# Kelkar panel tones down tax proposals

Statesman News Service

NEW DELHI, Dec. 27. — Bowing to public concerns, the Kelkar Committee on taxation reform appeared to tone down its proposals, choosing to reduce, not abolish, sops on housing loans and pegging the rebate limit on interest payments at Rs 50,000. The committee today submitted two reports on direct and indirect taxes to finance minister Mr Jaswant Singh.

The three key features of the direct tax reforms were additional relief for senior citizens and widows, fiscal support for low income groups and encouragement to savings in the form of annuity and pension schemes.

The exemption limit for rebate on pensions under section 80CC has been doubled to Rs 20,000, while the income tax exemption limit for senior citizens and widows has been raised to Rs 1.5 lakh from the Rs 1 lakh proposed earlier. For the salaried, the task force report retained the income tax exemption limit at Rs 1 lakh, with the two slabs of 20 per cent from Rs 1-4 lakh income and 30 per cent for more than Rs 4 lakh a year. Corporation tax proposed was pegged at 30 per cent, down from the present 36.75 per cent.

The task force proposed a reduction of duty to 20 per cent on consumer goods and 10 per cent on raw materials by 2004-'05.

Retaining a measure that is not likely to go down well with a powerful lobby, including within the ruling party, however, the panel recommended a proposal to tax agricultural income of non-agriculturists. Answering questions on the report's salient features, Mr Vijay Kelkar, adviser to the finance minister, told reporters the panel proposed exemption of domestic companies from paying tax on dividend and long-term capital gains.

While recommending income deduction up to Rs 50,000 on interest payments of housing loans (against Rs 1.5 lakh sought by the industry), it suggested that an interest subsidy of two per cent for loans upto Rs 5 lakh be given to borrowers later. This would help prospective house-builders earning less than Rs 1 lakh per annum. Deduction of up to Rs 50,000 on housing loan interest payments would continue till the two per cent interest subsidy was implemented, because the bulk of loan takers belong to this category.

Mr Vijay Kelkar: Taxman cometh

On excise, the panel recommended zero duty on life-saving drugs, security and food items, six per cent for processed food, and a 14 per cent standard for all items except for motor vehicles, air-conditioners and aerated water, for which the proposal is 20 per cent.

It proposed further reduction on customs duty from 2006-'07 with five per cent for basic raw materials like coal, eight per cent for intermediate goods and 10 per cent for finished goods other than consumer durables.

**Highlights of the report, page 9**

28 DEC 2002

# Disinvestment decision put off

Statesman News Service

NEW DELHI, Dec. 27. — It was certainly an anti-climax, and perhaps, a setback. The disinvestment minister, Mr Arun Shourie, today announced that no decision on the privatisation of Hindustan Petroleum or Bharat Petroleum could be taken because the attorney general, Mr Soli Sorabjee, is yet to submit his opinion on the Nationalisation Act.

Speaking to reporters today, Mr Shourie, who delayed making his announcement, said the attorney general had not given his view as he had to visit Mumbai after the death of the eminent lawyer and former ambassador to Washington DC, Nani Palkhivala. He did not say by when Mr Sorabjee would share his views with the government.

"There are so many matters in which he has been asked," Mr Shourie said, when asked why the AG had not informed as yet. He added that in view of the situation, no discussion on the contentious disinvestment of the two firms took place. The discussions were certainly going to be contentious as even yesterday, the defence minister, Mr George Fernandes, had opposed certain aspects of the plan.

The petroleum minister, Mr Ram Naik, also opposes some issues. It was learnt he opposed the decision not to allow public sector units to bid for the equity in BPCL and HPCL. Nor was he happy with the per cent of equity to be disinvested. Mr Shourie did not say when the next meeting of the Cabinet committee on disinvestment would take place.

Speaking about other disinvestment issues, he said the CCD had returned eight units to the department of heavy industries as there were no bidders, even if they were restructured. About Balmer-Laurie, he said, disinvestment would go forward and 11 firms were interested. He said there were bidders for the Palghat unit of Instrumentation Control, but none for two units in Jaipur and Kota respectively. The workers of Palghat unit, initially violently opposed to disinvestment, have changed their minds, he said.

HOCL, he said, was once a profitable company, but in recent times, because of the entry of foreign firms and dumping, its fortunes have taken a turn for the worst. Now that dumping is no longer allowed, it is gradually improving its position. it will be restructured, he said. In the case of NEPA, the bid has been rejected and the process would begin again, while the Central Indian Water Corporation disinvestment would begin after consulting the shipping ministry.

As for the Centaur Hotel in the capital, the process would begin again as its value would go up once Delhi airport is modernised with international help. There will be no restriction on sale but it would have to remain a hotel. As for National Fertiliser, Mr Shourie said the process would start again. The firm has recently benefited because a loan will be repaid and the new policy appears to bring it benefits. He said fresh bids would be invited and the private sector would not be the only bidders invited.

As for the Cabinet committee on the World Trade Organisation, he said a Group of Ministers headed by the finance minister, Mr Jaswant Singh, has been set up. The foreign minister, Mr Yashwant Sinha and the law minister, Mr Jana Krishnamurthi, besides himself will be on the GOM.

THE STATESMAN

2 8 DEC 2002

# Shourie aggression in selloff blueprint

JAYANTA ROY CHOWDHURY

**New Delhi, Dec. 26: Disinvestment minister Arun Shourie has raised the stakes in the battle in the Cabinet over sale of government equity in two oil companies.**

In a move that appears to be almost an invitation to brawl to the opponent camp of defence minister George Fernandes and petroleum minister Ram Naik, Shourie is taking the divestment of government holding in Bharat Petroleum (BPCL) and Hindustan Petroleum (BPCL) beyond what had been expected after a meeting of the ministers ranged on either side earlier this month.

That meeting — in the presence of Prime Minister Atal Bihari Vajpayee and his deputy L.K. Advani — had appeared to have settled the ugly fight within the Cabinet over divestment.

The acrimony, it seems ahead of tomorrow's meeting of the Cabinet committee on disinvestment, may be far from over.

In a revised Cabinet note, Shourie has recommended that a 38.2 per cent stake in BPCL should be sold to the public and a mere 2 per cent offered to the employees.

He has also kept the option of offloading some more of the holding in the American or the European market, reducing the government's stake to less than 20 per cent.

Shourie's proposal goes directly against what Naik has been seeking. The petroleum minister has been insisting that 10 per cent should be offered to BPCL employees and the government should continue to have a substantial holding so that it is in a position to thwart a takeover threat. Critics suggest that Naik has been demanding a higher government/employee holding to perpetuate his ministry's control.

It is also an improvement on what Shourie had earlier indicated in the draft notes, which said 35 per cent would be sold to the public and 5 per cent to the employees.

If Shourie's suggestion is accepted, more than three-quarters of BPCL shares will be out in the market.

He has also recommended sale of 34 per cent in HPCL to a strategic stakeholder and 2 per cent to employees. Earlier, the government had indicated it would sell 26 per cent to a strategic bidder.

His position has been bolstered by the finance ministry's stand that a single-stage strategic sale (which means selling to one entity or a consortium at one go) would fetch a higher price. The Cabinet note seeks to cut the government holding to a mere 15 per cent.

The petroleum ministry has been pressing for a two-stage sale on the argument that the global economy is on the upswing and can be expected to be nearer a peak in a couple of years when HPCL could command a higher price.

The committee of secretaries, which met today to clear the proposals that will be taken up by the Cabinet committee, agreed to allow cooperative giants like Kribhco and Iffco, in which the government has a substantial stake, to bid for HPCL. This is being seen as a concession to the anti-divestment lobby.

While a political decision on allowing public sector giants like ONGC to bid for HPCL exists, the Cabinet note is fuzzy on the issue, leaving scope for a compromise with Shourie's ministry being allowed to sell a higher-than-expected stake in the two oil companies.

Tomorrow's meeting will also decide the sale of Calcutta-based Balmer Lawrie. Cochin and Hindustan Shipyards, Bharat Brakes and Valves and Hindustan Insecticides are the others on the list.

It is expected to clear a 51 per cent strategic sale in Indian Control Valves and 32.6 per cent in Hindustan Organics, as well as divestment from Nepa, Inland Waterways Ltd and Chefair.

THE TELEGRAPH

27 DEC 2002

# Kelkar panels tone down proposals, will submit reports today

TIMES NEWS NETWORK

**New Delhi:** The two task forces on direct and indirect taxes, both headed by advisor to the finance minister Vijay Kelkar, will submit their much-diluted reports to finance minister Jaswant Singh on Friday. The panels, which had earlier made far-reaching recommendations for tax reforms in their respective consultation papers, have now toned down their suggestions keeping in view the strong political opposition to their initial recommendations.

"Political expediency seems to have got the better of economic rationale," conceded a member of the task force on direct taxes, which had earlier suggested a tax on agriculture income and withdrawal of many of the existing tax benefits for housing and saving schemes.

The task force on indirect taxes was to submit its final recommendations on Thursday but had to postpone it to Friday as the finance minister was unwell.

Officials said the task force on direct taxes is, in particular, expected to water down many of its recommendations in the final report, particularly on personal income tax pertaining to incentives for housing loans in the face of widespread criticism from within the BJP. Also, the suggestion for an agricultural income tax will likely be given a quiet burial since "it's sacrilege to talk about taxing farmers in a difficult drought year with state assembly elections due in nine states in a few months".

Sources said the task force will now recommend a deduction of up to Rs 50,000 per annum of interest payments on housing loans, set-offs for assessees with taxable income between Rs 1 lakh and Rs 2 lakh and continuation of tax rebates for senio r citizen under Section 88-B and women under Section 88-C. In effect, sources said, provident fund contributions up to a ceiling limit will continue to be exempt from tax.

At present, interest repayment of up to Rs 1.5 lakh annually on housing loan for a self-occupied house is exempt from income-tax. An allowance of up to Rs 50,000 a year will cover interest repayments on housing loans of Rs 5 lakhs to Rs 6 lakhs. Almost 90 per cent of the housing loans are between Rs 5 lakhs and Rs 6 lakhs.

It is expected to retain the recommendation for raising the tax exemption limit to Rs 1 lakh and also stick to bring down the tax rates and slabs to just two: A 20 per cent tax on income between Rs 1 lakh and Rs 4 lakhs and 30 per cent tax on income above Rs 4 lakhs.

The task force on excise and customs, on the other hand, is expected to suggest specific duty rates for petrol and diesel and cutting of excise for cars, in an attempt to cheer consumers and unleash competition in the economy. The final report will stick to the roadmap of bringing down customs tariffs to just two rates of 10 per cent and 20 per cent in the next couple of years.

**Kelkar's revised tax regime..**

- **Will propose deduction of up to Rs 50,000 p.a. on interest payments of housing loans**
- **Is expected to retain the recommendation for raising the I-T exemption limit to Rs 1 lakh and maintain only two tax rates and slabs**
- **Will bury the idea of an agricultural income tax**
- **Continue rebates for senior citizens, women**
- **Will suggest specific duty rates on petrol and diesel and cutting of excise on car**

27 DEC 2002
THE TIMES OF INDIA

# Kelkar report not final: FM

HT Correspondent
*New Delhi, December 23*

SENIOR BJP leaders attending a key conclave on Monday criticised Vijay Kelkar's report on direct and indirect taxes. According to party sources, the leaders were of the opinion that the Kelkar Task Force recommendations were "tilted towards the corporate sector and big business houses and had no benefit for the middle and working classes, senior citizens and women taxpayers".

- Modernisation of tax administration
- Raising of IT exemption limit to Rs 1 lakh
- Abolition of dividend tax
- Abolition of long-term capital gains tax

- Proposal to remove deductions on interest on housing loans
- Proposal to tax agricultural income
- Proposal to remove incentives for SEZs, backward areas

A nine-member committee headed by Rajnath Singh presented its report at the conclave, rejecting most of Kelkar's proposals including some that had sent shivers down the middle class' spine.

BJP members strongly opposed the recommendation on agriculture tax, saying that the country was heavily dependent on agriculture and it was not proper to tax the sector.

Sensing the mood of the party's national executive, Finance Minister Jaswant Singh reportedly assured leaders that he had initiated steps to ensure that there was no additional burden on the salaried class. He ruled out the possibility of taxing the farmers.

BJP leaders called upon the Government to retain tax benefits for the middle-class, farmers and small-scale industries as Assembly elections were due in 10 States in the year ahead. Singh said tax exemptions on housing loans will continue.

2 4 DEC 2002

THE HINDUSTAN TIMES

# Economy on right track, says PM

## Promises 8 p.c. growth rate

Times News Network

**New Delhi:** Inaugurating the National Development Council (NDC) meeting that approved the 10th Five-Year Plan (2002-2007) here on Saturday, Prime Minister Atal Behari Vajpayee reeled out all the prescriptions for a high growth rate—fiscal consolidation, targeted subsidies, power reforms, and acceleration of reforms. But, like previous NDC meetings, this was a statement of intent rather than fact.

Mr Vajpayee made a ritual lament about the high fiscal deficit, the gap between what the government spends and earns. While he said that this had been created by "untargeted, runaway subsidies", all he could promise was yet another finance ministry paper on the reform of subsidies.

As is mandatory on such occasions, Mr Vajpayee also played the dream-weaver, promising an eight per cent growth rate in the Plan period. To this end, he called for a "speedy consensus" on crucial reforms, including the fiscal deficit, adding, "If we remove the many constraints and hurdles in agriculture, industry and services, the Indian economy will undoubtedly attain a higher growth rate." The trends of a revival were visible in many sectors, he noted.

With the general elections a little more than a year away, the chances that the government will take hard decisions on reforms, or for that matter get bipartisan support for its efforts, appear to be bleak. This was apparent from the speeches of a number of chief ministers of Congress-ruled states who trashed the Centre for "politicisation of resource allocation"—in other words giving Chandrababu Naidu whatever he demands.

The areas listed for consensus by Mr Vajpayee are fiscal consolidation, stabilisation function of the plan, public-private partnership, acceleration and expansion of reforms, connecting major rivers, problems of urbanisation and reforms for the poor.

On accelerating reforms, Mr Vajpayee's focus was on removing bottlenecks in energy, transport and water infrastructure. To enhance revenue, the Prime Minister said there was a need to ensure that the VAT (value-added tax) regime was implemented in all states from April 1 next year.

Besides a plan for the fiscal deficit, an action plan had been prepared for re-engineering all regulatory requirements at the central, state or municipal levels involved in the execution of investment projects.

Seeking the cooperation of state governments for its implementation, Mr Vajpayee said this was necessary to ensure that the present inefficiencies and harassment at the business-government interface disappeared.

**Comment:** Yes, Prime Minister, we agree. In fact, we have been agreeing with you on this subject for more years than we care to remember. But do all your NDA colleagues think the same way?

### Amar, Akbar, Antony in the time of national angst

Gautam Singh

**Kashmir chief minister Mufti Mohammed Sayeed (right) shakes hands with Prime Minister Atal Bihari Vajpayee as Kerala chief minister A.K. Antony waits his turn at the 50th meeting of the National Development Council held at Vigyan Bhavan in New Delhi on Saturday. The chief ministers from other states include Maharashtra's Vilasrao Deshmukh (in cap) and Chhattisgarh's Ajit Jogi**

# 20 killed as train jumps rails in AP

Times News Network

**Kurnool\New Delhi:** Twenty passengers were killed and 87 injured when the engine and ten bogies of the Kacheguda-Bangalore Express jumped the rails near a culvert at Ramlingayapalli in Kurnool district of Andhra Pradesh early on Saturday.

According to South Central Railway officials, the accident took place at about 1.05 a.m. when the train was travelling at a speed of 80 kmph. Two of the general compartments and the S-14 coach fell off the 20-foot-high bridge. All deaths were reported from these three bogies.

As Andhra Pradesh technical education minister N. Anjaneyulu, three MLAs and a host of senior railway officials were also travelling by the ill-fated train, the news of the accident was immediately flashed to nearby stations, besides the South Central Railway headquarters in Secunderabad.

With the help of local revenue and police officials, who arranged special buses, the injured were shifted to hospitals in Gooty, Kurnool and Anantapur in less than two hours.

So far, the cause of the accident has not been ascertained. This time around, the Railway Board is being cautious and has passed the word around that no cause be attributed before an investigation. On Saturday, general manager of South Central Railway S.N. Singla did hint at a sabotage but was not explicit. He said the preliminary investigation had revealed that "the railway line has been found in two pieces. It appears it has been cut".

AP

**The derailed Bangalore Express near Pendakal**

Senior Railway Board officials ruled out the possibility of the People's War Group, which is active in the area, being involved in Saturday's accident. "There is not a single incident in which the PWG has attacked the general public in a terrorist act. It only attacks government property, not even government employees," an official said.

**Comment:** Another horrific tale from one of the world's great rail networks. But take heart, the rail ministry has ordered an immediate probe. Except, does anybody remember the fate of the last one?

# Govt. to seek AG's opinion on sale of oil companies

By Our Special Correspondent

NEW DELHI, DEC. 10. The disinvestment process continued to generate heat in Parliament, with the Lok Sabha witnessing noisy scenes today even as the Government assured the Rajya Sabha that it would seek the Attorney-General's opinion on the legal aspect of the decision to sell public sector oil majors, HPCL and BPCL.

Responding to the issue raised by Manmohan Singh, Leader of the Opposition in the Rajya Sabha, the Disinvestment Minister, Arun Shourie, said he had earlier sought the view of the Solicitor-General who said the Government could undertake the sale of the two companies.

Mr. Singh said the Attorney-General should be called to the House which would like to hear from him the legal position. The Opposition has taken the stand that the sale cannot be effected without either amending or repealing the Acts of Parliament to set up the public sector oil majors, HPCL and BPCL, in the Seventies.

In the Lok Sabha, trouble began at the start of zero hour with the Congress Chief Whip, Priyaranjan Das Munshi, challenging the Centaur Hotel sale on various counts. Somnath Chatterjee (CPI-M) objected to the manner in which the Government was selling off companies made by Acts of Parliament without taking Parliament into confidence.

Though the Speaker, Manohar Joshi, said he was prepared to allow a detailed discussion on disinvestment, both sides kept up their verbal assault with accusations of "loot and plunder" flying thick and fast.

A visibly irritated Chief Whip of the BJP, V. K. Malhotra, sought to defend the Government by maintaining that it was not going against the law, and said the issue should be discussed once and for all, instead of being brought up on a daily basis.

Sanjay Nirupam (Shiv Sena) said in the Rajya Sabha he had given notice to move a privilege motion against the Disinvestment Minister.

THE HINDU

11 DEC 2002

OIL PSUs' SELL-OFF FINALISED

# Centre clears divestment

Statesman News Service

NEW DELHI, Dec. 9. — Despite continued opposition from within and without the government, the disinvestment process received the go-ahead today when the minister, Mr Arun Shourie, informed the Lok Sabha that there were no restrictions on the sale of equity in two oil PSUs – HPCL and BPCL – acquired by Acts of Parliament. The decision was taken, Mr Shourie said in a suo motu statement to the House, at a meeting held at the Prime Minister's residence on 6 December.

The government has decided to disinvest in the Bharat Petroleum Corporation Limited through the sale of shares to the public, while the Hindustan Petroleum Corporation Limited will be disinvested through a strategic sale. The government had also decided to allot a specific percentage of shares of both companies to employees, at a concessional price, Mr Shourie said.

"The main objective of disinvestment," Mr Shourie said, "is to put national resources and assets to optimal use," specifically aiming at modernisation and upgradation of Public Sector Enterprises, the creation of new assets, the generation of employment and the retiring of public debt.

Opposition members, led by the Congress, rejected Mr Shourie's statement on disinvestment of HPCL and BPCL and walked out of the House saying the government should come clean on the issue. Two key allies of the ruling NDA, the Samata Party and the Shiv Sena, also joined the Opposition in attacking the government on disinvestment of profit making PSUs, but did not walk out, demanding instead, a detailed discussion.

In the Rajya Sabha, the Opposition created noisy scenes shortly after Mr Shourie finished reading his statement. The members demanded that, since these companies were created by Acts of Parliament, the government could not take a decision to privatise.

"When we go to the CCD we will have answered all the issues raised today," Mr Shourie said when asked about the issue of legality raised by Congress MPs, including former finance minister Dr Manmohan Singh in the Rajya Sabha.

Mr Shourie said an asset management company under the auspices of the finance ministry will be set up to deal with the government's residual stake in the PSUs that have been disinvested.

Pointing out that successive governments had divested 49 per cent equity in HPCL and 34 per cent equity in BPCL after acquiring the two companies from MNCs Esso and Burmah Shell, Mr Shourie said the law was the same "for one share or more." As per the Acquisition Act, there were no restrictions in change of equity holding, and the two companies were governed by the Companies Act after their nationalisation, he said.

## THE MODALITIES OF SALE

**Mr Shourie announced that the sale of BPCL would be through the stock market route while HPCL would be sold via strategic sale. Cheap shares for company workers are to be made available and an asset management company will oversee the disposal of residual government holdings in the oil majors**

Another report on page 12

10 DEC 2002

THE STATESMAN

# Divestment of HPCL, BPCL announced

By Our Special Correspondent

NEW DELHI, DEC. 9. Amid uproar in both Houses of Parliament, the Disinvestment Minister, Arun Shourie, announced today that the Government was going ahead with the privatisation of public sector oil companies and the sale of equity in the Hindustan Petroleum Corporation Limited (HPCL) and the Bharat Petroleum Corporation Limited (BPCL). The compromise formula envisages the sale of HPCL to a strategic partner and a public offer in the case of the BPCL.

The decision to fine-tune the disinvestment policy was taken at an informal meeting on December 6, presided over by the Prime Minister, Atal Behari Vajpayee, Mr. Shourie said in a statement.

However, the Government would continue to ensure that "disinvestment does not result in the alienation of national assets, which, through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies," he said. A percentage of shares would be kept for employees of the two companies at a concessional one-third price.

As for the disinvestment of "natural asset companies," Mr. Shourie said that the Finance and Disinvestment Ministries would work out guidelines.

This is evidently a reference to companies dealing with natural resources such as coal and aluminium, and puts a question mark on the disinvestment process for the National Aluminium Corporation Limited (NALCO), which has been marked by controversy lately.

Mr. Shourie said a Disinvestment Proceeds Fund would be set up for financing fresh employment opportunities and investment, and for the retirement of public debt.

The controversy over the issue appeared all set to snowball as the Opposition forced an adjournment in the Rajya Sabha and staged a walk-out in the Lok Sabha.

The former Finance Ministers, Manmohan Singh and Pranab Mukherjee, said in the Rajya Sabha that the disinvestment proposals had no validity in the absence of legislative measures to repeal the nationalisation of the two oil companies.

The protests by the Opposition members, who rushed to the well of the House, led to an adjournment while the entire Opposition in the Lok Sabha walked out protesting the failure to have a full discussion on the issue.

# Anees Ibrahim held in Dubai

DUBAI, DEC. 9. Anees Ibrahim, younger brother of the Mumbai underworld don Dawood Ibrahim, wanted in several criminal cases in India, has been arrested here, according to official sources.

Anees was held on December 3 on the basis of a Red Corner alert issued by the Interpol after he flew in from Pakistan on November 29, the sources told PTI today. A CBI team arrived here on Sunday to expedite the proceedings to take Anees to India under a UAE-India extradition treaty signed in 1999, they said.

**Atul Aneja** reports from Manama (Bahrain):

The possible extradition to India of Anees Ibrahim who has been detained by the Dubai police is likely to be a time-consuming exercise, highly-placed sources told *The Hindu*.

The sources pointed out that the detention of Anees followed a determined drive by the UAE Government against allowing its territory be used as an underworld haven. In fact, the UAE Government had declared its intention to crack down on criminal gangs on a number of occasions recently.

Anees was arrested by the Dubai police on two earlier occasions and he was also picked up by the authorities in Bahrain in 1996. India's talks with Bahrain on an extradition treaty were revived earlier this month.

See also Page 12

THE HINDU 10 DEC 2002

# Reservations remain over disinvestment

By Sushma Ramachandran

NEW DELHI, DEC. 6. The public sector disinvestment process appears to have resumed for the time being with a compromise formula believed to have been hammered out for the Hindustan Petroleum Corporation Limited (HPCL) and the Bharat Petroleum Corporation Limited (BPCL). Reservations over the modalities of disinvestment, however, are not expected to completely die down as there remains considerable opposition to the disinvestment of profit-making public sector units like the National Aluminium Corporation Limited (NALCO).

Even in the oil sector, the controversial issue of strategic sale of HPCL and BPCL has been resolved by a compromise which apparently envisages that only one company is offered for bidding. HPCL, which was originally taken over from Caltex and nationalised about 30 years ago is expected to be put up for strategic sale, while the BPCL, which was the erstwhile Burmah Shell Company, will be retained under government control.

The Petroleum Minister Ram Naik had urged that both HPCL and BPCL be allowed to go ahead with IPOs and raise resources for expansion before being privatised, but his plea has been upheld only in the case of BPCL.

Though the compromise was evidently reached at the informal meeting of the Cabinet Committee on Disinvestment (CCD) on Wednesday, there continues to be vociferous opposition to the disinvestment process within the Bhartiya Janata Party as well as its allies. The next major case likely to be taken up is NALCO, which has already prompted dharnas and agitations in Bhubaneshwar as well as manhandling of teams from companies involved in the bidding. The Disinvestment Ministry has blandly been maintaining that it will be continuing the process in the absence of any directives to the contrary, despite the fact that the Coal and Mines Minister, Uma Bharti, has publicly voiced her objections to the NALCO sale.

Simultaneously, the controversy over the re-sale of Centaur Hotel by the original buyer, A.L. Batra, continues to rage with the Shiv Sena MP, Sanjay Nirupam, alleging graft in the deal. The issue has been referred to the Law Ministry for a view but indications are that future deals will include a clause precluding re-sale for a specified period of time. This is largely because even the Disinvestment Ministry appeared to have been amazed by the rapid resale, though Mr. Batra has denied that the profit is much since he had to add various interest and debt liability to the re-sale prices.

In this backdrop, it seems that public sector disinvestment is not likely to be smooth sailing even though Wednesday's meeting, presided over by the Prime Minister, Atal Behari Vajpayee, succeeded in resolving the contentious issues relating to HPCL and BPCL.

7 DEC 2002

CABINET PANEL DISCUSSES ISSUE OF OIL COMPANIES

# Unanimous decision on disinvestment: Shourie

By Sushma Ramachandran

**NEW DELHI, DEC. 5.** Differences over disinvestment appear to have been buried today with a "unanimous" decision having been taken on the issue at an informal meeting of the Cabinet Committee on Disinvestment (CCD) presided over by the Prime Minister, Atal Behari Vajpayee.

Briefing the media after the meeting, Mr. Shourie said a decision had been taken unanimously on disinvestments and he had been authorised to make a full statement in Parliament giving the details. But he downplayed past dissensions stressing that the decision was taken unanimously.

But it was not clear whether the meeting took up the issue only of the strategic sale of the oil sector companies, Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL) or it considered a review of the entire process of public sector disinvestments.

Although the decision to opt for a three-month pause in disinvestment had been taken when the CCD took up proposals for the strategic sale of HPCL and BPCL on September 7, the Defence Minister, George Fernandes, has been seeking a comprehensive review of the disinvestment process.

When contacted, the Petroleum Minister, Ram Naik, also told *The Hindu* that there had been unanimity at the meeting on the issues discussed but did not indicate the precise areas taken up.

Among those who attended the informal CCD which took place immediately after a meeting of the Cabinet earlier in the evening were the Deputy Prime Minister, L.K. Advani, the Finance Minister, Jaswant Singh, the External Affairs Minister, Yashwant Sinha, Mr. Fernandes, Mr. Naik and Mr. Shourie.

With this meeting, the Government has fulfilled its commitment of taking a decision on public sector disinvestments relating to HPCL and BPCL after three months. The entire issue became controversial since the Petroleum Ministry was opposed to strategic sale of these companies on the ground that it would be better to opt for initial public offers (IPOs) so that they could raise sufficient resources to carry out expansion plans.

The Disinvestment Ministry, on the other hand, felt that the time was ripe for a strategic sale of both the companies as the market was buoyant. In the event, the market crashed after the last CCD meeting in September, prompting the Government to seek an investigation about profiteering and market speculation by the regulator, Securities and Exchange Board of India (SEBI).

But it was Mr. Fernandes who really set the cat among the pigeons by demanding a review of the entire disinvestment process, especially of the oil sector companies because of their strategic importance. He was joined in the chorus of opposition to the public sector disinvestments by the Coal and Mines Minister, Uma Bharti, the Civil Aviation Minister, Shahnawaz Hussain, and the Chemicals and Fertilizers Minister, S.S. Dhindsa, as well as the Human Resource Development Minister, Murali Manohar Joshi.

The Sangh Parivar added its objections to the sale of national assets even while demanding the resignations of the Ministers concerned. It was no wonder then that the Prime Minister decided to opt for the three-month pause before going ahead with the oil sector disinvestments issue, about which a formal decision will now be announced in Parliament next week.

UNI reports:

Neither Mr. Shourie nor Mr. Naik was willing to say whether HPCL and BPCL would be disinvested. But sources indicated that a compromise formula had been worked out on the privatisaion of these companies.

Asked whether he was satisfied with the "unanimous" decision, Mr. Naik said "I am always happy".

# CAUTIOUS OPTIMISM

THE MID-YEAR ECONOMIC Review presents an optimistic picture of the economy even while being realistic enough to lower the GDP growth forecast to between 5 and 5.5 per cent, a full percentage point lower than what was believed to be possible earlier. The RBI in its recent monetary policy review had acknowledged as much. The Mid-Year Review, while not being original, has the merit of not glossing over the inadequacies of the macro economy. Notably, on the perennial weakness of public finance, it again makes a strong pitch for fiscal consolidation. There could be slippages during the remainder of the year: the additional expenditure on drought relief and higher outgo on subsidies can neutralise the gains recorded during the first six months in achieving a reasonable level of financial rectitude. The Centre's gross tax revenues in the first six months have been 16.9 per cent higher, total revenue receipts have grown by 15.9 per cent while the growth in total expenditure has been reined in. Yet, there could be unanticipated pressures on both revenue and expenditure as a direct consequence of the weakening of the growth momentum.

The survey's underlying message is that the economy has fared well in what has been a difficult year. Things could have been worse. The failure of the monsoons, the uncertainties in western Asia and the recessionary trends in the economies of major trading partners have been dampeners. However, the survey feels that the prospects have improved recently belying the earlier gloomy forecasts in the wake of the drought conditions. The GDP growth during April-June 2002 at 6 per cent was higher than the 3.5 per cent recorded during the last quarter of the last fiscal year. There have been many positive features: the success achieved in containing prices despite the failure of the monsoons, the buoyancy in exports and the large accumulation of external reserves (now over $66 billion). Industrial growth during April-September this year at 5.2 per cent is sharply higher than the 2.4 per cent recorded during the same period last year. Core industries such as cement and steel have been faring particularly well, no doubt aided by the impressive growth in housing and road construction. Taking into account the turnaround in capital goods and textiles, the survey anticipates a distinct revival in industrial activity. Even the agriculture sector can turn out to be more resilient than what was expected earlier.

None of the above is strikingly original. Even the survey's articulation of the policy stance is familiar. Structural reforms, infrastructure development, fiscal consolidation and stepping up investment have remained the key tenets of economic policy in recent times and will surely be echoed in the annual budget-eve Economic Survey and the Finance Minister's proposals. Its views on the currently topical disinvestment programme are only a restatement of what has been an integral part of the reform agenda. The current practice of looking at it from a narrow revenue perspective should be discouraged. However, in a year when the realisation from the public sector sale has so far been only a fourth of what has been budgeted those words will appear to be a weak rationalisation.

However, the Mid-Year Review, the first of its kind, aims to achieve certain objectives that go well beyond updating macroeconomic data and policy stance. Presented as an exercise aimed at demystifying the budget and arcane economic matters, the Mid-Year Review seeks to start an informed public debate on likely policy options. There will be a number of benefits, if that approach succeeds. The reform programme will become participative and difficult economic decisions can be taken more democratically. It can enlarge public participation in policy formulation. There would be greater transparency in and less resistance to executing those policies agreed on after a wide public debate. There has been a welcome recognition that both the formulation and monitoring of economic policies are a continuous process. Many of the Review's laudable objectives cannot be achieved immediately but there is every reason to persist with it and depending upon the feedback improve upon it.

5 DEC 2002

THE HINDU

# Divestment: MPs seek to hold reins

TIMES NEWS NETWORK AND AGENCIES

**New Delhi:** The last vestiges of any political consensus on the privatisation process broke down on Wednesday with MPs cutting across party lines attacking the government policy and a constituent of the ruling coalition, the Shiv Sena, levelling charges of corruption against disinvestment minister Arun Shourie.

A major outcome of the debate on disinvestment in the Rajya Sabha was the demand for a policy paper on privatisation for parliament to adopt. "Privatisation is anathema to the constitution," independent MP and constitutional expert Fali Nariman said. He argued that earlier governments, while nationalising certain companies had done so through acts of parliament. "Legislation is required to undo what has been done."

Demanding a CBI inquiry into the sale of the Airport Centaur Hotel in Mumbai, Shiv Sena Rajya Sabha member Sanjay Nirupam alleged that one Ashok Kapur—whom he described as Mr Shourie's "friend"—was involved with A.L. Batra, who had bought and resold the hotel to the Sahara group at a profit of about Rs 40 crore in a couple of months. Mr Nirupam further alleged that Mr Kapoor was in touch with Mr Shourie.

Mr Shourie replied that there were two opinions on whether Mr Batra had violated the lease agreement, and hence the deal had been forwarded to the law ministry. Based on the law ministry's advice, the government would decide whether or not to proceed against the company, he said. "We have sent the matter of sale of Centaur to the law ministry because we do not want to put the entire disinvestment process under a cloud. If this deal is found to be fraudulent, the personal guarantee of the owner of the A.L. Batra group will be encashed," he added.

Mr Shourie also asserted that everything Mr Nirupam had alleged was a fabrication.

The minister admitted that there was a difference of opinion in the government about the disinvestment process and hence a review was being undertaken from September 7 to December 7. After the review, the government proposed to set up a disinvestment fund, but it had not decided how to use the proceeds from the sale of PSUs.

Manmohan Singh and Pranab Mukherjee of the Congress sought a policy paper to give a direction to the process of privatisation. Mr Shourie said the privatisation policy and guidelines had been circulated in the form of a book and were also available on the Net.

## ITDC chief shunted out

TIMES NEWS NETWORK

**New Delhi:** The disinvestment process has claimed its first victim. Head of India Tourism Development Corporation (ITDC) Ashwani Lohani has been sacked, apparently at the behest of the Prime Minister's Office, despite tourism minister Jagmohan's strenuous efforts to retain him. Mr Jagmohan, it is learnt, had even met the Prime Minister on the issue.

The directive from the appointments committee of the cabinet, which reached the ministry on Tuesday, sends Mr Lohani back to his parent railway ministry with immediate effect. Mr Lohani, whose tenure as ITDC director was to run until August 2003, is expected to hand over charge on Thursday morning to the ministry's joint secretary Amitabh Kant.

THE TIMES OF INDIA 5 DEC 2002

MID-YEAR ECONOMIC REVIEW

# Govt. committed to disinvestment process

Our Special Correspondent

NEW DELHI, DEC. 3. The Union Finance Minister, Jaswant Singh, today labelled the rising fiscal deficit of the Central Government as a "major area of concern" and hinted that the situation could deteriorate in the remaining period of the current fiscal year unless corrective measures were initiated. However, he projected an economic growth of between five and 5.5 per cent for the current year, in line with the Reserve Bank's projection.

In terms of policy initiatives, the review suggested accelerating the structural reforms, rapid improvement in infrastructure, continuous progress in fiscal consolidation and accelerating investment for sustained growth and enhanced employment. In this context, the Finance Ministry has committed itself to public sector disinvestment and increased foreign direct investment and conceded that most of these initiatives required a political consensus and a sense of commitment towards reforms.

Presenting the first-ever mid-year review of the economy in Parliament, Mr. Singh outlined some of the corrective measures as a tax system with minimum exemptions in excise and sales taxes, a move towards value added tax (VAT), rationalisation of pension and other retirement benefits and revision in the interest rates on small savings in line with market-related developments. Besides, a reprioritisation of subsidies, through a rationalisation of prices of food, fertilizers, LPG and kerosene, has been suggested.

Mr. Singh, however, did not mention any tampering with exemptions in the case of income and corporate taxes in keeping with his policy of "more money in the hands of taxpayers and not to burden the lower middle class".

While presenting the mid-year review, he nevertheless made it clear that the document "does not purport to be either the budget or a forerunner to the budget" and should, therefore, not lend itself to speculation over the budget. The review treads the by-now familiar path of how the Indian economy has shown resilience in the face of the "most telling monsoon deficiency in two decades, a subdued world economic outlook accompanied by sluggish global trade and unsettling geo-political conditions". In April-June, the gross domestic product (GDP) grew by six per cent, a rate markedly higher than the 3.5 per cent registered in the corresponding period the previous year and despite a late arrival of monsoon, the supply position of foodgrains continued to be comfortable. Inflation remained low at around three per cent, accompanied by a strong balance of payments position with reserves at over $66 billion. "Growth projections for the current year continue to be between 5 and 5.5 per cent," the review said.

The estimates of growth at the beginning of the fiscal year were between six and 6.5 per cent.

In April-September, industrial production grew by 5.2 per cent compared with 2.4 per cent in the corresponding previous period with the turnaround in the capital goods sector being particularly striking. "Taken together with the higher growth in the manufacturing sector in the current year, the trends underline a distinct revival in industrial activity," the review said.

The fiscal deficit for the first half of the current year at Rs. 57,746 crores was only marginally higher than the deficit in the corresponding period the previous year. Revenue receipts increased by 15.9 per cent while total receipts increased by 12 per cent. In the same period (first six months), the aggregate revenue expenditure and capital expenditure increased by 13.5 per cent and 3.6 per cent. But the review warned that "the remainder of the year could, however, see some pressures on both revenue and expenditure as the unanticipated weakening of the growth momentum may effect revenue collections in the absence of appropriate corrective measures".

Adding a word of caution, the review said that though the prospects for the current year appeared brighter than the initial, rather subdued, estimates following the deficient monsoon, "any intensification of the conflict in the Gulf or West Asia, with ramifications on the international price of crude, delays in recovery of world trade and output and resolution of the Latin American debt problem impart uncertainty about the growth prospects of the Indian economy in the current year".

## HIGHLIGHTS

- Economy projected to grow between 5 and 5.5 per cent.
- Foreign exchange reserves over $66 billion.
- Industrial production up 5.2 per cent in the first half.
- Agricultural and allied sector growth 4.4 per cent in the first quarter.
- Inflation point-to-point at 3.3 per cent in the first half.
- Exports up by 13.5 per cent, imports by 8.5 per cent in the first half.
- Revenue receipts up by 15.9 per cent in the first half

4 DEC 2002

THE HINDU

# Jaswant pegs back growth target

HT Correspondent
*New Delhi, December 3*

SHIFTING FROM the commitment of 6.5 per cent GDP growth, Finance Minister Jaswant Singh today officially scaled down the growth rate to 5-5.5 per cent in line with the recent RBI projections. The Prime Minister had recently called for an 8 per cent growth rate in the Tenth Plan period.

In the first ever mid-term review of the economy, Singh presented the findings for the first half of 2002-03 to the Lok Sabha today. He attributed the loss in growth momentum to monsoon failure, drought in 14 States and external security environment, including tension in West Asia and the border conflict.

The Finance Minister hinted that new areas would be opened up for foreign direct investment. He identified housing, tourism, pharmaceuticals and bio-technology as the new focus areas for higher growth rate and employment.

The mid-term review concedes that fiscal deficit at the Centre and States is the most important issue before policy planners. At Rs 57,746 crore, the deficit in the first six months is higher by 0.8 per cent over the corresponding period in 2001-02. This constitutes 42.6 per cent of the Budget Estimate of Rs 135,524 crore for the entire year.

The deficit is bound to go up further with depleted receipts from disinvestment proceeds. During the first six months, the Centre garnered Rs 3,022 crore against the Budget Estimate of Rs 12,000 crore.

On the expenditure side, subsidies have been named the major area of concern. Subsidies in the first half constitute 14.7 per cent of the non-Plan expenditure, or 18.2 per cent of the total revenue receipt. Subsidies, wages and pensions have been pinpointed to prune the deficit. But neither Singh nor his team offered no solution to the turbulent finances of the Centre and the States.

**FIRST-HALF FACT SHEET**

- Economy to grow by 5 to 5.5 per cent in 2002-03
- Fiscal deficit marginally up at Rs 57,746 crore
- Revenue receipts increase by 15.9 per cent, total receipts up by 12 per cent
- Revenue and capital expenditure increase by 13.5 and 3.6 per cent
- Forex reserves cross $66 billion in November

4 DEC 2002

THE HINDUSTAN TIMES

# Jaswant hints at more concessions

By Our Special Correspondent

NEW DELHI, AUG 3. The Union Finance Minister, Jaswant Singh, today gave a broad hint that some more tax concessions could be on the way "in time" but pointed out that after the Finance Bill was adopted in May he "could not make any fundamental changes."

He spelt out three aims: more food for the poorest; a lower burden on the small farmers and the small industries; and finally, more money in the hands of housewives. Government funds must be used judiciously to create more facilities and amenities for the people, not for the Government, he said.

Speaking at the BJP's national council session, Mr. Singh also mentioned about the drought situation and pointed out that drought management should mean employment (therefore, money or food for those most affected) and a simultaneous creation of assets. "From now to over the next two months no State would be allowed to suffer on account of lack of funds or lack of food," he asserted, while signalling that the task force for drought management set up under the Deputy Prime Minister, L.K. Advani, had already done some homework.

While earlier speakers had given a fairly rosy picture of the fundamentals of the economy — burgeoning foreign exchange reserves, overflowing granaries and low inflation — it was left to the Disinvestment Minister, Arun Shourie, to warn against complacency. He said Argentina was a country "20 times richer than India" and had a debt-GDP ratio of one per cent. But when its economy crashed, its currency became absolutely worthless.

He warned that there were some economic indicators, which showed that we are in a "delicate situation" as our debt-GDP ration was as high as seven per cent. "We must think deeply about the financial situation."

# Relief for peasant, party

OUR SPECIAL CORRESPONDENT

New Delhi, Nov. 13: The government today suspended recovery of crop loans, including interest, from farmers in 14 states whose fortunes have been blighted by a below-normal monsoon.

Rajasthan, Punjab, Delhi, Gujarat, Chhattisgarh, Haryana, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh, Andhra Pradesh, Karnataka, Tamil Nadu, Orissa and Maharashtra will benefit from the relief.

Prime Minister Atal Bihari Vajpayee's palliative gesture comes a month before strife-torn Gujarat — a major oilseed growing state — goes to polls next month. Elections are also scheduled in Himachal Pradesh in February, and in Rajasthan, Chhattisgarh and Madhya Pradesh next October-November.

Agriculture ministry sources said: "The proposal that was sent for Cabinet approval had sought a complete waiver of the interest for the financial year amounting to Rs 2,500 crore. If the proposal had been approved, the farmers would have had to pay only the principal amount of Rs 6,000 crore. This proposal was based on the recommendations of the Commission for Agriculture Costs and Prices."

What the Cabinet has cleared instead is suspension of recovery but not a waiver. Loan and interest write-off is a one-off step, but suspension leaves room for manoeuvre in the future as the government can still decide next year to waive the repayment it has now suspended.

An agriculture ministry official estimated crop loans issued by various agencies at Rs 40,000 crore.

"The benefit will cover farmers in the affected areas, including the plantation sector," Vajpayee said in a statement.

The government will also create a price stabilisation fund of Rs 500 crore to protect the interests of the plantation sector, especially coffee and tea growers.

It will contribute a major chunk of the funds to this corpus and will persuade state governments to help. There will also be a small contribution from growers. Income from the corpus will be used to provide relief to growers when the market is depressed.

Emphasising that effects of the drought would have to be tackled with "fortitude, prudence and unitedly until at least May-June 2003", Vajpayee said the Centre was determined to do its utmost to minimise farmers' difficulties.

He said the task force headed by deputy Prime Minister L.K Advani is meeting soon to decide further release of funds and foodgrain.

1 4 NOV 2002

THE TELEGRAPH

# Gates gives $100 million to fight AIDS

By Our Special Correspondent

NEW DELHI, NOV. 11. The Microsoft chairman, Bill Gates, today announcing a grant of $100 million from his Bill and Melinda Gates Foundation for a new initiative to prevent the spread of AIDS (Acquired Immune Deficiency Syndrome) in the country.

The fund would primarily be used to improve access to proven HIV prevention interventions among the 'mobile' population, such as truck drivers and migrant labour and to launch a nationwide campaign to combat the social stigma surrounding the disease.

Announcing the grant, Mr. Gates said the initiative was not parallel to the Indian Government's national AIDS control programme.

It would complement it. The Programme Advisory Board would be headed by the Union Health Minister, Shatrughan Sinha, and include two senior Government officials, apart from representatives from the business, medical and NGO community, he said.

Mr. Gates indicated that it would not be a one-time grant. It was only an initial commitment and the Foundation would support the anti-AIDS activities on a long term basis.

He announced the appointment of Ashok Alexander, senior partner at the consultancy company, McKinsey, as the Director of the anti-AIDS initiative.

**The Microsoft Corporation CEO, Bill Gates, with Anjali Gopalan of Naz Foundation (to his right) during his visit to a site committed to work in the area of HIV/AIDS, in New Delhi on Monday.**— Photo: R.V. Moorthy

Answering questions, Mr. Gates denied that the Foundation was targeting a narrow group of population. The initiative focussed on the mobile populations because even as they were more vulnerable to the disease and were a key group to reach to prevent the spread of the disease, currently, only a few HIV prevention programmes in India addressed them.

He distanced himself from the controversy over estimates on the number of HIV patients in India that has arisen following a report of the U.S. National Intelligence Council which had warned that 25 million Indians could be infected by HIV/ AIDS by 2010.

Rejecting allegations that the Foundation was one of the sponsors of the study, he said it was not bothered about the numbers. It was only interested in strengthening India's efforts to prevent the spread of the diseases so that India's health, economic and social systems were not affected by HIV epidemic.

Earlier, he called on the Prime Minister, A.B. Vajpayee, at his residence and discussed the challenges faced by India on the AIDS front. "The Prime Minister was highly appreciative of the initiative and offered his support for it." He also visited a leading NGO, Naz Foundation India Trust, where he met people living with HIV/ AIDS and learnt about its services. Speaking to reporters, a spokesperson of Mr. Gates said disbursement of funds under the grant would begin in a few months.

THE HINDU

12 NOV 2002

# Gates on a bridge over the digit divide

Sanjay Sekhri

Microsoft chief Bill Gates addresses a press conference in New Delhi on Monday to announce his foundation's $100 million contribution to fight Aids in India.

# 'Aids world's biggest economic threat'

By Kalpana Jain
TIMES NEWS NETWORK

**New Delhi:** US software giant Bill Gates on Monday sought to put control of HIV\Aids high on the national agenda with his announcement of a $100 million grant, a meeting with Prime Minister Atal Bihari Vajpayee on the problem, and an unequivocal statement that the killer disease was rapidly becoming the world's biggest health and economic threat.

Mr Gates, who arrived on Monday morning in New Delhi, said that for his foundation, control of Aids was top priority.

In an exclusive interview with Times News Network, he said, "Compared to any other disease, it is only Aids that will be dramatically worse over the next few years. Other problems don't grow. But Aids will overwhelm even the medical community."

Mr Gates explained how the Bill and Melinda Gates Foundation—with an overall endowment of $24 billion—was contributing towards various other health care needs as well.

The first time Mr Gates really came close to knowing the Indian epidemic was two years ago when his wife, Melinda, visited the country and went back with vivid stories from HIV care centres here.

"It was important to me to visit a clinic. It renews my commitment to this cause," said Mr Gates, even though Ms Gates was unable to join him on this visit as she is with their third child, Phoebe, born about six weeks ago.

"Listening to the stories of those with HIV always reconnects you with the fact that this is a human problem. Suffering caused by Aids is so horrific. Yet, to listen to them about their bravery, how they are dealing with their situation and trying to help out others is incredibly touching," said Mr Gates as he spoke softly about how he felt as he went about meeting people living with HIV at a care centre being run by an NGO, the Naz Foundation, soon after he arrived here.

● See Edit: Aid for Aids, Page 12
● India largest beneficiary, Page 7

THE TIMES OF INDIA

12 NOV 2002

# Gates may open $100 m window on Aids in India

By Kalpana Jain
TIMES NEWS NETWORK

**New Delhi:** Bill Gates arrives in India on Monday with a mission to lend a helping hand on Aids. The Bill and Melinda Gates Foundation is expected to give India as much, if not more, than the US government's pledge of $120 million for Aids prevention.

Mr Gates, whose Microsoft Corporation sells over 93 per cent of the software used in desktops across the globe, has an estimated personal wealth of $42 billion, which is almost ten per cent of India's GDP. Twenty-four billion dollars of Gates' fortune goes into the Foundation, which could play a major role in checking the further spread of Aids in India.

China and India are seen as strong future markets but they are simultaneously rated as hotspots for Aids and are expected to account for around 50 million Aids cases over the next decade. This could have a crushing effect on both the economies.

It is not known what the Foundation's commitment to China will be, but Microsoft's business interests there are approximately ten times the $75 million it decided to invest in India two years ago.

Mr Gates is expected to see first-hand some of the challenges and initiatives in India to prevent Aids, which is emerging as his biggest concern here. In fact, two of the four days of his visit will be devoted to the Foundation.

**The Microsoft founder, whose personal wealth is estimated at $42 billion, is expected to see first-hand some of the challenges and initiatives in India to prevent Aids**

The first day will be spent entirely in New Delhi meeting key officials and the media. Bangalore and Mumbai will be the cities that Mr Gates will visit as part of Microsoft work. He will spend a day in Hyderabad visiting a children's vaccine project funded by the Foundation.

India failed to receive any assistance from the Global Fund for TB, Malaria and Aids, which was initiated by the UN and supported by G-8 countries last year, even though at four million HIV cases, it is among the worst-hit countries.

Part of the blame, of course, could also lie with the Indian government, which has consistently failed to project its case before the global community. At the same time, China, despite a low official prevalence rate of 0.08 per cent, compared with India's 0.8 per cent, has been aggressive in projecting the spread of the epidemic to its provinces.

"HIV could get in the way of India, which, we sincerely believe has a huge capacity," says chief operating officer and executive director of the Foundation, Sylvia Mathews, who has already reached New Delhi, along with the director, HIV/Aids and TB Global health programme Helene D. Gayle as well as director of public affairs, Joe Cerrell, for an initial assessment. "It is a problem that is growing. But we are hopeful," Ms Mathews said.

One way of getting over denial will be to address the stigma issue by roping in people from the business community, the arts and other prominent people, adds Ms Gayle, who was until recently head of HIV/Aids at the Centre for Disease Control, Atlanta.

THE TIMES OF INDIA
11 NOV 2002

# Disinvestment Ministry clarifies on NALCO

By Our Special Correspondent

NEW DELHI, NOV. 6. The Disinvestment Ministry clarified today that the due diligence exercise for privatisation of the National Aluminium Company (NALCO) has been stopped on the advice of the company's management relating to security arrangements for the interested bidders.

It, however, said the disinvestment process would be delayed considerably, as plant visits by prospective buyers was an integral part of the process.

In a statement, the Ministry said the extent of delay would depend on the speed with which the plant visits could be resumed. The incident referred to was the heckling of a team from Hindalco by protesters at the plant last week.

The Ministry denied news reports that it had approached the Prime Minister's Office for the Nalco due diligence process and it had it sought specific instructions.

The disinvestment of NALCO has become increasingly controversial since protests were carried out in Orissa against the move. The Coal and Mines Minister, Uma Bharti, had publicly opposed the policy and instead sought modernisation of the project before any such decision was taken. At a recent press conference, she said she would take up the issue with the Prime Minister.

Giving the backdrop of the decision to drop the due diligence process now, the Ministry said qualified interested parties were supposed to commence plant visits from October 28. Due to inadequate security arrangements, the programme was disrupted by some agitators. The plant visits would commence once adequate security arrangements were in place. The Government plans to disinvest 60 per cent stake in the

Company, through a three stage process involving ADR, domestic issue and strategic sale.

7 NOV 2002

THE HINDU

# Tax panel moots end to exemption raj

## Kelkar suggests simplified I-T structure

HT Correspondent
*New Delhi, November 2*

ALL INCOME tax exemptions on savings, except for the handicapped, are set to go if the Centre accepts the recommendations of the task force on direct taxes.

The panel, headed by the adviser to the Finance Minister, Dr Vijay Kelkar, also prescribes abolition of all rebates on savings, medical expenses and those applicable to women and senior citizens, as well as the standard deduction available to the salaried class. But it wants the exemption limit raised to Rs 100,000 from the current Rs 50,000.

The panel seeks to prune personal income tax rates to two slabs — 20 per cent on incomes between Rs 100,000 and Rs 400,000 and 30 per cent on those beyond Rs 400,000.

It proposes a massive slash in corporate tax rates to 30 per cent from the current 36.75 per cent. For foreign companies, the rate should be down from 40 per cent to 35 per cent.

The suggestion to withdraw exemptions may not be palatable to the Vajpayee Government which is expected to face Assembly elections in 10d States in the next one year followed by the Lok Sabha elections in 2004.

Another proposal the political leadership may block is the one to bring agriculture under the central list and tax it.

Though this is to be done in consultation with the States, the move could be a near-impossibility. The idea is to curb the use of agriculture income as a shield to evade tax on non-agriculture income. Under the Rs 100,000 exemption limit, more than 95 per cent of small-holding-based agriculture income will not attract income tax.

These recommendations, largely revenue neutral, will form the basic inputs for Finance Minister Jaswant Singh's budget next fiscal.

But most recommendations are corporate and investor friendly. For instance, dividend tax is to be lifted. Also, to the delight of corporates, the panel wants the minimum alternate tax (MAT) and long-term capital gains on equity withdrawn.

Another move that could turn controversial is withdrawal of all tax benefits on exports, which will cause the trading community much chagrin. This could cut India's share in the growth in international trade, which is less than one per cent now. Under the new WTO dispensation, the Centre will find it difficult to provide export subsidies.

The report seeks to overhaul the tax administration by putting in place the national tax information network (TIN) to speed up tax refunds, avoid harassment and simplify filing returns.

Dr Kelkar said, "The most important thing is to end exemption raj, bring about transparency and efficiency in the tax administration coupled with providing better treatment to the tax-payers."

The panel has suggested two options on implementation. It would like the entire package to be made effective at one go, but is willing to see it brought in phases over the next three years.

### MIXED PACKAGE

| INDIVIDUALS | What this means for you |
|---|---|
| • Income tax exemption limit up from Rs 50,000 to Rs 100,000<br>• Wealth, long-term capital gains, dividend taxes to go<br>• No more standard deduction<br>• All tax exemptions to be abolished | The abolition of standard deduction neutralises most of the gain from the raising of the exemption limit if you are close to the bottom of a slab. If you are closer to the top you gain. Then again, a lot depends on what kind of investments you have made |
| **CORPORATES** | **What the implications are** |
| • Corporate tax down from 36.75 per cent to 30 per cent<br>• MAT (a kind of profit tax) to go | A bonanza for business — its contribution to Government revenue will go down |

CABINET FIRM ON SALE OF PROFIT-MAKING PSUs

# PM's plan keeps sell-off on track

Sudesh K Verma in New Delhi

Oct. 30. — Yesterday's Cabinet meeting which cleared the Tenth Plan targets was an important "victory" for the pro-disinvestment section in the government. Sources said the meeting, which among other things adopted a Rs 78,000 crore disinvestment target for the Tenth Plan, "saw the Prime Minister's firm signals that PSU sell-off will be on course, including that of oil companies and Nalco".

Opposition from some ministers and the Sangh remain, sources said, but prime ministerial support for divestment as well as for minister Mr Arun Shourie has "brought things back on track".

Among ministers spoken to by Mr Atal Behari Vajpayee is Miss Uma Bharati, in charge of coal and mines. She met the Prime Minister on Monday to convey her objections to Nalco's disinvestment, when she reportedly assured him that she will "not open her mouth on Nalco if he wanted it to be so".

In a significant indication of the advantage shifting to the pro-divestment section, the RSS today conceded that the government's original plan is on track. Senior RSS leaders, when they met Mr Vajpayee recently, had said that views of individual ministers "should be taken into account". They had also themselves expressed reservations about "some aspects" of the policy, especially that of "profit-making PSUs".

Sangh sources said it appears that "as of now, the opposition is not being effective, especially after yesterday's Cabinet meeting". But government sources conceded that Mr George Fernandes, who first revolted publicly against disinvestment, is "yet to be fully convinced". But since about a month remains of the three-month moratorium on disinvestment in oil PSUs, "Mr Fernandes could be persuaded".

As of now, though, Mr Fernandes' public position has not noticeably softened. In Rajkot today he told a Samata meeting that only sick units should be sold and the procedure for this should not leave scope for misgivings. He referred to the resale of Centaur Hotel, saying the buyer sold it on a huge profit of Rs 32 crore within six months.

The Samata Party resolution at the meeting claimed "the government's own guideline was not adhered to by allowing Reliance Industries Ltd to bid for IPCL since RIL had been charged with violation of the Official Secrets Act".

Former disinvestment minister Mr Arun Jaitley argued against all objections raised by Mr Fernandes, the RSS and others: Plan targets will be difficult to achieve if profit-making PSUs are not sold, he said. He added that barring oil, power and telecom PSUs — that too because of their monopolies — all other units "have negative valuation".

# CHINKS IN DISINVESTMENT

IN ANY DISCUSSION on the current state of the public sector disinvestment programme, there is a near unanimity that the postponement of the Cabinet decision on the privatisation package of the two integrated oil companies has virtually nullified all the impressive gains achieved recently. The Government's lack of political will to override the concerted ministerial opposition has been in evidence and to a very large extent the public sector sale programme has suffered on that score. Previously settled privatisation agenda concerning a few other companies are being reopened. Although the process of disinvestment can never be insulated from political manoeuvring, there is more evidence of it now after the dithering seen in the hydrocarbon sector. However, for all its significance, the Government's vacillation over the two oil companies is not the only or even the most important cause of concern to those in charge. To put it differently, if the policy requires a mid-course correction or at least a fine-tuning, it should not focus exclusively on the relatively technical issues of methodology of sale or the country's strategic interests which the Government ownership in certain sectors ostensibly protects.

That is because certain recent unconnected developments can dent the image of the process itself and thereby strengthen the hands of those opposed to the privatisation process. Ironically, those have been at the post-divestment stage, where the Government has already handed over the management control to the strategic partner and cannot be logically expected to influence the decision-making, except in a very broad sense. However, a legalistic interpretation of the rights and responsibilities of the vendor (the Government) and the buyer ought to be subordinated to the currently pressing issue of making an inherently controversial policy of divestment more appealing to a wider section of the stakeholders. That strongly implies that the Government ought not to stand aloof even while the new managements of the recently privatised companies take controversial decisions.

The resale of the Centaur Hotel by its new owner, Batra Hospitality Services, to the Sahara group has all the ingredients of a major controversy, although, as the Cabinet Minister, Arun Shourie, maintains, there was nothing in the shareholders agreement (an essential legal documentation) that could have stopped the transaction. Yet, the following points to a lacuna in a process: that the successful bidder could reap a windfall of around Rs. 32 crores (an amazing 35 per cent) in less than four months says it all. Logically speaking, a major part of such gain ought to have accrued to the exchequer if the bidding process had been more effective. On the other side, motives can be attributed to the Sahara group. The payment of a stiff premium for a property can be explained. After all, it fits into its plans for being a major player in civil aviation. Inexplicable, however, has been the group's original decision to stay away from the bidding process. The Government ought to clarify as to whether the group was trying to sidestep any covenants that the disinvestment policy might have prescribed. The issues here are more complex and do not concern just the implications of a property transfer but of upholding some of the stated goals of the programme. There is, for instance, a commitment that the new owners will be capable of boosting the entity's valuation by persisting with its core business.

In several other ways too, the Government ought to recognise the pitfalls at the post-disinvestment stage. The controversy that accompanied the newly privatised VSNL's decision to invest substantial sums in a Tata group company is only now abating but has left a bitter taste. Reliance's takeover of IPCL ought to have spurred the introduction of competition law and practice. In many other instances too chinks in policy will be continually exposed, but can be corrected pro-actively as the process moves on.

# Shourie salvo on PSU sale

STATESMAN NEWS SERVICE

NEW DELHI, Oct. 19. — The divestment war was renewed with a bang today when Mr Arun Shourie charged the Shiv Sena with influence-peddling, and challenged Ms Uma Bharati to fight the Prime Minister.

A combative disinvestment minister, never before so openly critical of party and alliance colleagues, said the process had come to a halt. PMO officials refused to comment on his criticism of government figures. But one of them said: "There was reason to be optimistic about divestment. The Prime Minister has expressed his support for the process".

Mr Shourie charged NDA partner Shiv Sena with "doublespeak" for criticising the privatisation of Centaur Airport Hotel. The Sena sought more time for hotelier Mr Ajit Kerkar to acquire Centaur Juhu Hotel in Mumbai, he said. The Sena approached him repeatedly when Mr Kerkar was unable to pay for the hotel in time, and the government was keen to encash the bank guarantee of Rs 5 crore, he said.

"Ask the Sena, (they) rang me up four times, to say the hotel should be sold," Mr Shourie said. "How can one thing be good in one case (Centaur Juhu) and bad for the other (Centaur Airport)?"

Batra Hospitalities resold the Centaur Airport Hotel in three months of the bid for a big profit. It was bought at Rs 83 crore and sold for over Rs 100 crore, raising queries about the valuation process adopted by the government. Mr Shourie cited the Supreme Court judgment in the Balco case saying "the valuation is the price which the buyer was willing to pay". He clarified that since it was an outright sale there was no lock-in period prescribed in the transaction document.

The CPI-M today demanded a CBI inquiry into an alleged scam in the resale of Centaur Airport Hotel in Mumbai. Mr Shourie dared Ms Uma Bharati to use the phrase "bite the dust" against the Prime Minister for defending disinvestment. "She has used strong words against those defending divestment... that they were trivialising the issue and that they will bite the dust. The Prime Minister told Mr Navin Patnaik unambiguously that disinvestment will go on. Does it mean he will bite the dust?" Mr Shourie asked.

He said the divestment programme had come to a halt and the target of Rs 12,000 crore for the current financial year was unachievable. Expressing his disenchantment further, he said "nothing can be done at all if at every step objections are raised and motives questioned... As far as I am concerned, targets cannot be met if things continue this way."

Luckily, there are not many in the PMO who share Mr Shourie's negativism. There was no reason for being disillusioned, sources said. They recalled the Prime Minister's recent statement on disinvestment, where Mr Vajpayee welcomed debate and spoke of review, while clarifying that these would not derail the process.

On disinvestment of oil PSUs, Mr Shourie said: "Around half of the three-month review period sought for sale in oil majors BPCL and HPCL have passed... but no one has come forward with suggestions on the issue. All I can say is that the issue is in the hands of the Prime Minister."

THE STATESMAN

# Atal clears divestment in oil PSUs

Sandeep Bamzai
*New Delhi, October 7*

BEFORE SETTING off on his three-nation tour of Europe Prime Minister Atal Bihari Vajpayee today cleared disinvestment in HPCL and BPCL in a clear message to the Western world that India was serious about the reforms process.

The selloff, despite a three-month moratorium on divestment in these oil refining and marketing giants, will follow a formula reached to keep the two warring factions — the swadeshi lobby and a clutch of pro-reforms ministers — happy.

After Vajpayee returns, a high-power meeting will be called to announce the simultaneous bids for HPCL and BPCL.

**THE MIDDLE PATH**

- 25% in HPCL and 35.2% in BPCL that the Govt plans to sell
- Two special purpose vehicles will be formed. Petronas and ONGC will comprise one, and Shell and GAIL will make up the other
- But the Indian firms will be the junior partners, holding 24% in the special purpose vehicles

No one firm — or consortium — will be allowed to get control in both the oil PSUs. The process will be kicked off in the second half of October and will be completed by March 31 next year.

Both ONGC and GAIL will be allowed to bid for the oil majors, but they will be the junior partners in the special purpose vehicles to be set up.

Sources said the SPVs have also been identified. They said it was possible Malaysia's Petronas would partner ONGC, and Royal Dutch Shell would bid with GAIL.

Petronas and Shell would be the majority partners, holding a 76 per cent stake each in their special purpose vehicle; ONGC and GAIL would hold 24 per cent. The foreign firms will have complete management control but the Indian companies will not have much say in the management.

This "middle-ground" formula, however, could upset the swadeshi lobby as it seems custom-designed against domestic firms. This model would also go against some foreign companies — such as Chevron, Mobil Exxon, BP-Amoco and Kuwait Petroleum — which are keen to enter the Indian market.

## 'DIFFICULT DECISIONS CANNOT BE AVOIDED'

# Disinvestment of PSUs has to continue: PM

By Our Special Correspondent

NEW DELHI, OCT. 5. A full meeting of the Planning Commission today provided another opportunity for the Prime Minister, Atal Behari Vajpayee, to emphasise the need to "actively pursue disinvestment of our public sector units (PSUs)" and to allay all apprehensions about the role of foreign direct investment (FDI).

Chairing the meeting of the full Planning Commission — which unanimously approved the draft Tenth Five-Year Plan aiming for an eight per cent economic growth during 2002 to 2007 — Mr. Vajpayee alluded to the controversy over economic issues, especially disinvestment of PSUs and FDI limits. "There is much debate these days on the content and direction of India's development, as also the policies and strategies that we should follow to realise our developmental goals. This is natural in a democracy; it is even desirable provided the debate is conducted in a constructive manner with a desire to promote consensus," the Prime Minister said.

In another reference to some critics of the Government calling for rejecting foreign-dominated development models, Mr. Vajpayee said that planning in India was not a static concept and was not enslaved by dogma. "It has to respond to the changing developmental needs of the nation. It has to take into account the dominant new trends in the national and global economies."

India had no choice but to achieve the high growth rate stipulated in the draft Tenth Plan, the Prime Minister said and listed out the difficult decisions which "simply cannot be avoided." These included acceleration of tax reforms and movement towards an integrated Central and State Value Added Tax (VAT) for goods and services; fiscal prudence with all attendant measures, both at the Central and State levels; the squeezing of maximum efficiency and productivity from every rupee of investment already made; removal of bottlenecks in energy, transport and water infrastructure; widespread reforms in governance and, finally, active association of the States in all the "daunting tasks that are to be accomplished."

On FDI, Mr. Vajpayee said that "we have to achieve our developmental goals by our own efforts and primarily by harnessing our own resources. The draft Plan makes it very clear that the bulk of the vastly higher level of savings and investments needed to achieve the eight per cent growth would have to come from domestic resources. However, we need greater inflow of FDI to supplement our domestic resources, in areas where it would strengthen our economy and enhance our competitiveness.... But let there be no worry in any quarter that we would follow such an FDI policy as would weaken Indian industry or hurt our national interests. This will never happen."

### 8 per cent growth must

Mr. Vajpayee also referred to the scepticism in certain quarters about the possibility of achieving an eight per cent growth over the next five years.

"I am, of course, aware of the scepticism in some quarters: Is it at all feasible for us to climb from a rate of growth of 5.5 per cent last year to eight per cent in the Tenth Plan? It is when the climb is steep that a good mountaineer musters his hidden strength and determination. Similarly, our nation has to prepare itself for the big challenges ahead of us. Moreover, we have no choice. The issue before us is not whether we can achieve a significantly higher growth rate; rather, it is whether we can afford not to."

**Expedite reforms, says Chandrababu Naidu: Page 9**

# I only suggested a review: Fernandes

By Our Special Correspondent

NEW DELHI, OCT. 5. Caught in a controversy over questioning the policy of disinvestment, especially in the oil sector, the Defence Minister, George Fernandes, today maintained that he had only suggested a mid-term review of the functioning of the NDA Government — which, he said, had been acknowledged by the Prime Minister, Atal Behari Vajpayee.

Mr. Fernandes, who is also Samata Party president, said he had been raising the issue of a mid-term review for the past three months, since the Vajpayee Government had completed over half of its term.

Once an appraisal was done, "course correction" could be applied if necessary.

Mr. Fernandes denied he had objected to disinvestment in oil majors such as the BPCL and the HPCL and asserted that he would place his views only in the appropriate forum.

Addressing a press conference while admitting an independent U.P. MLA Rajaram Pandey into the party, Mr. Fernandes said the suggestion for a mid-term review would include even the policy of disinvestment. His party's suggestion for a review had been conveyed to Mr. Vajpayee who said it was 'justified'.

On Mr. Vajpayee's critical observation that a public debate on disinvestment was spoiling the atmosphere, Mr. Fernandes said the Prime Minister was not referring to any individual in particular.

# Profit and Loss of Disinvestment

*Disinvestment is an extension of the BJP's economic philosophy*

**Jagdish Shettigar**
Member, BJP national executive

Right from the Jan Sangh days, we have believed in a licence-free raj. We were of the opinion that the government need not be in business, except in strategic areas like defence and atomic science.

The NDA's commitment to disinvestment is a continuation of this policy. Disinvestment is essential to facilitate functional autonomy to PSUs. In the name of accountability, PSUs have been subjected to much political interference — by the ministry, by the CAG, by the Public Accounts Committee. For PSUs to gain functional autonomy, they must cease technically to be in the public sector, which really means reducing the government equity to below 50 per cent. Besides, disinvestment is a channel for meeting social sector needs and debt servicing commitments.

When the government started disinvestment, there was some confusion regarding strategic and non-strategic areas, which to some extent delayed the process. Petroleum minister Ram Naik, for instance, argued that oil companies were strategic. The counter-argument to this was that during war, even civil supplies can be considered strategic. After considerable discussion, the cabinet decided that only defence, nuclear sector and railways will be treated as strategic. In the non-strategic sector, the government decided in principle to reduce its equity to 26 per cent generally and 33 per cent in nationalised banks. Towards speeding up the process, we even set up a separate disinvestment ministry in 1999.

Some people made a case for excluding profit-making companies from disinvestment. It was said that they contributed to the exchequer, that companies like ONGC and Indian Oil had found a place in *Fortune 500*. However, we should not forget that these companies are doing well under monopoly conditions. Will they continue to be blue chip under competition? Take Maruti, whose profits dipped on facing competition; it went on to incur losses just before its disinvestment. PSUs like Shipping Corporation, BHEL, ITI, HMT etc which were once blue chip, are no longer so. So profits depend on the market. If a company needs to make losses as a condition for disinvestment, it may not find buyers. If it does, they will not pay a good price. Lack of buyers was, in fact, the reason why the government had to drop some loss-making PSUs listed for disinvestment. So there is no logic in this demand.

Valuation has been another problem area. The government has been following the transparent method of getting valuation done by global advisers, based on the twin criteria of prevailing share prices and short-term (5-10 years) business prospects of the company. The criticism is that this does not factor in the assets. In truth, asset valuation can be applied only when a company has closed down, which the Industrial Disputes Act does not permit. If labour reforms take place, loss-making companies can be closed down and their assets valued. But when you transfer a company as a functioning unit, the asset value has no relevance. However, within this, the aim must be to get the best possible realisation. About a year back, the BJP advised the government to separate the assets over and above those functionally required, which was done in the case of VSNL and some ITDC hotels. In a sense, we are trying to learn and improve with each experience.

Indeed, we have learnt from the VSNL experience, where the Tatas transferred the funds immediately on taking over. The BJP has since suggested safeguards that will prevent such transfers.

I don't also buy the argument that it is better to sell to the public. If a private company wants control, what prevents it from collecting from the public or owning benami shares? Public issue is no safeguard against private monopoly.

**TIMES SAMVAD**

I refute the suggestion that the BJP is forcing the government to junk disinvestment. A three-month moratorium has been placed on the sale of oil companies, HPCL and BPCL, primarily to take new developments into account. It becomes a sensitive issue when the defence minister raises doubts about the availability of oil, citing the experience of earlier wars. There may not be merit in his plea, indeed he could well be wrong, but when a defence minister raises objections, it becomes a concern for the common people.

Here, I would like to quote former army chief, General V P Malik. He told me that this is not a valid ground, as the army keeps sufficient stocks during the war. One way to resolve this might be to elicit the opinion of national security experts and use that as a background for a final decision.

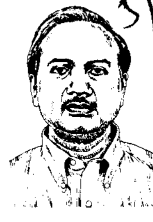
There are three other options:

1. Treat oil as strategic, but find other ways to give oil PSUs functional autonomy, to protect them from interference by the CAG, PAC etc.

2. Disinvest 51 per cent in favour of financial institutions like the LIC, IDBI etc, so that technically they are not PSUs.

3. Go for disinvestment, but impose a compulsory levy, so that a share of oil produced goes to the government's oil buffer stock for emergency requirements.

*(As told to Vidya Subrahmaniam)*



*Disinvestment is not an issue of economic principle or philosophy*

**Seshadri Chari**
Editor,
*Organiser*

I have two kinds of problems with the NDA government's disinvestment programme. At the most fundamental level, the question is whether disinvestment is a matter of economic principle. Contrary to what many in the government believe, I don't think disinvestment is an issue of economic principle or philosophy. What I mean by a principle is something that is unchangeable or true for all times. Disinvestment clearly does not fall in that category.

In fact, I believe that the government cannot shy away from taking responsibility for running certain sectors of the economy in the larger national interest. These include not just oil and defence or what is known as the strategic sector but also infrastructure and public utilities. Typically, these sectors require massive investments which only the government can make. Witness how the Labour government in UK was forced to re-nationalise Railtrack after all the fanfare about privatisation.

Let's acknowledge some 'facts': First, profit is not the sole driving motive behind the running of public sector units although it is not forbidden. Second, the idea that the government cannot, in principle, run a profitable business is wrong. If one can take care of political interference and professionalise the management of PSUs — in other words, give them functional autonomy — then things can be managed quite well. Also, we have to go into the reasons why a particular unit is making losses. These reasons can be many and varied: From substandard quality of products to pricing anomalies to bad management. It would be wrong to say that these problems can only be taken care of by transferring management control to the private sector.

The second problem with the government's disinvestment programme is that it has no clear priorities or parameters. No guidelines have been laid down for basic things like valuation or due diligence. The whole thing has been left to the free will of investment bankers who, in many cases, are part and parcel of various interest groups. My point is that we should have framed the rules of the game before playing it.

Then again too much has been left to the discretion and wisdom of one individual. I think the government should have taken certain steps before embarking on the disinvestment process. It would have been better, for instance, if it had set up an independent disinvestment board, comprising experts from a variety of fields, to oversee the process rather than leave it to an individual minister, however unimpeachable his credentials. As a result, it has come to a stage where it's the disinvestment minister versus the rest of the world.

Then again, it was wholly unnecessary to fix annual targets for disinvestment. After all, disinvestment is not a competitive industry. The problem with doing everything in a hurry is that many public sector companies have been sold at well below their market price. The disinvestment in the hotel and hospitality sector for instance. Many ITDC hotels have been sold off at a discount. The Ashoka Hotel in Kovalam was sold for Rs 30 crore when the market price of the land on which it stands — the best available on the sea shore — would be in the region of Rs 500 crore. Also, many disinvestment decisions might have been right in principle but they were taken at the wrong time. Take the case of Maruti. The decision was right but it was taken at the wrong time. If the government had disinvested in Maruti earlier, it would have got a much better price for it.

On the whole, I feel we have got the order of our economic reforms all mixed up. Instead of opening up our economy too quickly, for instance, we ought to have ensured a level playing field for domestic industry by initiating the economy into the liberalisation mode. It was only after completing the process of liberalisation that we should have embarked on the road to globalisation. In this context, the Chinese example is something we can learn from. Unlike India, for instance, China did not sign up to the World Trade Organisation till very recently. India would have been better served if it had done the same. Unfortunately, we took decisions which didn't suit our conditions. In sum, we have been too strait-jacketed in our approach and set too much store by textbook prescriptions. But India cannot fit into any European/western model. It follows its own holistic pattern of thinking.

Take portfolio investments in the share market. The point is that this is notional wealth. It does not lead to capital formation. What is more, it lends unnecessary volatility to the bourses. The bottom line is that monetary investments are nebulous. We ought to focus on getting foreign investment in infrastructure projects which results in the creation of productive assets or real wealth. Investments in the consumer sector — a chain of restaurants for example — drain our savings and promote unproductive spending. If anyone wants to sell pizzas, why don't they go to the Kutch or the backward areas of Bihar or Ramanathapuram?

## Govt To Let ONGC, Gail Bid As Junior Partners Of Pvt Players

# PM gets George to accept BPCL, HPCL strategic sale

Diwakar & P.R. Ramesh

NEW DELHI 4 OCTOBER

PRIME Minister A.B. Vajpayee has scored a major breakthrough in his efforts to clear the strategic sale of HPCL and BPCL with defence minister George Fernandes coming around to accept an earlier compromise formula that would entail permission to ONGC and Gail to participate in the bidding as junior partners to private players, Indian or foreign.

Mr Fernandes has conveyed his consent to the proposal — which he had cold shouldered at the September 7 meeting of the CCD — to the Prime Minister and the latter looks set to go ahead with the strategic sale even if petroleum minister Ram Naik does not come on board.

An announcement of the Prime Minister's verdict was expected to come before his departure for Denmark on Monday, but was put off because Mr Fernandes will be out of the Capital.

▶ **Vajpayee verdict: P 6**

## BY GEORGE, WHAT A ROLLER COASTER!

# THE POLITICS OF REFORM

THE PRIME MINISTER'S strong support for the disinvestment policy is welcome in two ways. First, it re-emphasises the Government's commitment to the pre-set economic reform agenda, of which the public sector sale has been a highly visible part. Second, and even more important, is the political message of the Government deciding to move forward despite well-publicised differences among the Cabinet Ministers. The disinvestment programme like many other facets of economic reform is more a political process than an economic one. A measure of consensus, preferably across the entire political spectrum, is a prerequisite for its successful implementation. Sadly, the public sector sale process, which was notching up important gains recently, hit a roadblock in September. Differences within the ruling coalition rather than from one of the usual sources — opposition politics, trade unions, insufficient response from investors — forced the Government to defer the divestment in the two integrated oil companies, BPCL and HPCL. Entirely to be expected, the chorus of those opposed to outright privatisation has become louder with many more Ministers joining in and a few other planned divestments such as in the aluminium producer, Nalco, suddenly becoming contentious.

Mr. Vajpayee's statement should hopefully mute the voluble controversy and restore a balance in the ensuing debate on divestment. In one sense, the postponement can be a blessing. Now is the time to fine-tune the policy, ahead of the scheduled December meeting of the Cabinet. High up on the agenda ought to be an agreement among Ministers not to air their differences over settled policy issues publicly. Thereafter, it will be equally important to present the official strategy on economic reform including divestment in a proper perspective. If these two basics are met even an inherently controversial process such as public sector disinvestment can move on more smoothly than at any time before.

The objections raised against the oil companies' privatisation touch on the technical aspects of divestment policy and procedures. The crux of the debate is over the extent of government control post-divestment, whether the two well run and profitable oil companies will continue to remain under the government fold. Under the plan prepared by the Disinvestment Ministry, the two companies were to be sold to a strategic partner through a competitive bidding process. The Government's stake will come down drastically in quick time. The political opposition has zeroed in on this aspect of the Government losing control over two companies in the hydrocarbon sector which, even before the current happenings over Iraq, has had a strategic value. The implication is that the private partner, no matter how carefully selected, cannot be expected to be wholly in tune with the country's energy concerns. That argument has a certain emotional and political appeal and was apparently enough to halt what has been the only functioning reform programme. Not all the success achieved in the recent strategic sales under all parameters, including transparency and fiscal, could sway the opposition.

However, the programme has not reached a cul de sac. For, the opposition to the process might in the end have nothing to do with the arcanum of disinvestment. Ram Naik and the other Ministers opposed to privatisation say that they prefer a stage-by-stage dilution of the Government's stake, with the public sector character remaining intact. A way out of the imbroglio is possible. Their commitment to the public sector can be put to the test by seeking to improve the market valuation of the two companies while still under Government control. All factors that have inhibited valuation, such as lack of operational autonomy and stifling parliamentary control, need to be addressed along with the political connotation of the debate over an appropriate method to divest.

THREE SENIOR MINISTERS WANT A 'RETHINK'

# PM stands by policy on disinvestment

By Harish Khare

**NEW DELHI, OCT. 2.** The policy war between the pro and anti-disinvestment voices within the National Democratic Alliance regime came into the open today, and by the end of day the Prime Minister, Atal Behari Vajpayee, felt constrained to say publicly that he stood by the disinvestment policy. He also appeared to have enlisted the support of his deputy in defence of the disinvestment process.

The day began with three senior Cabinet Ministers — Murli Manohar Joshi, Minister for Human Resource Development, George Fernandes, Defence Minister, and Ram Naik, Petroleum Minister — meeting this morning "over a cup of tea" to exchange ideas over disinvestment in the "strategic" oil sector. By afternoon, the Minister for Disinvestment, Arun Shourie, had sought to downplay the reservations of his senior colleagues.

Though there have been other voices of disagreement over the content and direction of the Government's policy of disinvestment, the dispute seems to have acquired a new edge as it is for the first time that three senior Ministers have felt it necessary to meet in a kind of conclave. The gathering at Dr. Joshi's residence did create the impression that the Government's economic policy is under siege from within.

Earlier, Ministers such as Sharad Yadav, Uma Bharti, S.S. Dhinda and Manohar Joshi (before he resigned to become the Lok Sabha Speaker) had expressed their reservations, in private, about disinvestment in the profit-making public sector units. Besides the reservations within the Cabinet, various sister organisations within the Sangh Parivar have opposed some of the disinvestment decisions.

Soon after playing host to his two Cabinet colleagues, Dr. Joshi had a meeting with the Rashtriya Swayamsevak Sangh chief, K.S. Sudershan, giving the morning conclave a political flavour. But it is believed that Dr. Joshi's meeting with Mr. Sudershan had nothing to do with the Vajpayee Government's economic policy. (Later, however, the RSS chief did speak out against the disinvestment process at a public meeting and came close to suggesting that those Cabinet Ministers who were advocating disinvestment ought to be shown the door).

On the other hand, Mr. Shourie was rather sanguine about the correctness of the disinvestment policy. In any case, as Mr. Shourie explained to presspersons, "everything depends on the Prime Minister and the Deputy Prime Minister. I am confident that they feel satisfied as far as arguments are concerned." However, all the three senior Ministers were at pains making the point that they were not against disinvestment per se, but rather wanted a careful re-think of the pluses and minuses of disinvestment in the strategic sector.

They maintained that the Cabinet Committee on Disinvestment had put on hold for three months the sale of Government equity in the oil public sector, and the idea was that these three months were to be used to come up with alternative suggestions and ideas, if any. In any case, sources close to these Ministers insisted that theirs was a "constructive approach".

Clearly, the three Ministers' much-publicised meeting was intended to ensure that the Arun Shourie line on disinvestment in the "strategic" oil sector was filibustered, if not entirely derailed. And though Mr. Shourie continues to believe that Mr. Advani still has an open mind, it is to be recalled that it was Mr. Advani's "defection" to the Fernandes camp that triggered the roll-back reaction. Realising that the Joshi-Fernandes-Naik conclave had sent out unhelpful signals and that matters were not helped by the RSS chief's pronouncements, the Prime Minister decided it was time to pitch in in favour of Mr. Shourie.

At a function (to release the Labour Ministry's journal) at his residence, Mr. Vajpayee said he was not averse to a "healthy debate" on the disinvestment process but made it clear that he proposed to stand by his Minister for Disinvestment. What is more, Mr. Vajpayee made the defence in the presence of Mr. Advani. It was no coincidence that before the function, Mr. Vajpayee and Mr. Advani had a meeting, where the two are believed to have reviewed the day-long public posturing over the Government's economic approach.

## Show them the door, says RSS chief

**NEW DELHI, OCT. 2. The RSS today demanded the immediate removal of those at the helm of affairs who support a western model of development for the country, including free inflow of foreign direct investment (FDI).**

**Without naming the BJP-led Government, the RSS chief, K.S. Sudarshan, said the economic policies being pursued "at the behest of the World Trade Organisation and the International Monetary Fund" were "urban-based, high energy consumptive, labour displacing and ecologically destructive."**

**Addressing an intelligentsia meet here, the RSS "sarsanghchalak" held the present policies responsible for terrorism as they rendered people jobless.**

**"Countries such as Indonesia, Thailand and Korea which accepted the IMF diktats are today suffering. This is not our way. We should adopt the Gandhian concept of a village-centric economy. Those supporting foreign models of development, howsoever high posts they may be holding, should be removed forthwith." — PTI**

POWERFUL MINISTERS OPPOSE LIBERALISATION

# Reforms go under FDI cap

Sanjay Singh and Srinjoy Chowdhury in New Delhi

Sept. 19. — The Union Cabinet's "postponing" a decision on increasing sectoral foreign investment limits is being seen as, if not quite curtains for reforms, certainly a veil over it. One that seemingly not even the Prime Minister is willing or able to lift.

Senior NDA and government sources said the postponement, coming so soon after the "burial" of the disinvestment policy for oil PSUs, "more or less indicated" that the government is back-pedalling on reforms. "Powerful ministers are now against big ticket liberalisation," one leader said. Plus, key allies like the Samata and Sangh Parivar outfits such as the Swadeshi Jagaran Manch are "openly joining forces" on the issue.

- **NK Singh report calls for more FDI**
- **Cabinet raises security concerns**
- **Even Shourie prefers going slow**

Sources said that at yesterday's Cabinet meeting, which considered the commerce ministry note, several "heavyweight" Cabinet ministers opposed increasing the caps on foreign direct investment (FDI) in the civil aviation, insurance and communications sectors. The discussions were "frank and sometimes heated", sources said. One member of the Cabinet was reportedly asked by another "to mind his language".

Significantly, sources said, opposition to the FDI proposals — increasing the limits on insurance, telecom and civil aviation to 49 per cent, 49 per cent and 74 per cent respectively — came even from disinvestment minister Mr Arun Shourie, who had fought a virtually lone battle to keep oil PSU privatisation alive.

Mr Shourie had reportedly argued that the decision to increase FDI caps in these sectors required "threadbare discussion". Other ministers reportedly opposed to the policy were HRD minister Mr Murli Manohar Joshi and urban development minister Mr Anant Kumar.

The Deputy Prime Minister, Mr LK Advani, reportedly said that there was a need for an "overall view". "Security concerns", in telecom and civil aviation sectors, were cited by ministers opposing the FDI proposal. Mr Joshi reportedly observed that "there was undue haste" in getting the policy cleared by the Cabinet.

Some ministers were reportedly unhappy that the FDI issue was not listed in the original Cabinet agenda but was included via a supplementary agenda circulated on Tuesday night. Sources said "even senior ministers could not understand why the matter was suddenly pushed through".

Some NDA leaders are seeing the "hand of Mr NK Singh", ex-PMO official now in the Planning Commission, as the author of the report on which the Cabinet note was based. They claimed that the report, which was cleared by a group of ministers (GoM) headed by finance minister Mr Jaswant Singh, was "supposed to have been a gift from the Indian government to US investors during the PM's recent trip". Since the oil PSU controversy prevented a Cabinet clearance, these leaders said, the policy could not be presented. It was then decided, NDA sources said, to "push the policy through after the PM's return" from the USA.

Ministers in favour of increasing the cap at yesterday's meeting were Mr Jaswant Singh and Mr Murasoli Maran, the commerce minister, who moved the note.

The note argued for increasing FDI limits by pointing to capital needs for the Tenth Plan. Telecom investment of $2.5 billion per year was required, the note said. It said FDI would increase competition. Licensing was suggested as a way to address security concerns.

2 0 SEP 2001 THE STATESMAN

# TOWARDS LARGER FOREIGN INVESTMENT

A COMPREHENSIVE REPORT on stimulating the flow of foreign direct investment (FDI) into the country, prepared by a high-level committee headed by the Planning Commission member, N. K. Singh, has been made public. The report makes many recommendations to improve the climate for foreign investors in India. Numerous committees and reports highlight the fact that at present the overseas investors face procedural hurdles and bureaucratic rigidities. A new power project, for instance, requires as many as 100 clearances. The Committee's important recommendations here are welcome though they are not entirely original. It recommends enactment of a new Foreign Investment Promotion Law at the Centre and matching legislation by the States. Second, it seeks to empower the Foreign Investment Promotion Board and the Foreign Investment Implementation Authority and make them responsible for speedier clearances and project implementation.

It is the N. K. Singh Committee's rather sweeping proposals to either remove the sectoral caps for FDI or liberalise them substantially that have made headlines. If the report is implemented, there will be no quantitative bar at all for FDI in a wide range of sectors including petroleum refining, oil marketing, petroleum exploration, diamond mining, airports, banking and investment companies, radio paging, advertising and trade. It is only for certain select sectors that a ceiling on foreign investment has been contemplated, but even there the caps are to be fixed at much higher levels than what prevails now. In insurance, airlines and plantations it is proposed to restrict foreign investment to 49 per cent while only one area, the retail trade, will be out of bounds. Interestingly, nearly all the proposals are to be put on the automatic route.

Through a variety of measures to simplify procedures, enactment of new laws to aid project implementation and, above all, by recommending a sweeping enhancement of investment limits, the Committee hopes to attract a much greater FDI flow, about $ 8 billion annually. That might be well below what a country like China has been attracting already but is more than three times the average annual mobilisation in India recently. Few will fault the Committee's vision. The difficulties, as always, are on a practical plane. There is an implicit if exaggerated belief that the foreign investors are demotivated by arbitrary ceilings on their investments. Removal of quantitative restrictions might spur inflows up to a point but — as our own experience with each earlier round of relaxations indicate — will not be the clincher. Again, it is not clear as to how domestic interests will be protected if foreign capital is to be allowed a free run.

Apparently a few of the recommendations go much farther than what the sector specific policies stipulate. For example, the domestic aviation policy permits foreign investment up to 40 per cent and that too with the caveat that no foreign airline should be the investor. The N. K. Singh Committee not only recommends a higher ceiling but would permit foreign airlines to invest. Considering the opaqueness of the domestic aviation policy and the bitter controversies that have surrounded it, the recommendation is radical but one is not sure whether it is implementable. Again, in the recently opened up insurance sector, the share of the foreign collaborator in the joint venture has been restricted to 26 per cent. The level of foreign investment has been a contentious issue and at one stage almost derailed the opening up of the insurance industry. There would be many similar problems in other sectors too where a substantial leeway is sought to be granted to foreign capital. At a more general level, recent research emphasises the need to measure the qualitative aspects of FDI inflows. Most certainly an overriding focus on quantity of flows will not do the recipient much good.

# Decision on hiking FDI deferred

By Our Special Correspondent

NEW DELHI, SEPT. 18. The Union Cabinet today considered the N.K. Singh Committee report on Foreign Direct Investment, which had suggested a raise in the FDI caps on various sectors, including civil aviation, telecom and insurance, but deferred a decision pending further discussion.

Briefing presspersons after the meeting, the Government's spokesperson said the report came up for discussion and it was decided that there was need for further discussion. Certain suggestions were made and the Ministries concerned would bring back the issue to the Cabinet after incorporating them.

However, official sources said the Government had taken a decision in principle to raise the FDI equity in the civil aviation and telecom sectors. It was likely that a formal decision was not taken as the Civil Aviation Minister, Shanawaz Hussain, could not attend the meeting as he is away from the Capital. The sources maintained that the formal decision to raise the cap might be announced soon. The Cabinet also considered a voluntary retirement scheme for the ONGC and BPCL employees and deferred a decision, again on the ground that more discussions were required.

The Cabinet, however, cleared a proposal to set up a special institute to streamline, regulate and develop the profession of actuaries in the wake of the increased need for qualified actuaries following the opening up of the insurance sector. A legislation would be brought before Parliament soon.

The new Institute of Actuaries of India would be on the lines of the institutions that are existing for the chartered accountants, cost and work accountants and companies, which were also set up through enactment of legislation by Parliament.

It also approved the cost for the completion of the on-going 1,020 MW Tala Hydroelectric project in Bhutan at a cost of Rs. 3,580 crores, of which Rs. 2,148 crores would be given as grant and the remaining Rs. 1,432 crores as loan.

THE HINDU 19 ... 2001

# India wins jute patent battle

STATESMAN NEWS SERVICE

KOLKATA, Sept. 14. — The Jute Manufacturers Development Council (JMDC) today claimed a major victory for the ailing jute industry stating that it had succeeded in fighting and obtaining a revocation of a UK-based firm's patent for use of hessian cloth to cover waste and dumping grounds. JMDC sources said that with the help of the former Indian Jute Mills Association chairman, Mr Sanjay Kajaria, it had succeeded in preventing what could have been another loss for the country after foreign firms had obtained patents for basmati rice, *haldi* (turmeric) and *neem*.

According to a JMDC press release a British company, Geohess, received the European patent under the head of invention for use of hessian cloth which gave it exclusive rights in almost all European countries and it charged 60 per cent royalty.

The patent was challenged jointly by The IJMA, JMDC and Indian Jute Industries Research Association after they learnt from a firm that it was billed by Geohess to pay royalty for using hessian hessian cloth for covering waste, the source said said.

After a keenly contested opposition proceeding in the European Patent Office, a 13 August order in favour of JMDC revoked the grant thus making use of hessian for waste cover available free of monopoly, adds PTI.

The move augured well for the jute industry, which was now expecting to register a sharp jump in export because of the revocation of the patent and recent grant of DEPB benefit, industry sources added.

Geohess, taking advantage of global environment concerns and anticipating a huge market demand for biodegradable covers for waste filed an application in 1994 claiming 'novelty' and 'inventive merits' in use of hessian, a variety of jute cloth.The provisional patent right on pending European patent applications allowed in some EU countries enabled Geohess to have exclusive use of hessian covers under the Geohess patent in Europe.

Geohess exclusively sold about 4.5 million sqm of hessian for use as covers for waste and dumping grounds and about 1.1 million sqm as grant of license, though the patent was initially granted on June, 1999.

JMDC in consultation with the Patent Attorneys, S Majumdar and Co and their associate Attorney in the UK, Roberts & Co., challenged the Geohess patent on grounds of lack of novelty and lack of inventive merits.

1 5 SEP 2001

THE STATESMAN

# Oil PSUs' divestment deferred

SANJAY SINGH
STATESMAN NEWS SERVICE

NEW DELHI, Sept. 7. — Oil companies' disinvestment was postponed by three months today on the "directions" of the Prime Minister, who was reportedly upset at the "public wrangling" over the issue by Cabinet ministers.

The decision to postpone disinvestment of Bharat Petroleum and Hindustan Petroleum was taken in the morning at a meeting chaired by Mr Atal Behari Vajpayee and attended by Mr LK Advani, Mr Jaswant Singh, Mr George Fernandes, Mr Arun Shourie and Mr Ram Naik. The Cabinet Committee on Disinvestment meeting in the evening, attended by the same group, formalised the postponement. This is the second time in less than a fortnight that disinvestment in the oil companies has been postponed.

Sources said that when the issue is taken up for discussion again, it is "unlikely" that strategic sale — the route favoured by Mr Shourie and officially backed by the BJP — will be "a favoured option". That means ministers like Mr Fernandes and Mr Naik and the RSS will have won an important victory. Sources said Mr Advani gave tacit support to those opposing the strategic sale option. Mr Murli Manohar Joshi was also reportedly of the same view.

Mr Shourie, according to a government leader, was "reduced to a minority of one at the deliberations".

Mr Naik had met Mr Advani last night on his return from a foreign trip and had "succeeded in convincing him that this was not the right time to privatise oil companies" via a management handover to a private strategic partner.

Though the divestment has been officially deferred for three months, it could be delayed even further, sources said.

The issue of divesting of Ashoka group of hotels was also discussed at the CCD. Mr Fernandes said the manner in which it was sold created a public perception that something in the valuation process was wrong.

The US rhetoric on a war against Iraq came in handy for the opponents of disinvestment. They argued that this was not the right time to privatise oil companies. A conflict situation

■ See OIL: page 10

## OIL:

(Continued from page 1)

and consequent price pressure required government management, went the argument, as private oil companies may create problems. The argument was taken further, sources said. Citing the BJP's onion fiasco in 1998 — onion prices rose manifold before Assembly elections which the BJP lost — some ministers argued that a rise in oil prices will mean a similar misfortune in the coming state polls.

"No one in the ruling alliance could forget that it had lost elections in four states due to inflation of onion prices. Oil prices have the potential of repeating history ... if that happens it would be disastrous for all," sources said. Mr Vajpayee was also not happy with ministers washing dirty linen in public. Postponing a decision may help in cooling off "rival forces" and end the controversy before any major decision is taken.

## EXPERTS' OIL TIPS TO PM

NEW DELHI, Sept. 7. — Some experts suggested ways to resolve the impasse to the Prime Minister:

- Reducing government stakes in oil PSUs to below 50 per cent by selling them to FIs like the IDBI and the LIC
- To give the PSUs functional autonomy and taking them off the control of the CAG and parliamentary committee on public undertakings
- Impose a compulsory levy on oil produced by private companies to create a buffer stock of oil for emergency purposes. — SNS

# Govt ditches disinvestment, for now

## HPCL, BPCL decision deferred

Our Delhi Bureau
7 SEPTEMBER

In a major setback to the disinvestment programme of public sector companies, the government has deferred all decisions on privatisation of HPCL and BPCL for the next three months. Simultaneously, it has also decided to defer disinvestment through public offerings of 10-25% in IOC, ONGC, GAIL, BSNL and NTPC for three months.

The Cabinet Committee on Disinvestment (CCD), which met this evening, put aside all decisions of divestment in oil PSUs, either through strategic sale or through dilution of cross holdings till December 2002. In other words, IOC's plans to dilute its holding in ONGC and GAIL too have been put on hold for the time being.

It is not clear whether the in-principle decision given by the CCD in February to privatise HPCL and BPCL stands in view of today's decision. Sections of the government felt that deferment could be interpreted as suspending the earlier decision to privatise HPCL and BPCL.

Prime Minister Atal Behari Vajpayee held a meeting with senior cabinet colleagues this morning to work out a consensus on oil sector disinvestment.

The meeting was attended by deputy prime minister L K Advani, defence minister George Fernandes, finance minister Jaswant Singh, petroleum minister Ram Naik and disinvestment minister Arun Shourie, among others.

Sources said informal discussions and meetings would be held at various levels within the next three months to get the whole process of disinvestment "going". The government will have to take a call on whether to adopt the strategic sale or the public offering route while diluting equity.

It is learnt that the petroleum ministry raised crucial issues like the future of the upcoming refineries and fund requirements. Also, whether investors coming into the sector would be interested in completing these projects.

Briefing newspersons after the CCD meeting, Shourie said that the decision to defer disinvestment in these companies was taken at the highest level and it will affect the government's estimated revenue targets from disinvestment.

As far as the public offerings of some of these companies are concerned, the CCD has left it to the administrative ministry to now take it up independently. There were plans that some of these companies would be able to combine the IPO with the government's disinvestment plans to mop up resources for their projects.

Asked whether this decision would affect investor perception, Mr Shourie said: "The markets and rating agencies will reflect investor perception." This decision by the government, which to a large extent is because of heavy internal lobbying by the NDA and BJP factions, will affect investor interest in the oil sector. This sector, which has recently been decontrolled, has always been a target for big ticket disinvestment.

A major success story for the disinvestment ministry so far has been the disinvestment of IBP to Indian Oil Corporation.

- Feb: CCD decides in principle to divest govt stake in HPCL and BPCL. IOC barred from the bidding process.
- Mar: The core group of secretaries on disinvestment clears 26% selloff in HPCL and 36% in BPCL.
- Aug: PMO steps in even as petroleum minister Ram Naik opposes strategic sale in the oil companies.
- Defence minister George Fernandes throws a spanner. Govt forced to put off the CCD meet scheduled for Aug 28 to Sept 7.
- Sept: Disinvestment minister Arun Shourie says selloff being ambushed, pitches for the strategic sale route.
- The crucial CCD meet to discuss selloff in HPCL and BPCL deferred.

## PSUs with majority govt stake barred from bidding

Our Delhi Bureau
7 SEPTEMBER

PUBLIC sector companies and co-operatives in which the government holds over 51% of the equity will henceforth be barred from bidding for PSUs which are up for disinvestment. The decision will have prospective effect, and not affect ongoing transactions.

The Cabinet Committe on Disinvestment (CCD), however, decided that exceptions to the blanket ban can be made in certain cases if the concerned ministry has a sound case for allowing a PSU to bid for a government enterprise.

This effectively implies that the petroleum ministry would have to convince the CCD to allow ONGC to bid, as a special case, for HPCL or BPCL as and when their disinvestment is taken up.

## Rs 12,000-cr target missed

Our Delhi Bureau
7 SEPTEMBER

BRIEFING reporters after the meeting of the Cabinet Committee on Disinvestment, disinvestment minister Arun Shourie told reporters that the budget target of raising Rs 12,000 crore this year from disinvestment would not be achieved.

This pessimistic assessment before half the year is out can be attributed to the government's failure to get big ticket disinvestment going. Strategic sales in PSU oil majors Hindustan Petroleum and Bharat Petroleum had been counted on to generate capital receipts in excess of the budget target. With the CCD deciding to put oil sector share sales in deep freeze for three months, hopes of HPCL/BPCL privatisation taking place this year has receded.

The government has already realised over Rs 3,000 crore this fiscal from disinvestment. Further divestments slated for the current year, such as those of Shipping Corporation of India, Engineers India Ltd, State Trading Corporation, National Aluminium, National Fertiliser and a clutch of small PSUs could generate another Rs 8,000 crore. The proposed public offering of government equity in Maruti Udyog could generate about Rs 1,000 crore. If all the planned divestments go through, the fiscal target for disinvestment could still be met. The fact that Mr Shourie says that the target would be missed means that he does not expect all non-oil sector divestments to go through either.

With a major item of budget receipts now slated to register a shortfall, the government will have to try harder to meet its fiscal deficit target. A disappointed Mr Shourie made it clear that backtracking on crucial reform such as divestment had its costs and the government would have to bear them.

## Setback for Team Vajpayee

Our Political Bureau
NEW DELHI 7 SEPTEMBER

THE government's decision to shelve the disinvestment of HPCL and BPCL— a key element of the current privatisation process — has come as the biggest setback for the Vajpayee dispensationon's reforms agenda. With the government past the half-way mark of its tenure, and powerful political and corporate interest beginning to flex their muscles, there could be more such moves that can sap the PM's enthusiasm to stay on the reform track.

It was only a month ago that the BJP came out with a Delhi Pledge projecting disinvestment as the government's biggest success story. The prime minister himself had said that the process should be accelerated and even talked about a larger national consensus on the new thrust areas. Against this backdrop, today's decision underscores the role powerful players in politics, bureaucracy and business played in derailing the disinvestment exercise.

The meeting of the CCD was preceded by a week of high voltage lobbying against the privatisation of oil companies. In an attempt to sort matters out, there was even a peace parley at the PM's residence this morning. With powerful players arrayed against Arun Shourie's proposal, the prime minister was forced to give in.

Shourie's spirited defence of the selloff plan failed to cut any ice as petroleum minister Ram Naik, supported by defence minister George Fernandes, HRD minister Murli Manohar Joshi and finance minister Jaswant Singh, launched a concerted attempt to block the move. With deputy prime minister, L K Advani staying "neutral", Shourie found himself in a no-win position.

# Panel calls for mega FDI dose

TIMES NEWS NETWORK

New Delhi: A committee appointed by the Planning Commission, in its report to the Prime Minister on Friday, suggested steps to facilitate substantial increases in foreign direct investment in insurance, oil and petroleum, aviation and other key sectors.

The panel was headed by N.K. Singh, who is currently member of the commission, but is better known for being one of the drivers of economic reforms while he was in the finance ministry and later in the Prime Minister's Office.

Coming as it does on the on the eve of the PM's visit to the US and bang in the middle of the debate on divestment, the report will serve the purpose of giving foreign investors the message that the Indian government remains committed to liberalisation of the economy.

The committee proposed that 100 per cent FDI also be allowed in banking, real estate and airports. In insurance, it was suggested that the FDI cap be raised from 26 per cent to 49 per cent, in civil aviation from 40 per cent to 49 per cent and in basic and mobile telephony from 49 per cent to 74 per cent.

The report lamented the absence of FDI in sectors thrown open to divestment and observed that in other emerging markets privatisation had been an important magnet for FDI.

A dismal picture emerges from the report. FDI is just 0.9 per cent of India's GDP. India's share of FDI inflows among developing countries is a mere 1.7 per cent. By contrast, China walks away with 17 per cent and Brazil 13.9 per cent. South Korea's share of developing country FDI was the same as that of India's in 1993, but grew to four times that of India's in 2000.

The committee emphasised the need for greater clarity and sense of purpose—an unambiguous investment law, for instance. The Foreign Investment Promotion Council needed to show creativity and aggression, it said. Someone with national and international credibility should be at its helm, it said. Similarly, the Foreign Investment Promotion Board should be given the powers to make central-level approvals and speed up project implementation.

"It is essential to be recognised and heard in the boardrooms of Fortune 500 companies. The Indian economy should be vigorously marketed," Mr Singh said.

## PM to hold talks to end CCD rift

TIMES NEWS NETWORK

New Delhi: Prime Minister A.B. Vajpayee will chair an informal meeting of key ministers on Saturday, ahead of the cabinet committee on disinvestment, now slated to be held later in the day, in an effort to hammer out a compromise on whether to follow the strategic sale route for privatising HPCL and BPCL.

With cabinet ministers, including those belonging to the BJP, holding divergent views on this, the PM has been constrained to call a second meeting on the subject this week. The only difference is that the PM, deputy PM, finance minister and the defence minister, who attended the first meeting, will be joined this time by the disinvestment minister as well as the petroleum minister. The meeting will decide whether the CCD will be held on Saturday.

THE TIMES OF INDIA 7 SEP 200

# More voices against disinvestment

By Neena Vyas

NEW DELHI, SEPT. 5. Differences over the disinvestment policy, especially with reference to public sector undertakings in the oil sector, became further accentuated today with the issue reportedly figuring at two separate high-level meetings.

The Defence Minister, George Fernandes, met the Deputy Prime Minister, L. K. Advani, and the Human Resource Development Minister, Murli Manohar Joshi, met the Prime Minister, Atal Behari Vajpayee.

Over the last few days, after Mr. Fernandes questioned the wisdom of selling profit-making PSUs in the oil sector, a number of ministerial voices have joined in, apparently for different reasons.

Some such as the Petroleum Minister, Ram Naik, and the Civil Aviation Minister, Shahnawaz Hussain, want to protect their own turf and others, it is suspected, may even be "raising their voices at the behest of interested parties in the private sector."

Politically, this new development is also being viewed by some in the Bharatiya Janata Party as an attempt to lower the high profile of the Disinvestment Minister, Arun Shourie, and his staunch supporter, Arun Jaitley.

Simultaneously, Mr. Fernandes, it is alleged, wants to raise his own political profile after the battering he received in the Tehelka affair.

Ahead of the scheduled meeting of the Cabinet Committee on Disinvestment on September 7, those opposed to the idea of virtually "handing over to the private sector" on a platter profit-making companies in the oil sector such as Bharat Petroleum and Hindustan Petroleum — in the refining and the marketing sectors — hope to get some moral support from Dr. Joshi.

The Minister for Coal and Mines, Uma Bharati, has also spoken strongly against disinvestment.

It is being pointed out that if the Government opts for a strategic sale of the PSUs, a method favoured by Mr. Shourie and Mr. Jaitley, the multinational Shell will most certainly walk away with the prize.

The chorus of voices is growing in favour of offloading shares of these companies in the market, if disinvestment is a must.

It is learnt that some people have raised the vital issue of energy security in connection with the possible sale of oil sector PSUs, and they include Dr. Joshi who is believed to have conveyed his views to the Prime Minister.

They point out that the security issue is far more important than Mr. Fernandes' objection that the disinvestment process will replace a public sector monopoly with a private sector monopoly.

And almost as if anticipating the objection, Mr. Shourie, speaking today on the sidelines of a meeting at the Indian Merchants' Chamber in Mumbai, reportedly said that "real oil security" could be achieved by the Government by going for alternative fuels such as ethanol.

He suggested, without directly saying so, that one could not talk about oil security when the country imported two-thirds of its oil needs, had invited "foreigners" to undertake oil exploration, and when there was talk of laying an oil pipeline from Iran via Pakistan.

# Advani out to broker peace on oil PSUs

By Smita Gupta
TIMES NEWS NETWORK

**New Delhi:** Caught between two conflicting views on the disinvestment of oil public sector firms BPCL and HPCL, Prime Minister A.B. Vajpayee has authorised his deputy, L.K. Advani, to talk to various ministers on the issue and see if a compromise can be worked out by Friday. If not, the Cabinet Committee on Disinvestment (CCD) meeting scheduled for September 7 may be postponed, sources said.

Consequently on Thursday, defence minister George Fernandes, whose letter to the Prime Minister triggered off the present battle, and his chief antagonist, disinvestment minister Arun Shourie, met Mr Advani separately. These meetings came a day after Mr Shourie, accompanied by BJP spokesperson Arun Jaitley, met Mr Fernandes.

Petroleum minister Ram Naik is also scheduled to meet Mr Advani on Friday.

With virtually only Mr Jaitley, who is not a minister, supporting him even as finance minister Jaswant Singh, IT minister Pramod Mahajan, civil aviation minister Syed Shahnawaz Hussain and coal minister Uma Bharti opposed his stand, Mr Shourie reportedly backed off a bit when he met Mr Advani.

Sources said that Mr Shourie, in a softening of his stand, suggested that the first step could be to explore the question of offloading 25 to 26 per cent shares in the market.

However, Mr Fernandes, in his meeting with Mr Advani, stuck to the position he has taken ever since he wrote his letter to the PM. Drawing attention to the need to look at the security aspect before divesting the oil PSUs, as well as the dangers of creating monopolies, he asked for a review of the disinvestment process.

Meanwhile, human resource development minister Murli Manohar Joshi, who carries clout with the RSS as well, has also reportedly joined the fray, conveying his views to the PM. Mr Joshi has taken a similar line to that of Mr Fernandes: that the question of national security is paramount when considering the disinvestment of oil PSUs. And that the private sector Burmah Shell had let down the Indian government during the 1971 war.

The policy on disinvestment of oil PSUs must be part of a larger policy on energy security, he reportedly said. Mr Joshi, a strong advocate of swadeshi, also sought a "mid-term review" not just of disinvestment but on the whole subject of economic reforms, it was learnt.

The developments come in the wake of reports that Ms Bharti is upset over plans to disinvest a large chunk of Nalco in the near future. She feels that since Nalco is in the middle of a major modernisation programme, which could considerably improve its true worth, it should be left alone.

## Shourie warns of slowdown risk

TIMES NEWS NETWORK

**Mumbai:** Union disinvestment minister Arun Shourie said here on Thursday that economic reforms, like privatisation, in India ran the risk of a slowdown due to the "fragile and fractured political structure" and "resistance" from the administrative ministries.

At an IMC meeting, he also expressed scepticism over the effectiveness of the bailout packages for UTI and Sail Ltd to restore their financial health.

● Report on Page 15

NO 'TUSSLE', SAYS JASWANT

# PM confers with Ministers on disinvestment

By Our Special Correspondent

**NEW DELHI, SEPT. 3.** The Prime Minister, Atal Behari Vajpayee, today held informal discussions with his senior colleagues in an effort to break the apparent impasse over the nature and direction of the disinvestment process, especially of public sector giants such as Hindustan Petroleum Corporation and Bharat Petroleum Corporation. The meeting took place in the context of the Defence Minister, George Fernandes, voicing reservations over disinvestment in the 'strategic' oil sector.

Mr. Fernandes is believed to have written at least two letters in recent weeks to Mr. Vajpayee, raising doubts about the advisability of the disinvestment process. He has received considerable support from Ram Naik, Minister for Petroleum. On the other hand, the Disinvestment Minister, Arun Shourie, has publicly expressed the view that opposition to disinvestment in the oil sector was reflective of "corporate rivalries".

The meeting was attended among others by the Deputy Prime Minister, L.K. Advani, the Union Finance Minister, Jaswant Singh, and Mr. Fernandes. It was an informal attempt to see if the differences among various Ministers could be narrowed down before the matter was taken up formally by the Cabinet Committee on Disinvestment. But since Mr. Naik could not attend the meeting, Mr. Shourie was also not invited. Mr. Naik has now been asked to be back in India for the next meeting on September 7 (before Mr. Vajpayee leaves for New York on September 9).

**Fernandes...** *"course correction needed"*

Later, talking to presspersons, Mr. Singh said that there was no "tussle" among the Ministers, and, in fact, suggested that today's deliberations were not disinvestment-centric. "We discussed many topics including economic policy, foreign policy, some security-related matters and also disinvestments."

Apparently, Mr. Fernandes remained unpropitiated. Later, at a ceremony at the Institute for Defence Studies and Analysis, he maintained that though he did not oppose the disinvestment policy, there was need to review the progress made so far and make "mid-course corrections" if the need arose.

"Disinvestment has been going on for over a decade and we have travelled a long way since then. But we must examine how far we have reached and examine whether disinvestment is proceeding on the expected lines," he told presspersons. "This is a question that all political parties must be aware of," he added. To a question, he said the recommendations of the G.V. Ramakrishna Committee on Disinvestment were being followed to a "certain extent" but added that "in all such matters, we need certain course correction".

He said there was no conflict in the Government on disinvestment and blamed the media for being "unnecessarily salacious". "Editorials have been written on the basis of these news reports just to show what a character I am," he noted.

COMPANY SPLIT INTO TWO; RELIEF FOR US-64 INVESTORS

# Govt. announces bailout package for UTI

By Alok Mukherjee

**NEW DELHI, AUG. 31.** The Central Government today announced a major restructuring of the Unit Trust of India (UTI) by splitting the company into two and directly taking responsibility of the US-64 and all assured return schemes. It also decided that redemptions of the US-64 scheme would continue beyond May 2003 with units up to 5,000 getting a guaranteed redemption price of Rs. 12 a unit and those beyond 5,000 at Rs. 10 a unit.

In order to induce people to continue to hold US-64 units beyond the earlier set deadline of May 2003, the Government has decided to offer tax sops, details of which would be announced later. But the tax concessions would be either on dividend income or capital gains.

As for the assured return schemes, including the Monthly Income Plans (MIPs), while the Government will guarantee the schemes, it has retained the right to revise the interest rates downward and to go in for foreclosure of some of the schemes. "We will go into it scheme by scheme.

The UTI had earlier reduced the interest rates and foreclosed some schemes and this has been upheld by the courts," the Union Finance Secretary, S. Narayan, told presspersons here today after a meeting of the Cabinet Committee on Economic Affairs (CCEA) where the decisions regarding the UTI were taken.

As per the CCEA decisions, the UTI is being divided into two companies — UTI-1 and UTI-2.

All the "protected" schemes like the US-64 for which an assured repurchase price has been announced and assured return schemes will be placed under UTI-1 which will be managed by a Government-appointed administrator and a nominated team of advisers. The Government will meet its obligations annually to cover any deficit in UTI-1.

The UTI-2 will comprise all net asset value (NAV)-based schemes, including those units of US-64 which have been sold at a NAV-based price since January 2002.

This company will for the time being be managed by a professional chairman and a board of trustees recruited from the open market and will eventually be privatised. The time-frame for privatisation has not yet been decided.

Since the UTI-2 portfolio will be NAV-based, no Governmental financial support is envisaged for it.

To give effect to its decision to split the UTI, the Government will bring forward an ordinance to repeal the original UTI Act. It will also structure UTI-1 and UTI-2 as per the regulations of the Securities and Exchange Board of India.

According to Mr. Narayan, the UTI had a total net asset value of Rs. 42,000 crores as of June 30 this year. Of this, about Rs. 18,000 crores are NAV-based schemes which will go to UTI-2. Consequently, the balance Rs. 24,000 crores would be with UTI-1.

It has also been worked out that the liability of guaranteed repurchase price of the US-64 scheme would be approximately Rs. 6,081 crores, which could vary depending on market conditions.

In respect of the assured return schemes, the current shortfall is estimated to be Rs. 8,561 crores. In other words, the immediate Government liability is Rs. 14,642 crores.

To meet this liability, the Government has decided that the redemption liability during the current fiscal would be about Rs. 1,100 crores to Rs. 1,200 crores, which would be met through the budget. Already, Rs. 500 crores has been provided in the first batch of supplementary demands for grants and another Rs 500-odd crores is likely to be provided in the next supplementary demand. From the next fiscal, that is after April 2003, the real redemption pressure is likely to build up and to meet this, it is proposed to issue bonds on the lines of the Oil Bonds which will be a tradable instrument with a long-term tenure.

In other words, it would add to the public debt of the country but would not have an immediate effect on government finances.

To put off the immediate liability of redemptions of US-64 and to ensure that the UTI does not have to offload its equity holdings at one go, the tax sop on US-64 is being extended so that investors could hold on to the unit with an assured return of Rs. 12 a unit for the first 5,000 units and Rs. 10 for the rest along with tax benefits. The Government will keep the redemption facility open in case of the US-64 till the last investor withdraws.

In reply to a specific query, Mr. Narayan ruled out any retrenchment in the UTI because of its restructuring.

## HIGHLIGHTS

- **UTI to be split into two companies.**
- **Govt. guarantee on US-64, MIPs to continue.**
- **US-64 redemption to continue beyond May 2003.**
- **Tax sops on US-64 scheme.**
- **Assured return schemes interest may go down.**
- **UTI-1 to look after assured return schemes.**
- **NAV-based schemes with UTI-2, to be eventually privatised.**

FOOD FOR THE POOREST OF THE POOR

# Jaswant announces tax sops, savings scheme

**By Our Special Correspondent**

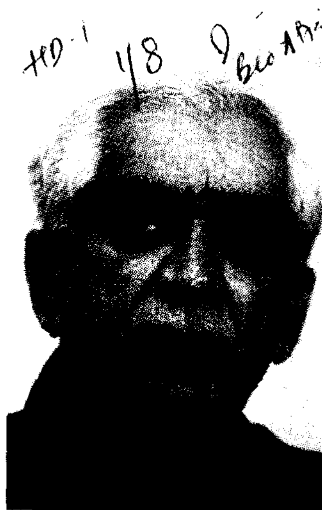
**NEW DELHI, JULY 31.** Working on his promise of giving "more money to the investor and more food to the poor," the Union Finance Minister, Jaswant Singh, today announced some tax concessions and a new tax-free savings avenue while simultaneously announcing an 'ann antyodaya scheme' (food for the poorest of the poor in the rural areas).

Replying to the debate on the supplementary demands for grants in the Lok Sabha, Mr. Singh raised the current limit under Section 80L of the Income Tax Act (relating to interest and dividend income) from Rs. 12,000 to Rs. 15,000, announced a new RBI tax-free bond attracting seven per cent interest with a six-year maturity period, and raised the threshold for tax deduction at source (TDS) on dividend income from Rs. 1,000 to Rs. 2,500 from each company.

He announced that there would be no service tax on life insurance premium.

He said that the scheme to launch the Indian Depository Receipts (IDRs) — which will enable Indian investors to invest in good companies abroad and in non-resident Indian ventures abroad — would be operationalised soon.

On investor protection, Mr. Singh announced the creation of a Serious Frauds Office in the Department of Company Affairs, a coordinated investigating agency to look into the "frauds that occur or are likely to occur." So far, such investigations, including into those companies, which had vanished with the depositors' money, were being conducted by various agencies, leading to delays



and ineffective investigation. Besides, the Companies Act would be amended to take strict action against defaulting companies. The Government would also lay down new norms for statutory accounting and disclosure procedures to ensure transparency in operations.

The Minister also announced the setting up of a task force, which would redraw the Income Tax Act and make its recommendations within three months. He, however, hinted that most of the tax exemptions would be done away with.

"Tax laws are too complicated at present. The Act should be direct, simple, comprehensive and free from exemptions. This task force will work for the simplification of the Act and I wish to accept its recommendations at the earliest and not later than the next budget," he said. October had been set as the deadline for computerisation of the Revenue Department after which a data bank of all taxpayers would be created. This would improve tax compliance significantly.

On Section 80L, Mr. Singh said the current limit for annual tax exemption was Rs. 9,000 on specified income (interest income) and Rs. 3,000 on income from Government securities (infrastructure bonds, etc.). The limit was now Rs. 12,000 and Rs. 3,000. About the new RBI bond, he said that while the earlier limit of Rs. 2 lakhs per investor (except for retired and retiring employees) on RBI relief bonds would continue, a new tax-free bond would be launched soon which would attract interest of seven per cent and have a six-year maturity period.

About the Unit Trust of India, Mr. Singh said that the Government would take all steps to protect investor interests and that the Government would fully stand behind UTI on the US-64 scheme.

It would also help UTI meet its monthly income plan obligations by standing guarantee for a Rs. 1,000-crore loan that the latter would raise.

Referring to the spectre of drought, Mr. Singh said "the Government will not play politics in combating calamity or fighting drought."

Though he expressed inability to spell out the allocations for individual States at this juncture, Mr. Singh said the task force on drought set up under the Deputy Prime Minister, L. K. Advani, would make "judicious readjustments and relocation of resources."

As an immediate measure, he announced a new "ann antyodaya scheme" which will have a special allocation to reach food to the poorest of the poor in rural areas. He also promised to work towards a total rural credit limit of Rs. 75,000 crores this year, against an allocation of Rs. 32,000 crores in 1997-98, the last time monsoon was deficient.

# JPC gives Sinha a clean chit

TIMES NEWS NETWORK AND AGENCIES

**New Delhi:** The joint parliamentary committee (JPC) probing the stocks scam and the subsequent UTI fiasco, in a draft report, has charged former finance secretary Ajit Kumar with being "casual" about last year's UTI crisis. However, it does not hold the then finance minister Yashwant Sinha accountable for the scam.

Blaming the Reserve Bank of India (RBI) and the state registrar of cooperatives for the Madhavpura Bank scam, it has ordered a probe against the then chiefs of UTI and UTI Bank for the bank's failed merger with Global Trust Bank.

The draft report has lambasted market regulator Securities and Exchange Board of India (Sebi) and its then chief D.R. Mehta for the post-budget market crash. Circulated among JPC members last week, the draft says the lack of alertness on Sebi's part had led to the withdrawal of Rs 1,900 crore by Reliance from the automatic lending and borrowing mechanism (ALBM) in less than two weeks, leading to the stock market crash.

Yashwant Sinha

(Reliance Industries on Monday said all its ALBM transactions had been "completely in accordance with prevailing laws, rules and regulations". Commenting on the observations of the JPC, Reliance, in a statement, said, "We regret that the JPC report has given a distorted picture of the factal position."

(The report says not realising the ALBM's role in the market crash, Sebi had not fixed any limit on the financing of ALBM. This, it observed, resulted in "a single player influencing the market".

(However, the Reliance statement claimed that the company had offered additional funds of Rs 1,000 crore in ALBM even on February 28, but they could not be deployed because there were no takers. "There can be no question of Reliance's withdrawal of funds to destablise the market," it said.)

By giving Mr Sinha a clean chit, the JPC draft report seems to have endorsed his claim in parliament that he had been kept in the dark about the crisis brewing in UTI. As regards Mr Ajit Kumar, the report says, "He considered the problem in a routine and casual manner which is not expected from an officer of his rank."

● Report assails UTI officials, Page 16

2 3 JUL 2002

EIGHT-POINT AGENDA TO SUSTAIN GROWTH

# Subsidies will be reduced, procedures to be pruned: PM

By Alok Mukherjee

NEW DELHI, JULY 13. The Prime Minister, Atal Behari Vajpayee, today laid down an eight-point agenda which the Government would follow to sustain the recent upturn in the economic situation and also to achieve the eight per cent growth projected in the Tenth Five-Year Plan.

Prominent on the agenda is the promise to clean up the Government's regulatory procedures, including "several growth-hindering hurdles that have been placed in the name of environmental protection". It also emphasises the Government's resolve to reduce and re-target subsidies and to go in for public-private partnership in education, healthcare, shelter, sanitation and old age social security. Besides, an action plan is to follow, and this will help fulfil the Government's promise of "10 million employment opportunities per annum".

The agenda was unfolded by the Prime Minister during a meeting of his Economic Advisory Council here today. At the meeting,

Mr. Vajpayee recalled his new Finance Minister, Jaswant Singh's recent comments that "a major burden on our economy is the way our Government machinery functions. It is designed to achieve delay, not development; its pre-occupation is procedures, not performance."

## Hurdles to be removed

The Prime Minister said that a comprehensive review of the current regulatory procedures had begun and that a high-level official working group would soon recommend steps to re-engineer the entire set of regulatory processes at the Central, State and municipal levels. "For example, we shall take steps to remove several growth-hindering hurdles that have been placed in the name of environmental protection, which can be got rid of without harming the environment."

Mr. Vajpayee laid stress on proper implementation of policies and programmes, saying it would be his first priority to bridge the gap between promise and performance. He listed the implementation of the new telecom policy, the on-going work on the national highway development project and the completion of a number of disinvestment initiatives as "successful" but said a lot more needed to be done.

He spelt out another challenge, that of further speeding up the economic reforms so that India became a clear-cut market economy with the Government withdrawing from production, barring a few clearly-specified strategic sectors. However, the Government would retain and further strengthen its role in policy-making, regulation and facilitation, Mr. Vajpayee said and added that "we need to ensure that regulation of markets is by competent and independent regulatory agencies. These should follow transparent procedures, guided by the Government's clearly articulated policy objectives."

On subsidies, the Prime Minister was categorical that an essential element of the poverty alleviation strategy would have to be reduction and re-targeting of subsidies so that the essential consumption of the poor was protected but the overall fiscal deficit was reduced. "Barring those who deserve subsidy, we should develop a culture of making all others pay for what they use," he said and referred to unrecovered costs from sectors such as power, education, public transport and municipal services. As for the "laudable goals of a welfare state," Mr. Vajpayee said these would now have to be pursued within a new framework — by broadening and deepening the scope of public-private partnership in education, healthcare, shelter, sanitation, care of the aged and the poor, and promotion of sports, arts and culture.

THE HINDU 2002

# We're committed to labour reforms: PM

## Economic legislative amendments top priority for Vajpayee

**ENS ECONOMIC BUREAU**
NEW DELHI, JULY 10

THE long list of pending economic legislations obviously seems to be a cause of worry for Prime Minister Atal Behari Vajpayee. Calling for a political consensus on the pending economic legislations, Vajpayee expressed his government's commitment in pushing forward labour reforms. The recent spate of accounting scandals in the US also caught Vajpayee's attention as the Prime Minister called upon the Indian Inc to follow good corporate governance.

Speaking at the meeting of the Prime Minister's Council on Trade and Industry, he listed out the economic legislative changes which the government has been able to accomplish. The meeting on Wednesday, which was attended among others by leading industrialises like Ratan Tata, Nusli Wadia, Sashi Ruia, Rajiv Chandrashekar and heads of apex chambers like Ficci and CII, focussed specifically on two economic legislations—the Electricity Bill 2001 and the Petroleum Regulatory Bill.

### PM's wishlist on economic reforms

- ★●O□◆□ reforms to be pushed forward vigorously.
- Political consensus to complete legislative agenda.
- Speeding up disinvestment process
- Scheme to modernise Indian Railways
- To implement an appropriate legal and institutional framework to attract more FDI.
- Need to put in place good corporate governance by Indian Inc.

**Prime Minister Vajpayee and Finance Minister Jaswant Singh at the meet.** *Photo by Sanjay Sharma*

Among the prominent absentees were Mukesh Ambani, Rahul Bajaj and Kumar Mangalam Birla.

According to the Prime Minister, the government would push forward labour reforms now that the second National Labour Commission has already submitted its report. Vajpayee also promised to accelerate the process of PSU disinvestment. He said that the resources raised from disinvestment would be used for the social sector.

Underlining the need to attract larger volumes of foreign direct investment, Vajpayee said "I hope that the expert committee in the Planning Commission would submit its recommendations soon. It is necessary to have an appropriate legal and institutional framework for increasing the flow of FDI".

Stating that the GDP would grow by over 6 per cent this year, Vajpayee said that he was confident that the economy would further prosper in the 'strong and able hands' of Jaswant Singh. Vajpayee said that the priority agenda for policy reforms across different sectors for the current year was being worked out by the committee of secretaries and would be placed shortly before the cabinet committee on economic reforms.

The Prime Minister also said that on the lines of National Highway Development Project "we intend to soon launch a similar big initiative for the modernisation of Indian Railways."

Apart from formulating priority agenda for reforms, government has also identified 100 major infrastructure projects for fast track implementation, Vajpayee said, adding that "announcements are only as good as their implementation."

### FM plans to boost consumer spending

**NEW DELHI:** FINANCE minister Jaswant Singh said that he planned to put forward 'specific proposals' to boost consumer spending. Talking to the media, Singh said that 'unless consumers consume, how can the economy expand? I wish to come out with some specific proposals (to increase spending).' Singh said but did not give any time frame for the proposals.

INDIAN EXPRESS
11 JUL 2002

# DHIRUBHAI AMBANI, 1932-2002

ONE WAY OF assessing the extraordinary achievements of Dhirubhai Ambani is to make an inventory of the facts. He founded India's first Fortune Global 500 company. He was the visionary behind the industrial group which accounts for more than 3 per cent of India's GDP, about 5 per cent of the country's total exports and 30 per cent of the profits made by private sector companies. The integrated Jamnagar refinery complex in Gujarat is said to be the world's largest greenfield project of its kind. About 35 lakh people have a direct interest in Reliance Industries which, post-merger, will have more shareholders than any other company in the world. The facts, as it were, speak for themselves. They tell a story of a truly global giant, of an Indian private sector industrial house which climbed swiftly to the peak leaving behind most others to labour in the foothills.

In a way though what the facts do not reveal are even more extraordinary. For behind the creation of this story of dizzy corporate growth is also the story of a man, the son of a school teacher in rural Gujarat, who failed to pass his school exams in the first attempt and earned his first money as a child selling snacks to pilgrims over weekends. His early years were relatively unremarkable. A job with an Indian trading company took him to Aden and he moved on from there to work for Shell, as a petrol pump attendant. When he returned to India in 1957, polyester had just been invented and Ambani — with a vision which would remain until the very end — believed it represented the future of Indian textile business. He guessed correctly. His investment of Rs. 15,000 to set up a trading house paid off quickly and by the mid-1960s, he was the largest polyester trader in the country.

The Reliance success story is spun around polyester but the diversifications have come thick and fast — plastics, refineries, oil, gas and telecommunications. To finance some of these operations, Ambani transformed the way big business operated by raising money from the market, a strategy which was directly responsible for promoting the equity cult in India. However, a life in business was also a life in controversy. By the 1980s, the so-called Polyester Pasha was embroiled in a spat with one of Mumbai's better known industrialists, was the subject of a scalding newspaper campaign, was regarded as being responsible for the ruin of a rival polyester company and was saddled with an unfavourable reputation as a man who adopted questionable measures to influence Government policy or, as it was called euphemistically in those days, to manage the environment.

The controversy over the methods employed by Reliance will never go away. Those who regard Ambani kindly will continue to claim that in managing the environment, he did what all other industrialists did in the days of the licence-permit-quota raj, but only better. And Ambani's critics will always claim that he went much too far while working the system. However, there is no doubt about one thing. The scorching growth of the Reliance group has only increased after the licence raj was dismantled, its turnover having grown some 20-fold in the 1990s, the decade of liberalisation. Recent diversification has taken Reliance into new and seemingly unrelated areas. Massive investments in telecommunications have been made with the stated objective of becoming the world's first fully integrated telecommunications company. A relatively modest foray into the biotechnology sector has already resulted in its stem cell cultures being chosen as one of the few suitable for research purposes. As a first generation entrepreneur, Ambani created India's largest business empire. The challenge before the Reliance group is to consolidate on this exceptional accomplishment.

THE HINDU

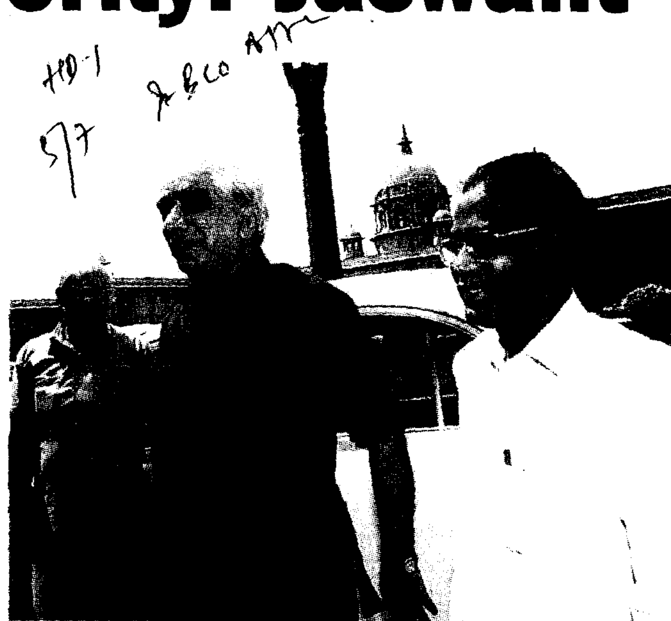
'FOOD FOR POOR, MORE MONEY FOR CITIZENS'

# Investor confidence my priority: Jaswant

By Alok Mukherjee

**NEW DELHI, JULY 4.** The new Union Finance Minister, Jaswant Singh, had some comforting words for the middle class and the poorer sections today when he said that his new job was all about ensuring food for the poor and more money for everyone. Instilling confidence in investors — both domestic and foreign — would also be among his priorities, Mr. Singh said after he assumed formal charge of his assignment this morning.

Aware of the criticism against his predecessor, Yashwant Sinha, of "neglecting" the concerns of the middle class and the vulnerable sections of society, Mr. Singh said that his job was to ensure food for the poor and more spending power for the citizens. "*Garib ke pet me anna pounche* (food should reach the stomachs of the poor) and there should be more money in his (citizen's) pockets and in the purse of the housewives" was his perception of the role of the Finance Minister, Mr. Singh said. The Minister had a surprise comment when he said that he did not perceive his role as that of a policeman. It would be his task to instil confidence in domestic and foreign investors, besides trade and industry. Obliquely referring to the series of recent scams in financial institutions, Mr. Singh said "we need to address the regulatory mechanism which had shown some infirmities."



**The Union Finance and Company Affairs Minister, Jaswant Singh, being welcomed by the Minister of State for Finance, C. Ramachandran, at North Block, New Delhi, on Thursday. —** Photo: Anu Pushkarna

About the overall economic situation, Mr. Singh said the prices were under reasonable control, the balance of payments position was comfortable and the fundamentals were sound. "I have to continue to strengthen the fundamentals and to address some of the infirmities," he said and added that the 5.4 per cent economic growth in 2001-02 was no mean achievement, given the difficult global economic situation and other adverse factors.

Responding to a question on important pending economic legislation, Mr. Singh said that once the Parliament session started "we will be addressing all those."

# UNDER THE MICROSCOPE

SET ASIDE THE general praise for India's economic performance during the 1990s that was expressed at the World Trade Organisation last week and it is apparent that a number of shortcomings in India's trade policies have been highlighted in the latest trade policy review (TPR) of India that has been carried out by the organisation. All the criticisms made during the recent cross-examination may or may not be valid. But India will have to take into account the assessments that were made at the WTO meetings — some highlighted in the WTO Secretariat report on India's policies and the others expressed by representatives of India's trading partners — since they are bound to surface during the ongoing Doha round of negotiations, which is where the Government will have to be prepared to cope with pressures to change its trade policies and regulations. There is therefore no point in feeling pleased that satisfaction was expressed at the WTO with India's reforms and economic growth. It is worth noting that while the Government did make its own presentation of the obstacles that had been placed on Indian exports there was little support for these arguments in comparison to the many critical comments and demands for changes that were made at the meetings.

During the intensive discussion of India's trade policies, the three main criticisms were of India's frequent use of anti-dumping duties, the use of non-tariff barriers (NTBs) to control imports, and high tariffs. Two of these are relatively new features of India's rules and regulations on imports and the third is an old characteristic which is never spared criticism. In none of these areas is India violative of WTO agreements, although in specific cases India's actions have been the subject of WTO dispute proceedings. While the Government is correct in arguing that it follows WTO rules in investigating and then imposing anti-dumping duties, it is a fact that the easy recourse to this option has been in response to domestic pressures to keep out imports. India may claim that its anti-dumping duties cover less than one per cent of total imports. But it says something about Indian trade policies that the country now rivals the U.S. as the world's leading user of the anti-dumping provisions of the WTO agreements. It is now widely acknowledged the world over that the levy of anti-dumping duties — however elaborate the procedures — is a ready and opaque tool in the hands of a Government ready to please threatened domestic producers. Anti-dumping is an important item on the agenda of the Doha round of negotiations — precisely because of dissatisfaction over its use by some countries in the past few years — and it is likely that India will be hard put during the talks to prevent a tightening of the provisions of the existing agreement. A similar argument applies to India's increasing use of standards, specifications and labelling requirements — all NTBs. The Government never loses an opportunity to rail against other countries using NTBs to keep out Indian exports, but it is quick to use the same provisions to control imports. India's application of anti-dumping duties and NTBs has increased, indeed one can say they have emerged after it began removing quantitative restrictions on imports from the mid-1990s. It is apparent to India's trading partners that it is trying to replace one set of import controls with another.

The more traditional form of import control — high customs duties — have also been criticised. Here as well, India had adhered to the letter if not to the spirit of the WTO agreements. As a country with one of the highest import tariffs in the world, it is bound to be pressured during the Doha round talks to make offers of significant tariff cuts. This is independent of demands that India reduce its import duties if it wants the developed countries to lower the incidence of tariff peaks and escalation, which are widespread on developing country exports.

THE HINDU

26 2002

# Gloomy Growth

An economic growth rate of 5.8 per cent would be considered respectable by most developing countries. For developed countries, it's almost a miracle. After all, a one per cent increase in India's gross domestic product is estimated to increase per capita income by $5 (about Rs 240). Whereas in the United States, similar GDP growth translates into a rise of $350 (about Rs 16,800) in per capita income. So when the US commerce department announced that the economy had grown by 5.8 per cent in the first quarter of 2002, the superlatives poured in thick and fast. 'Surge out of recession', 'economy roaring on stimulus steroids' were some of the terms used by enthusiastic analysts. The news would also have come as music to the ears of corporates and governments around the world, many of which were hit hard by the brief US recession. Unfortunately, the killjoys swung into action even before the champagne could be uncorked. The stockmarkets had stayed relentlessly bullish through two weak quarters; the commerce department announcement coincided with a massive slump. The Dow Jones index closed below 10,000 for the first time in over two months, and the Nasdaq suffered its worst close since October 18, 2001. Ordinarily, one would be tempted to ask what the traders had been smoking, but there was a method to this seeming madness: The market was spooked by news that the University of Michigan's closely-watched consumer sentiment index had fallen in April.

How can rising GDP and declining consumer confidence co-exist? Because of what economists call an inventory bounce. When demand drops, inventories build up. So, production declines as businesses get rid of their inventories. Distress sales figure in GDP calculations, but don't really indicate a buoyant economy. Thus it was with the US figures — inventory reduction accounted for 3.1 percentage points, with final sales rising by only about 2.6 per cent. US growth figures in the next few quarters are expected to be more realistic; there is talk of an anaemic recovery. As well-known economist Paul Krugman sarcastically pointed out in a recent article for *The New York Times*, "corporate leaders — who actually make the investment decisions — have consistently been much more pessimistic than (Wall Street) forecasters. Hey, what do they know?" The fact is, US corporate results so far this year have been nothing much to write home about. The wreckage from the bursting of the New Economy bubble has still not been fully cleared; revelations of biased recommendations by stock analysts have further soured investor sentiment. Developments in West Asia have driven up oil prices, which can't be good news for the energy-guzzling US economy. And gung-ho statements by the Dubya A-team about 'getting Saddam' actually rebound on America Inc by fuelling pressure on crude rates. That's not to say the US isn't in far better shape today than many had believed possible in the immediate aftermath of 9/11. But while it may be out of the woods, it still has some way to go before it can afford to breathe easy.

3 MAY 2002

# Sinha rolls back, restores tax rebates

Statesman News Service

NEW DELHI, April 26. — Partial restoration of tax rebates under Section 88 of the Income-Tax Act was among the 20-odd concessionary budget rollbacks announced by Union finance minister Mr Yashwant Sinha today. The concessions will cost around Rs 2,000 crore, and also make the budget more complicated.

Tax rebates under Section 88 for income between Rs 1.5 lakh and Rs 5 lakh will now be 15 per cent, increased from the 10 per cent originally proposed in the budget but less than the 20 per cent available earlier. However, Mr Sinha raised the ceiling on rebate-eligible investment from Rs 80,000 to Rs 1 lakh. Out of this, Rs 30,000 will have to be invested in infrastructure bonds.

The minister has made no change in the budget proposals, despite considerable pressure, of completely doing away with Section 88 rebates for income above Rs 5 lakh. Neither did he completely roll back the hike in fuel subsidies — a partial roll back was announced earlier — or revise the reduction in small savings rates. The surcharge on income-tax also stays.

As a result of Mr Sinha's new proposals, read out while he was moving the Finance Bill in Parliament, the 2002-03 budget will easily be the most revised in recent budgetary history. He has clearly bowed to the intense pressure from the BJP, as well as to corporate lobbying on various indirect taxes.

The minister also seems to have accepted the criticism that his original proposals on tax rebates and a service tax on life insurance needed revision.

The price of compromise will be on budget revenues — Rs 750 crore in direct taxes and Rs 1,450 crore foregone in indirect taxes, including service tax accruals. Service tax was supposed to be the most buoyant revenue source in the original budget, slated to rise by 67 per cent, from Rs 3,600 crore in 2001-02 actual to Rs 6,026 crore in 2002-03 budget estimates.

Turn to page 6

## No quorum in LS

NEW DELHI, April 26. — The majority of MPs stayed away from the debate on budget proposals in the Lok Sabha today, making it difficult for the presiding officer to conduct the discussion for lack of quorum. The money Bill will be taken up for passage on Monday. The Congress had six members in the House when Mr PK Bansal, who had initiated the discussion, finished his speech. Later, that dwindled to two MPs. Only nine MPs were present from the BJP, while there was none from the NCP, the Trinamul and the Samajwadi Party. — SNS

Rs 1,450 crore indirect tax relief, Business Standard I

# Sinha bows to politics, blinks at economics

Times News Network

NEW DELHI: Politics is back in business. Bowing to pressures from within the ruling coalition as well as trade and industry, finance minister Yashwant Sinha on Friday partially restored the income-tax rebate under Section 88 of the income-tax laws to 15 per cent for incomes between Rs 1.5 lakhs and Rs 5 lakhs, scrapped the proposed five per cent service tax on life insurance premiums and rolled back the four per cent excise duty imposed on spare parts and accessories of bicycles, hand pumps, toys and umbrellas. The rollback measures will cost the exchequer Rs 2,157 crore.

Moving the finance bill in the Lok Sabha, Mr Sinha also raised the ceiling on savings for tax rebate from Rs 80,000 to Rs 1,00,000. This would amount to restoration of the pre-budget 20 per cent rebate under Section 88. In his budget, Mr Sinha had proposed a cut in the rebate from 20 per cent to ten per cent on incomes between Rs 1.5 lakhs and Rs 5 lakhs.

Mr Sinha also announced that a notification would be issued shortly raising the Rs 2 lakh ceiling for investment by retired employees of both public and private sectors in tax-free government relief bonds which carry an interest rate of eight per cent.

On the proposal to tax dividends and income from mutual funds in the budget at the hands of recipients, Mr Sinha said keeping in view the difficulties faced by small taxpayers, especially senior citizens, he proposed to allow deductions in respect of this income under Section 80 L within the overall ceiling of Rs 9,000. The tax will be deducted at source only if the amount received from the company or mutual fund exceeds Rs 1,000.

Mr Sinha also removed telephone connections under the one-by-six formula for mandatory filing of income-tax returns, but retained the provision relating to cellphones.

The finance minister also extended the exemption from inland travel tax for travel to the Andaman and Nicobar and Lakshadweep islands as and to Leh. Earlier, he had given this concession to the north-east.

He raised the customs duty on dairy products from 30 per cent to 40 per cent, the maximum available under the WTO, to protect domestic farmers.

For special economic zones, he said a 100 per cent tax holiday would be available for five years from the date of commencement of production and 50 per cent for the subsequent two years.

Mr Sinha said the exemption from four per cent duty would also include waste and scrap arising in the course of the manufacture of items that attract this duty.

However, he proposed to withdraw the four per cent excise duty on roofing tiles since the industry was labour-intensive and such tiles were used by the poor.

To check piracy and to protect the genuine interests of cassette producers, he restored exemption from the four per cent excise duty on pre-recorded audio cassettes.

However, he was not convinced about the removal of a four per cent duty on any other item, emphasising that small-scale units producing these items were already eligible for exemption to clearances up to Rs 1 crore a year.

In a minor modification of the proposals relating to the hike in postal rates, Mr Sinha retained the pre-budget rates for printed books as the current year has been declared the 'Year of Books'. This will result in a revenue loss of Rs 7 crore.

Friday's concessions involved Rs 1,450 crore in indirect taxes, Rs 700 crore in direct taxes and Rs 7 crore in postal items.

▶ See Edit: Sweet Sinha, Page 10

**WHAT YOU GET..**

| | |
|---|---|
| NOTHING | if you earn more than Rs 5 lakhs per annum |
| SOMETHING | if you earn less than Rs 5 lakhs per annum |

- ▶ **Savings of up to Rs 1 lakh eligible for rebate. This was earlier only Rs 80,000**
- ▶ **Rebate on this Rs 1 lakh of savings hiked from 10% to 15%**
- ▶ **Proposed service tax on LIC premiums dropped**

# Govt, Opposition trade Doha fire

FROM OUR SPECIAL CORRESPONDENT

**New Delhi, Nov. 16:** The BJP and the Opposition parties have stepped up their war of words over the just-concluded World Trade Organisation meeting, giving an indication of what to expect when Parliament reconvenes for the winter session three days from now.

The BJP patted itself — and the government it heads — on the back for taking up cudgels on behalf of the poor at the Doha meet, but Opposition parties railed at the Centre for "letting the people down".

"The success of the Indian delegation, led by commerce minister Murasoli Maran, shows that all government-related departments had done their homework well, in consultation with Opposition parties and in backroom discussions with developing countries," the BJP high command said.

But Opposition parties sang a dissonant tune. The Congress lashed out at the government for its "empty and noisy posturing". Spokesperson Jaipal Reddy said "Maran has been mollified but the country's interests have been nullified." The CPM accused the government of failing to deliver on its promises.

"The government had promised to seek a review of WTO negotiations. But on the two crucial sectors of agriculture and textiles, they have remained the same," the party said. "In the meanwhile, the government must take all necessary steps, like hefty increase in import duties, to protect farmers and domestic producers."

It is clear that the Opposition will rake up the issue in Parliament, especially after Maran makes a statement in both Houses on Wednesday.

The BJP has made it equally clear that it is going to defend the government to the hilt and project the WTO negotiations as an achievement.

Reacting to the Opposition's criticism, the BJP retorted: "Those who are accusing the government of lack of transparency, should look back and see whether such consultations took place during the previous round of negotiations."

It reminded the Opposition parties how they had "bullied" Parliament into endorsing a draft that was inimical to India's interests. "Simply because it had to be signed before January 1, 1993," the BJP said.

THE TELEGRAPH
17 NOV 2001

**EXPORT SCENE** / NEW EXIM POLICY TO BOOST GROWTH

# Critical mass for exports being attained: Maran

By Sushma Ramachandran

**NEW DELHI, APRIL 1.** The Commerce and Industry Minister, 'Murasoli' Maran has said the "critical mass" needed for sustained exports is being attained in key commodities such as sugar, foodgrains, steel, cement and petroleum products.

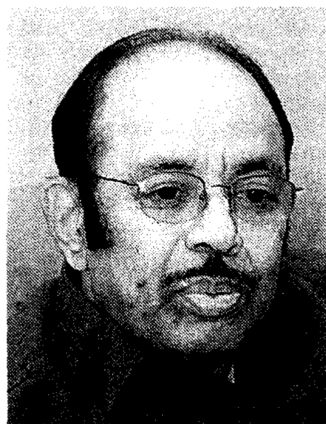
These were the products expected to lead the surge in export growth in the medium term.

With its focus on the farm sector and cottage industries, the new five year Export-Import Policy for 2002-07 would help give a boost to export growth despite the global recession. Warning that export growth in the last two months of the current fiscal was likely to be "horrible", he said the situation was the same elsewhere in Asia with negative growth rates recorded in China and the "Tiger economies" of Singapore and Taiwan during January and February.

In an interview to *The Hindu*, Mr. Maran stressed that despite the elimination of a controls regime, the Exim policy continued to play a role in giving a push to exports as well as to ensure that imports met quality and health standards.

The policy measures were especially important in the current depressed economic scenario.

On the need for sustained exports of farm products, he conceded this had been a problem in commodities such as sugar



where cyclical production had led to erratic presence in the international market. An inter-ministerial committee had been set up to fix threshold levels of such commodities to ensure that exports continued in a sustained manner.

He also noted that several commodities had now attained a "critical mass" where surpluses were available for export of sugar, foodgrains, steel, cement and petroleum products.

Regarding the potential of the Special Economic Zones (SEZs), he said there had been an enthusiastic response from the State Governments and progress was rapid. But unlike China where land can be acquired immediately, legal procedures had to be followed which would take some time. The Gujarat SEZ based at Positra had already completed financial closure of Rs. 2,000 crores while the Tamil Nadu Government had acquired a considerable amount of land. Similarly, the SEZ in Maharashtra was at an advanced stage while Tatas had taken considerable interest in the Orissa-based SEZ.

He said there was no question of allowing the overseas banking units (OBU) proposed to be set up in the SEZs to be used for money laundering. The OBUs would have to function like foreign banks and not as tax havens.

The Reserve Bank of India (RBI) would shortly be issuing guidelines for their operations. Besides, a stringent money laundering legislation was in the process of being enacted.

On the need to improve infrastructural constraints to exports, he said studies showed that Indian exporters had huge competitive cost disadvantages due to slow movement at ports. Transactions costs were extremely high with turnaround time at Indian ports averaging 6 to 7 days for ships as against two or three hours at Singapore.

Highlighting the important role of the State Governments in promoting exports, he said the new policy had included a scheme to provide incentives to the States.

An allocation of Rs. 350 crores had been made in the scheme initially and funds would be given on the basis of export performance initially. He said the cash-strapped States which relied on sales tax and octroi for revenues, were not expected to show interest in exports unless it provided some resources.

The scheme had been devised to overcome this problem.

On the challenge posed by China to Indian exports, he said the country had to improve competitiveness.

But China had scored by its scale of operations while India was hamstrung by the problem of reserving products for small-scale production.

It was just a question of time, he said, but most important was the need to change the mindset towards exports.

On the new Focus Africa programme, he said a detailed market study had been carried out which identified the huge potential of this region.

TAXPAYERS IN RS 1.5 TO RS 5 LAKH SLAB LIKELY TO GAIN

# *FM sticks to old tune, roll-back on tax rebates is in the offing*

**By Pratyush Kanth**
**Times News Network**

NEW DELHI: Finally, there may be some good news for the country's salaried class. Thanks to both the Bharatiya Janata Party's Delhi municipal poll debacle and the pressure being mounted on the Vajpayee government by the NDA allies, it seems that Union finance minister Yashwant Sinha is all set to roll back to 20 per cent the rebate on specified savings made by taxpayers earning between Rs 1.5 lakhs and Rs 5 lakhs per annum. In Budget 2002, Mr Sinha had reduced the rebate to ten per cent.

If the government decides to do a roll-back, taxpayers can claim a maximum benefit of Rs 16,000 for life insurance premia, provident fund and similar investments under Section 88 of the Income Tax Act. Currently, they just get a tax rebate of Rs 8,000.

Yashwant Sinha

**If the government decides on a roll-back, taxpayers can claim a maximum benefit of Rs 16,000**

Senior finance ministry officials told *The Times of India* that there was "pressure" on the finance minister for a roll-back and that the Central Board of Direct Taxes (CBDT) had issued a circular to chief commissioners across the country asking them to collect data, especially of the salaried class.

A source in the ministry said that letter number 153\54\2002, issued from the tax-planning wing of the CBDT, clearly indicated that there was a "strong possibility" of a roll-back because the income-tax department had been asked to collect on a top-priority basis the data relating to returns filed during the financial year 2001-2002.

"The I-T department has been asked to give the slab-wise break-up of the number of returns filed by individuals and Hindu Undivided Families (HUFs). It has also been asked for a slab-wise break-up of the number of individuals deriving income from salary," said a source.

The letter says, "The information is desired by the finance minister in connection with the discussion on the finance bill during the budget session. Accordingly, it is requested that the requisite information may be compiled most urgently on a top-priority basis and should be sent to member legislation, CBDT, by fax latest by April 2."

The rebate given on life insurance premia, contribution to provident fund and others under Section 88 ranged from 20 per cent to 30 per cent depending on returned income and other criteria. But the proposed deduction in budget 2002 restricts it to ten per cent for income slabs of Rs 1.5 lakhs to Rs 5 lakhs and offers nothing to income slabs of Rs 5 lakhs and above.

"This, along with the reduction in interest, affects the salaried class, small investors and senior citizens among others. The finance minister has been forced to rethink on this issue and the whole exercise seems to suggest that we are heading towards a roll-back," a senior finance ministry official said.

# Support price for wheat, oilseeds hiked

By Gargi Parsai

NEW DELHI, APRIL 2. The Centre today hiked the minimum support price (MSP) of rabi wheat by 1.6 per cent to Rs. 620 a quintal — ignoring the recommendation of the Commission for Agriculture Costs and Prices (CACP) backed by the Ministry of Food to freeze the MSP at last year's level of Rs. 610.

The Government also did not succumb to pressure from the wheat-growing States such as Haryana and Punjab to increase the support price up to 25 per cent.

The long-delayed decision was taken today at a meeting of the Union Cabinet chaired by the Prime Minister, Atal Behari Vajpayee.

(Reacting swiftly, the Punjab Chief Minister, Amarinder Singh, "rejected" what he called the minor increase in the MSP of wheat and appealed to the Centre to reconsider the decision as the "farming community was under an unprecedented debt burden and input costs had gone up considerably". He said he had met the Food Minister, Shanta Kumar, and demanded a rabi MSP of Rs. 760 a quintal. He said that according to Punjab Agriculture University experts, the cost of production of wheat had risen to Rs. 660 per quintal). The Union Cabinet also hiked the MSP for oilseeds and pulses by Rs. 100 a quintal to encourage crop diversification, the Law Minister, Arun Jaitley told reporters. The MSP for grams had been increased to Rs. 1,200 from Rs. 1,100 a quintal and

for rapeseed/mustard, safflower and masoor, Rs. 1,300 a quintal, up from Rs. 1,200. The MSP for barley would continue to be Rs. 500 a quintal.

The support price fixed for the rabi crops is expected to provide incentives to farmers to invest and improve production and productivity.

The substantial hike in the MSP of oilseeds and pulses is intended to wean the farmers away from traditional foodgrains like wheat and rice, which are flooding the godowns.

Mr. Jaitley said that all the recommendations of the CACP had been accepted by the Union Cabinet except the one relating to the MSP for wheat.

Burdened with a huge foodgrain stocks of about 55 million tonnes, the Centre had set up a high-power Committee to look into the question of delinking foodgrains procurement from the MSP.

The committee is yet to submit its report. There is also a proposal to put a cap on procurement as burgeoning stocks limit storage space.

NEW EXIM POLICY TO BOOST SAGGING GROWTH

# Export restrictions lifted

By Our Special Correspondent

**NEW DELHI, MARCH 31.** The Government today withdrew most of the export restrictions as it outlined a new export-oriented Export-Import Policy for 2002-07, with the focus on agricultural products, small-scale sector and the newly-created Special Export Zones (SEZs). A host of incentives have been provided for SEZs, including overseas banking units (OBUs) for Indian and foreign banks registered in this country. Income tax incentives are also on the way.

Unveiling a comprehensive package to pep up the sagging rate of export growth, the Commerce Minister, Murasoli Maran, said that due to the global slowdown following the events of September 11, export growth might not even achieve the 3 per cent target this year. A revival was possible next year but it was difficult to make any forecast at this stage. "We will be happy if growth is not negative," he said.

The new policy marks a shift from the import liberalisation phase of the past to a purely

export-oriented one. Quantitative restrictions on exports have been withdrawn except on a few items relating to national security. Among the major items on which export restraints have been lifted are butter, wheat and wheat products, coarse grains, groundnut oil and cashew. Besides, transport assistance will be provided for exporting agricultural products as part of a bid to liquidate the "mountains" of rice and wheat stocks lying with the Food Corporation of India (FCI).

Addressing a press conference, Mr. Maran said the policy was geared to increase the present exports of $46 billion to $80 billion over the Tenth Plan period envisaging a compound annual growth rate of 11.9 per cent in exports. This was expected to enable India to attain a 1 per cent share in world exports by that time.

The policy especially focuses on cottage sector and handicrafts and special incentives are being given to the small-scale sector. Industrial cluster towns, which have become globally renowned, and manufacturing bases will now be eligible for special benefits.

These include the hosiery centre, Tirupur, and the woollens centre, Ludhiana. A new Focus Africa programme is also being launched to raise trade with sub-Saharan Africa.

Responding to exporters' demands, it has been decided to continue with the existing duty neutralising scheme such as the DEPB (duty entitlement pass book). Some sector-specific packages have been included such as the reduction of customs duty on rough diamond exports from 5 to zero per cent, abolition of the licence regime for rough diamonds and reduction of value addition norms for the export of plain jewellery. There is also an incentive package for electronic hardware exports to enable the industry to meet the coming zero-duty regime.

A series of procedural simplifications have been announced covering the DGFT, Customs and banks. These include the adoption of a new commodity classification for imports and exports by the Customs which will eliminate controversy between the Commerce Ministry and Revenue authorities.

On the SEZs, Mr. Maran said an agreement had been reached with the Finance Minister, Yashwant Sinha, on income tax concessions for units in these zones. But these would be announced in Parliament during the debate on the Finance Bill. Another major concession for SEZs included allowing OBUs for the first time.

These would be virtually foreign branches but located within India. They would be exempt from CRR (cash reserve ratio) and SLR (statutory liquidity ratio) norms and would give access to credit at international rates for the units in the SEZs.

The Commerce Secretary, Dipak Chatterjee, clarified that foreign banks registered within the country were also eligible to set up such OBUs.

He said the withdrawal of export restrictions meant that high-value products such as groundnut oil could be exported while the country continued to import cheaper palm oil to meet domestic demand.

**More reports on Page 11**

# Exim policy lifts curbs on exports

By Priya Ranjan Dash
Times News Network

NEW DELHI: The five-year export-import policy (2002-07) announced on Sunday touches millions of people who could not have been bothered about such government pronouncements in the past. It seeks to enable Indian farmers, artisans, cottage and small industries—in fact, the entire population engaged in any economic activity —to venture out overseas and adopt the world as their market.

The policy is all about exports. Imports had already been freed of quota and licensing restrictions. The new policy now makes exports free, easy and possibly rewarding. Most export promotion schemes have been improved upon and more innovative schemes have been added on. The key to success is of course its implementation and stability, according to trade officials and analysts.

**VENTURING OUT**

- Quantitative restrictions on exports removed
- Special focus on cottage sector and handicrafts
- Major incentives for special economic zones
- Incentive package for hardware sector
- Zero customs duty on import of rough diamonds

Announcing the policy, commerce and industry minister Murasoli Maran conceded that India ranks lowly in global competitiveness and given the global slowdown, domestic recession, high cost of finance and poor roads, ports and cost of power, the dice is loaded against Indian producers. Even then the Exim policy, through a slew of special measures, does all it can to help exporters bypass the difficulties of an economy that is otherwise not geared to exports.

India's exports are down in the dumps. Even the scaled down export growth target of three per cent for 2001-02 has most probably been missed—exports might have suffered a decline over the previous year. Given this and also, India's aspiration of notching up at least 1 per cent of the global market share in the next five years from the present 0.67 per cent, the Exim policy seeks to covert export into a mass activity from being a class pursuit.

"The Exim policy is comprehensive in scope—encompassing agri sector, cottage and handicrafts and small scale sectors—thus taking care of more than 80 per cent of the population living in the rural areas and will also benefit a wide rage of people," Mr Maran said. "I have tried to forge a lasting partnership amongst the Union government, the state governments, exporters and people at large," he said.

This will not possible by the "business-as-usual" approach. Thus, the policy attempts a number of radical steps, according to Mr Maran. "We have simplified the process of exporting to such an extent that even the small artisans feel motivated to export."

Sample just a couple of those path-breaking initiatives: one, farm produce and processed agro-products will be free of all the remaining quantitative restrictions such as of registration and packaging and they will be given a variety of sops; two, Indian special economic zones (SEZs) will get a host of incentives, including offshore banking units, to ensure that they attract huge foreign investment and become big drivers of exports. Incentivewise, Indian SEZs will be at par with even those of China, barring only in labour laws.

# Economic policy under IMF rule

By Kannan Srinivasan

FOR THE last five years, the Economic Surveys have presented a jumble of reasons for the deepening recession. Now the latest Survey admits for the first time that the main problem the Indian economy faces is one of inadequate demand. Yet what it will not admit is that this problem has essentially to do with the increasing poverty of the Indian people. Poverty dictates that there continues to be too slender a consumption base for growth.

Under IMF rule, marginal increases in budgetary expenditure in any year are irrelevant. What is important is the long-term trend. As Aspects of India's Economy (30-31, Research Unit for Political Economy) has pointed out, Plan capital expenditure as a percentage of GDP has declined from 2.77 per cent in 1990-91 to 1.52 per cent in 2000-01. No doubt this year's Budget shows a modest increase in Plan capital expenditure. But this is negligible considering the long drought of investment during the last decade, and the depth of the current recession. And Ministry heads show that the Government's claim of a boost to social sector spending and infrastructure is false. Rural employment has hardly been hiked from Rs. 4,225 crores to Rs. 4,596 crores. The allocations for coal, steel, heavy industry have all been slashed. A part of this long-term collapse has been a sharp drop in agricultural investment. Public investment in agriculture, which had been in decline since the 1980s, has declined further from Rs. 4,467 crores in 1993-94 to Rs. 4,007 crores in 2000-01 (at 1993-94 prices). The index of agricultural production for all commodities was 175.7 in 1996-97, and it is 175.9 in 2001-02. The Economic Survey makes the claim that "Growth in foodgrains production has been consistently above population growth..." Its authors must have assumed that no one would check. But foodgrains production increase is only 10.24 per cent over this decade, while population increase is 17.52 per cent.

Employment growth has slowed down from 2.43 per cent during the period 1987-88 to 1993-94 to 1 per cent in the period 1993-94 to 1999-2000. The Survey claims this is partly because of the slowdown in population growth. But employment growth has declined much more sharply than the growth of population. There is really no connection between the two. The Survey tries to prettify the unprecedented fact that agricultural employment has declined in absolute terms during 1993-94 to 1999-2000, claiming that employment has shifted out of agriculture. But shifted where? There has been no corresponding increase in industrial jobs. As the Survey itself admits, "Non-farm employment growth has, however, not compensated adequately for the lack of growth in agriculture." Government-organised employment has collapsed. In 1995-96, for instance, 1,242 million mandays were provided. By 2000-01, this had gone down to 486 million mandays. But in the first ten months of 2001-02, this had dropped to 190 million mandays. In other words, the Government's provision of employment declined to a fifth of what it had been just five years earlier.

The per capita net availability — which is more or less the consumption — of foodgrains a day has declined from 510.1 grams in 1991 to 417 grams in 2001. This is a catastrophe, and a clear indicator of widespread hunger, induced by poverty. The Government claims that consumers have shifted to other foods as a result of higher incomes. As a consequence, says the Government, the production of foodgrains is too high, and Indian farmers should shift to the production of non-foodgrains. And the Economic Survey strains to give the impression that people are spending a smaller share of their income on food out of choice. Food has no doubt shrunk to a smaller share in the consumption basket. But textiles, for instance, have not increased their share. Fuel, transport and medical care have increased their share, and under compulsion. In fact, increased income would be reflected in increased foodgrains consumption since in rural India the lowest 70 per cent consume less foodgrains per capita than the top 30 per cent.

***The Economic Survey admits that the main problem the Indian economy faces is one of inadequate demand... The revenue raising measures in the budget will only further depress demand.***

Ominously, the Budget 2002-03 is silent on what to do with Rs. 60,000 crore-odd worth of foodgrains stocks. These stocks have risen only because the Government switched to pricing ration shop foodgrains out of the reach of consumers. Today these large stocks have provided the Government the argument for winding up procurement entirely. But there are two ways the Government could reduce the stock of foodgrains. First, it could sell off the public distribution system grain very cheaply, at prices the poor can afford. Second, it could dramatically increase food-for-work. But the consequences of the first would be that people would expect the PDS to continue. And of the second, that people would expect food- for-work to continue. Moreover, rural wage rates would rise. The Government is determined to avoid all these consequences. So it is unable to take any rational step on foodgrains policy. As a result, it now plans to dismantle procurement and the PDS, and encourage commercial crops. The consequence will be even more widespread hunger. The Economic Survey claims that poverty has fallen dramatically: from 36 per cent in 1993-94 to 26 per cent in 1999-2000. But this merely underlines the rapidly vanishing credibility of poverty data. All other data indicate that people are getting poorer. When employment growth is slower than the growth of population; when agricultural employment growth is negative; when agricultural growth has been flat for the last five years; when foodgrains consumption has been falling; when organised sector employment growth has turned negative: is it conceivable that poverty is falling rapidly?

There are numerous telling signs of the secession of elite demand from the rest of the Indian economy. Consumer durables — largely luxury commodities — grew at 12.7 per cent a year during 1994-5 to 2000-01, while consumer non-durables — largely wage goods — grew at just 6.1 per cent during the same period. Indians now spend as much on foreign travel as India earns on tourism receipts, despite this being such a poor country. Thus, there is considerable leakage of this narrow base of elite demand out of the country. In just the five years from 1996-97 to 2001-02, there was a dramatic increase in imports of electronics goods and in expenditure by Indians on foreign travel. Electronics goods imports increased from $1.42 billion to $3.51 billion and Indian spending on foreign travel went up from $858 million to $2.87 billion. Had this elite demand under just these two heads been repressed at 1996-97 levels — we do not even add another category under capital goods, the imports of automobiles and components for automobiles — about $16.8 billion or more than Rs. 80,000 crores at current exchange rates would not have been diverted away from domestic demand in just these five years.

The revenue raising measures in this budget will only further depress demand. And excise duties have once again been raised, while customs duties have been simultaneously lowered sharply. The purpose of this can only be to accelerate the rapid de-industrialisation of the Indian economy.

# GPF rates cut, EPF earners too might feel the pinch

**HT Correspondent**
*New Delhi, March 30*

THE GOVERNMENT has cut the interest rate on the General Provident Fund (GPF) and Special Deposit Scheme (SDS) from 9.5 to 9 per cent. The new rates will come into effect from Monday.

The Government has also reduced the interest on loans to government employees by half a per cent.

Henceforth, cheaper funds will be available from the Centre's coffers for those planning to construct or purchase a house, or buy a vehicle or computer.

This decision follows the half a per cent cut in the administered rates on small savings instruments to 8.5 per cent from 9 per cent announced by Finance Minister Yashwant Sinha.

The cut in interest rate on SDS will also trigger an interest rate cut on the Employees Provident Fund (EPF) to 9 per cent from the prevailing 9.5 per cent.

This will impact the private sector work force as over 2.63 crore industrial and other employees put their funds in this scheme.

The Employees' Provident Fund corpus amounts to about Rs 60,000 crore and most of the EPF money is invested in Special Deposit Scheme.

The states will also have to lower the PF rates applicable to their employees.

The Government's move is bound to cause widespread resentment among the salaried class. The political repercussions of the move could also prove to be significant.

The BJP's poor performance in the Delhi civic elections had been attributed in part to interest rate cuts on small savings schemes.

However, given the half per cent higher rate available on GPF and SDS, it would still be beneficial for Central government employees to invest their money in these schemes.

According to Dhirendra Kumar of Value Research, a tax consultancy, "The advantage in parking funds in General Provident Fund and SDS will remain."

THE HINDUSTAN TIMES
2002

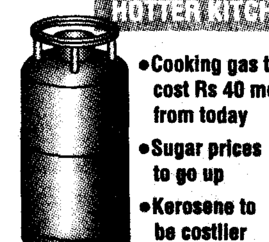
# WELCOME TO ISI TAX

## LIFE AFTER THE SLAP

**BRING HOME LESS**

- Security surcharge replaces quake levy
- Tax rebate halved for people earning between Rs 1.5 lakh and Rs 5 lakh, abolished for above Rs 5 lakh
- Interest on small savings cut to 9%

**HOTTER KITCHEN**



- Cooking gas to cost Rs 40 more from today
- Sugar prices to go up
- Kerosene to be costlier

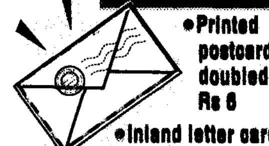
**FACELIFT PINCH**

A visit to your beautician or health club will cost more if they pass on the new service tax. Services like dry-cleaning, taking a life insurance policy or using railway booking agencies may become more expensive

**STINGING SOAP**

Cable TV operators may also pass on their new service tax. Competition postcard prices doubled to Rs 10

**POSTAL PUNCH**



- Printed postcard cost doubled to Rs 6
- Inland letter cards up to Rs 2.50
- Envelopes to cost Rs 5
- Parcel rates increased to Rs 19 for the first 500 gm and Rs 16 for additional 500 gm or part thereof

**CONSOLATION**

- Petrol and diesel to cost less
- Cancer and AIDS drugs to become cheaper, glucometers for diabetics to cost less
- Prices of tea and imported liquor to come down
- Computers to cost less
- Cosmetics and toiletries to be marginally cheaper

Graphic: RAJ

## Surcharge Sinha strikes

OUR BUREAU

**New Delhi, Feb. 28: From Guwahati to Godhra, from Kashmir to Kanyakumari, the ISI has struck at will across the length and breadth of the country. It attacked Parliament, too.**

Today, it infiltrated into the budget.

Yashwant Sinha introduced a 5 per cent national security surcharge that — patriotic or not — every tax-paying citizen has no choice but to fork out, except those with a total income below Rs 60,000.

The finance minister withdrew the 2 per cent quake surcharge he had imposed in the last budget, but decided to take 3 per cent more with his ISI tax because "national security is an overriding concern". The day after the incident in Gujarat, which the government is blaming on the ubiquitous ISI, no one can question that concern. Hence, pay up.

And blame it on the ISI.

The finance minister squeezed the knife into the system to gouge out Rs 12,700 crore in fresh levies, Rs 2,750 crore through the ISI tax alone. He is collecting Rs 6,700 crore from excise increases and Rs 3,250 crore by slashing income-tax rebates. After a Rs 2,200 crore revenue loss through customs duty cuts, net additional revenue will be Rs 10,500 crore.

Indian industry is unhappy with the budget because it thinks its overriding concern of stimulating growth has not been addressed. "This budget is unlikely to boost growth rates. It may, at best, sustain the current rates. I would call it an achievable, deliverable budget," said CII president Sanjiv Goenka.

The stock market pounced on Sinha with its customary cruelty. The Bombay Stock Exchange sensitive index ended the day at 3562.31 points, which meant a loss of 143.35, knocking Rs 27,000 crore off investor wealth.

Politically, too, the budget may be fraught with dangers if the response of BJP ally Telugu Desam was an indication. Attacking the fresh taxes, N. Chandrababu Naidu said: "We are totally opposing these proposals."

Apart from the 5 per cent surcharge, Sinha extended service tax to more areas, cut the interest rate on small savings, rolled back tax rebates, shifted the 10 per cent tax on dividend earnings to the recipient and raised prices of cooking gas, kerosene, sugar and fertilisers. Petrol and diesel will cost less.

Defending the ISI surcharge, Sinha said: "I have to find the money somewhere given the difficult fiscal situation. I can't produce it out of the blue. We must remember the difficult situation on the borders."

The situation on the borders has not led to any great increase in the defence outlay, which has gone up by only Rs 3,000 crore to Rs 65,000 crore, barely taking care of inflation. But Sinha gave colleague George Fernandes a blank cheque that he will come up with the extra dash of cash whenever needed.

Although squeals of joy could not be heard above the dead weight of negative sentiment, there were middle-roaders who advised a realistic assessment. "The market expects too much sometimes," said HSBC India's CEO Zarir Cama.

The trouble with the budget — as some of its critics saw it — is its lack of ambition. Last year, Sinha had begun by being too ambitious and ended in anguish. "You cannot have grand plans year after year. It was there in the last budget," Sinha said.

He listed consolidation of reforms, partnership with states in fiscal reforms and privatisation as key features of the budget.

In continuation of the policy of freeing up the market for agricultural products — *kisan ki azaadi*, according to the finance minister — Sinha announced a series of steps, along with higher spending on rural roads and stimulants to electrification and employment.

**QUOTE**

**You cannot have grand plans year after year. It was there in the last budget**

YASHWANT SINHA

He asked states to open up agriculture markets if they wished to get additional allocations for Centre-sponsored schemes and spoke of linking urban development funds with reforming land ceiling laws and levying higher municipal charges.

For infrastructure development, he set as a primary condition the imposition of reasonable user charges. In power, he came up with more money under a scheme in which state electricity boards can clean up their balance sheets by eliminating the gap between cost and price.

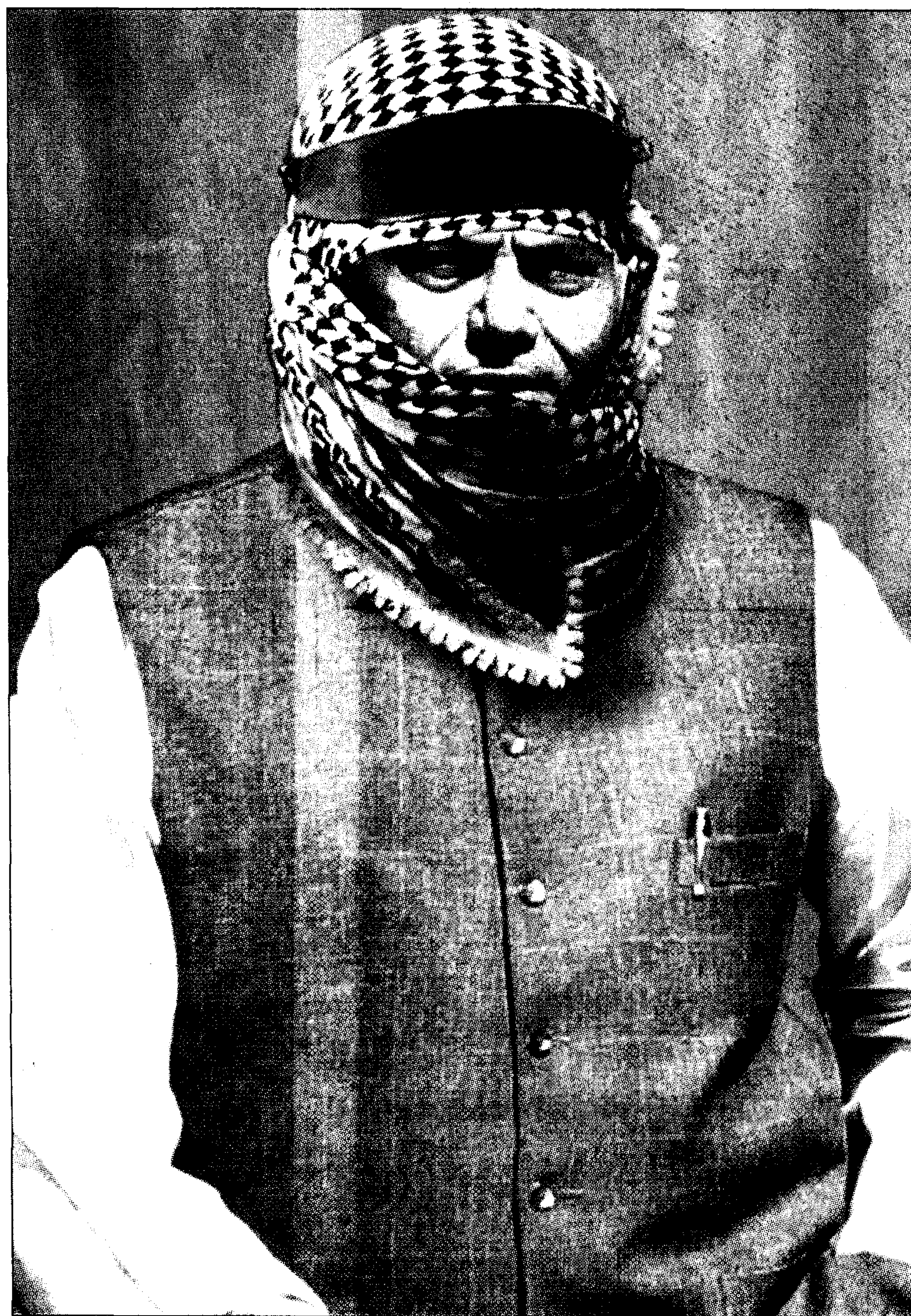
Taking state-level fiscal reforms further, he announced an allocation of Rs 2,500 crore to encourage policy changes to remove constraints on growth.

Sinha has stepped up public investment in infrastructure sharply. For power, the plan outlay is rising by 22 per cent, for roads and national highways by 39 per cent and for railways by 23 per cent. All this will add up to Rs 37,919 crore. Similarly, budget support for Central, state and Union Territory plans has been increased by over 19 per cent, the highest rise in over a decade.

A Bollywood aficionado, Sinha offered more "*khushi*" and less "*gham*" to a section of the entertainment industry, introducing sops for multiplexes.

But industry as a whole, ready for a little *gham* if mixed with some *khushi*, got what it did not want: *lagaan*.

**JIHAD FOR NATIONAL SECURITY**



## Gujarat burns alive in backlash

OUR BUREAU

**Feb. 28:** Gujarat today bled and burned in the Godhra backlash.

Around 80 people lost their lives as angry mobs rampaged through the state, torching houses, shops and mosques and looting and killing at random, a day after *kar sevaks* returning from Ayodhya were charred inside a train.

The biggest single act of violence was an attack on a housing complex in Ahmedabad, where at least 38 people were dragged out of their homes and individually set on fire. But the incident could not be confirmed.

The Vajpayee government, alarmed that law and order were spiralling out of control, ordered deployment of the army in the state. The army has already begun pre-deployment drills in violence-scarred areas and will be out latest by tomorrow morning. Defence minister George Fernandes is travelling to Gujarat tomorrow.

A belligerent VHP, however, reiterated that it would start temple construction as scheduled and called a nation-wide bandh tomorrow. It also raised the pitch for Prime Minister Atal Bihari Vajpayee's resignation, dubbing his regime "*ravan raj*".

But the RSS sought to cool temperatures, stepping in to directly mediate between the Centre and the VHP. Senior Sangh leaders, including H.S. Seshadri and Madan Das Devi, held hour-long talks with Vajpayee.

"The government spelt out its responsibilities and compulsions vis-à-vis the law and the courts to us and how these should be enforced. We will see what can be done," Devi said.

On a day the protesters ran riot statewide, the most gruesome killing took place in Meghaninagar in Ahmedabad. A 1,000-strong armed mob descended on the Gulmarg Society housing complex — where there are 16 houses — and burnt all the residents to death, including a former Congress MP and his family. Officials fear the toll could be higher.

Curfew was clamped in 26 towns after rioters targeted petrol pumps, shops and business houses in retaliation to yesterday's train tragedy. Cars burned in the streets and at several street corners, youths made bonfires of looted goods. A pall of smoke overhung several towns.

Authorities said police were forced to open fire and lob tear gas shells at several places as protesters got out of hand during today's VHP bandh. Two persons died in police firing in Nadiad and Godhra.

Chief minister Narendra Modi called a news conference to calm rising passions and assured the people his government would not spare those responsible for the "barbaric and inhuman" act. He said 80 people, including some councillors, were arrested from Godhra alone.

"At least 20 people have been killed, including two in police firing in Nadiad and Godhra," Modi said in the evening. But he added that considering the heinous nature of the tragedy, the people were restrained.

"There is a fire inside us. Our blood is boiling," Mangalben, a woman from Daripur, said. "What is the fault of those children who died? There is a volcano of anger."

Arson, stabbing and looting spread from Ahmedabad and Bharuch to Gandhinagar, where the offices of the Waqf Board and the Gujarat State Minority Finance and Development Corporation were razed.

In upmarket areas of Ahmedabad, lathi-wielding miscreants targeted footwear shops. Elsewhere policemen watched silently as the protesters went berserk.

## Air-India scare

**Washington, Feb. 28 (AP):** Canadian fighters shadowed a New York-bound Air-India jetliner over the Atlantic Ocean late tonight after authorities determined it was carrying a suspicious passenger. The plane had taken off from London.

## Watch your pockets, salaried & savers

| [illegible] | NEW TAX (Rs) | [illegible] |
|---|---|---|
| 60,000 | 1,000 | NIL |
| 60,010 | 1,010 | NIL |
| 60,020 | 1,020 | NIL |
| 60,050 | 1,050 | 20 |
| 60,100 | 1,071 | 31 |
| 60,200 | 1,092 | 31 |
| 65,000 | 2,100 | 60 |
| 75,000 | 4,200 | 120 |
| 1,50,000 | 19,980 | 570 |
| 2,00,000 | 35,700 | 1,020 |
| 3,00,000 | 67,200 | 1,920 |
| 4,00,000 | 98,700 | 2,820 |
| 5,00,000 | 1,30,200 | 3,720 |
| 10,00,000 | 2,87,700 | 8,220 |
| 25,00,000 | 7,60,200 | 21,720 |
| 1,00,00,000 | 31,22,700 | 89,220 |

FROM OUR CORRESPONDENT

New Delhi, Feb. 28: No cuts in the marginal rates of taxation, no increase in standard deduction and the traditional tax shelters have shrunk — it's a tripwire for the salaried individual.

Those who have put their life's earnings in small savings accounts have also been dealt a blow — interest rates on most schemes have been reduced by half a percentage point.

The maximum marginal rate of tax on personal incomes has been retained at 30 per cent and the qualifying ceiling has also been kept at Rs 1.5 lakh even though many had lobbied the government to raise the ceiling to Rs 3 lakh if nothing else.

One of the arguments advanced in favour of raising the income ceiling was that in countries like Hong Kong and China, the maximum rate is 45 per cent, but it is applied only on incomes in excess of Rs 70 lakh. The 35 per cent rate is applied on incomes above Rs 40 lakh.

Besides the national security surcharge, there's more bad news for the salaried class, which has always tried to use some adroit tax planning to save on taxes. For people with taxable incomes in the range of Rs 1.5 lakh to Rs 5 lakh, the whole process now comes apart with the 20 per cent tax rebate being slashed to 10 per cent.

The cut covers several instruments like public provident fund, long term deferred annuity schemes, national savings schemes and specified government securities. Taxpayers with incomes above Rs 5 lakh will not get any tax rebate under Section 88.

Several taxpayers invest in life insurance policies and the usual spiel that the agent comes up with is that it is a good tax hedge. But this will also pinch the pocket a little more because Sinha has now extended the service tax of 5 per cent to insurance policies as well.

This is a blow to the fledgling insurance companies which are trying hard to gain a toehold in the competitive market but it will hurt the taxpayers more. It is not clear whether this will now be charged every year on the insurance premium paid.

Insurance industry sources said this would have to be borne by the person seeking an insurance cover, and not the agent. However, it is a possibility that the agent may offer to bear the service tax in the first year to snag a customer.

CONTINUED ON PAGE 9 ▶

Smoke billows from a building set alight by rioters in Ahmedabad. (AFP)

THE AFTERSHOCK: REPORTS ON THE GUJARAT TRAGEDY, PAGE 6

# A FEEBLE PUSH

FOR A BUDGET that promises to combine fiscal consolidation and growth in one package, the Union Finance Minister, Yashwant Sinha's fifth presentation is a prosaic effort that suffers from the absence of a coherent strategy. Mr. Sinha's version of fiscal reform in the Union budget for 2002-03 turns out to be a major tax drive which by and large falls back on the old practice of introducing new taxes and reviving discarded levies. And the package for growth is a few tax incentives for private investment and a selective increase in public outlays. These two legs of the Union budget are unlikely to help the economy run either more quickly or more steadily.

Of the Rs. 46,000-crore increase expected in receipts next year, as much as Rs. 30,000 crores is projected to come from additional tax revenue. In addition to the optimism about buoyancy in indirect and direct tax revenue, Rs. 6,000 crores are to be netted mainly from dividend taxation and a new surcharge on income taxes. While the case for exempting dividends from taxation in 1997 was never clearly established, its reintroduction in an ad hoc manner reflects a desperation to shore up revenue. This is true even more of the surcharge that is rationalised in the name of national security. One of Mr. Sinha's legacies will surely be that ever since his first budget of 1998 the Centre has maintained a 5 to 10 per cent surcharge on income taxes with various excuses in every year other than 2001-02, when it was only a 2 per cent Gujarat quake levy. A selective fiscal approach is also apparent in the phased reduction of tax exemption for investments in small savings. The Union budget has for very obvious reasons picked this particular recommendation of a Government committee while ignoring the twin suggestion of lowering tax rates and adjusting the tax slabs. The further rationalisation of excise duties, expansion of the service tax list and the new target of just two rates for import tariffs by 2004-05 all pale in comparison with the over-drive on direct taxes, which distorts the concept of a widening of the tax base. The reduction of the peak customs duty from 35 to 30 per cent means that a major effort will have to be made in the next two years to introduce the 20 and 10 per cent import duty slabs by 2004-05. The sharp increases in customs duties on spices and other agricultural commodities, produced mainly in the South, should allay fears about a destruction of plantation agriculture.

One impetus for growth is to come from the new additional depreciation allowance for specified investment. But the incentive of a 15 per cent additional depreciation for specific outlays is too small to catalyse private investment, although the original demand for a restoration of the 1970s development rebate did not have much of a rationale. The one possible stimulus is the promised 13 per cent increase in the Central Plan for 2002-03. But it should be noted, first, that the Central Plan in 2001-02 has turned out to be smaller than budgeted and this should not be the same story of public investment next year. Second, other than on roads, the major increases in public investment are to take place in power, petroleum, railways and telecom — all important infrastructure sectors, which, however, are the same ones that were placed under expenditure control in the past year. In Mr. Sinha's amorphous package there are indeed a few new initiatives. The biggest is the Rs. 12,000-crore incentive-linked assistance for the States which take up deregulation of agricultural trade, urban management reforms, rural infrastructure, power and irrigation. Some of these are existing programmes, but the States may not protest too much about the terms since these help them push through changes while allowing them to blame the Centre for imposing difficult conditions. There is something to be said as well for the large tax package for the textile industry, since India's largest manufacturing export is going to face fierce global competition after quotas in the West are removed in 2005. The dismantling of the administered price mechanism is on expected lines and difficult as it will be to digest, the halving of the subsidy on LPG was long overdue. However, the question of assuring a supply of subsidised kerosene (now more expensive) to those who really need it has not been addressed in the deregulation.

It was known with certainty that the budget estimates for 2001-02 had been thrown completely out of gear. What is a pleasant surprise though is that non-Plan expenditure has been controlled and Plan outlays have been larger than budgeted. But the success on the non-Plan front has not been the result of a belt-tightening, but because low inflation has brought down interest costs and the slowdown in defence procurement has meant that defence expenditure has ended up 9 per cent less than expected. This is a surprise considering the large cost of full deployment that must have been incurred since December. (The hike in the defence budget by 14 per cent next year, over the revised estimates, is not unusually large, but Mr. Sinha has also promised more funding if required.) The increase in Plan expenditure in 2001-02 has likewise been selective — concentrated in roads, ports and rural development.

Mr. Sinha hopes that 2002-03 will see a small decline in the fiscal deficit — from 5.7 to 5.3 per cent of GDP — and an even smaller lowering of the revenue deficit — from 4 to 3.8 per cent of GDP. However, in recent years there has been so little connection between the budget and final estimates that these projections have lost all their value. The larger picture of budget 2002 is that it does not seem one that will revive economic growth and without such a revival the budget projections will not be realised.

# Sinha on a taxation binge

HD-1 1/3 9-Eco Affairs

- *Taxation of dividends, 5 per cent surcharge on income tax*
- *Petrol, diesel to cost less; LPG and kerosene to be dearer*
- *Cut in small savings rates; tax exemptions lowered*
- *Full convertibility for NRI deposits*
- *Excise duty on tea halved*
- *IDBI to be corporatised*
- *Postal rates, fertilizer prices hiked*

- *More services brought under taxation net*
- *Import duty on plantation crops, pulses up*
- *Rs. 12,000-crore reform-linked package for States*
- *Defence outlay up 14 per cent over 2001-02 RE*

## Reform Measures

- **More decontrol of farm trade**
- **Accelerated power reform programme recast**
- **Sectoral caps on FII eased**
- **Rs. 1,300 crores recap for Indian Bank**
- **APM dismantled, Regulatory Board to be set up**
- **Levy sugar down by 10 per cent, PDS price at Rs. 13.50 per kg.**

## New Proposals

- **Agricultural Insurance Corporation to be set up**
- **Employment guarantee scheme for poorest districts**
- **"Jan Raksha" health insurance plan for the poor**
- **New pension scheme for fresh employees in government sector**
- **Power, roads and railways get plan outlay of Rs. 38,000 crores**

## Direct Taxes

- Additional 15 per cent depreciation allowance for specified investment
- Tax on foreign companies lowered
- Incentives to boost travel and tourism
- No prior clearance for property sale
- Tax on perquisites relaxed
- Educational and medical institutions to file tax returns.
- Capital gains relief for investment in SIDBI and NHB bonds

## Indirect Taxes

- 16 per cent SED for 8 items only
- Concessions for textiles
- No excise duty on AIDS drugs
- Peak customs duty cut to 30 per cent
- Import tariffs cut on non-ferrous metals
- Cover for IT hardware to stay until 2005
- Customs duty lowered, countervailing duty hiked for cellphones
- No customs duty on cancer drugs

Graphics by Varghese Kallada

# A dispirited, crushing budget

By Alok Mukherjee

**NEW DELHI, FEB. 28.** With his fifth budget presentation today, the Union Finance Minister, Yashwant Sinha, set the stage for a repeat of his first attempt — a possible rollback of some provisions. The 2002-03 general budget that he presented to Parliament aims to mobilise a whopping Rs. 10,500 crores as additional tax revenue while simultaneously raising the prices of cooking gas (LPG) by Rs. 40 per cylinder, kerosene by 1.50 per litre, fertilizers by five per cent and sugar supplied through the PDS by 25 paise. The price of petrol is down by Re. 1 per litre and diesel by 50 paise. Hikes in postal rates have also been announced.

While the poorer sections of society barely find a mention in the budget, the middle class — the driving force behind the industrial boom in recent years — has been further impoverished through a five per cent income tax surcharge on grounds of defence, even before any war has actually broken out. However, the two per cent Gujarat surcharge has been withdrawn. While the rates and slabs remain unchanged, some tax exemptions have been withdrawn and Section 88, which provides relief for investments made in insurance policies, provident fund and infrastructure bonds, has been modified. The benefit of 20 per cent tax rebate under this provision is now restricted to those with a taxable income of up to Rs. 1.5 lakhs a year while for those above 1.5 and up to 5 lakhs, the benefit has been halved to 10 per cent. Those with taxable incomes above Rs. 5 lakhs will get no benefit.

The interest rates on small savings has been lowered by half a per cent, applicable from tomorrow, and tax on dividend income has been brought back to the hands of the receiver at their individual levels of taxation. For 2002-03, however, specified equity schemes of UTI would continue to be taxed at 10 per cent.

Service tax has been extended to life insurance, inland cargo handling, storage and warehousing, event management, rail travel agents, health clubs and fitness centres, beauty parlours, fashion designers, cable operators and dry cleaning services. Service tax applicable on select banking services will come under the tax net if they are provided by corporate bodies.

A small relief has been extended to salaried employees whose perquisites were taxed in the last budget. Mr. Sinha has proposed that employers would be free to pay the tax on behalf of the employees without any add on. Also, a contributory pension scheme for new Government recruits is to come into operation later this year.

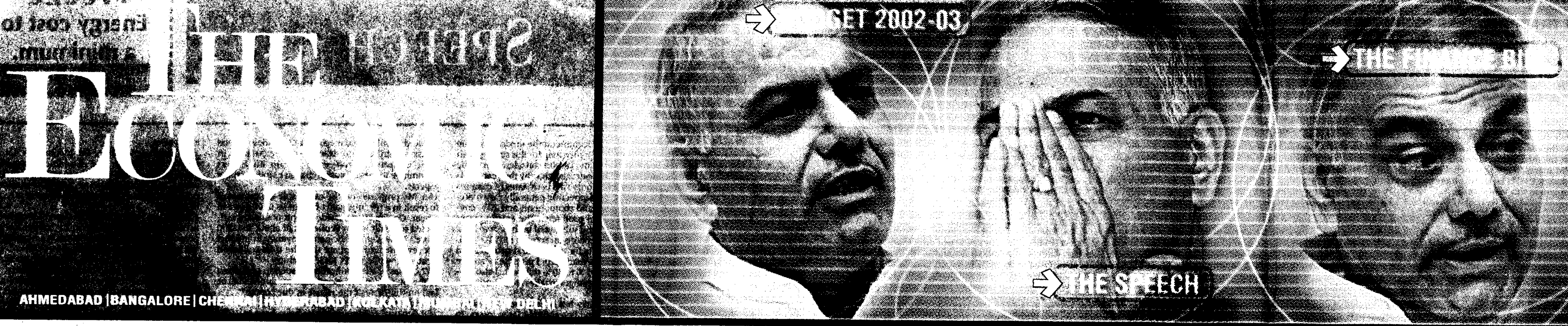
Even as he imposed higher burdens on the domestic constituents, Mr. Sinha brought down the corporate tax rate for foreign companies from 48 to 40 per cent, allowed foreign institutional investors (FIIs) to invest in companies without any sectoral limits that apply to foreign direct investment (except some specified sectors to be announced shortly) and lowered the import duty on foreign liquor. A liberal capital account convertibility provision has also been announced for non-resident Indians.

Through his taxation effort, Mr. Sinha hopes to garner an additional Rs. 6,000 crores through direct taxes, which includes 2,750 crores on account of the five per cent surcharge.

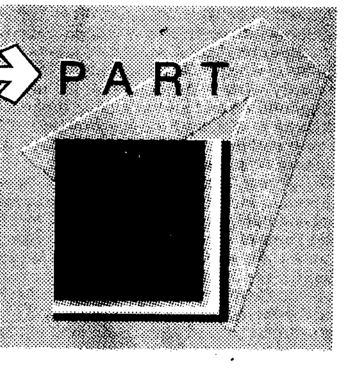
On excise, he hopes to get an additional Rs. 6,700 crores, the bulk of which will be on account of duty and cess of petrol, which means that petrol prices could have been lowered further since a cess of Rs. 6 per litre has been imposed.

On the customs side, because of the duty reduction and changes, the loss is estimated to be Rs. 2,200 crores, thus taking the additional total taxation to 10,500 crores, one of the highest mobilisations in recent years.

**Excerpts of speech: Pages 10, 11**
**Reactions, other stories: Page 15**



# It's More Gham Than Khushi For Taxpayers



Sir,

I rise to present the budget for the year 2002-03.

2.The year 2001, the first year of the millennium, was a year of many tragic events. It started with the Gujarat earthquake on January 26, and ended with the terrorist attack on our Parliament on December 13, punctuated by the September 11 incident in the United States and the October 1 outrage in Srinagar. I salute the brave members of our security forces who defended this Parliament and made the supreme sacrifice. On the economic front too it has been a difficult year. World economic growth is estimated to have slowed down to 2.4 per cent in 2001 after seven consecutive years of higher growth. International terror and the global economic slowdown have been the saddest features of the past year.

**ECONOMIC CONTEXT**

3.Despite the hostile economic and security environment, the economy has performed relatively well this year. After irregular monsoons in the previous two years an agricultural recovery was enabled by a relatively well distributed monsoon this year. Economic growth this year is expected to be about 5.4 per cent: higher growth being constrained by the industrial slowdown. The basic fundamentals of the economy remain strong: inflation has fallen to a record low of 1.1 per cent, foreign exchange reserves have crossed US $50 billion, and our food stocks have risen to almost 60 million tonnes. The fall in petroleum prices has provided further relief to the economy as a whole.

4.While the country is economically secure there are still many challenges facing us. These have been described in detail in the Economic Survey presented to this House on February 26. My effort is to devise a budget strategy to meet these challenges.

**BUDGET STRATEGY**

5.In my last budget I had laid out a comprehensive agenda of the second generation economic reforms. I had also deepened tax reforms aimed at providing a modern tax regime. My aim this year is to consolidate and implement these policies at all levels. I propose to take this process further at the State level through a strategy of reform linked public funding.

6.The broad strategy of the budget, therefore, is to:

■Continue the emphasis on agriculture and food economy reforms.

■Enhance public and private investment in infrastructure.

■Strengthen the financial sector and capital markets.

■Deepen structural reforms and regenerate industrial growth.

■Provide social security to the poor.

■Consolidate tax reforms and continue fiscal adjustment at both the Central and State levels.

7.The implementation of the announcements made in the last budget has been closely monitored throughout the year. I started the practice last year to submit to Parliament an Action Taken Report on the previous year's budget. Accordingly, I am presenting a detailed ATR on last year's budget announcements. Some of the highlights are: deregulation of controls on agricultural commodities; progress towards decontrol of sugar; substantial reduction in the span of price control of drugs; decision to amend existing legislation governing revival and/or winding up of companies, along with abolition of SICA; substantial progress in privatization; progress in the implementation of Expenditure Reforms Commission's recommendations and announcement of VRS for surplus government employees.

8.These decisions demonstrate the resolve of this Government to carry forward the process of economic reforms, and to ensure that the benefits reach the common man. This will require improved implementation and governance. We shall put in place measures to effect improvement in these areas with the objective of eliminating poverty and improving the quality of life of our citizens.

**AGRICULTURE & RURAL DEVELOPMENT**

**Deregulation**

9.Having achieved great success with the Green Revolution and then the White Revolution, the country is now ready for its third revolution of agricultural diversification and food processing. This requires policy changes, a renewed thrust on agricultural research and extension, and a new climate that encourages much greater investment in both the public and private sectors. Removal of the remaining regulatory and procedural rigidities that still exist and improved rural infrastructure is essential for this new revolution. Freedom to the farmer, Kisan Ki Azaadi is the overarching goal of our policy.

10.Even though agriculture is a State subject, there are a number of Central Government policies that influence this sector. The Government has reviewed the operation of the Essential Commodities Act, 1955. Restrictive orders inhibiting storage, selling and movement of food and agricultural products are being removed. We can now look forward to a countrywide integrated market for agricultural products. To continue this initiative, I am proposing further decontrol and deregulation of agriculture along the following lines:

■Amendment of the Milk and Milk Products Control Order (MMPO) to remove restrictions on new milk processing capacity, while continuing to regulate health and safety conditions.

■Removal of small scale industry reservations related to various agricultural equipment items.

■Decanalization of the export of agricultural commodities and phasing out of remaining export controls.

...year has also become operational. With the removal of various control orders much greater investment would be forthcoming under both these schemes.

Accordingly, I propose to allocate Rs 70 crore to each of these subsidy linked credit schemes in 2002-03.

**Agricultural Credit**

14.As Finance Minister I feel particularly responsible for the flow of adequate credit to the agriculture sector. I am glad to report that the total credit flow to the agriculture sector through institutional channels is expected to reach the targeted level of Rs 64,000 crore this year. It is expected to increase to Rs 75,000 crore in 2002-2003. I propose the following steps to further improve the delivery of agricultural credit:

■The funds for RIDF VIII will be enhanced from Rs 5000 crore to Rs 5500 crore next year, while the rate of interest will be reduced from 10.5 per cent to 8.5 per cent. Henceforth it will be fixed at the prevailing bank rate plus 2 per cent. Assistance to the States from RIDF will be linked to reforms in the agriculture and rural sectors.

■Kisan Credit Cards introduced in 1998-99, have been a resounding success and have helped our farmers considerably in their access to agricultural credit. An additional 63 lakh KCCs have been issued up to December 31, 2001 taking the total to 2.07 crore. The personal insurance package linked to KCCs has also been operationalised.

■Similarly, the scheme of micro credit through Self Help Groups is progressing well. The target of one lakh additional self-help groups during the current year is expected to be achieved taking the total so far to more than 3.5 lakh covering more than 70 lakh families, making it the largest micro credit programme in the world. I am raising the target to 1.25 lakh for 2002-03.

■A one-time settlement scheme for small loan accounts with outstanding principal balance upto Rs 25,000 as on March 31, 1998 is already in operation. A special OTS scheme for small and marginal farmers will be announced by RBI to cover loans upto Rs 50,000.

**Crop Insurance**

15.The National Agriculture Insurance Scheme is already in operation. To subserve the needs of farmers better and to move towards a sustainable actuarial regime I propose to set up a new Corporation for Agriculture Insurance to be promoted by the existing public sector general insurance companies.

**Irrigation**

16.I propose to increase the allocation for the Accelerated Irrigation Benefit Programme (AIBP) from Rs 2000 crore this year to Rs 2800 crore in 2002-03. This will assist the States to accelerate the completion of unfinished medium and major irrigation projects, and also to undertake reforms by revising user charges and setting up of water users associations.

**Agriculture Extension and Research**

17.The accelerated diversification and modernization of agriculture will require a new approach to research and extension services. I therefore propose to enhance the allocation for 2002-03 for agriculture research to Rs 775 crore from Rs 684 crore in the current year. A full review of the governance of agricultural research is also proposed so that the system can serve the new needs creatively.

18.Linkages between research and extension will be strengthened to improve quality and effectiveness of research and extension systems. The extension system will be revitalised and broad-based through Krishi Vigyan Kendras (KVKs), NGOs, farmers organisations, cooperatives, the corporate sector and agribusiness clinics. KVKs will be designated as nodal agencies for quality certification including organic products, bio-fertilizers, and bio-pesticides. The supply of inputs, agro-processing and trade through such cooperatives/companies will be encouraged through the availability of credit with the help of NABARD. The Companies (Second Amendment) Bill 2001, already introduced in Parliament will enable the conversion of existing producer cooperative businesses into companies.

**Agricultural Exports**

19.Promotion of agricultural exports is important for creating conditions for providing remunerative prices to farm produce. For this purpose Agri Export zones are being promoted in different States and 15 such zones have been approved so far. APEDA will catalyse development of infrastructure and flow of credit to the units in these Agri Export zones.

...most distressed districts of the country. A Task Force headed by my colleague, the Minister of Rural Development, will be set up to design and implement a massive programme for employment generation in these districts. KVIC, DC (SSI), and other agencies will be fully involved in the implementation of this scheme.

24.The promotion of rural industrialisation would be helped greatly through capacity building and technology upgradation in Khadi and Village Industries. To help in this effort I propose to upgrade the Wardha Institute started by Mahatma Gandhi in 1935 as a national institute to be called Mahatma Gandhi Institute for Rural Industrialisation.

25.The diversification of agriculture will not succeed without appropriate infrastructure for marketing. For this purpose, rural local bodies, cooperatives and NGOs will be assisted to set up rural produce marketing centres and sub-centres at the district and block levels and to upgrade village haats under a special scheme of the Swaran Jayanti Gram Swarozgar Yojana (SJGSY).

26.Some parts of our country have been particularly afflicted with natural calamities. Additional allocation of Rs 480 crore was provided under the Indira Awas Yojana for the affected States. Houses constructed by the poor under the Indira Awas Yojana (IAY) in such disaster prone areas will henceforth be provided insurance cover through a Master Policy.

**Management of the Food Economy**

27.I had drawn attention last year to the severe policy and fiscal difficulties arising from the growing mismatch between the unprecedented level of procurement of wheat and rice by FCI and the much lower PDS and buffer stock needs in the last few years. The current situation of open-ended procurement by FCI at a high price and disposal at a heavily subsidised price is not sustainable. The concept of decentralised procurement has not yet found favour with the States. The report of the High Level Committee on Long Term Grain Policy is expected to be submitted shortly. We shall formulate a more durable approach for better management of our food economy after considering this report.

28.A number of steps have been taken by the Government to reduce the high food grain stocks that are posing serious problems of storage and disposal. These measures include: increased allocations for BPL familiies; launching of a major food for work programme under the SGRY; allocation of 30 lakh tonnes of free foodgrains to States for relief works in areas affected by natural calamities; open market sales of 30 lakh tonnes this year compared to 5.5 lakh tonnes in 2000-2001; and enhanced incentives for export of food grains.

**INFRASTRUCTURE**

29.Provision of efficient and world class infrastructure is critical for our growth aspirations. A key issue that bears repetition is the imposition of appropriate user charges necessary to provide adequate returns on investment. Some success has been achieved in areas such as telecom, roads and ports where appropriate user charges exist. With the tariff rationalization and other bold measures introduced by my colleague, the Minister of Railways, we can expect the Railways to serve well the key transportation needs of the country in the years to come. Other areas such as power, urban infrastructure, other transportation and the like continue to experience great difficulty because of the lack of appropriate user charges.

**Power**

30.Restoration of financial viability in the power sector remains crucial. The average rate of return for all SEBs is about minus 40 per cent and their combined losses continue to increase. Hence, this is one of the foremost challenges not only in the power sector but also for the fiscal health of the state governments and the overall performance of the economy.

31.In recognition of these severe problems the Prime Minister held a meeting with State Chief Ministers on March 3, 2001. While broadly agreeing with the desirability of power sector reforms to achieve commercial viability of State Electricity Boards...

...December 2003, a year ahead of schedule. The North-South East-West corridors have a length of 7300 kms., of which 716 kms. have already been four-laned. With the assistance of multilateral funding, other borrowings by the National Highway Authority of India (NHAI) with government guarantee, and other innovative financing schemes, the funding for this phase will be fully tied up in 2002-03.

Ports

35.The present Port Trust structure does not allow Indian major ports to have the flexibility needed for efficient management and for raising institutional funding. It is therefore proposed to corporatise major ports in a phased manner. Private sector investments have been facilitated and 17 projects worth more than Rs 4,500 crore have already been approved and another 8 projects worth more than Rs 3,200 crore are under consideration. With corporatisation of the existing ports and new private sector ports coming up, the regulatory structure will be strengthened.

**Civil Aviation**

36.The Government has already announced its decision to upgrade the international airports at Delhi, Mumbai, Chennai and Kolkata to the standards of world class airports by inducting private sector management and investment through long term leasing systems. Modalities for inviting offers have been finalised and the leasing process will be completed in 2002-03.

37.Private sector participation in greenfield airports will be encouraged through a package of concessions:

■Availability of land and related infrastructure from the State Governments.

■Exemption from levy of Inland Air Travel Tax (IATT) and Foreign Travel Tax (FTT) on departing passengers for projects located in States that charge sales tax on Aviation Turbine Fuel (ATF) at Central Sales Tax (CST) rate.

■Charging of Advance Development Fee (ADF) by way of additional Passenger Service Fee (PSF) at the existing airports for help in financing of the greenfield airport.

■Levy of User Development Fee at the new airport.

■Financial assistance/equity participation by Airports Authority of India.

The proposed new airports in Bangalore and Hyderabad will benefit from these concessions.

Urban Development

38.The 2001 census shows that the urban population in India is now about 285 million, greater than the total population of the United States. The number of cities with more than one million population has increased from 23 in 1991 to 35 in 2001. We are aware of the sad plight of most of our towns and cities. This needs to be changed if they have to act as engines of growth, and if they are to provide a healthy environment for our citizens. Hence, we can no longer afford to delay reforms in this sector.

39.I propose to set up an Urban Reform Incentive Fund (URIF) with an initial allocation of Rs 500 crore to provide reform linked assistance to States. The Fund will seek to incentivise reforms in the following areas:

■Reform of Rent Control Laws and repeal of Urban Land Ceiling Acts.

■Rationalisation of high stamp duty regimes.

■Revision of bye-laws to streamline the approvals process for construction of buildings, development of sites, etc.

■Revision of municipal laws in line with model legislation prepared by the Ministry of Urban Development and Poverty Alleviation.

■Simplification of legal and procedural frameworks for conversion of agricultural land for non-agriculture purposes.

■Levy of realistic user charges and resource mobilization by urban local bodies.

■Initiation of public private partnership in the provision of civic services.

40.A City Challenge Fund (CCF) will also be set up as an incentive based facility that will support cities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# 'Give economic reforms a push'

**HT Correspondent**
*New Delhi, February 26*

A QUICK dose of reforms has been prescribed by the Economic Survey for 2001-02 to bring India's ailing economy back to health -- defined by the survey as eight per cent growth in the next fiscal. The Survey's reform remedy and a non-populist Railway Budget received a thumbs-up from the market. The Sensex rose by 99 points on Tuesday.

The Survey, precursor to the Union Budget Finance Minister Yashwant Sinha will present on Thursday, sets "reinvigorating economic growth" as its overall goal. The Survey estimated GDP growth for 2000-01 as 5.4 per cent, sharply lower than the 6 to 6.5 per cent projected in last year's Budget. It lays out a road map on how to lift the growth rate to over 7 per cent achieved between 1994-97.

The key assumption the Survey makes is that unless agricultural growth is boosted to over 6 per cent, an overall GDP growth rate of over 7 per cent is impossible. The Survey points out that even the present 5.4 per cent GDP growth would have been impossible if the farm sector had not grown at a robust 5.7 per cent. Especially since industry and exports performed dismally.

There are a host of measures to try and unleash the potential of agriculture. For example, it recommends minimum support prices for wheat and rice be reviewed with the aim of shifting farming to more lucrative crops. And to lessen the social impact of this move, the Survey recommends the use of food stamps as a means to ensure subsidised grain actually reaches the poor families it is supposed to.

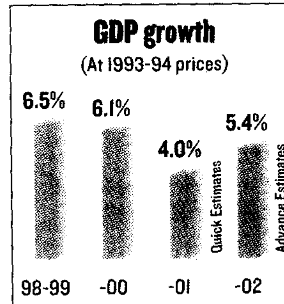
Perhaps reflecting the specialisation of Sinha's chief economic advisor, Rakesh Mohan, the Survey also dwells at length on infrastructure. It identifies road transport, power and irrigation as areas where private and public investment is needed.

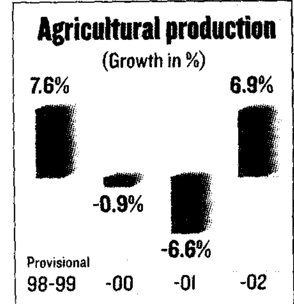
The Survey glosses over what continues to be the primary structural obstacle to high levels of economic growth: the fiscal deficit. The Government's ocean of red ink seems set to grow further. The Survey says the fiscal deficit will balloon to 5.1 per cent of GDP as opposed to an initial projection of 4.7 per cent.

There is little about reducing expenditure. But the Survey does recommend means by which the Government can increase tax collection. It calls for tax and duty exemptions to be eliminated or curbed. It also calls for more chunks of the service sector to be taxed.

**More reports on Page 12**

## RECIPE FOR REVIVAL




- **Customs, excise duty and tax exemptions to be withdrawn**
- **More services to be brought under tax net**
- **Lower interest regime on anvil, 1 per cent cut in the medium term**
- **Wheat and rice support price to be reviewed**
- **Food stamps may be issued**
- **Easy exit norms for bankrupt companies**
- **Flexible labour laws to attract investment**
- **Remove controls on distribution and sale of food and dairy items**
- **Medium term customs, excise corporate tax policy in offing.**
- **More items to be dereserved from SSI domain**
- **Cess on diesel and petrol may continue.**
- **Toll tax to mobilise funds for golden quadrangle**
- **Delhi, Mumbai airports privatisation on fast track**
- **Overhaul UTI**
- **Hike in power, irrigation and transport charges indicated**
- **GDP growth for 2000-01 pegged at 5.4 per cent**
- **Fiscal deficit in current fiscal at 5.1 per cent**

THE TELEGRAPH

## MAJOR BOOST TO DISINVESTMENT

# Tatas get VSNL, IOC bags IBP

By Our Special Correspondent

NEW DELHI, FEB. 5. The Government's privatisation efforts finally took shape in a big way with the Cabinet Committee on Disinvestment (CCD) today deciding on selling 25 per cent equity in the Videsh Sanchar Nigam Limited (VSNL) to a Tata Group company, Panatone, and a strategic sale of 33.58 per cent equity in the petroleum company, IBP Limited, to another public sector company, Indian Oil Corporation (IOC) Limited. Besides, four hotels of the Indian Tourism Development Corporation (ITDC) and the Hotel Corporation of India would be sold to four private bidders, the CCD today decided.

Briefing presspersons after the meeting, the Disinvestment Minister, Arun Shourie, announced that proposals for disinvestment in the public sector oil giants, Hindustan Petroleum and Bharat Petroleum, would be announced by June this year. But the IOC would not be allowed to bid for stakes in the two public-sector companies as the Government favoured public- private sector competition which would ultimately benefit the consumers as in the telecom sector, Mr. Shourie said.

The VSNL sale would fetch the Government Rs. 1,439 crores while the IBP sale would rake in another Rs. 1,153.68 crores. Also, the sale of Qutab Hotel and Lodhi Hotel in New Delhi would fetch Rs. 35.67 crores and Rs. 76.22 crores respectively, while the Laxmi Vilas Palace Hotel in Udaipur would get another Rs. 7.52 crores and the Centaur Hotel Airport in Mumbai Rs. 83 crores.

According to Mr. Shourie, in the case of IBP, IOC was chosen as the strategic partner over Royal Dutch Shell by the CCD which approved the top bid of Rs. 1,153.68 crores against the second bidder's offer of Rs. 595 crores.

As for VSNL, the Tatas beat Reliance by bidding for Rs. 1,439 crores against Reliance's bid of Rs. 1,346.62 crores. The Government had fixed a reserve price of Rs. 1,218.37 crores for VSNL and Rs. 337 crores for IBP and in the final analysis, IOC had bid Rs. 1,551 per share of the petroleum company while the Tatas had bid Rs. 202 per share of the telecom giant.

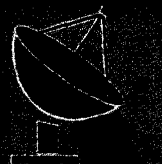
The two successful bidders, who would sign transaction documents with the Government in the next two days, would have to make an open offer for acquiring 20 per cent of floating shares of each corporation they acquired. Mr. Shourie admitted that the Government was not successful in getting a favourable response for 12 properties of the ITDC and Hotel Corporation of India that were on the block. These issues would be looked at afresh.

He said the Government would announce proposals for privatisation of HPCL and BPCL within three months of dismantling of the administered pricing mechanism for petroleum products which is expected on April 1 this year. He said strategic sale would be the preferred mode of disinvestment. However, he did not give the quantum of equity that would be divested. About the hotels, Mr. Shourie said the Centaur airport hotel in Mumbai would be sold to A.L. Batra of the Radisson Group of Delhi for Rs. 83 crores against the reserve price of Rs. 78 crores. The Singapore-based Silverlink Holdings successfully bid for Lodhi Hotel in New Delhi for Rs. 76.22 crores against a reserve price of Rs. 40.36 crores, while Sushil Gupta and Associates of Hyatt got Qutab Hotel for Rs. 35.67 crores against a reserve price of Rs. 31 crores. Laxmi Vilas Palace Hotel went to Bharat Hotels of the Lalit Suri Group for Rs. 7.52 crores against a reserve price of Rs. 6.12 crores.

Mr. Shourie said that besides the Tatas' bid of Rs. 1,439 crores for VSNL, the Government had also got Rs. 1,887 crores as special dividend and Rs. 363 crores as dividend tax, which took the total accrual from VSNL to Rs. 3,689 crores this year.

More reports on Page 10

### DISINVESTMENT OF PSUs



| | | | |
|---|---|---|---|
| IBP | 33.58% | 1,153.68 | IOC |
| Qutab Hotel, New Delhi | Outright sale | 35.67 | Sushil Gupta & Associates |
| Laxmi Vilas Palace Hotel, Udaipur | Outright sale | 7.52 | Bharat Hotels |
| Lodhi Hotel, New Delhi | Outright sale | 76.22 | Silverlink Holdings |
| Centaur Hotel, Mumbai | Outright sale | 83.00 | A.L. Batra of Radisson |

Graphic by Varghese Kallada

THE HINDU
6 FEB 200

# Fiscal situation grim

By Our Special Correspondent

NEW DELHI, JAN. 31. With less than a month to go for the general budget, the shape of Government finances continues to be precarious. There has been a sharp increase in the Central Government's non-Plan expenditure during December 2001. This has resulted in the fiscal deficit shooting up by about Rs. 10,000 crores that month.

Official data now available suggests that non-Plan expenditure during December increased by Rs. 23,573 crores while Plan expenditure, which is development expenditure, went up by about Rs. 9,537 crores. In effect, the total Government expenditure increased by Rs. 33,110 crores in one month while the total receipts, that is tax and non-tax revenues and recovery of loans, totalled up to Rs. 23,229 crores. This despite December being the month when advance income and corporate tax instalments flow into the official kitty.

Consequently, the gap between the total expenditure and the total revenue receipts worked out to Rs. 9,881 crores, exactly the same amount by which the fiscal deficit shot up that month. The overall fiscal deficit during the first nine months of the current fiscal reached a level of Rs. 89,014 crores which is 76.5 per cent of the annual target. A comparison with the performance in the previous year shows that the fiscal deficit during April-December 2000 had been just 58.1 per cent of the target. Incidentally, the Government has also exhausted its quota of market borrowings for 2001-02 fiscal year by December itself.

That revenues are running short of target has also been corroborated by official figures which show that tax revenues during the first nine months amounted to only 52.1 per cent of the annual target, whereas they were 62.7 per cent in the comparable period of the previous year.

In November also, the Government had incurred a non- plan expenditure of Rs. 21,579 crores while plan expenditure was only about Rs. 6,629 crores. The fiscal deficit in that month had shot up by over Rs. 15,000 crores.

# VAT a Mess

Back in 1999, the finance ministers of all Indian states came to what was rightly hailed as a landmark agreement — to move to a uniform value-added tax (VAT) system from April 1, 2001. VAT is a multi-point system, whereby taxes paid at one stage of production and sale are set off, or rebated, at the next stage. This prevents cascading of taxes — the same item being taxed several times through the production chain, which adds to the cost the consumer eventually has to pay. In other words, by preventing multiple taxation of the same item, VAT reduces its sale price. That would be a good enough reason, by itself, to switch to this system, but there are others as well. For one thing, it is far more transparent, and encourages businessmen to report transactions since they can then avail of VAT refunds. Besides, the present labyrinth of varying indirect tax rates in different states constitutes a formidable barrier to inter-state trade. At a time when countries are rapidly tearing down international trade barriers, it is surely unacceptable that we do not even have a common Indian market. Finally, there is the simple fact that ours is an extremely archaic system of taxation. VAT has been adopted in 140 countries, including federations like Canada and Australia. So we are out of step with the rest of the planet, which also has implications for our efforts to work out a system of export incentives compatible with the World Trade Organisation. Given all these factors, the transition to VAT could transform the Indian economy, and you'd expect the authorities to be doing their best to speed up the process.

So what's actually been happening? Well, in July 2000, it was decided to postpone introduction of full-fledged VAT by one year to April 2002, due to the complexities that needed to be sorted out. Fair enough, said most economists, and began the countdown again. Unfortunately, with another year having elapsed, we are being told — yet again — that conditions are still not conducive, so we'll now have to wait till April 2003. This is supposed to be the final, final deadline, but given the pace at which things move in government circles, it's probably not a good idea to hold one's breath. Among the reasons for this fresh postponement is the Centre's failure to enact the required amendments to the Central Sales Tax Act and the Additional Excise Duty Act in the winter session of Parliament, because of the terrorist strike, which resulted in the adjournment of both Houses. But even if Parliament had functioned perfectly normally, are we so sure that our legislators would have shown the sense of urgency required of them? Unfortunately, even that wouldn't have solved the problem. The states are apprehensive that the switch-over to VAT will result in a loss of revenue for them and want to be appropriately compensated; the Centre has yet to work out an acceptable solution. The finance minister cannot be solely blamed for this fresh delay, but it is surely his responsibility to champion such far-reaching reforms. One cannot help asking whether, in his zeal to spread the message of India's economic preparedness for war, he has not been distracted from his primary task of paving the way for a more prosperous peace.

THE TIMES OF INDIA

25 JAN 2002

# Congressional enquiries against Enron begin

By Sridhar Krishnaswami

WASHINGTON, JAN. 24. The first of the Congressional enquiries against the energy giant, Enron Corporation, starts on Capitol Hill today, but not much substantive headway is expected in the first days as many procedural formalities would have to be out of the way.

One of the auditors of Arthur Andersen, David Duncan, who was fired for improperly handling the Enron account, has said that he will not publicly testify unless granted immunity from prosecution. Mr. Duncan, according to knowledgeables, will resort to the Fifth Amendment — the constitutional right not to testify — when he gets before the Energy and Commerce subcommittee of the House of Representatives this morning.

With the House getting on with the Enron hearings at the first available opportunity, the Senate is not lagging behind. The Senate Governmental Affairs Committee will start its investigation to see if the Federal Government lost proper track of Enron and failed to exercise proper oversight.

In all, about 11 Congressional Committees of the House and the Senate will be focussing on Enron in the coming weeks. The collapse of the energy giant and one of the top corporations in the U.S. sent shockwaves economically and politically. The slide into bankruptcy — the largest in U.S. history — meant that thousands of employees have lost not just their jobs but also their very last penny of their savings by being forced to hold on to worthless stocks.

The bigger headache for Enron and its political benefactors are criminal charges that are being pursued by authorities — on whether Enron and its auditors resorted to a wilfull shredding of documents. Further the question is being posed as to whether the President or the Vice President had any inkling of what was in store and if any of the top executives of the Corporation had been in touch with the Bush administration and for what reasons.

## Tata Tea launches Tetley brand

By Our Staff Correspondent

MUMBAI, JAN. 24. Tata Tea has launched Tetley tea in the Indian market. Tetley tea will be available as packet tea in 500g, 250g, 100g and 50g packs as well as in teabags.

It is priced at Rs. 58 per 250g pack and the product has been launched in Mumbai, Vijaywada and Delhi and is being rolled out to target cities all over the country.

Tetley plans to launch a host of variants and specialty products in the coming months and will be supported by vending machine operations across the country.

THE HINDU

Dabhol part-financed by US government funds, say officials

# White House tried to save Enron

REUTERS

WASHINGTON, Jan. 19. — The Bush administration intervened with top Indian officials last year in a bid to salvage an Enron Corp. Enron's project in India, according to documents released on Friday that shed new light on the administration's relations with a major financial backer.

The White House said the effort, involving the Vice President, Mr Dick Cheney, and other senior officials, was justified because the $2.9-billion Dabhol power project was financed in part through the U.S. government's Overseas Private Investment Corporation (Opic), a taxpayer-backed agency that provides "political risk" insurance and loans to help U.S. companies invest in developing nations.

The White House denied the push was influenced by Enron's political contributions. Enron was Mr Bush's biggest backer heading into the 2000 presidential election, giving about $623,000 to his campaigns since 1993, when he was raising money for his first Texas gubernatorial race.

Opic's exposure to the Dabhol project amounted to $340 million in both insurance and loans. In a 6 November 2001 letter to India's national security adviser, the Opic president, Mr Peter Watson, said the issue had risen "to the highest levels of the United States Government (and) could force Opic to close its programmes entirely in India." Mr Watson's letter followed a June meeting between Mr Cheney and Indian officials in which the Vice-President brought up the subject of Enron project. In the months to follow Opic would prepare "talking points" on Dabhol for Mr Bush's meeting on 9 November with the Indian Prime Minister, Mr Atal Behari Vajpayee.

Mr Bush did not bring up the issue, however, according to the documents and White House officials.

Just days before Mr Vajpayee came to the White House, the Enron chairman, Mr Kenneth Lay, had called the Treasury Secretary, Mr Paul O'Neill and the Commerce Secretary, Mr Don Evans, Mr Bush's 2000 campaign manager, to warn them of the company's mounting financial problems.

The Enron president, Mr Lawrence "Greg" Whalley called Treasury Undersecretary, Mr Peter Fisher, in late October and early November, seeking help for the energy-trading giant, which on 8 November, the day before the Bush-Vajpayee meeting, disclosed that it had overstated earnings dating back to 1997 by almost $600 million.

The company filed for bankruptcy on 2 December, the largest in U.S. history.

In recent weeks the White House has sought to distance itself from the widening scandal surrounding Enron. The White House says it monitored the situation but did nothing to help the Houston-based company avert collapse.

Enron owns 65 per cent of Dabhol, General Electric Company. and the construction firm Bechtel Corp. each own 10 per cent and the Maharashtra State Electricity Board (MSEB) the remaining 15 per cent.

A White House spokesman, Mr Ari Fleischer, defended the administration's intervention. "The US taxpayers have an exposure to risk and loss through Opic," he said.

"It's not uncommon for (companies) to have exposures which do require contacts between American officials and government officials in other countries to minimise those risks to taxpayers." Mr Fleischer noted that former President Bill Clinton's commerce secretaries had made similar appeals on behalf of Dabhol at various stages.

THE STATESMAN

2 0 JAN 2002

# Enron can't pay its power bills

By Rajarshi Roy
Times News Network

MUMBAI: Electricity may cost money, but the irony is for free. Erstwhile energy giant Enron Corp, which came to India promising to electrify rural India and light up every corner of Maharashtra, is having trouble keeping its own lights switched on. Simply put, Enron India doesn't have the money to pay its electricity bills.

Plagued by mounting investigations in the U.S. and a prolonged legal dispute in India, Enron had decided to wind up its Indian operations. It fired most of its staff last October and is selling its office premises in the Bandra-Kurla complex.

But even the core team of consultants it had retained, including India-head Wade Kline, are unable to use the offices, given the lack of power. "We are now operating from our homes as there is no money even to run the day-to-day office operations, take care of overheads or even pay the electricity bills," an Enron employee told TNN.

While Indian lenders have stopped lending to the Dabhol Power project, the Texas-based firm's operations here have also been affected by the actions of the administrator after the U.S parent declared bankruptcy. The Indian arm of the multinational had been banking on a trust account to take care of the financial crisis, but that fund has also been sealed by its creditors.

Enron India's team of consultants, who had been initially retained on a two- month contract, are worried about their pay cheques.

THE TIMES OF INDIA

# Dabhol Darkness

## Government Takeover Only Way Out

By PRABIR PURKAYASTHA

ENRON'S spectacular rise, and its even more dizzying collapse, is being felt far and wide. In a matter of six weeks — mid-October to end-November — Enron's market capitalisation dissolved from $62 billion to zip, making it the most spectacular bankruptcy in US history. Its auditors, Arthur Andersen, are in deep trouble, and so are a host of banks and financial institutions on Wall Street. Indian FIs are not far behind. Meanwhile, disturbing reports have surfaced — that Enron has removed critical plant components to a secure location outside India, forestalling Indian lenders from selling the plant.

With the Afghan war winding down, Enron and its political connections have come under increasing scrutiny in the US. Half the senate and three-fourths of the Congress received funding from Enron. The Bush administration is particularly vulnerable, as Enron's ties with the Bushes, both senior and junior, are well known. There is now talk of an Enrongate hamstringing the Bush presidency.

While the Republicans received three times as much as the Democrats from Enron, it is clear that Enron had friends in both the major parties. In 1993, Wendy Gramm, Bush senior's top commodity regulator and the wife of senator Phil Gramm, was appointed to the Enron board — just five weeks after she helped push through a ruling favourable to Enron. Enron officials met Dick Cheney and his energy task force six times last year. Not surprisingly, the task force produced a report largely in tune with Enron's recommendations.

That Enron was cooking its accounts over a long period of time is now public knowledge. What is now coming to light is that a number of its key executives and directors sold millions of shares from 1999 through mid-2001, raking in more than a billion dollars; while advising others, including their employees, to hold on to theirs. Prominent among the winners were Kenneth Lay, founder chairman, with more than a $100 million; Jeff Skilling, the past CEO, and Rebecca Mark of Dabhol fame, both of whom made about $60-80 million each. These and other insiders bailed out well before the stock nose-dived; small investors and Enron employees, who had most of their pension funds in company stocks, were left holding worthless paper.

The Enron collapse has revived the debate about the inherent conflict of interest in auditors doubling as consultants. In 1999, Arthur Andersen and other leading audit companies successfully spiked regulatory attempts of the Securities and Exchanges Commission (SEC) and its chairman Arthur Levitt to ban firms from offering consulting services to companies that they audit.

How did a nondescript Texas company, owner of a few pipelines, rise to become an economic powerhouse? And how did it fall from the dizzying heights of a Fortune 10 company to nothing in just one year? To unravel this mystery, we must look at the kind of business Enron built up. Under Kenneth Lay and Jeff Skilling, Enron built itself up as an energy trader. With a worldwide, computerised energy trading system, EnronOnline, it became a new economy energy company. In this system, the bulk energy consumers and suppliers bought and sold electricity for the future, both as contracts with Enron. In order to protect itself from adverse movement of prices, Enron also created certain derivatives and hedges; if the prices fell lower than what Enron had anticipated, it had bought itself some insurance.

**IN BRIEF**

- It is now clear that Enron had been cooking its accounts for a long time
- Its collapse has revived debate about the conflict of interest in auditors doubling as consultants
- Indian FIs which lent Enron money are in financial danger now

Playing the future markets is risky business — as a number of mutual funds and banks have discovered. Enron, in contrast, seemed to have mastered the energy future markets successfully, making hefty profits year after year. It is now clear that this was achieved by some very innovative book-keeping. Enron's key officers set up private companies that took loans guaranteed by Enron and then ploughed this money back. The loans did not appear on the balance sheet, as Enron was technically only the guarantor of the loans. This made its books look much prettier than they really were. Enron booked not only its commissions but also its entire energy trade figures as turn-over, unlike other traders and stockbrokers who only book their commissions. This inflated its business, making it look much bigger than it really was. This, coupled with its phoney profits, took its stock to dizzying heights before the intricate financial structure of private companies and loans unravelled.

At present, not only are the SEC and the US justice department investigating Enron, but also dozens of cases, including some by its former employees, have been filed against its officers. Arthur Andersen is also in a similar situation and faces a very tenuous future.

Indian financial institutions will now have to address the problem caused by their lending Enron huge amounts of money. Not only did IDBI, IFCI and others lend Dabhol some $1.2 billion; they have also given guarantees to US Exim and other lenders for another $700 million. Indian FIs are now paying the foreign lenders so that they do not encash these guarantees. With Enron's bankruptcy, its shares in Dabhol cannot be acquired without getting enmeshed in the tortuous bankruptcy proceedings in the US courts and the plant turning into junk. The FIs, as a result, are in imminent danger of losing the entire $1.2 billion, triggering their own collapse, unless immediate measures are taken.

Despite this grim scenario, there is no indication that the Indian government even understands the enormity of what is happening. Subsequent to reports that Enron was removing critical components of the plant, the power ministry spokesperson claimed that the government is not concerned with what private companies do with their equipment. He needs to be informed that Dabhol is a project built largely with Indian money. It is mortgaged to Indian lenders, and its assets cannot be removed without notifying these lenders. Removing vital equipment, microchips and coded CDs vital to the control system and transporting them outside India without authorisation and proper procedure, also means violating the law.

The government must take the sole remaining option; take over Enron by an Act of Parliament or an ordinance and pay the existing shareholders, including Enron, GE, Bechtel and MSEB, a fair compensation to be decided after examining the actual equity brought in by each of the parties. Enrongate makes it imperative for us to check what Enron really brought in, and not blindly accept what it claims. Only this step will save Maharashtra and the FIs.

THE TIMES OF INDIA

18 JAN 2002

# Disinvestment in more PSUs planned

By Our Special Correspondent

**NEW DELHI, JAN. 16.** The Cabinet Committee on Disinvestment (CCD) today decided to refer a fresh bunch of public sector units (PSUs) to the reconstituted Disinvestment Commission. It was also decided to disinvest in Paradeep Phosphates Limited (PPL) and Jessop, for which bids would be invited in the next four to five days so that purchase offers could come by early February.

The Disinvestment Minister, Arun Shourie, told presspersons that the CCD reviewed the disinvestment exercise and it was found that barring three cases which involved land disputes, all the other proposals were proceeding on track. Even the union Finance Minister, Yashwant Sinha, had reportedly expressed satisfaction at the pace of disinvestment.

Mr. Sinha was looking for Rs. 12,000 crores from the PSU disinvestment this fiscal, and so far commitments to the tune of Rs. 3,000 crores were on record. Mr. Shourie, however, declined to guess how much of the target would be accomplished before March 31, but said the Finance Minister had a fair idea. "On March 31, we hope to give you a pleasant surprise," he saidin response to repeated queries about the likely quantum of money that the PSU sales would fetch.

On the new units which would be put on the privatisation block, Mr. Shourie said names had not been finalised but the Government would be guided by the stated criteria of bringing down its stake to 26 per cent in all the units, barring those in strategic areas — defence, atomic energy and railway transport. Similarly, the decision of not lowering the official stake in companies such as the Indian Oil, the Oil and Natural Gas Corporation and the Gas Authority of India Limited, at the moment, remained. The Government would also bear in mind if a PSU was required to establish a countervailing presence to the private sector in any area. "Apart from these, we would take up those units first for disinvestment where the exercise can be undertaken at the earliest and with least impediments. Also, those PSUs which are bleeding taxpayers' money through continuous losses would be taken up for disinvestment," Mr. Shourie said.

### MUL issue

On Maruti Udyog Limited, where the Government has already decided to offload its stake, the Minister said the valuation process had been completed and Suzuki Motor Company — the other partner — would be invited for discussions on the Rights Issue and 'control premium.'

The Government expects Suzuki to pay a premium for gaining the sole management control in Maruti.

Mr. Shourie also announced financial restructuring packages for the PPL and the Jessop which would be implemented once the strategic sales took place.

THE HINDU

17 JAN 2002

SATURDAY, JANUARY 12, 2002

# FINANCIAL DESPERATION

IT TOOK TWO days for the Government to officially explain that the Ordinance amending the Central Excise Act was meant to facilitate a hike in the excise duties on petroleum products by more than 100 per cent. This will finally end speculation that the Ordinance, which has now been promulgated, has to do with a defence-related effort to mobilise additional revenue from higher taxes on expenditure. Consumers will also be relieved that an increase in excise duties will not be translated into higher retail prices. But this still does not justify the decision to raise excise duties on petroleum products because this "fiscal adjustment" in effect picks the pockets of the petroleum companies. The Central Government expects to collect between Rs. 1,500 crores to Rs. 2,000 crores in the rest of the financial year from the hikes in excise duties on petroleum products. It is a sign of the state of finances of the Central Government that it had to promulgate the Ordinance now rather than have the amendment passed by Parliament during the budget session which is just a month away.

In keeping with the Government's record of obfuscation and lack of transparency, the official explanation initially was that the Ordinance was meant only to remove an inconsistency between the law on central excise and that on customs, since the latter place no ceiling on the extent to which the Government can increase duties while that on excise limits the hike to twice the present level. But that of course was not the full truth, which is that the Central Government is looking at all possible measures to climb out of its present fiscal mess. The trend in tax collections this year has been pathetic, with tax receipts to the Centre at the end of December 2001 actually lower by 2 per cent than what they were at the same time in 2000. Unless the turnaround in the next three months is dramatic it is unlikely (without some window-dressing which is likely) that the budget target of a 12 per cent growth in tax receipts in 2002 will be met. The most attractive option, from the Government's point of view, is to go in for a fresh round of taxation. But clearly, higher excise duties that will be passed on to consumers will be counter-productive in conditions of poor demand since consumers are likely to turn away even more retail purchases.

The Government has therefore hit upon the idea of raising excise duties substantially on certain petroleum products, and making the oil companies pay for this increase. With global oil prices ruling lower than expected, the Oil Pool Account is in a better state than expected. The new and higher excise duties on at least some petroleum products will allow the Government to skim the present surpluses. This is in keeping with the past record of the Government using the petroleum companies as milch cows whenever it is in trouble. The public sector oil companies — which are supposed to be independent — will be directed not to raise consumer prices. They can absorb such losses for a while; later they will presumably be compensated by Central Government bonds as they were in 1998 when they were not allowed to raise retail prices. However, since this cannot continue indefinitely, it is quite possible that prices will be hiked after the coming State Assembly elections or after the administered price mechanism in the petroleum sector is dismantled at the end of March depending on the movement of global crude prices. If this is correct, the entire exercise reflects a desperation to use any means available to make the Centre's finances look better.

THE HINDU

12 JAN 2002

# CRISIS IN INVESTMENT

THE TENSIONS ALONG the border with Pakistan are uppermost in the mind of the Government; but the routine must go on and January is when preparations for the annual budget of the Central Government pick up pace. There will be fewer expectations this time from the Union Finance Minister, Yashwant Sinha, who will be presenting his fifth budget, since a sense of drift has been characteristic of economic management in the past year. However, now perhaps more than ever before in the past five years — since industrial growth began to show signs of a deceleration in 1996 — the economy is crying out for urgent attention. The overall pace of growth has markedly slowed, and it is an abdication of responsibility when the global economic recession is blamed for the Indian situation. The mood in domestic industry is one of despondency as the continuing decline in the pace of production growth shows no sign of reversing itself. And fears of a war have only made Indian industry nervous that an additional source of uncertainty has now entered the picture.

Cut to the bone, at the heart of the present slowdown of the economy is a bleak investment climate confronting the Indian private sector. The reforms removed the role of an investment stimulant from the public sector, but other than a short-lived boom in 1993-96 the private sector — especially the corporate segment — has not been optimistic about the prospects for business. The situation has been exacerbated in the past few years. The latest but somewhat dated statistics show that investment by the private corporate sector was as little as 6.6 per cent and 6.4 per cent of GDP in 1998-99 and 1999-2000, respectively, compared to an average of 7.8 per cent of GDP in 1993-98. The picture is unlikely to have changed for the better since then. All indications are that it could well have worsened. There are many reasons for the investment slump, but the most important are four distinct and also inter-related reasons. The first is that the boom in industry in the mid-1990s was driven by consumer demand from a narrow segment of the population. Since demand was not broad-based, it was not surprising that the boom was short-lived and with its evaporation so did new investment too decline. The second reason is that rural demand has been held back by two factors. Initially, it was a slowing pace of agricultural growth and then it was a collapse in farm prices that suppressed rural demand for consumer goods. Third, some of the slack could have been taken up by higher public investment but fiscal stringency and a general disdain for the public sector meant that this source of investment and consumer demand was no longer available. Fourth, import competition, the removal of quantitative restrictions on imports and fears of a flood of Chinese imports convinced the medium and small-scale sectors in particular that there was little point in making new investments.

When these are the factors responsible for the investment crisis, pleas for concessions such as an abolition of the minimum alternate tax (MAT) or a lowering of the corporate tax rates do not tackle the problem at its roots. If granted, such concessions will do no more than give a one-time boost to balance sheets. A multi-pronged approach that would broadbase demand and make Indian industry more competitive is the only thing that will lead to a revival of private corporate investment. This will have to deal with the farm sector, revive public investment and address the continuing cost constraints in industry. No quick fixes are available and one Union budget by itself is not going to make a difference. But without taking the first steps that will revive private investment, the turnaround in the economy gets pushed further into the future.

THE HINDU

11 JAN 2002

# Cabinet loads war-tax cannon

FROM OUR CORRESPONDENT

**New Delhi, Jan. 8:** If the guns boom, get ready for a sharp rise in excise duties on a wide range of commodities.

The Cabinet today cleared an enabling provision that removes a limit on excise hikes in the case of an emergency, which is currently capped at two times the existing level.

The new change allows the government to hike taxes on almost all goods, except essential commodities.

The provision, which has been approved ahead of the budget, can be implemented at any stage through an Ordinance or later through changes in the finance Bill along with the general budget. "Under the proposed amendment, the government can increase it to any extent it wants," parliamentary affairs minister Pramod Mahajan admitted while briefing reporters about the decision.

Many saw this as a decision passed in a hurry to allow the government to slap a "war surcharge" if it decides to strike at terrorist bases in Pakistan or a means to pay for the extra costs being incurred for troop mobilisation and hectic purchase of provisions even if peace holds.

However, the government insisted that defence considerations had nothing to do with the change. Finance ministry officials tried to downplay the importance of the decision with revenue secretary S. Narayan stating "it's just an enabling provision for us. There is no immediate plan to increase excise duty". But other ministry officials said an estimated Rs 400 crore has been spent on mobilising troops and armour on the border.

Besides this, there were other immediate costs which were being stepped up such as huge orders for MiG, Jaguar and Mirage aircraft spares, a fresh batch of Israeli unmanned aerial vehicles (UAVs), distant night vision glasses for artillery and infantry units (the armoured corps is already equipped with this), sand tyres for vehicles of all units posted along the Sindh border, and snow equipment for troops brought into northern Kashmir.

Mahajan also tried to sell a red herring by saying the Cabinet decision allowing amendment of Section 3(1)B of the Central Excise Tariff Act could be because the finance ministry might be contemplating a hike in excise duty on a few items. He added that no list of items had been prepared for raising excise duty.

The government is, however, not tinkering with another provision of the excise Act which allows it to raise under the duty on essential items from a zero to 50 per cent *ad valorem*. "This restriction is not being changed and is being left as it is," he said.

THE TELEGRAPH