Union Budget 2010/11
TERIs View

The Budget 2010 has emphasized the importance of bringing about an inclusive growth by focussing on various areas including urban and rural development, green energy, agriculture and farmers, and education. There has been set aside 46 % of the planned allocations for infrasturcture and as a step forward towards implementing the Right to Education Act introduced in 2009-10 and the draft Food Security Bill soon to be introduced, spending on the social sector has been increased to 37% of the planned outlays in 2010-11.

Nutrient based fertilizer subsidy is expected to come into force from April 1, 2010. This will replace the price-based subsidy regime, would cover a larger basket of fertilizers and encourage use of innovative fertilizer products available in the market for reasonable prices. This is also expected to promote balanced fertilization which will lead to an increase in agricultural productivity and higher returns for the farmers and also help in containing the subsidy bill for the government.

The four pronged strategy suggested in agriculture sector is not only refreshing but also provides emphasis on one of the core sectors of our economy. We expect that this will take into consideration the newly proposed nutrient based fertilizer policy and successfully intervene modern technology to reduce waste and produce high value added products.

However, the Finance Minister could have been much more aggressive in the power sector as this is one of the key sectors that provide the needed impetus to growth and transformation in the society for moving towards a cleaner environment. Since coal reserves are limited the framework of introduction of ultra supercritical plants should have been preferred by providing additional incentives keeping the supercritical technology as the base level. Doubling of plan allocation is definitely welcome but an additional mechanism is needed to monitor the capacity additions and take appropriate actions to meet the planned targets.

Setting-up of a Coal Regulatory Authority is definitely welcome. However, it is important to keep in mind the concept of Integrated Energy Policy to address energy security as was proposed in the previous budget. It is high time that an energy ministry is set-up with the objective of optimizing energy resources across all sectors. It may therefore be worthwhile to also look at the concept of having an integrated energy regulatory body as well. This will help in harmonizing the policies of the various energy sources.

Analysis for the oil and gas sector - Ruchika Chawla, Associate Fellow TERI

- The impact of the proposed increase in customs and excise would lead to an increase in petrol and diesel prices[1] of around Rs.2.15/ litre and Rs.2.12/ lire respectively. The proposed petrol prices to rise by Rs 2.67/litre, diesel by Rs 2.58/litre is more or less in line with these. However, this price increase would not help in bridging the under-recoveries of the oil marketing companies.
- The budget mentioned that customs duty on all petroleum products except petrol and diesel[2] will be increase to 10%. It needs to be clarified if this duty would also apply to LPG and kerosene.[3] In case it does and there is no change in the LPG and kerosene prices, it would lead an increased burden of under-recoveries on the oil marketing companies.
- The budget remained non-committal petroleum price increase proposed by the Group headed by Shri Kirit Parikh, which was formulated to examine the current pricing policy of the four sensitive petroleum products namely petrol, diesel, PDS kerosene and domestic LPG and to make recommendations for a viable and sustainable pricing policy for these products.
- It is important for the government to address the petroleum pricing issue urgently else, continued compensation to oil marketing companies, for the under-recoveries thorough the oil bonds may add to the government's fiscal worries.

Renewable Energy and Energy Efficiency - Mr William A Gracias, Research Associate TERI

This budget provided renewable energy a significant push, but energy efficiency continued to take a back seat. The hon'ble finance minister's speech gave a positive thrust to development of clean energy by announcing the National Clean Energy Fund for funding research and innovative projects in clean energy technologies. By linking the fund's core composition with a cess levied on coal (Rs. 50/tonne for Indian and imported coal) probably indicates the peaking of the negotiation formula that India has adopted in climate change discussion that the "polluter pays".

If in the past, renewable energy has not been seen as an option to improve India's energy supply, then it has certainly been compensated by the importance this budget has attached to renewables to reduce dependence on fossil fuels. The budget acknowledges renewable energy "as a credible strategy for combating global warming and climate change". The Ladakh region will be one of the first areas in the country to benefit from dedicated budgetary allocation for renewables towards improving energy supply and mitigating climate change through the Rs. 500 crore announced for small hydro, solar and micro power projects in Ladakh. However small and micro **hydro** power potential in the rest of the country remains untapped and could have benefited from an all-inclusive allocation to the hydro sector, irrespective of region.

[1] On a trade parity price basis
[2] for these two products the customs duty will be 7.5%
[3] Currently both domestic LPG and PDS kerosene do not attract any customs duty

With respect to **solar energy**, this budget has gone all out to increase the plan outlay for the Ministry of New and Renewable Energy (MNRE) by 61% from Rs.620 crore (2009-10) to Rs.1000 crore (2010-11). Under the Jawaharlal Nehru National Solar Mission, the budget has provided concessional customs duty of 5 per cent to machinery, instruments, equipment and appliances, etc. required for the initial setting up of photovoltaic and solar thermal power generating units. This will certainly enable project developers to benefit from reductions in capital cost. It will be interesting to see if this translates to any significant reduction in electricity tariffs from solar projects. However, we feel that the Honourable Minister should have been more aggressive in this important sector as it also addresses energy security. We feel that the Finance Minister should have recommended zero percent duty at least for the next three year to build confidence among investors. Also these will be exempted from Central Excise duty. This is a much-awaited move that will benefit the country in taking forward the solar mission. However, the speech was devoid of any mention of budgetary assistance that could be provided to private developers for accessing large amounts of land that will be required to install solar power capacity.

The announcement of exemptions for the CSIR-developed solar powered rickshaw 'soleckshaw' to replace manually operated rickshaws is a boost for solar-based transport and a move to improve air quality of cities as they are likely to replace fossil fuel based autos as well. This, however, could have been coupled with an announcement of low-interest loans to facilitate the buyers of soleckshaw.

Wind energy - Reducing the basic customs duty on permanent magnets - a critical component for wind operated electricity generators - from 7.5 per cent to 5 per cent was a reiteration of the same announcement made in the last union budget in 2009 - this will certainly benefit wind energy project developers with a marginal reduction in project cost. But the more important move has come with respect to manufacture of rotor blades where the government has announced central excise exemption for specified items of that go into the rotor blade manufacturing. Given that rotor blades are some of the most expensive components of wind power plants, it is yet to be seen which components are actually given exemption and how this impacts the overall cost of production.

Geothermal energy received a special mention with an exemption from basic customs duty and special additional duty. With practically no activity in the geothermal arena in India, this announcement certainly makes geothermal heat pumps more attractive than they have been in the past. Again TERI is of the view that there are no duties on these important clean technologies at least for some demonstration plants. What will be important for this sector is separate exemptions or incentives (based on system size) for residential systems, district systems and systems used for large buildings.

Biomass and biofuels hold huge potential for providing alternative sources of energy and improving decentralised energy access (especially to rural areas). With the budget taking agriculture forward, the large agri-waste sector can feed into a biomass network resulting in additional revenue generation for farmers and ameliorating energy supply. This budget failed to capture this opportunity and was devoid of any mention of allocation to the biomass sector, be it in RD&D, biomass collection networks, energy plantations or exemptions of any kind.

Energy efficiency did not receive particular mention. There were no indications of increased allocation for the Bureau of Energy Efficiency (BEE) that runs several energy efficiency programs. Neither did the Accelerated Power Development and Reforms Programme (APDRP), that aims to reduce aggregate technical and commercial losses (AT&C) and thus improve viability of state distribution utilities, receive a mention. However, the costly LED lights that are staging a debut as a highly energy-efficient source of lighting for streets, homes and offices received reduction in central excise duty from 8 % to 4 %, at par with Compact Fluorescent Lamps.

Comments on the National Clean Energy Fund (NCEF) – Neha Pahuja, Research Associate TERI

The annual budget 2010-11 presented by Pranab Mukherjee today proposes to establish a National Clean Energy Fund (NCEF). The funds so generated would be channelised for research and innovative projects in the area of clean energy technologies. The fund corpus would be built by levying a clean energy cess on indigenous as well as imported coal at a nominal rate of Rs.50 per tonne. The initial analysis based on the projected coal production of 610 million tonnes (Indiastat) in 2010-11 suggests that, to begin with, a corpus of about Rs. 3000 crore per annum will be built from domestic coal production only. Additional resources in the fund will also be generated through similar cess on the imported coal.

This is an important first step from the last year's budget which mentioned provision of necessary funds for the eight missions identified in the National Action Plan on Climate Change (NAPCC). Though not explicitly directed towards any of the eight missions, the proposed fund would expectedly give a positive thrust to the development of renewable energy sector in India, which is key to reduce India's GHG emissions. However, the exact implementation plan of how the fund would ultimately be utilized is yet to be seen. Important would be to analyze the detailed outline of the fund in the light of its linkages with these eight missions.

Inputs on Economy and Environment - Dr. Shilpi Kapur, Associate Fellow, TERI

Economy:

One of the main challenges highlighted in the budget is to get the economy return to 9 pct growth and finally move towards a double-digit growth path. Though the government has accepted major recommendations of the 13th finance commission in terms of slashing its fiscal and revenue deficits and caps the public debt- GDP ratio, but there is no acceleration shown in the government's plans for near-term fiscal consolidation. Though the cutting of fiscal deficit from 6.9 percent to 5.5 percent of GDP will be a step in the right direction, but there is very little detail about how it will meet this goal and this may imply very heavy borrowing needs over the upcoming fiscal year.

The budget has given considerable relief to the individual tax payers with the proposed tax rates expecting to benefit 60% of all the tax payers. The new tax slabs proposed are: No tax for up to Rs 160,000, a rate of 10 per cent for up to Rs 500,000, then 20 per cent for up to Rs.800,000 and finally 30 per cent for high income. Another relief to the individal tax payers was given by raising the existing limit of Rs. 100000 on tax savings by an additional amount of Rs 20000 for investments in long-term infrastructure bonds. This will have positive implications for disposable income and consumption and can help sustaining the needed stimulus to the economy.

Environment:

The budget has shown some initiatives towards addressing environmental concerns facing the country and promoting clean energy. The budget has proposed to establish a National Clean Energy Fund for funding research and innovative projects in clean energy technologies which will help move towards clean energy economy. The corpus of this fund is proposed to be derived through a levy of a clean energy cess of Rs. 50 per tonne on coal produced in India and on imported (which may also push up fossil fuel prices). The government has proposed a one-time grant of Rs 200 crore for setting up effluent treatment plant at the Tirupur textiles cluster (which is one of the major textiles hubs in the country) where the effluents released from the units in this cluster is causing pollution besides impacting ground water. Also a sum of Rs.200 crore as a Special Golden Jubilee package for Goa has been granted to preserve the natural resources of the State by restoring Goa's beaches which are prone to erosion, and increasing its green cover through sustainable forestry.

The budget also highlighted the emphasis being laid by the government in reducing the consumption of fossil fuels and promoting renewable sources of energy. In this context there has been brought about an increase (by 2 percentage points) in *ad valorem* component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles which was reduced as part of the first stimulus package. Granting of project report status to 'Monorail' projects for urban transport at a concessional basic duty of 5 per cent is a step towards strengthening the public transport system and reducing dependence on fossil fuels.

A concessional custom duty of 5 per cent to machinery instruments, equipments and appliances etc. required for the initial setting up of photo voltaic and solar thermal power generating units have been proposed. They will also be exempted from the central excise duty. Ground source heat pumps used to tap geo-thermal energy have been exempted from basic customs duty and special additional duty. However, there was no reference to any incentives for promoting construction of green buildings.

Budget allocations have been made for interventions such as water harvesting, watershed management and soil health. Though these will enhance the productivity of the dry land farming areas but may contribute marginally towards the overall health of the ecosystems.

<u>Disinvestment of PSUs – Dr. Pradeep Dadhich, Senior Fellow TERI</u>

The disinvestment of PSUs is welcome as it helps in upgrading the managerial competence and also face global competition under market conditions. This will also help the government to raise the capital that is much needed for expenditure requirements of social sector schemes for creating new assets.

The effective management of public expenditure by bringing it in line with the Government's objectives is a part of the fiscal consolidation process. This calls for proper targeting of subsidies and expenditure adjustment.

Corporate Governance

Improvement in corporate governance and regulation is an important part of the overall investment environment in the country. Government has introduced the Companies Bill, 2009 in the Parliament, which will replace the existing Companies Act, 1956. The proposed new bill will address issues related to regulation in corporate sector in the context of the changing business environment. It is expected that this have adequate emphasis on energy and resource efficiency so that the industry is globally competitive.

<u>Transport sector - Ms Akshima T Ghate, Research Associate TERI</u>

With regard to the urban transport system in the country, the key issues include declining share of public transport and non-motorized transport (NMT) and increasing use of personal vehicles. The budget announced concessions for public transport and NMT modes, specifically mono rail projects and solar cycle rickshaws, which is clearly a welcome move. However, it would have helped if the excise duty on buses would have also been looked at as majority of the public transport system in India is bus-based and bus rapid transit is perhaps the best option available to improve urban transport situation across all cities.

The concessions on electric vehicle sub-assemblies are welcome as they would lead to reduction in price of these vehicles and induce their penetration on Indian roads. The other two budget announcements that may prove instrumental in discouraging use of fuel guzzling vehicles are the increase in excise duty on large vehicles (MUVs and SUVs), and hike in petrol and diesel prices.

The budget targets construction of National Highways at the rate of 20 km per day to expedite the achievement of National Highway Development Programme (NHDP) targets. The Finance Minister mentioned that necessary policy changes are being introduced to increase the rate of execution of projects through PPP mode. Improved road network in the country would not just lead to better connectivity but would also lead to increased energy efficiency in transport operations.

The increase in allocations for modernizing and expanding the rail network is positive move. However, there was also an opportunity to announce allocations for inland water transport system and coastal shipping that could have given a boost to these environment friendly transport options.

Water Sector – Dr. K Sreelakshmi, Fellow, TERI

1. The water focus of union budget 2010-2011 is more or less skewed towards specific packages for pollution containment
2. It has been proposed to double the allocation for National Ganga River Basin Authority (NGRBA) in 2010-11 to Rs.500 crores which is a welcome move but for effective utilization of the funds proper regulatory and enforcement measures are to be put in place. Although polluter pays principle has been highlighted in the budget the governance mechanism is still ambiguous. Hence, similar to national clean energy fund proposed in the budget, which is very essential, fund outlays should have been made to ensure the enforcement of pollution redressal packages.
3. The budget also has made provisions for flood containment and drainage improvement in West Bengal which is a much awaited step towards addressing the state's vulnerability. Special package of 200 crores is offered to Goa for restoring and preserving the natural resources.
4. Irrigation and water management have not been adequately addressed in the budget
5. For the rainfed areas integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas is proposed which is welcome move towards water conservation and improving the ecosystem resilience.
6. It should be ensured that proposed hydro power projects in Ladakh region will have to include environment considerations and the institutional mechanism for implementation is not clear.
7. There is no package for conservation/restoration of wetlands, wetland biodiversity, other water bodies, aquaculture, and lakes.
8. The budget is silent on potential technological interventions for water management like wastewater recycling and reuse, desalination etc. Since the future of water management lies in reuse and recycle, more investments on R&D and pilot projects should have been included in the budget.
9. Special package for rainfed areas for watershed management and water harvesting as part of the pulses and oilseed villages programme is proposed but no allocation is earmarked to address the issues like salinity, land degradation and depleting ground water tables etc. in irrigated areas