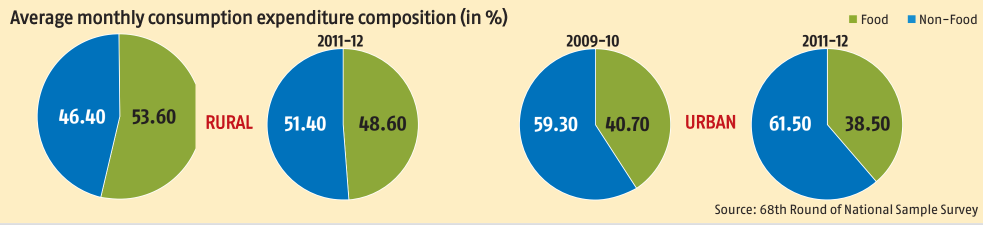
NEWS IN NUMBERS

Share of expenditure on food declining

There is a reduction in expenditure on food items as a portion of total spending by households in both rural and urban areas in a gap of two years — 2009–10 to 2011–12. This is considered a sign of prosperity in households



"There is no need for knee-jerk reaction to anything. In general, curbs or blanket bans are harmful."

RAGHURAM RAJAN
Chief Economic Advisor, ruling out more steps to curb gold import

TRADE DISCRIMINATION

India pushes back against US industry's charges

INDIRA KANNAN
Toronto, 20 June

Just ahead of the next round of the strategic dialogue with the United States, the Indian government is pushing back against allegations from American industry groups that it engages in discriminatory trade practices and does not respect global intellectual property (IP) standards.

The Indian embassy in Washington, DC, said in a statement on Wednesday that India was fully committed to protecting intellectual property. "India has a complete eco-system supporting a well-settled, stable and robust intellectual property regime. Its three main pillars are comprehensive laws, detailed rules to back them up, and strong enforcement mechanisms, including for dispute resolution," the embassy said.

American industry groups representing several major sectors of the US economy, including biotech, pharma, technology products and motion pictures, launched the Alliance for Fair Trade with India (AFTI) on June 18, calling on US President Barack Obama to engage the Indian government in talks to end what they described as India's unfair trade practices against US manufactured exports and innovative products. They have urged US Secretary of State John Kerry to bring up their complaint at the Strategic Dialogue in New Delhi next week.

The AFTI is co-chaired by the National Association of Manufacturers and the US Chamber of Commerce's Global Intellectual Property Center (GIPC). In a January 2013 report comparing IP systems worldwide, GIPC alleged India consistently ranked last, behind Brazil, China and Russia, in promotion and enforcement of patents, copyrights and trademarks. "From unprecedented patent revocations and denials to insufficient copyright enforcement, India has established itself as an outlier in the global economy," said Mark Elliott, GIPC's executive vice-president.

On Wednesday, the Indian embassy in Washington described the Indian Patents Act as one of the most comprehensive acts and asserted it was rigorously enforced. It noted that American nationals and corporations had received the highest share of all patents granted in India. "India granted 4,064 patents for pharmaceutical inventions during the period from January 1, 2005, to December 31, 2011, and more than 85 per cent were owned by foreign companies in India. This trend shows that the provisions of the Indian Patents Act related to pharmaceutical products are fair and unbiased," the embassy said.

The Indian Supreme Court's ruling against Swiss drugmaker Novartis in denying patent protection to its anti-cancer drug Glivec earlier this year had been sharply criticised by the American pharmaceutical industry. AFTI has also alleged that "administrative and court rulings in India have repeatedly ignored internationally recognised rights, imposing restrictions on medical devices and denying or revoking patents for nearly a dozen lifesaving medications".

The Indian government defended its provisions for compulsory licensing of pharmaceutical products, saying they were in accordance with the global TRIPS agreement. An Indian embassy official pointed out that more than 35 compulsory licences had been issued by 15 countries, whereas India has issued only one.

AFTI says immediate action is needed to fix the growing bilateral trade relationship, which crossed $60 billion last year. Industry groups also complained to Obama that the Indian government had recently demanded 100 per cent of its market for certain infotech and clean energy equipment had to be met by local production.

A bipartisan group of members from the US House of Representatives has also written to President Obama on this issue. In a letter dated June 18, 169 lawmakers from the Democratic and Republican parties singled out problems related to what they called the increasingly challenging IP climate in India. Warning that India was a "thought leader among emerging countries" and that others were already emulating India's IP policies, the lawmakers said, "The US government must send a strong signal to the Indian government that these actions are inconsistent with India's international obligations." Signatories to the letter include members of the India Caucus in the House of Representatives.

Meanwhile, on Wednesday, the US Senate confirmed Michael Froman, a senior economic advisor to President Obama, as the next US Trade Representative, succeeding Ron Kirk.

NSSO REPORT

Household spend: Urban-rural gap narrows

Expenditure on food articles as a proportion of monthly expenditure decreasing

BS REPORTER
New Delhi, 20 June

The urban-rural divide declined in terms of household consumption expenditure in a two-year period ended June 30, 2012, even as villagers still spent 84 per cent less than their town counterparts, official data showed today.

The average monthly per capita expenditure in rural areas was ₹1,430; it was 84 per cent higher in urban areas, at ₹2,630, in 2011-12 (July to June), according to the 68th round of the National Sample Survey.

In 2009-10, urban expenditure was ₹1,984.5 a month, 88 per cent higher than the rural consumption figure of ₹1,053.6.

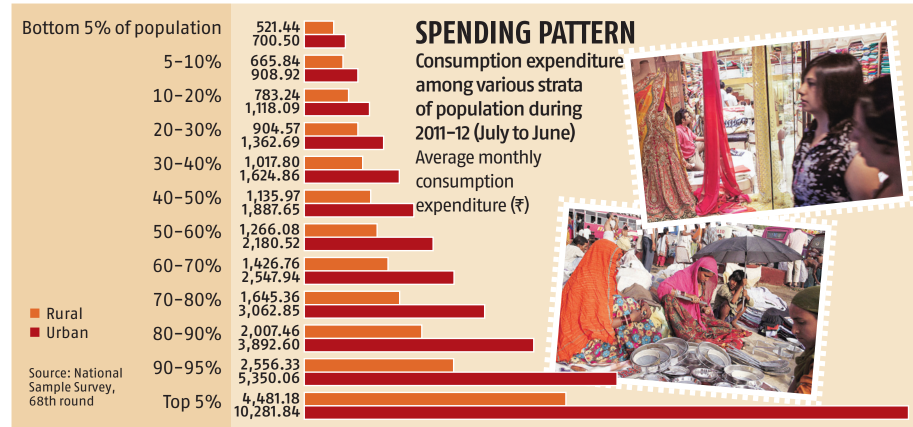
Inequality between the top and bottom 10 per cent of the population rose slightly in rural areas but remained flat in urban areas in terms of consumption over the period, the data showed.

The bottom 10 per cent of households spent 16.9 per cent of what the top 10 per cent did on consumption in 2011-12 in rural areas, against nearly 18 per cent in 2009-10.

On the other hand, the poorest 10 per cent in terms of consumption in urban areas roughly spent 10.3 per cent of what the richest 10 per cent incurred in 2011-12 as compared to 10.2 per cent in 2009-10.

There is no measurement in India on income inequality and the consumption pattern is taken as a proxy for this parameter.

Household consumption expenditure data normally comes after a gap of five years. However, the latest report was issued after two years since 2009-10 was considered an aberration; it was a year after the global financial crisis and a major portion of 2009 saw a drought.



The Planning Commission is likely to issue its revised poverty line on the basis of these numbers, once the panel chaired by C Rangarajan, the Prime Minister's Economic Advisory Council chairman, gives its report on revising the earlier Suresh Tendulkar committee parameters.

Last year, the Commission had stirred a controversy when it pegged the poverty line at ₹28.65 per capita daily consumption in cities and ₹22.42 in rural areas for 2009-10.

Consumption expenditure on food articles as a proportion of total monthly expenditure of rural households decreased by 6.4 percentage points during the 2009-2012 period, a far sharper drop than during the current coalition's first tenure in 2004-09. A decrease in the proportion of total expenditure on food is considered a sign of more prosperity.

Food consumption was 48.6 per cent of total expenditure in rural areas in 2011-12, compared to 55 per cent in 2009-10. The expenditure had declined by only 1.4 percentage points, from 55 per cent in 2004-05 to 53.6 per cent in 2009-10, roughly coinciding with the UPA regime's first stint.

In urban areas, the fall in proportion of food consumption expenditure to that of total consumption fell slower, from 40.7 per cent to 38.5 per cent from 2009-10 to 2011-12. During 2004-05 to 2009-10, this had declined from 42.5 per cent to 40.7 per cent.

Unemployment rises across genders

BS REPORTER
New Delhi, 20 June

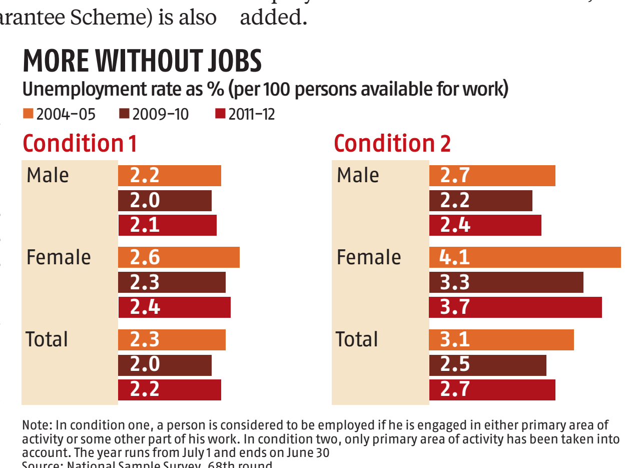
For the two years ended June 30, 2012, unemployment rose across genders. In aggregate terms, it rose 0.2 percentage points during the period. Unemployment for women was higher than that for men, according to data released in the 68th round of the National Sample Survey.

If primary work alone is taken into account, unemployment for women rose 0.4 percentage points to 37 per 1,000 people willing to work (3.7 per cent) in 2011-12, against 33 per 1,000 in 2009-10. In the case of men, unemployment rose 0.2 percentage points to 2.4 per cent, against 2.2 per cent in 2009-10. During the period, overall unemployment rose from 2.5 per cent to 2.7 per cent.

However, if the work under other schemes (for instance, work under the Mahatma Gandhi National Rural Employment Guarantee Scheme) is also considered, the rise in overall unemployment works out to 0.1 percentage points. For men, unemployment rose from two per cent to 2.1 per cent, while for women, it rose from 2.3 per cent to 2.4 per cent.

Unemployment in urban areas, for both men and women, was higher than in rural areas. In rural areas, unemployment rose from 2.1 per cent in 2009-10 to 2.4 per cent in 2011-12, if primary work alone is considered; in urban areas, it rose from 3.7 per cent to 3.8 per cent. If other work is also taken into account, the rise in unemployment in rural areas works out to 1.7 per cent, against 1.6 per cent in 2009-10. For urban areas, it remained flat at 3.4 per cent.

Between 2004-05 and 2009-10 (a period roughly coinciding with the first term of the United Progressive Alliance government), unemployment had declined. However, according to the 12th Plan document, unemployment in the manufacturing sector rose by five million during this period. National Statistical Commission Chairman and former chief statistician Pronab Sen said between 2009-10 and 2011-12, layoffs hadn't been reported. However, the job market might not be recording employment in sufficient numbers, he added.

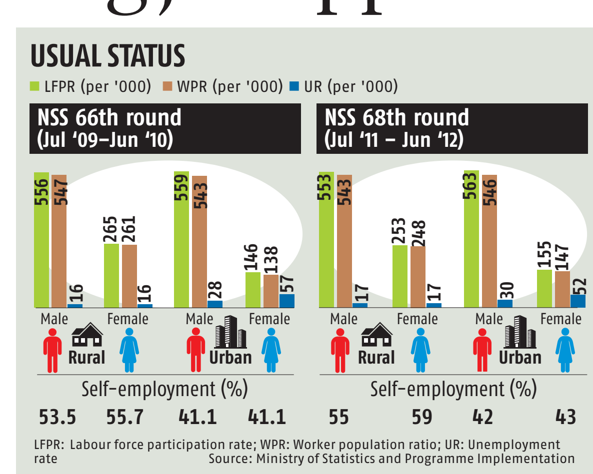


Curse of Indian youth: Vanishing job opportunities

KUNAL KUMAR KUNDU

On Thursday, India's National Sample Survey Office (NSSO) released the salient features of the 68th round of survey with regard to employment and unemployment data. While further details are awaited, the available data paints a rather grim picture.

For starters, the latest round of the survey confirms the belief that India is experiencing jobless growth. When the results of the 66th round was announced in 2011, it was severely criticised by the government as the usual status data (which is the main activity that people declare themselves to be engaged in on a usual basis over the course of the previous year) indicated falling employment rate (worker population ratio, or WPR) and rising unemployment rent. In the 66th round survey, WPR fell to 392 per 1,000 in 2009-10 from 420 per 1,000 in 2004-05. It fell further to 386 per 1,000 during 2011-12. On the other hand, the unemployment rate increased from 20 per 1,000 from 2009-10 to 22 per 1,000 in 2011-12. This means while there were 9.2 million unemployed persons in 2010, by 2012, the number increased to 10.4 million. What is even more worrying is that, the rise is unemployment has come about despite a fall in labour force participation rate (LFPR).



In fact, the fall in LFPR, especially of the women, is another area of concern. This can be partly explained by the increasing number of young people opting to go for higher education and thereby delaying their entry into the work force. While this might be a good sign, drought of appropriate employment opportunities and rising incidences of unemployed educated graduates fail to inspire confidence about the future.

Interestingly, while the 2010 data was also trashed by the government as a year of aberration due to severe drought conditions and the lingering effect of global crisis, the continuation of the dismal trend through to 2012 clearly exposes the structural fault lines within the economy. In fact, the official explanation for a high level of self-employment in 2010 was that it was a condition, forced by extreme drought as people had to give up regular occupation and take up self-employment.

NEWS ANALYSIS

However, though 2012 was a normal year, the shares of self-employment in total workforce actually increased across categories, as can be seen from the table. Quite evidently lack of gainful employment opportunities is forcing more and more people to opt for self-employment, the majority of which is low quality and low productive work.

For a country that has one of the most conducive demography in the world, this data is a grim reminder that India has its task cut out.

The author is a Delhi-based independent economist

Business Standard
MUMBAI EDITION

Printed and Published by Ranjit Anand Singh Rawat on behalf of Business Standard Limited and printed at M/s. Nai Duniya - A Unit of Jagran Prakashan Limitd, 23/4/5-A, Sector - D, Govindpura Industrial Area, J.K.road, Near Minal Residency, Bhopal (M.P) & M/s. Dangat Media Private Limited, Mehra Centre, Marwah Estate, Saki Vihar Road, Off. Saki Naka, Mumbai - 400 072 and published at 3rd & 4th Floor, Building H, Paragon condominium, Opp. Century Mills, P B Marg, Worli, Mumbai - 400 013

Editor : A K Bhattacharya

RNI NO: 66308/1996

Readers should write their feedback at **feedback@bsmail.in**
Fax : +91-11-23720201

For Subscription and Circulation enquiries please contact:
Ms. Mansi Singh
Head-Customer Relations
Business Standard Limited.
3rd & 4th floor, Building H,
Paragon Condominium, Opp Century Mills,
P B Marg, Worli, Mumbai - 400 013
E-mail: subs_bs@bsmail.in
Tel: 1800-11-4300 (Toll Free)
"or **sms**, SUB BS to 57007"

Overseas subscription:
(Mumbai Edition Only)
One year subscription rate by air mail
INR 37440 : USD 830 : EURO 613

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No Air Surcharge

Bill soon to regulate medical equipment sector

The government would soon replace the Drugs and Cosmetics (Amendment) Bill, 2007, with a Bill regulating the medical equipment industry, the joint secretary in the health ministry, Arun Kumar Panda, said on Thursday. PTI

CIL submits social spend report for Mozambique venture

SUDHEER PAL SINGH
New Delhi, 20 June

State-owned Coal India Limited (CIL) has submitted its final report on social sector spending in its Mozambique project to the coal ministry, bringing it a step closer to starting overseas production.

The extent and mode of local expenditure has been a bone of contention between the Indian and the Mozambique governments and a major irritant stalling the progress of the world's largest miner's maiden project abroad.

"We submitted our report to the coal ministry in May end, pegging expenditure on setting up Apex Planning Organization (APO) and Apex Training Organization (ATO) in Mozambique at ₹250 crore. It has been sent to the external affairs ministry," a senior CIL official told *Business Standard*. "We plan to start the third and final round of exploration in December and start mining in 2016-17."

For the past few years, CIL has been allocating ₹6,000 crore annually for overseas investments, but has failed repeatedly in its acquisition plans. The miner had earlier shortlisted Australian miner Peabody Energy's Wilkie Creek mine and US-based Massey Energy Co's Sidney mines, but failed. It had considered buying a stake in Indonesia's PT Golden Energy Mines Tbk (GEMS) but lost the deal owing to bureaucratic hurdles. Infrastructure conglomerate GMR later bought 30 per cent in GEMS in 2011.

In Mozambique, Coal India was allocated two blocks with reserves exceeding a billion tonne in a government-to-government deal in the Tete province in 2009. But, progress on the project has been slow, owing to procedural delays in outsourcing drilling contracts and the inter-governmental differences over the pattern of funding. "The lack of local infrastructure support, including roads and ports, has been a major issue. We are assuming that by the time we start mining in 2016, the Mozambique government would build infrastructure for evacuation," the CIL official said.

Broadly, the idea is to import the entire quantity of coal available in the African nation to India, to bridge the gap in demand and supply of coal, which currently stands at over 130 million tonnes for domestic industries. CIL has already missed the original deadline of starting production by 2013. "The delay occurred largely because the Indian government's own interest in the African region hijacked what was a completely commercial deal for us," another CIL official said.

For full report, visit www.business-standard.com

Ficci protests to Antony about discrimination in defence

AJAI SHUKLA
New Delhi, 20 June

The Federation of Indian Chambers of Commerce and Industry (Ficci) has written to Defence Minister A K Antony, complaining that the Defence Procurement Procedure of 2013 (DPP-2013) is "failing to address the critical survival issue before the private sector today, of risk cover against Exchange Rate Variation (ERV)."

Battered by the rising dollar that is testing the ₹60 mark, Indian private sector firms that made bold to enter defence production say they are losing the fight. Private firms must buy costly insurance against exchange rate variation (ERV), an added annual cost of about six per cent. Their overseas competitors bear no such risk.

"This effectively means that the private sector will continue to reel under the effects of a depreciating value of rupee and high cost of inflation losing on competitiveness vis a vis foreign OEMs [original equipment manufacturers] especially with the DCF [discounted cash flow] methodology (of calculating the lowest cost bidder) favouring foreign OEMs given the currency stability in the western world," wrote Ficci Secretary General, A Didar Singh to Mr Antony.

In comparing bids under the DCF process (which involves discounting all payments to be made in the future and reducing them to their present value) the DPP has inexplicably mandated a flat 9.5 per cent cost of capital, both for Indian and global companies. Indian CEOs point out that the real cost of money for a foreign vendor is far lower (about 3 per cent annually, given today's one-year LIBOR rate of 0.7) than the 10-15 per cent that Indian firms borrow money at. This allows foreign vendors to bid significantly lower.

Ficci has also expressed deep concern that DPP-2013 has not implemented the defence minister's oft-stated promise to end the "nomination" of DPSU's in major defence programmes.

"The retention of 'Nomination of DPSU's/OFB' in DPP 2013... compromises MoD's stated intent to make private sector a key player in defence production," says Ficci's letter.

Ficci points out that DPSUs/OFB get ERV protection in nominated tenders, which currently amount to some ₹30,000 crore. This, say private sector CEOs, entirely changes the public sector's perception of financial risk, providing greater assurance.

Also affecting DPSUs/OFB perception of risk positively, is the Progressive Payment Schedule, which governs MoD payments to the public sector for nominated tenders. This allows DPSUs/OFB to build up enormous cash balances. In contracts with private sector firms, the MoD pays 15 per cent advance; 75 per cent at the time of delivery of the equipment; and the balance 10 per cent linked with the warranty.

But the public sector enjoys a preferential schedule. According to a MoU, which the MoD has with all DPSUs/OFB, these companies get 15 per cent advance; and the final 10 per cent is also linked with warranty. But 75 per cent is paid incrementally, at different stages of manufacture, linked with milestones like placement of order, receipt of material, production of prototype, etc. This ensures a steady cash flow that is more reassuring than the "on delivery" payment implemented with the private sector.

Ficci's letter raises another key private sector complaint: the MoD's failure to rationalise taxes and duties on offsets. A telling case is that of electronics company, Astra Microwave, which builds radar components in an offset-linked contract with Israeli company Elta. The tax and duty regime at the factory gate of Indian companies makes it cheaper for Astra Microwave to export its components to Israel and then import them back to India, than supplying them directly from its factory.

Without rationalising the tax structure, "the Indian defence sector will remain at sub-component level and not move up the value chain to achieve System Integration capabilities," says Ficci.

But it is the falling rupee that has most affected the Indian defence industry, which has a 30-70 per cent share of foreign components even in "indigenous" weaponry. Defence industry sources say hedging costs were six per cent annually when the rupee was stable. A three-year hedge, the bare minimum given that defence contracts are typically discharged over five-seven years, added 17-18 per cent to the forex component. Today, given the tumbling rupee, a three-year hedge adds 30 per cent to the forex cost.