Competition Distortions in India – A Dossier

(CDI-18: October–December, 2012)

For earlier Dossiers please see: http://cuts-ccier.org/Competition_Distortions_India.htm

Periodic dossiers look at the interface of policy issues which has an impact on competition in India, which can be both negative and positive. News as published is used without verifying their accuracy. The purpose is to flag issues to the layman as well as to the specialised policymakers and regulators, rather than be judgmental about them. This would require greater analysis particularly in terms of cost and benefits.

We are delighted to bring before you yet another stimulating edition looking at government policies from the lens of competition.

As always, there is a mix of the good and the bad. A policy initiative that deserves special mention here is the one on direct cash transfer of subsidies. While it has met with some skepticism from the doubting Thomases, there is no doubt that if certain impediments are overcome, this can prove to be a great reform even from the point of preserving competition in Indian markets while meeting the intended objectives of larger public good. Another reform measure of significance is of decontrol of sugar proposed by the Rangarajan Committee. This step would not only benefit farmers but also consumers while boosting investment in the sector.

There is good news for the domestic airlines that may finally have some relief from paying the prohibitively high prices for Air Turbine Fuel (ATF) now that the competition regulator has decided to look into the problem of possible cartelisation by state run oil companies. It is estimated that if addressed, this could mean a cut in ATF prices by 20-25%. Similar welcome developments have been witnessed in other sectors such as Coal where CIL has finally decided to adopt a neutral and non-discriminatory approach towards both the public and the private power plants in supplying fuel to them.

Having said this, however, several sectors are still not free from distortive policies. The aviation sector, for example, has recently raised high entry barriers for foreign players to operate locally, which is rather surprising considering that the civil aviation ministry has launched number of reform measures. An ubiquitous fact is about cartelisation amongst cable operators and a possible attempt to monopolise electronic media. One case in Punjab has been brought to light. Fortunately, this has been taken cognisance of by the information and broadcasting ministry which has assured that it would be explore further into the matter for evidence of anti-competitive behaviour by market players. Clearly this only buttresses the need for local level competition and regulatory laws and institutions which we at CUTS have been advocating for a long time. Cable cartels exist everywhere in our vast country. Any consumer cannot switch to another provider, and it is DTH which now offers her the choice. In fact one cannot even change one's newspaper vendor or cleaning woman who have marked out their respective territories in each town and city.

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1. UPA speeds up move to cash transfers

The Congress-led United Progressive Alliance (UPA) is quickening the movement towards a system of cash transfers that would put money directly in the hands of the targeted beneficiaries of government welfare programmes, seeking to cut out multiple layers of bureaucratic red tape that impede the delivery of such benefits.

Prime Minister Manmohan Singh has put in place a clear architecture that would enable the transition to a system of electronic cash transfers, the government said. The government also said that it could not accept in their entirety the recommendations of the Vijay Kelkar committee that called for sweeping subsidy cuts…

www.livemint.com/Politics/rG31ACeqd35IRcAxijlETJ/UPA-speeds-up-move-to-cash-transfers.html

Food for Thought

Everyday developments regarding direct transfer of cash under various welfare schemes provided by the government has gained much momentum across the country and is treated as a step forward towards second generation reforms by many. The government is all set to roll out direct cash transfer, initially in 51 districts in six large states to test its viability. Taking lessons from this pilot test, the government has plans for countrywide implementation of the programme from April 01, 2013.

The intended move is considered to include some of the main subsidies provided by the government such as for cooking gas, kerosene, fertilisers and would also include schemes like Mahatma Gandhi national Rural Employment Guarantee Act (MNREGA) and pensions. The government is also thinking about implementing direct transfer of cash for food subsidy.

It is assumed that the scheme would help containing the fiscal deficit through better plumbing of the leakages in the prevailing system of indirect subsidies. Kelkar Committee in its report has also recommended a gradual decrease in subsidies so that it could be brought down to 1.8 percent of the gross domestic product (GDP) in 2014-15. Direct transfer of cash would help government to realise its goal. Further, the scheme would provide money in the hands of beneficiary, which could be considered as better option in terms of economic freedom for marginalised people.

On the other hand, there are people raising question marks over the entire idea of cash transfer. According to them it is not going to be some magic stick or panacea for problems faced by our economy. Rather it would affect poor people in an adverse manner. One of their main concerns is lack of infrastructure especially in the rural areas which is especially important for effective implementation of the scheme. For example, banking services in rural parts of our country are very poor and might prove to be inefficient to handle large numbers of small transfers. Coupled with irregularities and wide spread corruption, it would not be easy for the government to reach out intended beneficiaries for the scheme. Further, they are quite apprehensive about the idea of dismantling the Public Distribution System (PDS), which could be considered as the major source of nutritional support for poor people. And taking into account poorly developed rural markets; it won't be wise to replace PDS with direct cash transfer, it has been argued.

They also have reservations about the idea of linking the cash transfers with 'Aadhaar' the unique identity numbers (UIDs). It could lead to disruption as millions of people still do not have their unique identity numbers. Also people now have to open their UIDs enabled bank accounts which might take several months and hence would not be able to receive benefits.

Looking at arguments from both sides, the government should move cautiously towards implementation of direct transfer of cash subsidies in the country. It is quite obvious that this *would come with many positives for common people as well as for the entire economy. However, wide spread discrepancies in the system and lack of proper infrastructure might create hurdles in smooth running of the schemes as intended.*

It is a general perception that the proactiveness shown by the government for speedy execution of this scheme is targeted towards gaining political mileage before the parliamentary elections in 2014. Alas, this is a bad idea as it will likely get mired in politics and harm the scheme itself. After all, the money belongs to the People of India, who elect the government to use it properly.

Additional readings:

www.livemint.com/Politics/3gJZQYP6smsfvBXMjkKdyK/Govt-explores-direct-transfer-of-cash-subsidies-without-UID.html

www.thehindubusinessline.com/industry-and-economy/pm-to-head-panel-on-direct-cash-transfers/article4031652.ece

www.thehindu.com/news/national/direct-cash-transfer-of-subsidies-through-aadhaar-from-january-1/article4129971.ece

www.financialexpress.com/news/how-to-make-cash-transfers-work/1046254

www.indianexpress.com/news/subsidies-govt-to-roll-out-direct-cash-transfers-in-6-states-by-jan-1/1030234

www.financialexpress.com/news/direct-cash-transfer-may-remain-elusive-for-upaii/1044955

www.thehindubusinessline.com/industry-and-economy/government-and-policy/pmo-expedites-direct-cash-transfer-process/article4150441.ece

www.thehindubusinessline.com/opinion/lets-not-delay-direct-cash-transfer-of-subsidy/article4088032.ece

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www.thehindubusinessline.com/news/states/cash-transfer-good-in-principle-but-bad-in-form-nitish/article4150865.ece

www.business-standard.com/india/news/national-information-utility-for-pds-putthe-back-burner/496820/

www.livemint.com/Politics/7kWbyKNxKKWY8I64XvOnfI/Cash-transfers-Govt-seeks-adequate-bankingfacilities.html

www.livemint.com/Industry/nUzBnpk0qV4zsPElvh1xhK/Staterun-banks-in-a-rush-to-open-rural-branches.html

2. Local TV channels under Centre scanner, says Tewari

"The masses have the right to see and read whatever they want. But we have received some complaints from Punjab and some other parts of the country alleging that viewers are being served only specific content. We are checking if a cable cartel is at work so that necessary action could be taken," Union Minister of State for Information and Broadcasting Manish Tewari said in Ludhiana…

www.indianexpress.com/news/local-tv-channels-under-scanner-warns-tewari.../1030327

Food for Thought

Union Minister of State for Information and Broadcasting, Manish Tewari has raised some alarm while talking about the possibility of cable cartels that may be functioning towards monopolising of electronic media in some of the states such as Punjab.

According to the Minister, the Department has received complaints regarding specific content being served to the viewers in these states, violating the right to read and see as per their choice. He assured that appropriate action would be taken against the channels found guilty of being involved in such anti-competitive practices.

Taking into account these facts, proper investigation is required to establish evidence against such cartels and defunct them in order to ensure consumer interest. Government needs to act fast to study if such cartels are indeed in existence and expose such activities as it often raises entry barrier for other players and restricts the consumers' choice. On the other hand, it has to be made sure that such actions are directed entirely towards serving the interest of common masses alone.

This issue raises another significant question: whether such local level anticompetitive practices can be dealt with by central bodies. Sometime ago, Pradip Baijal as Chairman of TRAI (regulator for cable TV also) had said that cable TV has to be regulated at the local level and cannot be done from New Delhi. This is one of the reasons that CUTS has been advocating for state level competition and unfair practices laws, as they exist in other federal countries such as US and Australia.

3. ATF brought under purview of PNGRB to ensure transparency

To ensure transparency in sale of jet fuel, the Oil Ministry agreed to bring the aviation turbine fuel (ATF) under the purview of the Petroleum and Natural Gas Regulatory Board (PNGRB).

Aviation Minister Ajit Singh had sent a proposal to the Oil Ministry in this regard a few months ago. PNGRB is mandated to regulate refining, processing, storage, transportation, distribution, marketing and sale of petroleum and petroleum products in the country and to promote competitive practices in the sector….

www.indianexpress.com/news/atf-brought-under-purview-of-pngrb-to-ensure-transparency/1040684/0

Food for Thought

Finally, the government has provided aviation industry with something to rejoice about by taking measures to promote competition in the oil sector which is likely to have an impact in lowering the prices of ATF and bring some respite to the domestic airlines.

First of all, both the Oil Ministry as well as the Aviation Ministry, are trying to bring ATF under the purview of PNGRB.

According to the sources, proposed regulation through PNGRB would study the cartel formed by state owned oil companies in the pricing of ATF. If addressed, this is estimated to lead to a steep fall of 20-25 percent in the price of ATF.

Further, both the ministries have decided on jointly pursuing the long pending demand for giving ATF a "declared goods" status before the finance ministry. This again will have a huge impact on the price paid by the airline companies for procurement of ATF. The sales tax on ATF will come down to three-four percent (uniform sales tax) from current rate of around 30 percent, once it is put under the 'declared goods' category. This will help airlines to bring *down their operating cost ultimately leading to fall in the domestic airfares and enhanced consumer welfare.*

Aviation Minister, Ajit Singh, is also trying to convince the Oil Ministry to direct the Public Oil Marketing Companies (OMCs) to share storage infrastructure with airline companies which they do not do at present. This would allow them to import fuel from private OMCs.

This raises the basic question that why should the Civil Aviation Ministry refer the matter to Petroleum and Natural Gas Ministry to ask PNGRB to look into the anticompetitive practices in the oil sector, when it could have referred the matter to Competition Commission of India, which is the empowered and correct body to deal with the matter. Already the CCI has taken note of this matter. The CCI had written to the petroleum ministry on the issue, but the ministry said it had no role in deciding the price of petrol as it was a deregulated commodity now. "There was some ambiguity earlier on whether it (pricing) is coming from petroleum ministry or it is driven by the oil companies. Now, since we have the written comments from the ministry, if we proceed, we will proceed on with the oil companies," said CCI Chairman Ashok Chawla.

Additional readings:

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www.thehindubusinessline.com/industry-and-economy/logistics/aviation-petroleum-ministries-to-pitch-for-reclassification-of-jet-fuel/article4164523.ece

www.thehindu.com/business/Industry/ministries-seek-declared-good-status-for-atf/article4163646.ece

http://articles.economictimes.indiatimes.com/2013-01-06/news/36173911_1_petrol-prices-diesel-prices-fuel-price

www.financialexpress.com/news/cci-to-seek-info-from-state-oil-firms-on-petrol-pricing/1055463

4. Foreign airlines may face tough entry barriers

Overseas airlines wanting to start a new carrier in India may find it difficult to do so because they will require a local permit – which may not be easily issued – before approaching the foreign investment board.

New airline licences, which will heighten competition in the domestic market, are unlikely to be handed out easily, Aviation Minister Ajit Singh indicated in an interview.

A foreign airline can start a new airline with a 49 percent stake in an Indian company that is 51 percent owned by local investors, the government announced in September as part of a liberalisation drive…

http://www.livemint.com/Politics/9LLSlqkv287KYth42yGyFK/Foreign-airlines-may-face-tough-entry-barriers.html

Food for Thought

Aviation Ministry has decided to adopt a cautious approach in awarding permits to foreign airlines, looking forward to start a venture in India. All overseas players have to acquire no-objection certificate from aviation ministry and approval from the Foreign Investment Promotion Board, before starting their operation in India. According to sources, the entire process won't be an easy task for foreign airlines.

The reason for aviation ministry to take such stance has been the poor financial condition of domestic carriers. According to Aviation Minister, Ajit Singh, allowing new airlines to operate in India could force domestic players to further lower the airfares, in order to compete with new entrants. It would lead to further fall in the revenue of already struggling domestic airlines.

Concerns from the part of Aviation Minister are very apt given the crisis facing Indian Aviation Industry. But at the same time, it has to be kept in the mind that such decisions might create doubt in the minds of foreign investors to invest in India which is considered as the most important method to revive Indian aviation industry, experiencing lean patch for the last many years. (This is other than the fact, that we need FDI etc. to cut down our current account deficit as well). Also, it might be considered as a regressive step from the part of aviation ministry after earlier decision to allow foreign companies to invest up to 49 percent in local carriers.

According to people from industry, steps like these would also help in providing undue advantage to airlines like Jet Airways. The government is trying to shield the airline from foreign competitors through adopting such policies. Even in the past Jet Airways was favoured against Air India by the corrupt government.

Although the intention of government is right to initiate the process of improvement in domestic aviation industry, the approach could not be justified. Discouraging competition in market and could not be beneficial for any industry and aviation industry is not an exception. Rather Aviation Ministry should try to encourage domestic airlines to enhance their efficiency and consumer welfare to come out of present situation.

5. Decontrol Sugar

The government must decontrol sugar, lift curbs on trade in molasses and allow proper markets to function in this sector. Ill-informed would-be saviours of farmers like Gen V K Singh oppose the move.

They only serve to fatten liquor barons like the late Ponty Chadha and depress farm incomes. As an article by Nidhi Nath Srinivas (*Economic Times, November 22*) points out, wily politicians use control to make the sugar industry heavily subsidise the liquor business. Most state governments, and the parties that run them, are hand in glove with liquor barons.

http://articles.economictimes.indiatimes.com/2012-11-23/news/35317443_1_decontrol-sugar-sugar-companies-sugar-factories

Food for Thought

Rangarajan Committee in its report has made strong recommendations for total decontrol of sugar. According to the report, decontrol in the sector would lead to decrease in the price of sugar as well as benefit to the farmers. Stakeholders such as mill owners have also supported the blueprint presented by the committee for decontrol of sugar. They have requested the government for quick implementation of various measures suggested by the committee.

According to Indian Sugar Mills Association, such policy reforms would boost investment in the sector leading to high rate of annual growth. Investment is treated as very important for the sector also for meeting the ever increasing demand for sugar in the country.

These facts, no doubt present strong argument for decontrolling the sugar industry, however there is another part of the story that makes the case even stronger. A study conducted on the sector suggests that control on sugar is used as a tool to incentivise the liquor industry. Uttar Pradesh, the largest producer of sugar in India also controls trade of molasses, one of *the byproducts of sugarcane. Molasses is used as the raw material for the production of spirit. Sugar industry in these states is compelled to sell 20 to 25 percent of molasses to alcohol producers at highly subsidised rate, lowering the per litre cost of production of alcohol. This ultimately affects the payment made by sugar factories to the farmers as factories are not able to create maximum revenue due to control on sugar and molasses.*

Providing undue advantage to one industry at the cost of keeping another industry at peril can be considered as a clear case of policy induced distortion of competition. Taking into consideration this anarchic situation under which farmers are the ultimate sufferers, it is advisable for the government to act fast and facilitate proper implementation of the recommendations made by the Rangarajan Committee.

Such policy reforms are important for not only one industry rather it would be beneficial for entire economy.

Additional readings:

www.thehindu.com/todays-paper/tp-national/decontrol-will-spur-growth-of-sugar-industry/article4083656.ece

http://blogs.economictimes.indiatimes.com/something-fresh/entry/robbing-sugar-to-enrich-liquor

6. Power, coal ministries resolve issues, FSAs to be inked in a month

Coal India will offer the same contractual terms and conditions to both public and private power plants for fuel supply, ending the current practice of discrimination against private players, coal minister Sriprakash Jaiswal said.

"We have taken a joint decision that there will be no distinction. Modalities related to the issues will be decided by the companies concerned," power minister Jyotiraditya Madhavrao Scindia said after meeting the Coal Minister.

The Power Ministry had earlier protested the CIL practice of offering relatively unfavourable terms to private companies in fuel supply agreements (FSAs).

www.financialexpress.com/news/power-coal-ministries-resolve-issues-fsas-to-be-inked-in-a-month/1048756

Food for Thought

The tiff between power ministry and coal ministry seems to be ending on a positive note as Coal India Limited (CIL) has agreed to offer the same contractual terms and conditions to both private and public power companies for supply of fuel. The announcement was made by the coal ministry after having a long discussion with the Power Ministry on the matter of discriminatory behaviour towards private power companies by CIL.

CIL's practice of providing undue advantage to PSU power companies through proposed Fuel Supply Agreement (FSAs) had met with a bit of resentment in the past. The previous draft FSA framed by CIL included clauses such as CIL having the independent authority to terminate the contract with private power firms in case of a dispute but in case of PSUs, such harsh decisions could be taken only after seeking approval from the Government of India and other similar discriminatory terms and conditions.

According to the Power Minister, such policies if adopted, would not only lead to distortion of competition in the power sector by depriving private players of a level playing field but also result in a fall of investment in the sector further denting the capacity addition.

However, the present development on the whole issue regarding FSAs between power companies and CIL would help in avoiding such policy induced distortions of competition in the power sector. Union Power Minister, Jyotiraditya Scindia certainly deserves praises for showing such proactiveness towards establishment of competitive environment in the entire sector.

Additional Reading:

www.financialexpress.com/news/power-coal-ministries-resolve-issues-fsas-to-be-inked-in-a-month/1048756