

## Package to compensate CST loss on the anvil

**K.R. Srivats**  
New Delhi, Feb. 26  
The Finance Minister, Mr P. Chidambaram, is likely to unveil in his Budget speech on Tuesday a compensation package to the States for the revenue losses that would arise from the proposed Central sales tax (CST) ceiling rate reduction from four per cent to two per cent.

In the run-up to the Union Budget, the Empowered Committee of State Finance Ministers on VAT had made it known to the Finance Minister that full Central compensation of CST losses was a pre-condition for phasing out this tax from April 1 this year.

The panel has in principle agreed to the reduction. CST collections are expected to touch Rs 18,000 crore in 2005-06. Currently, the entire CST is collected and retained by the States.

As part of the compensation package, the panel is expecting a "combination of steps" from the Finance Minister, including Budgetary support.

Apart from the Budgetary support, there is also a demand to allow States to impose VAT on sugar, tobacco, and textiles (additional excise duty items), to empower States to tax certain services, and devolution of entire revenues arising from VAT on imports.

Moreover, the VAT-implementing States are expecting adequate devolution of financial resources obtained by the Centre through service tax.

However, the VAT panel Chairman, Dr Asim Dasgupta, has been taking a position that States do not want their demands on service tax to be counted towards CST revenue loss compensation.

The States are keen on Budgetary support, as the losses from CST cut would start take place from the first month itself (April 2006).

With the States eyeing the burgeoning service tax kitty of the Centre and the fact that the tax collectors see lot of potential in service tax, the Finance Minister may bring more services under the service tax net, from 81 currently.

In the Budget for 2005-06, Mr Chidambaram had provided Rs 5,000 crore towards compensation for the revenue losses, if any, arising from VAT implementation by States.

## Indian co bids for Iranian steel major

**United News of India**  
Dubai, Feb. 26

An Indian company is in the race to buy one of West Asia's largest steel producing companies, Isfahan-based Mobarakeh Steel Company of Iran.

According to a company official, who did not give the Indian bidder's name, a Russian firm has also shown interest, but the deal would only be completed after the government launches a formal international bid for its sale.

The production of steel by the company, in the past three years has been about three million tonnes annually, according to media reports.

Production is expected to touch four million tonnes by the end of the fiscal in March, the company official added.



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# Higher tax breaks likely for health insurance

## Budget may signal next phase of reforms

**Sarbajeet K. Sen**  
New Delhi, Feb. 26

Insurance reforms could well be one of the predominant flavours of the forthcoming Union Budget. On February 28, the Finance Minister, Mr P. Chidambaram, could signal the second big phase of the insurance reforms by announcing his intent to introduce a Bill in Parliament to overhaul the insurance laws that could pave way for a higher cap on foreign direct investment (FDI) in the sector and lower capital requirement for the stand-alone health insurance companies.

Source said there have been indications that the Govern-

ment would also provide a major push to health insurance by allowing a higher deduction from the total income of an assessee for amounts put in for taking out health cover.

Indications are that the deduction permitted could be raised to Rs 20,000 from the present Rs 10,000 under Section 80D of the Income-Tax Act.

Mr Chidambaram during his Budget speech of July 8, 2004, had announced his intent to increase the FDI cap in insurance from the present 26 per cent to 49 per cent.

However, the issue has been pending for some time now with the Left parties fighting tooth

### Opening up more

**Capital requirement** in stand-alone cos may be reduced to Rs 50 crore.  
**Deduction permitted** under Section 80-D may be hiked to Rs 20,000.

and nail the move to hike the FDI cap.

The Government, too, had been going slow on the issue since unlike other sectors where an executive order is enough to alter the FDI regime, a hike in the insurance cap would require an amendment in the Insurance Regulatory and Development

Authority (IRDA) Act.

Moreover, with various provision of the insurance laws having been found to be outdated and not suited for the present liberalised set up, the Government has been working on an Omnibus law that would address all the infirmities.

There have also been problems in the health insurance sector with no one willing to float stand-alone companies offering health cover with the present minimum capital requirement of Rs 100 crore.

Sources said that the Government was considering bringing down the capital requirement for the stand-alone health com-

panies to Rs 50 crore.

Health insurance, that is currently being offered by general insurance companies, is seen a sector that hold huge potential in the days to come.

Industry officials said that the segment could witness a major boost if proper incentives are given to people to put money to take out a health cover.

The potential that health insurance holds can be gauged from the fact that Life Insurance Corporation of India (LIC) has recently said that it would want to start a company exclusively offering health cover though with a lower capital requirement.

## Flight of money



**Biggest heist:** A British police forensic officer inspects money cages used to store banknotes that were stolen from the Securitas Depot in Tonbridge Kent last week. The raid on the depot is believed to be the biggest cash robbery in history, with the cages hoping to provide more clues for the police, as to the gang that was responsible for the crime. — AFP

## Drug cos may be allowed to fix prices

### But must submit cost-structure to NPPA

**Nithya Subramanian**  
New Delhi, Feb. 26

The new Pharmaceutical Pricing Policy may give companies more flexibility in fixing prices. Instead of the National Pharmaceutical Pricing Authority (NPPA) fixing the prices of certain drugs based on the cost of the raw materials, the companies may be allowed to do so. However, they would have to file their pricing structure with the Authority.

According to sources in the Chemicals and Fertilisers' Ministry, "We are looking at the model followed by the Income Tax Department where an individual tax payer files his papers based on self-assessment and the Department scrutinises the returns randomly. Similarly, we could consider allowing the pharmaceutical companies to fix the prices on their own but submit their cost-structure to the NPPA. The Authority will then choose a few applications for further inspection."

This, they said, would reduce the burden on the NPPA. Currently, the Pricing Authority

fixes prices of 74 bulk drugs and derivatives.

As part of its monitoring activity, the Regulator regularly examines the movement in prices of non-scheduled formulations.

The monthly reports of market research agency ORG-IMS and the information furnished by individual manufacturers are utilised for this purpose.

However, the Government also plans to impose stiff penalties on erring companies. "If companies are caught over-charging, they would have to pay stiff penalties that will increase with every offence. The penalties have yet to be finalised," said the sources.

So far companies charging more were merely asked to deposit the over-charged amounts with the NPPA.

The Government is in the process of finalising a new pharmaceutical policy wherein different models to regulate prices of different category drugs are being considered. These include creation of a separate hospitals supply medicine list.

## 'India will enjoy low-cost IT labour edge for 20 years'

### Overall wage increase much lower, says Everest Research

**Moumita Bakshi Chatterjee**  
New Delhi, Feb. 26

The low-cost labour advantage enjoyed by Indian IT services over sourcing nations is here to stay for at least two decades despite the perceived sharp rise in wages.

According to Everest Research Institute, India's cost advantage over most sourcing nations, including the US, UK, France, and Japan, is likely to continue for at least 18-20 years.

"It is true that the wages in developing nations in IT services and BPO are experiencing double-digit growth at select skill levels.

"However, the effects of this on labour arbitrage are overstated," according to the 'Sustainability of labour arbitrage'

report by Everest Research Institute, which offers research services.

"Across levels, the overall wage inflation is substantially lower. Further, exchange rates should continue to move in the favour of the offshore industry (developed nations' currencies strengthening against developing nation's currencies), helping sustain and even increase labour arbitrage."

Downplaying the perceived effects of the salary hike, it said that the wage increases in India differed by process and levels, with overall increase being much lower than commonly reported figures.

For instance, in the Indian IT services ambit in 2005, the wage increase ranged from as low as six per cent in case of

project managers to 15 per cent for team leaders.

The weighted average wage increase was 10.5-11.5 per cent.

In case of work offshored from US to India, the labour arbitrage can sustain for 18-20 years.

For offshoring between Japan and India, the arbitrage can sustain for 26-28 years, for IT services.

For work offshored by France and UK to India, the labour edge can remain for over 30 years, the Everest report said.

"The three most important elements that current reports misinterpret are - the growth in individual salaries versus the more appropriate growth in the role levels; reports also pick up the highest cost increases rather

than taking into account the overall effect (bulk of costs are at entry level which only grew at six per cent); and third, they usually just cover wage increases at the offshore destinations versus the composite picture, which includes wage increases in source country, and other cost changes," said Mr Joe Fernandes, Managing Principal, Everest Group India.

The Everest report also said that even in the worst-case scenario, the cost advantage could be sustained for about 10 years.

"However, such pessimistic scenarios have a low possibility of realisation and in reality, labour arbitrage will be sustained for much longer periods of time," said Mr Sheetal Behl, market research analyst with Everest Research Institute.

## ENTIRE HOTEL BOOKED FOR ENTOURAGE New Delhi decks up for Bush

**Press Trust of India**  
New Delhi, Feb. 26

The national Capital is being spruced up for US President Mr George W. Bush's visit next week with the entire Maurya Sheraton hotel, where he will be staying, booked for the Americans.

"All the 600 rooms of the hotel have been booked by the Americans accompanying Mr Bush on his maiden visit

as the President," sources told PTI here today.

Besides decorating the area in and around posh Sardar Patel Marg where the hotel is situated, places like Purana Qila, Raj Ghat where Mr Bush is going to visit during his three-day stay are being spruced up. While parking spaces are being made in the hotel for his motorcade, the ridge area facing the hotel is being given a clean

shape with hedges being trimmed and front covered with decorative bamboo walls against a white background.

All kinds of contingency plans are being put in place with various kinds of mock exercises and drills being conducted by authorities ahead of the high profile visit. Sources said as part of the preparations, fire exercises would be conducted at the hotel tomorrow.



## JOINS ELITE CLUB Cochin ready for deep draft ships P.7

### COMMODITIES A new section on investment

Presenting a new section that talks of commodities as a tool of investment. The FMC Chairman, Mr S. Sundaresan, provides the perspective of the regulator. Mr K. Ramachandran of BNP Paribas looks at commodities as an asset class. What do the rubber and pepper futures markets have in store this week?  
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### THE NEW MANAGER Focus on confident young managers

Introducing a weekly section targeted at managers in the tumultuous corporate world. It will carry articles of topical interest by senior practising managers, B-School news, interviews with senior executives and management gurus, books to read and lots more.  
>>>Pages 12,13

### NEW PATH Organic pineapple farming in Kerala P.10

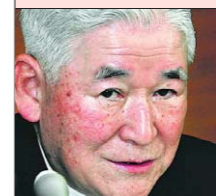


### INFO TECH Spectrum crunch: DoT seeks wire-line

Spectrum crunch is forcing the Department of Telecom to think wire-line. To make available the radio frequency for cellular usage, it has asked non commercial users of spectrum such as Defence agencies to shift their communication links from wireless to wire-line mode wherever optical fibre cable is available.  
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### TRANSPORT New facility at Mangalore port

The New Mangalore Port now offers a new facility to its users in the form of a deep-draught multipurpose berth to accommodate larger parcel size vessels. Growth in the volumes of general and iron ore cargoes is one of the reasons for the port to attract larger vessels.  
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## BIGGEST GAIN Yen rises on BoJ's bullish signal P.16

### CORPORATE

### PFC loan for Dabhol phase -II

The new promoters of the Dabhol power project have tied up a Rs 1,400-crore bridge loan from Power Finance Corporation to fund the completion of the 1,444 MW second phase of the project. The loan, with a 12-year maturity, could also part-finance the ongoing restart process of the 740-MW first phase of the project.  
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### MARKET MOOD

### Spotlight on Budget, Bush

The stock market will be focused on the cues from the Budget and the US President, Mr Bush. Despite apprehensions regarding pressure on the cost of equity investments, Dalal Street put a strong bet on the expected positives through tax proposals and sops in the Budget, says the Ringside View column.  
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