Competition Distortions in India – A Dossier

(CDI-30: October–December, 2015)

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 pleased to present to you the Competition Distortion Dossier Edition No: 30 for the last quarter of the year 2015 (October–December). As always, we have attempted to capture interesting stories ranging from trade, anticompetitive practices, reforms and developments in various economic sectors and industries. The stories reflect a mixed bag of policies having a positive and negative effect on competition in the economy.

Due to the prevailing crisis in the steel industry, we have highlighted the ongoing steel story in the current edition too. For the past two decades, China has expanded its steel producing capacity at such a rapid pace that it boasts of having nearly half the share of the global production of steel. This surplus capacity has caused troubles to steelmakers across the world. Low demand and surplus capacity have resulted in shrinking global steel use to 68-69 percent. Falling prices as a result of cheaper Chinese steel pose problems for players in industry which is presently struggling owing to overcapacity. The ripples were felt in India as well where exports in the country dipped for 10 straight months in September with engineering goods shipments contracting by 22.8 percent reflecting strained global demand.

In order to protect the home-grown steel industry, the Indian government had to impose a 20 percent safeguard duty on imports of cold rolled flat products of stainless steel from China. Further, the Directorate General of Safeguards (DGS) (http://goo.gl/n9RgUW) is conducting an in-depth investigation in this matter. However, there is a need for a stronger and much effective approach in limiting imports to ensure that domestic players endure the crisis and grow in the national market. Being a core sector, local steel players need better protection measures to sustain. However, the protection to the steel industry is having an impact on consumer industries.

On the other hand, the present government initiated the Jan Dhan Yojana Scheme with the objective of encouraging low income class consumers getting access to bank accounts (financial inclusion). An invisible mandate as reported in media from the government to issue only RuPay cards has decreased the usage of Master and Visa cards and this move has adversely affected competition thereby limiting choice for consumers. It is, therefore, suggested that the government must encourage fair competition by allowing market players, both foreign and domestic to compete on a level playing field where consumers have a choice.

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A. Sectoral Reforms

1. Banks can have multiple insurance tie-ups

Insurers that are promoted by banks can engage them as their corporate agents to distribute their policies, restricting to one policy in each kind of insurance. However, the Insurance Regulatory and Development Authority of India (IRDAI) has recently allowed corporate agents to sell policies of up to three insurance companies in the same line of business. The persistency of policies is much higher through bancassurance and complaints much lower, making it a popular channel of distribution. However, to ensure efficiency, the insurance companies have to appoint agents for customer query regarding policy products.

www.livemint.com/Home-Page/VN45mrNPISQpit50PZ8y0J/Banks-can-have-multiple-insurance-tieups.html

Food for Thought

The Reserve Bank of India (RBI) recognised the need to ensure that people of all economic classes should have access to insurance policies in every corner of the nation. As banks have the largest distribution infrastructure for financial services, the insurance regulatory body, IRDAI released bancassurance guidelines, permitting banks to act as corporate agents to tie up with insurers to sell policies from three segments: health insurance, life and non-life insurance. It also encouraged small insurance companies to sell their products through bancassurance. However, IRDAI restricted corporate agents to sell policies of only one insurance company in the same line of business, restricting choice and thereby limiting the options for the end users.

Later, in September 15, 2015, IRDAI permitted banks to sell policies of multiple insurers through the notification on Registration of Corporate Agent Regulations. Increase in number of provider's means that consumers have greater choice to opt for the insurance policy that is best suited to their needs and requirements. It would also facilitate healthy competition in the sector, encouraging consumers to take benefit of this scheme. Hence, consumers can expect better premium rates and improved services from bancassurance as compared to traditional insurance companies. To make sure that consumers are able to benefit through an open architecture, guidelines have stated insurers not to compel their corporate agents to only sell their own policies. Further, it places greater emphasis on governance by mandating a corporate agent to have a policy approved by the board on open architecture and solicitation of insurance business.

However, certain operational issues might arise as insurance is not the core product for banks and contributes to only two to three percent to revenues. It is suggested that the function of banks could be limited to providing the platform for insurance companies to sell their policies; human resources from insurance companies well experienced in policies be appointed at the banks to interact and address consumer queries.

2. NPS: Central govt staff may get more investment flexibility

The Pension Fund Regulatory and Development Authority (PFRDA) is in talks with the Finance Ministry to allow the Central Government employees to invest their funds under the National Pension Scheme (NPS). They can choose to invest and opt for higher investments as much as 50 percent of their retirement contributions in equities as private employees. This will lead to better allocation of funds among both private sectors and government sector pension fund managers. Eventually, this will bring coordination of investment guidelines for both private and government sector NPS.

www.thehindubusinessline.com/economy/policy/nps-central-govt-staff-may-get-more-investment-flexibility/article7905825.ece

Food for Thought

The Budget 2015 introduced two instruments as a part of contribution pension schemes, one of them being NPS. People serving the Central Government since January 01, 2004 were mandated to be a part of the NPS thereby contributing a definite amount towards the pension scheme. Also, 10 percent of a worker's basic salary, including daily allowance, was deducted every month towards retirement contribution. However, unlike private subscribers of the NPS, who have wider choice in deciding their asset allocation, government employees were devoid of this choice. Rather, government staffs were asked to invest on a lump sum basis based on a default government scheme, although private citizens were not restricted to any particular investment pattern.

Therefore, the PFRDA in order to ensure level playing field and provide equal opportunities to both private citizens and government employees proposed to allow Central Government employees the flexibility to choose their asset allocation. In this regard, government employees have been allowed to invest as much as 50 percent of their retirement contributions in private equities or any other securities as it deems fit. Also, on approval of the amendment, pension fund managers will be appointed who would be responsible for providing investor education and awareness, bringing more people to take benefit of this scheme.

To conclude, this amendment would surely encourage both private as well as government employees to invest in various schemes, both public as well as private, thereby ensuring healthy competition in the market. It is suggested that the government must ensure that amendments are properly implemented so that it would create a competitive market, thereby enhancing investments, eventually benefiting both private and government staffs which is the main objective of this scheme.

3. More steps in offing to check steel imports

The Indian government is proposing concrete measures to check import of steel to protect domestic manufacturers. One of the proposed moves is to fix a Minimum Import Price (MIP) which may run foul with some of commitments that India has made under free trade agreements with Japan and South Korea.

Due to pressure from local producers, the Director General also conducted investigation to find impact on the Indian manufacturers thereby imposing a safeguard duty of 20 percent of certain grades HR coils. However, prominent steel companies demand further protection from the government.

http://timesofindia.indiatimes.com/business/india-business/More-steps-in-offing-to-check-steel-imports/articleshow/50115786.cms

Food for Thought

At present, the Chinese steel industry is experiencing an oversupply situation, primarily, due to its decelerating economy. Downfall was witnessed in Japan, where the production fell by 4.7 percent to 8.74 million tonnes whereas, in countries such as the US, South Korea and Russia, the production fell respectively to 15.6 percent to 6.08 million tonnes, 0.5 percent to 5.89 million tonnes and 3.1 percent to 5.71 million tonnes. Several countries such as US, South Africa and UK are also imposing measures to rescue the local steel manufacturers.

In 2015-16, India imported 3.379 million tonnes of hot rolled flat steel products from China which adversely affected the local steel industry. This issue was raised by several indigenous steel manufacturers with the DGS, as a result a 20 percent safeguards duty was imposed on steel imports as an initial measure to protect the local industry. This came as a relief to the *local players however the move was not enough to endure the crunch due to competition from Chinese companies. The DGS continuous to undertake in depth investigation to understand the quantum of material injury caused to the steel industry in India and take further action on the same. In addition to this, the government has also issued notice prohibiting production, sales and trading without Bureau of Indian Standards (BIS) approval. This measure witnessed a positive impact, where the shares of Tata Steel rose 2.6 percent, JSW Steel gained 2.5 percent and Steel Authority of India rose 1.9 percent.*

Further, the Prime Minister's office is also proposing to increase MIP of some steel products for in-bound shipment of certain steel products in a bid to check cheap imports which are adversely affecting the production of domestic steel industry. Imposition of the MIP could limit imports from China, Japan and Korea. Of the total Rs 2.8 lakh crore non-performing asset in the steel sector in India, Rs 1.95 lakh crore is with secondary steel units and unorganised sector. On the one hand, it is one thing to be competitive against importing countries whereas, on the other hand, it is another thing to be competitive against subsidised products in longer run. Therefore, it is essential for the present government to take necessary action diligently and impose protectionist measures sufficient enough to save the local steel manufacturers from getting further affected due to Chinese imports. However, it is crucial for the Ministry to carefully decide on the MIP as excessive protectionism can also restrict healthy competition thereby adversely impact the steel consuming industry, making it unfavourable for investors.

D. Anticompetitive Practices

4. Railways may have missed chance to cut power bill

Recently, the Railways Minister decided to save expenses by encouraging competitive bidding in the sector. In this regard, the Ministry floated a tender to procure additional 500 MW of power. Adani Power offered the lowest bidder at Rs R3.7 per unit, however, Ratnagiri Gas and Power (RGGPL) which offered a tariff of Rs 4.70 per unit, won the contract. Awarding the contract to Adani, would have saved the Railways an additional Rs 438 crore.

This move has disappointed several coal-based private power producers who were interested to participate in the 1,010 MW of tenders to be floated Railways.

www.financialexpress.com/article/economy/indian-railways-may-have-missed-chance-to-cut-power-bill/165414/

Food for Thought

The Railways reported its electricity bill amounting to Rs 12000 crore last financial year. To reduce the expenses, it switched to a new low-cost model of power purchase where electricity could be purchased directly from power generating company through fair competitive bidding. In this regard, the Railways floated a tender requiring the need to purchase 500MW of power. Although Adani bid at Rs 3.70 per unit which was lower than Rs 4.70 per unit bid by Ratnagiri Gas and Power Pvt Ltd (RGPPL), the contract was awarded to RGPPL. The Railways, by not adhering to the submitted bids, lost the opportunity to reduce its electricity bill by Rs 430 crore. Also, this decision was disappointing for several coal-based private power producers, who were looking forward to bid for the 1,010 MW of tenders originally floated by the railways.

Since January 2014, RGPPL was non-operational due to unavailability of natural gas. To make the entity operational, the Railways Minister estimating a profit of Rs 700 crore, entered into a power purchase agreement with RGPPL which was facilitated by the Union Power Ministry. However, the agreement was nothing more than a plot to revive RGPPL which is a government entity, a joint venture between state-owned NTPC Ltd, GAIL India Ltd, Maharashtra State Electricity Board and various financial institutions. This move can be *viewed as a discriminatory measure to rescue the company from sinking further that may not be ideal from the principles of competition policy.*

To conclude, boosting competitive bidding would reassure more private players to compete for bids in a transparent manner, consequently enhancing investments into the sector thereby reducing the electricity bills incurred by the railways. It is, therefore, suggested that the Railways should rather than giving preference to RGGPL, support fair competition by inviting players competent in terms of experience and technology to participate so that it is able to cut down expenses as well as benefits consumers of Indian Railways.

5. *Jan Dhan Yojana*: RuPay gaining currency irks US companies MasterCard & Visa

The *Jan Dhan* is witnessing sharp rise in number of RuPay card holders, thereby adversely affecting the market for US card companies – MasterCard and Visa. These entities have complained of an invisible mandate to keep them out of *Jan Dhan Yojana*, the government's financial inclusion programme. The RBI and the government have been asked to consider services of the foreign entities, which are cheaper than the local card issuer. They have further demanded a level playing field with government-backed card issuer RuPay. Encouraging fair competition would encourage more players providing better services thereby promoting financial inclusion.

http://articles.economictimes.indiatimes.com/2015-12-16/news/69091128_1_rupay-cards-ru-pay-jan-dhan-yojana

Food for Thought

In August 2014, the Modi government introduced the Pradhan Mantri Jan Dhan Yojana (PMJDY), a new financial inclusion scheme, whereby every Indian family would have a bank account. RuPay became the market leader in domestic card market. As on December 16, 2015, the PMJDY has collected Rs 28012.39 crore from Rs 1673 crore Ru Pay card holders.

With the sharp rise in RuPay cards, MasterCard and Visa felt the impact after which they approached the RBI and the present government to take into consideration their services. Unlike RuPay which is a debit card, Visa and MasterCard offer both credit and debit cards and its pricing is 30 percent cheaper than the national scheme. It was alleged that even though there was no official mandate, preference was still given to RuPay for the Jan Dhan financial inclusion scheme.

Master Card has a total of 180 million credit and debit cards in India, giving it 28 percent market share in the total 633.66 million cards in use in the country. In contrast Ru-Pay has more than 222 million debit cards in circulation in November, giving it around a 35 percent share after issuing its first card only in March 2012.

As the payment space in India is not driven purely by competition, it is therefore suggested that the market should be opened for competition allowing both indigenous companies and foreign entities to participate. This would provide consumers as end users with a wider choice to opt from several schemes depending on the cost as well services provided. It is suggested that market players should be given the opportunity to participate in a level playing field driven by fair competition. This would build a scalable and inter-operable network, easing the transactions for end users. As this policy targets the weaker section and low-income groups, the government should take into consideration the consumer interest which would ensure financial inclusion in true sense by encouraging people to have access to bank accounts.

6. Govt. expects US$50bn investment in transmission

The Ministry of New and Renewable Energy (MNRE) is looking forward to invest around US$50bn in transmission sector and plans to competitively bid out transmission lines rather than handing it out on nomination basis which is a procompetitive move by the present government. It would prefer to go for a tariff-based bidding so that lowest and most competitive tariff gets the contract, thereby encouraging more players to participate, consequently enhancing investments in the transmission sector. However, the exceptional cases where the government will nominate companies for transmission which might be worrisome.

www.thehindu.com/business/Economy/govt-expects-50-b-investment-in-transmission-sector/article7708041.ece

Food for Thought

On one hand, the present government has been working towards attracting foreign entities by improving the ease of doing business in India and on the other, the government-run Power Grid Corporation of India (PGCIL) enjoys a market share of over 95 percent indicating loss of opportunity for India to attract private and foreign investments besides encouraging inefficient public sector unit at the cost of consumer interests. To improve the situation in transmission sector, the power minister, Piyush Goyal has announced an investment of US$50bn in the next five years where contracts would be sanctioned through competitive bidding. This initiative would be a part of creating green corridors which would strengthen the grid system in renewable sector as they have the potential to provide energy security for the country.

In the coming six months, about US$12-16bn worth of transmission lines are to be bid out for which the MNRE has preferred tariff-based bidding where interested players, private entity or public sector enterprise, domestic company or foreign company would be invited to bid. The entity with the lowest and most competitive tariff would be given the contract. Allowing competitive bidding would surely encourage more players to invest in the sector. Encouraging fair and healthy competition through competitive bidding would enhance transparency, leading to innovation and use of better technology in the electricity transmission sector.

However, it does mention that in exceptional cases, where government would have the power to nominate public companies for transmission lines which might be worrisome. Therefore, it is suggested that the government must provide appropriate reasons for nominating a company rather than opting for competitive bidding. This would maintain transparency amongst other market players. To conclude, as India is gradually moving away from the subsidy culture towards providing better facilities for working environment, this procompetitive move by the Ministry would surely encourage investments into the sector thereby lowering the cost of production which would eventually lower the cost of electricity for consumers.

C. Miscellaneous Issues

7. Govt okays blood transfer between blood banks

The Ministry of Health & Family Welfare (MoHFW) has allowed the transfer of blood from one blood bank to another. Such an optimistic move will make blood available in places of scarcity to save lives. Also, fixed 'non-cash' exchange value for surplus plasma will be available at some blood banks which has been introduced to increase the availability of essential life-saving medicines. This step would also reduce the country's dependence on import of these products. Ultimately, with guidelines for proper and efficient transfer of blood, ample options are given to customers to get blood and its components.

www.deccanherald.com/content/507369/govt-okays-transfer-excess-blood.html

Food for Thought

In October 2015, as per the recommendation of the National Blood Transfusion Council, the MoHFW permitted transfer of blood between blood banks. This was done as a part of its commitment to ensure safe blood and enhanced access to blood and its products. Despite being a country with a population of 1.2 billion, India faces a blood shortage of three million units. Delhi NCR alone faces a shortage of 100,000 units per year.

The new regulation prescribes suitable guidelines for efficient transfer of blood between banks. This has also encouraged new entrants to participate in the sector and provide the required blood group to the needy. In the absence of the enabling provision, surplus plasma was traded or sold by the blood banks without any regulation, which has now been fixed at Rs 1600 per litre of plasma. It further allows blood banks with surplus plasma to exchange it for consumables, equipments etc., or plasma derived products, as per their need. This is surely going to increase the availability of essential life-saving medicines, such as human albumin, immunoglobulin, clotting factors, etc., which are all derived from plasma.

Also, through tie-in arrangement with blood banks, hospitals used to earlier charge hefty amounts from patients and with no options; they were forced to get in from the respective bank. This new regulation provides better choice to customers to get blood and its products as per its requirement. With more participation from indigenous players, the dependence on import of these products would eventually reduce thereby establishing a huge indigenous base in India. This would incentivise players to improve their infrastructure and build technological advancement in order to provide better services to customers. To conclude, this would surely promote more number of players to invest in the sector, thereby reducing the scarcity of blood and its products thereby enhancing the quality of service for customers.

8. In a first, pvt firm gets FCI contract for paddy buying

The Food Corporation of India (FCI) awarded a contract to National Collateral Management Services Ltd (NMCL) to carry out paddy purchase operations in Jharkhand. For the first time, a private party has been allowed to purchase rice from farmers on behalf of FCI in a bigger scale.

The new policy has opened the market for private parties as well allowing them to open as many purchase centres as possible in the allotted cluster. It was introduced to help those states where farmers suffer from distress sales at prices much below Minimum Support Price (MSP), thereby ensuring efficiency in grain purchase system.

www.financialexpress.com/article/markets/commodities/in-a-first-pvt-firm-gets-fci-contract-for-paddy-buying/177189/

Food for Thought

The FCI restructuring panel, headed by the former Food Minister, Shanta Kumar provided recommendations that required the government to focus more on the north eastern states. Reason being, these states did not come under the purview of FCI and were short of suitable infrastructure which compelled farmers to often sell their produce below the MSP. The new policy suggested increase in the outreach of MSP operations among farmers, especially in north eastern states which can only be possible with the entry of private players into the sector. Participation of private players would not only help establish an appropriate infrastructure but also enhance the procurement procedures in these states.

Also, to fix the existing inadequate storage facility, the Centre decided to engage private players for procurement of rice during the current kharif season in Uttar Pradesh and four other eastern states. It also opened the market to the private firms thereby ensuring a level playing field to procure paddy from farmers in these states. Lack of robust procurement mechanism by FCI in these states and dominance by small holdings, farmers were forced to go for distress sale. The new policy also allows the private parties to open as many purchase centres as possible in the allotted cluster, subject to a cluster covering a minimum 500 to 1000 hectare. To encourage private players, on the delivery of paddy or rice to FCI or state-owned corporations, upon production of proof of payment, besides the incidentals quoted in the tender document they would be reimbursed with MSP and statutory charges paid by them.

Supporting this initiative, FCI awarded the contract to NMCL which is a private firm to carry out paddy purchase operations in Jharkhand. By opening the market for private players, the government has provided a level playing field encouraging various private players to participate along with public entities in the competitive bidding process, which enhances healthy competition in the system.