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THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

Contents

1. Macroeconomy

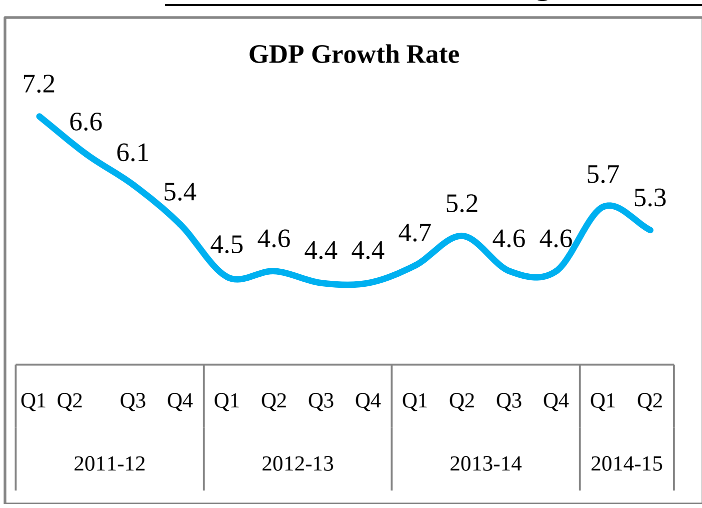
1.1 Recommendations of High Level Committee on restructuring of Food Corporation of India (FCI)

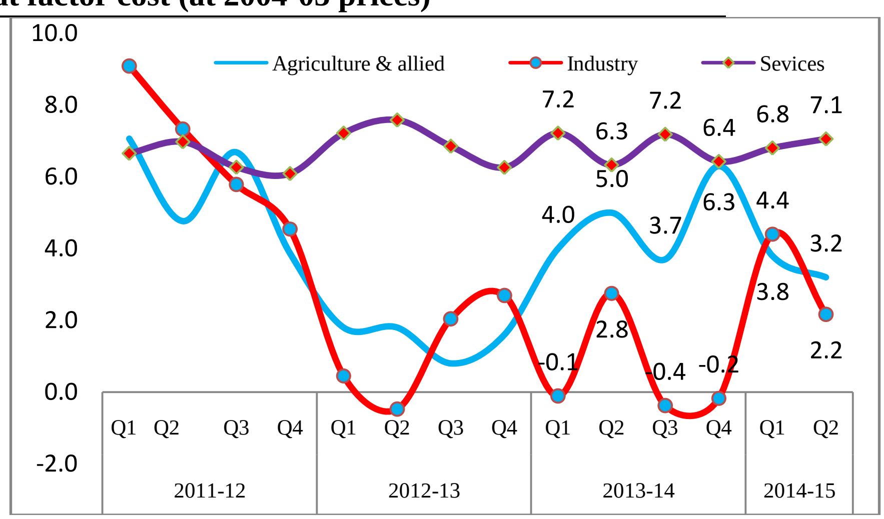
High Level Committee (HCL) on restructuring of Food Corporation of India was set up by the Government on 20th August, 2014. The major issue before the Committee was how to make the entire food grain management system more efficient by reorienting the role of FCI in MSP operations, procurement, storage and distribution of grains under Targeted Public Distribution System (TPDS). The Committee had wide consultations with several Chief Ministers, Food Secretaries and other stakeholders in various States.

Major Recommendations of the High Level Committee are:

On procurement related issues.

GDP growth rate at factor cost (at 2004-05 prices)

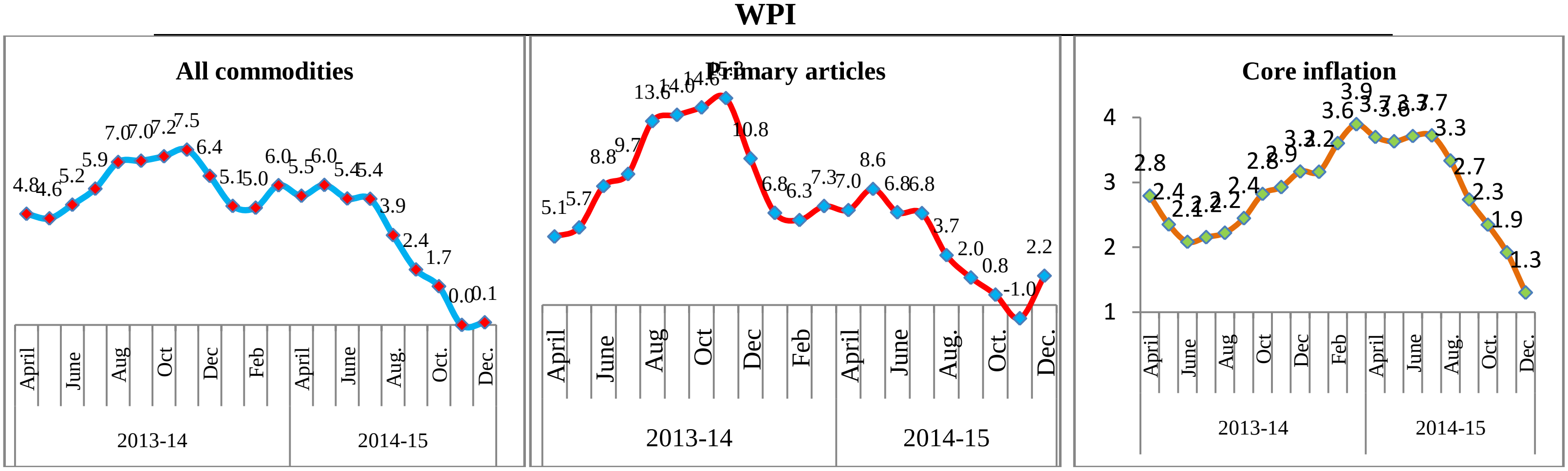




HLC recommends that FCI hand over all procurement operations of wheat, paddy and rice to states that have gained sufficient experience in this regard and have created reasonable infrastructure for procurement. These states are Andhra Pradesh, Chhattisgarh, Haryana, Madhya Pradesh, Odisha and Punjab. FCI will accept only the surplus (after deducting the needs of the states under NFSA) from these state governments (not millers) to be moved to deficit states. FCI should move on to help those states where farmers suffer from distress sales at prices much below MSP, and which are dominated by small holdings, like Eastern Uttar Pradesh, Bihar, West Bengal, Assam etc. This is the belt from where second green revolution is expected, and where FCI needs to be pro-active, mobilizing state and other agencies to provide benefits of MSP and procurement to larger number of farmers, especially small and marginal ones.

DFPD/FCI at the Centre should enter into an agreement with states before every procurement season regarding costing norms and basic rules for procurement. Three issues are critical to be streamlined to bring rationality in procurement operations and bringing back private sector in competition with state agencies in grain procurement: (1) Centre should make it clear to states that in case of any bonus being given by them on top of MSP, Centre will not accept grains under the central pool beyond the quantity needed by the state for its own PDS and OWS; (2) the statutory levies including commissions, which vary from less than 2 percent in Gujarat and West Bengal to 14.5 percent in Punjab, need to be brought down uniformly to 3 percent, or at most 4 percent of MSP, and this should be included in MSP itself (states losing revenue due to this rationalization of levies can be compensated through a diversification package for the next 3-5 years); (3) quality checks in procurement have to be adhered to, and anything below the specified quality will not be acceptable under central pool.

WPI

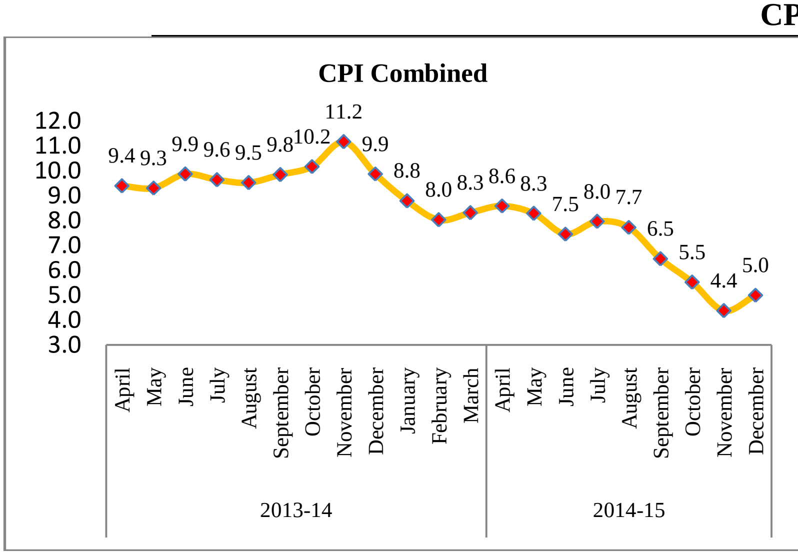


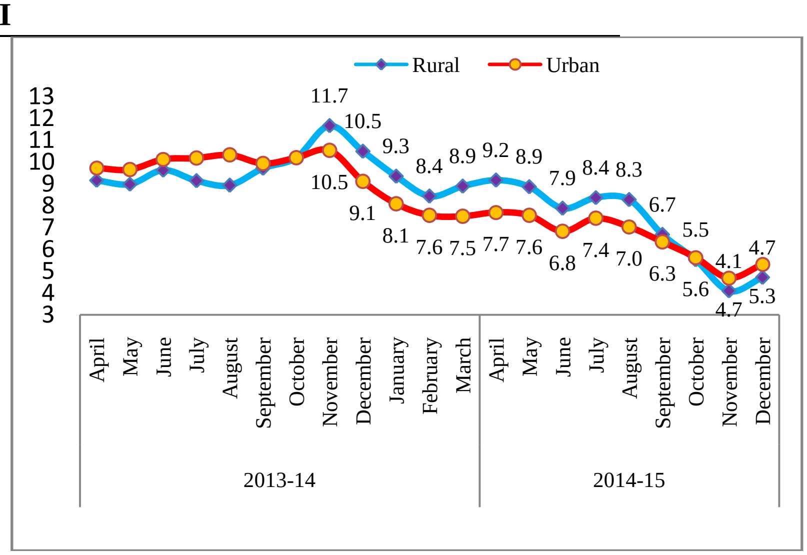
Quality checks can be done either by FCI and/or any third party accredited agency in a transparent manner with the help of mechanized processes of quality checking. HLC also recommends that levy on rice millers be done away with. HLC notes and commends that some steps have been taken recently by DFPD in this direction, but they should be institutionalized for their logical conclusion.

Negotiable warehouse receipt system (NWRs) should be taken up on priority and scaled up quickly. Under this system, farmers can deposit their produce to the registered warehouses, and get say 80 percent advance from banks against their produce valued at MSP. They can sell later when they feel prices are good for them. This will bring back the private sector, reduce massively the costs of storage to the government, and be more compatible with a market economy. GoI (through FCI and Warehousing Development Regulatory Authority (WDRA)) can encourage building of these warehouses with better technology, and keep an on-line track of grain stocks with them on daily/weekly basis. In due course, GoI can explore whether this system can be used to compensate the farmers in case of market prices falling below MSP without physically handling large quantities of grain.

GoI needs to revisit its MSP policy. Currently, MSPs are announced for 23 commodities, but effectively price support operates primarily in wheat and rice and that too in selected states. This creates highly skewed incentive structures in favour of wheat and rice. While country is short of pulses and oilseeds (edible oils), their prices often go below MSP without any effective price support.

CPI





Further, trade policy works independently of MSP policy, and many a times, imports of pulses come at prices much below their MSP. This hampers diversification. HLC recommends that pulses and oilseeds deserve priority and GoI must provide better price support operations for them, and dovetail their MSP policy with trade policy so that their landed costs are not below their MSP.

On PDS and NFSA related issues

HLC recommends that GoI has a second look at NFSA, its commitments and implementation. Given that leakages in PDS range from 40 to 50 percent, and in some states go as high as 60 to 70 percent, GoI should defer implementation of NFSA in states that have not done end to end computerization; have not put the list of beneficiaries online for anyone to verify, and have not set up vigilance committees to check pilferage from PDS.

HLC also recommends to have a relook at the current coverage of 67 percent of population; priority households getting only 5 kgs/person as allocation; and central issue prices being frozen for three years at Rs 3/2/1/kg for rice/wheat/coarse cereals respectively. HLC`s examination of these issue reveals that 67 percent coverage of population is on much higher side, and should be brought down to around 40 percent, which will comfortably cover BPL families and some even above that; 5kg grain per person to priority households is actually making BPL households worse off, who used to get 7kg/person under the TPDS. So, HLC recommends that they be given 7kg/person.

On central issue prices, HLC recommends while Antyodya households can be given grains at Rs 3/2/1/kg for the time being, but pricing for priority households must be linked to MSP, say 50 percent of MSP. Else, HLC feels that this NFSA will put undue financial burden on the exchequer, and investments in agriculture and food space may suffer. HLC would recommend greater investments in agriculture in stabilizing production and building efficient value chains to help the poor as well as farmers.

HLC recommends that targeted beneficiaries under NFSA or TPDS are given 6 months ration immediately after the procurement season ends. This will save the consumers from various hassles of monthly arrivals at FPS and also save on the storage costs of agencies. Consumers can be given well designed bins at highly subsidized rates to keep the rations safely in their homes.

HLC recommends gradual introduction of cash transfers in PDS, starting with large cities with more than 1 million population; extending it to grain surplus states, and then giving option to deficit states to opt for cash or physical grain distribution. This will be much more cost effective way to help the poor, without much distortion in the production basket, and in line with best international practices. HLC`s calculations reveal that it can save the exchequer more than Rs 30,000 crores annually, and still giving better deal to consumers. Cash transfers can be indexed with overall price level to protect the amount of real income transfers, given in the name of lady of the house, and routed through Prime Minister`s Jan-Dhan Yojana (PMJDY) and dovetailing Aadhaar and Unique Identification (UID) number. This will empower the consumers, plug high leakages in PDS, save resources, and it can be rolled out over the next 2-3 years.

On stocking and movement related issues

HLC recommends that FCI should outsource its stocking operations to various agencies such as Central Warehousing Corporation, State Warehousing Corporation, Private Sector under Private Entrepreneur Guarantee (PEG) scheme, and even state governments that are building silos through private sector on state lands (as in Madhya Pradesh). It should be done on competitive bidding basis, inviting various stakeholders and creating competition to bring down costs of storage.

India needs more bulk handling facilities than it currently has. Many of FCI`s old conventional storages that have existed for long number of years can be converted to silos with the help of private sector and other stocking agencies. Better mechanization is needed in all silos as well as conventional storages.

Covered and plinth (CAP) storage should be gradually phased out with no grain stocks remaining in CAP for more than 3 months. Silo bag technology and conventional storages where ever possible should replace CAP.

Movement of grains needs to be gradually containerized which will help reduce transit losses, and have faster turn-around-time by having more mechanized facilities at railway sidings.

On Buffer Stocking Operations and Liquidation Policy

One of the key challenges for FCI has been to carry buffer stocks way in excess of buffer stocking norms. During the last five years, on an average, buffer stocks with FCI have been more than double the buffer stocking norms costing the nation thousands of crores of rupees loss without any worthwhile purpose being served. The underlying reasons for this situation are many, starting with export bans to open ended procurement with distortions (through bonuses and high statutory levies), but the key factor is that there is no pro-active liquidation policy. DFPD/FCI have to work in tandem to liquidate stocks in OMSS or in export markets, whenever stocks go beyond the buffer stock norms. The current system is extremely ad-hoc, slow and costs the nation heavily. A transparent liquidation policy is the need of hour, which should automatically kick-in when FCI is faced with surplus stocks than buffer norms. Greater flexibility to FCI with business orientation to operate in OMSS and export markets is needed.

On Labour Related Issues

FCI engages large number of workers (loaders) to get the job of loading/unloading done smoothly and in time. Currently there are roughly 16,000 departmental workers, about 26,000 workers that operate under Direct Payment System (DPS), some under no work no pay, and about one lakh contract workers. A departmental worker (loader) costs FCI about Rs 79,500/per month (April-Nov 2014 data) vis-a-vis DPS worker at Rs 26,000/per month and contract labour costs about Rs 10,000/per month. Some of the departmental labours (more than 300) have received wages (including arrears) even more than Rs 4 lakhs/per month in August 2014. This happens because of the incentive system in notified depots, and widely used proxy labour. This is a major aberration and must be fixed, either by de-notifying these depots, or handing them over to states or private sector on service contracts, and by fixing a maximum limit on the incentives per person that will not allow him to work for more than say 1.25 times the work agreed with him. These depots should be put on priority for mechanization so that reliance on departmental labour reduces. If need be, FCI should be allowed to hire people under DPS/NWNP system. Further, HLC recommends that the condition of contract labour, which works the hardest and are the largest in number, should be improved by giving them better facilities.

On direct subsidy to farmers

Since the whole system of food management operates within the ambit of providing food security at a national as well as at household level, it must be realized that farmers need due incentives to raise productivity and overall food production in the country. Most of the OECD countries as well as large emerging economies do support their farmers. India also gives large subsidy on fertilizers (more than Rs 72,000 crores in budget of FY 2015 plus pending bills of about Rs 30,000-35,000 crores). Urea prices are administered at a very low level compared to prices of DAP and MOP, creating highly imbalanced use of N, P and K. HLC recommends that farmers be given direct cash subsidy (of about Rs 7000/ha) and fertilizer sector can then be deregulated. This would help plug diversion of urea to non-agricultural uses as well as to neighbouring countries, and help raise the efficiency of fertilizer use. It may be noted that this type of direct cash subsidy to farmers will go a long way to help those who take loans from money lenders at exorbitant interest rates to buy fertilizers or other inputs, thus relieving some distress in the agrarian sector.

On end to end computerization

HLC recommends total end to end computerization of the entire food management system, starting from procurement from farmers, to stocking, movement and finally distribution through TPDS. It can be done on real time basis, and some states have done a commendable job on computerizing the procurement operations. But its dovetailing with movement and distribution in TPDS has been a weak link, and that is where much of the diversions take place.

On the new face of FCI

The new face of FCI will be akin to an agency for innovations in Food Management System with a primary focus to create competition in every segment of food grain supply chain, from procurement to stocking to movement and finally distribution in TPDS, so that overall costs of the system are substantially reduced, leakages plugged, and it serves larger number of farmers and consumers. In this endeavour it will make itself much leaner and nimble (with scaled down/abolished zonal offices), focus on eastern states for procurement, upgrade the entire grain supply chain towards bulk handling and end to end computerization by bringing in investments, and technical and managerial expertise from the private sector. It will be more business oriented with a pro-active liquidation policy to liquidate stocks in OMSS/export markets, whenever actual buffer stocks exceed the norms. This would be challenging, but HLC hopes that FCI can rise to this challenge and once again play its commendable role as it did during late 1960s and early 1970s.

1.2 Gross Direct Tax Collections during April-December 2014-15

Gross direct tax collection during April-December of the Financial Year 2014-15 is up by 12.93 percent at Rs. 5,46,661 crore as against Rs. 4,84,063 crore collected during the same period last year. Gross collection of Corporate tax has shown an increase of 12.79 percent and stood at Rs. 3,50,494 crore as against Rs. 3,10,754 crore collected during the same period last year. Gross collection of Personal income tax is up by 12.62 percent and stood at Rs.1,90,391 crore as against Rs.1,69,059 crore collected during the same period last year.

Securities Transaction Tax (STT) stands at Rs. 4940 crore at a growth of 43.44%. Net direct tax collections are up by 7.41 percent and stand at Rs. 4,48,401 crore, as compared to Rs. 4,17,477 crore in the same period in the last fiscal.

Advance tax collection has shown a growth of 13.15% during April-December of the FY 2014-15 as against the growth of 8.76% shown at the same time previous year. Growth in TDS is 7.84% as against 16.73% in the same period last year.

The Self-Assessment Tax shows a growth of 22.20% as against 11.86% in the same period last year. The growth in Regular Tax is 33.03% as against 15.60% in the same period last year.

2. Corporate Sector

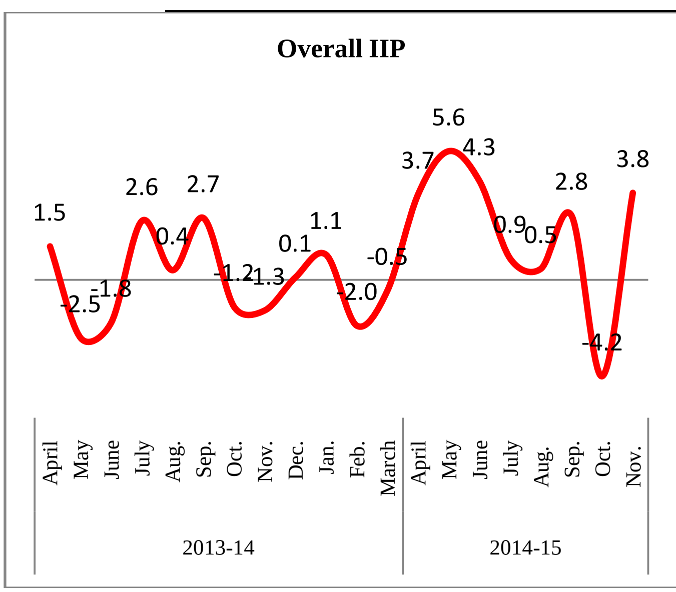
2.1 Tourist Visa on Arrival (TVoA), December, 2014

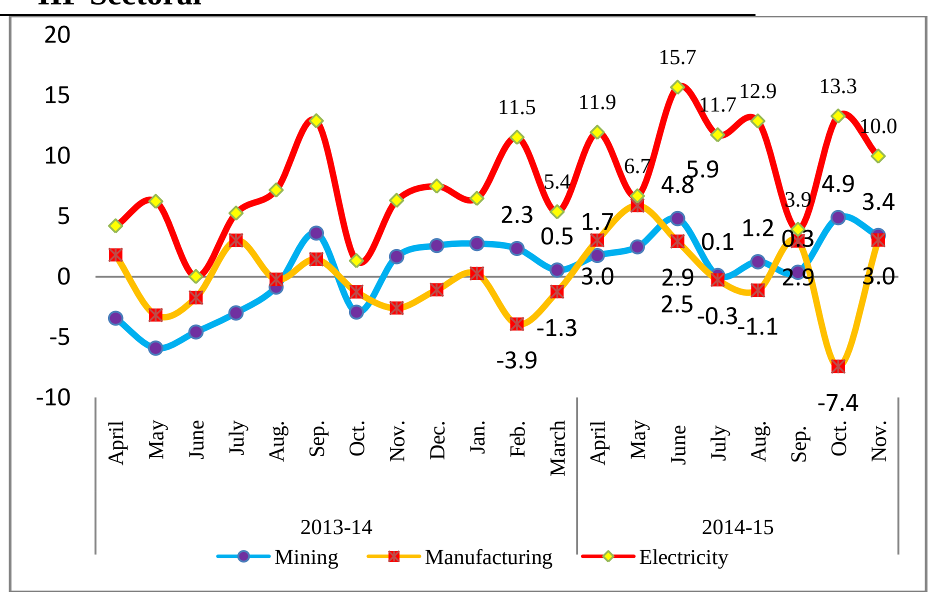
The Government has launched Tourist Visa on Arrival (TVoA) enabled by Electronic Travel Authorization (ETA) on 27th November 2014 for 43 countries. Prior to it, only the normal TVoA scheme was in operation for 12 countries. The following are the important highlights of TVoA (including ETA enabled) issued during December, 2014:

(i) During the month of December 2014, a total of 14,083 TVoA were issued as compared to 2,700 TVoA during the month of December 2013, registering a growth of 421.6%. During January – December 2014, a total number of 39,046 TVoA were issued as compared to 20,294 TVoAs during the corresponding period of 2013 registering a growth of 92.4%. This high growth is due to introduction of ETA enabled TVoA for 43 countries in November 2014.

(ii) The percentage share of top 10 source countries for TVoA, in India during December 2014, were as follows:

IIP Sectoral





USA (24.26%), Russian Federation (15.06%), Republic of Korea (11.01%), Ukraine (8.16%), Australia (7.98%), New Zealand (5.08%), Japan (4.30%), Singapore (4.27%), Germany (4.05%) and the Philippines (3.10%).

(iii) The percentage share of different destinations for TVoA, in India during December 2014, were as follows:

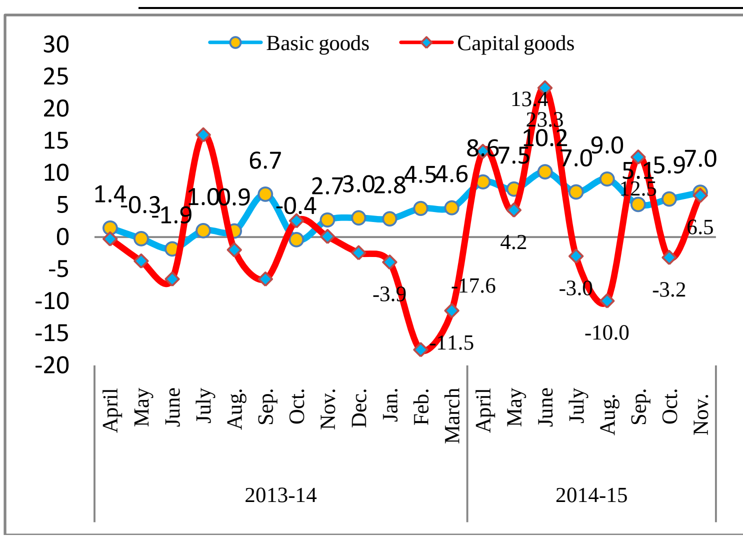
New Delhi (35.78%), Mumbai (21.05%), Goa (18.24%), Chennai (7.17%), Bengaluru (5.76%), Kochi (4.54%), Hyderabad (3.13%), Kolkata (2.35%), and Trivandrum (1.98%)

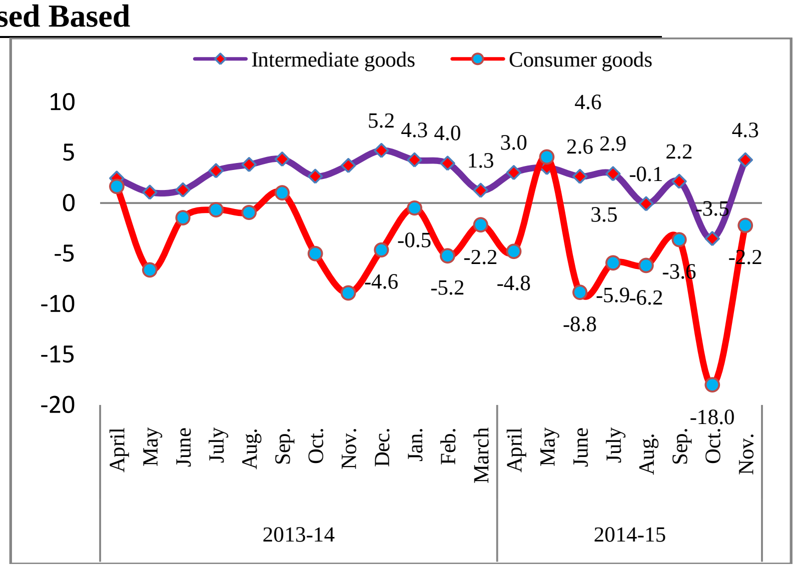
2.2 Commodity-Wise Freight Revenue Earnings of Railways during April-December 2014

The Indian Railways has generated Rs. 75986.04 crore of revenue earnings from commodity-wise freight traffic during April-December 2014 as compared to Rs. 67705.11 crore during the corresponding period last year, registering an increase of 12.23 per cent. Railways carried 808.57 million tonnes of commodity-wise freight traffic during April-December 2014 as compared to 769.74 million tonnes carried during the corresponding period last year, registering an increase of 5.04 per cent.

During the month of December 2014, Railways generated Rs. 9775.45 crore as compared to Rs. 8635.38 crore during the same period last year, registering an increase of 13.20 per cent. Out of which, Rs. 4595.42 crore came from transportation of 48.91 million tonnes of coal, followed by Rs. 751.07 crore from 9.15 million tonnes of iron ore for exports, steel plants and for other domestic user, Rs. 778.12 crore from 9.08 million tonnes of cement, Rs. 723.46 crore from 4.37 million

IIP Used Based

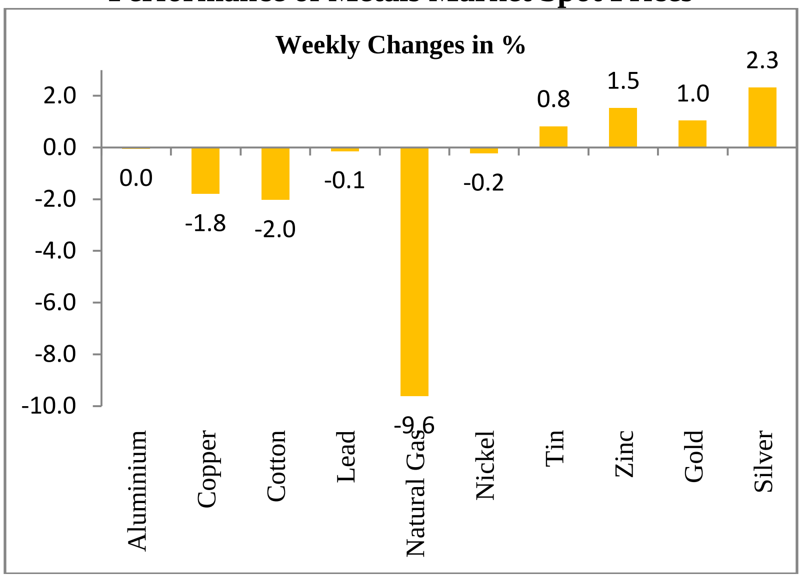




tonnes of food grains, Rs. 501.64 crore from 3.59 million tonnes of petroleum oil and lubricant (POL), Rs. 556.47 crore from 3.37 million tonnes of Pig iron and finished steel from steel plants and other points, Rs. 627.05 crore from 4.86 million tonnes of fertilizers, Rs. 162.86 crore from 1.56 million tonnes of raw material for steel plants except iron ore, Rs. 471.80 crore from 4.29 million tonnes by container service and Rs. 607.56 crore from 6.29 million tonnes of other goods.

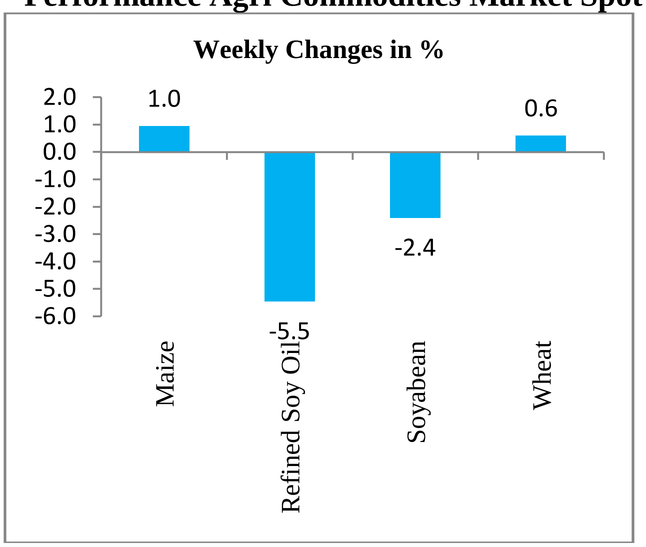
2.3 Metals and Agri. Commodities Market Spot Prices

Performance of Metals Market Spot Prices



Source: MCX, ASSOCHAM Economic Research Bureau
Note: For detail please refer appendix

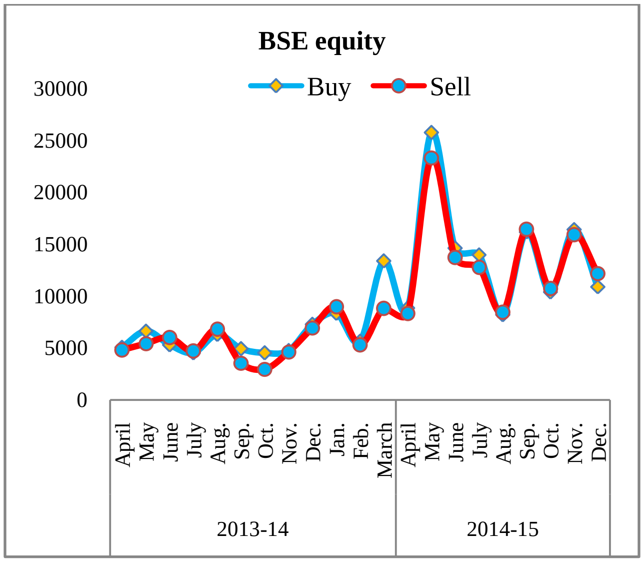
Performance Agri Commodities Market Spot Prices

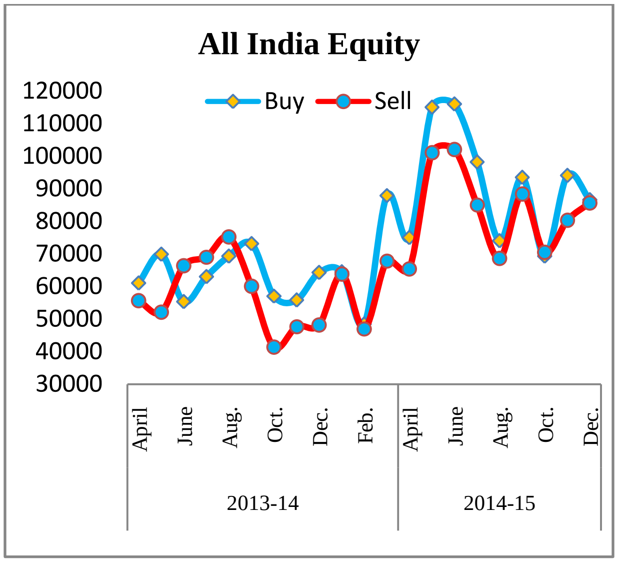


Source: MCX, ASSOCHAM Economic Research Bureau
Note: For detail please refer appendix

3. Market Trends

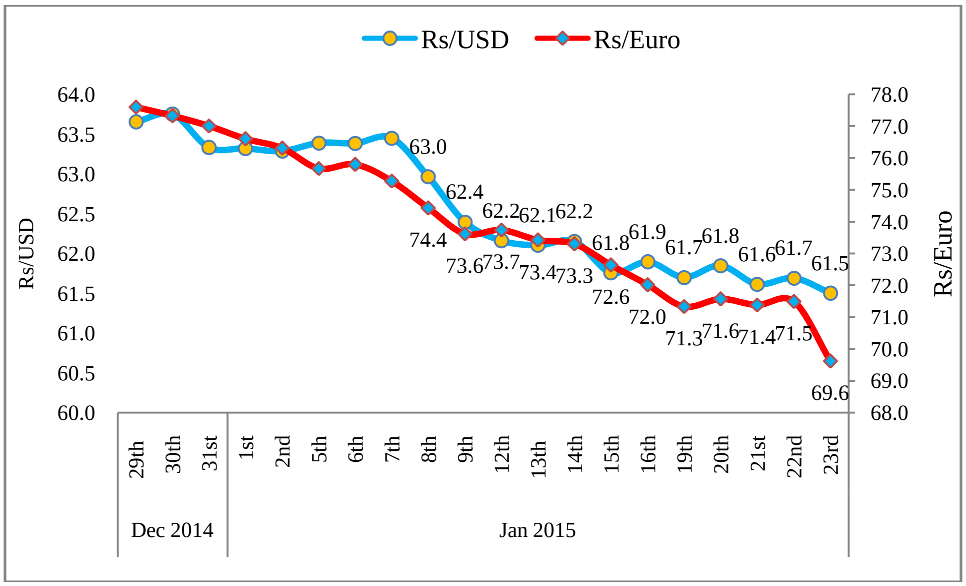
FII Equity Flows Equity (Rs. Crore)



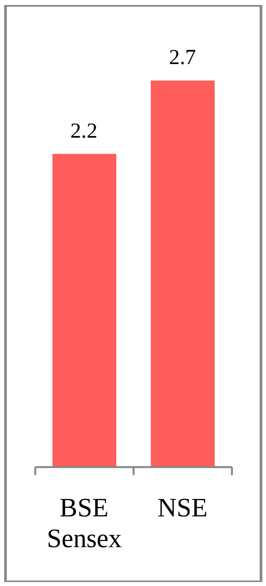


Source: BSE and ASSOCHAM Economic Research Bureau

Exchange Rate



Market Variation



Source: RBI, BSE, NSE and ASSOCHAM Economic Research Bureau

4. Global Developments

4.1 Euro Area Government Debt

At the end of the third quarter of 2014, the government debt to GDP ratio in the Euro Area (EA18) stood at 92.1%, compared with 92.7% at the end of the second quarter of 2014. In the EU28, the ratio decreased from 87.0% to 86.6%. This decrease in the EU28 government debt to GDP ratio comes after fifteen consecutive quarters of increase. Compared with the third quarter of 2013, the government debt to GDP ratio rose in both the Euro Area (from 91.1% to 92.1%) and the EU28 (from 85.3% to 86.6%).

At the end of the third quarter of 2014, debt securities accounted for 79.3% of Euro Area and for 81.0% of EU28 general government debt, loans for 17.9% and 15.3% respectively and currency and deposits for 2.8% and 3.7%.

Due to the involvement of EU governments in financial assistance to certain Member States, quarterly data on intergovernmental lending (IGL) is also published. The share of IGL in GDP at the end of the third quarter of 2014 amounted to 2.4% in the Euro Area and to 1.8% in the EU28.

Table 1
Government debt Euro Area

		2013 Q3	2014 Q2	2014 Q3
EA18				
Government debt	(million euro)	8 991 420	9261502	9233370
	(% of GDP)	91.1	92.7	92.1
Of which: Currency and deposits	(million euro)	259186	262231	259368
	(% of total debt)	2.9	2.8	2.8
Debt Securities	(million euro)	7067368	7345140	7318138
	(% of total debt)	78.6	79.3	79.3

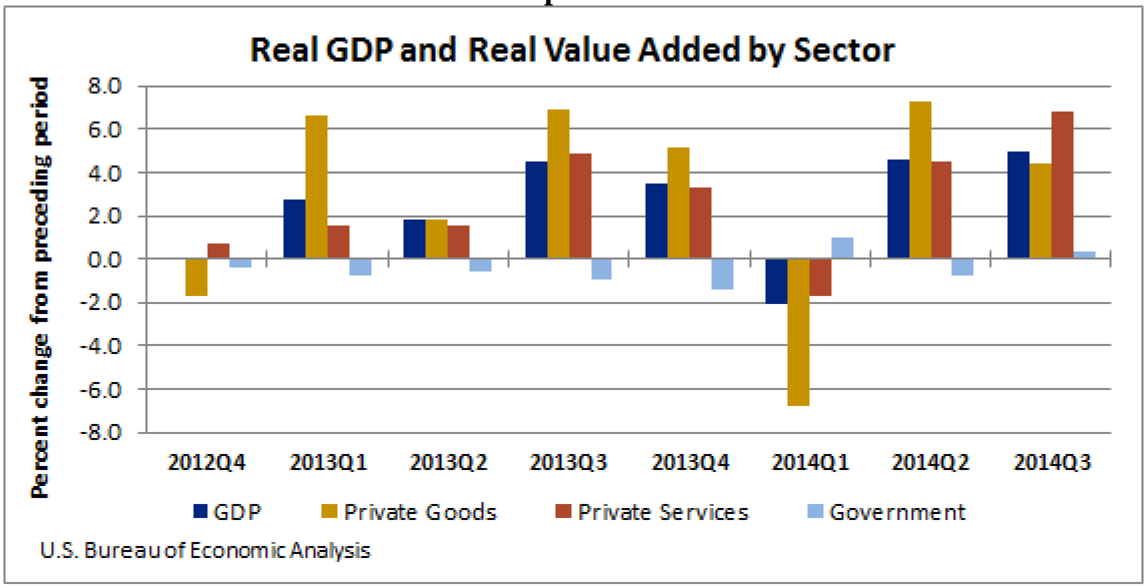
Loans	(million euro)	1664863	1654133	1655865
	(% of total debt)	18.5	17.9	17.9
Memo: Intergovernmental lending in the context of the financial crisis	(million euro)	224513	238540	240534
	(% of GDP)	2.3	2.4	2.4
EA19				
Government debt	(million euro)	9004938	9275319	9247180
	(% of GDP)	90.9	92.5	91.9
Of which: Currency and deposits	(million euro)	259424	262514	259667
	(% of total debt)	2.9	2.8	2.8
Debt Securities	(million euro)	7077876	7355964	7328928
	(% of total debt)	78.6	79.3	79.3
Loans	(million euro)	1667637	1656843	1658586
	(% of total debt)	18.5	17.9	17.9
Memo: Intergovernmental lending in the context of the financial crisis	(million euro)	224513	238540	240534
	(% of GDP)	2.3	2.4	2.4
EU28				
Government debt	(million euro)	11495232	11929925	11979549
	(% of GDP)	85.3	87	86.6
Of which: Currency and deposits	(million euro)	423049	443246	441661
	(% of total debt)	3.7	3.7	3.7
Debt Securities	(million euro)	9233391	9655473	9706121
	(% of total debt)	80.3	80.9	81
Loans	(million euro)	1838790	1831208	1831767
	(% of total debt)	16	15.3	15.3
Memo: Intergovernmental lending in the context of the financial crisis	(million euro)	229507	244067	246201
	(% of GDP)	1.7	1.8	1.8

Source: Eurostat

4.2 US Industries growth across sectors, Q3 2014

Real gross domestic product (GDP) increased at an annual rate of 5.0 percent in the third quarter of 2014, reflecting positive contributions from 20 of 22 industry groups. The private goods and services producing industries, as well as the government sector, contributed to the increase. Finance and insurance; mining; and real estate and rental and leasing were the leading contributors to the increase.

Graph 1

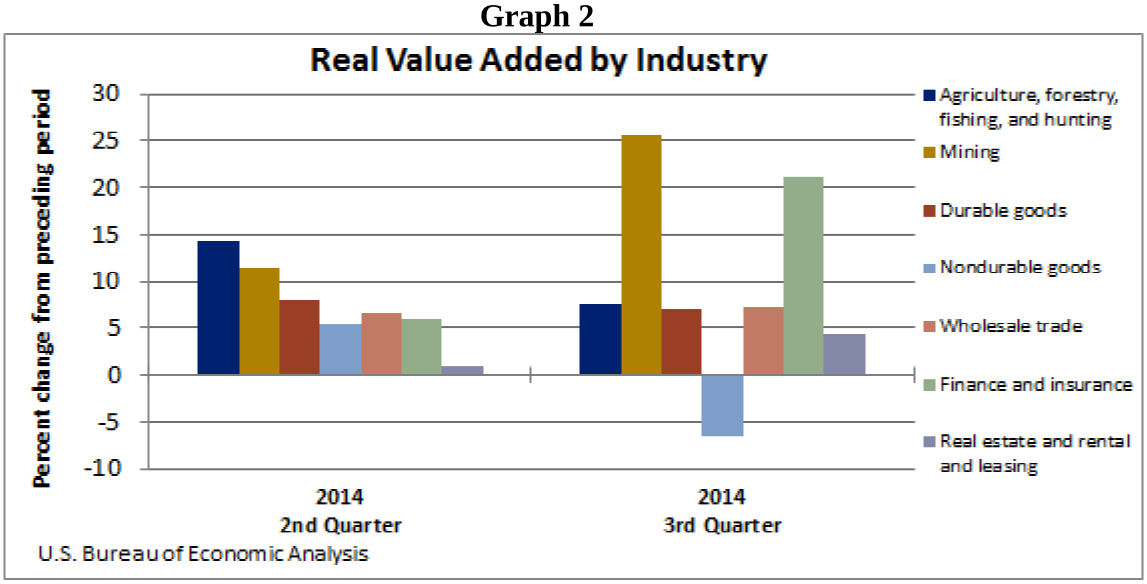


Finance and insurance real value added a measure of an industry's contribution to GDP increased 21.2 percent in the third quarter, after increasing 6.0 percent in the second quarter.

Mining increased 25.6 percent, after increasing 11.5 percent. This was the largest increase since the fourth quarter of 2008.

Real estate and rental and leasing increased 4.4 percent, after increasing 0.9 percent.

Graph 2



Other highlights

Real value added for manufacturing increased 0.5 percent, after increasing 6.8 percent. Durable-goods increased 7.0 percent following an increase of 8.0 percent, while nondurable-goods decreased 6.6 percent, after increasing 5.4 percent.

Agriculture, forestry, fishing, and hunting increased 7.6 percent after increasing 14.2 percent.

Wholesale trade continued to show strong growth, increasing 7.3 percent, after increasing 6.5 percent.

5. Data Appendix

Table 2
Latest Available Financial Information

Item	Jan. 09, 2015	Jan. 16, 2015	Percentage Change
Deposits of Scheduled Commercial Banks with RBI (Rs. Billion)	3,417.73	3,438.95	0.62
Foreign Currency Assets of RBI (Rs. Billion)	18,540.27	18,620.60	0.43
Advances of RBI to the Central Government (Rs. Billion)			
Advances of RBI to the Scheduled Commercial Banks (Rs. Billion)	841.24	889.15	5.70
Foreign Exchange Reserves (US$ Billion)	319.5	322.2	0.84

Source: RBI, Govt. of India

Table 3
BSE Sensex and NSE Nifty Index

Index	Jan. 19, 2015	Jan. 23, 2015	Percentage Change
BSE SENSEX	28,249.8	29,278.8	3.6
S & P CNX NIFTY	8,550.1	8,835.6	3.3

Source: BSE India and NSE India

Table 4
Market Spot Prices of Metals

		January 2015					Weekly Changes in %
		19th	20th	21st	22nd	23rd	
Aluminium	1 KGS	112.6	113.2	112.8	115.2	112.6	0.0
Copper	1 KGS	357.1	357.1	353.7	354.9	350.7	-1.8
Cotton	1 BALES	14790.0	14710.0	14670.0	14600.0	14490.0	-2.0
Lead	1 KGS	112.8	116.0	114.7	116.1	112.6	-0.1
Natural Gas	1 mmBtu	193.5	193.5	175.1	183.2	174.9	-9.6
Nickel	1 KGS	887.7	899.1	909.7	907.9	885.7	-0.2
Tin	1 KGS	1189.5	1200.5	1178.3	1207.8	1199.3	0.8
Zinc	1 KGS	127.6	129.8	128.8	132.3	129.6	1.5
Gold	10 GRMS	27730.0	27997.0	28168.0	27939.0	28017.0	1.0
Silver	1 KGS	38740.0	39175.0	39684.0	39534.0	39639.0	2.3

Source: MCX

Table 5
Agri. Commodities Market Spot Prices

	Units	January 2015					Weekly Changes in %
		19th	20th	21st	22nd	23rd	
Maize	100 KGS	1205.0	1205.0	1210.0	1208.5	1216.5	1.0
Refined Soy Oil	10 KGS	713.7	704.2	707.0	694.8	674.7	-5.5
Soyabean	100 KGS	3415.0	3390.0	3407.5	3370.0	3332.5	-2.4
Wheat	100 KGS	1655.0	1660.0	1650.0	1660.0	1665.0	0.6

Source: MCX

THE KNOWLEDGE CHAMBER

Evolution of Value Creator ASSOCHAM initiated its endeavor of value creation for Indian industry in 1920. It has witnessed upswings as well as upheaval of Indian Economy and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

ASSOCHAM derives its strength from the following Promoter Chambers: Bombay Chamber of Commerce and Industry, Mumbai; Cochin Chamber of Commerce and Industry, Cochin; Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segment

MISSION

As representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic industrial and social development. We believe education, health, agriculture and environment to be the critical success factors.

GOALS

To ensure that the voice and concerns of ASSOCHAM are taken note of by policy makers and legislators. To be proactive on policy initiatives those are in consonance with our mission. To strengthen the network of relationships of national and international levels/forums. To develop learning organization, sensitive to the development needs and concerns of its members. To broad-base membership. Knowledge sets the pace for growth by exceeding the expectation, and blends the wisdom of the old with the needs of the present.