31 December 2001 Vol. CXXXV 310

The UTI mess

Who will catch the crooks?

The cabinet's part sop/part apparently tough decision on UTI may be good politically but unless it is followed up by thorough reform of the mutual fund, the mid-2003 deadline will arrive without any real change. The extent of the mess in UTI was impossible to cover even in the carefully guarded language of the SS Tarapore committee. In layman's language, the committee found that hundreds of crores of investors' money have been deployed by UTI officials on personal preferences. Internal procedures, auditing norms, project appraisal, boardroom scrutiny, in other words, the basic checks and balances one would routinely expect a huge financial institution to respect have been virtually absent. Mr Tarapore's brief was that of an academic inquirer not a punitive investigator. But the questions and leads are useful. Again, simply put, these are: to what extent does the mismanagement in UTI support the long-circulating and credible allegations that the mutual fund was hijacked by powerful corporate, stock broking and political interests. Given the near-complete lack of institutional checks, and given India's political economy, the answer would seem to support all but the most outlandish of market rumours. That brings up the key question about the government's role. Will it empower the Tarapore-Parekh-Malegam-Patil committee, set up by cabinet decision, to freely inquire into UTI's past deals, identify those who used the fund as fronts for their gambles and make public the details of the shady decisions, with appropriate punishment to follow. Unless that is done, cleaning up UTI will be impossible because the best laid procedures in financial transactions can be manipulated and only fear of just desserts can stop large scale thievery.

All indications are that this is unlikely to happen, and perhaps for good official reasons. UTI apart, the public financial institutions are also in a variety of troubles, though their management still seems to be in a denial. It is odds on that were someone to look closely into the decisions by the long term lending institutions, genuine errors in risk appraisal will be a very rare reason behind bad loans and non-performing assets. If UTI is subjected to an inquisition, the demand that the public sector FIs also be put through similar grilling will be hard to resist. Ergo, UTI will merely be helped to get back on the right track, with those who yanked it off to financial quicksand being allowed to count their loot in peace. This is familiar government procedure when big and powerful interests get caught with their hands in the public till. The only source of optimism is that the mess in UTI and public FIs is so thorough that implosions are almost certain at various points in the future. Out of that wreckage, some reform will have to come. Probably, privatization that government still resists? The big time operators may therefore hurry and clinch the deals.

THE STATESMAN

31 DEC 2001

A BOOST FOR ECONOMIC GOVERNANCE

THE SUPREME COURT judgment upholding the Government's disinvestment in BALCO sends out several salutary messages. At an immediate level it brings to an end what has been, the most controversial item in the chequered history of public sector sale. By clearly demarcating the spheres for judicial intervention and restricting them to mala fide or illegal acts and only where there are violations of constitutional provisions, the Supreme Court has come down on the side of economic administration within the Government. There has never been a more urgent need for the country's highest judicial authority to spell out its stance on matters such as divestment. The Government will now be enabled to pursue with greater vigour the more difficult parts of its economic agenda.

The BALCO episode had brought to the fore issues affecting the federal polity. The Chhatisgarh Chief Minister, Mr. Ajit Jogi, had single-mindedly opposed its sale, egged the employees' trade unions on a confrontational course, at one time even offering to buy the Centre's stake, only to backtrack in the end. Ironically, the Supreme Court through its unambiguous verdict might have provided a face-saver for Mr. Jogi who has since been studiously cultivating an investor-friendly image. However, it will be facile to interpret the verdict merely in terms of a short-term political gain or loss. While it clears many possible legal hurdles for economic administration and policy, the verdict in no way minimises the importance of vital processes such as consensus building. The latter alone would ensure a wider acceptance of normally contentious economic measures.

Disinvestment gets a big boost in another important way too. The Supreme Court has explicitly ruled out a judicial review of the technical aspects of the BALCO sale. Valuation of the Government's 51 per cent stake in BALCO was at the core of the controversy. Even though the Government had maintained that Sterlite, the eventual buyer, paid considerably more than the reserve price arrived at through a detailed valuation exercise, the critics were not satisfied. Most of the allegations against the BALCO sale were about short-selling a profitable unit, made possible by an inadequate or improper valuation exercise. By undertaking to interfere only where the methodology followed is arbitrary, the court has recognised the futility of questioning technical decisions arrived at by experts. Clearly, however, the need for transparency in the disinvestment process at all levels, including in the method of selecting experts and advisers, cannot be overstated.

For the public sector sale process, the Supreme Court judgment will become an important precedent. Already, the Minister for Disinvestment has said the Government will seek to quash the stay orders on two hotel properties whose privatisation has been challenged on grounds similar to that of BALCO. However, the disinvestment process since 1991-92 has not followed any one methodology. In the initial years, Government-owned companies offered their shares to the public either in India or abroad. All these companies still remain in Government hands, even while having substantial public ownership. In contrast, the current emphasis is on strategic sale where the Government hands over the management along with a chunk of equity. While all methodologies have evoked criticism, the strategic sale route — involving a finality in the transfer of ownership — was bound to be particularly controversial. The BALCO privatisation amply proved that point. Now that the Supreme Court has pronounced its verdict, all the stake-holders of a public sector unit, including the Government, should work to fine-tune the process of disinvestment.

THE HINDU
13 DEC 2001

'IT IS NOT FOR COURTS TO CONDUCT ADMINISTRATION'

Supreme Court upholds BALCO disinvestment

By J. Venkatesan

NEW DELHI, DEC. 10. The Supreme Court today upheld the disinvestment of 51 per cent of the equity shares of the BALCO in favour of Sterlite Industries for Rs. 551.50 crores, stating that the correctness of the Government's 'disinvestment policy' could not be gone into by court.

A three-Judge Bench, comprising Mr. Justice B.N. Kirpal, Mr. Justice Shivaraj V. Patil and Mr. Justice P. Venkatarama Reddi, dismissing a batch of petitions observed that "courts are not intended to and nor should they conduct the administration of the country".

It said that courts would interfere only if there was a clear violation of Constitutional or statutory provisions or non-compliance by the State with its Constitutional or statutory duties and none of these contingencies had arisen in this case.

Speaking for the Bench, Mr. Justice Kirpal said that "in the case of a policy decision on economic matters, the courts should be very circumspect in conducting any inquiry or investigation and must be most reluctant to impugn the judgment of the experts who may have arrived at a conclusion unless the court is satisfied that there is illegality in the decision itself".

He made it clear that "wisdom and advisability of economic policies are ordinarily not amenable to judicial review unless it can be demonstrated that the policy is contrary to any statutory provision or the Constitution".

"It is not for the courts to consider the relative merits of different economic policies and consider whether a wiser or better one can be evolved and for testing the correctness of a policy, the appropriate forum is the Parliament," the Bench observed and pointed out that "here the policy was tested and the motion was defeated in the Lok Sabha on March 1, 2001".

It held that the allegations of lack of transparency or that the decision was taken in a hurry or there had been an arbitrary exercise of power were without any basis.

Chattisgarh Govt. criticised

Criticising the Chattisgarh Government for making such allegations, the Bench said "It is a matter of regret that on behalf of the State such allegations against the Union of India have been made without any basis. We strongly deprecate such unfounded averments which have been made by an officer of the State".

On the State's contention that it was not consulted in the disinvestment process, it said "it is not possible to believe that during the entire process, the State Government was oblivious of what was happening. Wide publicity was given at various stages in connection with the disinvestment of the BALCO, which took place over a period of two years".

"The issue was debated by members in the Lok Sabha. There was nothing to prevent the State at any stage prior to the selection of the strategic partner, either to forward its views or a representation or even to make an offer of buying 51 per cent of the shares which were being sold."

The Bench said the land was validly given to the BALCO a number of years ago and today the Chattisgarh Government could not make a somersault and challenge the correctness of its own action. Furthermore, even with the change in management the land remained with the BALCO to whom it had been validly "given on lease".

Referring to the price fixed by the Government for the sale of 51 per cent shares to Sterlite Industries, it noted that the offer of the highest bidder had been accepted. This was more than the reserve price which was arrived at by a method which was well recognised and "therefore, we have not examined the details in the matter of arriving at the valuation figure". The Bench emphasised that "valuation is a question of fact and the court will not interfere in matters of valuation unless the methodology adopted is arbitrary". Every matter of public interest or curiosity could not be the subject matter of a PIL.

"In a democracy it is the prerogative of each elected Government to follow its own policy. Often a change in Government may result in the shift in focus or change in economic policies. Any such change may result in adversely affecting some vested interests. Unless any illegality is committed in the execution of the policy or the same is contrary to law or mala fide, a decision bringing about change cannot per se be interfered with by the court," it said.

Shourie, Jogi reactions: Page 11

11 DEC 2001

The Enron saga

By C. Rammanohar Reddy

The market did not punish Enron, the company killed itself with its financial practices.

ENRON WILL occupy a unique place in the chronicle of business collapses in the 21st century, no matter that this is the first gigantic failure of the century. Enron was not felled by competition in the market. It was not driven to bankruptcy by changes in consumer tastes. And it was not left behind by technology. The seventh largest company in the U.S., which last year recorded profits of over Sone billion and sales of over $100 billion, was destroyed by its own financial sophistication which had powered its rapid growth in the 1990s. In all the hype that surrounded Enron's sky-rocketing fortunes in the previous decade, few ever made sense of the array of financial instruments the firm had pioneered and deployed in everything from trade in energy to broadband products. So when the web of "creative accounting" practices began to unravel with Enron revising its profits downwards by $600 million and when the company's equity was written down by $1.2 billion because of off-balance-sheet transactions, it was only a matter of time before investors, creditors, customers and suppliers decided that this was a company to be abandoned like the plague. The market did not punish Enron, the company killed itself with its financial practices.

Enron was an "old" economy company which transformed itself from production of natural gas to a conglomerate that had its feet in both the "old" and "new" economies. Some analysts interpret the excesses of Enron as the most visible symbol of the dotcom era. This may be so, but this provides only half an understanding of how Enron grew so fast and why it collapsed even faster. The rise and fall of Enron is not, to use the words of the economist Joseph Schumpeter, the story of the "gale of creative destruction" of capitalism. It is instead the story of the ugly face of late 20th century capitalism, in which political lobbying, conflict of interest, unstated corruption, opaque business practices, entrepreneurial arrogance and media hype together increased Enron's revenues 15-fold in 15 years. It is also the story in which no participant comes out with its head high — not the senior executives of Enron, not the creditors, not the Wall Street analysts, not the credit rating agencies, not the media and certainly not the high-profile auditors.

Enron owes its temporary glory first and foremost to Mr. Kenneth Lay, the current chairman, who has tirelessly courted and acquired influence with both Mr. George Bush Sr. and Mr. George Bush Jr. The result of high-profile lobbying was that changes were made in the 1980s and the 1990s to U.S. Government policy in energy production, distribution and markets, in tax policy, broadband, environment and more. Former Cabinet officials were given positions as advisers in Enron. Government officials who altered the rules were rewarded with sinecures in the company. Enron was not a pioneer in a competitive market, as it was hailed when the going was good. It just got ahead of the others by rewriting the rules to suit its interests — in all this it behaved much like how some Indian conglomerates have gone about building their empires. The difference is that in the endgame the heat was too much for Enron's friends in the highest of places to come once more to the rescue. In India, on the other hand, the endgame too would have seen a brazen attempt to rescue influential businesses from potential disaster. That is the only difference.

MACROSCOPE

In its heyday, Enron had on its rolls legions of highly paid Ph.Ds in physics and mathematics. Their job was not to do frontier research in the sciences. It was to build highly sophisticated models that provided the basis for complex financial deals, first in energy trade and then in a variety of fields including the media — all of which delivered huge profits. No one fully understood how these deals worked. And no one really wanted to ask, as long as Enron's share prices kept climbing.

The auditors, Arthur Andersen, were either not up to their job of looking closely at these financial deals or had other interests. A former chief accountant of the Securities and Exchange Commission is reported as describing Enron as "a textbook case of a disaster". The auditors did have a problem — if they asked too many questions they could lose non-auditing business from Enron. Arthur Andersen chose wisely, even if it now faces the prospect of civil suits and criminal investigation. Its total business from Enron is reported at $52 million, while non-auditing business from the company was more than half ($27 million) this amount.

Such conflict of interests affected everyone who was caught up in the Enron frenzy of the late 1990s. First, banks could not decide if they were commercial or investment banks. Giants such as the Citi group and J.P. Morgan put in over a billion dollars for the failed deal with Dynegy, though their banking instincts should have warned them otherwise. Second, the Wall Street analysts too did not cover themselves with glory, enamoured as they were with the way in which Enron's share price climbed over the past six years.

Those were the years of stock market euphoria and few dared to ask if Enron's success was real. The fascination for Enron ran so deep that leading analysts continued to advise their clients to buy the company's equity long into the steady decline of the company's share price. (*Business Week* now reports that on one rare occasion when an analyst asked for more details the response he got was an expletive from no less than the then Chief Executive Officer, Mr. Jeffrey K. Skilling.) And, third, the credit rating agencies emerged with their already meagre reputation further besmirched after they decided to reduce Enron's credit rating below investment grade only after the proposed Enron-Dynegy deal fell through. The steady stream of bizarre details of how Enron functioned may give the impression that this was a unique case. But perhaps it is not a rare incident. Arthur Andersen, for example, has had to pay $110 million to settle suits from shareholders of another company, Sunbeam, that it is alleged to have wrongly audited. And there have been shareholders of other large companies — Xerox, Lucent Technologies and Sunbeam — who have had similar experiences with the companies' auditors.

Perhaps the biggest victims of the Enron debacle are its employees. Thousands have not only lost their jobs; they and thousands more of their former colleagues have lost all their retirement benefits. As the U.S. economist, Paul Krugman, has recently pointed out, in a mistaken process of deregulation, U.S. companies have increasingly stopped taking responsibility for providing employee pensions. They instead persuade employees to put their contributions for retirement into funds that invest in company stock, especially in their own company's stock.

In Enron's case this went one step further. Employees were not allowed to sell these shares. The result is that Enron employees have seen their retirement benefits disappear along with the company's share prices. There is perhaps a lesson here for India where enthusiastic reformers of the provident fund system have been pushing for employee funds to be placed in schemes which will deploy a significant amount in equity. Nothing could be more dangerous than such a proposal.

The year began with the California electricity crisis, where Enron was accused of profit gouging in a carelessly deregulated market. It ends with the same Enron standing in queue in a bankruptcy court. The most apt comment on the Enron saga is one that pointed to Enron, the apparent success story of deregulation finally becoming a clear lesson for more regulation of the market.

THE HINDU

- 8 DEC 2001

India facing serious fiscal crisis, admits Sinha

Our Economy Bureau
NEW DELHI, 2 DECEMBER

Finance minister Yashwant Sinha today admitted India was facing a "serious fiscal crisis" and said enormous resources were spent on subsidies which actually should be directed to producing public goods.

"The fiscal crisis is harmful to the extent it is crowding out our capability to spend public resources and improve governance," Sinha said in his keynote address at the inaugural session of the CII-organised India Economic Summit.

The tax-GDP ratio was still far below the level required to produce public goods on an acceptable scale, Sinha said. "Trade reforms will generate slow or negative growth in customs tariff, which will have to be largely made up by direct taxes," he said. The goal should be to improve direct taxes and bring it to about 10 per cent of the GDP in the next few years compared to 3.4 per cent now.

Outlining his priorities, the finance minister said the liberalisation process has had less impact on the agriculture sector. He pointed out there were numerous impediments to price flexibility and movement of goods and also that the market for agricultural land was highly dysfunctional. "We have yet to build modern market institutions which can support a market-oriented agricultural sector," Sinha said, adding it was time modern spot and futures markets for agri-products came about.

Asserting that the economy will perform "significantly better" in remaining half of this fiscal, Sinha said that implementation of the last budget's proposals had "not faltered" as perceived in some quarters and reforms would be pushed forward in the coming months. Elaborating on the success stories in the liberalisation of the telecom and equity markets, he said: "We have proven successes in executing radical reforms, and we will continue to march ahead."

3 DEC 2001

Enron crisis may hit Dabhol sale

AGENCIES

PUNE/MUMBAI, Dec. 1. — The future of Enron's Dabhol Power Company will be "definitely" affected, if its parent company files for a bankruptcy suit in the USA, the Maharashtra State Electricity Board chairman, Mr Vinay Bansal, said today.

His comments come at time when the international rating agency, Standard & Poor's, late on Friday again cut its ratings for the beleaguered energy trader Enron Corp for the second time this week, and warned that Enron is "likely" to file for bankruptcy protection soon.

"If Enron files for bankruptcy under Chapter 11, then it is bound to have repercussions on DPC here", Mr Bansal told reporters after addressing a function here of Encon 2001, an exhibition and National Conference on Energy Conservation.

However, he also said DPC would not be "bankrupt" like its parent company, as its finances were already pledged to the company's financial institutions.

Mr Bansal also expressed confidence that MSEB would recover its dues up to Rs 1,200 crore from DPC for the troubled energy major's "material misrepresentation of the capacity of its power plant".

Meanwhile, S&P's cut Houston-based Enron's long-term corporate credit and senior unsecured debt ratings four notches to "CC," its second lowest grade other than default, from "B-minus." It warned it may cut those and other ratings again.

S&P's said that following the breakup on Wednesday of Enron's planned merger with Dynegy Inc., "burdensome debt restructuring requirements, negligible liquidity and limited access to capital will be the likely cause for Enron to seek bankruptcy protection."

Since mid-October, about $35 billion of market value has vanished from Enron's shares and bonds. The shares closed Friday on the New York Stock Exchange at 26 cents, down 10 cents.

Enron directors: Directors of Enron Corporation, already under fire for failing to identify and correct problems that brought the energy trading giant to the brink of collapse, had lucrative side deals with the company that drew added criticism from corporate governance experts yesterday. The deals ranged from consulting jobs to purchases of goods and services from affiliated companies. They raised doubts about the board's independence from the senior managers they were supposed to supervise on behalf of the stockholders, the experts said.

BSES to evaluate impact: BSES Ltd chairman and managing director, Mr R V Shahi, today said the company was evaluating the legal impact of Enron's downfall in USA for their proposed buyout of the latter's Dabhol Power Company in India.

ENRON BANKRUPTCY: WHAT IT IMPLIES

- Sale of the Dabhol power plant may become more complicated.
- Legal battle appears imminent between Enron and Dynegy over the latter deciding to take on Enron's Northern Natural Gas Pipeline in USA.
- It will be a lengthy and contentious battle over Enron's assets, feels the international rating agency, Fitch.
- As a sign of times, 1,100 workers, more than 80 per cent of those it directly employs in Britain, were axed yesterday by Enron.
- Enron shares nosedived further yesterday as it tottered toward imminent bankruptcy.

THE STATESMAN

- 2 DEC 2001

The Prime Minister, Mr. A.B. Vajpayee, with the BJP president, Mr. Jana Krishnamurthi, and the former party president, Mr. Kushabhau Thakre, on his arrival at the national executive meeting in New Delhi on Friday. — PTI

HD-11

Sinha faces flak on UTI, economic slowdown

By Neena Vyas

NEW DELHI, JULY 27. The Unit Trust of India fiasco and the slowdown in the economy, which has translated into disaster for small-scale industries, loss of jobs and crashing prices of agricultural commodities, was the focus of discussions on the economic resolution — to be finalised tomorrow — by the Bharatiya Janata Party national executive committee meeting here.

The Finance Minister, Mr. Yashwant Sinha, who was present during the discussions, was on the defensive. His plea was that a major debacle had indeed taken place, but he would announce corrective steps in Parliament. He is reported to have said that by the beginning of next year, UTI would be back on track even as he asserted ignorance of the goings on in the biggest Government-controlled mutual fund.

However, several executive committee members made it known that the UTI scandal had given the party a "major jolt" and that 20 million investors would ask the party for answers it did not have. Others wanted to know why the recommendations of the Deepak Parekh committee — which submitted a report after the problems in UTI in 1998 — had not been implemented and why the Government was not more vigilant, especially after the Rs. 3,000-crore bailout package then.

The attack on the economic policies set off speculation in the party that Mr. Sinha might be on his way out. However, senior party leaders hinted that even if that happened, it would not be done "under pressure". A Cabinet re-shuffle may indeed see Mr. Sinha out or with some other portfolio.

The draft resolution almost directly criticised investments made by UTI through private placements — perhaps a reference to the buying of equity in the controversial Johari brothers venture, Cyberspace Infosys — saying there should be rules to prevent such risky purchases. Three days ago, the Prime Minister's Office had distanced itself from the Cyberspace promoters since the Prime Minister was present during the launch of their company in Lucknow.

Naturally, the party wants the UTI probe to go back 10 years as it would help it if the United Front and the Congress governments were also found negligent. During the discussion, members said they wanted "accountability" and "fixing of responsibility" for the lapses, and a probe into the UTI-private sector relationship. The heated discussion, in which more than 20 members participated and which ran into several hours, resulted in several amendments, to be incorporated in the resolution.

It was not only the UTI tangle but also the economic slowdown that set the alarm bells ringing. The party's small- scale industry constituency has virtually vanished and its pro- farmer image has taken a beating despite handsome packages to the farmers of Punjab, Haryana and Andhra Pradesh.

The party demanded new laws to allow free movement of foodgrains and changes in the Essential Commodities Act to deal with the new "problem of plenty".

THE HINDU

28 JUL 2001

CCD meet to discuss divestment modalities

STATESMAN NEWS SERVICE

NEW DELHI, Oct. 21. — The Cabinet Committee on Disinvestment (CCD) will meet tomorrow to finalise the shareholders and share-purchase agreements for HZL, ITDC and Hotel Corporation (HCI), thereby hastening the privatisation process which received a boost after the sale of CMC and HTL.

"CCD meeting, scheduled for Tuesday, is expected to finalise various agreements for Hindustan Zinc, some hotels of ITDC and HCI," official sources said, adding that the government will invite financial bids for these companies by November-end, after the cabinet clears the agreements.

The meeting will also review the progress of other fast-track companies slated for privatisation this fiscal.

Government has draw up a list of 13 companies, which have been put on the fast-track scheme to enable their early disinvestment. The list includes Jessop, IBP, Air-India and Maruti.

As many as six bidders are in the fray for a minority 26 per cent stake in HZL, including domestic majors Birla Copper and Sterlite Industries.

Indian Hotels and Bharat Hotels are some of the big names in the fray for ITDC and HCI.

The government has put nearly a dozen ITDC hotels on the block, including big ones such as Ashok Hotel in Delhi, Mysore and Bangalore.

In the case of HCI, a subsidiary of Air-India, the government has put all five hotels of the Corporation, along with two flight kitchenettes, on the block. It proposes to sell the units either as a whole or individually to bidders. The government has, however, decided to allow Air-India to retain the proceeds of sale.

THE STATESMAN

22 OCT 2001

Fiscal situation under strain: Sinha

By Our Special Correspondent

NEW DELHI, OCT. 16. The fiscal deficit for this year will not be far from the budget target of 4.7 per cent, the Finance Minister, Mr. Yashwant Sinha, said today, even while conceding that the fiscal situation was "under strain," following the tense global environment after the September 11 terrorist attacks on the U.S.

Though Mr. Sinha, inaugurating the annual Economic Editors Conference, organised by the Press Information Bureau, did not share the "alarmist projections" about the fiscal deficit going awry, he did point out that several sectors would be adversely affected by the post-attack situation and the conflict in Afghanistan.

Other areas which could possibly be affected by the "international instability or sense of uncertainty" included tourism, civil aviation, exports and the oil sector, where a watch was being kept for world price fluctuations.

Mr. Sinha stressed that "reforms are not on hold." Second generation reforms like labour market reforms were the most difficult to implement but a legislation in this direction would be introduced in the winter session of Parliament.

On reforms in the financial sector, he said a law was being considered to give more teeth to the banks to realise non-performing assets (NPAs) and bring defaulters to book without having to go through the legislative route.

An advisory group was being set up to give suggestions on areas which required legislations and those where reforms could be effected without amendments.

The group would include the chairman of the Telecom Regulatory Authority of India (TRAI), Mr. M. S. Verma, Mr. Deepak Parekh of the HDFC, Mr. K. V. Kamath of the ICICI, Mr. Ravi Narayan of the National Stock Exchange, Mr. Ravi Mohan of Crisil, Mr. C. Bhave of the NSDL, Dr. Omkar Goswami of the CII and the Finance Ministry's Economic Advisor, Dr. Rakesh Mohan.

On the changing role of development financial institutions (DFIs), he said the "hands-off" policy was now becoming "hands-on." A decision would be taken soon on the proposal for universal banking.

Denying any repayment problems for the Industrial Development Bank of India, he said the problems being faced by the IFCI were being addressed.

U.S. attacks spell trouble for India's markets

By O.P. Thomas
Times News Network

MUMBAI: Currency, debt and stock markets are likely to fall on Wednesday following the multiple terrorist attacks in the United States on Tuesday. The secondary market in government bonds crashed late Tuesday evening on reports that multiple explosions and plane crashes had extensively damaged the twin towers of the World Trade Centre in New York and the Pentagon in Washington D.C. The late evening trades were largely transacted by foreign-owned banks.

"Stop-losses have been triggered by foreign banks pushing down prices sharply by 50 paise at the longer end," said a chief dealer at a privately-owned bank.

Most market players expect a similar situation when the stock markets open on Wednesday. However, they said the sentiment would largely depend upon who would claim responsibility for the U.S. explosions. "If the alleged bombings are from any of the oil-producing states, then we are in big trouble," said Parthasarathi Mukherjee, senior vice president at UTI Bank's treasury.

Market analysts said they feared a retaliation by the U.S. "The U.S. will hit back on whosoever claims responsibility or whosoever it may think is responsible," said a city-based American banker.

Already, international crude oil prices witnessed a $4 spurt to $31 a barrel late on Tuesday. This will have an adverse impact on the rupee as oil imports will be a concern, said an official from a government-oil company. However, if the attack on the U.S. are by non-oil producing states, the impact will not be much on Indian markets, said an analyst.

MARKETS REACT

- **Sensex:** May touch year's low of 3,096 points
- **Rupee:** RBI may intervene to slow slide against $
- **Bonds:** Interest rates could rise
- **Oil:** Up $4 per barrel, likely to rise further
- **Gold:** Soars 7 per cent, hits three-and-a-half month high

Meanwhile, the rupee depreciated on Tuesday sharply to Rs 47.42 at the close of trading after touching an intra-day high of Rs 47.48. But the swings were largely market-determined by dollar purchases by foreign funds and not as a result of the U.S. airplane explosions as the Indian market was closed when the mishap occurred, dealers said.

However, the impact on the rupee will be felt on Wednesday and most expect the rupee to open sharply lower from Tuesday's close. Treasury heads of various banks are expecting some intervention by the Reserve Bank of India to help the rupee stabilise.

But dealers said the downward pressure on the rupee had increased suddenly with the crude prices appreciating. The equity markets too are expected to open sharply lower from Tuesday's level. The BSE registered a 33-point drop, closing at the level of 3,150 points. Dealers said that there was a possibility that the Sensex could test the year's low of 3,096 points. "There will be a knee-jerk reaction to Tuesday's incidents in the U.S.," said Arun Tejriwal of KRIS.

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THE TIMES OF INDIA
12 SEP 2001

Need to revamp economy: panel

11\9

STATESMAN NEWS SERVICE

NEW DELHI, Sept. 10. – At the end of a week of brainstorming on the economic slowdown, the Prime Minister's meeting today with his reconstituted Economic Advisory Council accepted the need to overhaul the systemic malaise that afflicts the economy while avoiding "unnecessary pessimism and panic".

A couple of days after Mr Atal Behari Vajpayee's decision to pump-prime the economy through a massive public investment programme to reverse the economic slowdown, the EAC sought to shift the focus to private investment and called for a check on government investment in order to keep the burgeoning fiscal deficit under control.

At a meeting with his Trade and Industry Council on Friday, Mr Vajpayee had announced a 14-point programme to infuse vast sums to kickstart growth rates, saying that the "crisis can be ended only by dramatically stepping up public investment and enabling private investments to ride on the back of higher public investment."

After today's meeting of the EAC, the finance minister, Mr Yashwant Sinha, said there was a consensus that the Central and state governments "should not allow the fiscal deficit to go out of control and therefore fresh government expenditure should be seen and judged in this light," implying that the government should spend only on productive and growth-oriented projects.

The consensus among the economists on the Council was to have public investment to "stimulate growth without increasing the fiscal deficit." In essence, the EAC sought to make private investment the main vehicle for bringing about an upturn in economic activity, saying that the lack of implementation of reforms was holding it back.

In his opening remarks, Mr Vajpayee admitted that the current economic slowdown was of a "grave nature" and asked the economists to suggest short-and-long-term solutions to several specific questions.

The strong macro economic indicators such as foreign exchange reserves and buffer foodgrains stock "cannot hide the deeper systemic maladies in the Indian economy. Nor should they cause complacency over the grave nature of the current economic slowdown," he said.

The meeting with the EAC (which comprises some of the country's leading economists, including Dr IG Patel, Dr Amaresh Bagchi and Dr Kirit Parekh, among others), held after a gap of seven months, lasted nearly four hours.

The special invitees to the meeting included the commerce and industry minister, Mr Murasoli Maran, the power minister, Mr Suresh Prabhu, the law minister, Mr Arun Jaitley, the disinvestment minister, Mr Arun Shourie, and the highways minister, Maj Gen (retd) BC Khanduri, besides the Planning Commission deputy chairman, Mr KC Pant. The RBI Governor, Dr Bimal Jalan, was also present.

'RSS WON'T STOP CRITICISING GOVT'

STATESMAN NEWS SERVICE

NEW DELHI, Sept. 10. – Mr Atal Behari Vajpayee's statement that the Sangh Parivar's criticism had caused harm to the government failed to have any impact on the RSS. It said today that it would speak out its mind irrespective of the consequences. The BJP refused to comment on this saying that it was self-explanatory.

The RSS indicated that it would not tone down its criticism of the NDA coalition for the sake of the government's survival.

It denied that the Sangh Parivar was acting like an opposition to the government.

"We are not going to bind ourselves by the constraints and compulsions of coalition politics," the RSS spokesperson, Mr MG Vaidya, told reporters. The RSS would express its views on all important issues unequivocally. This was despite the fact that the RSS understood the NDA's compulsions.

Mr Vaidya also said issues such as the construction of the Ram temple in Ayodhya, scrapping of Article 370 in Jammu and Kashmir, swadeshi and protection to cow were dear to the RSS and it would never compromise on these.

In reply to a query on the RSS's probable role in the Uttar Pradesh Assembly elections, he said the organisation wouldn't send a directive to its cadre to work for any candidate. However, there would be no objection if an individual politician persuaded the local RSS units to work for him, he added.

The RSS spokesperson completely distanced himself from Mr Vajpayee's reported statement that most of the criticism against the government came from the Sangh Parivar. The RSS had never come out with any statement against the government, he said. If the RSS's affiliated organs like the Bharatiya Mazdoor Sangh or the Swadeshi Jagran Manch said something they were free to do so, he added.

The Parivar was not like a family where one man would send a direction and everyone would follow. All the affiliated wings are independent like the BJP to take decisions on their own, Mr Vaidya said.

CII PREDICTS GRIM FUTURE FOR ECONOMY

Growth pegged at 5.25 p.c.

By Sushma Ramachandran

NEW DELHI, SEPT. 9. In a mid-year review of the economy, the Confederation of Indian Industry (CII) has projected a 5.25 per cent growth for the current fiscal. This is even lower than the revised 5.6 per cent forecast made by the National Council of Applied Economic Research.

The forecast is made on the assumption that industrial growth will remain around the three-per cent mark during the year with services estimated at 6.5 per cent and agricultural output at a "healthy" 5 per cent. In addition, with half the year nearly over and few reforms having taken place, there is little scope for a pick-up during the rest of the year, the CII notes.

Even if agriculture performs well, its effect on industry through a demand pull is lagged by four to six months. "Therefore, we don't expect a good monsoon-driven growth in the secondary sector till the winter harvest, after January 2002."

The CII also says the forecast can be proved "delightfully wrong" if the Government refocuses itself and puts all its energy in pushing and implementing reforms.

Outlining the scenario, it describes the outlook for foreign investment as "grim" during 2001-2. The data for April and May adds up to $449 billion indicating that India may not get more than $2.7 billion to $3 billion as FDI.

During 2000-1, it managed to attract FDI worth just $2.3 billion with even Vietnam expected to attract more. As for foreign institutional investors (FIIs), the net inflows accounted for $2.16 billion in 2000-1 while inflows during April-May this year were $922 million.

This could increase in a big way, the CII says, if the Government relaxes the 49 per cent cap on foreign portfolio investment and frees it up altogether.

On the fiscal outlook, the "State of the Economy", says the combined fiscal deficit of the Centre and States is rapidly spinning out of control. The Centre's deficit for 2000-1 overshot the target, and will probably be around 5.2 to 5.3 per cent of the GDP the while the States' deficits aggregate five per cent.

Other "off balance sheet" items such as the oil pool deficit, losses of State Electricity Boards and public sector losses borne by banks and institutions lift the total deficit to over 11 per cent of the GDP.

High forex reserves

On the plus side, there has been a steady growth of foreign currency reserves, which stood at $44.1 billion as on August 10. Regarding interest rates, the CII does not expect any hardening in the near future, and in fact expects them to gradually move southwards. India's real interest rates are among the highest in the world, one of the reasons being that inflation has consistently been under the six per cent mark.

On the need to revive the stock markets, the CII recommends that instead of re-introducing badla in its old form, the Government must quickly design a safe system for financing margin trading which should not have the negative features of badla.

The Government should recognise that the ban on badla and deferral systems, such as the automated lending and borrowing mechanism at the National Stock Exchange and the borrowing and lending securities scheme at the Bombay Stock Exchange, have led to a liquidity crisis and a huge fall in trading volumes.

THE HINDU

10 SEP 2001

'India will not oppose new round of trade talks'

Times News Network

NEW DELHI: With ten weeks to go for the Doha meeting of the WTO trade ministers, India has indicated that it will not oppose the launch of a new round of trade talks if the agenda is to its liking.

"Talking about a round before deciding on the agenda is akin to putting the cart before the horse," commerce minister Murasoli Maran told the informal meeting of trade ministers from 17 countries held recently in Mexico City ahead of Doha.

"Clearly, the primary issue is not really as to whether there will be a round or not, but the issue really relates to what is the agenda which is acceptable to all the members," he said, according to an official release issued on Wednesday after the minister's return to the Capital.

India, Maran said, wants the Doha conference to take decisions on "implementation concerns" stemming from the previous Uruguay round of trade talks: make an assessment of the progress in ongoing negotiations in areas such as agriculture, services and trade related intellectual property rights (TRIPs); and give policy direction on these negotiations.

In so far as any new issues are concerned, nothing should be included in the negotiating agenda of the WTO unless there is an "explicit" consensus among the member- countries and the implementation concerns arising out of the non-fulfilment of the promises made in the last round are addressed upfront before Doha.

Maran also articulated India's position in a number of key areas including on investment, trade facilitation, environment and government procurement, making it clear that India did not favour future WTO negotiations in these areas.

With regard to the ongoing negotiations for liberalisation of world trade in agriculture, Maran said India had two objectives: removal of subsidies being doled out by major farm goods exporting countries and retaining developing countries policy flexibility for supporting agricultural development.

THE TIMES OF INDIA

- 6 SEP 2001

NEW ATTEMPT TO KICK-START ECONOMY

Cabinet panel on economic strategy to be set up

By Alok Mukherjee & P.K. Bhardwaj

NEW DELHI, SEPT. 4. Soon after sending a strong signal through the Cabinet reshuffle exercise that economic reforms were the top priority of the NDA Government, the Prime Minister, Mr. Atal Behari Vajpayee, today decided to set up a Cabinet Committee on Economic Strategy with the idea of providing stimulus to the economy which is witnessing a slowdown. It was also decided to set up a Group of Ministers to work out reforms in labour laws.

These were among the major decisions which emerged after a marathon meeting the Prime Minister had today with his Ministerial colleagues heading economic Ministries to find out ways to kick-start the economy. The Union Home Minister, Mr L.K. Advani, was however a special invitee and from among the officials, the Reserve Bank Governor, Dr. Bimal Jalan, was present. But the Union Ministers, Mr. Ram Vilas Paswan and Mr. Sharad Yadav, were not associated with this meeting.

The inputs for the Cabinet Committee on Economic Strategy would be provided by the Cabinet Secretary who will hold extensive consultations with individual Ministries to accelerate implementation of identified projects of various Ministries. This would be followed by the Finance Ministry and the Planning Commission taking steps for seeking approval of the expenditure involved in these projects.

The Cabinet Secretary has also been asked to hold discussions with the identified Ministries which figure in the reports of the Expenditure Reforms Commission so that the issue of downsizing of Government staff is settled once and for all. The Prime Minister will follow up the matter with individual Ministers subsequently, for a final decision.

Briefing presspersons after the meeting, the Finance Minister, Mr. Yashwant Sinha, said the focus of the meeting was to kick-start the economy with an envisaged spending of Rs. 75,000 crores. The focus of the spending would be the rural economy and the infrastructure sectors, he added. More such meetings had been planned in the future, Mr. Sinha said.

See also Page 13

ECONOMIC STOCK-TAKING

IT IS NOT at all surprising that the Reserve Bank of India should be decidedly pessimistic on the near-term macro-economic outlook even as it remains guarded over the medium term. In its recently-released annual report, which is essentially an economic stock-taking exercise, the central bank has revised the prospects for economic growth downwards for the second half of the year 2001-2002. In its monetary and credit policy statement of April, the RBI had projected a growth rate of 6 to 6.5 per cent. That was based on the assumptions of a satisfactory monsoon and the possibility of an industrial recovery during the second half of the year. While the monsoon has not disappointed, the industrial recovery is elusive. All the usual indicators of industrial activity and business confidence suggest only a modest revival later in the year. One key indicator of industrial activity closely monitored by the RBI, the credit offtake, says it all. The latest figures show that non-food credit has so far grown by an historically low Rs. 1,715 crores or 0.4 per cent, well below the 3.5 per cent growth recorded during the same time last year.

A sharp reversal in the current industrial trends is necessary for the economy to achieve a growth rate of 6 per cent and above. What clouds the domestic outlook further is that there is a perceptible slowdown worldwide and India's linkages with the developed economies are growing stronger by the day. The RBI expects the U.S. economy to show signs of recovery only from the beginning of the calendar year 2002.

Striking a positive note, however, the RBI feels that the impact of the U.S. slowdown on India's merchandise and software exports will be moderate while foreign direct investment flows will remain largely unaffected. Domestic inflation levels are comfortable even though a continuous vigilance on the price front is necessary. On the external economy, the management of which has been a bright spot, the RBI cites several key indicators to justify its confidence. External reserves have exceeded $ 44 billions reflecting the improvement in merchandise trade account as well as the stability of the net capital flows. The current account deficit is expected to be well below 2 per cent even if oil imports go up substantially in the wake of an industrial recovery. Foreign direct investment inflows at $608 millions have been marginally lower than last year while foreign institutional investors have pumped in more on a comparable basis. Even with all those positives it remains to be seen whether the RBI is being overly optimistic. As the recent rating downgrades indicate, outside perceptions of the economy can change for the worse rather abruptly.

On the two crucial areas of interest rates and fiscal consolidation the RBI has not departed from its well-laid-out stance. There is a reiteration of its bias in favour of lower interest rates, although a lasting impact can be had only through financial sector reform. Surprisingly, the RBI has made only a cursory reference to the current raging problems afflicting the publicly owned financial institutions. Fiscal adjustments, according to the central bank, ought not to be merely through expenditure reduction but through a conscious strategy of revenue maximisation involving both tax and non-tax collections. Even in its prescription for growth, the central bank has not said anything new. It calls for increased investment in agriculture and infrastructure and for a far greater thrust by the public sector enterprises. The last point arises out of the realisation that the present slowdown is directly attributable to the private sector's inability to step up investment in a situation where the public sector investment is decelerating. Neither the diagnoses nor the prescriptions might be original. But coming from the RBI, they will be heeded with all the seriousness they deserve.

THE HINDU

- 4 SEP 2001

14-point reform agenda unveiled at NDC conference

PM to convene all-party meet

STATESMAN NEWS SERVICE

NEW DELHI, Sept. 1. – India's top politicians might just have learnt their lesson. They should not mix up politics and governance. Mr Atal Behari Vajpayee had said political parties' opposition to reforms while in Opposition and support for the same reforms when in power, must end. Emboldened by the chief ministers' response to this, today he announced he would convene an all-party meeting soon to strengthen the consensus on economic reforms.

The Centre and states would together strive to achieve eight per cent growth in the Tenth plan, the Prime Minister said. He unveiled a 14-point reform agenda that would give the topmost priority to reversing the economic slowdown.

At the National Development Council meeting, Mr Vajpayee went "one step further". He said he wanted to hold two-day meetings with the chief ministers periodically. On the first day, they would listen to the experts, "persons who are leading India towards the future". The second day, "we would spend it together, without aides and without any formal agenda", Mr Vajpayee said. But there were no suggestions on what inspired the PM to have a meeting – probably in a resort in Nandi Hills in Karnataka – without an agenda and keeping the bureaucracy out.

■ Other reports on page 13

Incidentally, this was how Mr Vajpayee's meeting with General Pervez Musharraf had gone. One-on-one and without an agenda. The results, however, weren't as encouraging as Mr Vajpayee expects this time.

If one were to go by the Prime Minister's statement at the meeting, he expects a lot from the chief ministers. And he has promised to keep up to their expectations. Just as people have expectations from their respective governments. "The people expect us to act– expect me to act and they expect you (chief ministers) to act. They expect us to take such necessary decisions that will infuse confidence and impart a new momentum to the economy," he said. Many of these decisions will be difficult as there's "no quick solution" to the

■ See PM: page 10

THE STATESMAN

2 SEP

PM: *Focus on good governance*

(Continued from page 1)

economic problems. "We must... accept this challenge," Mr Vajpayee said. "We can't be complacent. Nor can we afford to make promises we know we cannot fulfil without taking correct decisions, be they for the moment unpopular."

"Our citizens will support us if we explain what the situation is and how our decisions, while sometimes causing temporary hardships, will ultimately benefit all," he said.

Weak finances of Centre and states, downsizing, power, labour and financial reforms would get urgent attention besides recovery of agricultural, industrial and services sectors, Mr Vajpayee said. The Tenth Plan would focus on "good governance" and the poor.

Going by the chief ministers' response at the meeting, political parties may now begin to see the benefits of exercising restraint. "We have clearly demonstrated that political differences should not, and will not, stand in the way of deciding what is right for achieving faster growth and all-round development," Mr Vajpayee appealed to the chief ministers in his concluding remarks.

"If you agree, I would like to urge that we adopt one rule of self-restraint: That none of us will block some other government from doing what he is himself doing in his own government. And that he will strive to ensure that his party will not block that government either".

HIGHLIGHTS

- Drastic pruning of unproductive and unnecessary expenditure.
- Downsizing Government
- Reduction in non-merit subsidies
- Reorienting Strategy to raise food production
- Reforming and rejuvenating power sector
- Labour reforms on priority basis
- Speeding up reforms in the financial sector
- Measures to increase FDI and FFI investment
- Elimination of harassment, corruption and red-tapism
- Removal of deficiencies in judicial system
- Long-term strategies to control drought and floods
- Need to redouble efforts to control population growth
- More devolution of powers to Panchayati Raj
- Need to give economic reforms a strong pro-poor focus

2 SEP 2...

NDC NOD FOR 10TH PLAN PAPER

PM plans Davos-type retreat with CMs

By Alok Mukherjee

NEW DELHI, SEPT. 1. The National Development Council today unanimously approved the draft approach paper to the Tenth Five Year Plan which envisages a eight per cent annual growth in the next five years. It was also decided that the Prime Minister and all the Chief Ministers would have a Davos-type informal retreat to mull over the future of economic reforms. The two-day conclave will be held sometime in late October atin the idyllic surroundings of Nandi Hills, Karnataka.

After the meeting, the Prime Minister, Mr. Atal Behari Vajpayee, proposed that a very significant provision of self-restraint be adopted. The formulation, as read out by Mr. Vajpayee, read: "None of us will block some other Government from doing what he is himself doing in his own Government. And that he will strive to ensure that his party will not block that Government either." This proposal was carried without any dissent from the Chief Ministers, who were present in good number. The Tamil Nadu Chief Minister, Ms. Jayalalithaa, was absent, and the Education Minister, Mr. M. Thambi Durai, represented the State.

The Prime Minister also made it clear that the informal conclave would have no formal agenda and that the two days would be spent, without aides, just to exchange views and devise solutions for the common problems. Separately, he committed himself to convening a meeting of leaders of all political parties to work out a consensus on reforms, and that the labour and power sector reforms would be on the agenda. However, the West Bengal Chief Minister, Mr. Buddhadeb Bhattacharjee, tried to put land reforms and continuation of the public distribution system as top priority items and only received an assurance from the Prime Minister that his point had been recorded.

Mr. Vajpayee took note of the point made by several States that the farmers required protection, particularly after the World Trade Organisation agreement. Some meetings in this regard had been held, he said and promised that protection for farmers would be worked out. He also stressed the need to ensure that the huge food stocks were used to provide nutrition. The demand for greater decentralisation of powers to and for greater devolution of financial and administrative powers to Panchayati Raj institutions was also incorporated in the final summing up.

While Mr. Vajpayee called for difficult decisions, both by the Centre and the States, the States wanted that there should be a sense of urgency to modify the Gadgil-Mukherjee formula governing the devolution of funds from the Centre.

Special category States, on the other hand, welcomed the increase in their ranks but wanted the total kitty for such States, currently 30 per cent of the devolutions, to be increased to 40 per cent.

Some other States demanded a moratorium on repayment of loans to the Centre and public financial institutions, at least for five years. Another demand was for a freeze on payment of dearness allowance while some States wanted the Centre to take the lead in downsizing Government staff.

Tamil Nadu made a special mention, calling for the intervention of the Prime Minister to ensure early release of Cauvery waters by Karnataka as otherwise the crop would wither away and could lead to starvation deaths.

PM for economic revival: Page 8

PM's reforms agenda

NEW DELHI, SEPT. 1. The following are the highlights of the reforms agenda laid down by the Prime Minister at the NDC meeting here today..

- Drastic pruning of unproductive expenditure.
- Downsizing Government.
- Reduction in non-merit subsidies.
- Re-orienting strategy to raise food production.
- Reforming and rejuvenating the power sector.
- Labour reforms on priority basis.
- Speeding up reforms in the financial sector.
- Measures to increase FDI and FFI investment.
- Elimination of corruption and red-tapism.
- Removal of deficiencies in the judicial system.
- Long-term strategy to control drought, floods.
- Need to redouble efforts to control population.
- More devolution of powers to Panchayati Raj.
- Need to give reforms a pro-poor focus. — PTI

THE HINDU

2 SEP 2001

Let Enron cut equity value by 75 per cent: panel

9-Sep-12
19

By Mahesh Vijapurkar

MUMBAI, AUG. 31. Setting the target of Rs. 2.40 per KwHr as the tariff for power from Enron-sponsored Dabhol Power Company, the Madhav Godbole Renegotiation Committee has suggested that the value of the equity which Enron now wants to sell to exit from the project be pared down by 75 per cent. If Enron agrees to this cut, the committee argues in its interim report on the renegotiation today, that the project will become viable in the context of the lower required tariff of power.

Once the project is re-engineered on this line, the panel contends, then three-fourths of the equity should be picked up by the NTPC or any other buyers and the other quarter assigned to the Maharashtra State Electricity Board (MSEB). At that time, the MSEB's stake in the project would come down from the present 30 per cent to 25 per cent but to buy this, the Government of India would need to provision an interest-free long-term loan of Rs. 2,500 crores. Mr. Godbole's report was handed over today to the Chief Minister, Mr. Vilasrao Deshmukh.

Independent of this suggestion, it is learnt that the MSEB has been willing to have its current 30 per stake, which at face value is around Rs. 850 crores, confiscated by the Indian financial institutions which have exposures to the project to the extent of Rs. 5,500 crores plus guarantees to the lendings of foreign entities but the FIs, more keen on having a completed project to hawk to buyers, has not shown any interest in this offer. The IDBI-led domestic FIs have been asked to find a way out by the Centre.

The panel told the Maharashtra Government that the bid at re-working the deal with the DPC failed mainly because the Enron/DPC was willing to go down in the tariff only by 56 paise per unit on its current price which was abnormally high and unaffordable. This cut was valid only if the off-take was at 90 per cent of the total capacity of both phases while the MSEB can cope with only 30 per cent.

The panel's other suggestion is that the Gas Authority of India be asked to buy the $ 800 million LNG regasification unit — Enron is willing to hive it off, sources say — again to cut the impact of the capital costs on the price of the power sold by the DPC.

Anxious Indian FIs have shown willingness to what sources describe as "substantial cut in the interest rates" from the current 16.5 per cent per annum charged on the lendings to the DPC. The DPC itself has not been on record willing to accept such a possibility.

Today's report by the Godbole panel is more or less an extension of part one of the earlier report which had set the road map on renegotiations which it was itself asked to pursue by the Maharashtra Government. The earlier report has been described by Enron as "a non-starter" but the panel has relentlessly pushed its point of view. This report, if nothing else, is a kind of document which would continue to be a basis for any future negotiations between any entities.

THE HINDU

1 SEP 2001

Industrial slowdown worries RBI

Fw AP7 ...

HT Correspondent
Mumbai, August 28

THE NOT-SO-GOOD performance of the industrial sector continues to haunt the country's Central Bank which has projected a growth rate between 6 to 6.5 per cent for current fiscal.

The assumption was based on the likely favourable state of the monsoon and the possibility of industrial recovery in the second half of the year.

The real GDP growth was estimated at 5.2 per cent in 2000-01 against 6.4 in 1999-2000 and 6.6 in 1998-99.

In its annual report for 2000-01 released today, the RBI said that the industrial outlook continued to be uncertain and a cause for concern. "The realisation of the growth rate is dependent on a reversal in industrial trends during the post-monsoon period."

According to the RBI, more recent estimates of the performance of the monsoon and the area coverage under major crops indicate that foodgrain output could be around 209 million tonnes in 2001-02 against the projected 212 million tonnes.

"Leading indicators of industrial activity and business confidence suggest the prospects of a modest revival of the industrial sector only in the second half of the year" says RBI.

The report further adds: "A critical consideration would be the performance of the services sector." The growth in industrial production fell sharply to 2.1 per cent in the first three months (April-June) of 2001-02 from 6.1 per cent in the corresponding period of the previous year.

"This mirrored the slowdown in manufacturing and electricity generation. The capital goods production index recorded an absolute decline while basic and intermediate goods production indices decelerated. The slowdown spread to the consumer segment in which the growth rate of 4.3 per cent almost halved from that of 8.6 per cent in April-June 2000," the RBI report says.

The non-food credit growth too decelerated in the first quarter as industrial activity slowed down. The resources flow to the commercial sector at Rs 16, 263 crore during the first quarter of 2001-02 was much lower than that of Rs 38,031 crore in the corresponding period of 2000-01.

According to the RBI, the growth prospects for 2001-02 will depend to a certain extent on global developments and the bottoming out of the current slowdown in world output, trade and international capital flows.

"It is now expected that the recovery of the US economy might be visible only towards the beginning of 2002 with the turnaround starting possibly towards the close of 2001," it says.

The fiscal deficit of the Centre is budgeted at 4.7 per cent of GDP and over three-fourth of the Centre's net borrowing requirement has already been completed, states report.

Related reports on Page 12

THE HINDUSTAN TIMES

29 AUG 2001

'Basmati patent will not affect India's export'

By Our Special Correspondent

NEW DELHI, AUG. 23. The Government today reiterated that the decision of the United States Patent and Trademark Office (USPTO) to grant patent on Basmati rice lines and grain to an American firm (RiceTec) "would not have severe and adverse implications for India in regard to its Basmati rice trade/exports".

Making a statement in Parliament, the Minister of State for Commerce and Industry, Mr. Raman Singh, said the decision in fact "signaled a victory for India".

The grant of the said patent had not affected India's exports in general and to the U.S. in particular. He said a Basmati Development Fund was set up in December, 1995 and a Watch Agency effective November, 1996, was appointed to keep a worldwide watch for new trade mark applications for Basmati Rice or its deceptive variations.

The Watch Agency had identified a number of attempted registrations of which 15 had been successfully challenged and concluded in India's favour in the U.K., Australia, France, Spain, Chile, and UAE. The remaining cases of attempted registration were being pursued by the Agriculture and Processed Foods Export Development Agency (APEDA) in other countries.

Tracing the history of the USPTO's decision, Mr. Singh said a patent on basmati lines and grains was granted by USPTO to Messers RiceTec on September 2, 1997 on an application filed on July 8. The patent had 20 claims.

After the recent decision of the USPTO, 15 claims had already been set aside and the remaining five do not affect varieties of basmati produced in India and will not affect India's trade/exports. In fact even the title of the patent was "Basmati Ricelines and Grains" has not been changed to "Ricelines Bas 867 RT 1117 and RT 1121". The American company is, therefore, restricted to patent on these three Ricelines which it had developed, the Minister said. He said in fact the total export of basmati rice in 2000-01 are (to the tune of) Rs. 2141.94 crores as compared to Rs. 1780.34 crores in the previous year. Similarly exports to the U.S. had risen from Rs. 70.71 crores in 1999-2000 to Rs. 129.34 crores in 2000-01. This is a six-fold increase of export of basmati rice to the U.S. as compared to 1998-99.

Mr. Singh said when the patent was granted in 1997, the Government treated it as a matter of immediate concern and decided to file a petition in the USPTO to challenge claims that would have made India's exports of basmati to the U.S. difficult. This was done on April 27.

According to the Minister, in September 2000, Messrs. RiceTec surrendered four claims objectionable to India. The examiner of USPTO also issued a notice to RiceTec to re-examine all the remaining claims. Following this, 11 more claims have been removed by the recent decision of the USPTO on August 14.

Mr. Singh said the remaining 8,9,11,12 and 13 relate to three specific rice lines developed by RiceTec and were never specifically challenged by India since they did not constitute a threat."In conclusion, it is reiterated that the reports and fears expressed on this issue are unfounded and misplaced," he said.

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THE HINDU
24 AUG 2001

RBI seeks to give economy a boost, softens interest rates

Times News Network

MUMBAI: The Reserve Bank of India on Monday announced a series of monetary measures which signalled a further softening of interest rates, both for deposit as well as lending rates.

It cut the bank rate by 50 basis points to 6.5 per cent and reduced the cash reserve ratio—the cash that banks maintain as a percentage over their net demand and time deposits with the RBI—by 200 basis points to 5.5 per cent.

The bank rate cut at the revised level is the lowest since May 1973.

The RBI also increased the interest it pays to banks on CRR balances from six to 6.5 per cent.

"Banks' incomes on account of the hike in CRR interest rates will come up to Rs 1,000 crore," RBI governor Bimal Jalan said at a press conference shortly after announcing the six-month (September 2001-March 2002) mid-term review of monetary and credit policy to bankers.

"The CRR cut will infuse another Rs 8,000 crore into the banking system," Mr Jalan said. The cut would be introduced in two phases of 175 basis points, starting from November 23, and 25 basis points, effective from December 29, he said.

However, the RBI said, banks would now have to maintain the CRR on all liabilities, except inter-bank borrowings.

While the new bank rate will come into force from Tuesday, the revised interest applicable on CRR balances will become effective from the fortnight beginning November 3.

Despite the global uncertainties, the RBI has projected a five to six per cent growth rate for the year 2000-2001. The inflation outlook for the year is expected to be comfortable, with agricultural growth expected to be significantly higher than the previous year. The inflation rate, at 3.2 per cent, was much lower when compared to 7.4 per cent a year ago, Mr Jalan said.

On the recent reports of cooperative banks turning sick, Mr Jalan said the RBI was examining various options, including increasing the insurance cover of depositors from the present Rs 1 lakh limit.

BANKING ON REVISION

- **RBI cuts bank rates by 50 basis points to 6.5 per cent**
- **Revises CRR by 200 basis points to 5.5 per cent in two phases**
- **RBI ups interest rate on CRR balances to 6.5 per cent**
- **CRR measures will infuse Rs 9,000 crore in liquidity into banking**

▶ **Bankers' reactions on RBI's mid-term measures, Page 15**

UTI-Mumbai firm nexus under probe, says Sinha

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 21. – The Centre has ordered an independent inquiry into UTI's functioning during the past 10 years, with special emphasis on the alleged nexus between the mutual fund and a Mumbai-based industrial house, Mr Yashwant Sinha told the Lok Sabha today.

In the Rajya Sabha, Mr Kapil Sibal (Congress) moved a privilege notice against Mr Sinha.

The RBI deputy-governor, Mr SS Tarapore, will head the three-member inquiry committee. The former CBI chief, Mr RK Raghavan, too is on the panel, that will submit its report within three months.

Mr Sinha's announcement came in response to the former Prime Minister, Mr Chandra Shekhar's demand for a detailed inquiry into "the nexus between UTI and the Mumbai-based industrial house".

Mr Shekhar had threatened to release documents on this industrial house if the government failed to respond. "Wherever I go, people ask me why doesn't Parliament discuss this alleged nexus...". He said he had written to the Prime Minister expressing concern but had not received a reply.

He referred to a report in press that Mr Atal Behari Vajpayee had ordered a CBI probe against the business house on the basis of some complaints. "Well today if it's UTI, who knows tomorrow it could be IDBI, ICICI", he said.

Assuring "proper action", Mr Sinha said "the government wouldn't come under the pressure of any business house. The truth will come out".

Mr Vajpayee had asked Mr Sinha to announce the government's plan of action against the business house allegedly involved in the UTI scam, officials said.

In the recent Parliament debate on the UTI scam, the government had taken recourse to charges raised in **The Statesman** by a Swadeshi Jagaran Manch member, Mr S Gurumurthy, alleging that UTI's problems dated back to a "fraudulent investment"' in 1994, specifically a two-tranche investment of Rs 1,073 crore in the equity of Reliance Industries (*The Way The Crores Fly* – 30 July ,2001).

Mr Sinha had absolved himself of knowledge of the day-to-day functioning of UTI by saying that even the then finance minister, Dr Manmohan Singh, would not have been aware of UTI's decision to buy 2.75 crore shares of Reliance Industries Ltd. at the "average extortionate price of Rs 389 per share" in 1994.

The matter was raised during the Lok Sabha discussion by the BSP member, Mr Rashid Alvi, who alleged that the Ambanis, who own the Reliance group, had "manipulated" UTI shares in the run-up to the UTI crisis.

Reliance Industries spokesmen denied the charges, in a rejoinder also carried by this newspaper.

In the Rajya Sabha, Mr Kapil Sibal moved a privilege notice against Mr Sinha on the issue. The finance minister said Mr Sibal was "flogging a dead horse only to get media attention".

Mr Sibal said Mr Sinha had misled the Rajya Sabha by saying that the UTI had kept him in the dark on its investment decisions.

The UTI ex-chairman, Mr PS Subramaniam, had claimed in his bail application before a Mumbai court that the UTI had informed Mr Sinha of the trouble the mutual fund was facing.

Quoting a report from business daily and portions from a certified copy of Mr Subramaniam's bail application, Mr Sibal said the UTI ex-chief had submitted before the court that he had contacted Mr Sinha frequently.

The Rajya Sabha chairman, Mr Krishan Kant, said he would consider the notice and if admitted, move it to the Lok Sabha. There was commotion in the House as the Treasury Benches opposed Mr Sibal reading out from the text of the notice. Mr Sibal said he was reading out the text to state the reasons for his moving a privilege notice.

The Congress leader read out portions of Mr Subramaniam's application.

THE STATESMAN

22 AUG 2001

'Basmati patent not to harm Indian farmers'

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 21. – The Centre today said steps would be taken to protect the interests of farmers amid reports that an American firm had won the patent right for a "superior strain" Basmati rice. Mr Pramod Mahajan said the minister of commerce would give a statement on the issue in the House tomorrow.

It has been reported the Texas-based RiceTec Inc. had won the patent right case on a "superior strain" of Basmati rice in the United States Patent and Trademark Office (USPTO). It's feared that the development could have an adverse bearing on the export of Indian Basmati rice. The report also talks of the government appealing against the verdict.

Heated debate on the issue disrupted proceedings in both Houses of Parliament today. The Samajwadi Party members stalled the proceedings in the Lok Sabha over the government's inability to resist the Basmati patent to RiceTec. They trooped into the Well of the House and raised slogans against the government's "anti-farmers policy".

The Samajwadi leaders felt the issue would adversely

■ See BASMATI: page 8

THE STATESMAN

P. T. O.

BASMATI:

Continued from page 1)

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affect Indian farmers and charged the government with bungling the issue. The Speaker adjourned the House till 2 p.m.

Samajwadi Party members raised the issue immediately after the House resumed proceedings. They rushed into the well and raised slogans. The former Prime Minister, Mr Chandra Shekhar, said the Centre should respond soon. At this point, Mr Mahajan said he shared the feelings of the agitated members.

In the Rajya Sabha, the issue was raised during question hour as a supplementary to a main question on rice export to Bangladesh. Congress members demanded a statement from the government on the implications of the case. The chairman, Mr Krishan Kant, directed the minister of state for commerce to clarify the government's stand.

THE STATESMAN

H01
5/8

Public faith in UTI not eroded: Sinha

By Our Staff Correspondent

DEHRA DUN, AUG. 4. The Union Finance Minister, Mr. Yashwant Sinha, today called for transparency and greater understanding by Parliamentarians before getting carried away by emotional or political considerations. He was responding to a query on the reported demand for his resignation by the former Union Finance Minister, Dr. Manmohan Singh, who on the UTI muddle had said that "he (Sinha) had slept like the king of Rome while it burnt."

Mr. Sinha said that what was important was that public faith in UTI had not eroded. This was indicated by the absence of large-scale withdrawals by the public. "I will not resign. Perhaps Mr. Singh will recall that he too did not resign although his period as Finance Minister (1991-96) saw some of the biggest scams. Even now, I do not believe that Mr. Singh would cast such an aspersion. My Government has decided to retain me, and I will abide by the wishes of the Prime Minister," he said.

The JPC would go into all relevant aspects of the UTI imbroglio and the new UTI chief was efficient, he said. The others roped in to investigate the issue were all competent and known investigators, and he described the "shouting" attitude being adopted by certain Opposition groups as 'drama'.

Mr. Sinha, who was here to lay the foundation stones for various Income Tax Department offices, assured the Uttaranchal Chief Minister, Mr. Nityanand Swami, of collateral and multilateral assistance for all need-based projects — the power sector being one of them. Describing his task as a challenge, Mr. Sinha said the second stage of economic reforms needed to be debated and made acceptable to the public, before the relevant laws were modified.

Mr. Nityanand Swami thanked Mr. Sinha for accepting all his demands. " We will route our demands soon through the Planning Commission and hope to get the required funds immediately", he said.

Stocks scam JPC to probe issue

Govt off UTI hook as Opp relents

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 3. — The Centre was today let off the hook on the UTI issue, thanks to the Opposition's softening of stand on JPC probe.

At an all-party meeting convened by the Speaker, the Congress and CPI-M, two major Opposition parties in the Lok Sabha, didn't press for what they vociferously demanded in the House yesterday: a new JPC to probe the UTI affairs.

Instead, they agreed to Mr GMC Balayogi's advice to let the JPC on the stock market scam probe the UTI issue as well. There will be no amendment to JPC's terms of reference.

Interestingly, there is no specific mention of the UTI in the terms of reference which says: "To go into the irregularities and manipulations in all their ramifications, in all transactions, including insider trading, relating to shares and other financial instruments and the role of banks, brokers, promoters, stock exchanges, financial institutions, corporate entities and regulatory authorities".

Leaders of the NDA and Opposition met informally before the Speaker's meeting.

Mr Balayogi later told the Lok Sabha: "I had called a meeting of the leaders of various parties today to discuss the matters relating to UTI. The chairman of the JPC on stock market scam was also present. After hearing views of all parties and the JPC chairman's statement, all issues relating to UTI, including the issues discussed in the House, will be considered by the JPC."

This means the government will have a long respite because the UTI issue will not be raised in Parliament till the JPC completes its job.

But why did the Congress not press for a new JPC or at least an amendment to the present panel's terms of reference? The party didn't have a convincing answer. Its spokesman, Mr S Jaipal Reddy, said the JPC would probe all issues relating to the UTI that were raised by the Opposition in the Lok Sabha yesterday. And that would include charges levelled against the PMO.

The CPI-M too was shy of explaining why it didn't press for amending the terms of reference of the present JPC. Mr Somnath Chatterjee said it could be because the Opposition was not united.

Mr Chatterjee fumbled when asked if the CPI-M was considering resigning en masse

■ See UTI: page 8

MEHTA'S DENIAL

NEW DELHI, Aug. 3. — The Sebi chief, Mr DR Mehta, today said he didn't know the promoters of Cyberspace Infosys Ltd and that he hadn't spoken to anyone to clear UTI's private placement of shares in the company.

Mr Mehta was reacting to the report "Sebi chief under scanner", published in yesterday's edition of **The Statesman**.

He said the UTI is not registered with the Sebi and US-64 is not covered under voluntary arrangements. Neither is the UTI chairman appointed or approved by Sebi. He denied he had helped broker Mr Rakesh Mehta. — **SNS**

■ **Editorial: Laws of motion, page 6**

NDA code of ethics runs into trouble

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 3. — The NDA's code of ethics has run into trouble even before it has taken off.

Some of the partners have opposed it on the ground that this could be the BJP's attempt to throttle opposition within the alliance even when the leadership takes a wrong stand.

The Shiv Sena and the Janata Dal-U have openly expressed their unhappiness. The second largest party in the alliance, Telugu Desam Party, too is reportedly opposed to the move.

Sensing widespread discontent over the issue, the BJP today sought to tone down its stand.

The party spokesman, Mr VK Malhotra, said the proposal for a code of ethics came from the allies and they would have the final say in the matter.

The BJP has only one representative in the four-member committee that will frame the code.

The general mood at the recent National Democratic Alliance meeting was that there should be some basic minimum norms to guide the alliance partners, Mr Malhotra said.

Most of the leaders reportedly felt that the partners should not criticise the Cabinet's decision.

However, there are some genuine grievances among the allies that they are not being consulted on many issues and hence they should not be asked to remain silent.

For example, the allies were not consulted when Mr LK Advani announced induction of the Asom Gana Parishad into the National Democratic Alliance.

Some NDA managers said that the code was needed to restrain a few leaders who were acting on their own. The list includes Mr Sanjay Nirupam (Shiv Sena), Mr Prabhunath Singh (Samata Party), Mr Devendra Prasad Yadav (JD-U), Mr Sudip Bandopadhyay (Trinamul) and Mr Yerran Naidu (TDP). Of them, at least three are ministerial aspirants.

(Continued from page 1)

UTI:

to protest against the UTI bungling which, it claimed, affected about twenty million small investors.

There is a big question mark over the consensus on JPC probe since some MPs wondered if it was done under the influence of a Mumbai-based corporate house. When asked if the change in the Congress' stand was the result of the influence exercised by the corporate house, Mr Reddy was slightly taken aback before saying: "How can I reply to this question?"

For the record though, he stuck to his party's demand of Mr Yashwant Sinha's resignation. "It could be that the Prime Minister and the finance minister are blackmailing each other and the Prime Minister just can't issue marching orders to Mr Sinha since the latter knows many things about the PMO."

Bail pleas rejected: The special CBI judge, Mr SR Mehra, today rejected the bail pleas of the former UTI chief, Mr PS Subramanyam, executive directors Mr SK Basu and Mr MM Kapoor, general manager Mr Prema Madhuprasad and stockbroker Mr Rakesh Mehta in the Rs 32.8 *crore* Cyberspace Infosys private placement scam case, SNS adds from Mumbai. All of them have been remanded in judicial custody till 7 August.

Mr Arvind Johari, Cyberspace promoter, has been remanded in police custody till 7 August. The CBI has alleged that Mr Johari had induced UTI officials through Mr Rakesh Mehta to buy 3,45,000 shares of Cyberspace at an exorbitant price.

Last week, Mr Mehra had rejected the bail pleas, of Mr Subramanyam, and three others, and extended their police custody till 3 August. The judge asked the CBI to come out with a white paper on the issue.

Media rapped: Mr Mehra today asked scribes to follow certain guidelines while reporting court proceedings in the UTI case. Discussions between the judge, lawyers, police, government officials in the open court didn't form part of the judicial proceedings and hence must not be published, he said.

THE STATESMAN
- 4 AUG 2001

Bailout fund for UTI 'fall guys'

BY ANIEK PAUL

Calcutta, Aug. 2: Yashwant Sinha may have lost his trust in former Unit Trust chairman P.S. Subramanyam. Not so his old colleagues.

UTI's officers have started a fund to pay for the legal expenses of Subramanyam as well as suspended executive directors M.M. Kapur and S.K. Basu. All three are in CBI custody. Their case will come up for hearing tomorrow.

A large section of the staff appears keen to contribute to the fund — that could raise as much as Rs 18 lakh — mainly because they are convinced that the government has made a convenient scapegoat of the three.

Even today, finance minister Yashwant Sinha laid the blame squarely at the door of the Unit Trust top brass while absolving himself and his ministry.

He ruled out a joint parliamentary committee probe into the muddle and said he would not resign. "The issue is not going to be resolved only because Yashwant Sinha resigns," he told the Rajya Sabha. **(See Page 6)**

The decision to raise money for Subramanyam and Co. was taken at a meeting of the UTI top brass in New Delhi on Saturday. Four executive directors started the fund by contributing Rs 5,000 each. Senior officers are likely to chip in with Rs 5,000 each, while junior officers will contribute Rs 1,000 each.

"But there's nothing hard and fast about it. The whole thing is optional and flexible. These figures are some kind of benchmarks to go by," a UTI officer said.

After Saturday's meeting, the decision was communicated to the branch heads. They put up an informal notice, urging their staff "to extend a helping hand to our beloved colleagues".

"The response was phenomenal and contributions are flowing in," a UTI officer based in Calcutta said.

The eastern zone could raise as much as Rs 1.1 lakh, but it will be Mumbai which will contribute the most to the kitty as most of the mutual fund's officers are based there.

The amount raised will be sent to Mumbai tomorrow through a demand draft drawn in favour of one of the executive directors, in all likelihood Brij Gopal Daga.

Even UTI's unionised employees are planning to raise funds from among themselves, sources said.

"The whole of UTI stands united in defence of our former chairman and executive directors," an employee said.

UTI has also kicked off an exercise to repair its bruised image. Officials today met agents at various offices across the country for a round of pep-talk to boost their morale before the mutual fund launches some of its schemes over the next few days.

"Initially, after the decision to ban sale and repurchase of US-64 units, there was some amount of resentment among our agents. But they have now realised that UTI has been victimised," the officers claimed.

Through these interactive sessions, UTI hopes to regain their confidence, and, in turn, the trust of the investors.

THE TELEGRAPH

THE TELEGRAPH

- 3 AUG 2001

Chandra Shekhar tells Opp not to misguide PM

STATESMAN NEWS SERVICE

NEW DELHI, Aug. 1. – Mr Chandra Shekhar, for a change, turned the heat on the Opposition when he questioned its role in undermining India's self esteem by extending misguided support to the government on chasing peace with Islamabad.

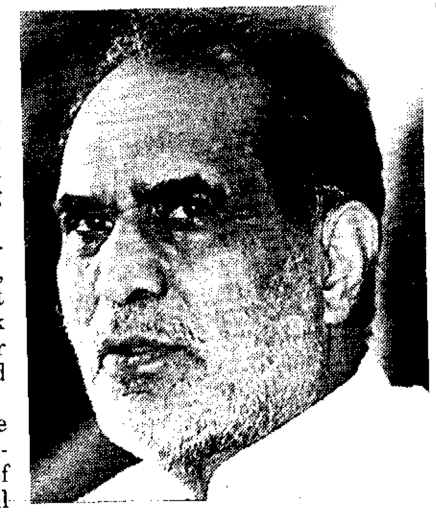
Pointing out specifically to the CPI-M leader, Mr Somnath Chatterjee, who had just finished his statement on the resumed discussion in the Lok Sabha on the Agra summit talks, Mr Shekhar asked, "What has happened to the Opposition parties?"

"I don't agree with Mr Chatterjee and please don't push the Prime Minister on the wrong track in search of peace with Islamabad knowing well that Gen. Pervez Musharraf was laying a trap for our government."

"We shouldn't plead to Pakistan to stop cross-border terrorism which the Pakistani head in any case can't influence. That would only betray our weakness since the country is competent and fit to crush terrorism", he said.

Mr Shekhar questioned the manner in which the Opposition leaders were falling over one another to attend the tea party hosted for Gen. Musharraf.

That only went to demonstrate how the political parties were divided on the country's foreign policy which shouldn't show any sign of difference.



Mr Chandra Shekhar

Mr Shekhar supported Prof. VK Malhotra (BJP) who last week had urged the Lok Sabha to decide if Mr Vajpayee should visit Islamabad after the violence erupted afresh in J&K.

"Please don't fall into the trap of Gen Musharraf, Mr Prime Minister, and think hundred times before visiting Islamabad, for you never know the country may have to face trouble and humiliation at the hands of Pakistan," the former Prime Minister said.

5/8/1

VAJPAYEE DENIES PMO-UTI LINK, OFFERS PROBE

STATESMAN NEWS SERVICE

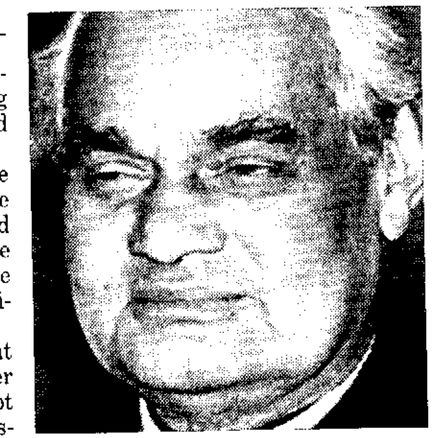
NEW DELHI, Aug 1. – The Prime Minister today said the PMO had nothing to do with the UTI muddle and offered to hold an inquiry if necessary.

Mr AB Vajpayee intervened in the UTI debate in the Rajya Sabha at the insistence of the Opposition which had forced two adjournments earlier in the day. He said he wanted to clarify some issues raised by the leader of Opposition, Dr Manmohan Singh.

The finance minister, Mr Yashwant Sinha, who resumed his reply after Mr Vajpayee had spoken, was not helped by the clarification. Like yesterday, the House was adjourned for the third time, till the next morning.

Mr Sinha wanted to put "things in perspective", saying it was important to "look back" to be able to look into the future. About 20 minutes into his speech, he began referring to UTI investments in the '90s, when non-BJP governments were in power, suggesting Dr Singh could correct him if he went wrong.

Mr Sinha made five points. One, that these were bad times when even private mutual funds were not doing well. He rolled out figures relating to fall in value of other funds. Then, referring to the point that value of scrips purchased by UTI had fallen drastically, Mr Sinha referred to the fall in the value of shares of Yahoo and Amazon to drive home the point that fluctuations in prices were not unusual.



Mr Atal Behari Vajpayee.

Third, he denied there was Rs 4,000 crore worth of redemption in April-May by the corporate sector. He said that though redemptions in April were not unusually high at Rs 473 crore, in May it was Rs 3,682 crore. But 42 per cent of the redemptions, Rs 1,557 crore, were by individuals, Rs 811 crore by public sector banks, Rs 115 crore by private sector banks and Rs 1,033 crore by other corporates.

He then went on the offensive. Without naming Reliance, he recalled the Rs 1,073 crore investment in shares of a Mumbai-based company in 1994 through private placement.

"Never before and after has UTI made such a large investment in one company. It was a negotiated settlement and not from the market, through private placement".

Next, Mr Sinha said there were 285 companies in which UTI had invested Rs 386 crore during 1964-1995 which have a trading value of less than one rupee. "But I am not accusing anyone of anything," he said. At this point Dr Singh sought to correct the finance minister who was, however, adamant that Dr Singh speak only after he was done with his speech.

The Congress objected and soon things went berserk with the BJP and Congress accusing each other of disrupting the House. Mr Sinha carried on speaking amid the din. This continued for about 15 minutes till the chairman decided to adjourn the House.

THE STATESMAN

Sinha drops a bombshell, says another scam took place in '94

The Times of India News Service

NEW DELHI: Prime Minister Atal Behari Vajpayee told Rajya Sabha members on Wednesday that his office had nothing to do with the UTI scam and, if need be, an investigation could be conducted.

However, finance minister Yashwant Sinha, cornered by his party's ally, the Shiv Sena, revealed that another scam had taken place in 1994 when leader of the opposition in the Rajya Sabha, Manmohan Singh, was the finance minister. And, in a curious display of aggression, the government side forced an adjournment of the Rajya Sabha.

In May, Mr Sinha said, corporates had redeemed US-64 units worth Rs 1,033 crore, individuals had redeemed units worth Rs 1,557 crore, public sector banks Rs 811 crore and private banks Rs 150 crore. Mr Sinha did not give details of the redemptions in June.

The UTI freeze was effective from July 2.

While replying to the UTI short duration discussion, Mr Sinha talked about a private placement made by UTI in 1994 to the tune of Rs 1,073 crore in a "Bombay company" which had an unprecedented lock-in period of five years. (Coming out of the House, rural development minister Venkaiah Naidu told reporters, "For the Congress, a Rs 32 crore scam is bigger than a Rs 1,100 crore scam.")

No panic on first day of US-64 exit

Business Times Bureau

MUMBAI: The gate was open, but the expected stampede failed to materialise. The much-awaited limited repurchase window for the Unit Trust of India's (UTI) US-64 scheme started on Wednesday with 3,865 applicants redeeming their units at the face value of Rs 10.

This involves 56.39 lakh units of the scheme which has resulted in a cash outflow of Rs 5.64 crore.

THE TIMES OF INDIA

- 2 AUG 2001

Sinha passes US-64 buck to Rao regime

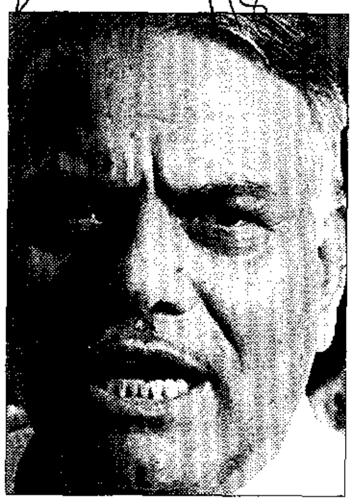
Our Political Bureau

NEW DELHI 31 JULY

FINANCE MINISTER Yashwant Sinha on Tuesday attempted to shift the blame for the US-64 disaster to the previous Congress government, saying they had invested in equities not heeding a JPC report in 1993, warning against exposing a regular income fund to the fluctuations of the stock market.

Mr Sinha's reply in the Rajya Sabha was drowned out by the Opposition disrupting proceedings both before and after lunch, but the rising decibel levels showed that both sides were settling for a long war.

Started on Thursday last, the short duration discussion on the mismanagement at UTI and over US-64 in particular, snowballed into a major attack on the government, which threatens to carry over into the adjournment motion slated for Thursday in Lok Sabha.



Yashwant: Settling into a long war

Mr Sinha said the "change of character" of US-64 occurred in 1991-92 (during the government of Narasimha Rao) when 28 per cent of the total was invested in equities.

The exposure to equity increased over the next few years, to as much as 66 per cent in 1995-96, and by 1997, it was exposed to equity stocks to the tune of 70 per cent of the total corpus, which was Rs 13,646 crore. He said the exposure of US-64 to equity was 34 per cent in 1993-94, 40 per cent in 1994-95 and 56 per cent in 1995-96.

However, US-64 remained a regular income fund, but because it was subjected to the fluctuations of the stock market, this edifice was bound to come crashing sooner or later.

Mr Sinha's attempts to absolve himself of responsibility failed to explain why in 1998, when he executed the first bailout of UTI, he did not change it from a regular income to a floating income fund.

Instead, regarding the 1998 bailout, he said the government had issued bonds worth Rs 3,300 crore to UTI to cover the exposure of US-64 to public sector equities, whose value had later declined to Rs 1,500 crore.

The bailout package, he said, was the repurchase of PSU equities at the same value of Rs 3,300 crore, at which UTI had bought the scrips.

"A general impression has been created as if this money has vanished. As if some people have pocketed this money," he said, adding, "let me hasten to add that the value of the stock held under US-64 has declined. But it still has a value and a corpus," he said.

The Economic Times

Sena sees PMO hand in UTI bungling

STATESMAN NEWS SERVICE

NEW DELHI, July 30. — Why was the PMO in touch with the former UTI chairman around the same time when the mutual fund authorities had a change in heart and decided to invest in Cyberspace Infosys? The question was asked in the Rajya Sabha today by a BJP ally, Shiv Sena.

Sena MP, Mr Sanjay Nirupam, asked the government to disclose what the PMO official discussed with Mr PS Subramanyam. The finance minister will reply tomorrow.

Mr Yashwant Sinha was present in the House throughout the debate. Later, he was closeted with ministry officials, working on his reply to the debate.

Mr Nirupam said calls from three mobile telephone numbers were made to Mr Subramanyam on 17 July, after UTI experts decided not to invest in Cyberspace, but recommend selling of the 2 lakh Cyberspace shares the Unit Trust of India was holding. Mr Nirupam said he had traced one of these three mobile numbers to the PMO.

Again, soon after the Unit Trust of India decided to invest in Cyberspace, a call came from an official who was earlier in the PMO, but is now a planning commission member. The person being referred to was Mr NK Singh.

Mr Nirupam said these details should be properly investigated. He, however, suggested that he [illegible] expect the CBI to do a [illegible] job, especially because it had told the court that it didn't want to interrogate Mr Subramanyam beyond 3 August.

The Sena MP said he wouldn't demand Mr Sinha's resignation because the minister wouldn't resign on the members' asking. However, he will have to give quite a few answers.

To begin with, divulging the contents of the letter the former UTI chairman had written to the finance ministry on 28 May and his statement that the decision to invest in Cyberspace was taken after calls from Delhi.

Mr Nurupam demanded that the finance ministry table the UTI's private placement during June 1999-June 2001, the cost of purchase of the shares and their present value. He alleged that of the 1,300 companies in which the UTI had invested during this period, 600 were reportedly bogus.

He asked Mr Sinha to place a copy of RBI's internal report on the Global Trust Bank. The report accused the GTB of indulging in insider trading before its merger with the UTI was being considered.

Mr Nirupam accused the Centre of not taking any preventive steps even after being repeatedly warned by the members early this year over the UTI's involvement in the multi-crore stock scam.

Mr Fali S Nariman (Nominated) said financial institutions — such as the UTI, LIC and IFC — shouldn't be free from Parliamentary control because they are dealing with the public money. He suggested that the Acts governing the autonomous statutory financial institutions should be amended, if necessary, to bring them under day-to-day Parliamentary scrutiny. It's time the government set up joint parliamentary committees for these "monster corporations", he said.

Quoting from a report published in **The Statesman** today, Mr NK Premchandran (RSP) said corporate houses have looted small investors in "daylight" with help of the UTI and the finance ministry. He demanded Mr Sinha's resignation.

General (Retd) Shankar Roy Choudhary (Independent) demanded that the government fix accountability and responsibility for the financial mess. "Is it the finance ministry or the board of directors?.

This catastrophe didn't occur overnight. Corrective action over a period would have prevented it."

He said the inquiry should focus on the "bureaucratic angle" as officials always get away scot-free.

INSIDE

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■ **Panel begins UTI probe**
■ **GIC investment under CBI scanner**

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■ **Hizb threatens to avenge Masood death**
■ **Sulking Digvijay refuses to assume office**

THE STATESMAN

31 JUL 2001

BJP digs Satish Sharma dirt to offset UTI attack

HT Correspondent
New Delhi, July 30

UNNERVED BY the Opposition attack on the Government over the UTI muddle, the BJP has asked its MPs to raise in Parliament the alleged foreign exchange dealings of Congress MP Satish Sharma.

Copies of a newspaper report about the CBI finding documented evidence against Sharma have been circulated among BJP MPs.

BJP floor managers believe that the Congress will be put on the defensive once the issue is raised because of Sharma's proximity to the Gandhi family.

With Prime Minister Atal Bihari Vajpayee ruling out action against Finance Minister Yashwant Sinha, the BJP is forced to work out a counter strategy.

Confirming the party's plan, BJP Parliamentary Party chief whip V K Malhotra said: "The issue is serious. We want a detailed inquiry. Our MPs will raise thematter to draw the Government's attention."

Meanwhile, the Government today came under sharp attack from the Opposition and the Shiv Sena on the UTI issue in the Rajya Sabha.

While the Opposition demanded Finance Minister Yashwant Sinha's resignation, the allies gave him the benefit of doubt.

"Even if I were to ask for his resignation, I know that it would not restore the money of lakhs of investors," Shiv Sena MP Sanjay Nirupam said. He asked why the crisis could not be averted though the House had warned Yashwant in March.

Sparks flew when some BJP MPs rose in defence of the Government against Nirupam's allegation that UTI Chairman PS Subramanyam had been in touch with senior officials while taking important investment decisions.

"The nation has the right to know and the Government will have to tell what they discussed," the Shiv Sena leader said. He also gave some details of the calls made by the former UTI chief from his mobile phone.

Nirupam also sought details of UTI investments in a company named Baron International. He asked the Finance Minister to place before the House a letter Subramanyam had written to the Ministry on May 18.

For once, the political divide in the House was blurred. Much to the dismay of the Treasury Benches, members from the Left parties and the Congress urged Vice Chairman Santosh Bagrodia to let Nirupam speak beyond his allotted time.

The Sena MP was locked in argument with the Chair over the time allotted to him. But he promptly apologised, making use of the rare Congress-Left largess to continue with his attack on the Government.

Earlier, BJP's TN Chaturvedi defended the Finance Ministry for taking corrective steps. He blamed regulators such as Sebi and the RBI for their lack of clarity in monitoring the activities of foreign banks and fund managers.

But C Ramachandriah (TDP) took the Treasury side to task for interfering in statutory bodies like the UTI when it suited them and looking the other way in times of crisis.

Nominated Member Fali Nariman stressed on parliamentary control of bodies such as the UTI because they dealt with public money. "There should be a perpetual JPC like a parliamentary watchdog committee to monitor statutory bodies like the UTI," he said.

Independent member Shankar Roy Chowdhury asked the Finance Minister: "Who is accountable for this and what were the officials of your Ministry doing?"

RJD MP Prem Gupta demanded Sinha's resignation. He warned that the UTI muddle may spread like a contagious disease and the IFCI might be the next in line.

Cho Ramaswamy, who spoke by default, stressed that the Finance Ministry should treat this as a warning and work for remedial measures. Gandhi Azad of the BSP said investors are now disillusioned with the UTI.

The Finance Minister will reply to the debate [illegible] noon on Tuesday.

31 JUL 2001

BRING BACK TRUST

RECENT DEVELOPMENTS CONCERNING the country's largest mutual fund, the UTI, can be viewed in two ways. There is, to begin with, a sense of deja vu. The constitution of a probe panel and the initiation of criminal proceedings were entirely to be expected given the Government's past record. Almost by reflex action, probes are instituted and even criminal action launched. As a rule, fixing of accountability takes precedence over correcting the mistakes. No one denies that accountability issues — the guilty should be punished — are important. But by keeping those issues alone at the centre stage, the more urgent task of setting right the past damage takes a back seat. The second, admittedly less popular view therefore, is to see whether the UTI's problems could have been handled differently.

Recent financial history should have a say in determining which of the two courses should have been adopted first. Throughout the 1990s the pattern — of first trying to apportion blame without fixing the system — was widely followed. It has been costly not only for the affected individuals but for the concerned, usually government-owned institutions, too. Note for instance the fallout of the 1992 stock market crisis. Given, among other stumbling blocks, the judicial delays, there has been no denouement yet on any of the substantial matters. Except for a relatively less significant interpretation of the Negotiable Instruments Act by the Supreme Court — in the case involving the broker Hiten Dalal — no legal precedents have been set so far. On the other hand there are vexed matters such as the one relating to the ANZ Grindlays Bank and the NHB which are waiting for the highest court's ruling even after going through an expensive and time-consuming arbitration process. At a broader level, that the share market should be visited with another crisis so soon ought to give little comfort to those who believe in the utility, even infallibility, of post mortems conducted by numerous expert groups, including by a Joint Parliamentary Committee.

What are the messages for the Government and the UTI? First and foremost, there should have been a transparent plan to restore confidence among UTI's investors. Since July 2, when it made a controversial announcement to suspend temporarily the repurchase and sale of units in its flagship US 64 scheme, the Trust has been at the receiving end of extraordinarily bad publicity. Unfortunately the rationale of the Trust's decision to restructure the US 64 — the package of measures announced have several positive features — could not be articulated then and, given the predictable turn of events, in the foreseeable future too. Not surprisingly, many among the large number of investors who have placed their savings in the US 64 scheme are terribly worried. The swift replacement of the Trust's Chairman was perhaps inevitable but once that has been done officialdom must have gone all out to help the incumbent and his team in their uphill task to win back investors. The Trust has already structured a buy-back scheme for the smaller unit holders, which is the best under the circumstances, but one that is predicated on most of them staying put and not causing a run.

Obviously many more crucial and difficult steps will have to be taken before the UTI can regain its lost glory. Needless to add, at each stage the UTI needs to carry a majority of its investors as well as the Government with it. It is extremely doubtful whether the high profile investigations, the arrests and the blaze of publicity surrounding them will help the cause of UTI and by extension its investors. The unfolding UTI case is another demonstration of the Government devaluing its own assets — in this case by not properly sequencing its responses.

Intellectual property appellate board planned

HD-10
22/7

By Our Special Correspondent

NEW DELHI, JULY 21. The Government plans to establish an intellectual property appellate board (IPAB) to provide a fast-track mechanism for appeals against authorities in the trademark sphere initially and later extend it to other intellectual property offices. The IPAB will associate experts from the legal and technical fields and provide consistency in judicial decisions apart from an expeditious resolution of issues.

According to the Joint Secretary, Department of Industrial Policy and Promotion, Mr. A.E. Ahmad, currently appeals lie only before the courts and there have been many conflicting decisions and delays.

Mr. Ahmad was addressing a seminar on "protecting your trademarks in India and abroad" organised by the Federation of Indian Chamber of Commerce and Industry (FICCI) in cooperation with the World Intellectual Property Organisation (WIPO) and the Department of Industrial Policy and Promotion.

India will have to focus on the challenges posed by the convergence of technologies, especially in information and technology and communications. Audible and olfactory trade marks are now sought to be registered while moving images accompanied with music as trademarks have been registered in different offices.

Similarly, with the growth of e-commerce and the increasing penetration of personal computers and internet connectivity, the abuse of famous names and well-known trademarks in e-commerce through either "cyber squatting" or "domain name grabbing" has become a frequent cause of concern to such intellectual property rights (IPRs).

Regarding the increase in number of registrations from 42,723 in 1995 to over 66,000 in 2000, he said nearly 2.8 lakhs applications are pending. Although countries with a common law system provide legal protection for unregistered trademarks, a legislation provides specific and direct relief to IPR holders. Under a plan-funded project, a project is being undertaken to reduce the pendency of unexamined applications. More examiners are being appointed while Trademarks Registry has been strengthened by additional staff. The WIPO is also extending technical support.

Mr. Ahmad said a project estimated at over Rs. 8 crores was being implemented to modernise the Trademarks Registry and its branches. A modern registry for geographical indications had been set up in Chennai and was expected to commence work soon.

These offices will adopt work processes based on the application of information technology in the administrative process. It is also expected to improve the quality of services.

Ammunition for Vajpayee in UN report

9. Health.

(11)

13/7

HT Correspondent
New Delhi, July 12

HT 9

WITH JUST a couple of days to go before the Agra summit, Prime Minister Atal Bihari Vajpayee has found unexpected support for his position in the UN's Human Development Report.

The document, released on Tuesday, has not only put Pakistan 12 notches behind India but has rated it low on human development. This would only strengthen Vajpayee's argument that the focus of Indo-Pak dialogue should not be Kashmir but the "core concerns" of the two peoples in their "struggle against poverty".

Should he choose to, Vajpayee would have enough statistics to argue out his case. Pakistan now virtually occupies the slot India did before it moved up to the category of "medium development states", on the basis of a complex calculation of 27 indices.

A comparison of the economic performance of the two countries, for instance, shows that in 1999 India's GDP stood at $447.3 billion to Pakistan's $58.2 and its per capita growth was $2248 against Pakistan's $1834. Again, if India's annual per capita growth rate was 4.1 during 1990-99, Pakistan's limped painfully at 1.3.

Social sector allocations were negligible in both countries. While there is a crying need for more outlays in both states, a large share seems to have been gobbled up as military expenditure and debt servicing in Pakistan. Islamabad spent 4.4 per cent of its GDP on defence and 5.2 per cent to pay off its debts in 1999. The Indian figure stood at 2.4 per cent and 2.3 per cent.

While the Indian outlay for health was not available for 1998, Pakistan earmarked only 0.9 per cent of GDP for it. Between 1995-97, it spent 2.7 per cent of GNP on education. How does this translate itself into the quality of life in the two countries? Both states have been rated "minus one" on the gender-related development index in the report.

But in general, a woman born in India could hope to live four years longer than her Pakistani counterpart whose life expectancy at birth is 59.5 years. Similarly, an Indian male had an average life span of 62.4 years, three years more than his counterpart in Pakistan. He could hope to earn $449 more than his Pakistani counterpart. The income of the Indian woman was also $369 higher than her neighbour's. Likewise, there were 14.5 per cent more adult literate women and nearly 8.9 per cent more literate men in India.

How does all this translate into distribution of income or consumption? The scale and pattern of inequality in both states remained high. But Pakistan could take some heart here. In 1997, the income/consumption pattern for the poorest 10 per cent and richest 10 per cent of India's population was 3.5 per cent and 33.5 per cent. In Pakistan, the figures were 4.1 per cent and 27.6 per cent. Similarly, there were more people living below the poverty line in India than in Pakistan.

Notwithstanding this, as the report pointed out, it was India, alongwith China, which was on track to halve poverty by 2015, in keeping with the target set by the UN Millennium Summit last September.

Enron: Govt agrees on judicial probe

EXPRESS NEWS SERVICE
MUMBAI, JULY 11

THE Democratic Front government today decided to conduct a judicial probe into all aspects of the controversial Enron power project.

"The Coordination Committee unanimously decided to conduct a judicial probe under the Commission of Inquiry Act in all aspects of the multicrore power project," Chief Minister Vilasrao Deshmukh said.

Deshmukh declined to elaborate on the terms of reference, saying, the same will be drafted before August 11. Once the terms of reference were finalised, they will be placed before the cabinet for final approval, he said. Deshmukh made it clear that the terms of refernce will be drafted in such a manner that they will not have any adverse impact on either the Godbole Committee or the cases pending before the High Court or the Supreme Court.

According to a senior NCP Minister, the Advocate General as well as officials of the Maharashtra State Electricity Board explained the adverse impact of the decision to conduct a judicial probe. "At a juncture when even the Supreme Court, High Court as well as the Maharashtra Electricity Regulatory Commission were seized of the matter and fresh negotiations were being conducted by the Godbole Committee, it will be highly improper to conduct a judicial probe," the NCP Minister said.

IN a well-timed political move today, Sharad Pawar's Nationalist Congress Party surprised its partners in the ruling Democratic Front by declaring that it was in favour of a judicial probe into the controversial Enron deal. The decision was announced by Deputy Chief Minister Chhagan Bhujbal and party general secretary Praful Patel minutes before Chief Minister Vilasrao Deshmukh's weekly press briefing.

For the NCP, it was a perfect political move. The decision was taken by its leaders late on Tuesday night after Bhujbal and Energy Minister Padamsinh Patil participated in the meeting of Enron Corp Chairman Kenneth Lay with CM Deshmukh.

FLYING BEYOND CONTROVERSY

THE CABINET COMMITTEE on Disinvestment's (CCD) approval of two important agreements connected with Air India's strategic sale — the draft shareholders' agreement and the share purchase agreement — is significant in many ways. In a legal and administrative sense there is substantial progress. The meandering but absolutely necessary processes applicable to any public sector sale are nearing completion. In December last year, Parliament was informed that as many as eleven stages will have to be gone through before a Government-owned company can be sold. For Air India, prospective buyers will now vet the two agreements, undertake a valuation exercise and submit their final bids. If past experience is any guide, the CCD's decision, noteworthy as it is, merely brings the Air India sale to its potentially most troublesome phase.

Few doubt the scope for controversy. Even compared to the highly-charged Balco strategic sale to Sterlite, Air India's will be complicated. That is partly due to the emotional appeal the national carrier has and partly due to the special circumstances surrounding Air India at the time of its sale. Of the latter, the important one is that only two bidders — the Tata-Singapore Airlines consortium and the Hindujas — remain, with the others bowing out early on. Opaqueness in the civil aviation policy has certainly not helped a more competitive bidding for a 40 per cent stake in Air India. But whatever corrective action needs to be taken in the policy framework will not be particularly relevant for Air India at this stage.

What will complicate the matter further is the Government decision to seek a security clearance of the bidders. Speculation is rife that only one bidder — the Tata-Singapore consortium — will remain. It is going to be an extremely tough and controversial decision to hand over the management control of the airline to a single bidder, even if the sole bid is in excess of the reserve price fixed. Any other course such as inviting fresh bids will be time consuming and set the clock back but will have to be resorted to, to keep the disinvestment process less controversial. Arriving at a reserve price is not going to be easy and the Government says it will call for two other merchant bankers to verify the calculations of the one already appointed for Air India. Given the fracas over the Balco valuations, the Government cannot but be careful. The point, however, is that no matter how thoroughly the procedures are adhered to and appearances maintained, there will be no escaping from controversy in matters such as a strategic sale of the national carrier. Utmost political will will be required to see it through.

Evidently, Air India's own problems — its less than satisfactory financial position, its ageing and meagre fleet, its appalling productivity record, the alleged interference in its day-to-day working by its controlling Ministry, the internecine disputes among its top management, the recent suspension of its Managing Director — all add to a poor image and certainly to a lower valuation. However, in the final reckoning, mere accounting numbers which a valuation exercise captures will not be able to counter the strong emotional arguments that will be used to block or delay the sale. It is important therefore for those in charge of its divestment to have a vision for Air India post-strategic sale, a vision in which it is seen to climb back to its past glory, with the help of its new strategic partner. Welcome measures such as granting employees stock options will help in reducing the level of controversy. The crossing of administrative and procedural hurdles are important but, in the overall scheme, they matter less than the need to inculcate a vision.

Enron-DPC closes Guhagar plant

STATESMAN NEWS SERVICE

MUMBAI, May 30. – In a reprisal move, the Enron-Dabhol Power Corporation today shut down its plant – a 740-MW facilities – at Guhagar to counter the Maharashtra State Electricity Board's decision yesterday to stop buying power with immediate effect.

The MSEB being the sole buyer of power, the Enron-DPC had no choice but to stop generation.

It will be followed by a termination notice to the MSEB. Despite Tuesday's cordial talks between the Enron-DPC team and the state government's Godbole panel, both sides have intensified their legal battle.

The decision to halt purchasing power appeared impromptu as it was taken during the proceedings before the Maharashtra Electricity Regulatory Commission which was hearing a petition filed by the MSEB on the scrapping of power purchase agreement with DPC.

■ Another report on page 9

Enron-DPC counsel Mr Atul Setalvad had questioned the legality of scrapping the PPA by MSEB and buying the power simultaneously. MSEB's lawyer Mr Goolam Vahanvati, the Advocate General of Maharashtra, said the act was without prejudice to the notice served to scrap the PPA. If Enron-DPC had any objection, the MSEB would stop buying power instantly, he said.

The American energy major today hit back by closing the facilities. The second phase at DPC is 90 per cent ready and was due for commissioning this October. The Regulatory Commission stayed arbitration taken up by Enron in London besides disallowing the DPC to operate escrow account.

The MSEB, which had defaulted on a $ 48-million payment, said it would not buy power produced by phase II since it was too costly.

The Enron-DPC, which has been under lenders' pressure, have asked multinational to proceed for a wrap up by terminating the contract. It is believed that Enron India chief Mr K Wade Kline had given nod to DPC lenders to terminate the contract.

THE STATESMAN

Power row hots up as Enron denies shut-down

Anand Adhikari
Mumbai, May 30

THE TUSSLE between the Enron-promoted Dabhol Power Company (DPC) and the Maharashtra State Electricity Board (MSEB) has aggravated, with the US energy major claiming it has not shut down its plant.

Technically, there has been no off-take from the DPC $ 3 billion Guhagar plant, with the MSEB, its sole customer, deciding yesterday not to buy any power.

The DPC, however, clarified "the plant continues to be operational as required by the power purchase agreement (PPA)". "However, the MSEB has not issued dispatch instructions since 12 .00 noon on May 29, 2001," added.

The power giant had recently issued a preliminary termination notice (PTN), which was followed by a six-month period prior to final termination.

"Currently, we are not planning to terminate prior to the lapse of six months. Even though it was necessary to issue PTN, we are still open to constructive discussion on solutions," the release said.

The "DPC wishes to reiterate that we will continue to follow the PPA and meet our contractual obligations, enforcing our rights under contracts and taking various disputes to dispute resolution process," it added.

Meanwhile, domestic lenders of the DPC have decided to urge the foreign lenders to resolve the current stalemate between the DPC and the MSEB. The Godbole Committee has also decided to meet the MSEB officials on June 6, though DPC representatives have not been invited for the meeting.

At a meeting of the domestic lenders comprising the IDBI, IFCI, SBI and ICICI held here today, the members decided to advise the foreign lenders not to precipitate the crisis. IDBI executive director R S Aggarwal chaired the meeting.

The domestic lenders' will now be conveyed to the foreign lenders at their meeting convened on June 5 and 6 in Singapore.

The domestic lenders also decided to hold discussions with the MSEB and the Maharashtra Government to resolve the ongoing tussle.

Meanwhile, the Centre today directed the Central Electricity Authority (CEA) to hold discussions with power deficient States for lifting of power from Dabhol Power Company (DPC), which has agreed to reduce the cost of power.

THE HINDUSTAN TIMES

Dabhol deadlock: Centre gives new proposals

STATESMAN NEWS SERVICE

MUMBAI, May 29. — In a bid to end the deadlock over the Dabhol power project, the Centre's representative, Mr AV Gokak, today came up with a "set of proposals" at the talks between Enron-Dabhol Power Corporation and the Madhav Godbole committee. The Godbole panel was set up by the Maharashtra government to renegotiate some crucial aspects of the $2.9 billion project.

Mr Godbole refused to disclose the proposals saying those were mainly for the Enron-DPC's consideration. He said the meeting, that discussed stands of the two sides, as "productive". "We shall see how things proceed from here."

He refused to comment on DPC's proposal, made on Monday, to slash power tariff by 10 per cent. "It was too early for any comment on specifics of the discussions".

The DPC chief, Mr J Wade Kline, too said the meeting was "good". The two sides will meet again, but the date has not been fixed. (Mr Gokak told Mr Cline that NTPC wouldn't be able to buy power from DPC, PTI adds quoting an official who attended the meeting.)

The Enron-DPC team's intention to treat the meeting casually, as a "courtesy call", apparently went awry, may be because of Mr Gokak's presence. The Centre's envoy, however, said: "Nobody's intentions can be doubted as deliberations are on to arrive at an amicable solution in the interest of all parties."

The Enron-DPC spokesman, Mr Jimmy Mogal, said there would not be any official statement on today's meeting. He said the Centre keenly wanted to settle the issue expeditiously.

The Godbole panel's term, scheduled to expire on 30 May, will now be extended.

Mantralaya sources claimed both parties' decision to meet again and their agreement on extending the Godbole panel's tenure suggest that the past 10 days' bitterness has been mellowed.

The negotiators gave an impression that talks could yield solutions to the problems the Dabhol Power Project is facing.

Before the DPC Phase II is commissioned in October, the MSEB seeks revision of power tariff and possibly a renegotiated power purchase agreement to avoid excessive burden of monthly outgo from early 2002.

At the current rate, MSEB will have to pay about Rs 500 crore every month for the power bought from DPC. The second phase has capacity of 1,444 MW against the 740 MW of Phase I.

Growth rate plummets to low of 5.2 per cent

CSO cites poor performance in farming, service and manufacturing sectors

By Priya Ranjan Dash
The Times of India News Service

NEW DELHI: India's economic growth tumbled to 5.2 per cent in 2000-'01 from 6.4 per cent in 1999-2000. The growth rate is worse than the expected six per cent and one of the lowest in recent years.

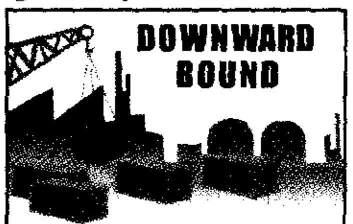
The Central Statistical Organisation (CSO) on Friday cited poor agricultural performance and low growth in manufacturing and services in 2000-'01 to revise the estimate of the growth in gross domestic product (GDP) to 5.2 per cent from the earlier estimated six per cent.

Industrial output has shown signs of a further slowdown during the current year with growth plunging to 2.7 per cent in April from 7.2 per cent in the same month a year ago.

The news of a sharp deceleration in the growth of the Indian economy last year came even as the Planning Commission targeted an annual growth of eight per cent for the Tenth Five-Year plan beginning 2002-'03. The Ninth Plan growth target of seven per cent has already been missed by a mile.

Finance minister Yashwant Sinha, who presented an investor- and industry- friendly budget this year, has had reason to be disappointed. The industrial sector has not so far responded to the budget measures. The industrial credit offtake is low and bankers have few projects before them to finance. Mr Sinha has convened a meeting of top bankers on July 13 to devise ways for an industrial recovery. But the finance minister has acknowledged that there is no magic wand to improve the sluggish industrial climate.

Economists said the Reserve Bank of India has been cutting interest rates to pep up growth and is likely to consider a further pruning of rates following the latest news on economic growth in 2000-'01 and the rate cut announced by the U.S. Federal Reserve on Thursday. But the growth outlook for the current year is not very bright.



- **GDP growth slump mainly due to poor performance of manufacturing, construction and some service sectors.**
- **Agriculture, forestry and fishing sectors grew by a meagre 0.2% as against 0.7% in 1999-2000**
- **The growth in per capita income fell to 3.5% as against the previous year's estimates of 4.8%**

Analysts pointed out that low agricultural growth last year had pulled down the demand for industrial goods and in turn depressed industrial growth. Even the services sector had suffered a slowdown.

CSO's revised estimates showed farm sector output grew by 0.2 per cent in 2000-'01 against an earlier estimate of 0.9 per cent. The farm sector grew by 0.7 in 1999-2000. The manufacturing sector posted a growth of 5.6 per cent compared to the previous year's 6.8 per cent. It was earlier estimated to have grown by 6.4 per cent. The sector grew by 3.5 per cent in the fourth quarter of 2000-'01 compared with 7.6 per cent in the same period a year ago.

The services sector growth was 9.1 per cent compared to the earlier estimate of 9.6 per cent. It grew by 10.1 per cent in 1999-2000. The sector had recorded 9.3 per cent growth in the fourth quarter of 2000-'01.

The CSO first releases its preliminary advance estimates and then follows those up with revised estimates for the fiscal year when firmer data flows in. The economy grew by 3.8 per cent in the fourth quarter of 2000-'01 compared with six per cent for the same period a year earlier.

THE TIMES OF INDIA

'Maharashtra will resolve Enron tangle amicably'

By Sridhar Krishnaswami

WASHINGTON, JUNE 29. The Leader of the Opposition and Congress president, Ms. Sonia Gandhi, has said that the Maharashtra Government is keen on finding an amicable solution to the imbroglio arising from the Enron Power Project, but without yielding ground on payments based on a high tariff.

Ms. Gandhi has acknowledged that the subject of Enron did come up in her meetings with senior officials and leaders of the Bush administration.

For instance, the U.S. Vice-President, Mr. Dick Cheney, is said to have raised the issue when Ms. Gandhi went to the White House on Wednesday for her meeting.

Enron is a major player in the U.S. with tremendous links to the Bush administration and the Republican Party.

Explaining the Congress stand, the Rajya Sabha M.P. and former Finance Minister, Dr. Manmohan Singh, said the delegation told the Bush administration that Ms. Gandhi had publicly committed herself to finding a mutually satisfactory solution to the issue based on economic, technical and business consideration.

"We explained the special circumstances which have led to some problems in this project.

First of all, the demand projections on which this project was conceived did not materialise.

Then there has been an exorbitant increase in the price of power because of the depreciation of the rupee and also because the feed stock prices have gone up tremendously.

So, there is a problem. It will be our effort to find an amicable and mutually satisfactory solution," Dr. Singh said.

Many in the Bush administration have been making the point, both publicly and privately, that the way the Enron dispute is resolved will have a major bearing on future American investments in India.

While many Indian corporate executives visiting the U.S. have talked about India never going back on contractual obligations, many here stress the need to look beyond contractual obligations and at the kind of message that is coming out of the whole issue.

Ms. Gandhi ended her two-day visit to Washington, satisfied with her meetings with senior officials of the Bush administration, law makers on Capitol Hill and in other interactions.

Besides her meeting with Mr. Cheney, Ms. Gandhi called on the President's National Security Adviser, Dr. Condoleeza Rice, and the Deputy Secretary of State, Mr. Richard Armitage, on Thursday.

The meeting with Dr. Rice revolved around issues of mutual interest of the two countries, including regional and global. The summit meeting between India and Pakistan also came up.

'NEED TO REVISE POLICIES, PROCEDURES'

PM for consensus on growth rate

By Our Special Correspondent

NEW DELHI, JUNE 27. The Prime Minister, Mr. Atal Behari Vajpayee, today called for a revision of Government policies, procedures and institutions so that the economy could grow at the rate of eight per cent during the Tenth Plan period covering 2002 to 2007. He acknowledged the need for an all-party consensus and political unanimity on the issues involved in achieving that growth level.

Chairing a full-meeting of the Planning Commission here, Mr. Vajpayee accepted the reduced target of eight per cent for the Plan period, though he had mandated the commission to try for a nine per cent growth rate.

"The approach paper to the Tenth Five Year Plan talks of raising the growth rate of the economy from six to eight per cent. I am glad that the Commission has responded to the challenge that I had placed before them in our last meeting in September 2000. Even this, in my view, is less than the expectations that have been raised in our society in the recent past," he said.

The vision articulated in the approach paper would require significant changes in the economic and social development activities, he said. "The notion of human well-being has to be more broadly conceived to include not only material requirement of all section of our population but also their access to social services, particularly of health and education in a manner that makes them more capable and bring them productively into the mainstream of economic activity. We will have to revise our policies, procedures and institutions in order to unleash the productive potential of our people. The Government at various levels would need to re-invent itself so that its principal role becomes that of a facilitator rather than a controller of individual initiatives. I also accept that this will require an all-party consensus and political unanimity," he said.

The Deputy Chairman of the Planning Commission, Mr. K.C. Pant, said raising the growth rate from six to eight per cent was achievable but it would be far from easy. For this, there would be a need to raise more tax and non-tax revenues, reduce non-Plan expenditure and provide more funds for the Plan which could no longer be considered a residual part of expenditure.

Since the meeting has been split into two parts (the next meeting would be on Friday), only about a half of the agenda was reportedly taken up today.

On revising the Gadgil-Mukherjee formula, sources in the Government said the proposal was two-fold.

One is to change the present ratio of 70 per cent loan and 30 per cent grant to non-special category States to a 50:50 basis as has been demanded by many States and also to change the weightage given to various criteria while deciding the flow of resources to a particular State.

Most of the well-performing States have complained that they were being penalised for better performance while laggard States had been getting more funds. Hence, a proposal is now under consideration to reduce the weightage given to population of a State from 60 per cent at present to 55 per cent and that of per capita income from 25 per cent to 20 per cent.

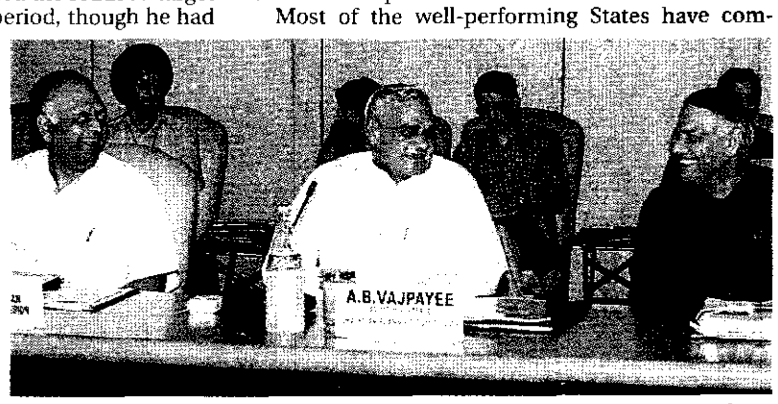
At the same time, the weightage for performance and special problems is to be increased from 7.5 per cent each at present to 15 per cent for performance and 10 per cent for special problems.

Within the performance criteria, five per cent weightage would be granted to fiscal management, five per cent for States own revenue mobilisation efforts and five per cent for development of economic and social infrastructure.

However, sources indicated that a final decision on the revision of the Gadgil-Mukherjee formula would be left to the NDC, and the Planning Commission would only make the recommendation in this regard.

The main approach paper to the Tenth Plan is likely to be taken up during the Friday meeting.

PM sorted out differences?: Page 14



The Prime Minister, Mr. A.B. Vajpayee, presiding over the annual meeting of the Planning Commission in New Delhi on Wednesday. He is flanked by the Deputy Chairman of the Commission, Mr. K.C. Pant, (left) and the Finance Minister, Mr. Yashwant Sinha. — PTI

ENRON IMBROGLIO & FOREIGN INVESTORS

IT WAS PERHAPS inevitable that the raging controversy over the Dabhol Power Company (DPC) would be recognised by the new American administration as a problem, big enough to cloud the flow of foreign direct investment into India. Enron's investment in the DPC and hence in the capital-starved power sector of the country has been noteworthy. It has been till date the single largest foreign direct investment in the country. Moreover, when no other power project of a similar size is anywhere near completion, the DPC has been on the verge of commissioning its second phase. However, recent and continuing wrangles between the DPC on the one side and the Maharashtra State Electricity Board (MSEB) and the State Government on the other show that the large investment in the most critical infrastructure sector has come at a stiff price, with the final bill for a fair and mutually acceptable resolution likely to be huge. Forming a large percentage of that bill would be the fallout of the legal conundrum the project has been pushed into.

The Enron controversy, as it is better known, represents all that could go wrong, even though the original intentions on both sides of the present divide might have been above board. Right from its formulation and its cost estimates, to the choice of fuel and of course the power purchase agreement (PPA), the project has been highly controversial. Even though two successive State Governments have signed and reworked the PPA, the Godbole committee has found a complete abdication of governance. The controversy reached a boiling point last month when Enron, the chief promoter, invoked the *force majeure* clause and set in motion a train of events that indicated its intent to quit. The reason cited then — its inability to make the MSEB and the State Government meet their contractual obligations — is the central point of the whole dispute. Subsequent defaults by the Board and the tough posturing of both sides have inevitably lessened the chances of reconciliation without rancour. Another round of renegotiation that is going on is perhaps the last hope but the parallel recourse to legal remedies has clouded its outcome, to say the least.

For a country that is in keen competition with China and others to attract foreign investment, the legal troubles over Enron are most unwelcome. For long projected as having a superior legal system, the likely delay will negate one of the country's principal selling points to foreign investors. More fundamental, of course, is the bad publicity in the wake of the reneging on contracts by the State Government and the MSEB, with the Central Government also drawn in through the counter-guarantees. Whatever be the merits of a recent proposal to strike at the basis of the original contracts — citing incompetence or even malfeasance on the Indian side — it is evident that plenty of damage has already been done to the interests of India in relation to foreign investors.

That point would certainly weigh with the Government as it tries to mobilise considerably more FDI than the $4 billions to $4.5 billions that have come in each of the past two years. While facilitating policy changes are contemplated, it would be necessary to project the Enron fiasco as one of a kind, never to be repeated in future contracts. In turn, that suggests a much higher level of competence, legal acumen and political governance than what was seen here. Reinforcing that point is the fact that the new FDI flows are more through mergers and acquisitions and less in greenfield ventures. The country's familiarity with deal making and its capacity to evaluate the associated costs of this route will be put to test.

THE HINDU

Budget harsh on consumers, bans private tuitions

STATESMAN NEWS SERVICE

KOLKATA, June 22. – The 2000-01 state budget proposals don't reflect the Left Front's emphasis on education, health and industry, with the social sector and industry getting only 10 per cent and 8 per cent of the funds.

But Mr Asim Dasgupta's budget has a surprise: he has proposed to ban private tuitions offered by full-time teachers in government and government-aided schools, colleges and universities. But the teachers and government employees have been given a sop: 3 per cent DA (another instalment) with effect from 1 July.

The Rs 8-crore deficit budget presented in the Assembly today, however, maintains its thrust on employment generation and private initiatives in the educational and infrastructural sectors. This is a departure of sorts from Marxist principles.

Power, agriculture, rural development, irrigation, roads and transport seem to be the the key areas, getting about 57 per cent of the funds.

The budget envisages self-employment for 100,000 youths, for which it has earmarked Rs 100 crore; meaning the government will spend Rs 10,000 per head.

But the finance minister has set the employment target figure at 600,000 in the current financial year. His optimism is based on an 8 per cent growth in total production in the current year and a more "attractive" Banga Karmasansthan Prakalpa proposal of giving 20 per cent (instead of the earlier 15 per cent) of a project cost as grant and 70 per cent as bank loan. The entrepreneur will have to pay just 10 per cent of the project cost.

The budget welcomes private initiative from the secondary to the college level, though an upper fee limit would be fixed. But fees in government schools and colleges will be "slightly enhanced".

Private entrepreneurs are welcome to build roads, bridges and industrial/business complexes too.

North Bengal: The budget doesn't neglect North Bengal this time. It proposes an increase in outlay for North Bengal Development Council and Western Region Development Council from Rs 55 crore to Rs 70 crore.

The Plan budget increase for asset creation has been projected at 23 per cent, about 10 per cent less than last year's. The non-Plan budget hike, predictably is more than 14 per cent, up from the 5 per cent last year. And the DA instalment for government employees and the resultant increase of Rs 100 crore in this fiscal are indications of the shift from the Plan to the non-Plan area.

The budget provides relief on several items, but has been tough on goods manufactured abroad and sold in India. Mr Dasgupta knew sales tax can't be imposed on imported goods.

So he has slapped a 20 per cent luxury tax on them, including readymade garments, cosmetics, chocolates and confectionery items, glassware and crockery, electronic goods, toys, footware, umbrellas, cycles and motorcycles, motor cars, soaps and silk yarn. The state expects to net about Rs 20 crore from this.

Mr Dasgupta will introduce an anti-evasion tax on some goods coming from other states, from which he expects to get a revenue of about Rs 50 crore. The tax on lotteries will be determined by the nature of the draw and price of the ticket.

Those with a monthly income of more than Rs 25,000 will have to pay Rs 150 instead of Rs 130 as profession tax. And for those above the Rs 40,000 mark, the amount will be Rs 200.

The finance minister has been harsh on drinkers. He has raised the excise duty on India made foreign liquor (IMFL) and imported foreign liquor bottled in India by 10 per cent.

There's a move to increase the rates of court fee stamps and other judicial stamps.

The additional resource mobilisation because of the tax proposals would be about Rs 152 crore, though additional revenue would be about Rs 142 crore, considering the Rs 10 crore loss because of reliefs provided in the budget.

To promote tourism, the budget has given a major relief to hoteliers by abolishing luxury tax on hotels outside the CMDA area.

The sorry state of cinema halls has prompted Mr Dasgupta to cut the entertainment tax on Bengali, Nepali and other films by five per cent. A high-level committee will be set up

■ See BUDGET: page 3

THE PROPOSALS

- Chocolates, confectionery, readymade garments, glassware, crockery, umbrellas, footware, cosmetics to cost more
- India-made foreign liquor and imported liquor bottled in India to cost more — Excise duty on these items has been raised
- Tax rate on IT products cut from 5% to 4%. Tax on chemicals, handmade soaps, dry-cell batteries, weighing scales cut
- Tax on raw jute, vanaspati cut. Agri Income-Tax on tea cut. Luxury tax on hotels outside CMDA area abolished
- Entertainment tax on Bengali & Nepali films cut from 20% to 15%. For other films, tax to be brought down from 70% to 65%.
- Private firms welcome to play role in infrastructure sector. School, college and university fees to go up

BUDGET:

(Continued from page 1)

to recommend steps for revival of the entertainment industry.

Agricultural Income-Tax on tea, and taxes on raw jute procurement, vanaspati, information technology products, chemicals, hand-made soaps, dry cell batteries, sanitary fittings, alta and vermillion have been reduced.

The Plan outlays for agriculture, irrigation, cooperation, industry, rural electrification, power, PWD, transport, education, health, municipal affairs and urban develeopment have been increased.

Agriculture service cooperatives will be formed to help small and marginal farmers and recorded sharecroppers get pump sets, power tillers and other equipment. For this, Rs 50 crore will be provided.

A novel concept has been introduced in the budget. Unemployed village youths will be trained as "crop doctors" to help farmers properly use seeds, fertilisers, insecticides. The farmers will, of course, have to pay for their services.

A venture capital fund of Rs 20 crore will be set up for the small-scale sector under the West Bengal Financial Corporation. Technology parks, to be set up in North and South Bengal and the western region of the state will update SSI unit owners on modern technology.

The scheme of paying Rs 500 to workers of closed industrial units will continue.

A long-term plan will be taken up for prevention of floods and check erosion of the Ganga, Padma and North Bengal rivers, for which a high-power committee, comprising Central and state officials, will prepare a comprehensive plan of action.

Food security too has got a mention.

Essentials will be sold at a rupee lees than the market price. But the beneficiaries would only be low-income families above the poverty line. The public distribution system has got about Rs 50 crore as working capital and subsidy.

In addition to the 55,000 primary schools, 5,000 child education centres will be built. Two international centres of excellence on biotechnology and social sciences too will be set up.

'Enron debacle will hit foreign investment'

HD-1 2216

WASHINGTON, JUNE 21. The United States today warned that the Enron debacle would dampen flow of foreign investments into India and asked New Delhi to find a prompt solution to the issue.

"While it is not my intention to make specific suggestions for resolving the dispute, I do want to underscore that it will be hard for foreign investors to look seriously at India until this dispute is resolved in a satisfactory way," the U.S. Undersecretary of State for Economic, Business and Agricultural Affairs, Mr. Alan Larson, said at the U.S.-India business council meet on Wednesday.

"The investment dispute between the Dabhol Power Company and Maharashtra is now casting a cloud over India's investment climate," he said.

Mr. Larson said it was important for India to move on to higher annual growth rate of eight to 10 per cent and felt that the coming World Trade Organisation ministerial meeting at Doha, Qatar, in November, provided an opportunity to push up India's exports by taking measures to reduce trade barriers. He urged both countries to work together to build "innovative economies" where knowledge and technology were constantly expanded to generate higher productivity.

Mr. Larson emphasised that both India and the U.S. needed high and sustained rates of economic growth in order to reach their national goals.

New Delhi, he said, needed growth rates of 8 to 10 per cent annually in order to lift hundreds of millions of its citizens out of poverty and Washington needed rates of economic growth of around four per cent annually "in order to educate our children and provide health care and income security for an ageing population". — PTI

THE HINDU

19/10 NO WAY BUT TO NEGOTIATE 19/1

NO WAY BUT TO NEGOTIATE

A FLURRY OF bad news is threatening to derail even the tenuous negotiations going on to salvage the Dabhol power project. The latest is the decision by the project's contractors to stop work. While the 740 MW phase I of the project will not be affected, the contractors' decision, conveyed by the Dabhol Power Company (DPC), brings into sharp focus the issue of non-payment by the Maharashtra State Electricity Board (MSEB) of the contractual dues. Though entirely anticipated, the contractors' decision raises the stakes in the negotiation game and gives the DPC another opportunity to blame the MSEB, the State and Central Governments. Not to be outdone, the MSEB, which had earlier served a legal notice of "non-performance" on the DPC, says it will not pay its April and May bills totalling Rs. 274 crores. Instead it will set them off against the Rs. 1200 crores it says is owed to it by the DPC for non- performance. Competitive brinkmanship, though inevitable, will hardly help in resolving the festering dispute.

Ultimately, for the project to be salvaged, its cost has to be reworked so that its unit cost of power is competitive as well as made transparent. Second, since capacity utilisation of the project has been a contentious issue including in determining the cost of power, the fixed and variable cost aspects of the original estimates need to be looked into and solutions acceptable to all the stakeholders arrived at. Specifically, whether the regasification project and the large terminal facilities can be reclassified as variable costs need to be addressed on a priority basis. Including them in the fixed cost component of the project has raised the break-even point to unacceptably high levels. Third, the success of the negotiations will also depend upon identifying other buyers of electricity besides the MSEB. Here, in a welcome change from its previous stance, the Central Government has come up with fresh initiatives. Looking beyond the Enron factor, the case for reforming the electricity boards has never looked stronger, though obviously that can only be a medium term solution.

Fortunately, there have been certain welcome developments which augur well for the outcome of the ongoing negotiations. The DPC itself seems open to accepting a lower tariff — a ten per cent reduction has been indicated — but at this stage it is not certain as to whether it is merely a bargaining ploy or whether the level of concession offered is sufficient to get the project back on the rails. Noteworthy too is the reported decision of the project's Indian lenders to accept lower returns but here again there are limits beyond which they cannot go. For these and other reasons, neither the tough public posturing of both sides nor the apparent progress made in certain previously intractable areas ought to be reckoned as the final word. A satisfactory resolution of this highly complex issue might have to start with finding a new promoter who will buy Enron's equity and thereafter renegotiate with all the stakeholders the terms so that the rate of return on the project becomes acceptable to the new promoter and the tariff is set at levels at which the power can be sold easily and without contractual obligations to which they are now tied to.

Whereas the Godbole Committee's report will be the basis for the negotiators representing the MSEB and the State Government, ways must be found to make the DPC accept its framework. Another issue clouding the horizon is the proposal to appoint a fresh judicial commission to review the project. Welcome in one sense — some Godbole Committee members had recommended it — it can stop the negotiations in their tracks. The only way is for both sides to climb down from their rigid stances and continue to negotiate.

THE HINDU

19 JUN 2001

Work on Enron project second phase stopped

H0.89
18/6

By Mahesh Vijapurkar

MUMBAI, JUNE 17. Work on the 1,444-mw phase-II of the Enron-sponsored Dabhol Power Company (DPC) has been terminated by the three contractors because of non-payment of bills by the independent power producer for over two months. The halt of cash flows due to repudiation of the power purchase agreement by the Maharashtra State Electricity Board, dishonouring of guarantees by the State and Centre and unwillingness of the lenders to further fund work was the reason for outstandings to the contractors, the company said.

Meanwhile, the DPC sought and scheduled a meeting with the MSEB for tomorrow to "discuss the potential for resolving their issues out of court, as a first step in response to the Bombay High Court's request". The High Court, while hearing a challenge to the Maharashtra Electricity Regulatory Commission's jurisdiction to intervene in the dispute, had asked the MSEB and the DPC to come to some settlement given the magnitude of the investments involved and the implications to both parties.

General Electric, Bechtel and Enron Engineering and Construction Company, first two are also partners, with a 10 per cent stake in the DPC, are the contractors. These entities, a DPC spokesman clarified today, have not been paid for the past two months though he declined to quantify the outstandings. The second phase is virtually completed with close to 97 per cent of the work finished. Recently, the MSEB was asked to certify the Phase II for commercial production on June 6 itself.

This termination, according to observers, does not therefore actually affect the plant's ability to go commercial. The DPC managing director, Mr. Wade Cline, said it was "implementing prior plans to care for and preserve phase II" pending resolution of the various disputes. "Given the ongoing defaults by the MSEB, we anticipated the contractors' termination notice," he said adding "contractors cannot continue work without payments."

Only on Friday, the lenders had forced the DPC to offer to continue to sell power from the 740 MW Phase I to the MSEB despite rescission of the PPA on May 23 just to keep the cash flows. The lenders also spoke to the MSEB about their anxiety to have Phase II completed, awaiting a new, third buyer but the MSEB has declined to pick up power from the Phase I because of legal reasons as well as lack of demand for power. Now, Maharashtra is without any load shedding.

The DPC, however, clarified that "phase I of the plant is not directly affected" by the termination of work on phase II and "currently remains operational and fully available for dispatch of power as per the PPA". But it laments that despite its efforts, resolution of the disputes between itself and MSEB has not happened.

18 JUN 2001

FRIDAY, JUNE 15, 2001

ATTENDING TO THE ECONOMY

DESPITE THE ENCOURAGING prospects of the southwest monsoon exerting a positive impact on kharif grain production, the economic outlook continues to be sombre. The news from industry is none too gratifying. The slowdown which hemmed in sectors such as automobiles, cement, steel, man-made fibres and paper products, during 2000-2001, appears obstinate, going by the data on industrial output for April this year released by the Central Statistical Organisation (CSO) earlier this week. Excepting for the mining sector which recorded a growth rate of 5.4 per cent (as against 4 per cent in April 2000), industry, as a whole, grew, if at all, at a niggardly pace of 2.7 per cent in April this year as against 6.5 per cent in April 2000. It is not that one month's showing on the industrial front is a decisive pointer to what lies ahead. Nevertheless, the cumulative slowdown, which has persisted for months now, cannot be reversed without concerted efforts by Governments at the Centre and in the States acting in a constructive mode of partnership.

The question whether or not the Indian economy is caught in a cyclical trough may be difficult to settle. Yet, there is little dispute over the sluggishness in demand which characterises the present ordeal. Insofar as the dormancy of domestic demand for a wide range of consumer goods including durables is attributed to the slump in agricultural production for two consecutive years now, a reinforced emphasis on agricultural performance linked to a favourable monsoon becomes an automatic priority on the national agenda.

A turnaround in agricultural output would be imperative for the economy to be put back on a high-growth trajectory but not without investment demand being regenerated. It is a fact that in the name of containing the fiscal deficit, the capital expenditure of the Centre has been severely eroded in real terms over the years. The budget for the current year provides for a marked increase in capital spending from around Rs. 52,000 crores last year to around Rs. 65,000 crores. But then the old story of slippages in investment, on Government account, owing to dismal project planning and implementation, ought not to be perpetuated. Nor can the Ministries at the Centre nursing uncompleted projects, over the years, continue to defer the coordinated action needed to see them through.

Even apart from the urgency of stimulating rural demand, the long-term growth prospects of the economy hinge on investments in the agricultural sector. It cannot be too strongly argued that Centre-State economic partnership should increasingly focus on building rural infrastructure including roads, housing, electrification and storage for agricultural commodities.

Although the export performance in 2000-01 constituted a bright feature of the economy, representing a growth of nearly 20 per cent, there are looming uncertainties on whether or not the growth momentum can be sustained. The U.S. slowdown could cast its shadow on Indian exports not only in the IT software sector but in traditional wares such as textiles. The question is how the policy-frame can tackle the patently unequal competitive status of Indian exports arising from high transactions cost including interest rates. Given the comparative Asian currency levels, the policy of allowing the market to correct an overvalued rupee would appear to be pragmatic especially at a time when the elimination of quantitative restrictions has engendered widespread fears of an imminent deluge of imports producing a savage adverse impact on Indian industry.

Bound up with the strategy for economic rebound is the larger question of employment generation. In the post-liberalisation period, practically all the additional employment in the economy has occurred in the informal sector. In the formal sector, employment needs to be increased even granting that capital-intensive technologies are becoming the order of the day. Could a revamping of the labour laws be helpful for generating more jobs in this sector? Could a start be made in the Special Economic Zones?

THE HINDU

15 JUN 2001

PLATFORM | *Surinder Kumar Singla*

The architect returns

Will the economic reforms create a deeper divide between the rich and the poor? With Manmohan Singh as a member of its think-tank, the Congress can give the NDA government a run for its money

TAKING CARE of the child, ensuring his proper growth for the realisation of his full potential, is a phenomenon, often not seen in the current quicksand of Indian politics of alliances and coalitions. The policies aimed at liberalisation and market driven economy initiated during the Congress regime of Narasimha Rao, under his able architect Dr Manmohan Singh, is but one example of a mother not being a caretaker.

During the last few years of NDA rule, the mother seemed to go into a forced background and the caretaker had the discretion to rear the child based on his rather limited knowledge and expertise.

However, the Congress president's decision to renominate Manmohan Singh as the Congress candidate for the Rajya Sabha from Assam is a strategically intelligent step. It speaks volumes of the Congress's commitment to follow the agenda of economic liberalisation as also set an example of honesty in public life. By taking this decision, Sonia Gandhi has renewed her commitment to economic reforms, despite a section of the Congress holding the view that the party's main electoral constituency, the poor, has been left untouched by the liberalisation process.

While the political debate is still on as to whether the economic reforms are marching towards the anticipated goal, the renomination of Singh has sent positive signals. Notwithstanding the debate on the virtues and vices of liberalisation, it is to the credit of Singh that the Nineties witnessed a higher rate of growth than any other decade after Independence. The period also witnessed a reduction in the quantum of poverty. It cannot be denied that the percentage of the poor has fallen in the last few years.

Singh is a rare example of an honest and committed economist in the political arena. He is credited with pioneering work in the field of economics. Having risen from a practising economist to eventually head the treasury of the largest democracy, he clearly provided the road map for the Indian economy to move faster and that too without hiccups.

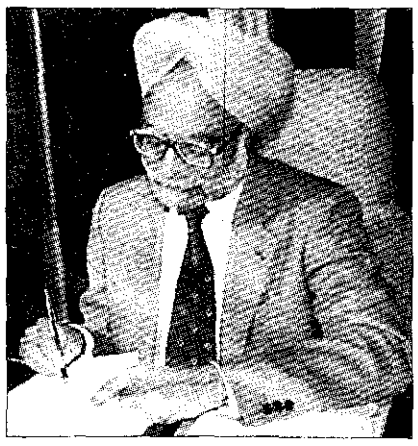
"He has achieved feats that few academics can dream of accomplishing," said Nobel laureate Amartya Sen, who describes Singh as the "civil servant with quiet efficiency who followed this up by becoming a statesman ushering in courageous and innovative reforms". Sen honours him as the "most innovative finance minister of modern India".

Another well known economist, Jagdish Bhagwati, sums up his contribution to the Indian economy: "After nearly three decades lost to a policy framework that handicapped our explicit objective of assuring minimum income to the country's numerous destitute and poor, Manmohan was given an opportunity by Rao in 1991 to reverse India's course. He seized it, and succeeded."

Singh, however, did face strong criticism whenever he made a major move. Despite his persuasive skills, he failed time and again to convince the political class of the merits of his economic agenda. The case of fertiliser subsidy was one such issue.

The second generation reforms by Vajpayee's regime lacks wisdom. The prime minister is merely indulging in rhetoric and charging the Congress with backtracking on the agenda of economic reforms. On the issue of re-structuring the food security system, including the dismantling of the Food Corporation of India, the missive of Singh to Yashwant Sinha that the decentralisation of procurement and distribution is being pursued without an idea about the consequences, is a strong reminder to the NDA government of such indiscretion. One should remember that the earlier fiasco of tampering with the PDS eventually boomeranged.

Sonia Gandhi's decision to re-induct Manmohan Singh in Parliament would also add a new meaning to the continuing debate on economic reforms. Any developing situation on the economy front needs a new perception and innovative solutions.



REWRITING REFORMS: Manmohan Singh

India can't afford to be trapped in a stereotype of the shelf model of economic reforms. It needs, not a standard but a customised software of economic reforms that is built on the basis of an immaculate need-based analysis followed by the development of prototypes. Quite expectedly, in the Bangalore plenary session of the Congress, the party has restated its position, particularly on the wider dimensions of economic reforms and on the policy of disinvestment of public sector undertakings.

The concern was expressed that a situation may arise when reservation for the scheduled castes and scheduled tribes, which was ensured in public sector undertakings, would be jeopardised and the deprived sections of society would be debarred from job opportunities. Would the private sector evolve a recruitment policy on the public sector model of empowering underprivileged communities? It is doubtful that the private sector would go for such a policy which is a pure anti-thesis to the concept of competitive economy.

Thus the issue requires a politically debated diagnosis. Can economic reforms in the mould of western economy divide India into two separate identities, one moving faster and the other slower and liable to be left behind?

Sonia Gandhi probably thought that any step, or any new policy on the economy front, would require an expert view and should be commensurate with the political needs of the Indian society. In this context, Manmohan Singh, who has a passionate concern for the poor, fits in to play a major role.

Through the years, the Congress has played a unique role in shaping the economic policy of India. It would naturally like to shape up the country's existing economic policies as well. And Manmohan Singh would be an ideal choice for the Congress to lead its think-tank, both in the Working Committee as also in Parliament.

The writer is a former MP

THE HINDUSTAN TIMES

India unlikely to attain 9% growth: *The Economist*

New Delhi, June 1

INDIA IS unlikely to achieve the average annual growth target of nine per cent in this decade if radical reforms are not carried out, UK-based journal, The Economist, has warned.

"The Government has done a lot in the past 10 years. India has lifted its growth rate during the 1990s but is still under-performing. It is unlikely to hit the target of nine per cent economic growth without further reforms as radical as those that came before and possibly more painful," it said in a recent survey on India. "If India is to fulfil its potential, its elected politicians must learn to think like managers," it said.

Unveiling the survey here last night, its author, Brooke Unger, told reporters last night that the reforms of 1991 have launched India in the direction most Indians would want to see it go — towards widely shared prosperity and a position of influence in the world. But even after 10 years of reforms, he said, "Government policies frustrate growth and employment."

"India was beginning its second decade of reforms in a gloomy mood. Growth in fiscal 2000 dropped for the second year running and a series of scandals have temporarily paralysed the Government," he said.

On the removal of quantitative restrictions, Unger said, "farmers and industrialists have been spooked. These disappointments are a result of too little reform rather than too much."

Unger said reforms had actually helped the poor and further doses of it would ultimately benefit them by raising economic growth rates and creating new employment.

He regretted that India was going out of its way to make it difficult for enterprises to be competitive and anyone doing business in India was running against institutionalised friction due to failure of both traditional and human infrastructure.

One of the reasons for the services sector to be the fastest growing in the economy was its ability to shield itself from the local conditions, he said.

The IT sector was successful because "they can replicate in India conditions enjoyed in western firms."

The survey painted a bleak picture on the other major sector. The agriculture sector, which occupies more than half the workforce, is hemmed in by countless restrictions, it said.

"A host of incentives, legal and illegal, discourage small enterprises from becoming big ones."

PTI

THE HINDUSTAN TIMES

Gurudas attacks Centre's new economic policy

HT Correspondent
Kolkata, May 31

EMPLOYEES OF both public and private sector are heading for a grim future. " *The current situation* is worse than the situation during the Emergency in the 1970s. The present Government is more interested in retrenching employees and privatising industries" said Gurudas Dasgupta, vice president, All India Trade Union.

Speaking in a seminar here today, he came down heavily on the central government's liberal policies. "Voluntary retirement schemes, popularly known as VRS is now being presented to a number of employees. But the number of people opting for it voluntarily is far less," he said.

Depen Ghosh, eminent trade union leader and editor of Janashakti pointed out the diminishing role of the customs department in the wake of the centre's new economic policy. " With the withdrawal of qualitative restrictions on more than *thousand items, import of foreign* goods have become easier and the role of customs been getting down sized day by day," he said.

The opening up of the defence sector for privatisation where Indian companies can set up wholly owned units along with a certain percentage of foreign investment came under heavy attack from the panel of speakers. The unions were worried about workers losing jobs but stressed on the fact of national security being jeopardized. Dasgupta stressed on the fact that defence industry workers would be more vulnerable due to the privatisation and foreign nations can easily know about facts resulting a threat to our nation.

An argument often led by the liberals that government should downsize its activities by not running hospitals, hotels, *schools, industries and concentrate* on activities like protecting the frontiers, fast paced reforms and printing of currency notes too were not spared. There was a consensus among all that the government is trying to shed responsibility by not looking after social welfare issues like heath, education and spending in that direction. Downsizing of the government would lead to further shrinking of job opportunities resulting decrease in purchasing power of the people. The union leaders urged all the trade unions to collectively join hands against fight against the anti poor policies of the centre so as to uplift the downtrodden and the unorganised classes.

THE HINDUSTAN TIMES

- 1 JUN 2001

HINDUSTAN TIMES

Power game

WHILE IT is too early to say how the Enron controversy will end, there is little doubt that the situation is worsening by the day. It isn't often that a power company stops generation, but this is exactly what the Enron-operated Dabhol Power Corporation has done after the Maharashtra State Electricity Board announced that it will not buy any more power from Enron unless it was priced reasonably. What this implied was a renegotiation of the Power Purchase Agreement (PPA), whose flawed nature has already led to such proposals being made. It is significant that Enron has indicated that it is willing to cut tariffs by 10 per cent and by another 10 per cent once it switches to LNG from naptha which it is using at present.But for MSEB,the price is still too high.

With the two parties hardening their positions, there was little option for the Centre but to intervene. As a first move, the Central Electricity Authority (CEA) has been asked to discuss with power-deficient states the quantity of power they can absorb from DPC and the tariff at which it can be sold. It is ironical that a renegotiation committee in 1995 had brushed aside the serious reservations expressed by the World Bank, Planning Commission and CEA over the way the project was prepared. The CEA, which is involved in every power project, had virtually no role to play in the Enron talks despite the legal requirement that the CEA has to give techno-economic clearance to the projects. If Maharashtra and the Centre pay up as a counter-guarantee what Enron has demanded,it will impose a huge financial burden on them. But if they don't, they will end up paying even heavier penalties.

Enron, on its part, appears to be following an uncompromising line. It managed to get a 16 per cent rate of return for its 740 MW first phase and closed the first year of its operations with a post-tax profit of Rs 200 crore. Over 90 per cent of the work on the 1,444 MW second phase has been completed, but Enron has decided to suspend work pending the settlement of its dues from MSEB. However, little progress is expected in this matter and, as a result, the controversy may only become messier. For the Centre to offer power to states at prices to be determined by CEA seems to be a belated effort to cover up its past mistake. If Enron were to accept the proposition, then it may as well renegotiate the tariff with MSEB. In a country suffering from severe power shortage, cases like the present one show what political shortsightedness can do. India needs power, but the deals have to be worked out with much greater care.

THE HINDUSTAN TIMES