THE HINDU BusinessLine
TUESDAY, JUNE 20, 2017

Preparing for take off

Regional airlines are down and out, but UDAN can script a turnaround

With the cancellation of Air Carnival's licence, only one among four regional airlines remains in operation. The rest of them are grounded with lessors taking possession of the aircraft they had leased to them. Trujet based out of Hyderabad is the only one which operates flights in and around the region, though little is known of its financial viability. At a time when the Centre is rightly pushing for regional connectivity through its UDAN (Ude Desh Ka Aam Nagrik) scheme to connect tier two and three cities, news about the grounding of yet another regional airline comes as a dampener. But it must be noted that these regional airlines started their operations much before the Regional Connectivity Scheme (RCS) came into being. They were treated as any full-service airlines and had to pay the same charges levied for any other carrier. That said, it is now quite clear that not much groundwork was carried out by these failed ventures before they turned up at the airports. For example, the Vijayawada-based Air Costa placed its bets on Brazilian aircraft, Embraer, which was good for the passengers but not for the airline, and is now struggling to restart operations. Experts say most of these airlines were undercapitalised; they ended up selecting the wrong aircraft and suffered from a lack of management depth.

Airlines under the UDAN scheme receive several concessions such as excise duty at 2 per cent on aviation turbine fuel (ATF) for flying on regional connectivity routes and at RCS airports; reduction of VAT to 1 per cent on ATF at RCS airports and no landing or parking charges by airport operators. Airlines which have bid successfully for a particular route will get three-year exclusivity so that they don't have to compete with another carrier on the same route for that particular period.

The Centre needs to be lauded for introducing RCS as not many governments across the world have been keen to pass on such concessions. In Western Australia, according to reports, 46 regional airlines have been grounded since 1960 because of high charges, and possibly lack of government support. UDAN can script a new story for regional airlines, but there are yet issues which could surface once the airlines start operating under the scheme. States as well as the Centre will have to be prompt in releasing subsidies to airlines as the carriers operate on wafer-thin margins and not every route can turn in profits. Its success will depend largely on how well each of the stakeholders works together. On their part, regional airlines will have to be extremely cost-conscious, right from choosing the right type of aircraft to getting the cabin crew at salaries which do not burden the carriers too much. Running an airline has always been a stressful exercise for the owners but there are enough failed ventures around for them to learn and not repeat their mistakes. Besides, GST is unlikely to act as an airpocket for the sector.

OTHER VOICES

The New York Times

Fighting, while funding, extremists

Even sophisticated observers admit to confusion and consternation about the Middle East, where rivalries and jealousies among nations have reached new levels of complication. Saudi Arabia and some of its neighbors decide to punish Qatar and some of its citizens, ostensibly for fostering and financing Islamist terrorism. But Saudi Arabia itself has been accused of underwriting extremists. No matter: President Donald Trump, captivated by Saudi royalty, sides with the Saudis — even though the United States has two important bases in Qatar. Baffling, right? NEW YORK, JUNE 18, 2017

theguardian

Bangladesh: The people deserve better

Bangladesh's impressive run in the Champions Trophy, though terminated by a thrashing from India in the semi-final last week, highlighted the cricket team's striking progress and won deserved applause. This relatively young nation – which only won independence from Pakistan in 1971 – usually gets little credit for its triumphs against the odds. Its greatest enemy has arguably been the folly of its own politicians who remain locked in a vicious and sterile feud which has claimed too many lives. LONDON, 18 JUNE 2017

CHINA DAILY

Australia's groundswell of bias counterproductive

That Australian Prime Minister Malcolm Turnbull labelled China a "frenemy" shows some in Australia are continuing to whip up anti-China sentiment. Turnbull's speech addressing the Shangri-La Forum in Singapore has been cited as proof he is adopting a tougher stance toward China. Such a worrying trend has naturally aroused concerns in China and prompted doubts about Canberra's sincerity in promoting meaningful interaction with Beijing. BEIJING, 19 JUNE 2017

Let's get real about renewables

Despite falling costs, solar and wind cannot replace coal in supplying baseload power. Hence, focussing on clean coal is crucial

ATANU MUKHERJEE

The recent frenzy in renewable energy, particularly in the solar space, has raised expectations of coal-free, sunshine driven power for India at the lowest cost in about a decade's time. The impetus for renewables is certainly the right step for coping with climate change challenges. However, we have to be realistic in our ambitions and base our plans on science and sound economics rather than hyperbole and rhetoric. Zero carbon renewables is the eventual goal, but in the foreseeable future coal seems to be the only option for reliable 24X7 power at less than ₹3 per unit. Solar and wind will be an increasing and growing complement to our conventional energy sources, but is unlikely to be our primary source of power for quite some time.

Over-optimistic targets

While the Government's intent of 175 GW of installed renewable capacity by 2022 is admirable, what we need to ask is what is plausible, based on our understanding of technical, economic, political and market structure dynamics. Unfortunately, contrary to claims of popular science we will not magically transform ourselves into a world of carbon-free renewables in a decade or so — more so in the developing world. One must understand that energy technology has its own time constants and everything does not follow Moore's law .

It took coal (1815 onwards), oil (1915 onwards) and gas (1930 onwards) 60 years to get to be the world's major share of energy supply. Carbon free renewables are at the 5 per cent stage today. Similarly, the 100GW of planned solar capacity addition by 2022 will mean an addition of 18GW of solar capacity per year — which is certainly aggressive at the current stage of solar development.

The financing issue is also particularly problematic, as the estimated $170 billion in investment is, in all likelihood, beyond the capacity of the domestic financial sector even with subsidies. Attracting international capital competing for similar energy technologies worldwide introduces new challenges.

Constraints to renewables

The world's obsession with the falling cost of solar and the elusive quest for grid parity — meaning renewable power cost at or below the current cost on the grid — has clouded our thinking. Firstly, cost is not the only factor, which determines the suitability of solar, and renewables for what is known as baseload power. Apart from affordability and climate impact, availability, reliability, consistency and feasibility are key determinants of 24X7 power for industry and consumers.

It is important to understand that, physics places fundamental limitations on the power generation ability of solar and wind. In what is known as power density in energy science — how much power you can produce per square meter of effective area used —there are orders of magnitude difference between solar and conventional sources like coal, gas and nuclear.

While coal and nuclear have a power density ranging from 300-1,000 watt per square metre of effective land area, solar has only 6-12 watts and wind about 3 watts. So, if we plan to put up a large utility scale solar plant, we will need very large land areas. For a 640-MW solar plant, the area roughly needed is about 10x10 km. If we aim to meet the total requirement of utility scale power through renewables, the requirement of land will likely be beyond our ability to mobilise in a reasonable time frame, and in an economically viable manner.

Pie in the sky The idea of a coal-free India REUTERS

While government subsidies and programmes such as solar parks help in seeding the market, developing large utility scale solar requires very large land banks in areas with high solar irradiance intensity in order to support competitive tariffs. In fact, the latest study by Lazard, indicates that the effective power cost through solar will be likely not less than ₹5 per unit.

The weather factor

Secondly, nature places some hard constraints on solar and wind, and that has undesirable effects on harnessing solar energy in an effective manner through the grid. Wind and solar both depend on weather conditions, and are both variable and uncertain. Solar plants run at 50 per cent effective capacity, since you can't run them in the night.

Solar also has the problem of intermittency due to cloud cover and rain, which further reduces effective capacity. The grid was designed for "dispatchable" power on which you have control. The original grid was not designed keeping uncontrolled intermittent power load of renewables in mind and this means that the grid needs to be re-engineered over time to support renewables without compromising baseload power supply. Unless very large grid scale battery storage is available in the near future economically, we will need to have backup capacity based on thermal power to augment the variability and uncertainty of renewables. This will unfortunately increase the power cost to support renewables, as has happened in Germany.

In a developing country like India — and the world for that matter —clean coal technologies, energy efficiency and energy use complemented with renewables has probably a far larger and quicker impact on making available, affordable and reliable 24X7 power, while abating carbon emissions and conforming to climate change goals.

For cleaner coal

India today has 200GW of coal power, which uses mostly subcritical technology —spewing a tonne of carbon dioxide per MWh generated. With the right carbon reduction incentives and investments we should be able to induce accelerated adoption of economically attractive low carbon coal technologies like supercritical, ultra supercritical and, possibly, coal gasification for power generation. So, by 2035 when our capacity likely expands to around 500GW of coal power plants, emissions should come down by a third. The resulting carbon emissions will be lower at the higher thermal power capacities than what it is today.

India's energy poverty challenges with consumption at just over 1,000 units of electricity per capita — compared to China at over 4000, Europe at 6000 and US at 12,000 — are enormous indeed. We must engineer practical solutions to this energy challenge with conventional and renewables. The war should be on carbon emissions, not coal.

The writer is President of MN Dastur & Co. The views are personal

The EU just killed roaming charges

The move comes as a unifying pan-EU factor, adding to the sudden surge in pro-European sentiment

LEONID BERSHIDSKY

It is fitting, perhaps, that united Europe has just served up a rare treat to its citizens: They can now travel throughout the European Union without incurring mobile roaming charges. The move comes as the EU's popularity is increasing, and it's a tangible example of what UK citizens may end up missing after Brexit.

Roaming charges stopped applying on Thursday after a more than 16-year process that is vintage EU. Regulators first started questioning the fees mobile operators charged intra-EU travellers as far back as 2000; the bills could be startling, reaching hundreds or even thousands of dollars in the still-numerous European currencies. Proceedings were launched against UK and German operators that imposed extortionate tariffs on companies from other European countries. It was one of the most egregious ways in which Europe, ostensibly a single market, was fragmented.

In Europe, every country has its own telecom regulatory framework, licensing and spectrum distribution system, so even companies operating under the same brand throughout the continent, such as Telefonica with its O2 brand or Vodafone, work through separate operators in every country. Because of different regulatory frameworks, living standards and usage patterns, their tariffs vary widely.

Last year, the cheapest monthly package offering 1 GB of data, 600 minutes of calls and 225 text messages cost €8 in Estonia and €60 in Hungary. Roaming tariffs were as illogically different but always hefty; tourists and business travellers preferred to keep their phones off, buy local SIM cards or book special roaming deals with their providers.

No easy task

Getting the national operators to scrap the surcharges was quite a cat-herding exercise. The European Commission set up a group of national telecom regulators to start looking into it in 2004. By 2006, it had a proposal for a regulation that would eventually abolish roaming charges. But mobile operators, who derived some 5 per cent of their revenue from intra-European roaming, resisted. In the intervening years, as roaming traffic grew exponentially, the Commission's efforts survived a legal challenge and countless rounds of negotiations.

Meanwhile, the roaming tariffs were gradually lowered. Finally, in January, the European Commission and the European Parliament reached a political deal on the wholesale price operators in different countries would pay each other for traffic to allow their clients to roam. That made it possible to abolish the surcharges starting June 15.

Beyond boundaries Connecting call for European Union REUTERS

Again in typical EU style, despite the triumphant announcement that Europeans can now "roam like at home," it's a bit messier than that. Several dozen of the continent's thousands of mobile operators have applied for national exceptions, saying they couldn't operate profitably without the roaming fees. Some, especially in Eastern Europe, have tried to ignore the new European rules. Many providers are introducing packages that will only work in a customer's home country. It'll take some time to get those kinks out of the system.

Connected continent

That, of course, is only the first step toward a single digital market in Europe. It'll be a long time before e-commerce can work as smoothly across national borders as it works across US state lines. In Europe, the need to deal with multiple postal services adds to the confusion created by the array of ideologically different tax regimes.

Speech and personal data protections and copyright regulations also differ between countries. Diversity and fragmentation are among the reasons why Europe has been slower to develop big tech companies. As the example of roaming charges shows, it will be years before the EU can become borderless for tech-driven businesses and their customers.

In 2019, if the UK leaves the EU without a deal, surprise mobile bills will become reality for them again. It seems like a small thing — smaller, at any rate, than the loss of the right to work in any EU country — but it's an example of the kind of little things that one gets used to, and starts taking for granted, when living in the EU.

It appears that since Brexit, Europeans have started noticing these little things. A recent Pew Research survey has confirmed the conclusions of the EU's own pollsters concerning a sharp increase in the union's popularity in member States compared with last year. Even in the UK, its favourability is now at 54 per cent.

About half the people Pew asked said they'd support holding a referendum on their country's EU membership — but only to affirm it. Small minorities everywhere favour an exit, and even in Greece, just 36 per cent want to leave.

Europeans are critical of how the EU handles some economic issues and the refugee crisis, but a median 55 per cent of those surveyed in 10 EU members, including the UK, states believe Brexit is bad for the UK. Only in Greece and Italy, pluralities believe it will be good.

All the EU needs to do to develop the momentum is to keep delivering more little conveniences for its citizens, like the abolition of roaming charges. Perhaps the UK's unwitting sacrifice will speed up the union's convergence. BLOOMBERG

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Farmers in distress

India does not have a structured and comprehensive farm policy, even though majority of the populace is dependent on agriculture. We have fractured schemes like MSP, interest subvention, credit disbursement targets and last but not the least, adhoc loan waiver schemes. Unlike the industry and service sector, the farmer is solely dependent on his land and livestock.

The inflation in food prices over the decade has increased manifold but the MSP and farm gate prices have barely increased in real terms. Coupled with vagaries of monsoon, farm labour, input costs have substantially increased. With industrial units setting up their manufacturing facilities in rural centres, to take advantage of the incentives accruing to backward area units, migration of farm labour is substantial.

The government should modify MGNREGA to the effect that the workers should be engaged only in farm activities during the agriculture season; this will be an assured and subsidised supply of labour.

The entire produce should be procured by the Government at the market rates. Insurance should also cover the loss due to variation in selling prices. At present there are no schemes to cover the default of bank loans, like the one available for MSMEs under the credit guarantee scheme.

S Veeraraghavan
Coimbatore

Rural employment

Waiver of bank loans for farmers at the cost of economic growth is undesirable. Appropriate steps should be taken for improving farmers' economic conditions.

The Government can either fix a minimum price for their crop sales or purchase directly from them at a price. And, the Government can provide measures to help them for alternative incomes. The sources can be village industries like handloom/khadi or handmade potteries/craft items in which their family members can be included.

Mahesh Kapasi
Email

Rajini's generosity

This refers to: "Rajinikanth meets farmers" (June 19). The Tamil superstar Rajanikanth assuring the delegation of farmers that he will take up their issue with the Prime Minister by pledging ₹1 crore portrays his magnanimity and sagacity. The superstar's concern towards the travails of farmers should not be seen with askancethe style offered ₹1 crore towards interlinking Himalayan and Peninsulas rivers way back in 2002. One fails to understand why such large heartedness is absent among affluent people.

HP Murali
Bengaluru

Dealing with population

It refers to "The elephant in the room — our population" (June 19). Ever-rising population could act to both one's advantage and disadvantage. If our government is able to provide health and education to one and all then this issue can be handled smoothly.

With Make in India being one of the biggest initiatives of this government, skill development and new job generation should be top priority. And quality of public healthcare and education system has always been a challenge.

Bal Govind
Noida

Sporting glory

Pakistan has finally broken its jinx against India by managing to topple the latter and lift the ICC Champions Trophy title for the first time. After a string of defeats against the Indians in ICC tournaments and weighed down by history, Pakistan peaked at the right time to scale a new high. Credit should go to the 'Men in Green' who fought their way into the final through sheer grit and determination after being mauled in the opener by Kohli and company.

Pakistan's domination in the final was complete as it first put the Indian bowling to the sword to chalk up an impressive score and then followed it up with a disciplined effort with the ball.

On a day when the Indian team buckled under pressure there was some consolation for fans as the Indian men's hockey team defeated Pakistan 7-1 and booked a place in the quarter-finals of the World League in London.

NJ Ravi Chander
Bengaluru

Published by N. Ram at Kasturi Buildings, 859 & 860, Anna Salai, Chennai-600002 on behalf of KASTURI & SONS LTD., and Printed by D. Rajkumar at Plot B-6 & B-7, CMDA Industrial Complex, Maraimalai Nagar, Chengleput Taluk, Kancheepuram Dist., Pin: 603209. Editor: Raghavan Srinivasan (Editor responsible for selection of news under the PRB Act). ISSN 0971 - 7528

Crop prices and farmers' unrest

Distressed farmers are demanding loan waivers, but that should not deflect focus from what needs to be done and undone to address the root cause of the agrarian crisis

CP CHANDRASEKHAR JAYATI GHOSH

MACROSCAN

The farmers' unrest across the country, and particularly across several BJP-ruled States, appears to have caught the central government by surprise. But it should really not have done so. Ever since candidate Narendra Modi in 2014 promised the farmers *acchhe din* in the specific form of doubling of farm incomes in five years and public procurement at prices ensuring 50 per cent return over costs as recommended by the Farmer's Commission headed by MS Swaminathan, farmers have been waiting for these promises to be fulfilled. Three years down the line, they feel cheated. And of course, they might feel betrayed by the whammy of demonetisation and its prolonged effects on rural markets, which have depressed all crop prices and not allowed them to reap the benefits of a bountiful monsoon.

Several issues are at stake here, which need to be considered if we are to understand the farmers' demands for immediate relief from debt burdens and for properly remunerative prices. The BJP's pre-election promises struck such a chord among farmers because for some time now the issue of the viability of cultivation has been a pressing one. The first UPA regime in the decade of the 2000s went some way towards mitigating the agrarian crisis that was affecting the countryside, but since around 2012, many of the problems, which had essentially been patched over rather than comprehensively addressed, reappeared with even greater intensity.

Indeed, this is what creates the difficulties in debt servicing that farmers are facing across the country, which in turn has given rise to promises of loan waivers in several BJP-rules States. This is a knee-jerk reaction to a deeper problem of farm viability that is still not being addressed, and it is likely to create even more problems especially when it becomes clear that the actual waivers will be much more limited than promised.

Falling short

The background is that promise of procurement prices at 50 per cent higher than total cost has not been fulfilled by the current government over the past three years. First, the declared MSPs have not been at the promised levels; and then the poor implementation of even these prices in government purchases has meant that they have not operated as floor prices for agricultural markets.

Chart 1 provides the CACP estimates of costs and recommended MSP for the rabi season 2017-18 (the current season), for the crops in which there is public procurement. The cost A2+FL refers to the actual paid out cost plus imputed value of family labour, while C2 is the comprehensive cost including imputed rent and interest on owned land and capital. Note that both these costs do not include interest payments on working capital, which must be paid out of the margins.

Note further that the costs are calculated as weighted averages across States, and there are many States for which the costs exceed these averages. So the MSP may not even cover costs in some States, much less provide a margin over them. For example, in the case of wheat, the CACP's estimated average cost of ₹1,203 covers a range from a low of ₹1,100 per quintal in Punjab to a high of ₹2,200 per quintal in West Bengal, with Maharashtra showing a cost of ₹1,900, well above the MSP. In the case of gram, the average cost of ₹3,185 incorporates a low of ₹2,550 in Rajasthan and a high of ₹3,800 in Karnataka. Cultivation costs of mustard seeds go from ₹2,200 per quintal in Madhya Pradesh to ₹4,500 per quintal in West Bengal, with the national weighted average at ₹2,773. And so on.

The CACP Report for the rabi season of 2017-18 admits that "the pricing policy is not rooted in the 'cost plus' exercise, though cost is one of its important determinants", since it also takes into consideration other factors such as inter-crop parity, which must necessarily be a subjective exercise.

Even so, it is apparent from Chart 1 that the recommended prices for the crops do not come anywhere near the promise of 50 per cent above the total costs if C2 is considered. In the case of at least one crop, safflower seed, the recommended MSP is actually below C2, and provides a margin of only 18 per cent over the cost A2+FL.

But then there is the further issue of whether these recommended MSPs actually function as floors to the market prices that farmers face. This highlights the ineffectiveness of procurement policy in different States. The fact that farmers' unrest has been especially marked in BJP-ruled States does not reflect 'political conspiracy' as has been alleged, so much as that these State governments seem to have been quite poor in ensuring that market prices stay at or above the MSP, which is an essential function of the procurement process.

Walking alone India's farmers do not enjoy the benefits of support prices KK MUSTAFAH

Not quite a support

Consider the data provided in Table 1 on actual mandi prices in two States that have witnessed much of the anger of cultivators, Maharashtra and Madhya Pradesh. Three crops are examined here: wheat, gram and lentil. The prices are a simple average across mandis in the States, and in some mandis, the prices were much lower than the average even on those dates.

In any case, it is apparent that for wheat, market prices in Madhya Pradesh have been well below the MSP on both May 31 and June 15. Compared to the State average low price of ₹1599 and high price of ₹1,565 on 31 May, Laundi mandi recorded a low of ₹1,390 and a high of only ₹1,425 per quintal, while Satna showed a low of ₹1,400 and a high of ₹1516. Several dozen other mandis showed rates well below the MSP.

In Maharashtra, minimum prices were below the MSP on both dates, and even the modal average price barely crossed the MSP on 15 June. The mandi-wise variation once again indicates that farmers in some districts faced even lower prices: on 31 May, the State average low price was ₹1599, but mandis in Parola and Sarangpur showed rates of ₹1,300 per quintal, while several others showed ₹1,400 per quintal. Once again, many mandis had rates well below the MSP.

The case of gram (chana) appears to be somewhat better, with both States recording market prices (both minimum and maximum) well above the MSP. But for lentil, the failure of the procurement policy to provide an adequate floor for market prices in Madhya Pradesh — which incidentally provides 44 per cent of the country's lentil output — is once again evident. Mandi prices across the State have been well below the procurement price, not just the average but even the maximum prices recorded. Once again, some districts and mandis have shown even lower rates. Thus Mandsaur, the epicentre of some of the recent protests showed a modal price per quintal of ₹650 below the MSP, with the minimum obviously even lower.

Currently there are also problems in soyabean and cotton markets, where prices are ruling well below the declared MSP for the previous kharif season.

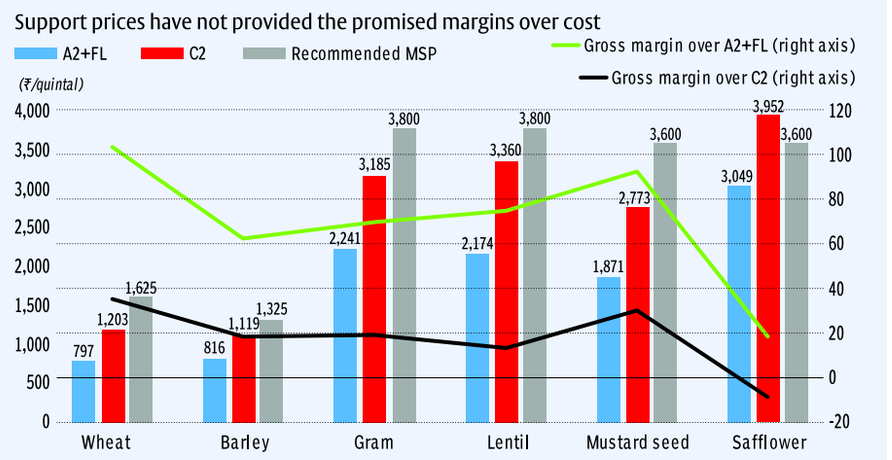
And the demonetisation-induced collapse in rural liquidity has meant low prices for perishables like fruit and vegetables.

Clearly, farmers have good reason to be angry. And hasty and ill thought-out loan waivers, while unavoidable given the policy-made circumstances, will not relieve either their distress or their anger.

Chart 1

Rabi crops estimated costs and MSP

Support prices have not provided the promised margins over cost



Source: CACP Report for Rabi Season 2017-18

Table 1

Lower than average

Minimum support prices and actual mandi prices (₹/quintal)

(average of mandis across state)	MSP	Price on May 31			Price on June 15		
		Min	Max	Mode	Min	Max	Mode
Wheat							
Maharashtra	1,625	1,599	1,860	1,729	1,557	1,771	1,673
Madhya Pradesh		1,489	1,640	1,565	1,508	1,568	1,532
Gram							
Maharashtra	3,800	4,899	5,458	5,156	4,774	5,089	4,981
Madhya Pradesh		4,494	5,166	4,905	4,534	5,066	4,637
Lentil							
Madhya Pradesh	3,800	2,990	3,362	3,227	3,053	3,304	3,152
Mandsaur, MP		2,800	3,500	3,150	–	–	–

Source: Calculated from data on http://farmer.gov.in/marketprice.html, accessed on 18 June 2017

5 THINGS to WATCH OUT for TODAY

- **VN Sudharakan**, the jailed nephew of AIADMK general secretary VK Sasikala, will be produced in an economic offences court in Chennai. The court had directed the superintendent of central prison at Parappana Agrahara in Bengaluru to produce Sudharakan, in connection with the FERA violation case.

- **Delhi** University is to announce its first cut-off list today. This year DU will release six cut-off lists. The last cut-off list will be announced on July 18, while the session will begin on July 20. The admission process may close by August 16.

- **The Congress** government in Punjab led by Chief Minister Amarinder Singh will present its maiden budget today. On Monday, the cabinet approved rejigging departments of Governance Reforms and Removal of Grievances by merging them and renaming the merged entity as 'Department of Governance Reforms and Public Grievances'

- **Prime Minister** Narendra Modi is to visit Lucknow for two days from today, to attend the International Yoga Day function on Wednesday. fter inaugurating the new CDRI building, which was pending for more than three years, the PM will go to Abdul Kalam Technical University nearby.

- **The OnePlus 5** smartphone will be launched globally today. The launch will be broadcast live at 10:30pm IST preceding the India launch by two days, when the device will be released to the tech media and fans in Mumbai.

All you wanted to know about...

LOKESHWARRI SK

SLATE

Imagine a class with half the students very boisterous and naughty with little respect for school rules. The other half of the class that follows all the instructions diligently also gets punished for creating a racket, when the principal makes his customary rounds around the school. To avoid the punishment, the goody-goody bunch must make sure that the mischievous ones behave properly.

The situation is similar under the soon-to-be implemented Goods and Services Tax (GST) regime. Every business has to ensure that its suppliers, of both goods and services, are paying the right amount of taxes on time. This is accomplished through the reverse charge mechanism.

What is it?

The GST has to be typically paid by the supplier of goods and services. But in some cases, the liability to pay the tax falls on the buyer. This reverse charge is, however, applicable only under certain circumstances. The most common instance is when a business buys goods or services from a supplier who is not registered to pay GST.

Let's assume that business A that is GST-compliant buys goods worth ₹100 from business B that is not registered to pay GST. If the GST on the goods supplied is ₹5, then business A, instead of business B, will have to pay ₹5 to the Government. Business A can, however, claim input tax credit of the GST payment of ₹5, when it sells the goods to its client.

Besides purchases from an unregistered supplier, the reverse charge kicks in in other circumstances as well. An importer is liable to pay the GST under the reverse charge mechanism. Also government departments making payments to vendors above a specified limit (₹2.5 lakh under one contract) are required to deduct tax (TDS) and e-commerce operators are required to collect tax (TCS) on the net value goods or services supplied through them.

Why is it important?

The best part about GST is its self-policing mechanism. The Centre is trying to check tax evasion and expand the tax net through couple of clauses in this tax regime. First, seamless flow of input tax credit is possible only when all the suppliers of a business pay GST. So each business will make sure that its suppliers have paid the GST so that they can take input tax credit.

Reverse charge is an additional check. By putting the burden of paying the tax on the buyer, in cases where the supplier does not pay GST, the Government is gently coercing all businesses to sign up for GST.

The major hindrance for the tax department in going after tax evaders is shortage of manpower. With all resources being allocated to chase large tax evaders, its difficult to check the small evaders. This self-policing mechanism is, therefore, expected to do the trick for the government, helping it grow the tax base as well as tax collection.

Why should I care?

If you run a business, you need to hurry and ensure that all the entities who supply you goods and services are registered for GST. If they aren't, you will have to pay the GST on their behalf. This will increase your paper-work and can cause cash-flow issues as well.

If you are toying with the idea of escaping the GST net by misstating your turnover, to show that it is below the threshold limit, or through some other means, think again. With the reverse charge falling on the buyer, your order book might shrink as companies would prefer to deal with only those entities who are registered for GST.

The bottomline

It's time to reverse wrong strategies and get GST compliant

A weekly column that puts the fun into learning

BusinessLine TWENTY YEARS AGO TODAY

JUNE 20, 1997

Reliance Ind. to consider bonus

26 lakh shareholders of Reliance Industries can expect a bonus this year. The company said its board of directors will be meeting on June 26 to consider the issue of bonus shares. It sent a notice to the Bombay Stock Exchange on Thursday. This will be the third bonus issue after RIL went public in 1977 and the first after 14 years. The first bonus issue was in September 1980 in the ratio of 3:51 and the second in 1983 in the same ratio of 3:5. Analysts expect the bonus issue this time in the ratio of 2:5 or 3:5.

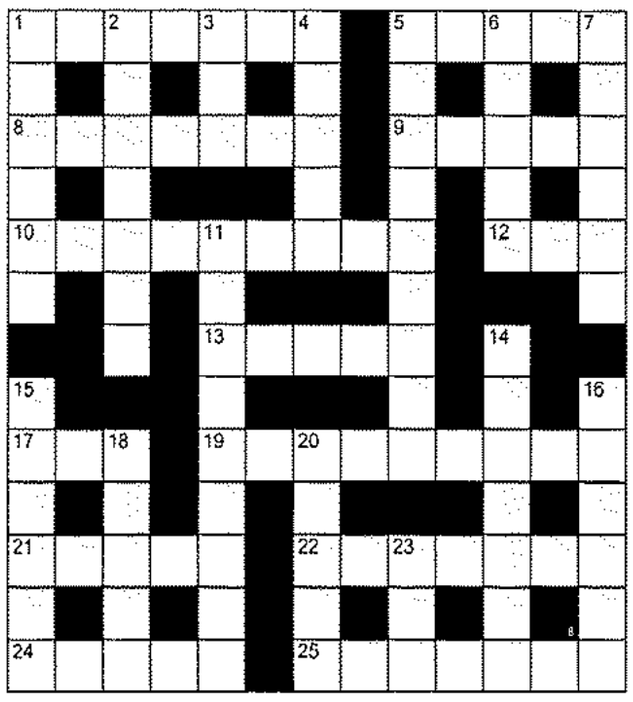
SBI net profit rises 60%

With the net profit at Rs. 1,329.3 crores for 1996- 97 recording a 60 per cent increase over Rs. 831.6 crores for 1995-96, the board of State Bank of India, which met today to consider the audited financial results, recommended a dividend of 40 per cent, five percentage points higher than it paid for 1995-96. The recommended dividend, however, is subject to the approval of RBI as it exceeds 25 per cent. SBI's gross profit rose 12.1 per cent to Rs. 3,397.63 crores. The total income was up 11.95 per cent to Rs. 17,593.73 crores from Rs. 15.715.59 crores. The net interest income grew by 15.37 per cent at Rs. 5,359.23 crores from Rs. 4,525.05 crores.

Essar Shipping, Sisco may be merged

Two of the Essar group's shipping companies, Essar Shipping and South India Shipping Corporation Ltd (Sisco), are likely to be merged and retain the identity Essar Shipping. According to sources, the board of the directors of Sisco would be meeting on June 29 to decide on the possible amalgamation of the company with Essar Shipping Ltd. The merger would take the Essar group to the top position in the shipping industry and the operational efficiency could be improved considerably with the increased fleet strength, sources said.

BL TWO-WAY CROSSWORD 875



EASY

ACROSS
01. A fist-fight (5-2)
05. Be up in arms (5)
08. Set right, remedy, readjust (7)
09. Effrontery (5)
10. Warship (9)
12. Family (3)
13. Paling (5)
17. Cooking-surface (3)
19. To turn out, result (9)
21. Be buoyant (5)
22. Form of cold chisel (7)
24. Submit (5)
25. Relaxation of strained relations (7)

DOWN
01. A send-up (6)
02. Those living unclothed (7)
03. Pass quickly over one's way (3)
04. Aggressive, self-assertive (5)
05. Returning at intervals (9)
06. Fracture (5)
07. Being fond of (6)
11. Gave back an image (9)
14. Punish (7)
15. Evasive, tricky (6)
16. Comparative amount of severity (6)
18. Penniless (5)
20. Went out, as tide (5)
23. Allow (3)

SOLUTION: BL Two-way Crossword 874

ACROSS 1. Towed 4. Spangle 8. Event. 9. Chronic 10. III 11. Senseless 12. Kids 13. Blob 18. Fortunate 20. Tug 21. Inkling 22. Karma 23. Endless 24. Rhyme
DOWN 1. The nick of time 2. Wheeled 3. Detest 4. Second 5. Airmen 6. Genie 7. Excess baggage 14. Liturgy 15. Futile 16. Badges 17. Beaker 19. Raked

NOT SO EASY

ACROSS
01. Fisticuffs occur with party drink being more expensive (5-2)
05. He refuses to conform out of pure belligerence (5)
08. Reparation for damage sustained by dresser (7)
09. The impudence of the chap! (5)
10. Broken reed Tory's made of fighting craft (9)
12. Family of the sort that's unfinished (3)
13. Use foil if you wish to handle hot stuff (5)
17. A rustic may cook on it (3)
19. Turn out woman perhaps to attune to it (9)
21. It won't sink the milk-cart (5)
22. It will give one a boost to have it under one's pillow (7)
24. Give out or give in, if you touch it (5)
25. Easing of relations netted some change with the East (7)

DOWN
01. It sends up a revolver in the wages (6)
02. Naturists one dusts in error (7)
03. Hurry along and get horse to turn left (3)
04. Self-assertive, but retiring after getting back-up (5)
05. It keeps coming back about the electricity supply (9)
06. Slow down, one is told, at play-time (5)
07. A partiality for the link GI forged (6)
11. Thought back on what the Mirror did (9)
14. The cants been designed to punish one (7)
15. Being evasive, will move at end of May (6)
16. What graduand is getting for 60 geographical miles (6)
18. Having no money, went bust (5)
20. Was receding to be up on part of the garden (5)
23. The French tennis no. I's net call (3)