

**RationalExpectations**

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# Trai is the judge, & Trai is the jury!

Even apex telecom body couldn't overrule Trai's ill-conceived ₹3,050cr-penalty suggestion, had to send it back for review

**AN UNFORTUNATE CONSEQUENCE** of a system where even legitimate decisions are looked at suspiciously is that even a body like telecom's Digital Communications Commission—among others, DCC members are the telecom, industry and finance secretaries and the CEO of NITI Aayog—couldn't overrule Trai's ill-conceived recommendation of a ₹3,050 crore penalty on Airtel, Vodafone and Idea, and, instead, just sent it back to Trai for review; it okayed the penalty but asked Trai to relook the amount as ₹3,050 crore is the highest possible penalty. But without any firm direction from DCC, it is not clear if Trai will change its mind. So, while the government has to be focussed on trying to resuscitate an industry that it—and Trai—have driven to the ground, precious time will be wasted dealing with this. Indeed, given Trai's track record of imprudent decisions—and second thoughts—and being pulled up by various bodies including the TDSAT, the Supreme Court, and even DCC, it is unfortunate that DCC has had to put its faith in Trai taking the right decision this time around.

The current case pertains to Rjio asking Airtel etc for Points of Interconnection (Pol)s in June 2016 to enable its subscribers to talk to those on Airtel etc's networks. Though a limited number of Pols are provided during the testing phase—Rjio had not, till then, announced a launch date—Rjio asked Airtel for 5,246 Pols. Under the rules, these had to be provided within 90 days of Rjio making a payment and four weeks were allowed for the bill to be raised and the payment to be made. Since Rjio's PoI demand was far greater than that given during testing and even relative to what other incumbents had—Airtel had given Vodafone 22,645 Pols for its 200+ million subscribers—the incumbent telcos questioned why so many Pols were needed. It didn't help that, in the test phase itself, Rjio offered free services and got millions of subscribers.

All these issues—including those of fair play and predatory pricing—were raised before the government since there was no clarity on them; no telco had ever wanted so many Pols so fast, no telco had offered free services and got millions of subscribers... even so, the telcos reported that they provided Rjio the Pols within the stipulated time, even if kicking and screaming. As telecom regulator, Trai was aware of all these issues, but it still decided to recommend the highest penalty of ₹50 crore per telecom circle be levied on Airtel etc since, due to their alleged delays in providing Pols, Rjio's network was congested.

While not giving Pols stifles competition—if Rjio didn't get enough Pols, its service would never have taken off—it is worrying that neither the government nor Trai provided clarity on the issues raised and, more important, while the Quality of Service rules mandate congestion be measured over 90 days, Trai took data for just one or two days to make its recommendation. Ironically, it later started a consultation on whether 90 days for providing Pols was too long; if it was settled law, why have a consultation?

Indeed, when the matter was in the Bombay High Court—Rjio petitioned the Competition Commission of India and alleged cartelisation by Airtel, Vodafone and Idea as it was not getting the Pols it wanted—the court also commented on there being “no such clear terms and obligations provided and/or crystallized at any earlier point of time”. Indeed, it is because Trai took such an extreme stance that over two-and-a-half years, the DCC never acted upon this; indeed, an internal ministry panel ruled against the fine.

Though the government was impressed enough with Trai to give its chairman an extension—no regulators are, by law, given an extension as this is seen as an attempt to influence them—this is not the first time Trai has got it horribly wrong. When Trai continued to recommend higher and higher reserve prices for spectrum—as a result of which so many auctions failed—DCC asked Trai to explain how it reached the conclusions it had on spectrum pricing, but Trai refused to do so.

At another point, Trai suggested large penalties on telcos for call drops and, a month later, it issued a technical paper that explained why telcos weren't entirely responsible for the call drops! When SC ruled on this, it said “a legislatively pre-determined penalty, without fault or loss being established... (is) manifestly arbitrary and unreasonable”; it went on to say “(Trai) must respond in a reasoned manner to (comments) that raise significant problems, to explain how the agency resolved any significant problems raised by the comments, and to show how that resolution led the agency to the ultimate rule... including a rational connection between the facts it found and the choices it made”.

And when Trai was examining the issue of predatory pricing, it said a telco must have a market share of at least 30% to be even investigated for predatory-pricing. While ruling on this, TDSAT said Trai's definition of significant market power (SMP) showed “a degree of pre-determination to dilute the entire concept of SMP”, it was “arbitrary without any deliberation and effective consultation”, that it was “not backed by any intelligible and objective criterion nor any convincing reason” and so was “an extreme step and unnecessary abdication of its regulatory powers by TRAI”. TDSAT went on to add that the Trai's ruling provided “artificial protection to a TSP (telecom service provider) who may have the capability and intent to destabilise the sector through predatory-pricing”.

Given this history, DCC needs to ponder over what it will do if Trai doesn't reduce its penalty recommendations dramatically. It is obvious that telcos like Airtel and Vodafone-Idea will take the matter to court, and that the Supreme Court will finally decide the issue, but if the government hopes to revive investments, it needs to take some firm decisions, not leave everything to be decided by the courts, especially since there is no saying how long this will take.

## WeakDOSE

BPPI finding 25 batches of drugs entering the Jan Aushadhi system to be substandard points regulatory failure

**THE BUREAU OF** Pharma PSUs of India (BPPI) has found 25 batches of drugs by 18 pharmaceutical manufacturing companies, supplied to Jan Aushadhi outlets from January 2018, to be substandard. The Jan Aushadhi scheme aims to make generic drugs affordable to the poor. While BPPI has promised strict action against the companies—after banning the sale of the respective batches to black-listing them, one of the 18 is a PSU. A state-owned company being counted as an offender, along with the fact that there have been 18 recalls in the past two years, points at a larger problem—the country is unable to enforce strict quality control and drug standards regulation. Holes in the Central Drugs Standard Control Organisation net and lack of deterrence from BPPI's quality control let spurious, substandard drugs hit the market, with no accountability for failures in the processes of procurement under Jan Aushadhi.

Drug stability requirements vis-à-vis wide availability of cheap generics must be addressed. In India, the stability test is mandatory only for “new drugs”—after four years of the drug's existence in the market, it is not required. In 2017, Drug Controller General of India had issued an order whereby manufacturing companies were ‘advised’ to submit their stability testing. Stability testing is one of the most important aspects of quality testing and it is indeed shocking that the highest drug regulatory authority of the country is not seeking to make it mandatory.

**A SASEVERE** heatwave continues in Bihar, Section 144 of the penal code (curfew) has been imposed in Gaya to keep people indoors. Section 144 is invoked to deal with lawlessness, but the risk posed by the heatwave is so high that the Gaya's district magistrate has used this penal provision to ban all construction activities, manual labour, and public programmes in open spaces from 11 a.m. to 4 p.m. At the same time, the state government has ordered the closure of government schools till 22nd June. So far, more than 180 people have reportedly died because of the heatwave in the Magadh region of Bihar.

Bihar alone is not suffering because of searing temperatures. Over the past month, parts of Uttar Pradesh, West Bengal, Jharkhand, Odisha, Andhra Pradesh, Rajasthan, Punjab, Telangana, and Maharashtra have witnessed record temperatures. On 10th June, Delhi recorded an all-time-high temperature of 48 degrees Celsius (°C), while Churu in Rajasthan registered 50.8°C—the highest maximum temperature ever recorded in India. If the heatwave continues for a few more days, 2019 will become the year with the longest spell of heatwaves on record. The question is: is this a one-off year, or is there a trend?

A heatwave is defined as a period of abnormally high temperatures. Many studies have established that the frequency and intensity of heatwaves in India are rising. A study by Vimal Mishra and others published in 2017 in Environmental Research Letters shows that there has been a substantial increase in the frequency of heatwaves from 1951 to 2015. It also shows that the five most severe heatwaves out of the top ten happened after 1990. Another study, also published in 2017 in Science Advances by Omid Mazdiyasn of the University of California and his colleagues, shows that

### ● THE REAL MAINSTREAM

HEATWAVES WILL BECOME MORE FREQUENT AND INTENSE DUE TO GLOBAL WARMING. WE MUST PREPARE TO DEAL WITH THIS LOOMING CRISIS

# Declare heatwave a natural disaster

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*Views are personal*



the number, duration, and intensity of heatwave events have all increased over most of India from 1985 to 2009 relative to 1960 to '84.

Deaths due to heatwaves are also showing an increasing trend. According to the National Disaster Management Authority (NDMA), between 1992 and 2016, heatwave caused 25,716 deaths, with maximum deaths in 1998 (more than 3,000) and 2015 (about 2,500). But these numbers are highly unreliable because only deaths due to 'heat stroke' and 'heat exhaustion' were recorded; overheating can lead to organ failure, stroke, cardiac arrest, etc., which are seldom linked and recorded as heatwave deaths. Still, heatwaves are the third biggest natural cause of death in the country. And this number is likely to increase significantly due to global warming.

There is now a large body of research that shows that global warming has a significant role to play in heatwaves. Scientists from the Indian Institute of Tropical Meteorology (IITM) have recently published a paper in which they examined nine climate models to understand how the frequency, intensity, and duration of heatwaves in India would increase. They found that the frequency of heatwaves and their duration in India may begin to increase from as early as 2020, and this will keep increasing as global temperatures increase further. Vimal Mishra's projections suggest that the frequency of severe heatwaves in India will increase thirtyfold by 2100 if

the global temperature increases by 2°C compared to the pre-industrial era. Omid Mazdiyasn's projections indicate that even a moderate increase in temperature will lead to a significant increase in the number of deaths in India, especially of those living in poverty. So, all the projections point to the fact that heatwaves will become a massive natural disaster in the coming years.

Are we prepared to deal with this imminent crisis?

Some cities and state governments have taken the initiative to develop Heat Action Plans (HAPs). Ahmedabad was the first city to develop a HAP in 2013 to improve public awareness, identify high-risk communities, issue heatwave alerts, and promote inter-agency coordination. Presently, about 30 cities in 11 states have adopted similar HAPs. State-wide HAPs have also been developed by Tamil Nadu and Odisha. But the efforts of the central government remain woefully inadequate.

The Government of India doesn't currently recognise heatwave as a natural disaster under the National Disaster Management Act, 2005. Heatwave, therefore, is not eligible for support under National or State Disaster Response Funds. Hence, there are not enough resources to build resilience against heatwaves. But it is time that the

Central government recognises the looming danger and notifies heatwave as a natural disaster. A mere notification, however, will not be sufficient. The central government will have to put resources and help cities and states prepare for the heatwave emergency by developing and implementing Heat Code and HAPs.

NDMA now has a guideline for preparing HAPs. This is a good beginning and should be used as a base document to develop HAPs for cities and states. But, we need a Heat Code. The Heat Code should clearly define the heatwave emergency based on temperature and humidity factors. Currently, the IMD definition of a heatwave is based only on temperature, which most scientists believe is insufficient to capture heat stress. The

Heat Code should also define the Standard Operating Procedure to be activated during intense heat, like restrictions on working hours and provisions for relief at public places and hospitals. Similarly, the district administration should not be using Section 144 to deal with natural calamities. Provision should be built under the

National Disaster Management Act, 2005 to declare an emergency and stop outdoor activities during severe conditions.

In 2018, global CO2 emissions reached a record level of over 37 billion tonnes. The growth in emissions was also the highest in the last seven years. So, there is no indication that global emissions will plateau and start reducing quickly. This means that intense heatwaves will soon become a part of our lives and we must do everything to save lives and livelihoods. This is a climate emergency and we must treat it as such.

### LETTERS TO THE EDITOR

#### Electronic vehicles

While larger allocation of funds to expedite the launch of E-Vehicles remains a priority, it is the lacking infrastructure, low number of charging-points and a high purchase-price—that has hitherto impeded the implementation of the concept. Keeping in view the rising levels of PM2.5 and PM10 levels in Tier1/Tier2 cities, it may not be a bad idea to mandate the use of e-vehicles in near future. Authorities are continually improving the policy-framework to attain standardisation by, uniformly promoting e-mobility. Tax-exemption on initial capital-expenses is equally important to incentivise the manufacturers as well as buyers of electric vehicles, in order to establish a viable/workable means of transport and reduce cost of oil-imports, across a large geography. While a lower customs-duty/GST rate on components can encourage the large-scale production of e-vehicles, a differential registration-rate and exemption from road tax/parking charges can motivate the consumers. Initiatives to develop e-highways, offer charging stations in residential/commercial spaces, improve existing facilities, develop on-spot metering and payment services; ought to be executed as a large-scale project and accomplished at the earliest. Fluctuating oil prices and turbulent global-cues, demand that application of alternative fuels be explored diligently, to attain operational viability in the longer-run. Electric vehicles promise low-noise, zero hydro-carbon emission and minimal maintenance-costs. However, challenges in integration of advanced equipments/accessories, limited seating-capacity, inherent design for short-distance travel, questionable safety at high-speed and a high battery-replacement cost - call for continued efforts towards R&D and innovation.

—Girish Lalwani, New Delhi

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# Why isn't Trump a real populist?

The simple fact is that Trump isn't a populist, unless we redefine populism as nothing but a synonym for racism

**PAUL KRUGMAN**

NYT



rich, himself included.

Since taking office, however, he has relentlessly favoured the wealthy over members of the working class, whatever their skin colour. His only major legislative success, the 2017 tax cut, was a huge break for corporations and business owners; the handful of crumbs thrown at ordinary families was so small that most people believe they got nothing at all.

At the same time, he keeps trying to destroy key provisions of Obamacare—protection for pre-existing conditions, premium subsidies and the expansion of Medicaid—even though these provisions are highly popular and have been of enormous benefit to states like Kentucky and West Virginia that favoured him by huge margins.

As if to symbolise who he's really working for, on Wednesday Trump will give a Presidential Medal of Freedom to Art Laffer, best known for insisting that tax cuts for the wealthy pay for themselves. This is a classic zombie idea, one that has been repeatedly killed by evidence, but keeps shambling along, eating our brains, basically because it's in plutocrats' interest to keep the idea in circulation.

And here's the thing: White working-class voters seem to have noticed that Trump isn't working for them. A new *Fox News* poll finds that only 5% of whites without a college degree believe that Trump's economic policies benefit “people like me,” compared with 45% who believe that the benefits go to “people with more money.”

Trump may believe that he can make up for his pro-plutocrat tax and health policies with tariffs, his one significant deviation from G.O.P. orthodoxy. But despite Trump's insistence that foreign-

ers will pay the tariffs, an overwhelming majority of non-college whites believe that they will end up paying more for the things they buy.

Oh, and remember Trump's promises to bring back coal? His own Energy Department projects that coal production next year will be 17% lower than in 2017.

Now, this doesn't mean that there will necessarily be large-scale defections on the part of Trump's beloved “poorly educated.” On the other hand, health care—where his betrayal of past promises was especially obvious—seems to have played a big role in Democrats' midterm victory. And he is certainly more vulnerable than he would be if he engaged in even a smidgen of actual populism. Why won't he?

Part of the answer may be personal: Trump's whole career shows him to be the kind of man who, if anything, takes pleasure in taking advantage of people who

trusted him.

Beyond that, however, for all the talk about how “it's Trump's party now,” he still needs the support of the G.O.P.'s big-money interests. For now, the party establishment is happy to provide cover for the administration's corruption, closeness to Putin, and all that.

But that could change. If Trump ever did anything that might hurt the rich or help the poor, many Republicans might suddenly discover that self-dealing and accepting help from hostile foreign powers are actually bad.

Whatever the reasons, the simple fact is that Trump isn't a populist, unless we redefine populism as nothing but a synonym for racism. At least some in the white working class seem to have realised that he's not on their side. And Democrats would be foolish not to make the most of this opening.





ILLUSTRATION: ROHNNIT PHORE

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● CALCULATING GDP

# Is the CSO's the right approach?

While we may have to take a harder look at the calculations and proxies being used, deviating from the approach being pursued is definitely not called for. The CSO, on its part, will have to continue working on ways to make the data more robust

**ARE OUR GDP GROWTH NUMBERS** right? One is not sure, for certain, because the 6.8% number for FY19 does not seem to rhyme with other indicators such as industrial growth or exports even the state of the banking sector, employment and so on. In fact, the growth number of 8.2% in GDP in 2016-17 when the economy came to a standstill for five months is still hard to reconcile. But the methodology of global standard and hence there can be no debate on the approach used by the Central Statistics Office (CSO).

Now the latest controversy has been raised by the former Chief Economic Advisor's academic paper, which shows that growth has been overstated in the last few years, starting 2011-12, by 2.5 percentage points. Academic papers have their own charm, as in economics, and once the assumptions are stated and the models run, there is nothing amiss if all the tests are performed and are shown to work. But that is academia, which has an important position on the library shelf or the hard disk.

Can the GDP of any country be calculated based on a set of variables, which

here are around 17? The curious part of this set, which has been used, is that almost all of them are already a part of the GDP calculation. Also, a statement made that the variables chosen have the advantage of not coming from the CSO is curious because the IIP growth numbers for manufacturing and industry are actually brought out by the CSO!

While this approach has been validated across countries, it is not pursued anywhere. No country uses regression models while calculating GDP growth, as it would be too facile an approach, fraught with dangers of oversimplification. This is relevant even more for India where there is a large unorganised sector and data is opaque, which requires the use of proxies for better representation.

In short, the methodology used is that a set of variables are used to see how the economy grew in the past, which validated the GDP growth numbers. This includes auto sales, power consumption, IIP, petroleum consumption, cement, steel, overall real credit, real credit to industry, exports of goods and services, etc. There are a host of jargon and complicated equations and sophisticated diagrams that are presented to prove the final GDP growth numbers. The approach shows that post 2011-12 these variables showed growth, which was around 2.5% lower than CSO's estimates, but which was not the case when other countries were tested.

The ultimate justification for this thought is that other problems in the economy, which are in the form of unemployment or banking, are well-aligned with the new number and not 7% growth that we have been speaking of. As a corollary, all the policies that have been pursued so far were incorrect because these went on the basis of wrong numbers of GDP, which is serious as results would have been different if RBI had cut interest rates sharply at a time when it was increasing the repo rate. Therefore, there is a need to kick-start the economy today.

The methodology can be examined a bit closely. The 17 variables chosen are all from the organised sector and leave out the unorganised, which is 40-50% of the

economy. There is no mention of agriculture in the model, which makes it weak as 60% of the workforce in the country resides in this segment. The government is not a part and taxes are excluded as they are not reliable. Such a model is bound to be questioned on the assumptions made. Also, if it were so easy to arrive at the GDP number based on these independent data series, it would be a plain desk job that would not involve any surveys or ground studies. This is not convincing, more so because it appears that the 17 variables that have been pulled out from the existing GDP are used separately to reckon GDP as they were well-correlated during the earlier time period.

The exercise would have normally not gone beyond academic discussions because there have been other experts who have put forward their versions of GDP growth in the demonetisation year, which was negative. Yet it has not made the headlines. The fact that the current revelation comes from an ex-CEA stands out as he was from the establishment. All through those years, the Economic Survey, which was authored by him, made the point that India was in a sweet spot, with a touch of hubris. This could not have been said unless there was conviction that growth was blooming everywhere. The fact that the new exercise shows that the economy was abysmal is a turnaround. The audience would ask: Which version was right? Also, the former CEA had defended demonetisation when it was on, but took a different view when out of the government. This raises a broader issue at the government level, because an ex-employee speaking differently once out of the system questions several foundations of the regime.

The issue of credibility, hence, comes in. There has already been a storm over the GDP series, both the back series as well as the revised numbers, as it became a tool for political gamesmanship. With the former CEA now adding a new dimension, data from the government would tend to be questioned. The situation is not very different from, say, a CMD of a bank saying after retirement that all the loans that turned NPAs were given based

on impressionistic views and not a formal credit score! The government should probably really consider having confidentiality-like clause in place, which prevents those occupying 'systemically important positions' from talking on related subjects post tenure as there is a reputation issue involved.

Also, academic institutes that sponsor such research should be discreet when allowing for such paper releases, given the background of the scholars, as this can also question the reputation of the concerned institute. The processes are surely rigorous, with peer review being mandatory, but when the results potentially can be controversial and struck down as being incorrect, serious questions can be posed on the release of such research.

Should we be concerned that we pursued incorrect policies in the last seven years? The answer is 'no', as the ex-CEA's views are a personal academic venture, which need not be accepted howsoever dramatic the results may be. The conclusion would not have been alluring but for the fact that the release of GDP series of the CSO has been fraught with controversy for different reasons. While we may definitely have to take a harder look at the calculations and proxies being used, deviating from the approach being pursued is definitely not called for. The CSO will have to continue working on ways to make the data more robust, but a change of approach is definitely not on.

Should we really be concerned that we pursued incorrect policies in the last seven years? The answer is a 'no'—as ex-Chief Economic Advisor's views are a personal academic venture

# Going cashless is some time away

AJAY SAGAR

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India's payments system, though changing, remains cash- and bank-dominated

**N**EW TECHNOLOGIES IN payments, diversification, disruptive forces and regulatory challenges are reshaping the monetary system. The Bank for International Settlements defines monetary system as money plus money transfer mechanisms for payments. Payment and lending-related fintech options are overtaking banks traditionally involved in this sector. Countries have individual payments systems—wholesale or retail, offshore or onshore, single, dual or multiple currency payments, non-bank players, fintech, etc. Cross-country variations exist in the state of payments infrastructure. Fintech options are crowding the market, forcing some players to rethink strategies or face closure. Mobile wallets introduced a few years ago have taken retreat.

So, which global standard-setting body will define common regulations for payments systems? There lacks a consensus, and a global standard-setter is required. Actions are under way to regulate monetary systems and a committee on payments has been formed under the aegis of BIS. Recognising vulnerability, some countries have introduced payments legislations, licensing rules, customer awareness campaigns and central counterparties. Countries are looking at introducing digital currencies. Sweden is likely to be the first to adopt a central bank-issued digital currency. Its legislation allows refusal to accept cash by sellers. Marshall Islands (population 55,000) has passed a legislation to introduce digital currency, though global agencies have expressed concern for adverse spillovers on monetary policy, credit delivery and usage for illegal activities.

A country's monetary system is driven by the sheer size of its payments volume to annual GDP and its nature of commerce. As per BIS, Japan ranks the first on the value of payments times its GDP, followed by the US. In 2017, India's payments volume was 500 times its GDP, versus Japan's at 7,500 and the US's over 5,000 times their respective GDP. High volume of digital payments indicates low corruption and high tax compliance. But even advanced economies face lower fintech penetration for retail payments, with cash and cheques still calling the shots. Overseas payments are not real-time, face excessive costs and arbitrary exchange rates.

Cross-border retail payments are slow, costly, risky, complex. Settlement in hard currency (dollar, euro, yen, pound) in emerging markets takes a few days to a month. Anxiety is evident amongst parties until money reaches destination. Developments are needed to facilitate cross-border payments mechanisms and fintech has a role to play here. A recent development by RBI allowing for FX trade by retail customers at near interbank rates on CIL's platform is a welcome step. In the absence of viable alternatives, informal and *hawala* channels continue to flourish.

India's payments and settlement system, though changing, remains cash- and bank-dominated. Recent RBI data show India at 21st position globally in the use of cheques. RBI's proposal to not levy any charge on NEFT and RTGS transactions is a welcome step. RBI reported a non-cash payments volume of over \$3.698 trillion for January 2019. Demonetisation, GST, online bill payments, mobile payments, RuPay cards have helped India build a share of digital payments. DBT has helped reduce corruption. But despite digitalisation, retail vendors remain wary of accepting card payments for cost and working capital considerations. RBI needs to be at the forefront in facilitating overseas payments and settlements as India is a net importer with a large foreign trade component. It will help reduce remittance costs, FX charges and the time taken for remittance. Significant amount of float funds could be released in the economy by improving overseas payments mechanism.

A monetary system error has a potential to have common regulations across jurisdictions, setting up of central clearing bodies, improved cross-border payments mechanisms, 24/7 instant payments, etc. IMF and ADB could play a role in building international cooperation for common macro-prudential regulations, grass-roots level awareness, and confidence building for going cashless. Payments intermediaries could strengthen board governance for building trust. While going cashless is still some distance away, it's not a distant dream. The journey could be shortened with active collaboration of all the stakeholders.

**THE GOVERNMENT RECENTLY NOTIFIED** the second phase of the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles in India (FAME-2) scheme (in effect from April 1 for three years). It envisages incentives for purchase of electric buses, PVs and three-wheelers (HEV), plug-in hybrids (PHEV) and battery electric vehicles (BEV). The contours of FAME-2 are influenced by the learnings from the pilot FAME-1 (April 1, 2015, to March 31 this year). So, stringent eligibility conditions relating to localisation as well as better vehicle performance specifications such as minimum top speed, range per charge, acceleration, energy efficiency of EVs, etc, have been included.

Many companies have raised concerns about eligibility conditions being too stiff and are demanding for their review, as also for allowing them time to conform to these criteria. Broadly, however, most scheme conditions are on expected lines. For instance, the precondition of subsidies in case of cars being provided only for commercial applications (taxi/fleet) and the insistence on localisation reflects political and economic realities. While there may be no problem for the government in levying lower GST of 12% and lower road taxes for all EVs, private or commercial, yet it is politically inconceivable

# A long haul ahead

FAME-2 needs consistent, sustained policy backup to succeed

SURAJIT MITRA

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to provide subsidies for purchase of cars to well-off citizens irrespective of environmental benefits. Similarly, as currently most EV parts are imported, a move towards electric mobility threatens to shift manufacturing and value-addition abroad. Hence, it is logical that unless the government takes corrective policy measures, the auto sector, which accounts for half of India's manufacturing GDP, may go the way of the electronics industry, where huge imports have become a big problem.

At the same time, policymakers cannot ignore the ground realities. While the growth outlook for auto sector is positive, the consumer acceptance of EVs in India remains challenging. Indian consumers demand highest performance levels at lowest prices, and Indian driving conditions are tough due to high temperatures, slow average speeds, etc. Also, local manufacturing of batteries and parts, which constitute the bulk of the cost in an EV, will need time and substantial investment.

While FAME-2 is important for supporting EV uptake, this push will only be for a limited time and volumes. Localisation will not take place merely by creating initial demand through FAME-2 or by stipulating stiff localisation timeline targets.

So, in addition to setting up charging infrastructure, we need policies for attracting investors to manufacture EV parts in the country. While supply-side incentives are essential, these alone will not be enough, because the break-even period for auto sector investments is long (8-10 years), and it involves high risk due to a volatile, uncertain, complex and ambiguous future scenario. Perhaps an effective policy intervention is to have a preferential taxation regime, both GST and road tax, for all EV technologies. Currently, only BEVs enjoy a significantly lower taxation as compared to petrol/diesel vehicles. This benefit should be extended to HEVs and PHEVs in proportion to the social benefit provided by way of reduction in fossil fuel consumption and carbon emissions. The most important gain from such a policy will be to ensure long-term sustained minimum volume demand for EV parts since all these technologies have common parts. This will help meet the prerequisite condition for investment viability and make localisation feasible. For this, the government must carry forward its technology-agnostic intent, as evident in FAME-2, by rationalising GST tax rates for HEVs and PHEVs. As a long-term policy, vehicle taxation must be based on fuel efficiency as measured by carbon emissions. This parameter simultaneously addresses all the priorities, besides being simple, measurable, transparent and outcome-based. Clearly, it's going to be a long haul for FAME-2, which needs consistent, sustained policy backup to succeed.

# MINING BAN

# Time is running out for Goa

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**IT'S BEEN MORE THAN A YEAR** SINCE mining in Goa came to an abrupt halt. It's not the first time the state witnessed disruption in mining activities. However, this time around, the situation is far more worrisome. The reason is that as Goans were still trying to wipe off the bad loans and financial crisis they faced due to mining closure during 2013-16, they were presented with this crisis in 2018.

On February 7, 2018, the Supreme Court ordered closure of all mining operation from March 15, 2018, onwards. This wasn't because of environmental concerns, but because of the technical reading of a new law, which didn't take into cognisance a two-decade-old case that would provide clarity. Nonetheless, the court decided to close mining activity, putting the livelihood of 25% of the population into a zone of uncertainty.

A year since, the Goan economy has eroded. The smallest barometer of financial robustness, i.e. the household saving of an average Goan family, has deteriorated. Our report (by the Forum for Integrated Development and Research, or FIDR) has noted that closure of iron ore mining in the state has led to 40% dip in income levels of Goans. The reason is that mining not only contributes to 30% of the

state's revenue, but the whole ecosystem is dependent on it. In fact, the mining industry had put Goans on a high pedestal of per capita income, and now they are not even eligible for the government's welfare schemes implemented on the basis of poverty or income deficit.

Referring to Mendes G, 2011 (Utkal University, Department of Economics), the FIDR in its white paper submitted to Goa CM highlights that "socio-economic status of households in mining regions is better as compared to that of its non-mining counterparts." Also, from an agrarian society of the past, "Goa has seen a shift to sectors like manufacturing and tourism."

The report notes that broader community provisions should have been driven over the years, and implemented by individual mining companies or associations, in a structured and collaborative manner. However, it cannot be denied that mining companies have worked in villages with a goal to discharge the responsibility of bringing in "positive impact through CSR interventions."

On the state's GDP, the report highlights that, for two consecutive years, Goa's GDP declined 20%, attributable to disruption in mining. Apart from job losses, there is a threat to increase of NPAs of banks as entities in the mining machinery, such as trucks, have lost their earning potential. This has put a burden on financial institutions.

The loss of livelihoods, if not reversed on a war-footing, would end up making a severe dent on the social fabric of the people of Goa.