Economy This Week (7th Aug to 13th Aug 2021)

Economy is an important part of the UPSC prelims and mains exams; this series titled 'Economy This Week' has been initiated to address the need to read and analyse economic articles in various business-related newspapers. The round-up of the Economy/Business section news for 7th Aug to 13th Aug 2021 is given below. Business news is essential for IAS exam preparation.

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1. Future Retail Vs Amazon case - SC verdict (LM 7/8/21)

- SC has upheld the October 25 interim award of the Emergency Arbitrator under the Arbitration Rules of the Singapore International Arbitration Centre (SIAC).
- The emergency award restrained FRL from going ahead with the deal.
- The single judge bench of HC had upheld the order which was overturned by the Delhi HC division. The order of the SIAC again has been upheld by SC.
- Amazon has objected to this deal as it has an agreement with the Future Coupons.

2. Interest equalisation scheme to be extended for longer period (BL 9/8/21)

- About Interest Equalisation Scheme (IES):
    - Introduced on 1st April 2015 for five years as a part of FTP 2015-20.
    - Under this, pre- and post-shipment export credit is provided ranging between 3 to 5%.
    - The differential rate is reimbursed to the banks by the government.
    - All exports from MSMEs and an additional 416 items identified will be covered under this.

- With the pandemic, govt extended the FTP also with this scheme. In the current fiscal, this scheme was extended twice for three months each and this creates uncertainty in the minds of the exporters and if the scheme is applied/extended for a longer period, this would bring in certainty for the exporters which will help them in pricing their exports.

3. PMO to DoT - make a plan for revival of telecom sector (FE 9/8/21)

- Govt has started work on the revival of the telecom sector, which would help in addressing the long-pending structural issues.
- The PMO has asked the Department of Telecommunications (DoT) to prepare a blueprint of the package for inter-ministerial discussions. It may include:
    - Reducing the revenue share license fee to 6% of AGR from the current level of 8%.
    - This would be done by reducing the Universal Service Obligation Fund (USOF) of 5% by 2%.
    - The reduction in license fee by 2% would provide relief to the tune of ₹ 3000 Cr annually to the operators.
    - Govt in terms of past AGR is not in a position to do anything as SC has ruled on it but will look into future calculations of AGR in terms of what revenues may or may not be included in the calculation of AGR.
    - The operators are to provide bank guarantees to DoT for their AGR and deferred spectrum instalments. This is a burden for those whose finances are weak now. This would be done away with.
    - The moratorium on deferred spectrum instalments would be extended. Govt has already deferred it by two years - for FY21 and FY22. The earlier extension has provided a cash relief of ₹ 42000 Cr for the operators.

4. Is the dream of running private trains going off the track (BL 9/8/21)

- Govt with objectives of -
    - Inducting new technology
    - Reduced maintenance
    - Improved travel time
    - Enhanced safety
    - World-class travel experience
    - Launched an ambitious plan to privatise -
        - 5% of mail/express trains
        - 109 OD (Origin-Destination) pairs in 12 clusters

        - Through these measures, it aimed to facilitate the private investment of approximately ₹ 30000 Cr
    - This PPP introduction was a good move considering the performance and financial issues of the Railways.
        - The Operating Ratio is just below 100
        - Its working expenses by gross earnings is a dismal 125%
    - Under this model, it
        - Proposed a concession period of 35 years with the PTO (Passenger Train Operator)
        - PTO would induct a new train, pay haulage charges (for using the readymade infrastructure), share revenues with the railways (as per the bid)
        - PTO on the other hand has to ensure
            - 95% punctuality
            - Reliability and superior world-class onboard services like cleanliness and catering
        - Win-win-win
            - Railways would be earning revenues without any new investment
            - PTOs would make profits
            - Passengers would reap the benefits of world-class travel experience, safety, punctuality, etc
        - Issues
            - Progress under this has been very slow - bids have been received so far for 3 clusters
                - In one cluster only IRCTC has placed the bid
                - In two more IRCTC and another player have placed the bids (but with a meagre revenue share of 1%)
            - IRCTC is set to win all three bids but this in no way will be PPP as the company is owned by the government (because of these three bids, railways expects investment of ₹ 7200 Cr)
            - Since the announcement of the plan by the ministry, prospective bidders have been asking for more time for making the bids. The request for extending the closing date was not accepted.
                - For economies of scale operations, the bidders will have to bid for at least three circles
                - They will have to hold negotiations with the coach manufacturers
                - Railways will not be taking any risk here but the PTOs would be taking all the operational and investment risks, hence they should have been given the appropriate time to place the bids

5. New licensing regime for UCBs in pipeline (BS 9/8/21)

- It's been over 17 years since RBI stopped issuing UCB licenses and it is considering issuing licenses again. In addition to this, there is also a rethink on constituting a Board of Management (BoM) for UCBs (urban co-operative banks).
- The number of UCBs has come down from 1926 in 2003-04 to 1539 as of now.
- These will form part of a comprehensive review of regulations and also plot the path for UCBs in the newly formed Ministry of Cooperation (is expected to refresh the National Co-operative Development Policy - 2002).
- The expert committee on Primary (urban) cooperative banks headed by N S Vishwanathan is to submit the report within a fortnight.
    - Mandate of the committee: Review the measures taken by RBI and other authorities for UCBs and assess their impact over the past 5 years to identify key constraints and enablers in the fulfilment of their socio-economic objectives and also review the current regulatory and supervisory approach.

6. ₹ 11000 Cr for self-sufficiency in edible oil production (TH 10/8/21)

- Govt has announced a ₹ 11000 Cr scheme - National Mission on Edible Oil - Oil Palm (NMEO-OP) to promote self-sufficiency in edible oil production.
    - Earlier the govt had launched National Mission on Oilseeds and Oil Palm and later merged it with the National Food Security Mission.
    - The oilseed production has increased by 35% from 27.5 mn tn in 2014-15 to 37.3 mn tn by 2020-21.
- The dependency on oil imports has increased and it has driven the retail oil prices to a new high. The share of imported oil is more than 55%.
- The scheme will be implemented over a period of five years.
- Govt has identified northeastern states, Andaman and Nicobar Islands as the prime locations for oil palm cultivation.
- Govt has noted that the NMEO proposal would aim at reducing the import dependence from 60% to 45% by 2024-25, by increasing the domestic oil production from 10.5 mn tn to 18 mn tn (70% growth target).

7. SFBs mull transitioning to universal banks (BL 11/8/21)

- Many Small Finance Banks (SFBs - 10 in number) which are functioning in India may transition to universal banks from differentiated banks.

- This is expected to take place as a natural progression.
- In many of these, the capital is over ₹ 500 Cr and have a working experience of over 5 years, thereby meeting the requirements to transition to universal banks.
- Another reason for this transition is that many of the UCBs, microfinance institutions are looking to become SFBs thereby crowding the market.
- Requirements:
    - PSL requirement is 75% of their Adjusted Net Bank Credit (ANBC) - it is 40% for universal banks.
    - Capital Adequacy Ratio (CAR) is 15% - it is 9% for universal banks.
- Moreover, transitioning to universal banks will also help them provide more services.

8. Buying foreign stocks to get easier for Indians (ET 11/8/21)

- NSE and BSE are creating a special platform at IFSC (International Financial Service Centre) in GIFT City through which Indians can invest in foreign shares.
- This will allow resident investors to invest in US shares under Liberalised Remittances Scheme (LRS).
- It will allow the resident investors to hold securities through depository receipts (an instrument that represents a foreign company's publicly traded securities) in their own demat account at the IFSC centre.
- Currently, many Indian brokers have a tie-up with US-based brokerages to allow Indians to buy foreign shares. These US brokerage firms make purchases and hold the shares but charge $2 to $3 per transaction. Indian investors have been increasingly investing in US stocks such as IPOs for Robinhood, Coinbase, Doordash, etc.
- To begin with, the top 50 US stocks will be made available and eventually increase it to 200 to 300 companies.
- Why is this an attractive proposition?
    - The absence of tax will be drawing the investors (IFSC is a tax-exempt jurisdiction, hence the levies such as capital gains and stamp duties are not applicable).
    - Not having to use US brokers for executing trades, which will save commissions.
    - The cost of trading through IFSC could be 60 to 70% lower.
    - Investors will be entitled to dividends, participation in bonus issues and voting rights (currently most of the shares bought do not provide these entitlements).

9. Solar - Expiry of safeguard duty (BS 11/8/21)

- Govt had earlier announced that the safeguard duties (SGD) had lapsed (in July 2021) and the Basic Customs Duty (BCD) will come into force from the next fiscal. This is expected to increase the problems for the Indian solar cell and module makers. This would be a blessing for the solar project developers.
- During the next months -
  - There would be a rise in imports of these modules
  - The solar tariffs are expected to come down by 15%
- India imports close to 90% of solar cells and modules and nearly 80% of this is from China. The prices/costs are cheaper by 10 to 20%.
- India has 3100 MW of cell manufacturing and 9000 MW of module manufacturing capacity and the installed capacity in solar stands at 39.08 GW.
- In the last three years, there have been multiple changes in the duty regime which has led to uncertainty over project development.
- Govt has also initiated an anti-dumping investigation against imports from China, Vietnam and Taiwan.
- During the SGD period, the imports have gone up by 85% and now for the next nine-month duty-free period, it is expected to hit 95%.

10. Govt launches Ujjwala 2.0 scheme (TH 11/8/21)

- Ujjwala Scheme was launched in 2016.
- Under Ujjwala 2.0 (Pradhan Mantri Ujjwala Yojana) the migrant workers need not struggle to get address proof documents to get the gas connection.
- They would rather be providing a self-declaration of their residential address.