Reading Cabinet's decisions

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"What is the government trying to achieve by its Wednesday decisions on the telecom, farm and petroleum sectors? What is the context of the announcements, and how should they be understood?"

On Wednesday, the Union Cabinet announced some key economic policy decisions. The first was a merger and revival package for two loss-making public sector telecom firms — Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL). The second was an increase in Minimum Support Prices (MSP) for rabi crops. The third was liberalising the regime for marketing petrol and diesel.

MTNL-BSNL merger

CONTEXT: It has been argued for some time now that the government should move out of the telecom sector because its firms — BSNL and MTNL — have been steadily losing ground to the private sector, and making heavy losses in the process. In the last four years, MTNL and BSNL revenues have fallen by 30% and 40% respectively. In the last financial year (2018-19), the two companies reported annual losses of Rs 14,000 crore and Rs 3,388 crore respectively. Cumulative losses are much higher. These losses are essentially a burden on taxpayers. The companies' large staff strengths (BSNL has round 1.7 lakh employees) have made them all the more unviable in the face of losses. So, the government has decided to merge the two firms and introduce a voluntary retirement scheme (VRS) for employees above 50 years of age. The VRS is expected to cost over Rs 17,000 crore.

The government has also decided to raise funds by monetising the existing assets of BSNL and MTNL, and expects to raise Rs 38,000 crore by this route. The merged entity will float bonds (that is, sell bonds and get money in return) that will have the government's guarantee — Rs 15,000 crore is expected by this route.

The fresh money will be used to reduce the debts of the merged entity, and get it 4G spectrum so that it can compete with players in the rest of the sector on a better footing.

ANALYSIS: The move to treat BSNL and MTNL as strategic assets and the bid to revive them should be seen in the context of the ongoing distress in the telecom sector where the bulk of the private players — such as Tata Teleservices, RCom, Aircel, Telenor and Videocon — have shut shop in recent years. In essence, there are now just three companies — all private — that survive. But over the past few years, these too, have seen their revenues plummet sharply while their debts have risen into lakhs of crores.

Whether the merged entity will be able to better take on the reduced and weaker competition, thanks to the government's backing, or whether it will struggle to take off in a time that is challenging for even more efficient private companies, will depend largely on how it is managed hereon.

Increase in Rabi MSP

CONTEXT: One of the key successes of the Narendra Modi government since it came to power in 2014 has been its ability to control the general inflation rate that had reached double-digit highs at the end of 2013. While several factors were responsible for this decline — such as the collapse of crude oil prices in 2014 and 2015 — the policy decision taken by the government to not increase Minimum Support Prices by a large amount in any year, was quite significant. MSPs are one of the most important determinants of cropping patterns and overall production in India, as they signal the benchmark for farm prices across several commodities.

The latest increase is of Rs 85 per quintal for wheat, which is the main rabi crop, taking the MSP to Rs 1,925 per quintal. This is roughly in line (in fact, a little lower) with annual MSP increases in wheat since 2014 (when it was Rs 1,450 per quintal).

ANALYSIS: Seen from the consumer's point of view, a modest increase in MSPs would be a welcome sign. That is because, according to the latest data, retail food inflation in September jumped from 3% to 4.7%. Since food items account for over 54% of retail inflation, the headline inflation too shot up to a 14-month high. So, modest MSP increases suggest that food prices will perhaps not rise too high.

However, the farmer's point of view is very different. Modest increases have been blamed for the stagnation in farm wages and an overall decline in rural demand. The most recent criticism on this count came from 2019 Economics Nobel winner Abhijit Banerjee, who pointed to low MSPs as a reason for depressed rural demand. Should the government have increased the MSPs by a bigger quantum to boost rural incomes and demand is an open question — especially because doing so would entail the risk of heightened inflationary pressures, which can then force the RBI to reverse the cycle of cutting interest rates.

Liberalising fuel retail

CONTEXT: The retail sale of transportation fuels such as diesel and petrol is almost entirely dominated by public sector oil marketing companies such as Indian Oil Corporation Ltd (IOCL), Hindustan Petroleum Corporation Ltd (HPCL), and Bharat Petroleum Corporation Ltd (BPCL). There are some private players as well — Reliance, Essar and Shell — but as of May 2019, fewer than 7,000 of the 64,703 retail outlets in the country belonged to them.

The government has now decided to liberalise this regime by tweaking the "guidelines for granting authorisation to market transportation fuels", something that has not been done since 2002. In essence, the new rules lower the entry barriers for private (including foreign) players to enter the market for fuel retailing. For instance, new entrants will require a minimum net worth of just Rs 250 crore as against the current requirement of Rs 2,000 crore. Non-oil companies too, can invest now. This "major reform" will give a fillip to the "Ease of Doing Business", the government says.

ANALYSIS: For an economy like India, which is trying to grow fast and create more jobs, a move that lowers entry barriers should be welcome. The increased presence of the private sector, including foreign companies, is likely to boost job creation and improve consumer satisfaction with more retail outlets, better technology use, and more competition.

An interesting aspect of the new norms is that besides conventional fuels, the authorised entities will be required to install facilities for marketing at least one new-generation alternative fuel such as CNG, LNG, biofuels, electric charging, etc., within three years of operationalising their retail outlets — a nod to concerns over the harm done to the environment by conventional fuels.

Expected Questions (Prelims Exams)

1. Considering the following statements, identify the true statement: -

1. The government has merged Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL).
2. Currently, the retail inflation of food items is more than 54% so the overall inflation has also reached a 14, months high.
3. The guidelines giving authorization for market transport fuels have been changed and this change will give a boost to 'Ease of Doing Business.'

Code:-

(a) 1 and 2 (b) 1 and 3

(c) 2 and 3 (d) 1, 2 and 3

Expected Questions (Mains Exams)

Q. 'In India's current telecommunication system, merging BSNL and MTNL and giving revival package will prove a logical step by the government.' Give an argument in favor of your opinion.

(250 words)

Note: Answer of Prelims Expected Question given on 23 Oct., is 1 (d).