

FRIDAY, AUGUST 23, 2019



TERROR IN AFGHANISTAN President of the US, Donald Trump

We wiped out the caliphate 100 per cent...Look, India is right there. They are not fighting it. We are fighting it. Pakistan is right next door. They are fighting it very little. Very, very little. It's not fair

RationalExpectations



Preventing cases like Chidambaram

His guilt has to be proved but the larger point is that corruption can only fall when govt discretion reduces

IVEN THE TRACK record of India's investigative agencies in securing convictions—something the Chief Justice of India also spoke of recently—it remains to be seen whether the CBI will finally be able to prove its case against ex-finance minister P Chidambaram; keep in mind that, while the evidence against UPA telecom minister A Raja also appeared very strong, the trial court threw it out, and the CBI is now appealing that. So, if the charges against Chidambaram are to stick, not only do the investigating agencies need to show the clearances given by the Foreign Investment Promotion Board (FIPB) were bad in law, they have to prove that the six secretaries to the Government of India on the FIPB gave clearances to INX Media because Chidambaram asked them to, and they also have to show the money trail going to Chidambaram or his son Karti; the money trail also seemed quite straightforward to the lay person in the Raja case, but the trial court didn't seem to think so. This is not to say the trial court got it right, or wrong, in the Raja case; just that proving charges isn't necessarily simple.

While the courts will take a call on the merits of the allegations—Chidambaram's main defence is that six secretaries to the government took the decision in the FIPB—and a final decision can take decades since the case will, eventually, be heard by the Supreme Court, there are several important issues that deserve attention.

Certainly, it is odd that the CBI was not willing to wait for two days till the Supreme Court disposed off Chidambaram's bail plea; after all, he is a former finance minister and hasn't been a flight risk all this while, so it is difficult to believe he would be now. But, it is

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up the economy

equally worrying that the former FM went into hiding for one day after the High Court denied him bail; indeed, given his stature, once he didn't get bail, Chidambaram should have surrendered to the CBI. If the image of the CBI and Delhi Police scaling the walls of Chidambaram's house to arrest him remain etched in your mind as a sign of excessive use of force, it has to be kept in mind that, after Chidambaram returned home following his press conference, the security guards were instructed not to open the gates; why else would they not allow the CBI in?

Certainly the Delhi High Court judgement that denied Chidambaram bail seemed excessive since, instead of taking a call on whether the ex-FM was a flight risk, the judge seemed to have decided on the case already when he said "pre-arrest (bail) is not meant for high profile economic offenders" and that "Parliament (must) suitably amend the Law to restrict the provisions of pre-arrest bail and

make it inapplicable to economic offenders of high profile cases"; but isn't bail a natural right? That the CBI should want custody of Chidambaram seems like the idea is just to harass him, as his son, Karti, alleges—but as the Supreme Court said in CBI vs Anil Sharma "we find force in the submission of the CBI that custodial interrogation is qualitatively more elicitation-oriented than questioning a suspect who is well ensconced with a favourable order (of pre-arrest bail)".

Given the widespread allegations of corruption during the UPA regime—the purchase of planes by Air India are, for instance, being investigated—it is important not just that the government/agencies follow due process, but that they be seen to be allowing the accused every opportunity to prove their innocence.

As part of this process, it is critical that a detailed charge-sheet be filed at the earliest; Chidambaram's son Karti said, after Chidambaram was arrested, that though he had been raided four times, appeared for over 20 summons—each session lasted 10-12 hours—and was arrested for 12 days, there was still no charge-sheet against him. This is a big lacuna since it allows investigation agencies to go on wild-goose chases; courts must ensure that charge-sheets are filed at the earliest.

The larger issue, and this is not specific to the Chidambaram case (which still needs to be proved), is that it is government restrictions that are at the root of most corruption. If foreign investment was freely permitted without a cap, why would government permissions via the FIPB or some other route even be required? In which case, why would anyone need to be bribed? Since India doesn't allow FDI in multi-brand retail, you have foreign money coming in either as FPI—portfolio investors are allowed to buy up to 10% of an Indian retail firm—or as 'marketplaces' in the case of ecommerce firms; it is possible that, in the future, someone could argue that this was illegal, but what if the policy freely allowed FDI in multi-brand retail? There were several allegations of illegality when the government restricted the amount of FDI that could come into telecom, and all manner of permissions were required, but all of this disappeared once all restrictions were removed. There are far too many instances like this where government permissions are still required.

None of this is to absolve Chidambaram—if it is proved money was, in fact, paid for the FIPB clearances—but if the government hadn't put the restrictions, usually to benefit local players by keeping away bigger global competition, there could have been no corruption; if Air India wasn't a PSU, a Praful Patel couldn't even have been accused of influencing its decision on buying aeroplanes. While prime minister Narendra Modi has promised that those who had looted India would have to return each rupee, he will only win the war against graft when he eliminates the discretionary power the government has.

FireALARM

The Amazon rainforests, the "world's lungs", have been burning for more than two weeks now

ARLIER THIS WEEK, a wildfire in the Canary Islands, Spain, caused more than 8,000 people to flee and, the week before, Alasksa witnessed serious wildfires. Around 21,000 square miles of forest faced wildfires in Siberia this month, and Denmark had to send firefighters to Greenland to tackle wildfires that were approaching inhabited areas. Even though these instances are alarming, nothing compares to the lungs of the Earth, the Amazon rainforests that produce 20% of the oxygen in the Earth's atmosphere, being on fire for more than two weeks now. The rainforest that experiences torrential rain throughout the year has witnessed the highest number of wildfires this year—of the 72,843 that have been reported so far this year in Brazil, more than half were in the Amazonian rainforests.

The US National Oceanic and Atmospheric Administration reported that July 2019 was the hottest July ever. The global temperature is already 1.7°F above the 20th century levels, and severe droughts have occurred in Alaska and Canary islands. Widespread deforestation, illegal logging and mining have acted as catalysts in the case of Amazon's wildfire. Jair Bolsonaro's government has been busy rolling back crucial protections for the rainforests to facilitate mining and logging, and the forests have witnessed an 88% increase in deforestation over June 2018-June 2019, as per the country's National Institute for Space Research (INPE). Note, INPE's director was fired after the publication of these data, and Bolsonaro termed the findings as lies. There are allegations that the fire could be anthropogenic and, while Bolsonaro has singled out "NGOs" for "starting the fires", the fires, if they are anthropogenic, benefit those seeking to encroach upon the forest land and exploit it. The hit to the Amazon rainforests they absorb around 2.2 billion tons of CO2 annually—affects the entire world. If nations take no account, the heavy climatic effects of the disaster will be felt soon, by all.

THROUGH THE LOOKING GLASS

ACKNOWLEDGING VIETNAM'S EXPORTS GROWTH IS IMPORTANT, BUT OBSESSING OVER ONE ECONOMIC VARIABLE CAN SKEW PRIORITIES

Export focus fine, but there's more to growth

HE EXPORTS PERFOR-MANCE of Vietnam continues to be contrasted with that of India: the most recent example being the editorial in this newspaper, "Can India learn from Vietnam to manage export-led growth?". The article, similar to other analyses on this topic, focusses on the significant ramp-up in the exports of Vietnam, especially over the last decade or so. With Indian merchandise exports remaining range-bound over the last few years in the \$300-330 billion annual range and Vietnamese exports having risen from \$150 billion in FY14 to \$244 billion in FY18, there is hand-wringing for India having missed a trick. It is important to acknowledge the growth of exports in Vietnam but before we jump to conclusions and recommendations for India, we need to explore this growth more deeply so that we can draw the right lessons.

Exports is one part of the story

Vietnam's GDP over the period FY14-18 has risen from \$186 billion to \$245 billion, a cumulative growth of \$59 billion. As noted above, exports have cumulatively grown by \$94 billion. Why has the spectacular growth in exports not lead to a similar growth in GDP? Indeed, the cumulative growth in annual GDP is significantly lower than the growth in exports.

The calculation of GDP is the sum total of consumption, investment, government expenditure and net exports, or GDP=C+I+G+NX. Net export refers to exports minus imports. So, while increase in exports leads to a direct increase in the GDP, any increase in imports is deducted



from the calculation of GDP. In effect, what the GDP number captures is the 'net value addition' in the economy. If the economy imports a lot to export, only the value added to the imports for the purpose of exports is added to the calculation of the GDP.

In the case of Vietnam, imports over the same period have risen from \$138 billion to \$229 billion, a cumulative growth of \$91 billion. Compared with the \$94 billion of cumulative growth in exports, we note that the net GDP effect of the increased imports and exports on the GDP is \$3 billion. The net trade over the period has, hence, added only \$3 billion to the \$59 billion of incremental growth in the GDP, or a contribution of only around 5%.

Trading is important...

The 'right' lesson from the Vietnamese export miracle, hence, is not that its exports have increased dramatically but that the overall tradeto-GDP ratio of the country has materially changed. While in FY14, the total of import and export was \$288 billion on a GDP of \$186 billion (implying a trade to GDP ratio of 1.54), the FY18 trade was \$473 billion on a GDP of \$245 billion, or a ratio of 1.93. The country now does more trading as a proportion of its GDP. Wall Street Journal, among other publications, have reports that sug-

gest Vietnam may now be a conduit for trade as barriers come up in the USA for Chinese exports.

The increase in overall trade-to-GDP ratio is an important entry point for any country before it starts to build an ecosystem of forward and backward linkages in any industry. For example, India is a major importer and exporter of crude and its refined products, and of rough diamonds and polished gems.

Over the last many decades, as India has engaged in these trades, it has built an entire ecosystem that supports these industries. Over time, such industries can build scale on their own, or bring in other players as suppliers or customers domestically. In due course, this can attract capital investment in various segments of the value chain.

It must be noted that these changes are gradual and sometimes take many years, or maybe decades, before the country moves from being a trading partner to being a large value-addition intermediary to being a large reservoir for capital and skills. To establish presence in the global value-chain requires a holistic approach in trade, production and investment, and not merely the building

of an export engine.

...but not the only way

There are other, possibly faster, ways to build scale which need not start with trading. One way is to identify sectors which are expected to grow and to frontload investments in them to build global scale—for example, renewables, electronic vehicles, battery technologies, etc. The other is to build globallycompetitive products in sectors where there is a large local market, for example, in agriculture, two- and fourwheelers, etc. In natural or primary sectors like minerals, oil, etc, opening up exploration for domestic consumption as well as exports (either raw or processed), can create scale.

The above measures relate to the more tangible outputs, which count as export of goods. Another

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aspect that has recently gained some attention is that India will soon export more services than goods From purely a financial current account perspective of current account deficit, the distinction between goods and services does not matbetween goods ter—though, admittedly, and services does service exports may not be as capital or labour intensive as manufacturing. Globally-competitive services have been the forte of

> India and new segments can now be built out of India, whether in payments, entertainment, or in technologically high-end segments, like machine learning, artificial intelligence, gaming, etc.

Approaching development of industries and the economy holistically, as opposed to maximising one variable, will make it more balanced and sustainable.

The red herring in Kashmir

The claim that the government's recent political actions have anything positive to do with economic development lacks any basis in experience or theory

NIRVIKAR SINGH

There is a certain

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identity

UC, Santa Cruz. Views are personal



"AUDACIOUS" SEEMS TO be an appropriate word to describe the step that the Indian government took in early August, not only dispensing with Kashmir's special constitutional status under Article 370 but also splitting it into two, and downgrading both parts to Union Territories. The ruling party had long and openly declared its intentions for Article 370, but the manner of its implementation of those intentions was more than surprising. There are many dimensions of the

implications of what the ruling party has done. Internationally, the government's actions may increase regional tensions, and escalate the existing level of conflict, at least in the short run. Domestically, the implications for Indian federalism, which has tried to balance the complex heterogeneity of India, especially its peripheries, seem to be negative as well. That the national government has flexed its muscles so obviously, both as a regional power and as a centre that dominates subnational units, is unsurprising, and fits with its larger project of creating a homogenised, "Hinduised" nation. Much has been, and will continue to be written on these two aspects of the Kashmir action. What deserves a little more analysis are the implications for Kashmir's and India's development. India's current rulers have gone to some lengths to stress that "integrating"Kashmir into India will be good for Kashmir's economic development. Is there a basis for this claim?

First, one has to unpack the idea of development. This goes back to recent debates in India about aggregate GDP growth versus broader goals of development, such as the enhancement of freedoms and capabilities, and amelioration of economic inequalities. Whereas those debates were sometimes posed in terms of opposing goals, it is arguable that they are complementary in the medium and long run. From this perspective, the actions in Kashmir do not seem conducive to sustained development. A population that was already feeling discriminated

Professor of Economics, against and oppressed is only going to ter. There was no rush of private invest-

exacerbate existing inequalities. In the case of gender inequality, the claim that Kashmiri women will especially benefit from this move (with the underlying but unspoken idea that Islam is unequal in its treatment of women) seems to be belied by internet postings that now non-Kashmiri men can marry Kashmiri women (along with buying property and take jobs there). There is a certain ugliness to the discourse that the national government's political action has unleashed

with respect to Kashmiri identity and autonomy. Furthermore, there is ample evidence that gender inequality is a regional problem in South Asia, especially its northern plains, much more so than any religion-based explanation. More directly, if we think about the condi-

tions for successful devel-

opment, they involve

investments in physical

infrastructure and human capital. These will still be needed in Kashmir, but the truth is that all of those investments could have been made without any change in Kashmir's political status. That change is a complete red herring with respect to any deficiencies in Kashmiri economic progress. The case of Punjab is illuminating here. Punjab has, at least since the 1950s reorganisation, been a state without any special status. Investments in specific infrastructure by the state and national governments allowed the Green Revolution to take hold and to flourish. But when neither level of government did enough

to upgrade the state's infrastructure to

go beyond producing wheat and rice for

the national public food distribution sys-

tem, matters deteriorated rapidly.

Inequality increased, water shortages

arose, and the state was locked in an eco-

nomic structure that is headed for disas-

feel more so. If growth comes from ment, despite the positive reputation of the state and its people, and Punjab has investment by non-locals, it is likely to struggled with violent conflict and societal ills like drug and alcohol abuse.

Indeed, Punjab illustrates another lesson: the national policy of making Punjab subservient to the national goal of foodgrain self-sufficiency without adequate long-run resources, because it arrested Punjab's development, contributed to political conflict. This conflict was exacerbated by Punjab being a minority-majority state, situated on a volatile international border. And none of this had anything to do with any kind

of special constitutional status. All of this suggests that the promises of economic development for Kashmir are based on false premises. A centrally controlled effort, dominated by non-locals, in a situation where the local majority already feels oppressed, and where there is international military tension, is unlikely to lead to any significantly positive outcomes.

To summarise, India

may indeed demonstrate its regional might by absorbing Kashmir more firmly into a centralised national polity; perhaps the government's radical moves will lead to a recognition of the de facto "lines of control" as proper international boundaries and less conflict in the long run, after some short-run instability. India may also move further along on the current government's project of creating a homogenised, centralised nation, culturally as well as politically (much as China has done and is doing in Tibet and Xinjiang), though that would be a depressing outcome, over any time horizon. But, the claim that the government's recent political actions have anything positive to do with economic development, either as aggregate growth or more broadly interpreted, seems to lacks any basis in experience or in theoretical understandings of what leads to sustained progress.

LETTERS TO THE EDITOR

Chidambaram's arrest

The sequence of events leading up to P Chidambaram's arrest by CBI and his being locked up had the ingredients of a riveting drama. CBI and ED sleuths scaling a boundary wall to gain entry into Chidambaram's house was worthy of a movie scene. On a more serious note, we can safely say that the dramatic arrest of P Chidambaram came to pass because of his trenchant criticism of the Modi government. It is not a biased overstatement to say that political vendetta is writ large on the exertions made to frame and fix Chidambaram. Evidently, there is substance in the accusation that Chidambaram is targetted for 'speaking the truth to power'. What exposed the holes in our system is the fact that winning and losing elections can determine the course the law takes. The law does not take its own course, but one wished by the government of the day. The cliché, 'political witchhunt' cannot be avoided to describe what P Chidambaram is subjected to, for the want of a better phrase. 'Fighting corruption' selectively and episodically has become a weapon to pin down and 'punish' political opponents. Niceties, and the rightness and wrongness of two entirely different cases apart, it appears to be a complete reversal of roles for P Chidambaram and Amit Shah. Why the statement of a woman who murdered her own daughter should be accepted as the gospel truth is not clear. The denial of prearrest bail by the Delhi High Court, diverging from the norm, and the refusal of the Supreme Court to hear Chidambaram's plea for no good reason (cases involving certain corporate houses were heard out of turn) have inevitably led us to ask if the Indian judiciary is not that keen on ensuring that citizens don't have to endure loss of liberty. Everyone is entitled to the presumption of innocence until they are proved to be guilty. We urge the highest echelons of the judiciary to lose no time to order P Chidambaram's release. — G David Milton, Maruthancode

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FINANCIAL EXPRESS



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PROMOTIONAL DISCOUNTS

To offer or not to offer

The June GST Circular has unsettled what was more or less settled. It has failed to understand the business realities of how marketing schemes operate

HEN YOU HEAR the word 'discount', the first thing that comes to mind is the 'flat 50% off' sticker. But, what if the shopkeeper tells you that even if the product price of ₹100 is available for ₹50, you'd have to pay GST on ₹100. Sounds ridiculous, but this is exactly what the new GST circular (No. 105/24/2019), dated June 28, 2019, intends to do.

The government recently issued two circulars—No. 92/11/2019 GST, dated March 7,2019, followed by the June Circular—to elucidate the provisions contained under section 15(3)(b) of the Central Goods and Services Tax Act, 2017, and which postsale/secondary discounts merit consideration undersaid provisions. The March Circular went on the premise that secondary discounts, where the supplier reduces the value of goods, initially supplied to the buyer,at a later stage (post-supply), are typically unknown to buyers, and they would not warrant deductions under the law. The March Circular led to more questions than

clarity, and so the June Circular was released that evaluated scenarios known to be covered under the concept of postsale/secondary discounts and their treatment under section 15 of the Act.

The June Circular starts by stating that before concluding on the deductibility of a discount, it is crucial to examine the true nature of the discount extended by manufacturers and suppliers to dealers. From there, it goes on to suppose that where such discounts are towards additional activity to be undertaken by the dealer or promotional campaigns, such reduction in prices (though called discounts) would not be permissible to be deducted from value of goods for the purpose of tax payment, and instead would qualify as a separate supply by the dealer to the supplier. The second part of the Circular clarifies that additional discounts extended by manufacturers to dealers that are passed on by the dealer to end-customers would form part of consideration of dealer for payment of GST.

The June Circular para 3 presumes that

in a transaction of sale between the man-

ufacturer and dealer, there is another transaction of service between the dealer and manufacturer that becomes liable to separate GST, thereby denying the benefit of section 15(3)(b) of the Act (the section stipulates that the value of supply shall not include any discount that is given after the supply has been effected, if such discount offered is established in terms of an agreement entered into, at or before the time of such supply and specifically linked to relevant invoices, and input tax credit has been reversed by the recipient).

The June Circular has failed to understand the business realities of how marketing schemes operate. The philosophy of post-sale discounts is cen-

The June Circular

errs is concluding

and presupposing a

value between the

dealer and the

consumer that

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to the extension of

additional

discount)

tred around the fact that the manufacturer wants the dealer to fulfil certain set of conditions before discounts (sometimes called as incentives) can be offered. Hence, it is unclear how fulfilling those set of conditions can lead to a separate service transaction between the dealer and manufacturer. The provisions aforesaid do not delve into the purpose of the discount and what is sought to be achieved by extending such discounts.

In fact, all discounts, by whatever name, are intended towards promotion of goods/services and to achieve the goal of higher sales. The June Circular fails to acknowledge the fact that the advertisement/sale campaigns are aimed towards boosting product sales of both the manufacturer and dealer. Thus, all such promotional activities undertaken by the dealer are equivalently applicable to the dealer's sales. These activities are yardsticks that the manufacturer uses to determine the quantum of discounts to be extended to dealers and cannot be considered as a separate consideration that flows from manufacturers to dealers. Thus, the entire basis of the June Circular appears to be legally flawed and will only lead to unjustified demands by the revenue authorities. This issue has been tested under the erstwhile law in the case of Sai Service Station Limited vs Commissioner of Service Tax, Mumbai, wherein it was held that incentives and loyalty bonus received by car dealers from car manufac-

turers was not in the nature of business

auxiliary services of sales promotion and hence not liable to service tax.

The second part of the Circular states that additional discounts passed on by the manufacturer/supplier of goods to the dealer, which they are required to pass on to the customer by way of special reduced price, would constitute a consideration paid by the manufacturer/supplier to the dealer for supplies made to the consumer. The Circular concludes that discount passed on by the supplier is in the form of a third-party consideration paid for sales made by the dealer to the consumer and hence GST is required to be discharged on the value charged by the dealer and the additional discount given by the supplier (to the consumer). Section 15 of the Act provides that "the

value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply."The concept of transaction value, in a way, establishes the concept of privity of contract between the supplier and buyer, whereby if two parties are not related and have contractually agreed for a price to be paid and there is no additional consideration between the parties, then such price ought to be considered as the transaction value. All commercial relationships are governed by the contractual understanding between the parties, invariably the contract between the dealer/retailer and the end-consumer in such instances would specify the value for the goods at the reduced price (after considering additional discount). Once the sale fructifies, the dealer may be entitled to claim reimbursement of the additional disextended from manufacturer/supplier, thereby bringing the down the value of goods in the supply chain. The June Circular, in effect, violates the concept of transaction value and draws a presumption that the discount received from the manufacturer is an additional consideration agreed to between the dealer and the customer. This is irrespective of the fact that there is no privity of contract between the end-customer and the manufacturer. The mere receipt of monies by the dealer from the supplier would not alter the transaction value of the supply of goods

by the dealer to customers. The June Circular errs in presupposing, between the dealer and consumer, a value that does not exist (due to the extension of additional discount) and also by refusing the reduction in value to the supplier, even in a situation where parameters of section 15(3)(b) of the Act are clearly met. The current valuation provisions do not specifically contemplate any such additions to the value of supply by the dealer to the customer for the purposes of

charging GST. Thus, the clarification under the June Circular lacks the force of law and is beyond the provisions of the Act. Further, the June Circular states that the consumer will not be entitled to Input Tax Credit (ITC), but forgets to anticipate that under all circumstances it's the consumer who will be bearing the brunt of the additional tax being charged by dealers. At one end, anti-profiteering laws require that the benefit of reduced price should be passed on to the end-customer, but a dichotomy is also being created by penalising the manufacturer/dealer who would want to ensure that the end-customer gets advantage of the discount schemes offered by them! Also, the denial of ITC to the consumers is clearly against

the principle of equal treatment. The June Circular has unsettled what was more or less settled. The clarification issued is likely to have wide ramifications and could be applied by the revenue authorities to all situations where a benefit is being given by the manufacturer, whether by way of discount or otherwise.

Labour reforms for formal jobs

SUCHITA DUTTA The author is executive director, Indian Staffing Federation

How flexi staffing can bring a larger workforce into formal employment

OBS IS THE most critical concern in India, and more so in the formal sector. The country is in dire of policies that will help create a healthy economy that can bring formal jobs. The labour reforms are clearly in crying need of change'.

Faster growth of jobs must be the principal objective. For this, strong voices have been urging the government to bite the bullet and make bold labour market reforms. For an effective labour market to function, industries need to have the right labour policies to be productive; people need to have access to the social security framework and the government should be benefiting through more taxpayers. Currently, pushed to the wall, alternates are on the rise, but these are not the solution, they are diversions. Automation on one hand and gig on the other are ends to meet through diversions, as no solution on labour reforms is showing results. It has been a serious issue as there is a decline in the number of formal jobs leading to a decline in working-age population.

Employable versus employment India has the advantage of the right working-age population and also the numbers, but has the worst ratio of employable people available. The paradox is we need people for jobs, but there aren't as many employable people. On top of that, there are migration-related issues. State governments could easily become facilitators in providing opportunities to attract talent while upskilling their own, but no such agreements between states have even been thought of. So, people who can be employed are not there where jobs are.

Ease of doing business: A term used so often, yet is a dream for start-ups and organisation in the MSME sector. Ease of doing business is determined by three main factors: cutting down the number of laws, simplifying the process of compliances, and filing of paperwork. In short, digitisa-

A recent study has

revealed that 60%

of the companies

engaging temp

staff accelerate

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downturn. And flexi

employees have

the opportunity to

constantly upskill

tion by going paperless, presence-less and cashless, by assembling labour laws into a single labour code.

The government must direct efforts towards bringing more people into the formal job sector where they can get benefits of social security, health benefits, among others. According to Indian Staffing Federation's report findings, of the 406.4 million workforce, only 50.8 million comprise of formal and 355.6 million are in the informal sector.

To change this, options like flexi staffing should be pro-

moted; these remove the burden of the unorganised sector and bring a larger workforce in formal employment. From the perspective of organised temporary staffing, the staffing industry acts as a force multiplier for 'formal jobs for all'. It provides a platform for recognised employment, work choice, even compensation, annual benefits and health benefits for the temporary workforce. The acceptance of temporary jobs, however, is still low in India, as the requirement of security comes attached with the word 'permanent' and is the driving factor of all decisions.

The organised temporary or flexible staffing industry is not new to India, and the industry is growing at over 20% year-on-year consistently. Our study has revealed that 60% of the organisations engaging temporary staff accelerate faster out of a downturn. And a key benefit for flexi employees is the opportunity to keep themselves abreast with continual skill development.

A regulated contract staffing industry can be the employment mobiliser that can help in upskilling the freshers and also the dropouts to become employable and industry-ready.

'Formal jobs' is the aspiration to the much-needed productivity the country needs, to boost the economy. An inclusive roadmap for creating quality jobs across sectors and improving job opportunities through potential job creators can be addressed by bringing enablers through secure employment avenues.

HE INTERNATIONAL ENERGY estimates that India's energy demand outpaced growth in global demand in 2018 (2.3%); the country's primary energy demand rose by 4%. While a healthy

growth rate is essential, it important that it is sustainable—today's growth should not be at the cost of tomorrow's potential. Major economies have been looking at cleaner sources of energy such as natural gas. But growth in India had been primarily led by coal-based power generation and fossil fuel-based mobility solutions. As per Energy Statistics 2018 published by the ministry of statistics and programme implementation, coal accounts for about 70% of total power generation, and natural gas accounts for 9%. To balance growth in energy demand

with sustainability, we need to reduce the environmental cost of energy use. India must enhance the share of natural gas in the energy basket to 15% in the next decade compared with the current 6% ('Vision 2030-Natural Gas Infrastructure *in India*', PNGRB). We are also at an inflection point where our domestic production benchmarked to administered prices witnessed unhealthy exploration interests; at the same time, increasing dependence on gas imports has the potential to add to the overall burden of energy imports, besides putting our economic planning and forex management processes out of gear.

The success of a market place depends on demand and supply parameters. On one hand, there are increasing sources of gas supplies, and on the other hand a strong and expanding consumer base, with competing buying interests from

Enhancing share of gas in energy basket

A well-developed gas hub supported by transport and storage infrastructure will help India emerge as a pricesetter in global markets

V SHUNMUGAM & RUCHI SHUKLA

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power, fertiliser, city gas distribution (CGD), auto gas and industrial consumers, and it requires that there is transparent price discovery on a trading hub. This will increase trust levels of market participants, besides making way for marketbased pricing for infrastructure providers

such as transportation and regasification. Demand and supply dynamics of our natural gas market have set the stage for a structural change in market design. Power, fertiliser and CGD collectively account for 70% of natural gas demand in India. With power sector alone accounting for 28%, the 'Vision 2030' report projects that gasbased power generation would contribute 36-47% of the increased demand of natural gas till 2029-30. Reforms in power sector moving electricity prices to marketbased efficient pricing will further enhance the demand of natural gas. The revival of urea plants to augment domestic urea supplies will also drive gas demand from the fertiliser sector, and policy push for CGD and priority allocation of domestic gas to PNG and CNG sectors will provide impetus to overall demand.

On supply side, the Indian market has been receiving gas from varied sources. The total natural gas supply in 2017-18 was 52.26 BCM, of which only 25.93 BCM was domestically produced. The rest 26.33 BCM was met through LNG imports. Of the total supply, domestic gross production of natural gas in the last five years accounted for 63.86% on an average, with its share declining to about 50% in 2017-18. India is the fourth-largest LNG importer (2018), behind Japan, South Korea and China. Imported gas is also witnessing a shift in pricing from long-term to spot contracts, thus highlighting the need for a transparent spot market.

The government has undertaken pol-

Administered Pricing Mechanism (APM) price Source: PPAC & Bloomberg icy reforms to increase the share of natural gas in the overall energy consumption basket, besides laying out a roadmap to augment domestic production. A high-level committee appointed by ministry of petroleum and natural gas has recom-

Natural Gas: APM prices vs internationally linked prices

GAIL Henry Hub

Linked price

mended a higher natural gas price for both existing and new discoveries, and also a shift of gas markets to follow global trends. With 16,770 km of gas trunk pipelines in operation, and 11,377 km more approved, it will enhance the gas user base that will need the support of a well-functioning market place with robust price discovery.

While relevance of crude oil is fading away for gas markets, the markers and hub-discovered prices are also not so relevant to a country like India, insofar as both reflect fundamentals of the underlying international markets, and India is neither

included in the assessment done by price reporting agencies or a buyer from any of the major hubs. In such a condition, existence of an India benchmark price would not only guide domestic transactions, but also the pricing of gas purchase contracts with their global exporters. With India as the fourth-largest LNG importer, it is essential that there is a hub-based marker to guide buyers and sellers in pricing gas

Singapore Asia

Spot LNG (SLNG)

Brent Linked LNG

price (Qatar Gas)

in line with Indian fundamentals. India has a dual gas pricing mechanism comprising of domestic gas sales guided by the Administered Pricing Mechanism (APM) and imported LNG-based gas prices determined by global market forces. There is a wide disparity between APM prices and LNG import prices (see graphic). For example, for the period April-September 2019, APM price was \$3.63/MmBtu against the Henry Hub linked price of \$7.98/MmBtu. The APM has been adopted to promote the

use of gas, and also for the purpose of reduced subsidies to users such as power, fertiliser, CGD autogas distributors. With lower price realisation under APM for the sale of domestically-produced gas, private investments in E&P activities and hence domestic production tended lower in the market with increasing demand and policy push for greater green fuel usage. In the absence of benchmarks, gas prices in Asia are set by crude-linked LNG, and reported to be the highest in the world, compared to markets with active hubs that discover prices based on their own fundamentals.

For successful functioning of a spot market, there needs to be freedom of access to transportation of gas from sellers to buyers, which needs a mechanism of open and non-discriminatory access to pipelines. Global examples with successful spot trading hubs indicate that gas transportation business should be unbundled from other gas value chain functions of the same entity. A welcome move had been made by the regulators, but its success will lie in transparent operation of capacity release programmes and establishment of an independent transmission system operator that will work towards clearing and settlement of hub-based gas transactions and publication of capacityrelated information. Developing infrastructure such as pipeline and regasification capacities will help Indian consumers leverage market-discovered prices and arbitrage the temporal and geographical differences, besides promoting spot trades. A well-developed gas hub supported by infrastructure will help India emerge as a price-setter in global markets through Indian benchmark prices.



\$/MMBtu

10

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