgent interim application moved by the Central Government, a two-member Bench directed that the State Government should not disconnect water, electricity and food supplies to the plant. It restrained other courts from giving any order on the issue as the matter rested with the apex court.

The Union Minister for Disinvestment, Mr. Arun Shourie, hoped that the Chhatisgarh Government would implement the order in letter and in spirit.

In Raipur, an official spokesperson, Mr. C.K. Khaitan, said "The Government respects the apex court order and assures all protection to those who want to work in the BALCO plant." — PTI

THE HINDU

- 8 MAR 2001

BJP warns Jogi over BALCO

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By Our Special Correspondent

NEW DELHI, MARCH 7. The political fallout of the BALCO disinvestment threatens to sour relations between the Centre and Chhatisgarh with the BJP spokesperson, Mr. Vijay Kumar Malhotra, threatening today that the Centre could "recover the losses suffered by BALCO" from the "Central (monetary) assistance to the State."

Mr. Malhotra was referring to the continued 'covert and overt' support to the 7,000-strong striking BALCO employees who are protesting against the disinvestment.

He said 49 per cent of the BALCO equity was still with the Centre and the losses suffered by the company as a result of the strike "could be recovered" from funds due to the State from the Centre.

Virtually charging the Chhatisgarh Chief Minister, Mr. Ajit Jogi, with "perpetuating gangsterism" in the name of the Government and tribals, Mr. Malhotra felt that the State's long- term interests would not be served by Mr. Jogi's belligerent attitude, even as reports from Chhatisgarh indicated that Mr. Jogi wanted the agitation to serve as a deterrent to irresponsible disinvestment in profit-making concerns.

Imam criticised

H P - 13

The BJP today criticised the Shahi Imam of Jama Masjid, Ahmed Bukhari, for comparing the 1992 Babri Masjid demolition to the ongoing destruction of the Bamiyan Buddhas by the Taliban in Afghanistan.

In a statement made on Tuesday during the Id prayers at the Jama Masjid, the Imam demanded that the Vajpayee Government remove the Ram idol placed at the site of the Babri Masjid. He could then use his good offices with the Taliban to stop the destruction of pre-Islamic idols. The Imam had suggested that the Taliban action was a reaction to the Babri demolition. Mr. Malhotra said, "what the Imam has said is highly condemnable and it is anti-national".

The Shiv Sena issued a statement demanding that the Imam be arrested. Clearly, by implication, Mr. Malhotra was sticking to the BJP view that the demolition of the mosque and the desire to build a Ram temple at the disputed site were a matter of 'nationalist feelings' and not an anti-national act. Mr. Malhotra stated in a matter-of-fact manner: "there are 3,000 Muslim holy places in India and nobody has harboured any evil intention about these". It was not clear whether that was a warning.

Imam's arrest demanded

PTI reports:

The Bajrang Dal today demanded arrest and prosecution of the Shahi Imam of the Jama Masjid, Syed Ahmed Bukhari, saying his statement likening the destruction of the Bamiyan Buddha statues with the demolition of the disputed structure at Ayodhya was an attempt to cover up the "ugly face" of the so-called Islamic movement.

In a statement here, the outfit's national convenor, Mr. Surendra Jain, said the Imam should give a rational justification for his statement as "Hindus were performing worship at the disputed site for 50 years under a court order".

"If the destruction of the Buddha statues, eight years after the demolition of the disputed structure, is justified according to the Imam, should it be taken that he was inviting reaction to the demolition of thousands of temples in the country by invaders in the past," Mr. Jain asked. — PTI

THE HINDU

- 8 MAR 2001

Ho. 12

The BALCO deal

By Rajindar Sachar

THE SALE of BALCO by the Central Government continues to make headlines. There are too many dark (not even grey) areas which have not been illuminated. It is not disputed that BALCO is a profit-making PSU. There is no logic for the sale except that which apologists for globalisation put out — that the public sector has to be dismantled, even when it is doing fine. For persons like me, the sale of a PSU in a core sector such as aluminum is unthinkable irrespective of the question of profitability or otherwise, because I would consider this against the mandate of our Constitution which promises economic and social justice and is against concentration of economic power in a few individuals. Unfortunately, the Congress(I), the main Opposition, is also sold on privatisation. This reduces the whole controversy to a bargaining game of sorts — a far cry from the kind of Indian state we dream of.

The Government has not come out with all the facts. Responsible trade unions have alleged that BALCO made a profit of Rs. 55.89 crores and paid the Government Rs. 18 crores as dividend and Rs. 291.57 crores as taxes and duty last year. BALCO is said to have two captive power plants of about 250 MW and would be worth Rs. 500 crores even in the present condition. The Government justification that prices were on the decline is unconvincing considering that the country experienced a shortage of around 1,48,390 tonnes in 2000 itself. Even the Government has admitted that BALCO has a market share of 15 per cent.

Sterlite's Director is naturally in raptures at the deal and admits: "that BALCO acquisition is expected to complete the value chain from bauxite to high value added foils and provides Sterlite group with critical mass". He gloated "that Sterlite turnover from the aluminium business will now go up to over Rs. 1,600 crores from Rs. 800 crores in the Indian aluminium industry."

A serious consequence is that after acquiring BALCO, Sterlite will control 20 per cent of the market share in the aluminium industry. There is not even a remote explanation from the Government how it has entered into such a deal, which even under the truncated Monopolies and Restrictive Trade Practices Act, 1969, will amount to a monopoly. In such a situation, the Central Government is obliged under the Act to prohibit such a situation as being against the public interest and to even order the division of such undertaking. If the Government goes ahead with the sale of BALCO, it may run foul of challenge before the MRTP Commission. I am not sure that any prospective buyer would, normally like to take that risk, but of course, considering the dirt-cheap price at which Balco is being sold, he may nevertheless consider taking a gamble. Also a sale like this which creates such a large market share runs counter to the principle of free competition which is said to be the basis of globalisation. How ironic a gap between profession and practice.

The sale of a core sector PSU is against the mandate of our Constitution which is against the concentration of economic power in a few individuals.

Now, monopoly is checked by such unabashedly capitalist countries such as the U.S., Canada and Australia. The European community has even more stringent standards against such mergers which lead to a substantial market share for a company product, which would have the effect of lessening competition and operate to the detriment of the public. Such a monopoly of market share runs foul of Anti-Trust Legislation passed as far back as 1914 in the U.S. That mergers nevertheless continued to the detriment of the public by lessing competition led the U.S. to pass the Anti-Trust Improvement Act, 1996, which requires those planning acquisitions to file notifications with the Federal Trade Commission and to delay consummation for a prescribed period to give an opportunity to the Department of Justice to review the proposed transaction and prevent consummation of transactions that violate anti-trust laws. It is well settled that immunity from the anti-trust law is not lightly implied. This reflects the role of an anti-trust policy in the maintenance of free competition.

In the Philadelphia Book case, the U.S. Supreme Court stated the position thus: "Specifically, we think that a merger which produces a firm controlling an undue percentage share of the relevant market, and results in a significant increase in the concentration of firms in that market, is so inherently likely to lessen competition substantially that it must be enjoined in the absence of evidence clearly showing that the merger is not likely to have such anti-competitive efforts. Furthermore, the test is fully consonant with economic theory." That "competition is likely to be greatest when there are many sellers, none of which has any significant market share" is common ground among most economists, and was undoubtedly a premise of congressional reasoning about the anti-merger statute. Though in that case the controlling interest was 30 per cent, the court was cautious enough to say that it was not attempting to specify the smallest market share which would still be considered to threaten undue concentration. The Court thus noticed a dominant view which favoured a finding that a much smaller market share in one corporation would tend to lessen competition and thus be against public interest. Thus it was mentioned that Kaysen and Turner suggest that 20 per cent should be the line of *prima facie* unlawfulness. Stigler suggests that any acquisition by a firm controlling 20 per cent of the market after the merger is presumptively unlawful, Markham mentions 25 per cent. Bok's principal test is increase in market concentration, and he suggests a figure of 7 per cent or 8 per cent. Needless to say, the fact that a merger results in a less than 30 per cent market share, or in a less substantial increase in concentration than in the instant case, does not raise an inference that the merger is not violative of the Anti-Trust Legislation.

In a close parallel case of the Aluminum company of America, the U.S. Supreme Court held that the acquisition by a producer of 27.8 per cent of the market of a producer of 1.3 per cent of the market violates the Anti-Trust Act as amended, which prohibits corporate stock or assets acquisitions, the effect of which may be substantially to lessen competition or to tend to create a monopoly in any line of commerce in any section of the country.

The Government cannot avoid this issue by saying that there is no definite proof that such a sale of BALCO will lessen competition — it only needs to be reminded that in law to prevent monopolisation, the test is of probabilities and not certainties.

A further serious matter that needs to be examined is the effect of Article 244 of the Constitution read with the Fifth Schedule which prohibits non-tribals holding land in scheduled areas from transferring their lands in favour of persons other than the tribals and any act contrary to this regulation will make the transfer null and void. Whatever immunity may have been enjoyed by BALCO being Government Company, will cease when 51 per cent of it is sold to non-tribals — the result may be that land which at present belongs to BALCO will have to be restored to the tribals because it is situated in a scheduled tribal area.

Another important constitutional aspect is the federal principle of our governance. BALCO is in the State of Chhatisgarh. The Chief Minister has publically raised an objection to it. The Governor has described it as mindless disinvestment of a financially-sound PSU. Surely, a harmonious working of the Constitution requires the Centre to hold full and total consultations with the State? The Centre just cannot treat the State as a vassal. The State may as well feel that privatising an industry in a tribal area is to the detriment of that neglected section of the community. It may well feel that private management will not give a fair deal to these illiterate disadvantaged populace. Surely the Centre cannot act like a Viceroy of the British Empire. If it does it may run foul of the Constitution with its attendant complications. Sobriety is a worthwhile habit — the Central Government is not exempt from it.

(The writer is a former Chief Justice of the Delhi High Court.)

THE HINDU

7 MAR 2001

Back to Balco

The issue of the disinvestment of Bharat Aluminium Company (Balco) refuses to go away — even after the government won a vote in Parliament and formally transferred control of the public sector undertaking to the private sector metal major Sterlite. The company's Korba plant has been forced to shut down operations after the 7,000-odd workers went on a sudden strike. If the shutdown continues, it may take up to three months and Rs 200 crore to revive the continuous-process smelter. The illegality of the strike aside, a tense law and order situation has developed with the managerial staff confined inside the plant for over three days and the new management disallowed entry. More worryingly, Chattisgarh chief minister Ajit Jogi has himself taken a belligerent stand — inciting the workers to agitate, threatening to cut off power and water to the plant, and even to cancel the mining leases held by the company. As chief minister, Mr Jogi's first duty is to maintain law and order, and this done, he should cool the rhetoric and facilitate resumption of plant operations. It should help that the new management has categorically ruled out retrenchment. As for other issues, these are already before the courts. For his part, Mr Jogi should realise that the rich mineral resources of the newly formed Chattisgarh state require huge investments for development, which can in future come only from the private sector and transnational companies. It is in his own interest therefore that he deals with the strike so as to foster an investor-friendly industrial climate in the state.

However, some disturbing questions regarding Balco remain. These are not questions that would probably disturb either ideological extreme — both camps have already made up their minds and no amount of argument is going to convince them otherwise. But there is a large middle ground, consisting of people who support privatisation as a policy, but are increasingly worried by reports of rampant crony capitalism. This group does not wish to needlessly impugn anyone's integrity, but it would like to be sure that the government's dealings are completely above board. Disinvestment minister Arun Shourie has been largely cooperative with the media, so we hope he will not mind setting the following doubts at rest. According to some reports, the evaluation for 51 per cent of Balco worked out to Rs 320 crore using the balance sheet method, Rs 375 crore using comparative valuation, and about Rs 412 crore using the discounted cash flow method, to which a 25 per cent control premium was added, bringing the reserve price to about Rs 515 crore. Interestingly, the fixed asset valuation would have worked out to Rs 682 crore. The obvious retort would be that fixed asset valuation is meaningless for a going concern, but if it was never going to be considered, then why waste the time, effort — and money spent on the consultant's fees and expenses? And when the Balco deal was announced, why was the press told that four methods of evaluation were used, when, in fact, it was the best of three that was finally chosen? Perhaps it is time for the prime minister to take the initiative to depoliticise the issue of disinvestment — as he did with power sector reforms by convening a chief ministers' conference on March 3.

THE TIMES OF INDIA

2001

BALCO stir becomes leadership battle between Jogi, Shukla

By Law Kumar Mishra
The Times of India News Service

BALCONAGAR: The four-day-old agitation against the disinvestment of the public sector Bharat Aluminium Company Ltd. (BALCO) has now turned into a full-scale show of strength between the two Congress stalwarts of Chhattisgarh: chief minister Ajit Jogi and Vidya Charan Shukla.

The rift over the leadership of the BALCO agitation has now become public with supporters of Mr Jogi and Mr Shukla clashing at a rally held on Saturday night at Patharbhata, opposite the plant.

The supporters clashed on the dais itself when Mr Shukla was addressing the workers. Apprehending further tension, women members in the audience left the rally and the superintendent of police rushed to the venue with additional reinforcements.

Senior Congress leader, Murat Ram Shahu, who was one of the speakers, had said that the BALCO plant could be purchased by using the funds of Mr Shukla and local Congress MP Charandas Mahant, a former home minister in the undivided Madhya Pradesh government. Mr Sahu was forced to cut short the speech when Mr Shukla's supporters asked him to shut up.

Mr Shukla said he had come to lead the agitation on the invitation of the BALCO workers. He said the agitation against the company should not be turned into a political battle, obviously referring to Mr Jogi's call to Congress workers to intensify the agitation. Mr Shukla said: "I came here only on the condition that it would be a non-political movement."

Mr Shukla, who is said to be not even on talking terms with the CM, had announced his decision to lead the movement and stay here for four days. He came here on Friday and met the trade union leaders. The CM, who was in Delhi, came to know of Mr Shukla's long programme and despite the assembly in session, suddenly planned his visit here on Monday. He too called a meeting of BALCO workers, the way Mr Shukla had done on Sunday night.

When Mr Shukla came to know of the CM's trip, he went to Korba as he did not wish to share the platform with Mr Jogi.

Jogi's supporters had even clashed with Union minister Ramesh Bais and BJP general secretary Maya Singh at Mana airport. Mr Jogi has also asked his party workers not to allow the entry of the new management.

The district administration of Korba appears to be passively supporting the agitation. So far, prohibitory orders have not been imposed, though according to the tradition here such orders are imposed even on the slightest apprehension of a breach of peace.

The government has also arranged for drinking water and power supply to the camps set up by the trade unions.

Advani accuses Pak of aiding militants

PORT BLAIR: Lashing out at Pakistan for its 'inadequate' response to India's peace initiative in Jammu and Kashmir, Union home minister L.K. Advani on Tuesday accused it of continuing to aid and abet militant outfits like Lashkar-e-Toiba and Jaish-e-Mohammad.

"Pakistan's response to this initiative has been inadequate", Mr Advani told a press conference here when asked whether there had been positive signals from across the border to New Delhi's declaration of unilateral ceasefire in J&K which has now been extended till May end.

"The only response Pakistan has given is to stop firing across the border. But it has not stopped aiding and abetting militant outfits like Lashkar-e-Toiba" he said. (PTI)

THE TIMES OF INDIA

- 7 MAR 2001

Three Balco power units shut

55.8 8 7/3

PRESS TRUST OF INDIA

KORBA, March 6. – The crisis at the Balco plant deepened with the new management here today closing down three of the four power units for technical reasons even as the workers' indefinite strike against the disinvestment entered the fourth day.

The 7,000-strong workforce plant is facing Rs 2 crore loss each day as the strike began from Friday night and would incur an estimated total loss of about Rs 200 crore as it would take at least three to six months to normalise its functioning, the general manager (personnel and administration), Mr Shaheer Ahmed, said.

"Balco has a power plant with capacity of 270 mw but due to the closure of its main plant, we had to shut down three of its power units," he said.

"Due to the indefinite strike, the aluminium plant, steam plant and the most important smelter plant were closed down resulting in having surplus power to Balco," Mr Ahmed added.

Considering the surplus power available without any use, the Balco management decided to shut down three of its four power units, he added.

Meanwhile, Chhattisgarh chief minister Mr Ajit Jogi expressed solidarity with the striking employees and said the Centre should have management of the company in its hands. He demanded setting up of a joint parliamentary committee to inquire into the deal.

At present, only 67.5 mw is being produced for domestic consumption and for minor plant work, Mr Ahmed said.

Asked as to why surplus power is not being sold to other agencies including Chhattisgarh State Electricity Board, Mr Ahmed said they did have have a provision to sell it to CSEB.

"We purchase from CSEB at the time of crisis but never sold power to others due to some problems," he said refusing to divulge details.

But officials here said CSEB or its partner Madhya Pradesh State Electricity Board never pay for taking power.

"Balco hardly sold any power to CSEB during peak load hours. They want to supply when we have surplus, hence we were were never interested in its purchase from them," a CSEB official said.

CSEB officials said the tussle between Balco and CSEB over the issue of surplus power is "a protracted one".

Due to surplus power production, Balco always lost money, plant officials said, adding that in the present crisis, Balco had no other option but to shut down its turbines to stop incurring further losses.

Opp furore: The Orissa government's move to grant mining lease to Balco, virtually on the eve of disinvestment, was aimed at circumventing laws that apply to scheduled areas and was clearly a post-bid operation, Opposition circles here alleged today, adds SNS from Bhubaneswar.

The Orissa story of the Balco controversy is turning out to be scandalous, Congress, Janata Dal (S), OGP and other Opposition parties said.

First, the state government never took anybody, including its own Cabinet ministers, into confidence while agreeing to lease valuable bauxite mines are to Balco. Second, it was done in haste without a proper detailed proposal. This was because of the fact that once disinvestment took place, restrictions on schedule areas would come into play.

Also, why add and enhance Balco asset values after a bid by private firms had already been submitted was among the questions raised by various people here.

Even state government officers admit they'd agreed to lease out mines to Balco only after a central minister and some top central government officials asked them to expedite the matter in Balco's favour.

THE STATESMAN
7 MAR 2001

Harvesting the follies of the past

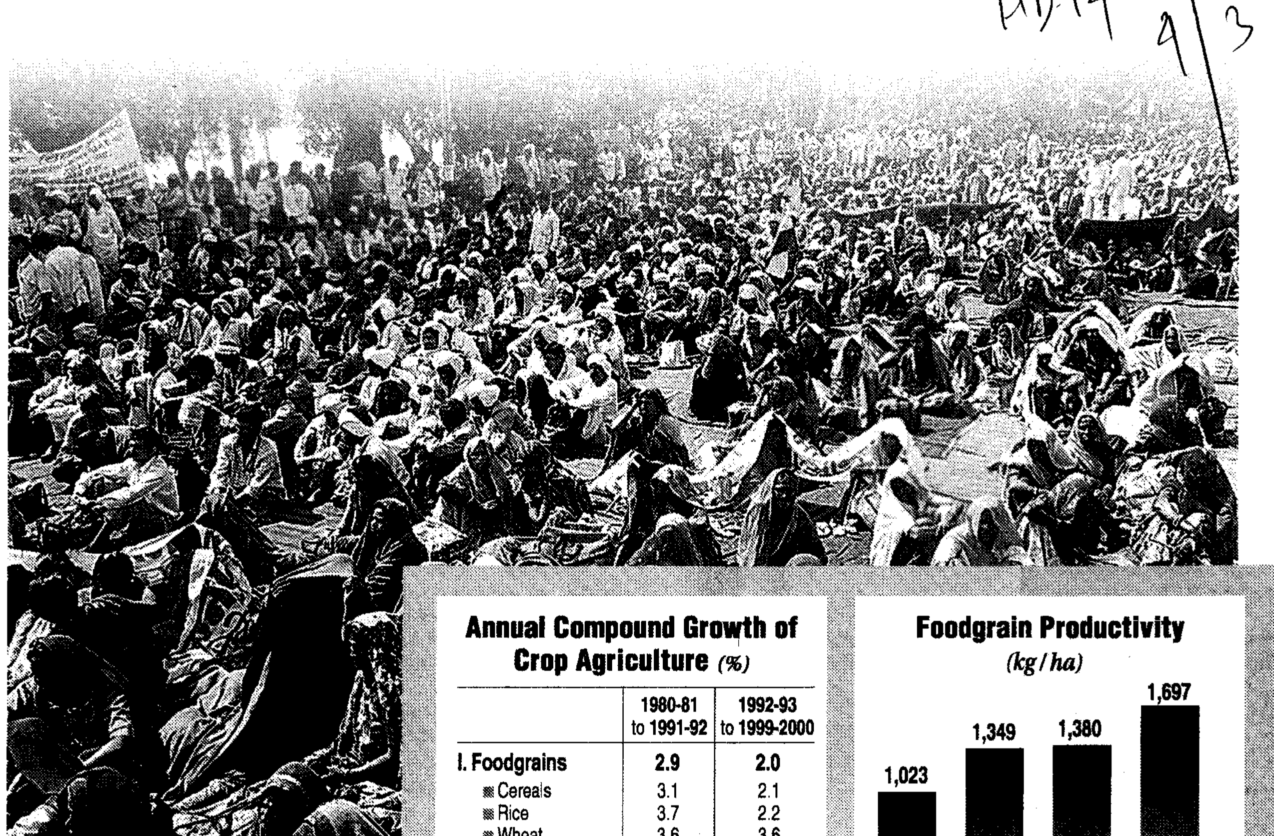
HD-14 9/3

THE BIGGEST failure in the decade of economic reforms has been the abysmal performance of agriculture in spite of a string of normal monsoons. The growth rate of crop production has almost halved since the 1980s, farm productivity growth has declined, the expansion of agricultural employment has slowed... the list of failures is endless (as indicated in the accompanying graphs).

In response to criticism that successive Governments in the 1990s have done little for the farm sector, the new budget has announced a number of measures. A new scheme to establish "agriclinics" that will provide extension services, subsidised credit for construction of rural godowns, expansion of the Rural Infrastructure Development Fund and a removal of the restrictions on the inter-State movement of grain are some of them. Innovative as a couple of them may be, taken together they promise more than they will deliver. Most important, the budget proposals no more than skim the surface of a crisis that runs deep into the fields.

The challenges in agriculture have different faces in each region and in each crop. There is a common thread though. It is that the growth in crop productivity — the amount harvested from each hectare of land — has slowed across the country. Sluggish farm yields as the root cause of all the problems may seem like a paradox when the godowns are overflowing with cereals and farmers of many non-food crops are running into collapsing markets. But there is no paradox. It is the slowdown in the growth of wheat and rice yields that is forcing the State Governments of Punjab and Haryana to keep demanding a higher price for every quintal offered to the Food Corporation of India. They see a higher minimum support price as the only way to maintain farm incomes, but the result is the huge stocks built-up with very high prices that the FCI has to contend with. It is also a productivity slowdown in oilseeds, which has created a widening gap between domestic production and the demand for vegetable oil. This shortage has been bridged by large-scale imports but because the Government has not been very adept at fine-tuning import duties, a flood of imported oil has caused problems for diverse groups such as the coconut growers of Kerala and the cultivators of soyabean in Madhya Pradesh.

There are two important reasons for the failure on the yield front. One is the decline in both private and public investment in agriculture during the 1990s. Public capital outlays — in irrigation, agricultural research and land development — have fallen because the Central and State Governments cannot find the funds. Investment by the farmers themselves has increased in recent years but only in absolute and not relative terms. Farmers have not been able invest more because credit investment



The biggest failure in the decade of economic reforms has been in agriculture, in spite of a string of normal monsoons. C. RAMMANOHAR REDDY on the farm sector's problems and prospects.

— not to mention working capital — has dried up. The banks report a growing volume of advances but all reports from the fields say that the agricultural credit system is yet to recover from the effects of the loan waiver of 1990. The official statistics of ever-increasing credit only reflect a roll-over of loans and a payment of interest.

The other reason for yields not increasing is that the quality of agricultural research and extension services which underlay the Green Revolution have deteriorated. Prof. Abhijit Sen, formerly Chairman of the Commission on Agricultural Costs and Prices, says inadequate Government funding is one reason for the deterioration. "The funds that are now provided are sufficient only for payment of salaries, there is little left for equipment or testing." Prof. Sen also suggests that the failure of yields to increase rapidly in crops other than rice and wheat reflects the continuation of the 1960s and 1970s bias in Indian research — in favour of the two main cereals and against other crops such as oilseeds and pulses.

The budget does not really deal with either investment or research. The RIDF, which the Union Finance Minister, Mr. Yashwant Sinha, has claimed has been a success and therefore expanded, has sanctioned as much as Rs. 16,000 crores in the past five years but has disbursed only Rs. 7,000 crores. The agriclinics scheme will assist the establishment of private testing and extension services, but the bigger challenge of revitalising research remains unaddressed.

The debate on reforms and the farm sector is always lopsided. The "other" and silent crisis of agricultural and rural labourers is completely ignored. In recent years, the daily wage rates in agriculture have risen very, very slowly and farm employment in the 1990s grew at the slowest pace in decades even as work opportunities in rural India outside agriculture also increased at a lower rate. An emphasis on raising crop yields faster will yield many benefits for rural labour. Productivity-growth of a certain kind will increase the demand for farm labour and raise their wage incomes. That would increase the demand for cereals which in turn should prevent a build-up in stocks of the kind the country now possesses. There is no other way of dealing with the peculiar phenomenon of the food mountain that keeps growing although production of cereals in the 1990s increased no faster than population. Mounting stocks and falling prices will continue to haunt the farm sector as long as domestic purchasing power does not expand faster.

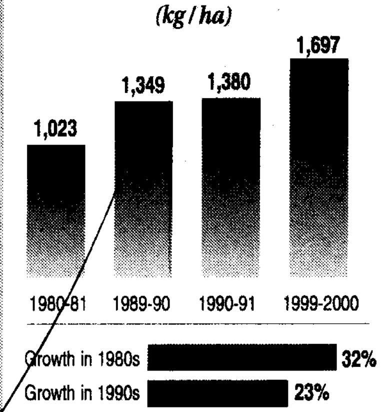
As the farm crisis has spread, imports have become the focus of public and Government attention. But, as Prof. Sen has written elsewhere, the protection that agriculture now enjoys in the form of customs duties is perhaps the highest ever in recent years and more than what industry is now getting. This is likely to go up further with the hike in duties announced in the budget. But while the fear of imports — now and with the impending removal of quantitative restrictions — may be exaggerated, Prof. Sen points out that what imports have done is to increase "uncertainty" amongst farmers even as they contend with problems on many fronts.

It is naive to think that the many challenges in agriculture can be resolved with the reforms now on the table such as freeing inter-State movement from controls and removing restrictions on trade stocks along with abolition of excise duties on processed foods and construction of more godowns. Freedom of movement, more storage facilities and processing of agricultural products will only tinker with the fringes because the crisis is really rooted in low and slow-growing crop productivity.

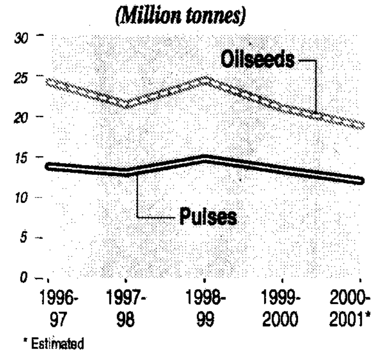
Annual Compound Growth of Crop Agriculture (%)

	1980-81 to 1991-92	1992-93 to 1999-2000
I. Foodgrains	**2.9**	**2.0**
Cereals	3.1	2.1
Rice	3.7	2.2
Wheat	3.6	3.6
Coarse Cereals	—	(-)1.6
II. Pulses	**1.4**	**0.8**
III. Non-Foodgrains	**4.3**	**2.4**
IV. All Crops	**3.4**	**2.2**

Foodgrain Productivity
(kg/ha)



Production of Pulses and Oilseeds
(Million tonnes)



* Estimated

Investment in Agriculture
(As % of GDP)

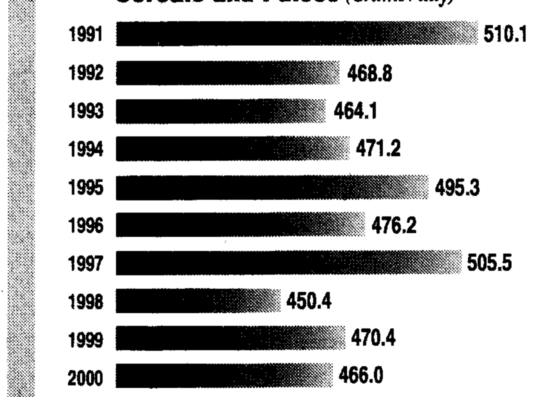
	Public	Private	Total
1990-91	0.6	1.6	2.2
1996-97	0.4	1.1	1.5
1997-98	0.3	1.1	1.4
1998-99	0.3	1.1	1.4
1999-2000	0.4	1.1	1.5

Source: Economic Survey and Ministry of Agriculture

Annual Growth in Real Wage Rate of Agricultural Labour (%)

1994-95	(-) 0.39
1995-96	0.72
1996-97	6.37
1997-98	7.17
1998-99	(-) 1.56
1999-2000	1.15

Per Capita Net Availability of Cereals and Pulses *(Grams / day)*



Graphics by Varghese Kallada

They pay the price

Whether they grow paddy and cotton or wheat and sugarcane, the farmers' plight is lack of remunerative returns, says GARGI PARSAI.

DECLINING PRICES of agriculture commodities in the domestic and international markets, decelerating growth in the sector, concerns about the World Trade Organisation and now decentralised procurement of cereals for the Public Distribution System are the pressing problems the farmers are facing. Whether it is the paddy and cotton growers in Andhra Pradesh or the wheat cultivators in Punjab and Haryana or the sugarcane farmers in Uttar Pradesh and Maharashtra, their plight is more or less similar.

There is a surplus of grain and a glut in output of potatoes and tomatoes; the farmers, however, are not getting commensurate remuneration. The imbalance that has crept in points to poor management and lack of foresight. Frequent market interventions, for instance, to ensure a minimum support price has resulted in the subsidy to the National Agriculture Marketing Federation (NAFED) shooting up from Rs. 2 crores last year to Rs. 25 crores this year.

Expectations that these issues would be addressed fully in the budget proposals for 2001-02 have not really been fulfilled, leaving the farm sector as insecure as before, if not more. True, the Agriculture Ministry under Mr. Nitish Kumar presented a considered case for the farm sector in the Mandatory Review of the WTO at Geneva in January this year, but the Union Finance Minister, Mr. Yashwant Sinha did not go much beyond immediate concerns with regard to lifting of QRs from April 1.

In the immediate scenario, he did raise customs duty on copra, refined edible oils and crude edible oil to check imports, but the action has come too late, just as last year the import duties on wheat, rice and sugar had come after stocks began mounting and prices began falling. Lack of coordination among the various arms of the Government has resulted in situations when the EXIM policy has been far removed from the immediate concerns of the agriculture and food sector.

It must be pointed out that it is not as though the 42 lakh tonnes of edible oil imported in 1999-2000 have helped consumers much. Although the prices in the open market were somewhat stable, the excessive imports helped most the manufacturers of edible oil-based goodies.

Says the new Agriculture Secretary, Mr. J.N.L. Srivastava, "The Government has already said that the tariff would be regulated if the internal situation so demands but at the end of the day, the per unit cost of cultivation should come down for farmers to become competitive in the international market."

As it is, the budget talks little of measures to enhance growth to 4 per cent. The incentives that are there are mostly for the post-harvest facilities such as cold storages and godowns for small farmers who rarely have holding capacity. Dr. Krishnavir Choudhary of the Bharat Krishak Samaj feels incentives for research in technology, reduction in input costs, quality seeds, farm implements including tractors, power tillers and diesel pumpsets and integrated pest management would have gone a long way in helping out farmers at this stage.

Poor quality seeds and adulterated pesticides have been at the centre of the problems faced by cotton growers in Andhra Pradesh. Lack of proper extension services, training and education has again led to suicides by some farmers.

However, Prof. Uma Reddy Venkateshwarlu, Chairman of the Estimates Committee, does not put down all cases of suicides in Warangal district to farming distress. Some could have been personal, he says although he does point out that an overall glut in commercial crops in the State has not brought farmers remunerative prices leading to a situation of distress. A crop holiday to tobacco last year had enhanced the area under cotton which added to the problem of plenty.

On its part, by decentralising procurement of grain, the Centre has given a message to the States that they are on their own.

4 MAR 2001 THE HINDU

We will move SC on BALCO, says Jogi

By Sandeep Dikshit

NEW DELHI, MARCH 3. The Chattisgarh Chief Minister, Mr. Ajit Jogi, today asserted his Government would explore all constitutional avenues, including petitioning the Supreme Court, to nullify the sale of Bharat Aluminium Company (BALCO) to Sterlite, a private company.

Claiming that the deal "stinks", Mr. Jogi said his Government shortly planned to move the Supreme Court because the deal had contravened an earlier verdict by the apex court which had held that adivasi land could not be allocated to a private entity. Raipur has already sent a legal notice to the Disinvestment Secretary, Mr. Pradeep Baijal, and the State legislature on Friday recorded disapproval of the transaction through a resolution.

Taking time off from his schedule in the capital, Mr. Jogi reiterated allegations of corruption in the transaction and said he would name the beneficiaries of a Rs. 100-crore payoff to push the deal. It is not clear how Mr. Jogi will do this because the BJP-led Government has rejected the demand for a Joint Parliamentary Committee probe while winning the vote on this issue in the Lok Sabha.

'JPC must'

On the other hand, Mr. Jogi is insistent that he would make a clean breast of connivance by people in high places before a parliamentary panel. "If they want the truth to come out then the JPC must be constituted. I would reveal all to the JPC."

"I will meet the Disinvestment Minister (Mr. Arun) Shourie's challenge," he said, referring to the gauntlet thrown by the Minister. Speaking in Parliament earlier this week, Mr. Shourie had asked Mr. Jogi to publicly name the alleged recipients of a kickback without seeking immunity from any legislative fora.

While Mr. Jogi was insistent on escalating the controversy, the BJP hoped his dissent would be short-lived. The party spokesperson, Mr. J.P. Mathur, reminded Mr. Jogi of the need for maintaining cordial Centre-State relations and asked him to desist from quibbling on minor issues. "The State should cooperate with the Centre on the issue of industrialisation. It should not argue over small issues such as conditionalities for leasing the land and supply of electricity to BALCO."

The Sterlite owner, Mr. Anil Agarwal, too, sued for peace by assuring massive investments in the company and promising no reduction in the workforce. "I want to remove any fear from the minds of the BALCO employees regarding job security. We are against retrenchment," he said. He did not comment on the charges of kickbacks and irregularities, maintaining that Mr. Jogi backed the concept of privatising PSUs and was mainly objecting to BALCO's evaluation.

THE HINDU
4 MAR 2001

Centre asks states to raise agriculture tariff

(1/1 3/3)

PM power drive in shock zone

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FROM OUR CORRESPONDENT

New Delhi, March 3: Propelling power reforms to a high-risk terrain, Prime Minister Atal Bihari Vajpayee today asked states to raise tariff for farmers.

Carrying forward the power policy thrust signalled in this week's general budget, the Centre said it would extend a one-time package to clear dues owed by state electricity boards, if the respective governments accepted a time-bound reforms programme **(See Business Telegraph)**. The budget had linked allocation of Central power funds to the states' record on enforcing reforms.

The Prime Minister told a conference of state ministers on power reforms that the tariff should be increased in three years to ensure that farms bear half the average cost of production of the units they consume.

He also appealed to the states to enforce a five-year-old decision to raise the common minimum farm power tariff to 50 paise from the current 29 paise per unit. Bengal already charges 50 paise for metered agriculture consumers.

As the sensitive issue could trigger an outcry, the conference agreed to convene an all-party meeting to work out a consensus on the tariff increase. Bengal and Kerala, both ruled by the Left, initially had reservations on power reforms but they gave "in-principle" commitment to the reforms package.

Bengal struck a cordial note after the Centre agreed to consider a proposal to give incentives for non-conventional energy projects in the Sunderbans, where the state government is finding it hard to lay transmission lines because of high costs.

Successive governments at the Centre as well in the states had fought shy of tapping agriculture, fearing a backlash from pressure groups that claim to have a stranglehold on the voting preferences of farmers.

The conference passed a resolution to set up a group of some chief ministers and the Union power minister to coordinate, monitor and review the implementation of reforms.

A comprehensive Electricity Bill is also likely to be introduced in Parliament this session. The legislation will provide state governments with a legal framework to enforce reforms.

Vajpayee regretted that some states are yet to charge 50 paise per unit for power used for agriculture though chief ministers had agreed to do so in 1996.

He stressed the need for an appropriate pricing policy in the power sector. "Inability of implementing the principle of 'he who uses electricity pays for it' has allowed many other categories of users to get electricity either free or at highly subsidised rates in the name of agriculture," Vajpayee said. "I would urge all states to make electricity regulatory commissions functional in six months and abide by their tariff."

The ... Ph

Balco unit opposes Sterlite move

STATESMAN NEWS SERVICE

BIDHANBAG (Burdwan), March 5. — Inspired by their Korba counterparts, the Bharat Aluminium Company staffers freezed production and despatch in company's Bengal unit at Bidhanbag, formerly known as JK Nagar, near Raniganj today.

They opposed entry of Sterlite-sponsored auditor's team into the factory premise, which, according to Balco officials had come two days back to reexamine the local unit's stock position and balance sheet.

Under the banners of Intuc-affiliated JK Nagar Aluminium Workers Union, and Citu-backed Aliminium Mazdoor Union, the remaining 455 Balco workers organised blockade and protest rallies against the much-debated transfer of 51 per cent equity to Sterlite today.

Since 1 March, Citu has been continuously protesting in front of the local head office. Citu has threatened to go militant against any Sterlite bid to enter the factory.

Citu's assistant secretary, Mr Ramsingar Singh said, "We will teach them in our own way, and this is the need of the hour. We came to know through the recent shyness by the Parliament that we have to do on our own, no one is with us."

The trade unions criticised the state government's role, and said, "Bidhanbag is under the Assembly segment of state industry minister, Mr Bansa Gopal Chowdhury. He, too, did nothing for us."

The move by the Chattisgarh chief minister, Mr Ajit Jogi, has instigated the Bengal unit workers. Mr Jogi has planned to appeal to the Supreme Court against the equity transfer, alleging at least Rs 100 crore of cut money had a pivotal role to ease out the deal.

Strike enters third day: Operations in Balco's plant came to a complete halt as the indefinite strike by 7,500 employees protesting the sale of government equity in the company, entered the third day today,adds PTI.

PATNAIK CHARGE

BHUBANESWAR, March 5. – The decision of Orissa government to lease out mines to Balco is a post-bid enrichment of the assets transferred to a private company, charged OPCC president, Mr JB Patnaik. — **SNS**

THE STATESMAN

- 6 MAR 2001

Good or bad, all PSUs will go: Yashwant

HT-1

2/3

HT Correspondent
New Delhi, March 1

YASHWANT SINHA

EXUDING CONFIDENCE after a widely hailed Budget, Finance Minister Yashwant Sinha today asserted at a meeting with industrialists that the Government would not retrace its steps on privatisation of PSUs —loss-making or profit-making.

Making his first post-Budget appearance today at a seminar held by FICCI, Sinha said: "The policy of the Government is to privatise PSUs. We are prepared to take any risk whatsoever. We will go ahead with this exercise barring only those PSUs which cater to strategic national interest. We have looked at all aspects carefully and have decided to go ahead with privatisation. Let there be no doubt on this count."

"Time has come to address forthright the privatisation issue and meet the challenges of vested interests," he said. "Political criticism on this score is due to the fact that the parties are ill-informed and misinformed," Sinha added in an obvious reference to the furore over Balco.

The Finance Minister said the disinvestment target of Rs 12,000 crore in the Budget for the next fiscal was "credible". He also defended the decision of the Centre to aggressively pursue labour reforms by amending the Industrial Disputes Act and the introduction of contract labour, apart from allowing managements to outsource services.

The Finance Minister said the new norms would multiply job opportunities and not harm workers' interest. "It's very important that the working class doesn't become suspicious of the industry and the Government on this count."

To a query from Wockhardt chief H F Khorakiwala, he said a suitable mechanism would shortly be put in place by which a special fund on research and development could be utilised.

Navin Jindal sought a reduction in taxes and duties on steel to make it more affordable. Without conceding this demand, Sinha emphasised the need to make the Indian steel industry globally competitive.

In response to another question from Britannia chief Sunil Alagh, he politely declined to bring down duties on packaged biscuits. He said even LPG, cotton yarn, kerosene, diesel pumpsets up to 10 hp would have to be brought to the Cenvat rate of 16 per cent.

Ficci chief Chirayu R Amin expressed concern over the continuation of the minimum alternative tax.

THE HINDUSTAN TIMES

5 MAR 2001

MONDAY, MARCH 5, 2001

AN INCONGRUOUS PROTEST

THE PRIVATISATION OF the Centre-controlled Bharat Aluminium Company (BALCO), effected following a favourable parliamentary vote won by the Government after the few discordant voices in the ruling coalition had been silenced through some subtle manoeuvres, is sought to be given a 'Centre-versus-State' dimension by the Congress(I) regime in Chhatisgarh. On the face of it, the official resolution passed by the Assembly, 'rejecting' the transfer of majority stake and management control of BALCO to a private company, seems legally and constitutionally unsustainable and is manifestly driven by the narrow political agenda of the party in power. Apart from making the as-yet-unsubstantiated charge of payoffs in the deal, the Chief Minister, Mr. Ajit Jogi, has contended that the takeover by the private firm would lead to unemployment and be detrimental to the interests of the Adivasi population. Neither of these appears credible. While the tribals-related concern is a larger issue that pertains to mining in general, and not specific to BALCO privatisation, the Disinvestment Minister, Mr. Arun Shourie's assurance in Parliament on the various safeguards built into the deal should allay much of the fears about the workers' interests being jeopardised.

Aside from Mr. Jogi's rather far-fetched theory that the privatisation of BALCO was part of the Centre's plan to "weaken" the Congress(I) regime in the nascent State, the various kinds of threat he has held out — such as revoking the mining lease and cutting off water supply — have serious long-term implications for the numerous public sector undertakings which the Centre has been running across the country. After all, as an integral part of the national plan for industrial and economic development, the Centre has over the decades invested money and set up public enterprises in various spheres, and the States, for their part, have understandably competed with one another in getting such projects for themselves by pledging back-up services and logistics support, as for instance by making available the required land free or at a nominal cost and by guaranteeing supply of water and other facilities. Surely, such contractual obligations entered into with the Central undertaking concerned, an entity by itself, cannot be abrogated arbitrarily, impelled by extraneous and narrowly partisan considerations. The point that, in a federal set-up, the Centre should take into confidence the State Government on any proposal to divest its stakes and managerial interests can well be appreciated. Whether or not Mr. Jogi's administration was consulted and, if 'yes', to what extent and at what level is not clear. No lapse or failure on this count can however provide any justification for the type of response the Chief Minister has held forth.

The ironical part of the whole controversy is that the disinvestment process in BALCO has been the most transparent of all cases where it has been attempted, and this came out clearly from the cogent and convincing presentation of the official position in Parliament by Mr. Arun Shourie and the Law Minister, Mr. Arun Jaitley, explaining the whys and wherefores of the Government's decision to accept the Sterlite Industries' offer. The Congress(I), for its part, stood thoroughly exposed for its lack of credibility on the question of disinvestment. Having initiated the reforms process in the early 1990s and committed itself to a calibrated privatisation of PSUs as a critical component of that policy, the Congress(I) can ill-afford to be seen as putting up roadblocks to such initiatives in an irresponsible fashion. Moreover, any blind opposition by the party at the Central Government level might well recoil on it in States where its Governments are going in for privatisation. On a different plane, while privatisation of a PSU — within a broad policy framework — is an executive decision that does not require to be subjected to parliamentary approval as a matter of course, the importance of a close scrutiny by the people's representatives cannot be discounted. The very prospect of Parliament playing the watchdog should compel the Government to be transparent in all its transactions.

Balco highlights chinks in NDA

Hemendra Singh Bartwal
New Delhi, March 4

THE BALCO disinvestment figured prominently in the Upper House during the last week as an aggressive Opposition launched an onslaught on the Vajpayee Government that had a tough time defending itself on the score.

Faced with a barrage of charges and embarrassing queries, Disinvestment Minister Arun Shourie fought with his back against the wall but failed to convince the sceptical opposition members about his Government's bonafide intentions in the matter. The Government's woes were further compounded by the fact that some of its allies, notably the Telugu Desam Party (TDP) and the Shiv Sena were equally strident in their criticism of the deal alleging a "foul smell". They teamed up with the opposition demanding a probe by a Joint Parliamentary Committee (JPC).

The chinks in the NDA armour were visible on other issues as well, like the Government's economic policies and handling of the Gujarat earthquake disaster, which again attracted sharp criticism from some of its allies.

Perhaps, the only consolation for the Government was that the Opposition did not press for a discussion on vote on the Balco issue. This would have proved a major embarrassment, as it could have easily been defeated in the voting by the Opposition that is in a majority in the Rajya Sabha.

Though such a motion in the Rajya Sabha does not entail the Government to step down, unlike the Lok Sabha, the Government would nevertheless have been seen as having suffered a moral defeat on the issue. A significant feature of the Balco debate was that it saw the Congress do an about-turn on its position on disinvestment. While it had called for strategic sale in Public Sector Undertakings (PSUs) in its manifesto in the last two elections, the party abandoned the stand during the discussion and turned out as its critic instead.

Initiating the discussion under a calling attention motion, senior Congress leader Pranab Mukherjee demanded that the Government clarify its own stand on disinvestment and its basic objectives for doing so.

Pointing out that Shourie was justifying the sale of 51 per cent equity in Balco on the ground that the Disinvestment Commission had recommended it, he said if that was the only reason they were rushing to "undersell" it, the Congress was opposed to the transaction.

Lashing out at the Government in a detailed argument touching on various aspects of the issue, Congress member Kapil Sibal said the BJP was trying to project their disinvestment policy as merely a continuation of the Congress policy. What the Government was actually doing was not disinvestment but a "private sale", he charged.

Questioning the method of evaluating Balco's worth and the individuals involved in the evaluation, Sibal claimed an independent private valuation carried out by chartered accountants at his instance h[illegible]ed the company's total worth between Rs 2,500 and Rs 3,000 crore.

BALCO land transfer needs state govt's consent: legal expert

By Akshaya Mukul
The Times of India News Service

NEW DELHI: When Chhattisgarh chief minister Ajit Jogi said recently that his government would cancel the land lease of BALCO if the Centre went ahead with its sale to Sterlite Industries, BJP leaders had reacted sharply, saying such a move would be unconstitutional.

However, a legal expert specially commissioned by BALCO in 1999 told the company in clear terms that land transfer was not possible without the state government's consent. Though its privatisation has only just been completed, BALCO had sought the legal opinion in order to see how its land could be transferred to a private concern once a deal was finalised. A former CMD of BALCO confirmed that this opinion was indeed sought.

Three years back, BALCO officials met P. Sadasivan Nair, a senior advocate of the MP high court, with the papers of the Korba plant—which is now in the newly-formed state of Chhattisgarh—and wanted to know what could be done with the land. In his detailed opinion, a copy of which is with *The Times of India,* Mr Nair had said that the land was given to BALCO in 1972 under the Land Acquisition Act, 1894, by the Madhya Pradesh government which had also awarded compensation. According to Mr Nair, the state government had acquired and transferred land to the company under the provisions of chapter VII of the Act. Therefore, he said, "Though lease deed and other agreement between the company and state government are not on record but from the award passed and the notification issued by the state government it seems that all the formalities as required under the Act have been fulfilled and ultimately the state government has transferred the land to the company, as the acquisition was for a public purpose..."

Mr Nair highlighted the provisions of section 44-A of the Act, according to which "no company for which any land is acquired under this Act shall be entitled to transfer the said land or any part thereof by sale, mortgage, gift, lease or otherwise except with the previous sanction of the appropriate government." Mr Nair also explained that "previous sanction of the government" could be granted only if the government was satisfied that the purpose for which the acquisition of land took place was no more in existence, or that the company had acted in a bona fide manner in the matter and acquisition was done for a bona fide need in the public interest and that on the date of sale, this need no longer existed.

In his note, Mr Nair then explained the expression "appropriate government", which is defined in section 3 of the Act. According to the aforesaid definition in relation to acquisition for the purpose of the Union, the Central government is the appropriate government and for all other purposes it would be the state government.

After dealing with all angles, Mr Nair's verdict was that even though BALCO is a PSU owned fully by the Central government, it is the state government which was the "appropriate government". He said: "(Since) in this case, the entire (land acquisition) proceedings have been done by the state government... the appropriate government would be the state government. As such, the company should move the... concerned department of the state government through the collector and seek his sanction for transfer of the property."

THE TIMES OF INDIA

- 3 MAR 2001

SC STAYS PROCEEDINGS IN TWO HIGH COURTS

Centre hands over BALCO to Sterlite

HQ
3/3

9-Sec Affairs

By Our Legal Correspondent

NEW DELHI, MARCH 2. Even as the Centre today transferred the management control of the Bharat Aluminium Company (BALCO) to the Sterlite Industries, the Supreme Court stayed all proceedings in the Delhi and Chattisgarh High Courts challenging the disinvestment proposal with a view to getting the petitions transferred to itself.

A Bench, comprising Mr. Justice B.N. Kirpal, Mr. Justice Doraiswamy Raju and Mrs. Justice Ruma Pal, granted the stay after hearing the Attorney-General, Mr. Soli J. Sorabjee, who filed a plea saying it was necessary to transfer the petitions to the apex court to avoid multiplicity of proceedings and also to avoid delay.

The Bench ordered notices to the BALCO Employees Union, the Government-appointed valuers and global consultants for the disinvestment and Sterlite Industries.

Earlier in the day, 51 per cent of the government holding in the BALCO was handed over to Sterlite after the signing of shareholders and share purchase agreements. Sterlite handed over a cheque for Rs. 551.50 crores in the presence of the Mines Secretary, Mr. Dipak Chatterjee, the Disinvestment Secretary, Mr. Pradip Baijal, and other senior officers.

On behalf of the Government, Dr. (Mrs.) Aruna Bagchee, Joint-Secretary in the Ministry of Mines, signed the documents and on behalf of the BALCO, Mr. S.C. Tripathi, Additional- Secretary and CMD, signed the deal. Mr. Tarun Jain, Director (Finance), Sterlite, signed on behalf of the company.

In its petition before the court, the Centre said the evaluation of assets was done by technical experts under four methods and the value of 51 per cent shares ranged between Rs. 300 and Rs. 507 crores. Sterlite quoted the highest bid. The decision was not taken by any individual or authority and the Government only accepted the recommendations of the Disinvestment Commission made as early as 1997 on the ground that it was necessary to meet challenges of the emerging aluminium scenario.

The petition said that in December 1999, the leaders of the employees unions were informed of the rationale and process of disinvestment. All their representations were considered by the Government before the matter was finalised. Another meeting was held on February 14 this year and the salient features of the disinvestment were explained to them. Allaying their fears, the Centre made it clear that all employees would continue in service and that the strategic partner would not retrench any part of the labour force for one year from the closing date other than by dismissal or termination in accordance with the law.

The Centre said the disinvestment was part of the reforms process, and investors both in India and abroad were keenly watching the finalisation of the agreement. Any delay in would affect the investor confidence, the petition said, adding a judicial review should not result in substituting the judgment of the experts with that of the courts.

Sterlite upbeat: Page 13

Assembly rejects deal, Jogi steps up offensive

RAIPUR, MARCH 2. The Chhatisgarh Assembly today rejected the Union Government's decision to privatise the BALCO, a day after Parliament gave its nod.

The State Government's resolution was adopted by 41 votes against 19. The Chief Minister, Mr. Ajit Jogi, vowed to stake everything in his command to stop the transfer of the company into private hands and the employees union threatened to go on an indefinite strike. Mr. Jogi said he was ready to quit politics and even his post if the Centre proved that it had consulted him on the privatisation move. The profit-making company, having its production facility at Korba, had been sold as part of the efforts to weaken the Congress Government of the nascent State and was violative of the federal structure, he alleged.

He sought a joint parliamentary committee probe into the disinvestment process, stating circumstantial evidence indicated a major scandal in the "non-transparent" deal. — UNI

THE HINDU

3 MAR 2001

Chhattisgarh House rejects privatisation

Balco goes to Sterlite

UNITED NEWS OF INDIA

NEW DELHI, March. 2. –The government today transferred management control of Bharat Aluminium Company Limited to Sterlite Ltd for Rs 551.5 crore.

But in Congress-ruled Chhattisgarh, the Assembly debated a motion and passed a resolution rejecting the privatisation of the company by 41 votes to 19.

Sterlite industries presented the cheque for Rs 551.5 crore to the government immediately after signing the documents today. The agreement was signed by additional secretary, ministry of mines and Balco CMD Mr SC Tripathi and Sterlite finance director Mr Tarun Jain.

The Balco privatisation issue had the Congress (which ushered in the liberalisation process in the country) and the BJP on either sides of the political divide once again today. The business chambers welcomed the finalisation of the deal, saying it sent the right message to the capital market.

In the Chhattisgarh Assembly, the BJP defended the deal while the ruling Congress termed it a sellout. Chief minister Mr Ajit Jogi said he was ready to quit politics and his post if the Centre could prove it had consulted him on the privatisation of Balco. The Balco employees' union has threatened to go on an indefinite strike against the deal.

SC stays proceedings: The Supreme Court today stayed further proceedings in petitions pending before the Chhattisgarh and Delhi High Courts regarding the controversial sale of Balco.

A three-judge Bench of Mr Justice BN Kirpal, Mr Justice Doraiswamy Raju and Mrs Justice Ruma Pal granted an interim stay on a petition by the Indian government seeking the transfer of the two petitions to the court for disposal together and avoid conflicting verdicts on the issue. **(Another report on page 8)**

Balco runs into missile production role hurdle

FROM JAYANTA ROY CHOWDHURY

New Delhi, March 1: The opponents of the sale of Bharat Aluminium Company (Balco) have found more fodder. The public sector unit possesses technology that was used in the country's nuclear and defence projects — its sale would thus go against the nation's "strategic interests".

Through the 1990s, Balco's research metallurgists worked on a top secret project along with scientists from the Defence Research and Development Organisation (DRDO) and the Indian Space Research Organisation (Isro) to develop special lightweight aluminium alloys.

These were used in India's nuclear armaments, the *Prithvi* and *Agni* series of intermediate missiles and for rocket components.

When India tested nuclear bombs in 1998, Balco supplied the casings. It also makes and supplies the fuel tanks for *Agni* and *Prithvi* missiles as well as an alloy codenamed Afnor 7020 used by Isro in its rockets.

Documents show that Balco is bound by a supply and production agreement with the Department of Defence Supplies to keep this technology secret. Sale of majority stake in Balco to a private sector company would violate this agreement.

As part of the agreement — S.No 1(3)/90/T(S1)/CPO(VG)-1645 — Balco is bound to keep secret the alloy knowhow. Also, the agreement swears to secrecy not only the metallurgists who helped develop the alloys but also all scientists, engineers, other officers and technical hands who came to know about the technology, its use or manufacture.

It is argued that selling Balco to the private sector could result in the technology being leaked to outsiders. The corollary being that Balco has to remain in the public sector.

The clauses were inserted in the pact as the technology Balco has jointly developed makes India one of the few nations and possibly the only Asian country besides China to possess such knowhow.

The work on these alloys did not fetch much money but was done because the defence ministry had picked Balco as its strategic partner. There were two reasons why Balco was selected and not Nalco, the other public sector aluminium major.

First, Balco has a hot roll aluminium mill, needed to cast these alloys. Second, the location of Balco's plant — at Korba in Chhattisgarh — makes it safe from possible missile attack by Pakistan and China, the plant being some thousand miles distant from both the countries. It is also far from the coast, which rules out a surface-to-surface missile attack from an enemy ship.

The technology that Balco developed is considered complex and difficult to replicate. None of the countries that India approached to buy it from — France and Russia among them — was willing to sell either the technology or the product.

The fact that Balco is privy to such a technology makes it a strategic company, argue many. The BJP government's stated policy is to sell only non-strategic PSUs, not strategic ones.

Trinamul Congress chief Mamata Banerjee is believed to have raised this point in a letter to Prime Minister Atal Bihari Vajpayee after the Union Cabinet cleared a proposal last year to sell 51 per cent in Balco to a private partner. Vajpayee had reportedly fought shy of a direct answer.

■ **Opp. motion defeated, Page 6**

THE TELEGRAPH

2 MAR 2[illegible]

Govt faces Rajya Sabha heat on economic policy

HT Correspondent
New Delhi, March 1

THE OPPOSITION today sharply criticised the Government's economic policies in the Rajya Sabha and demanded a White Paper on the subject during the motion of thanks to the President's address.The Balco issue also came up and the demand for a Joint Parliamentary Committee probe into the deal renewed.

The agricultural policy was criticised by several Opposition members who cautioned that imprudent handling of the minimum support prices would adversely affect the country's self-sufficiency in food grains and hit farmers.

Over 500 amendments to the President's address, a few of them by NDA allies, were moved in the House. Congress leader Pranab Mukherjee said an economic stagnation had set in and the Government's economic policies, which depended on foreign borrowings, were anti-people.

Opposing the motion, he said the Government had not outlined in the Budget its policy for administrative and judicial reforms without which its economic reforms could not succeed.

Pranab Mukherjee

CPI-M member S Ramachandran Pillai, who also demanded a White Paper on the economic policy, said the Opposition should be taken into confidence on major policy decisions and tore into the privatisation drive.

Congress member K Rahman Khan expressed concern over the plight of farmers. Even after 50 years of Independence, there were starvation deaths in the country, he said. Opposing the decision to sell Balco, he said the valuation of the company's worth was not transparent and demanded a JPC probe.

Initiating the motion of thanks, BJP member T N Chaturvedi said the President's address had set the agenda for the Government to pursue its policies for the benefit of the people.

On Kashmir, Mukherjee stressed that the government should begin talks with Pakistan and should ask it to stop cross-border terrorism. While complimenting the Government for extending the ceasefire in Kashmir despite continuing terrorist violence, he said it should go beyond this. He said talks had become a necessity as both India and Pakistan had become nuclearised, posing a risk of third-party intervention.

National Conference member Sharifuddin Shariq warned the Government against undermining and ignoring elected representatives and nationalist parties while opening a dialogue in Jammu and Kashmir .He also opposed the idea of trifurcation of the state and criticised the organisations and leaders who were floating it.

THE HINDUSTAN TIMES

2 MAR 2001

Oppn-sponsored motion on BALCO deal defeated

NEW DELHI: The opposition-sponsored motion against the proposed disinvestment of BALCO was defeated in the Lok Sabha on Thursday night.

Of the 361 members present in the house, 119 voted for and 239 against the motion under Rule 184. Three members abstained.

With the opposition rejecting the voice vote, speaker G.M.C. Balayogi ordered division.

Earlier, the opposition in the Lok Sabha mounted a scathing attack on the government over the BALCO disinvestment deal, alleging the "strategic" public sector unit (PSU) was being sold out at a highly undervalued amount and at the cost of national security.

Participating in a discussion on the proposed disinvestment of BALCO, opposition members questioned the move to sell off 51 per cent of government equity in the profit-making aluminium giant with an impeccable track record to Sterlite Industries for Rs 551.5 crore.

Initiating the debate under Rule 184 which entails voting, Rupchand Pal (CPM) said the disinvestment in the company could jeopardise national security as aluminium and its alloys were being used by the defence sector as also for space programme.

"Is the government privatising the defence sector and jeopardising national security by this move," Mr Pal asked.

Stating that BALCO had contributed steadily to the national exchequer for the last 13 years, the CPM member alleged that all major decisions from the budget to BALCO disinvestment were being finalised in the Prime Minister's Office (PMO).

At one point, several opposition members, including Somnath Chatterjee (CPM) and P.R. Dasmunshi (Cong), expressed their readiness to withdraw the discussion under Rule 184 if the government agreed for a JPC probe, saying "important constituents of the NDA" had expressed reservations in the matter.

Disinvestment minister Arun Shourie, however, rejected the suggestion by asserting that since "you have asked for a vote, we want a vote."

Congress leader P.R. Dasmunshi demanded setting up of a JPC to probe the "fraudulent" deal arrived at in a "clandestine" manner. He charged the government with having gone against constitutional provisions on tribal rights over land, under-evaluating BALCO and selling it off on a "pre-determined price".

TDP member M.V.V.S. Murthy said his party was not pressing for setting up of a JPC on the BALCO issue as it had sought in the Rajya Sabha, saying "there was no need for it" as the deal "seemed to be transparent".

Akhilesh Singh (Samajwadi) said the deal smacked of a scandal and wanted to know on what basis the company's assets were valuated by the government-appointed agency.

Ananth Geete of the Shiv Sena, another ally of the BJP, was apprehensive of the disinvestment but said it would support the government and not succumb to the opposition "intention to split the NDA". Referring to the opposition allegation of corruption in the BALCO deal, he asked the government to clarify any "misunderstanding" on the issue in national interest. He demanded "total transparency" in the deal and said the government should take into consideration all "fears and concerns".

THE TIMES OF INDIA

2 MAR 2001

Lok Sabha okays Balco divestment

ST-1 2/3

STATESMAN NEWS SERVICE

NEW DELHI, March 1. – The government today secured the Lok Sabha's nod to sell 51 per cent stake in Balco to Sterlite after the CPI-M's motion against disinvestment was defeated by 239-118 votes with three members abstaining.

The BJP allies, including the TDP, Trinamul and the Shiv Sena which had reservations over the deal with Sterlite, voted with the government.

The Opposition demand for a Joint Parliamentary Committee to probe the deal before handing over the Balco management to the private company was rejected by the Speaker, Mr GMC Balayogi.

The disinvestment minister, Mr Arun Shourie, didn't clarify a point raised by Mr Priya Ranjan Das Munshi (Congress). He quoted the solicitor-general, Mr Harish Salve, as having said that it was recommended that Sterlite owner, Mr Anil Agarwal, be blacklisted for flouting rules in bidding for the telecom department shares.

Mr Das Munshi said: "Mr Harish Salve stated that the decision not to blacklist Sterlite and to further award the contract by DoT was taken on misunderstanding of the legal and factual position. He (Mr Salve) said there was no question of awarding any contract of the cable work to this unit and the decision to blacklist this unit was just..."

In the case of Hindustan Zinc, the BJP-led government decided that a company or enterprise that had come under a cloud of corruption and questionable integrity should not be encouraged in any bidding process, Mr Das Munshi said.

He alleged Sterlite was under a cloud in the stock scam involving Harshad Mehta.

Mr Das Munshi drew the attention of the House to a CAG report stating that Balco had developed alloys for fuel tanks of Prithvi and Agni. He wondered how the government could choose Sterlite as Balco's strategic partner though its record is questionable.

Mr Shourie said both private and public sectors were contributing to defence production. He said the defence sector won't be vulnerable because of the deal with Sterlite.

There was another charge, again by Mr Das Munshi who said the Orissa chief minister reached Delhi on 7 February to sign documents handing over two Bauxite mines to Balco without knowing that the company was being sold to Sterlite.

The law minister, Mr Arun Jaitley, reeled out facts and figures showing how the previous Congress and the United Front governments had supported disinvestment and carried out selling of blue chips between 1991 and 1998. Balco was on the approved list of disinvestment of the Congress and UF governments.

THE STATESMAN

- 2 MAR 2001

PSU privatisation will continue: Sinha

HT 2/3

By Our Special Correspondent

NEW DELHI, MARCH. 1. The Finance Minister, Mr. Yashwant Sinha, today said the Government was determined to go ahead with large-scale privatisation of public sector enterprises despite opposition. At the same time, he warned the industry not to adopt a partisan approach towards labour sector reforms, saying it would make the labour suspicious of the Government and the industry.

Speaking to industrialists in the afterglow of a feel- good budget, the Minister was forceful in asserting that the Government had no intention of going back on its decision to sell all state-run companies, regardless of whether they were making profits or not. The only exceptions would be the PSUs considered strategic from the national security perspective, or those needed to prevent the emergence of monopolies.

"Political parties might alter their stance but we in the Government are going ahead with the disinvestment process. We are prepared to take any risk for what we believe is economically correct," he said at a meeting organised by the FICCI. Mr. Sinha affirmed the Government's intentions barely hours before the Lok Sabha began discussing the sale of the Bharat Aluminum Company (BALCO) to Sterlite, a private company. He gave ample indications of the Government's defiant stand on disinvestment, and even said the challenge of "vested interests and ill-informed and unwarranted political criticism" would be met directly.

The Minister sought the industry's support to explain the rationale behind selling the Government's shareholding in PSUs saying "we are in it together. So, don't leave me alone to bear the cross." Mr. Sinha's admonishment of the critics of PSU disinvestment and the strong defence of the process came after he admitted that the Government's failure to reach the disinvestment target in this fiscal had raised doubts about its credibility. Its ability to reach an even higher target next fiscal was being questioned especially due to its failure to come near the target for the current fiscal. North Block was alive to this quandary, Mr. Sinha said adding it would do its best to meet the target.

He did not take kindly to the FICCI president's contention that the increase in the retrenchment compensation from 15 days wages for each completed year of service to 45 days would hamper restructuring efforts. "Reforms will succeed only if you take a constructive approach. If the public sector can pay a separation package of 60 days wages in case of a profit-making company and 45 days in case of a non-profit making unit, why can't the private sector do the same? In a country where job opportunities are limited, labour sector reforms are a serious issue on which protests will definitely crop up. So show your magnanimity so that labour does not become suspicious of the Government or industry."

Mr. Sinha also rejected as "unwarranted and ill- informed the criticism that he was under the influence of FICCI and multi-national corporations. "I reject this criticism, but we have to convince the people that what industry's seeks and the way in which Government responds is in the larger interests of the nation." Despite the Government's resolve to tackle the harder options of the second generation reforms, the road ahead was a "slippery slope," he warned the industry.

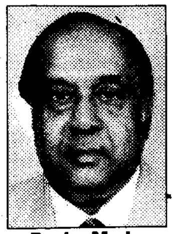
The Minister said interest rates on small savings had been reduced as an element of subsidy had crept into it.

See also Page 15

THE HINDUSTAN TIMES
2 MAR 2001

Budget 2001: The rough road to reforms

"I am happy that the dividend tax has been reduced"



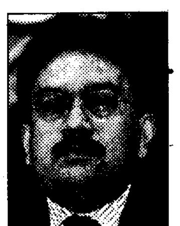
Raghu Mody, President, Assocham

It seems to me that the second-generation reforms have been initiated with this Budget. It is an extremely growth-oriented Budget. Considering the situation the finance minister and the economy is in, he has shown immense courage to take constructive steps.

The emphasis on infrastructure with a major thrust towards disciplining the SEBs and the announcement of a 10-year tax holiday for the core sectors are very good steps. I am also happy that the dividend tax has been reduced. The customs duty reduction to 15 per cent on telecom finished goods is also good.

Labour reforms initiation, especially that permission need not be required for units with up to 1,000 workers for effecting lay-offs, is a very bold step. Only, taking the compensation period from 15 to 45 days will make it a tough choice. Various capital market announcements and the decision to allow FII investment in a company from 40 per cent to 49 per cent will give the markets a boost. The removal of surcharges on taxes, except that for Gujarat, is a positive step. Only, I feel that announcement of some large capital investment projects by the government would have helped.

"It outlines a definite roadmap for downsizing the Govt"



Chirayu Amin, President, Ficci

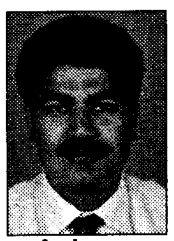
This is an investment driven Budget which has kicked off several fundamental reforms. The Budget has outlined a definite roadmap for downsizing the government, proposed radical changes in labour laws and has reiterated the government's commitment to disinvestment.

We welcome the reduction of dividend distribution tax to 10 per cent from 20 per cent, removal of all surcharges except the 2 per cent quake surcharge and exemption of long-term capital gains in case of investment in primary issues. These measures will not only help boost the capital market but also attract greater investment.

I'm confident this Budget will definitely bring back the feel-good factor in the economy. What is, though internal reforms have not kept pace with the reduction in duty. This is detrimental to the domestic industry. The reduction in the interest rates on provident fund and small savings close on the heels of the RBI's announcement of a half per cent cut in bank rate, has created conditions for at least a full 1 per cent reduction in lending rates. We also welcome the finance minister's move to include a detailed statement tracking implementation of the proposals made in the Budget.

Reforms in State Electricity Boards, removal of restrictions on movement and stocking of food grains, amendment of the Essential Commodities Act and changes in labour laws will give Indian industry some flexibility. This Budget revolves around economic logic in sharp contrast to political exigency which has been the case in many previous Budgets.

"The budget is not sufficient for real estate development"



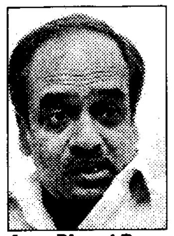
Anshuman Magazine, MD of CB Richard Ellis

Although increase of tax exemption limit against interest payment on housing loan to Rs 1.5 lakh is a welcome step, Budget 2001 has not addressed a lot of other issues like lowering interest on housing loan, increase supply of funds for loan disbursement. Without these, a standalone measure of tax exemption would not do much towards making housing affordable.

Also, the Budget should have made an attempt to rope in a small portion of fund of financial institutions like UTI, LIC and savings scheme like pension and provident fund for offering housing loan. Larger availability of funds will lead to lowering of interest rate. Since, housing loan has least default rate, this fund could have been used without much risk.

Considering real estate development, the Budget was far below expectation. It also has not reduced the high rate of stamp duty on property transaction cost and not rationalised house tax norms, which would boost investment and taken out black money in the system. Also, a foreclosure law for real estate and housing was desired as a security measure for investors.

"It will provide a major fillip to industry, the services sector"



Arun Bharat Ram, President, CII

Budget 2001 is an outstanding one. It wins a nine out of ten. This year's budget is powerful in terms of what it will do to revive the economy. It is a growth oriented budget that will provide a major fillip to both industry and the services sector. Furthermore, there is an emphasis to the agricultural sector. Enhancements of investments in the infrastructure sector — particularly relating to the power sector where benefits are given to those states that go ahead with reforms in the power sector is a welcome step.

The focus on expenditure reforms, downsizing and reducing the government size is a good beginning. Two per cent reduction per annum for the next five years on the government workforce as well as abolition of many senior level government posts is good. We can see better days ahead for the domestic industry with the initiation of labour reforms.

The excise cut on cars will give a boost in the automobile sector which drives the engine of any economy particularly the Indian economy whether it is trucks, cars or scooters.

Also the fact that trucks have been given an accelerated depreciation of 50 per cent will again bring about new interest in purchase of vehicles. We are pleased that the surcharge has been reduced to 2 per cent and specifically for the Gujarat calamity. It will provide cash flows to companies and will provide the possibility of reinvesting and in a sense reinforce industrial growth. We expect a revival in the stock markets with the reduction in dividend tax from 20 to 10 per cent.

For the first time, we are seeing a real movement on account of capital account liberalisation. It's good that Indian companies have been permitted to invest up to $ 50 million through an automatic route.

"The uncertainty prevailing in the markets has ended"

By Vivek Reddy, CEO
Kothari Pioneer Mutual Fund

A decent Budget with a lot of positive features. The uncertainty that was prevailing in the markets has ended. The markets should react positively to the announcements made in the Budget.

The withdrawal of surcharge and reduction of dividend tax should be viewed very positively. The ELSS reduction to 30 per cent is a good move.

On a scale of 1 to 10 (10 being the best), I would award 8 to the Budget.

"The Budget shows no awareness for a balanced approach"

Madhu Dandavate, Ex-finance minister

The Budget is a short-run piece reflecting a long-term economic perspective. For the present government, its perspective seems to be "mindless globalisation, liberalisation and privatisation" regardless of its socio-economic impact on a poor, developing country like India.

To fulfil social obligations, an efficient Public Sector — not merely a bureaucratic state sector — is needed; to cater to the ethos of egalitarianism an incorruptible co-operative sector; to ensure people's participation in economic activities at the grassroots level, properly conceived decentralised sector run with the cooperation of Panchayati Raj institutions is a must; and to meet the inadequacy of capital, private sector too has to coexist. As regards foreign capital, it may be used only selectively in sectors, where large technological gaps exist.

Unfortunately the Budget for 2001-2002 shows no awareness of such a balanced approach. As a result, the interest payments projected are Rs 1,12,300 crore, which are 48.45 per cent of the revenue receipts. The fiscal deficit is Rs 1,16,314 crore. Thus, the inflationary pressure on the economy will continue to be high.

The budget has tried to give emphasis on the traditional method of concentrating on resource mobilisation, which has acquired great urgency after the tragedy of the earthquake in Gujarat. Merely, putting a surcharge on income-tax collections won't produce adequate resources because the income-tax base itself is quite narrow. A comparative picture of the number of income-tax payers in other countries indicates that from among the income earners, the percentage of persons who were obliged to pay taxes was 85 per cent in Denmark, 85 per cent in Sweden, 81 per cent in Finland, 54 per cent in Australia and only 0.9 per cent in India. Recent research on unaccounted black money conducted by experts shows that about 45 per cent of GDP is accounted for by black money. Therefore, determined efforts must be made using a 'Carrot and Stick' policy to unearth substantial portions of black money and utilise it for relief and rehabilitation of the uprooted by the Gujarat earthquake and also for developmental activities in backward regions.

The framers of the Budget may have the temptation to attribute the failure of the economy to the earthquake in Gujarat. However, we must realise that crisis of our economy and its slowing down began long before January 26, 2001. To those who suffered the ignominy of the worst consequences of the economic crisis, the 2001-2002 budget presented by the finance minister will undoubtedly appear merely as a "damsel in distress".

"The fiscal deficit should not concern us much"

Dewang Mehta, President, Nasscom

Yashwant Sinha, while presenting his Budget was sounding like Zubin Mehta, playing his number, *Software Philharmonic*. It is an excellent Budget for the software industry. The finance minister's sops to the software companies of not taxing their export earnings from onsite services was like music to the ear as 60 per cent of the total earnings come from this only.

The enhancement of FII's portfolio investment limit in a company from 40 per cent to 49 per cent will also help improving the market sentiment. The two-way fungibility where corporates can reconvert their converted share into American Depository and global depository receipts will increase the confidence of foreign investors in the Indian market.

The announcement of a tax holiday of five years to internet service providers will go a long way in creating internet infrastructure in the country. The government's measure to give tax exemption for investment made in engineering college will also help IT companies in forming a partnership with educational institutions.

However, there are some small disappointments as well. Bringing online information and database retrieval services in the service tax net will have some negative impact. Similarly, the measure to bring the service provided to lease circuit line holders in the service tax net will not go very well in otherwise such a positive Budget. These measures should have been put after five years.

"FM has gone into the core issue of tariffs"

Rajeev Chandrasekhar, Chairman &CEO, BPL Innovision Business Group

Rajeev Chandrasekhar, chairman & CEO, BPL Innovision Business Group, MUMBAI: The budget is fairly solid and has gone into the fundamentals of tariffs, rationalised Cenvat and VAT.

The finance minister, Yashwant Sinha, has conveyed a strong message as regards to curtailing government expenditure on the fiscal side. The root cause of interest rates have been addressed to by lowering the small savings rate. The budget has made investments attractive and also aimed at rationalisation of government offices and reducing costs. Another five-year extension of a tax-holiday to the telecom sector makes sense as in the first five years nothing much was achieved by this sector. Besides, this is a sector that has long gestation periods of 7-8 years before they actually start making profits. So there is little impact on companies from this sector. Companies don't pay taxes till they square-off accumulated losses which takes 7-10 years on an average. The determining factor is, however, not the budget but the telecom policy.

If all these measures are followed by sectoral policies that encourage investments, the government would achieve its objective of making the country an attractive investment destination. Overall I would say, the budget has scored eight out of ten.

"Can the government implement the budgetary steps?"

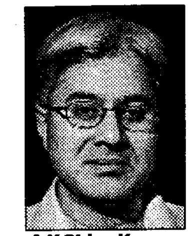
R K Pachaur
Director, TERI, New Delhi

Overall, Yashwant Sinha has presented a good and forward-looking budget. The major question is whether the Government would be able to implement all the provisions and measures outlined. For instance, would the Central Government be able to downsize its workforce by two per cent annually? Would the Central Government, given its limited role in the power sector, be able to persuade the states to carry out urgent reforms in the power supply industry? Would some of the socially-oriented schemes be implemented faithfully or would there be the usual leakages of resources and funds? Such schemes include those related to people's participation in water harvesting and water management in rural areas as well as measures mentioned for women's empowerment and income benefits for those below the poverty line connected with completion of education of children.

The speech omits certain important subjects with respect to sustainable development, which it is hoped will be taken up by Parliament before the Finance Bill is passed. Measures for environment protection or extension of forestry activities were not mentioned. Yet, if poverty removal is an important objective of the Government, it is these resources that provide vital services to the poor, whose livelihood depends on them. The joint forest management programme, for instance, is a unique way of involving local communities in the management and conservation of forests, should have received attention.

The Finance Minister has also dwelt on plans for bringing about 100 per cent rural electrification in the country in six years. Perhaps rural energisation instead of electrification should have been highlighted. Extending the electricity grid to all parts of the country would be expensive and unviable. Renewable energy technologies can be utilised and implemented at the village level with much higher technical reliability and, in several cases, economic benefits beyond the extension of grid-based power. Subsidies on kerosene can gradually be shifted to solar lanterns, for which a market is already developing in several parts of the country. However, a subsidy on the initial investment on these would be far less costly over the life of these devices than perennial subsidies on kerosene.

"Poverty cannot be covered up by economic jugglery"



A K Shiva Kumar, Special Advisor, UNICEF

In the pursuit of economic marksmanship, the Budget loses sight of the pressing concerns of the poor and the rising insecurity of the unemployed. Sinha must be commended for the single-minded pursuit of economic reforms and higher growth - undoubtedly vital for accelerating Indias progress. But in the process, what he has failed to take note of is discomforting.

The face of India's poverty cannot be covered up by economic jugglery. The FM talked about the reduction in poverty levels - from 36% in 1993-94 to 26% in 2001. The Economic Survey itself points out that the new estimate may not be strictly comparable to the earlier estimate of poverty. Even with the new estimate, there are 260 million people living below the income poverty line. But we need to look at human poverty. Close to 380 million Indians cannot read and write, nearly 100,000 women die every year due to pregnancy-related causes, and over 90% of the rural population does not have proper sanitation facilities. Moreover, employment rates appear to be falling in recent years. This is the real face of poverty unemployment, illiteracy, ill-health, malnutrition, and lack of access to a decent standard of living that the Budget fails to address adequately. India's children 380 million of them - have little reason to smile. The infant mortality rate has been stagnant at around 70 deaths per 1000 live births. Will the Budget give a boost to child survival? Routine immunisation coverage has begun to fall. Will the Budget extend the reach of immunisation services and primary health care to all? India's rates of child malnutrition are almost twice the levels reported in Sub-Saharan Africa. What is in the Budget to ensure adequate nutrition? Almost 60% of deliveries are not attended to by a trained birth attendant. Does the budget provide enough resources for ensuring safe delivery?

Sinha cranks up feel-good factor

By Alok Mukherjee

NEW DELHI, FEB. 28. Against the backdrop of five State Assembly elections this year, the Finance Minister, Mr. Yashwant Sinha, has managed to present a "responsive" budget addressing the cross-sectional concerns of the taxpayers, the industry and the farmers. With emphasis on second generation reforms, recreation of the feel good factor and renewed thrust on agriculture, the immediate impact of the budget has been such that talks about a " second dream budget" are already doing the corporate rounds.

In a nutshell, the budget for 2001-2002 presented to Parliament today, includes a "middle-class package" of lower income tax, lower prices for cars, scooters and motorcycles and novel schemes such as easy loans for higher education at home and abroad. There is sufficient emphasis on agriculture with safeguards against imports and on infrastructural development.

Mr. Sinha also introduced an insurance cover for farmers and out-of-job workers, and a scheme for the neglected widows of Vrindavan, Kashi and other places. The lower income group was given an additional tax rebate for specified investments.

He, however, pinched those with investments in small savings by reducing the interest rates by one to 1.5 per cent on almost all such savings instruments, raised the cost of Central Government accommodation provided to its employees, and put a freeze on their leave travel concession (LTC) for two years. A comprehensive downsizing programme was outlined for Government employees with the provision of a voluntary retirement scheme (VRS) for "surplus" staff. Mass recruitment by banks would be abolished with individual banks free to take specialised talent. A surcharge on cigarettes and tobacco products was also been introduced.

For income tax payers, while there are no changes in rates, the 10 and 15 per cent Kargil surcharge stands withdrawn and only the two per cent Gujarat surcharge remains. Those with incomes up to Rs. 1 lakh a year have now been allowed a higher tax rebate of 30 per cent against 20 per cent on investments specified in Section 88 of the Income Tax Act, but the tax deductible interest income limit of Rs. 15,000 stands reduced to Rs. 9,000 per annum. A move has also been initiated to tax some of the perquisites granted by companies to their employees. Similarly, the corporate tax rate remains unchanged and the 10 per cent Kargil surcharge goes. Only the two per cent Gujarat and one per cent natural calamity surcharge remains. There has also been a reduction in the dividends distribution tax from 20 to 10 per cent, and a host of measures to boost industry and investor sentiment.

Apart from Central Government employees, another segment which could be unhappy with the Minister is the labour, though the industry has welcomed the attempt to introduce some flexibility in retrenchment rules. While dismantling the rigidities involved in retrenchment, a compensatory insurance scheme has been introduced for those who might lose their jobs.

The expected increase in the coverage of service tax also figures in the budget as well as the extension to all urban areas the one-by-six criteria for compulsory filing of income tax returns. The service tax rate has, however, not been raised. Tax deduction at source (TDS) norms have also been changed, with the inclusion of brokerage and commissions, except in shares and securities, under the scheme and lowering of the limit to Rs. 2,500 on interest on time deposits for TDS purposes.

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Focus on IAF: Page 14
Good budget, says Chidambaram: Page 15
Texts of speech on Pages 10, 11

The budget responds to the fears of the agricultural sector that the lifting of the Quantitative Restrictions (QRs) will result in increased import competition. Tea, coffee, copra, coconut and desiccated coconut will now attract a 70 per cent import duty against the present 35 per cent. Similarly, duties on crude edible oils ranging from 35 to 55 per cent have been raised uniformly to 75 per cent, and on refined oils from 45 and 65 per cent to 85 per cent. Duty on imported crude palm oil used bysick vanaspati units have also been hiked from 25 to 55 per cent, while others would pay a duty of 75 per cent on this item.

The Minister has, however, withdrawn the 10 per cent customs surcharge imposed earlier, and has given notice that he intends bringing down the minimum peak tariff level to 20 per cent within three years. On the excise front too, he has brought about some more rationalisation by having one Central value added tax (Cenvat) rate of 16 per cent for all products, and introduced another single special excise duty (SED) of 16 per cent. This means items would be subjected to excise at either 16 per cent or 32 per cent (16 Cenvat plus 16 SED). The immediate impact would be on items such as scooters and motorcycles and taxis, which would be charged 16 per cent against the earlier 24 per cent while motor cars would attract an excise of 32 per cent against the earlier 40 per cent.

To protect the domestic automobile industry from the onslaught of second-hand car imports, Mr. Sinha has proposed extra duty on such cars, taking the total duty component to 180 per cent. On liquor imports after the lifting of QRs, the he proposed a countervailing duty on the basis of the State excise duty on such products. The small-scale sector has been marginally touched with dereservation of 14 items related to leather goods, shoes and toys, but the excise exemption limit for this sector has been doubled to Rs. 1 crore, and a credit and loan package promised for small units involving Rs. 5,000 crores over five years.

The corporate sector has been granted further liberalisation in terms of investments abroad, while foreign institutional investors (FIIs) will be permitted to invest about 49 per cent in Indian companies through the portfolio route, up from the present 40 per cent.

FCI role limited

In pushing ahead with the reforms process, the Minister has given notice that privatisation of the public sector will be accelerated to fetch Rs. 12,000 crores in the coming fiscal, while price controls on drugs, fertilizers and sugar will go. The management pattern of the food economy has been altered with the Food Corporation of India (FCI) now having the limited role of managing strategic reserves while the State Governments also undertake procurement and distribution of foodgrains. Some concessions were announced for the development and advancement of food processing industries and creation of agricultural storage capacity.

Mr. Sinha's overall exercise will result in higher excise collection by Rs. 4,677 crores, but he will lose Rs. 2,128 crores in customs duty changes and another Rs. 5,500 crores on the direct tax account, which he hopes to make up through higher buoyancy. He claimed a "good fiscal performance" by keeping the fiscal deficit for 2000-2001 to the 5.1 per cent of the gross domestic product (GDP) target — mainly because of inability to spend in some cases and with the help of higher accruals on non-tax receipt account. For the next year, the fiscal deficit has been pegged at 4.7 per cent of the GDP.

THE HINDU

- 1 MAR 2001

LABOUR LAWS / FLEXIBILITY FOR EMPLOYERS

Foundation for exit policy?

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By Our Special Correspondent

NEW DELHI, FEB. 28. In a bold move, the Union Finance Minister, Mr. Yashwant Sinha, has for a change sought to break the shackles of labour law rigidities by giving a further push to the reform process and proposing much demanded flexibility for the employers.

The proposed changes in the labour laws could be seen as the possible laying of foundation for an "exit policy" for which the trade and industry had been clamouring for long.

Appearing to be addressing what he called "contentious issues of rigidities in our labour legislation", Mr. Sinha in his budget speech proposed far- reaching changes, which would make it simpler for industrial firms to retrench or lay off workers or go in for closure if the employees strength was less than 1,000 against the stipulated 100.

At the same time, he also proposed legitimisation of engaging contract labour by modifying the law.

Pointing out that the Government was convinced some changes were necessary in the Industrial Dispute Act, which made it impossible for industrial firms to exercise any labour flexibility, he proposed modification of in Chapter VB of the Act to dispense with the requirement of the managements of certain specified industrial establishments securing prior approval of the Government concerned before effecting lay-off, retrenchment, or closure.

In terms of the Government's proposal, such prior approval would be necessary only in cases where the employee strength was 1,000 or above.

Obviously, the ceiling in relation to the employees' strength was being raised by 10 times from 100 to attract the "safeguard" in prior permission before taking any such action detrimental to the workers' interests.

A balancing act

However, aware of the criticism that these moves could attract, Mr. Sinha tried to do an balancing act. While relaxing the norms relating to prior permission from the Government in case of a lay-off, retrenchment or closure, he proposed a separation compensation, three times the amount an employee is entitled currently.

The enhanced compensation, 45 days for every completed year of service as against 15 days now, would act as a deterrent to employers, he claimed.

He also proposed changes in the contract labour law which prohibits engagement labour on contract basis if the nature of work was of perennial nature and other conditions stipulated by it existed. Section 10 of the Contract Labour Act, which entitles a contract labourer to become a direct employee, would be modified.

"To overcome the difficulty and at the same time to provide protection of labour", the Minister said it was proposed to bring an amendment to facilitate outsourcing of activities without any restrictions and to offer contract appointments.

Insurance cover

Mr. Sinha, who attracted the wrath of most people, particularly the working class, by proposing to lower the interest rates on PF and small savings and changes in labour laws, tried to humour them with a new group insurance scheme, "Ashraya Bima Yojana". It was aimed at extending security cover to the organised labour force, which would be affected by the short-term impact of the on-going liberalisation process.

The policy would provide compensation of up to 30 per cent of last drawn annual pay for a period of one year to workers who lose their jobs. It would also cover, initially, all employees drawing salaries of up to Rs. 10,000 a month. The policy would be administered by the four Government-owned insurance companies, which would announce the details including premium rates of the proposed policy by June.

Babus' perks cut

By Our Special Correspondent

NEW DELHI, FEB. 28. Mr. Yashwant Sinha seems to have taken the first step towards ending the freebie regime the babus have enacted for themselves all these years.

Central Government officials will now have to contend with cuts in perks ranging from higher rent on Government accommodation to suspension of LTC for two years for the remaining part of the four-year block. An exception has been made for employees entitled to the last LTC before retirement. Besides, the comfortable retirement cushion due to high interest rates provided in savings schemes such as PF and GPF will no longer be that secure with the proposing a cut in interest rates.

While most officials will have to contend with a cut in perks, some might face the prospect of retrenchment if Mr. Sinha carries out his threat of creating a surplus pool. The employees in the pool have been promised an "attractive" VRS package.

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Behind the fiscal figures

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CHENNAI, FEB. 28. While this is one budget that does not depend on a jugglery of figures for its legitimacy, it is still important to note that coincidences, unintended consequences and fiscal compression underlie the fact that 2000-01 has turned out to be the first time that the broad fiscal targets would have been met. Further, much as the Union Budget for 2001-02 hopes that economic growth will accelerate on the back of the many tax concessions and liberalisation measures that it contains, there is a fair amount of excessive optimism underlying the budgetary figures for the coming fiscal year as well.

First, the fiscal trends in the year 2000-01, which the Union Finance Minister, Mr. Yashwant Sinha, says will end with the fiscal and revenue deficit ratios much as he projected when he presented his budget on February 29, 2000. True, in spite of the fact that economic growth in 2000-01 is expected to be a good percentage point less than what was predicted last year, the fiscal deficit according to the revised estimates for 2000-01 will be on target (5.1 per cent of GDP) and so too the revenue deficit (3.6 per cent). Yet all has not gone well on the ground. First and most important, capital expenditure on the Plan account — of the kind that goes into creation of infrastructure and other assets — has been a good 7 per cent less (even in nominal terms) than that budgeted for in the current financial year — a shortfall of Rs. 2,636 crores.

It is accepted that even as the private sector steps into infrastructure, the larger responsibility will remain that of the Centre. There has been a small excess in Plan revenue expenditure but total Plan outlays are still 2 per cent less than the budgeted amount. Second, Mr. Sinha has also been aided by the inability of the Defence Ministry to make full use of the large allocations provided for in 2000-01. The shortfall in defence spending — not on account of any deliberate economy — is of the order of some Rs. 4,000 crores. Third, on the receipts side the shortfall in excise, customs and disinvestment is well-known. (But a mystery must be why suddenly and in spite of revenue from the two surcharges of a total

on corporate taxes that were introduced towards the end of the year, 2000-01 will see total corporate tax collections at only 97 per cent of the original target.)

What is not highlighted is that non-tax revenue has surpassed the budgeted amount by more than 7 per cent. This is almost entirely on account of a 40 per cent plus increase over budgeted levels of dividends and profits paid by the RBI, nationalised banks and the financial institutions. It should be worrying that the Plan outlays have fallen short of the budgeted amount in important areas like agriculture (decline of Rs. 680 crores), rural development (Rs. 1,200 crores) and social services (Rs. 600 crores).

One should not be surprised if much the same trend is repeated in 2001-02. Naturally, assuming a buoyancy of revenue on the basis of an economic acceleration, income tax and customs duty collections are expected to post 10-15 per cent increases in spite of the reductions that have been announced. But to make up for the slow pace of defence procurement in 2000-01, Mr. Sinha has made provision for a 13.8 per cent growth in defence expenditure in the next financial year. And as always there are large allocations for total Plan expenditure — but the growth budgeted for in 2001-02 is only 10 per cent over the revised estimates for 2000-01. This is not much more than inflation and does not compensate for the shortfall this year. The situation will by far be the worse in Plan investment where outlays are slated to increase by only 5 per cent — lower than the expected inflation rate and at Rs. 34,875 crores the 2001-02 allocation will be less than even the Rs. 35,770 crores that was budgeted for but not realised in the previous year!

Besides, it is good to remember that when Mr. Sinha presented his budget last year, he said that total Plan expenditure would grow by 11 per cent and capital outlay by 14 per cent. The opposite happened because Plan expenditure as always became the lamb to be sacrificed at the altar of fiscal consolidation. One will have to wait to see if the situation will be repeated in 2001-02 on the road to the next fiscal deficit target of 4.7 per cent of GDP.

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WHERE POSITIVES DOMINATE

IT WAS NOT exactly a facile exercise in balancing the books. What the Union Finance Minister, Mr. Yashwant Sinha, had on hand was a constellation of challenges in framing his fourth budget. A creeping sense of disquiet about the slowing down of the momentum of growth was only part of the problem. The angst of the farming community, exposed increasingly to the spectre of crashing prices for agricultural commodities, was crying for attention even if policymakers have been largely clueless about how the budget could help resolve a crisis brought on by a combination of injudicious crop planning, glut in production and virtual absence of market intelligence for the farmers combining with perceptions of inundation of domestic markets by imports. Then there has been the adverse impact of demand ennui both for industrial products and for capital goods. The persisting investment inertia in infrastructure has equally clamoured for attention. The question in the public domain for months now was how Mr. Sinha would cope with all these pressures without betraying all his commitment to an ever-elusive fiscal discipline.

The ghastly devastation in Gujarat last month seemed almost to jeopardise all the possibilities of a sensible fiscal strategy needed to accelerate economic growth and make for an investor-friendly policy environment. Against an estimated cost of reconstruction in that State of Rs. 30,000 crores, it looked as if the Centre would be forced to embark upon a massive tax drive or sizeable public borrowing in order to meet the contingency.

Mr. Sinha's budget, in the event, has turned out to be a salutary package addressing multiple concerns in a reasonably coherent manner even if some of the budget initiatives are bound to meet with legitimate scepticism if not political hostility. In particular, his optimistic projection of the proceeds from disinvestment at Rs. 12,000 crores and the acceptance of the untested paradigm of "flexible" labour laws making for larger employment generation could provoke a great deal of justified consternation among the working class. On another plane, keeping the defence expenditure, at Rs. 62,000 crores, almost at the same level of the GDP as in 2000-01 would serve to reassure the international community that India is not a belligerent nation.

As a configuration of reform-minded thinking, Mr. Sinha's budget is bound to send positive signals to investors, both in India and in global capital markets, that the process of economic reforms, with all its vacillations, is most likely to proceed, on requisite lines. Three aspects of the approach indicated in the budget, towards accelerated reforms, need to be underscored. First, the belief fostered by the reformists in the past, that agriculture, the backbone of the Indian economy, would, for long, remain outside the pale of economic restructuring is now sought to be dispelled. In fact, Mr. Sinha's budget puts the spotlight on agriculture and rural development. Mr. Sinha has rightly chosen to strengthen the institutional structure of delivery of bank finance, insurance and micro-credit while paving the way for expansion of cold storage facilities for improving the marketability of perishable commodities. There is nothing sensationally new, however, in the proposition that the much-needed movement towards modernisation and diversification of agricultural practices will critically hinge on extension services provided by the proposed Agri-clinics and Agribusiness centres. After all, Dr. Manmohan Singh, in the earlier years of liberalisation (1992-95), consistently spoke about Agri-business Consortia though with nothing much to show in terms of performance.

The second evidence that the budget focusses clearly on the imperatives of economic reforms is the thrust it reveals towards infrastructure development. To a certain extent, the sectoral Plan allocation indicated in the budget for infrastructure represents a substantial step-up. Plan outlay for power for 2001-2002, is set at Rs. 11,066 crores as against the revised estimate of Rs. 8,345 crores during the current year. The outlay for road transport (with all the attention on the quadrilateral and corridor projects) has been raised from Rs. 5,248 crores to Rs. 8,727 crores in the new budget. All this lends credence to the realisation that the flow of private sector investments in infrastructure continues to be disappointing despite all the "heroics" of the "reform lingo". Even apart from the customary hassles of implementation, including the lack of adequate coordination between the Central Ministries and the State Governments, and the vague reference made by Mr. Sinha to zero-base budgeting, larger Plan allocations, by themselves, may not produce a miracle.

Mr. Sinha is certainly on the right track when he attributes much of the problem of infrastructure development to the ingrained political culture of non-merit subsidisation, particularly in the power sector. Unless user charges meet the full costs of operations in the State Electricity Boards (assuming that theft of power can be combated), the financial viability of the SEBs cannot be ensured and private sector funding for new generation will continue to elude the policy regime.

The third frontal area of the reform process to which the budget relates is the vexed issue of high interest costs in the economy. Excepting a few Latin American economies, the real interest rate in most developing countries rarely exceeds 5 per cent while it has been hovering around 10 per cent in India. That the borrowing operations of the Government are conditioned by high interest rates and that the contagious effects are spread through the entire economy are well-known. There can be no disagreement over the need to reduce the interest cost in the economy in favour of larger investments and strengthened competitiveness of Indian industry. But then should Mr. Sinha have rushed to slash interest rates on Provident Funds and small savings by 1.5 per cent in a single stroke?

Granted that unsustainable levels of fiscal deficits in the past have bedevilled the Government and have created a situation in which total debt servicing in 2000-2001, at Rs. 2,28,955 crores, represented 68 per cent of the total receipts including borrowings, fiscal correction is certainly overdue. While Mr. Sinha can take pride in the fact that he has contained the fiscal deficit at 5.1 per cent in terms of the GDP during the current fiscal, it needs to be noted that capital expenditure has suffered some erosion — from Rs. 57,389 crores proposed in the budget to Rs. 51,987 crores and that the disinvestment proposed at Rs. 10,000 crores fetched only Rs. 2,500 crores. That he proposes to bring down the revenue deficit in 2001-2002 to 3.2 per cent of the GDP from the current level of 3.6 per cent and the fiscal deficit to 4.7 per cent will obviously cheer like-minded "fiscal fundamentalists" that at long last the country has emerged into a new era of fiscal rectitude.

Even if Mr. Sinha cannot be accused of political populism, his direct tax measures — the removal of the Kargil surcharge, the reduction of dividend tax to 10 per cent and an enhanced tax rebate at 30 per cent under Section 88 of the Income Tax Act as well as a liberal extension of tax holiday for infrastructure investments — have come as unusual morale-boosters for industry and investors. His continuing efforts to streamline the customs duties structure and the excise duty regime have broadly confirmed a clear appreciation of the needs of Indian industry in a climate of unequal global competition without losing sight of the revenue potential inherent in a faster rate of economic growth. Predictably, he has widened the ambit of Service taxation even though the problematics of efficient collection will endure.

Undoubtedly a pro-growth budget to be doubly commended for its larger devolution of funds to the States, a lingering doubt is bound to persist in the minds of objective citizens on whether some opportunities have been missed, as, for instance, some programme to link mountainous stocks of foodgrains with employment generation.

WELL DONE, FM!

Finally, a budget to cheer

FOURTH time lucky. When Yashwant Sinha rose today to present his fourth budget, the backdrop included such unpropitious signs as a slowing economy, stalling reforms, quake devastation and election-induced populist bingeing across the political class. Sinha's record did not inspire any confidence that he would take on all or any of these problems. By the time he sat down, the finance minister had proved that apprehension to be wonderfully wrong. The moment could be said to have found the man, and bar nasty surprises upon detailed perusal of the fine print — as always, a possibility — Yashwant Sinha can claim to have bettered the prospects of both his personal standing and the economy. Even better, the principal reason for both assessments are the same — that is, after a long time a finance minister has preferred courage to cautious incrementalism. The two best demonstrations of that are in what are arguably the budget's two most important planks. His short term and medium term growth strategy. The Economic Survey and countless independent assessments had predicted a grim near future in the absence of some radical correctives. Wisely, Sinha has chosen to provide some immediate impetus to growth, while initiating some hitherto unattempted efforts to loosen constraints which should have a positive impact in the medium term. The short term strategy is essentially to boost private spending and certain kinds of investment, especially in infrastructure. Hence the removal of direct tax surcharges, hence the lowering on excise duties on key products including autos and two wheelers, hence the tax holidays for infrastructure projects and the customs duty cut on IT and telecom equipment. All this plus the feel good factor that has undoubtedly been generated, especially among corporates and capital market agents including the FIIs, should lead to a revival of economic activity well before the next budget is presented. Such a short term boost was sorely required for an economy that seemed over the last year to have lost confidence in itself, and Sinha would have deserved praise if he corrected nothing else. But he did more.

Strikingly for an Indian finance minister of an unruly and populist-dominated coalition, and in an election season, Sinha has targeted vested interests long considered out of bounds for boosting the prospects of medium term growth. The most important example is the proposed legislation to simplify hiring and firing of labour. Manmohan Singh talked of it but was talked out of it by Narasimha Rao. Chidambaram didn't even bother. Neither did Sinha in the last three years. But this time, probably encouraged by the full support of the Prime Minister, Sinha has bitten the bullet. The Bill for reforming labour law is to be presented this session. And it is up to the political managers of NDA to ensure it passes legislative muster. The sooner it does, the faster will Indian business be able to cut costs, improve productivity, and be bolder in investment plans. The three other medium term growth strategies are a slew of incentives for the agriculture sector (that, of course, is also good politics, given the farmers' restiveness about WTO), initiating a process of economic user charges for government services, power being the prime example, and what looks like — one must be more sceptical here, given past experience — the beginning of a long-delayed fiscal consolidation.

The fiscal deficit target for 2000-2001, at 5.1 per cent, has been met. The target for the next financial year, at 4.7 per cent, is as per the phased programme in the Fiscal Responsibility Bill. The cut in interest rates, which was preceded by pre-budget cuts by RBI, will bring down lending costs. Government babus have been targeted for the first time, not only in their posts but also their pockets. And the innovation of adding to the budget documents a record of last year's programme implementation lends some credibility to Sinha's long and quite unsparing analysis of the fiscal situation in his budget speech. Of course, the numbers, both for the revised estimates of the last budget and the budget estimates of this one, will have to be looked at carefully to see where the minister has fudged. But even with the standard amount of fiscal legerdemain, the fiscal programme chalked out carries more weight than any comparable exercise in the last seven to eight years. Sinha could and should be given the benefit of doubt.

The downsides? Despite rationalisation, indirect taxes remain too cluttered to be called even halfway progressive. Protectionists, both agricultural and industrial, have succeeded in raising some customs duties to near panic levels. That was unnecessary and gives encouragement to many others to aim for mid-year changes. Most services will continue to effectively pay no taxes. The disinvestment target, up by Rs 2,000 crores from 2000-2001 BE, should have been more ambitious, many more than eight PSUs should have been put up for sale. Then there is the wholly unnecessary provision of a crore for benefits for journalists operated by the I&B Ministry. Half jokingly but half seriously Sinha is under the erroneous notion that reporters determine editorial policy or content.

The negatives do not however detract from the challenge Sinha has set for future finance ministers, including himself — present a budget better than this one.