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# Opinion

MONDAY, APRIL 24, 2017

**HIPPOCRATIC REMINDER**

Prakash Javadekar, Union HRD minister

"A doctor can earn quiet sufficiently in a practice being ethical as it will definitely give him lot of satisfaction and good amount of living"

## Give Prez Trump the facts, from Harley to STEM...

He's wrong on Harley duty and job losses, the US actually benefits from Indian IT industry ... publicise the data

**FINANCE MINISTER ARUN** Jaitley has done well to raise India's concerns on H-1B visas with US commerce secretary Wilbur Ross, but given there is going to be little immediate impact with no notification to change the lottery process for 2017, India would do well to keep a cool head. Indeed, though she was provoked into making a confrontationist statement by the media last week, commerce minister Nirmala Sitharaman did well to say, "several big US companies are in India too ... they are earning their margins, they are earning their profits, which go to the US economy ... if this debate has to be expanded, it has to be expanded to include all these aspects". While some sections of the media have sought to link the H-1B issue to an inter-ministerial panel that has been set up to examine whether royalties charged by MNCs from their India operations need to be reviewed, it is to be hoped this is just a coincidence. Apart from the fact that the list of high-royalty firms is not dominated by US firms, the presence of such firms helps India too—Suzuki's royalty earnings have been highlighted, but not juxtaposed against its role in making India a player to reckon within the global small car market. And to the extent a Google or a Facebook are doing development work in India, this is helping nurture talent in India.

What the government needs to keep doing is to nail half-truths about India's restricted market, apart from looking at WTO solutions if it can be proved that visa restrictions violate the MFN principle. While US president Donald Trump had suggested India was levying a 100% import duty on Harley Davidson motorcycles, Sitharaman's ministry has done well to point out that Harley pays a 10% duty on a large part of its imports—only fully-built-up bikes from the US attract the higher duty—and that it has over a 50% market share in the large bike segment in India. A big lobbying effort in the US would tell Americans that Indian IT firms paid more than $20 billion in taxes to the US between 2011 and 2015, $375 million in US visa fees and are directly responsible for more than 100,000 jobs in the US. As for the fear of job losses, with the US department of labour estimating 2.4 million STEM jobs will be unfilled by 2018, it's difficult to see how Indian H-1B professionals are taking away US jobs—according to Nasscom, the annual number of Indian IT specialists working on temporary visas is about 0.009% of the 158-million-member US workforce; if 20 million US workers lose their jobs every year, this can't be linked to Indian techies on H-1B visas. A new research paper by Harsha Vardhana Singh who heads Brookings India provides more fuel as it points out that, far from India being a high-import-duty country, its average import duty is a mere 2.3%—90% of non-agriculture imports are subject to a duty of less than 10%. Add to this, what Sitharaman alluded to, India is among the fastest-growing market for US firms like Facebook, Google and Amazon; the pace of defence imports will vary from deal to deal. The US can have a legitimate grouse over farm tariffs, but that has to be the subject of negotiation, not arm-twisting and grand-standing.

## Garrr... France won't help

GAAR can catch treaty-shoppers, but watch the taxman

**GOING BY NEWSPAPER** reports, a clutch of FPIs investing in Indian markets through treaty countries like Mauritius and Singapore are looking at shifting base—or by setting up new entities—in countries like France, Sweden and the Netherlands where the tax treaties still provide arbitrage opportunities. While the reworked treaties with Mauritius and Singapore will allow Indian tax authorities to charge a 7.5% tax on short-term capital gains from April 1, 2017—and double that from April 1, 2019, on a par with that for any Indian citizen—treaties with countries like France allow capital gains to be taxed in the home country; since there is no tax applicable on long-term gains right now, this applies to short-term gains.

Though it may look lucrative to shift base, how many FPIs actually shift will depend upon a host of factors. For one, unlike in the case of Mauritius, it may not be as easy to set up post-office SPV-type of structures in countries like France that have their own financial regulators to inspect such practice. So, it is mostly FPIs that already have a base in Europe who are likely to operate out of there. Alternatively, some FPIs may choose to operate through the participatory note (P-Note) route offered by, say, French firms—indeed, the recent uptick in investments through the P-Note route are probably a result of such switching.

What such investors need to keep in mind, though, is with the General Anti Avoidance Rules (GAAR) coming into force from April 1, the Indian taxman is perfectly at liberty to ask these investors for details about their structure. It is true the official Indian position is that just because money is coming from a 'tax-efficient' jurisdiction does not mean it will automatically be subject to GAAR, but if there is a surge in investments coming in from these jurisdictions, whether directly or through P-notes, this is certain to happen. If tax arbitrage is seen as the reason for investment, under GAAR, the treaty benefit can and should be denied. A grave danger of using GAAR, needless to say, is its penchant to be abused, and that is why it has been put off so many times. If the government wants to use GAAR to catch treaty-shoppers, as it must, it needs to be equally careful to check its abuse. If it does not, and that is a big challenge, India could well move back to the tax terror days, with FPIs waiting to desert it in droves. Renegotiating these treaties with countries like France is a better option, but how long that will take is not clear.

## PainfulSENTENCING

SC sets aside a High Court order because of "incomprehensible language"

**AN** old joke goes: An appeal is all about asking a higher court to be "contemptuous" of a lower court. Unsavoury, but a joke, nevertheless—a witty twist of words. But what about when words have the Supreme Court in a twist? The apex court setting aside a High Court order for poor English may sound comical—that's what it did with a Himachal Pradesh HC order, holding the contents "not possible to comprehend"—but is more in the vein of irony. Sample the HC order, first. In an eviction case that went against the landlord, the court worded its order thus: "(The)...tenant in the demised premises stands aggrieved by the pronouncement made by the learned Executing Court upon his objections constituted therebefore...wherewithin the apposite unfoldments qua his resistance to the execution of the decree stood discountenanced by the learned Executing Court." Trawling the thesaurus will not help make sense of it.

However foggy the HC order is, the apex court setting it aside on the grounds of incomprehensible language is a proverbial case of the pot and the kettle. The SC, too, has shown a predilection for similar arcane, and frankly, confounding, wording. Sample some from SC decisions: "... exposits cavil in its quintessential conceptuality and percipient discord between [the] venerated and exalted right of freedom of speech", "The centripodal issue that strikingly emerges, commanding the judicial conscience to ponder and cogitate with reasonable yardstick of precision", "creates a concavity in the solemnity that is expected". Perhaps, the culprit is the colonial legacy of courtroom language. A propensity for archaic English marks the pronouncements of early 20th century British courts as also the courts of the Raj. With the form and structure of the colonial courts, to an extent, mirrored in courts today, it isn't surprising that legalese can sometimes seem convoluted at the first read.

**FROM PLATE TO PLOUGH**

IN THE AGRI SPACE, THE FLAGSHIP SCHEMES LIKE FARM INSURANCE AND MICROIRRIGATION PALE COMPARED WITH THE EXPENDITURE ON WASTEFUL FOOD/FERTILISER SUBSIDIES

# The right policy mix, but implementation poor

ASHOK GULATI & SIRAJ HUSSAIN

Gulati is Infosys chair professor for agriculture, and Hussain, former Agriculture Secretary (GoI), is senior visiting fellow, ICRIER

**WITH THE MODI** government completing three years in office next month, it is time to look at its performance. Here, we focus on agriculture that engages 47% of the country's workforce, as per the Labour Bureau—without its development, sabka saath, sabka vikas is not possible.

In the first three years of the present dispensation at the Centre, agri-GDP grew by just 1.7% per annum, which is less than half of what was achieved during the last three years of the UPA government (3.6%). Such a poor performance is primarily because of the droughts in 2014 and 2015. In order to tackle droughts more effectively, the Modi government tweaked and improvised existing schemes and launched Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) and Pradhan Mantri Fasal Bima Yojana (PMFBY). Also, a new scheme, e-National Agriculture Market (e-NAM), was launched to link 585 regulated agri-markets across the country.

Obviously, things cannot change overnight. But based on our careful analysis, one can only say that these steps are in the right direction though implementation in most cases has been rather weak. Also, we firmly believe that without a champion for agriculture in the government, these schemes may fall much short of their promises and claims. This would be clear if we examine these three flagship schemes in some detail.

PMKSY was launched on July 1, 2015, to give har khet ko pani and improve water-use efficiency through "more crop per drop". But implementation of various components of this scheme depends on three different departments, namely agriculture, water resources, and rural development. However, a new mission directorate for PMKSY has been set up under the ministry of water resources. The government identified 99 projects for early completion under Accelerated Irrigation Benefit Programme (AIBP), which together will irrigate 76 lakh hectares (ha) upon completion. Of these, 23 projects (Priority-I) were shortlisted for completion by March 2017, another 31 projects (Priority-II) during FY18, and the remaining 45 projects (Priority-III) are to be completed by December 2019. Financial support was to be given through Nabard's Long Term Irrigation Fund of ₹40,000 crore. Of the 99 projects, 26 are in Maharashtra—they are beset by long delays and allegations of large-scale corruption. And as for progress, out of targeted the 23 projects to be completed by March 2017, none actually were, although many are expected to be completed soon.

The component of micro-irrigation (MI) in PMKSY has done better—8.13 lakh ha more is said to have been brought under MI. Total area under MI is thus about 90 ha while the potential is of almost ten times higher. The government would do better if MI is treated on a par with AIBP in terms of funding. MI can move faster with much better results in terms of water-use efficiency.

PMFBY is another flagship programme of the Modi government. For the first time, the farmer's share in the premium was pegged at 2% for kharif crops and 1.5% for rabi crops. As a result, area covered under insurance increased from 27.2 million ha in kharif 2015 to 37.5 million ha in kharif 2016, and sum insured increased from ₹60,773 crore to ₹1,08,055 crore over the same period. However, the system of crop damage assessment has not changed much and most of the states could not even procure smartphones that were supposed to facilitate faster compilation of crop cutting experiments. Some state governments did not take cost of cultivation as the amount to be insured with a view to save their outgo on premium subsidy. Many state governments did not pay premium on time as a result of which the farmers' claims could not be settled expeditiously. In sum, there is still much work to be done on the implementation-side; else, large resources from government kitty will be spent without commensurate benefits to farmers.

**Treating the microirrigation component of the Krishi Sinchayee Yojana on a par with the Accelerated Irrigation Benefit Programme will deliver more as the latter can move faster with better results for water-use efficiency**

The third mega scheme launched by Modi govt in April 2016 is e-NAM. The idea was to enable buyers located in distant places to purchase agri-commodities from any mandi. The GoI also decided that state governments can apply for a grant of ₹30 lakh per mandi (enhanced to ₹75 lakh from this year) for related infrastructure and hardware, provided they undertake some reforms in their APMC rules. These included a single trading license to operate in any mandi in the state, single point levy of market fee and provision for e-auction of agricultural commodities in the rules and regulations of the state.

So far, 417 mandis located in 13 states are claimed to have been connected to the e-NAM portal. In most mandis, the sales done through traditional auction are being shown as turnover through e-NAM. Out of a turnover of approximately ₹15,605 crore in e-NAM, Haryana alone is showing a turnover of ₹8,237 crore. But our enquiry into this revealed that very few auctions are being conducted by using the software. So far, there is no inter-mandi auctions and there is no evidence that farmers have gained from this system either in terms of reduced commissions to arhatiyas or better price realisation.

The ambition of creating an all India agri-market, therefore, still remains a distant dream. e-NAM can be a game-changer only if it is steered as diligently as GST.

But all these flagship programmes are dwarfed when one looks at the money being spent on food and fertiliser subsidies—exceeding ₹300,000 crore (including arrears) in 2017. One had hoped that the Modi government will take bold decisions to streamline these by moving towards Direct Benefit Transfer (DBT) to the beneficiaries' accounts. But, the progress on this front has been tardy and one doubts whether any bold reforms in this are coming soon.

To sum up, although the Modi government has made right moves, its flagship schemes have not made much difference to lives of farmers so far.

## iPhones go the Selectric way

Smartphones are mature technologies, not elite niche products any more. Thus, reliability, not innovation, will define iPhone's future

ADAM MINTER

Bloomberg

**FOR THE IPHONE'S** 10th anniversary, Apple Inc is planning to release new and upgraded models later this year, with updated designs, improved cameras and better screens. But a more important product launch actually began in mid-March, when the company quietly reintroduced the discontinued, two-and-a-half-year-old iPhone 6 in several Asian countries and Eastern Europe.

That might sound dull. But for Apple, which is banking on the developing world for growth, it's actually a far-sighted move. The company is acknowledging that smartphones have transitioned from elite niche products into mature technologies, owned by everyone and upgraded infrequently. And that means that boring reliability—not innovation—will define the iPhone's future.

By now, most consumers know what they want from a smartphone (social media, text messaging, and so on). And better screens and cameras will only persuade so many to splurge on new models. That's especially true in emerging markets. In Kenya, users cite social media as the primary reason for upgrading from a feature phone, and used smartphones—which go for as little as $40—work just fine for accessing Facebook. True, the cheaper phones won't look as good. But they do everything that late smartphone adopters want, and that's good enough.

"Good enough" doesn't sound great for Apple and other phone makers, which prosper off the relentless upgrade cycle. But many well-known products have followed the same path, from ground-breaking innovation to reliable, profitable, "good enough" staples. The KitchenAid Model K mixer revolutionised American kitchens when it was introduced in 1937, but has since changed only incrementally as it became a wedding-registry juggernaut. Maytag washing machines, Aermotor windmills, the Ford Model T, and the Browning M1911 pistol have gone much the same route.

Perhaps the product that most closely approximates the iPhone's future is the venerable Selectric typewriter, from International Business Machines Corp. When IBM introduced the device in 1961, electric typewriters had already been around for decades. But the Selectric upended the business by enabling faster typing and the changing of fonts, thereby boosting productivity worldwide. The technology also came packaged in a sleek, minimalist case quickly recognised as a landmark in industrial design.

Sales exceeded forecasts from day one, and eventually the Selectric captured as much as 75% of the US typewriter market, as millions of office managers recognised that it provided exactly what they needed. But a device so perfectly suited to its customers' demands didn't need much in the way of upgrades, and IBM had trouble extending the line. The Selectric II, introduced in 1971, allowed users to change the number of characters typed per inch—helpful, but hardly essential to most office tasks. A third model was introduced at the dawn of the PC era, but by then, increased competition and changing consumer demands meant the Selectric's days were numbered, and the line was discontinued in 1986. Yet, it was hardly a failure. Its decades-long success helped finance other innovations at IBM, notably the personal computer.

**If Apple wants to maintain its reputation as an innovator, it should acknowledge the iPhone as the mature product it has become, and redirect its vaunted creative energy to something new**

In principle, the iPhone is becoming something similar: a tried-and-true model that simply matches customer needs. In Malaysia, where I live, one authorised reseller is promoting the iPhone 6 with a big red sign that promises "Amazing Phone, Amazing Price", with no reference to the model name or vintage. A clerk told me that the phone is selling well, especially to younger customers who can't afford a newer model but appreciate the iPhone's reliability compared to most Android phones. Although not flashy, this approach should remain profitable for Apple for some time, and help pay the bills as it transitions to the next big thing.

It may sting Apple's executives to learn that their iconic invention is evolving into the digital era's equivalent of a typewriter or washing machine. But in recent years, Apple has pushed hard to expand its services and content business, and more iPhones—no matter how old—help meet that goal. If marketed well, the durability of the company's older, duller phones could become an asset. Meanwhile, if Apple wants to maintain its reputation as an innovator, it should acknowledge the iPhone as the mature product it has become, and redirect its vaunted creative energy to something new.

**LETTERS TO THE EDITOR**

### Make SIA a must for foreign-funded NGOs

APROPOS OF THE EDITORIAL "Smoke signals" (*FE*, April 21), charges of misuse of foreign funds by NGOs must be made public, clear and loud. PHFI is one of the outstanding PPP organisations in the health space, which exists to bring awareness regarding the health impact of tobacco. What is missing with such activities is the mandatory reporting of the impact that they create in the public domain. The solution is to make Social Impact Assessment (SIA) mandatory for all such organisation. We must not forget that India has one hospital for every 7,000 citizens, one school for every 1,000 citizens and one NGO for 400 citizens. This juxtaposition shows those who talk about the gaps in the social sector outnumber those who actually work in the various segments of the sector. We need a data repository and independent SIA agency that can evaluate whether foreign funds are being used to the right end. It will benefit all stakeholder—the government, the donors as well as the masses.

— Vinay Singhal, Gurugram

### Hindi chauvinism

THE CENTRAL GOVERNMENT'S decision to make it obligatory for the president, prime minister and Union and state ministers to deliver speeches only in Hindi if they can don't pass muster. The writing of Devanagari numerals in the currency notes was done by stealth in breach of trust. These moves reek of cultural imperialism. It is encouraging that non-Hindi speaking people are determined to oppose Hindi imposition despite the accusation of parochialism thrown at them by the Hindi chauvinists. Hindi is one of the State languages, like Tamil, Kannada, Telugu and Malayalam, and it can't be elevated over others for predominance and pride of place.

— G David Milton, Maruthancode

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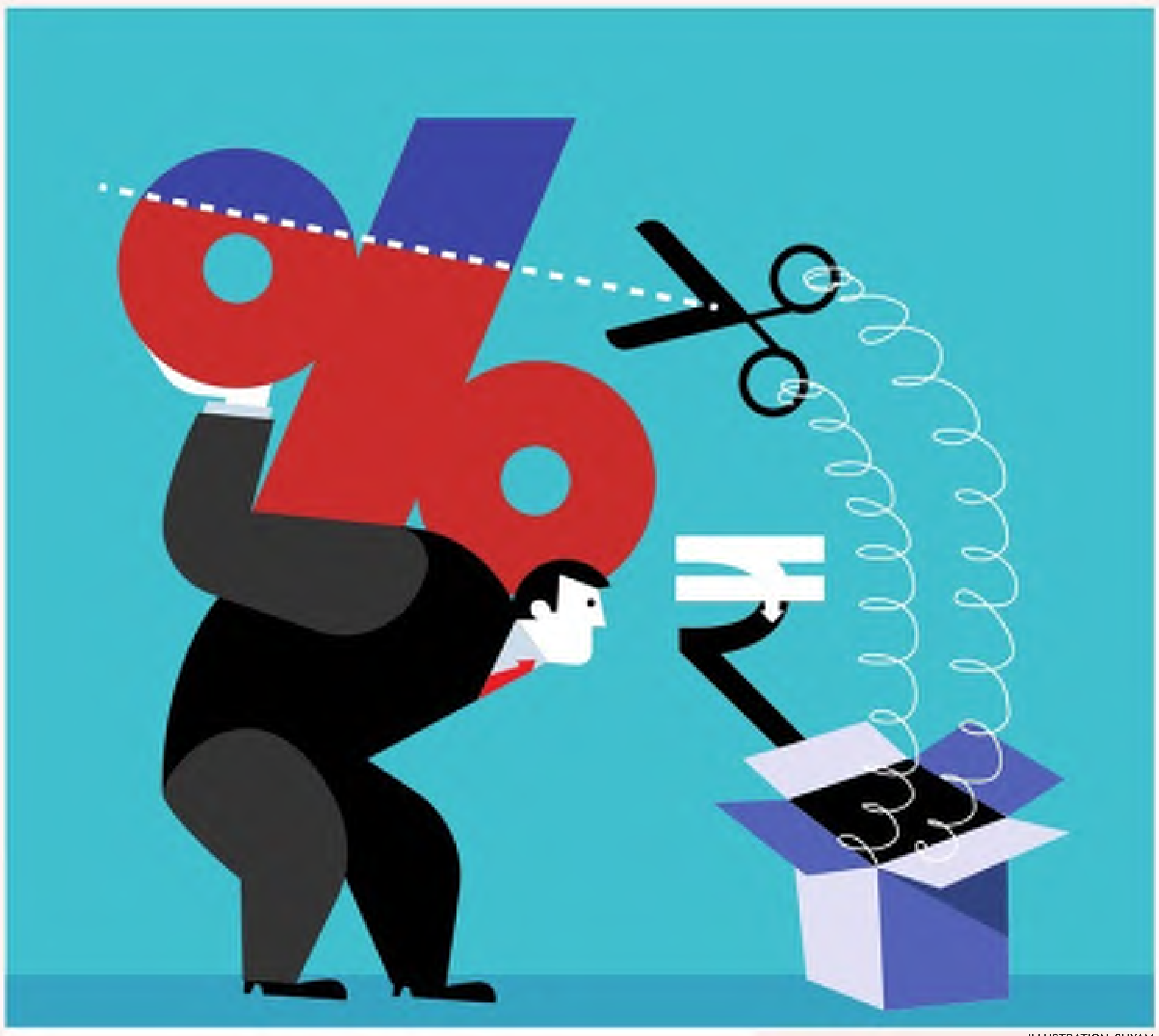

ILLUSTRATION: SHYAM

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# With GST on course, time for I-T reform

The government must constitute a committee fast to formulate a plan for reducing the income tax burden by restructuring the tax structure

**INDIVIDUAL INCOME TAX RATES**

| | Exemption limit (₹) | Number of rates | Entry rate (%) | Peak rate (%) | Income at which the peak rate applies (₹) |
|---|---|---|---|---|---|
| 1949-50 | 1,500 | 4 | 4.69 | 25.00 | 15,000 |
| 1955-56 | 2,000 | 5 | 4.93 | 26.25 | 15,000 |
| 1960-61 | 3,000 | 7 | 3.15 | 26.25 | 20,000 |
| 1970-71 | 5,000 | 11 | 11 | 93.50 | 2,00,000 |
| 1975-76 | 6,000 | 8 | 13.2 | 77.00 | 70,000 |
| 1980-81 | 8,000 | 8 | 15 | 66.00 | 1,00,000 |
| 1985-86 | 18,000 | 4 | 25 | 50.00 | 1,00,000 |
| 1990-91 | 22,000 | 4 | 20 | 56.00 | 1,00,000 |
| 1995-96 | 40,000 | 3 | 20 | 40.00 | 1,20,000 |
| 1998-99 | 50,000 | 3 | 10 | 30.00 | 1,50,000 |
| 2005-06 | 1,00,000 | 3 | 10 | 33.66 | 2,50,000 |
| 2007-08 | 1,10,000 | 3 | 10 | 33.99 | 2,50,000 |
| 2008-09 | 1,50,000 | 3 | 10 | 33.99 | 5,00,000 |
| 2009-10 | 1,60,000 | 3 | 10 | 30.90 | 5,00,000 |
| 2011-12 | 1,80,000 | 3 | 10 | 30.90 | 8,00,000 |
| 2012-13 | 2,00,000 | 3 | 10 | 30.90 | 10,00,000 |
| 2015-16 | 2,50,000 | 3 | 10 | 30.90 | 10,00,000 |
| 2017-18 | 2,50,000 | 3 | 5 | 30.90 | 10,00,000 |

Source: Ministry of finance

**THOSE IN THE** know of the deliberations at the top level in the government post-demonetisation point out that prime minister Narendra Modi was extremely unhappy with the results because of the slack handling by the agencies responsible for the implementation during November 9 and December 30 last year, especially the banks. And, why not—despite taking one of the biggest political risks in the history of independent India, thinking that demonetisation of ₹500 and ₹1,000 notes will bring out huge sums of black money, there was not much to show on the ground.

What saved him though is the fact that public opinion throughout the country remained in favour of demonetisation even though it meant a lot of hardships for the common man because of the shortage of cash—the record success of the Bharatiya Janata Party (BJP) in the Uttar Pradesh assembly polls bears testimony to this. The encouraging part is that PM Modi is still keeping the government machinery on toes to not only reap the benefits of demonetisation by getting hold of those who have deposited their unaccounted income kept in ₹500 and ₹1,000 notes, but also extending the reach of digital transaction to curb the cash-economy, which is at the root of black-money creation, through efforts like promotion of BHIM-Aadhaar payments.

While the ease of transaction that linking with the biometric identification system, Aadhaar, provides to the people can potentially revolutionise the payments ecosystem in the country, the income tax (I-T) department has the dual responsibility of catching past tax evaders and coming out with the reforms of the tax system to stop the generation of fresh black money. It is already on the job with regard to its first responsibility, through its Operation Clean Money that was launched on January 31 for e-verifying the cash deposits made during the demonetisation period.

In the first phase, 17.92 lakh persons, involved in cash transactions not matching their tax profile, were asked to file their response on-line. Considering only 9.46 lakh persons responded, the department is now in the process of reaching out to the rest and also those providing responses that are not acceptable. The I-T department has made it clear: "It has been decided to close the verification in cases where the explanation of the source of cash was found to be justified. In cases where the cash deposit has been declared under Pradhan Mantri Garib Kalyan Yojna (PMGKY), the verifications would also be closed."

In the next phase, the operation is becoming more focussed based on credible information—more than 60,000 persons, including 1,300 high-risk persons, have been identified for investigation into claims of excessive cash sales during the demonetisation period—and more than 6,000 transactions of high-value property purchase and 6,600 cases of outward remittances will be subjected to detailed investigations.

The message appears to be loud and clear—those who thought they have escaped the taxman's lens by just depositing the old notes may have got it wrong. Reaching them with the help of information gathered during the demonetisation phase is now one of the primary jobs of the Central Board of Direct Taxes (CBDT). But the more critical responsibility of the tax department and the government here is to look at a longer-term solution to deal with the creation of black money.

With the goods and service tax (GST) all set to become a reality this year—the government is still looking at the July 1 date—the countrywide indirect tax system would only need the required modifications in terms of rates and structure going ahead. The government, therefore, must initiate the process for reforming the income tax structure in the budget next year, which is one of the major steps needed to curb the creation of black money, along with the GST.

PM Modi has already stressed on the need to lower the income tax burden on individuals and finance minister Arun Jaitley will do well by initiating this process at the earliest. The government still has enough time to do it, perhaps with the help of a committee consisting of representatives of all stakeholder groups—tax experts, the public, CBDT, and tax professionals. This panel should be assigned the job of formulating a draft report on the changes required on the lines of the Direct Taxes Code (DTC), which has been junked by the current government. The draft report then should be put up for extensive consultation before it is shaped into a final report to be presented in Parliament, preferably in the monsoon session, to seek the view of the standing committee. The idea has to be to firm up the final contours of the changes during the winter session of Parliament so that they can be introduced in the Budget next year.

A close look at the personal income tax structure over the years (see table) suggests that even though tax burden has moderated after reaching extortionary proportions in the pre-1991 phase, there is still a need for major restructuring. Though the biggest problem with such restructuring is that of it has to be done along with the removal of exemptions, which is a politically sensitive matter. There is no reason why PM Modi should hesitate in doing this now, especially after taking a big risk like demonetisation.

**It will be a big gain for the country's business environment if the pending corporate tax changes—reduction in the rate to 25% with the weeding out of tax deductions—are also made part of the overall direct tax reform in the 2018 Budget**

This will help him in raising the floor for imposing the top income tax rate of 30% from the current ₹10 lakh—the low floor leads to tax evasion . It will be a good idea to revisit the DTC 2009 proposal of taking it to ₹25 lakh with the phasing out of exemptions. If PM Modi succeeds in re-hauling the personal income tax structure, along with GST, it will constitute the biggest tax reform done by any government after independence.

It will be a big gain for the country's business environment if the pending corporate tax changes—reduction in the rate to 25% with the weeding out of tax deductions—are also made part of the overall direct tax reform in the 2018 Budget. Being the fourth year of the government, 2018 is the best time to go for big-bang reforms.

NEW WORLDS

# Governance in the age of AI

HEMANT MANUJ
Associate professor of Finance at SPJIMR

Policymakers should move towards taking up specific and concrete steps to lessen the fears of potential job losses

**THE EMERGING WAVE** of artificial intelligence (AI) and machine learning (ML) is expected to bring about a significant shift in the factors of production in the global economy. There is now a high degree of agreement that a significantly large number of workers in several sectors will become redundant. It is, therefore, important to swiftly implement the palliative measures which can neutralise the impact of the new age technologies.

Before thinking upon the required measures for addressing the expected rise in unemployment, let us imagine the likely characteristics of this emerging landscape.

The positive development is that increased usage of new technology will lead to an increase in productivity in most sectors. To illustrate, a doctor or a banker will be able to examine much higher number of patients or clients by delegating the standard aspects to tech-enabled systems.

On the other hand, this will also mean that there will be redundancies among the workforce. However, the gross output of the economy will either be maintained or increased in sectors currently constrained with supply-side factors.

There will also be a redistribution of demand across sectors. For example, with more time in the hands of people, at an aggregate level, demand for services like tourism, sports, well-being, etc, should increase. Similarly, demand for intra-city commute, office spaces, etc, should come down.

Since there is going to be a significant change in the landscape of the economy and the working styles of the people, how should the government react to the change? What policies, laws, and actions should be taken by the government?

**The provision of a smart form of Universal Basic Income would be most suited to assuage the adverse impact in terms of job losses**

The foremost objective of the government should be to try and ensure that the changes do not lead to a reduction in the average level of, or an increase in the dispersion of, the per capita income. On the contrary, the effort should be to achieve an improvement on both these parameters. The government should follow a two pronged strategy:

- Actively supporting and encouraging, and not fearing, the changes brought about by the tech revolution. This will help in critically evaluating and developing competitive advantages and achieving optimal productivity levels in sectors that can benefit from an early adoption of the new technologies.
- Harnessing the benefits of productivity and distribution. This requires explicit recognition that the benefits of better technology are shared in a fair and sustainable manner.

With the above principles in mind, the government should take the following specific steps.

It should deeply engage itself in understanding the expected impact of technology on the various sectors. This is not an easy task as it deals with future outcomes with dynamic interfaces. This will require deep expertise and collaborative efforts amongst sector specialists, technologists, lawyers, regulators, behavioural scientists, etc.

The government will need to estimate the delta in the productivity over the next three, five, and 10 years. Based on the best estimates of changes in productivity, for the various sectors, the changes in employment and income levels can also be derived. A strategy would then need to be chalked out for incentivising the sectors to maximise productivity as well as share the benefits of the same to compensate for the losses in jobs and income. The strategy should include fiscal measures like tax adjustments, and social security benefits.

Specifically, a forward looking model for redistribution of technology based productivity gains to the deprived sectors and people should be developed. The provision of a smart form of Universal Basic Income (UBI) would be most suited to assuage the adverse impact in terms of job losses.

To summarise, the new environment of AI- and ML-based business processes are at our doorstep. Hence, the policymakers should urgently move from general thinking towards taking up specific and concrete steps to assuage the fears of potential job and income losses. The aim should be to convert the perceived challenge to a win-win solution for all.

# Steady in an oil market turmoil

It makes sense for listed airlines in Indian exchanges to adopt hedging as a standard practice

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**AIR TURBULENCE CREATES** uneasiness among passengers, especially, those sitting at the tail-end of the plane, oil turbulence can create financial troubles to managers of airline businesses and more so for those sitting on thin financials. The uncertainty in oil markets would be evident from the sticky $50 per barrel oil prices despite the historic OPEC agreement to cut output by 1.8 million bpd in the first half of 2017. On the other hand, Asian demand has been showing an increasing trend in the last three months. Volatility, thus, is the order of the day and the stakeholders shall better remain protected. With 28 to 42% (current fuel prices) of their operational costs attributable to one of the crude derivative, namely the Aviation Turbine Fuel (ATF), Indian airline sector is no exception to it. While the good times (low oil prices) add value to the investors in the airline industry stocks, bad times (high oil prices) lead to vulnerable operators succumbing to cost pressures and exiting the markets besides leaving NPAs.

Typically, airline companies are expected to flock into hedging in a low but rising crude oil price environment. On the other hand, surging oil prices often lead to loss of consumer base and business confidence leading to slow-down of economic activity, and hence a reduction in demand unless it is compensated by competitive air travel costs. As fuel prices swell and travel demand falters at the same time it leads to a profit plunge. In such a scenario, hedging remains the inevitable recipe as the gains from having purchased oil futures provides not only for better cost control, but also for competitive pricing of tickets. With profits of the airline industry more dynamically linked to the overall economic situation, other modes of transportation, other than oil prices, the only factor that is under the control of airline businesses would be that of ATF which can be locked in through crude oil derivatives.

The shape of the futures curve also catalyses the hedging behaviour of the exchanges. As 'term structure' strengthens—indicating higher future prices, the psychological impact of locking in the price of future fuel requirements below future possible spot prices encourage hedging. According to a Citigroup report, the consumers for crude oil are now returning to hedging as spot prices have rallied and futures curve has flattened out. The cost of jet fuel is not only the largest cost component (accounting for 30-40% of opex); it represents a component that is most volatile and its control lies in hedging. Additionally, as the airline industry seeks to sell tickets in advance, they have their income locked in before outgoing costs, and carrying months of risk lag on income versus costs can have massive cash flow issues. Hence, securing fuel costs would not only help airlines protect margins, manage cash flows, but ride out the volatility. A simple example of the three airlines shows that with a 30% increase in ATF prices, both Jet Airways and Spice jet would be in the red.

Globally, risk managers quote Southwest Airlines' long running (25 years) and successful corporate hedging programme, which makes up one-third of their costs. Ryan Air remains one of the latest examples of having hedged their exposures to the extent of 95% in 2017, having declared price certainty as their target than low prices. Singapore Airlines Ltd, remains another south-east Asian airline that has currently reported to have extended its hedging horizon from the previous 2-5 years hedging an average of 37% of its total fuel cost. Meanwhile, Malaysian Airlines has taken a prudent approach in the current oil price environment and has aggressively hedged 65% of their fuel oil requirements for 2017 at about a bit north of $60/bbl. While hedging is catching up as a healthy practice to protect the bottomlines among airline firms globally it is yet to catch up in World's ninth largest civil aviation market—India, where the cost of fuel for an airline fluctuates widely from 28% to 63% of its total operating expense.

**Revenues and Expenses for Indian Airline companies**

| | FY 12-13 | FY 13-14 | FY 14-15 | FY 15-16 |
|---|---|---|---|---|
| **Fuel Expense / Total Operating expense (%)** | | | | |
| Jet Airways | 63 | 58 | 52 | 42 |
| Spice Jet | 47 | 44 | 39 | 28 |
| Indigo | — | — | 46 | 35 |
| **Revenues (₹ mn)** | | | | |
| Jet Airways | 174,032 | 177,135 | 202,807 | 219,110 |
| Spice Jet | 57,264 | 63,986 | 53,818 | 52,167 |
| Indigo | - | - | 143,199 | 166,013 |
| **PAT (₹ mn)** | | | | |
| Jet Airways | -4,855 | -36,679 | -18,137 | 1,174 |
| Spice Jet | -1,911 | -10,032 | -6,871 | 4,072 |
| Indigo | - | - | 13,041 | 19,897 |

* Indigo results available Nov 2015 onwards

Analysis of crude prices reveal that, a major reason for losses reported by Indian airline companies during 2011-2014 could be largely attributed to the high cost of ATF and the higher volatility (%) in ATF prices as announced by the OMCs every fortnight. It indicates the underlying need for locking in fuel prices that would have helped the Indian airline firms provide pricing power, thereby keeping their margins well protected.

Further, with the current Listing Obligations and Disclosure Requirements (LODR) of Sebi becoming effective from the current financial year, it makes more sense for listed airlines companies in Indian exchanges to adopt hedging as a standard practice. Historically, analysts have rewarded firms that are well protected from all risks including commodity price risks. With the LODR and the adoption of Indian Accounting Standards would clearly differentiate firms that recognize risks and manage including airlines that have a larger risk arising out of ATF prices that represent more than a third of its operating costs.