FICCI'S VOICE

Federation of Indian Chambers of Commerce and Industry

"SECRETARY GENERAL'S DESK" AUGUST 2014

- **TRADE DATA**

FICCI welcomed the double digit growth in exports for the second consecutive month in June and said that the 10.2% growth in exports last month is good news. While the rise of over 9% in our cumulative exports during the first quarter of this fiscal year reflects steady improvement in global demand, we need to stay vigilant on trade deficit that has shot up to an 11-month high. Even though external sector risks are now lowered with the narrowing of current account deficit as a proportion of GDP to 1.7% in 2013-14, it would be good to remain watchful in view of the uncertain global environment including concerns about crude oil prices. Keeping the trade deficit within manageable limits would be a medium-term challenge particularly because some restrictions on non-essential imports are likely to be phased out and imports would rise with a pick-up in our GDP growth. We welcomed the initiative to include 'services trade statistics' in the monthly release of India's trade data and expressed satisfaction over 8.8% rise in export of services as well as nearly $6 billion surplus in services trade in the month of May.

- **WPI NUMBERS, JUNE 2014**

The latest WPI numbers indicate moderation in overall inflation as well as in food prices. It is heartening to note that the government is making a serious attempt to address the root cause of spiralling food prices. After, a set of focused measures undertaken by government last month to contain food inflation, the announcements made in the Union Budget regarding- establishment of a Price Stabilisation Fund and a commitment by Centre to work closely with States to re-orient their respective APMCs to provide for establishment of private market yards / private markets - are reassuring. In fact, FICCI has been advocating such measures. FICCI has suggested creation of a Food Inflation & Response Strategy Team (FIRST) at the Prime Minister' Office (PMO) level. FIRST will be an e-enabled, empowered coordination framework which can work with and across multiple key governmental agencies, to proactively address food inflation through integrated data management and logistical strategies in the short term. We hope to see time bound action going ahead.

Further the results of FICCI's latest Economic Outlook Survey report moderate outlook for inflation this fiscal year. The median forecast for inflation rate as per the survey is around 5.6% by end March 2015. However, below average monsoons might play a dampener and there is likelihood of pressure arising on oil prices as well due to global scenario.

- **IIP DATA FOR MAY 2014**

FICCI commented that while it is reassuring to see some pick up in the growth of manufacturing in May but it needs to be seen in the context of negative base. The encouraging sign is the broad based growth as sixteen out of twenty two sectors have shown positive growth in manufacturing. As the growth is subdued in intermediate sector and capital goods growth also comes on a negative base, the manufacturing sector may take some more time to recover. We are hopeful that the steps taken by the Government so far and the measures announced in the budget would help the sector to revive fast.

- **THE RAIL BUDGET**

Welcoming the thrust on resource mobilisation in this year's rail budget, FICCI feels that the Railway Minister has tried to put the railways back on track and attempted a balance between commercial and social obligations. We welcome the proposal for financing bulk of future projects through PPP route that will help overcome the constraint of low investment, enhance connectivity and accelerate the process of modernisation. Importantly, the Minister has focused on improving the safety and security systems including use of ultrasonic system to detect problems on railway tracks and phased elimination of unmanned level crossings.

Setting up of a project management group at the level of Railway Board and a project monitoring & coordination group is a positive step as this would help in reducing delays in project execution. Other notable measures include proposal of starting bullet trains between Mumbai and Ahmedabad, developing a diamond quadrilateral network of high speed trains connecting major metros and growth centres in the country, increasing speed of trains in select sectors, target of nearly 1000 kms of civil construction contracts towards implementation of dedicated freight corridors in the east and west, green initiatives such as harnessing solar energy by utilizing rooftop spaces through PPP mode, and development of eco-tourism and education tourism in north-east states.

- **FICCI's STATEMENT ON WTO NEGOTIATIONS**

Ensuring food security for its people is of paramount and strategic importance for any country. While pursuing this objective of safeguarding national interests in WTO negotiations, we are also faced with the need to bring to our society, fundamental economic and job creation benefits from more efficient global trade integration. We therefore earnestly look forward to a solution which can ensure our national priorities and craft a win-win economic outcome.

- **FICCI'S STATEMENT ON WTO'S TRADE FACILITATION AGREEMENT**

FICCI has urged all the members of WTO to collectively work for finding a solution to the present impasse. We think it is important to have satisfactory progress in all areas of the Bali-decision, including public stockholding. There is a need for adequate flexibility for developing countries like India in building public stocks for food security purposes and to prevent volatility in food price. At the same time, the significance of a deal on trade facilitation is well recognized and we do not want to miss the opportunity to have an agreement that could lead to substantial reduction in cost of doing business as well as trading across borders. We earnestly hope that member-countries would step up their efforts towards making a breakthrough and narrowing down the gaps in their positions, so that the current stalemate is resolved. It will ensure that the credibility of WTO is not undermined, and multilateral trading system remains robust, effective and capable of delivering outcomes.

- **THE CABINET APPROVAL FOR INCREASE IN FDI IN INSURANCE**

FICCI welcomes the cabinet approval for the increase in FDI in insurance from its current 26 per cent to 49 per cent. The insurance industry has faced many difficulties in raising capital and this has affected their productivity. The cabinet's approval in raising the FDI limit will provide the capital starved sector access to foreign capital. FICCI is certain that many foreign players will enter both the insurance sector and the pensions sector at this opportune time when the country is in need of foreign investments, as the FDI limit in pensions is tied to the FDI limit is insurance. The bill, when passed, will also allow for insurance companies to raise capital through new financial instruments. Most importantly, FICCI believes that when the Insurance Bill is passed, it will go a long way in helping India meet the one trillion dollar infra deficit over the next five years.

- **THE NOTIFICATION OF COMPANIES RULES BY THE MINISTRY OF CORPORATE AFFAIRS**

FICCI welcomes the notification of the eagerly awaited Companies (Cost Records and Audit) Rules by the Ministry of Corporate Affairs. This is a positive step in the overall implementation of the Companies Act, 2013. We are pleased to note that the Rules are in sync with the realities of our economy and its future direction through market-led growth. It is progressive that the application of the Rules is both size and product based. There is of course room for higher thresholds as many small companies will be captured in a growing economy.

- **THE ECONOMIC SURVEY 2013-14**

The Economic Survey 2013-14 presents a realistic assessment of the national economic situation. It has identified the key pain points and contains suggestions on what the government must do to engineer a turnaround in the economy. The policy direction is appreciably clear.

The Survey also highlights that it is imperative to have fiscal consolidation and that the country needs a new FRBM. FICCI has always underlined the need to bring the revenue deficit to zero and focus more on productive expenditure. The Survey mentions that subsidy reforms are essential. We need to review the Direct Tax Code with a focus on widening the tax base, simplification of laws and rationalising exemptions. Our thinking is mirrored in the Survey that also calls for a clean and modern replacement of existing tax laws. High and rising NPAs in the banking sector has been highlighted as a matter of concern. The Survey has also drawn attention to remove bottlenecks such as land acquisition to infrastructure development. FICCI has asked for a comprehensive review of the New Land Acquisition Act adhering to the principals of fairness and certainty. We are happy to note that the government is amenable to taking a relook at the Land Act.

- **FICCI's LATEST ECONOMIC OUTLOOK SURVEY PUTS GDP GROWTH FORECAST FOR 2014-15 AT 5.3%,FISCAL DEFICIT TO GDP RATIO EXPECTED AT 4.5% IN 2014-15**

FICCI's latest Economic Outlook Survey puts across the GDP growth estimate for the year 2014-15 at 5.3%, with a minimum and a maximum range of 4.9% and 5.8%. This is a tad lower than the 5.5% growth estimate put out by the economists in the previous survey round and is mainly on account of bleak prospects for performance of the agriculture sector due to sub-par monsoon forecast. On the inflation front, participating economists expect prices to remain beyond the comfort zone.
Participating economists expect the fiscal deficit to GDP ratio for 2014-15 to breach the target of 4.1% set in the interim budget. The median forecast for fiscal deficit stands at 4.5%, with minimum and maximum range of 4.2% and 5.5%.

Further, India has the lowest tax to GDP ratio among its peers. The economists were asked for some suggestions to widen India's tax net. They mentioned that steps should be taken to bring more people within the ambit of formal employment and widening the tax base should be given a priority. The respondents felt that segments currently outside the scope of tax net despite being at much higher incomes should be brought under the purview of taxation. The participating economists also said that greater clarity on issues like GAAR and retrospective taxation must be provided in the upcoming budget. The economists were also asked their opinion about setting up of a specialized asset management company for acquiring/restructuring large scale non preforming assets. In this regard, a majority of respondents were of the view that setting up a specialized asset management company will be a good move as it will help improve the financial health of the banks. Also, it will free the balance sheets of banks providing them the room to lend for other projects.

- **POLICY MAKERS, INDUSTRY AND CONSUMER ORGANIZATIONS JOIN HANDS IN ADDRESSING SMUGGLING AND COUNTERFEITING IN FOOD PRODUCTS**

Consumers are allowing the smuggled and counterfeit market in India to flourish due to a lack of awareness on the ill effects that such illegal trade activities have, not only on the economy, but more importantly on their safety and health. Emphasizes was also on a national movement on anti-smuggling of food products in the country.

21st century is seeing the emergence of consumers and FICCI is acting as a conduit between businesses and consumers. The focus was on four product categories, namely, Milk & Milk Products, Bakery products + cereals (like 'atta'), Aerated water + Mineral water, and Edible Oil – all food products which have a direct impact on the health and general welfare of consumers. The recommendations would include Focus on rural market- Food product of mass consumption; Reinventing the "Jago Grahak Jago" publicity campaign especially with reference to food products; Comparative testing; Class action suits; Structured consumer awareness syllabi for young India; Market surveillance and Industry support and partnership initiatives.

- **STRESS ON USE OF ANALYTICS FOR PROTECTION FROM CRIME AND ENHANCING SECURITY**

FICCI is committed to the cause of public safety and security. The Indian homeland security market is rapidly growing to meet the increasing demands of security in the country. The noteworthy fact is that over half of the market growth is expected to come from demands in new equipment's, especially for electronic surveillance, intelligent integration systems and early warning systems.

- **CBDT'S ACTION PLAN TO DISPOSE OF 90% HIGH VALUE PENDING APPEALS WITHIN THIS FISCAL IS A WELCOME STEP**

FICCI welcomed the reported Action plan drawn up by the Central Board of Direct Taxes to dispose of 90% of the pending high value appeals during the current Financial Year. We appreciate this initiative and believes that the implementation of the Action plan will help in expediting the disposal of pending cases. FICCI expects that with a view to minimize further litigation, the cases will be decided in a judicious and fair manner without revenue bias.

- **ALL GREY AREAS IN SPEEDING UP ROAD PPP PROJECTS SHOULD BE RESOLVED**

FICCI pointed out that one of the key challenges faced in promoting infrastructure projects is how to put in place appropriate policy, institutional and legal framework. Inadequacy of well-performing institutions can cause protracted negotiations between public and private partners, tardiness in reaching financial closure and consequent delays in many projects. Equitable distribution of risks and rewards between the partners with clear rules of engagement can help forge 'win-win' partnership.
FICCI has suggested adoption of BOT 'Annuity Concession' model for highway projects which are commercially unviable having an uncertain revenue stream from toll collections. This model holds significant potential to attract private capital especially when investors are shying away from bidding BOT (Toll) based projects due to shortage of funds. The annuity concession model is believed to be more attractive than BOT (Toll) from the perspective of private investors as they are able to recover their costs through series of fixed and periodical (annual) payments from the Government spread over the

concession period, rather than expecting it to be recovered from the proceeds of toll collections. FICCI welcomed the recent budget announcements for setting up of Infrastructure Investment Trusts and an institution called '3P India'. We are confident these measures will provide impetus to private investment and promote PPPs in the country. Moreover, RBI's recent decision to ease norms for long-term funding for infrastructure is a positive step.

- **UNIVERSAL ACCOUNTING NUMBERS (UANS) A BOON FOR CONTRACT WORKERS**

FICCI stated that the government's decision to issue new Universal Accounting Numbers (UANs) to EPF account holders is a landmark step which will benefit more than 30 million contract and other short time workers. These workers have been resisting coverage under the EPF Act for the fear of forfeiting their dues as withdrawal is not possible due to their frequent changes in job as well as migration from place to place. This is also true in the case of all the informal sector workers which account for 94 per cent of the total Indian labour force. The strengthening social security schemes will go a long way to narrow down the gap in the service conditions between the permanent and contract workers, helping industry to employ them as and when required. This will help in employment generation and lead to higher productivity.

- **NEED FOR CLEAR DISTINCTION BETWEEN FLY-BY-NIGHT OPERATORS & GENUINE BUSINESS: CALL FOR FAIR REGULATORY FRAMEWORK FOR DIRECT SELLING INDUSTRY**

The Indian direct selling industry has made a strong pitch for exclusion of the industry from the Prize Chits & Money Circulation (Banning) (PCMC) Act, 1978, in view of the failure of the enforcement agencies to distinguish between 'money circulation schemes' and genuine 'multi-level marketing schemes'. Industry has made a strong demand to add the clause exempting 'any direct selling scheme duly certified as may be prescribed' as a sub-clause (e) to Section 11 of the PCMC Act.

FICCI stands against anything that breaches consumer trust and /or hampers industry growth. In view of the nonexistence of guidelines or legislation for the direct selling industry, a clear distinction between fly-by-night operators and legitimate businesses is the key demand raised by industry. Tweaking the existing provisions of PCMC Act may be the pragmatic way to bring clarity to the issue. This will mitigate the adverse effects of misapplication of PCMC Act on genuine direct selling players.

- **FICCI APPLAUDS THE LAUNCH OF WEB PORTAL BY THE MINISTRY OF ENVIRONMENT & FORESTS FOR ONLINE SUBMISSION OF PROPOSALS FOR FOREST CLEARANCE**

FICCI commends the Ministry of Environment and Forests for the timely launch of the web portal for online submission of proposals for forest clearances. This is a remarkable step towards bringing about transparency, accountability and effectiveness in the forest clearance process. This will ensure that the process becomes time-bound and will reduce delays to critical projects. This is a step that industry has been looking forward to and is an important starting point to bring a transformational shift in government clearances. It is also a step towards enhancing the ease of doing business. FICCI has been working closely with the government on this and we believe that any step that ensures timely approvals will improve the economic environment.

The general approvals that the Minister announced for diversion of forest land for roads in the border areas, strategic facilities in 100 kilometers of line of control, 117 Maoist affected districts for roads and other development projects, and extending general approvals for transmission lines of 220 kv to 1250 kv lines are remarkable decisions that will ensure speedy project implementation in sensitive and strategic areas of national interest. This only goes to demonstrate the government's serious intent in removing bottlenecks to critical projects.

- **STEPS INITIATED TO TIGHTEN NPA MANAGEMENT OF BANKS TO EXPEDITE DEBT RECOVERY**

FICCI noted that the budget sets a positive tone by advocating fiscal prudence, shunning populism and pitching for bold reforms. Through this budget, the stage is being set for repair of the economy. There is mix of short and long term measures geared towards boosting confidence. One key priority was to see an effort to address Tax Adventurism, by assuring no retrospective application and setting direction for a stable, predictable taxation regime that will be investor friendly and spur growth. The Advance Ruling for domestic companies is a great move.

However, the proposed changes in the computation of DDT by grossing up dividend received for purposes of tax increases the effective tax rate from 17% (including surcharge) to about 20%. While this may create avoidable complications, we also see that the budget continues a concessional rate of 15% on dividends from abroad, without a sunset date. We believe that there should be equity and perhaps a 15% rate can be adopted for both, so as not to penalize Indian shareholders and ultimately affect retail participation and deepening of markets. The magnitude of its current impact, industry would like the government to consider continuance of MAT much before the introduction of any revised DTC. While welcoming the lowering of threshold limit of investment allowance we hope that the period of the incentive can be increased from three years to five years.

On CSR expenditure, FICCI feels that this is now disallowed as a business deduction. Besides governance issues, where directors cannot spend money outside business purposes, it amounts to appropriation of profits.

- **FICCI RETAIL COMMITTEE DELEGATION SUGGESTS MEASURES TO CONTAIN PRICE RISE OF PERISHABLES TO MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION**

FICCI Retail Committee emphasized that it is important to understand that F&V as a category is different than other food related items of retail and hence separate treatment should be given to it while dealing with any issue. Ministry of Consumer affairs is working closely with industry through FICCI to get the solution on the ground.

Some of the suggestions shared by FICCI are:

- Addressing the issue of Transport Infrastructure Bottleneck
- Fruits & Vegetables should be delisted from APMC act
- Physical condition of APMC markets should be improved
- Improvement in warehousing capacities- PPP model can become a solution in the days to come

- **FICCI ON UNION BUDGET 2014-15**

Commenting on the Union Budget 2014-15 announced, FICCI said that through this budget, the Finance Minister has set the ground for repair of the economy. There has been a mix of both short term and long term measures geared towards boosting confidence of all key constituent. He presented the budget in a very difficult situation and what we have is a set of progressive announcements that will be the key building blocks for engineering a turnaround in the growth trajectory over the next two to three years.

Several of FICCI's suggestions found a reflection in the budget includes: One of our key priorities was to see a clear course of action to end Tax Adventurism. With the view to give a boost to capital formation, government has lowered the eligibility limit for investments to get the benefit of investment allowance from Rs. 100 crore to Rs. 25 crore. The budget also contains further measures to tackle food inflation in the form of establishment of a Price Stabilisation Fund and a commitment by Centre to work closely with States to re-orient their respective APMCs to provide for establishment of private market yards / private markets. We also see a series of steps such as introduction of soil health cards, setting up of agri-tech infrastructure fund, launch of a technology driven second green revolution including 'protein revolution' and greater focus on irrigation. FICCI has advocated many of these measures as these are geared towards improving agri-productivity.

To enhance the capital base of the banks, the Finance Minister indicated that the same will be raised by increasing the shareholding of the people in a phased manner. This will give a boost to retail investor participation in the stock market. The budget also provides special impetus to the housing sector which is known to be a propeller of growth. Added focus is also seen on the tourism sector and the MSME sectors, both of which have a high employment intensity**.** The measures to enhance the exemption limit for individual tax-payer from Rs. 2 lakh to Rs. 2.5 lakh and increase the investment limit under section 80 (C) from Rs. 1 lakh to Rs. 1.5 lakh will add to the purchasing power of the individuals as well as boost the overall savings level in the economy respectively.

- **TRADE ARRANGEMENT WITH INDIA WILL BOOST BUSINESS TIES**

Egypt looks forward to enter into a trade arrangement with India to give a boost to two-way trade. Egypt has already established trade arrangements with Europe, Turkey, Mercosur, Latin America, the US, South Korea, China and Japan, which has helped in enhancing trade relations significantly. FICCI said that the commitment expressed by the Egyptian Government to protect foreign investments and business interests of number of Indian concerns doing business in Egypt would act as a catalyst in attracting more Indian investments to flow into Egypt.

- **INDIA - JAPAN PHARMACEUTICAL COLLABORATION - THE WAY FORWARD**

FICCI with support of Ministry of Commerce and Industry, Government of India organized an India Show from 2-4th July in Tokyo during the Interphex and In-pharma, Japan. There is a growing need of medicines in Japan owing to its greying population and India can help in supporting Japan by supplying international quality medicines at a fraction of the cost of branded medicines that the Japanese consumers were presently using. Mr. Rajeev Kher, the Commerce Secretary to Ministry of Commerce and Industry who led the government delegation sent out a strong message on the Daichi Sankyo – Ranbaxy transaction stating that one example cannot be used to undermine the entire Indian pharma industry which is globally competitive and India is renowned for its quality and price competitiveness.
In his response on the issue, Dr Khorakiwala, Past President, FICCI and Chairman, Wockhardt Ltd. added that the Daichi-Sankyo Ranbaxy deal was a commercial transaction and Daichi by retaining a 10 per cent stake in the merged entity had continued to show its faith in the Indian pharma industry.

- **INDIAN BUSINESS COMMUNITY IS ENTHUSED AT THE OUTCOME OF THE 6TH BRICS SUMMIT AT FORTZELA, BRAZIL**

The BRICS Business Forum meeting discussed the economic outlook for the BRICS nations as well as proposals for deepening economic integration amongst these countries. A structured business networking session was also organized as part of the BRICS Business Forum. A BRICS Business Council report which was unveiled at the summit suggests measures which the business community and the governments need to take in close coordination to enhance intra-BRICS trade and investment ties.

Some of the suggestions made by members of the business community to the BRICS governments include special arrangements on visas to facilitate and encourage BRICS people-to-people exchange, accelerating the establishment of the BRICS Development Bank to promote trade, business, investment and manufacturing ties amongst the BRICS countries and mobilising resources for infrastructure and sustainable development projects in the BRICS countries and other emerging and developing economies, creating a favourable environment to promote trade, business, investment and manufacturing ties amongst the BRICS countries and enhancing logistics and connectivity amongst the BRICS countries.

- **COMMERCE AND DIRECTOR GENERAL OF U.S. COMMERCE SERVICE**

India–US relations are undergoing transitional phase --- this was very well captured during an interaction in FICCI with Mr Arun Kumar, Assistant Secretary of Commerce and Director General of U.S. Commerce Service & accompanying official delegation. Mr Kumar appreciated the pace of momentum building up from the recent meetings of Indian Govt. with US Deputy Secretary of State William J Burns and Senator John Mc Cain. This enhanced engagement underscores the desire of both countries to see India-US relationship achieve new heights in economic and strategic cooperation.

We re-emphasized the value of strategic cooperation with United States and suggested cooperation in Manufacturing, Defence, Infrastructure and Energy security. Assistant Secretary Arun Kumar and Ambassador Kathleen Stephens also reiterated the great expectations from the new phase of India –US relations and stressed on enhancing the trade relationship with India in forthcoming years.

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