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Economy This Week (15th July to 21st July 2019)

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1. India likely to block request for a dispute settlement panel - sugar subsidies (BL 16/7/19)

- Brazil, Australia, Guatemala have requested for a dispute settlement panel at the WTO against the sugar subsidies given by the Indian govt
- Disputes are resolved either under normal track or under expedited track. In case of normal track, the country (against which the dispute has been raised) is allowed to block the request once. If the complaint is filed for the second time or other countries keep filing them then the complaint is taken up for dispute resolution mechanism
- Since the above countries have sought to take the normal course, India is likely to block the request for the appointment of the dispute resolution panel
- Australia and Brazil have claimed that most of the subsidies given to sugar producers violate the WTO and the support provided is beyond the de minimis level of 10% for sugarcane. Some of the subsidies are support provided by the govt are
  - State level export subsidy for sugar
  - Federal level assistance
  - Export incentives (raw sugar export incentive scheme)
  - Freight assistance
  - Brazil has argued against Indian govt doubling the FRP (Fair and Remunerative Price) from ₹ 1390 per tonne (2010-11) to ₹ 2750 per tonne (2018-19) and against the govt's mandate that the mills are to export 5 mn tn of sugar in 2018-19
- Since the consultations have not led to any satisfactory outcome, all these countries have asked for a dispute resolution panel
- Indian govt has argued that
  - Most of the subsidies given to the producers are in the form of production subsidies which are allowed under WTO
  - Subsidies to exporters were for transportation and marketing purposes, which were permitted under WTO

2. Sweeteners in BOT (Build-Operate-Transfer) model (BS 15/7/19)

- As per a Crisil report, there was a need to revive PPP framework with certain changes in the road sector and the stalling of many projects had hurt the investor sentiment in the sector. In the past the private participation in the road sector has suffered because of weak investment appetite, issues with approvals, land acquisition etc
- Revival of BOT model is also important as HAM (Hybrid Annuity Model) and EPC (Engineering Procurement and Construction) account for 45% each and the rest is in the form of BOT
- As per a proposal being worked out, the developer of road projects may be allowed to sell the project two years after the completion. Such an amendment will help in attracting international participation

in the sector

- Under this, the construction company will take the risk of construction and operation risk for two years and later the project can be transferred to a foreign pension fund or investment fund, these funds are only interested in maintaining and operating such projects and not in construction

3. RBI guv takes on PSBs on rate cuts (BS 20/7/19)

- The RBI guv has come down heavily on the PSBs for not reducing the lending rates despite the higher liquidity, lower yield rates on govt bonds and reduction of interest rates by 75 bps in the last couple of months
- The governor has asked the banks to lend to NBFCs despite the higher risk associated with such loans. NBFCs borrow from the banking sector to lend or do business
- RBI guv was also critical of the recovery measures taken by the banks. He has opined that the banks are not doing enough to recover, rather are satisfied with their recovery under IBC

4. CSR unspent among unlisted companies (BS 19/7/19)

- The companies act mandates that companies need to spend at least 2% of their avg net profits over three financial years on CSR
- Some of the companies have spent more than what was mandated. Hence the difference comes down to single digits (2.4% would be the deficit)
- The listed companies have spent 83% of the funds earmarked for CSR. The unspent capital has been declining in recent years (it was at 29.8% in FY15)
- Govt has introduced changes under which the unspent funds would get transferred to an escrow account from which would get transferred to govt fund, to be used for public welfare
- Added to this, govt is thinking of punishing directors of the companies which have not been able to meet the required levels of CSR spending

5. Govt clears changes to IBC (BS 18/7/19)

- These changes will be applicable retrospectively
- These amendments will help resolve the uncertainty related to some of the issues under IBC (Insolvency and Bankruptcy Code)
- Changes introduced are
    - The time limit for approval of the CoC (Committee of Creditors) plan was 270 days, this has been extended to 330 days including the litigation and judicial process

6. Govt clears changes to IBC (IE 18/7/19)

- Govt has announced 7 key changes
    - The deadline for completion of resolution process has been increased to 330 days including the litigation period (as on march, in 48% of the cases under insolvency, the time period of 180 days has been crossed; and in 32% of cases, the time limit of 270 days has been crossed; some of the issues have been lack of appropriate bids, differences among lenders, legal challenges posed by existing promoters and operational creditors etc)

- Earlier decision by the financial creditors required voting of 66% in favour, this has been reduced to 50% of those 'present and voting' in favour of the decision. In earlier cases the decision making has been problematic as 20 to 30% of the creditors were absent during voting
- The approved resolution plan will be binding on the state, central govt and local authorities
- Has given the priority to financial creditors compared to operational creditors