Short Takes

Against Job Reservation in Private Sector: Niti Aayog VC

NEW DELHI: Joining the debate on job reservations, Niti Aayog vice chairman Rajiv Kumar has said he is against extending the policy to the private sector, while admitting that more efforts are needed to generate more employment. Several political leaders are advocating job reservation for SC/ST in private sector. "There should not be job reservation in the private sector," Kumar said when asked to comment on the contentious issue. He however made a case for generating more employment, saying the government is able to provide employment to 10 -12 lakh youths.

Gold ETFs See ₹388-crore Outflow in April-Sept Period

NEW DELHI: Gold exchange-traded funds (ETFs) continued to lose sheen as an investment class as investors pulled out ₹388 crore from these instruments in April- September 2017. Trading in gold ETF segment has been tepid during the last four financial years. It witnessed outflows of ₹775 crore in 2016-17, ₹903 crore in 2015-16, ₹1,475 crore in 2014-15 and ₹2,293 crore in 2013-14. On the other hand, equity and equity-linked saving scheme (ELSS) saw an infusion of more than ₹80,000 crore during the first six months (April-September) of the current financial year.

WPI to Moderate Further, to Average 2.8% : Nomura

NEW DELHI: WPI inflation is expected to moderate further in the coming months, and is likely to average 2.8% in 2018, says a Nomura report. It said a moderation in WPI inflation in the coming months is likely owing to falling vegetable prices and favourable base effects. "Looking ahead, with food prices (vegetables) falling further in recent weeks and favourable base effects on fuel inflation until January 2018, we expect WPI inflation to moderate further in the coming months, before stabilising," Nomura said in a research note.

EPFO to Decide on EPF Interest Rate Next Month

NEW DELHI: EPFO is likely to decide the rate of interest on provident fund deposits for this fiscal in its trustees meeting next month. "The apex decision making body of Employees' Provident Fund Organisation , Central Board of Trustees headed by labour minister Santosh Gangwar will meet in November," a source said. EPFO has over 50 million subscribers. "The interest rate on provident fund deposits for 2017-18 is likely to be placed before the trustees for approval," the source said.

GST Hits Excise-Free Zones; Pharma, FMCG Cos Worried

Firms petition govt after a new DIPP scheme offers them only 58% CGST reimbursement

Deepshikha Sikarwar & Ratna Bhushan

Transition Troubles

DIPP norms: 58% CGST reimbursement in place of excise duty exemption

Cos' complaints:
- **CGST** rate lesser than erstwhile excise duty rate
- **Scheme only** covers manufacturing cost at job work level
- **GST budgetary** support only on value addition by third party
- **This will be** much lower than excise benefits
- **It reduces** the quantum of benefit for companies

Prior to GST: Cos enjoyed duty exemptions in Himachal, U'khand and northeast
- **Pharma**, FMCG and auto cos have units in these states

New Delhi: A new GST reimbursement scheme has left Dabur, Godrej and many other FMCG and pharmaceutical companies worried about their manufacturing operations in Himachal Pradesh, Uttarakhand and some northeastern states where they used to enjoy excise duty exemptions.

Apprehension has set in after the department of industrial policy and promotion (DIPP) last week unveiled guidelines of a scheme that replaces the erstwhile excise-free zones, offering 58% central GST reimbursement.

Companies that outsource manufacturing to job workers in these states have petitioned the government saying the new restrictions may render their businesses unviable. They are also exploring legal options.

Many pharma companies including Cipla, Dr Reddy's, Johnson & Johnson and Wockhardt have plants in excise duty-free zones in Himachal Pradesh. TVS Motor, Lloyd Electric, TAFE and some other automobile component makers too have units in the hill state.

The new scheme, coupled with the fact that typically, the CGST rate is less than excise duty rate, means the absolute quantum of benefit gets reduced for the companies, say industry experts.

Industry fears that the new guidelines would only cover the manufacturing cost of a product at the job work level. In the previous tax regime, companies used to get excise benefits on the maximum retail price of the products.

"The new DIPP scheme does not highlight GST budgetary support to third-party units located in the listed states. Basis our current understanding, GST budgetary support will be calculated on the value addition or the profits earned by third party processors. This will be much lower than the excise benefits enjoyed in the pre-GST regime," said Sameer Shah, head-finance (India & SAARC) and investor relations at Godrej Consumer Products.

"It seems that if goods are manufactured by a third party, either under the job work or contract manufacturing model, the refund would be a function of the amount paid to such third parties, which means that the benefit might get significantly diluted," said Pratik Jain, leader-indirect taxes at PwC.

Industry has, as such, sought clarity from government on the new scheme.

"We are in discussions with the authorities on this along with issues on timing, quantum of the state's share of GST budgetary support for owned units and also extending GST budgetary support to units that have made substantial investments in the listed states but have not commenced commercial production on the GST cutover date," Shah said.

Chief executive of a large foods and personal care company also said that they have sought clarification from the government on the scheme.

Companies may have to relook at their businesses and also rework the pricing mechanism.

"We are evaluating options and will take appropriate steps," said Lalit Malik, CFO, Dabur India.

Options Trading a Big Step Towards Formalising Trade in Gold: Jaitley

Our Bureau

New Delhi: Finance minister Arun Jaitley on Tuesday said options trading in gold was one of the steps towards formalising the trade in the yellow metal, launching the product on the commodities exchange MCX. "This marks a very important evolution in the trade of the yellow metal itself," Jaitley said, adding that it hedges all risks by giving traders the option of futures.

This is India's first commodity option, a derivative product that had not been allowed so far.

Till now, only futures trading in gold and other commodities was available on the MCX and

PIB

the launch augments the number of products available for traders to hedge their risks.

Speaking at the launch, the finance minister said the government was taking measure to formalise gold trading.

"We are great buyers of this product and one of the efforts of the entire system has been, consistently through policy formulation, to formalise this trade also," Jaitley said. "I am sure the more it formalises itself, the better it is for consumer, the better it is for the jewelers, the better it is for those trading in this and that is in consonance with the kind of business environment in the future that we see for ourselves," he said.

"The launch denotes one of the most significant reform measures since modern commodity derivatives trading started 14 years ago," Saurabh Chandra, chairman of MCX, said.

MCX managing director and CEO Mrugank Paranjape said that as per Sebi's rules, options trade is allowed in a commodity that has certain volumes in futures trade and 7-8 commodities such as cotton, CPO, crude, silver, zinc and copper which qualify. "After 3-6 months, we will decide after looking at the success of the gold options," he said.

Options give buyers the right to buy or sell the underlying product at a specified price at the expiry. But there is no obligation to execute the trade. This means that the risk is limited only to the premium paid to acquire the option. This allows traders to hedge their risks at a small cost.

ONGC to Call Bids to Raise Output of Ageing Oilfields

Proposed policy offers fee to service providers for incremental output and maintaining the 'baseline'

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New Delhi: State-run Oil and Natural Gas Corporation (ONGC) will soon invite bids from oilfield service providers to enhance output from some of its ageing fields under a long-term contract whereby winners will get a predetermined fee for existing and incremental production, company executives said.

ONGC's Executive Committee is expected to give the proposed policy a final shape this month, following which the company would float a tender inviting bids in another two months or so, the executives said.

Last December, ONGC signed agreements with Schlumberger and Halliburton for enhancement of production from its matured fields of Geleki in Assam and Kalol in Gujarat, respectively.

But the pacts were dumped after suggestions that they were legally vulnerable. This forced ONGC to formulate a competitive bidding model.

Under this proposed model, the service provider will get fee for every incremental unit of oil or gas produced as well as for maintaining the 'baseline' production at the field, an executive said. Those seeking the lowest fee will win the bid.

ONGC executive committee would shortly finalise the relative weightage for the two fees -- for incremental output and for maintaining the 'baseline'.

The contracts will be for 15 years or more and the service providers will have to provide the capital and incur operational expenditure to raise output from 'baseline' production, which will be decided by ONGC alone, the executives said.

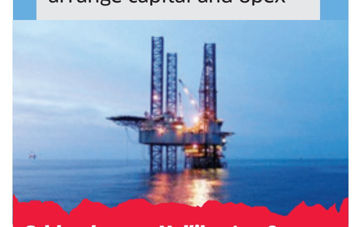
Under the previous agreement which was scrapped, ONGC and the service providers had to jointly agree on a 'baseline' output.

Besides Schlumberger and Halliburton, Baker Hughes has also expressed interest in participating in the auction as and when it takes place, an executive familiar with the discussion between ONGC and service providers said.

Besides Geleki and Kalol, a few more old fields with higher potential recovery will be put up for auction as the company needs to raise output quickly, the executive said.

Production Push

ONGC's new policy:
- Service provider to get fee for incremental unit of oil or gas
- Fee also for maintaining 'baseline' production
- Those seeking lowest fee will win bid
- Contracts to be for 15 years or longer
- Service providers to arrange capital and opex



Schlumberger, Halliburton & Baker Hughes interested in bidding

The matured fields include Geleki and Kalol

BANKING ON AUCTION

Successful auction could mean billions of dollars of investments into ONGC's fields besides an increase in output

A successful auction could mean billions of dollars of investments into ONGC's fields over the next few years besides an increase in output.

Along with this, the government also working on a production enhancement policy that would give away control of many of ONGC's older fields to private players if they promise to raise production.

Unlike the government policy where participating interest is given to private players, the proposed production enhancement contract of ONGC offers only a fee.

Output at ONGC, which made up 57% of country's crude production in 2016-17, has been stagnating for years, forcing the company to look for innovative ways to raise production from its mostly mature fields.