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The Learning App

Economy This Week
(14th Oct to 26th Oct 2019)

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1. Sustainable measures to control price volatility (IE 14/10/19)

- Recently with onion price skyrocketing govt imposed export ban and stock limits to control the price rise. Now the tomato prices are inching towards ₹ 50 per kg (this is because of lower supply from producing states such as Karnataka, Maharashtra owing to rains) and very soon the same situation may happen in case of potatoes. Rather than opting for knee jerk reactions and myopic policies, govt has to focus on providing structural reforms to control the price volatility
- Of the three, prices of onion is most volatile, followed by tomato and finally the potato. The volatility is lowest in case of potato because of large storage facility is available for it. Of 8000 plus cold warehouses in India over 90% are used for warehousing potato
- Govt in budget of 2018 had announced "Operation Green TOP (Tomato, Onion and Potato)" and this scheme is under Ministry of Food Processing. This was to be implemented on the lines of Operation Flood (leading to formation of AMUL). The implementation of the scheme has been tardy. In case of Amul
    - Milk does not pass through APMC
    - Excess milk produced in flush season is stored in the form of milk powder to be used in lean season
    - Milk is distributed through an organised network
    - Milk producers get about 75 to 80% of the prices paid by the consumers

Whereas in case of TOP

- They are mostly traded through APMCs
- There are huge layers of mandi charges and commissions
- The farmers get only around a third of the prices paid by the consumers (i.e. farmers recovery is approximately 32.1%, 29.1% and 26.6% respectively for TOP)

- For stabilising the market prices and better recovery in terms of prices there is a need of taking following measures
    - Ample storage for buffer stocks has to be created. With repeated announcements on limits of stocking, private investments in the sector could be hindered
    - To attract better investments in cold warehousing govt may also look at repealing the Essential Commodities Act (in case there is a fear of rigging the prices, Competition Commission must look into it)

- Govt should promote more processing of these foods. For example, the storage of tomato is not possible for longer duration hence the govt should promote processing of tomatoes into purée and juice. For that to happen, the GST must be reduced from 12% to 5%
- In order to promote the consumption of processed TOPs (purée, juice, onion powder etc), govt should conduct ad campaigns, promotions in association with the industry organisations
- While India exports 10 to 12% of onion either fresh or in dehydrated form, it exports less than 1% of potatoes and tomatoes. Govt should set a time bound targets for promoting proceed TOPs
- Direct buying from FPOs (Farmer Producer Organisations) must be promoted. This would simply bypass the mandi system
- TOP cooperatives and retail outlets like Safal in case of onion must be set up across the country (with over 400 Safal outlets in Delhi-NCR region, they were selling onion at a price of ₹ 25 per kg when the retail prices were hovering between ₹ 50 to 60 per kg)

2. A tax policy that could work (TH 14/10/19)

- Govt missed the tax revenue targets for the last year largely because of lower GST collections. This year to meet the budgeted tax receipts, the receipts have to increase by 25% compared to last year but so far in the first quarter the collections have increased only by 6%. Added to this govt has announced reduction in corporate tax rate to 25%. So in totality there could be a large shortfall in the tax revenue collections
- In order to increase tax revenues govt may take measures to ensure that multinational companies will pay their fair share of taxes
- MNCs have been using various practices such as transfer pricing practice described as Base Erosion and Profit Shifting (BEPS) to avoid taxation. As per IMF, annually countries lose $500 bn because of this
- In order to address such practices by MNCs leading to revenue losses for the countries, the recommendation is that MNCs must be treated as one entity for taxation purpose and a common tax rate accepted globally must be imposed on this, such taxes collected must be apportioned amongst the countries based on a formula based on employment, sales, users etc

3. Reforms in the power sector (LM 15/10/19)

- India has made many improvements in the power sector in the last fifteen years. Today it is the third largest producer and consumer of electricity
    - It has an installed capacity of over 350 GW and this has been growing annually by over 11% in the last 10 years even outpacing the GDP growth rate
    - The electricity generation has been growing by 6 to 7% annually over the last 10 years
    - The sources have been diversified with coal and thermal accounting for about 66%, nuclear 2%, renewables 13% and hydro accounting for about 19% of installed capacity
    - The renewable component has been growing rapidly in the last couple of years and the govt has set a target of having renewable installed capacity of 175 GW by 2022
- Although the govt is taking measures to address the slowdown affecting the economy, one area that requires more attention is the power sector
- Electricity is a key to fulfilling the growth objectives of the economy. It fuels industrial activity, agriculture and also consumer demand

- Power sector has three segments - generation, transmission and distribution. All of these along with electricity trading are regulated under the Electricity Act 2003. This is a landmark act as it brought competition in generation (electricity generation was delicensed) and distribution of electricity (private sector was allowed to participate in urban and rural areas)
- Issues
    - Although we have sufficient amount of electricity produced, it is not available in all the regions at all times i.e. there is a problem of power deficit
    - In addition to this the PLF (Plant Load Factor) for the thermal power plants has been declining. This is because of factors such as
        - Non-availability of fuel
        - Surplus capacity
        - Inadequate demand in certain geographical pockets
        - Competition from other power sources
    - In case of transmission, growth in capacity and investments have fallen short
    - In case of distribution, the discoms (mostly owned by the states) have fallen into distress and owe heavily to the banks (UDAY - Ujjwala Discoms Assurance Yojana - has been a mixed success)
- Reforms needed
    - Balancing the power sources to overcome the variability of renewable electricity supply
    - There is a need of investing in the transmission sector
    - Distribution sector needs reforms to address the financial stress
    - The State Electricity Regulatory Commission (SERC) has to revise the tariff upwards
    - Govt should look into providing subsidies through direct benefit transfer (like LPG). This would eliminate distortions

4. Why farmers don't like Direct Cash Transfers - DCT (IE 17/10/19)

- As per a survey conducted by NITI Aayog, 76.5% of the farmers prefer the new Direct Benefit Transfer system to provide subsidies for the fertilisers
- Under DBT, the manufacturers of fertilisers will be paid the subsidy only when the retail sales take place. This has replaced earlier system wherein the producers were paid the subsidy as soon as the fertiliser reached the godowns. Under the new system the diversion will be cut off, the end buyer can be identified, the overcharging done by the retailers can be avoided
- Around 18.7% of the farmers who preferred the earlier system cited the problems related to fingerprint mismatch, longer transaction or waiting time, server connectivity issues as their reasons to oppose the DBT
- Under the new say stem the farmer has to buy the subsidised fertiliser by providing his/her Aadhaar, Kisan Credit Card number of voter identification number. Once the transaction happens, this will be stored in the central server of Dept of Fertiliser
- On the other hand, just over a third of farmers preferred DCT (Direct Cash Transfers). Under this the farmer would be purchasing fertiliser at market cost and the subsidy would be transferred into his bank account. Around two thirds of the farmers preferred DBT over DCT as they believed that paying the amount upfront will lead to additional costs and the problem will be compounded if there is a delay in transferring the subsidy (which they have experienced in case of LPG subsidy). In certain cases, it may also push the farmer to borrow from the informal sector

5. Centre may retain the MEIS scheme till the end of fiscal (BL 22/10/19)

- With the exports not doing well in the recent months, centre is thinking of continuing and extending the benefits under the MEIS (Merchandise Exports from India Scheme - under this incentive in the range of 2 to 5% are given to exporters based on the products and to which countries they are being exported; the benefits under this scheme are provided in the form of transferable duty credit scrips)
- Govt earlier had proposed withdrawal of this scheme by the end of 2019, now want to extend it till the end of this fiscal
- Govt has proposed to replace MEIS with RoDTEP (Remission of Duties or Taxes on Export Product - rates or incentives are yet to be fixed) scheme. This scheme is yet to get the cabinet approval and has not been received well by the exporters as they fear that incentives under the new scheme will be lesser than the MEIS
- The issue with MEIS is that it is not compliant with the WTO rules (India's per capita Gross National Product has crossed the limit of $1000 per annum)