FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

Proceedings of the 54th Annual Session of the Federation held in New Delhi from April 25-27, 1981

The 54th Annual Session of the Federation of Indian Chambers of Commerce and Industry was held in New Delhi from April 25-27, 1981. The inaugural meeting was held at 10 a.m. on Saturday, the 25th April, in the main hall of Vigyan Bhavan, and the subsequent meetings in the FICCI Golden Jubilee Auditorium. The President of India, Shri N. Sanjiva Reddy, inaugurated the Session. Apart from the office-bearers and members of the Committee, about 1,200 delegates from the Member-Bodies and Associate Members, Ambassadors, diplomatic corps, Members of Parliament, officials of the Government of India, Press representatives and other distinguished guests were present in the Session.

The Welcome Address of Shri K.N. Modi, President, is reproduced below :

SPEECH OF SHRI K. N. MODI

Respected Rashtrapatiji,
Your Excellencies,
Distinguished Guests,
Fellow-Delegates, Ladies & Gentlemen,

It is a great pleasure for me to welcome you all to the 54th Annual Session of the Federation.

2. It is our special privilege that Hon'ble Shri Sanjiva Reddy is amongst us this morning. He has spent his whole life in the service of the nation in different capacities—as a freedom fighter, as Chief Minister of Andhra Pradesh, as Minister at the Centre, and since 1977 as the Head of State. His deep attachment to high ethical and moral values in social and political life has earned him respect and affection.

3. Sir, as I speak today, I am reminded of your sincere and candid advice two years back when you had given a lead to our annual deliberations. You had expressed deep anxiety for the unfortunate sections of our society which are below the poverty line. Having been a farmer yourself, you know the hardships which the large masses in our rural areas have to face. Poverty breeds hatred and gives rise to social tensions and ugly forms of organised lawlessness. Unemployment and poverty have to be the first concern, especially of those who are in a position to create job opportunities. Let me assure that the business community shares this concern with you in full measure. It is precisely this problem which is uppermost in our minds.

4. The theme of our Session this year is the "Role of Industry and Trade in the Sixth Five-Year Plan." We have chosen this subject in the firm belief that, in spite of all the shortcomings,

special efforts should be made to achieve the targets. The Sixth Plan, which anticipates larger employment and production of more goods and services, has aroused expectations of the people. It will be fatal to neglect development any longer.

5. In the past one year, there have been many unfavourable developments on the international front, not very far from our borders. The happenings in Afghanistan, the Iran-Iraq conflict, the re-arming of Pakistan, and the competing presence of Super Powers near Indian shores, are all very disturbing.

6. The oil crisis, the world recession and inflation, protectionist trade policies like quotas, voluntary restraints and other regulations have created immense problems, particularly for the developing oil-importing countries. We have no choice but to face them with resolution.

7. While international problems are not insignificant, domestic problems are even more intricate. Unemployment and under-employment are increasing, prices are yet to stabilise, and industrial growth has been held up. National issues which should be discussed and debated in Parliament and at other forums, are taken to the streets, be they about 'foreigners' in Assam, reservation of seats in medical colleges in Gujarat, or the procurement prices of foodgrains.

8. The Prime Minister, Smt. Indira Gandhi, after assuming office, took the first opportunity to understand these problems at first-hand through consultations and discussions with a wide section of important people. In the field of economics, for instance, she called a meeting of the economists, men of public affairs, and businessmen to know how the economy can be revived speedily and put back on the rails. This was a good beginning and, I feel, should be made into a regular quarterly exercise which would help assess performance and indicate the line of action to be taken for future improvement.

9. The initiative taken by the Prime Minister and pursued by her colleagues led to valuable changes in policy. Five per cent automatic growth, extension of Free Trade Zone facilities to 100 per cent export units, and reduction in personal taxation in lower slabs showed Government's earnestness to speed up development. The outcome was favourable in agriculture, oil production and in respect of prices.

10. The growth of industry last year or even in the whole of the last decade has, however, been poor in comparison with other developing countries. But often I am told that countries like South Korea, Taiwan, Hong Kong or Brazil, which have reached high growth, are different and therefore incomparable. Even granting this, how can we explain why our rate of growth today should be far less than what it was in the past ?

11. In the late 'fifties and early 'sixties, our industry had progressed steadily at more than 8 per cent per year. In the 'seventies, growth dropped to only 4 per cent; in the last two years it has been even lower. When we performed so well in the past, why is it that today our industry is limping ? This is so, in spite of the more favourable conditions. We have become self-sufficient in foodgrains; we are the third largest in technical manpower; and we have excellent entrepreneurs and managers; and the skills of our workers are comparable to anywhere else in the world.

12. Today, we have to import commodities like cement, paper, caustic soda, soda ash and fertilisers which we can produce ourselves at a cost which may be less than one-third of the landed price. We produce cement at Rs. 219 to Rs. 310 per tonne; the landed cost of imported cement is Rs. 820. We produce soda ash at Rs. 1,635 per tonne and import it at Rs. 2,206. We sell printing paper at Rs. 3,500 per tonne; we have to pay Rs. 7,000 for import. Why should we import at such exorbitant prices when we can produce much cheaper ourselves?

13. I should add that if only we had produced what we imported at high cost, the trade deficit would have been reduced by over Rs. 2,000 crores. Besides, when we import, we create employment in other countries; when we manufacture ourselves, we create employment right here. Why should we lose this employment or add to inflation by importing from other countries.

14. Of course, a number of licences have been issued for the manufacture of these items. But only a few of them have been implemented largely by existing companies. Why are new companies not being set up ? What are the difficulties ? What are the problems which stand in the

way? As I see them, if a licence is not implemented, it is either because the return is not adequate, or the resources that are necessary cannot be acquired. Are price controls such that they would allow a fair return of, say, 15 per cent on investment after meeting all expenses? Is the capital market such that industry will be able to mobilise adequate resources by issue of shares? Can industry pay a dividend which is comparable to the present rate of interest? I don't think so. By stipulating impractical terms, borrowings from the financial institutions have become difficult. By imposing a high rate of taxation, companies have been prevented from paying a commensurate rate of dividend or retaining adequate earnings for investment.

15. The Sixth Plan underlines harmony in development and has put considerable reponsibility on the private sector. This, I believe, is a measure of confidence as also appreciation of the fact that under competitive conditions, resources are better utilised to promote higher growth. However, if industry is to fulfil the tasks which are assigned to it, it is vital that it is not restrained by policies which make it difficult to invest or operate. In the next five years, private corporate sector will have to invest at the rate of over Rs. 3,000 crores annually. Currently, investment in fixed assets will be less than half of that amount. How can the gap be made up?

16. Some recent policies are, in fact, aimed at reducing the availability of funds with the corporate sector. For instance, the implementation of the Chore Committee recommendations would compel companies to divert retained earnings to working capital, wherever this is possible, or make industries sick if they have no surpluses to draw upon. I had brought this matter to the notice of the highest authorities. If the recommendations are implemented, production would further suffer; and industry should not be blamed for this consequence. Even at this stage, banks can be instructed to postpone the implementation until a more suitable time.

17. Finance for investment will pose a problem. The new issue market is stagnant. In 1960, when development was high and the financial institutions were virtually absent, the capital market, at today's prices, absorbed industrial securities to the extent of Rs. 400 crores. And that too, at a premium. Allowing for growth, today the capital market should have provided industy with at least Rs. 800 crores of funds by way of equity. The actual amount is only Rs. 80 crores. Is it so difficult to revitalise the capital market? I believe, all that Government has to do is to see that companies are able to pay a dividend which is at least 2 per cent higher than the rate of interest on deposits.

18. I must say that the Finance Minister has adopted a very constructive and pragmatic approach in the two budgets. Even during the budget discussions last month, he admitted that the maximum corporate tax payable should be 50 per cent. This bold step should have been taken in the last budget itself. In any case, the earlier it is done, the better. Fiscal incentives can be devised in respect of capital gains on investment in shares of new companies to make it worthwhile for the investing public to buy shares rather than non-productive assets.

19. In respect of personal taxation, the Finance Minister has followed the right instincts. In two stages, the rate of taxation, particularly in the lower slabs, was reduced and it has benefited 25 lakh assessees. 14 lakh tax-payers have gone out of the tax net. However, the fact remains that in the middle and higher slabs, the tax burden continues to be high. With a lower rate of tax, not only tax avoidance can be eliminated but also the revenues of the Exchequer would be substantially enlarged. This has been borne out by past experience. The Finance Minister should rationalise the tax structure in the other income slabs as well, and this, I repeat, will not be at the cost of revenue.

20. The problems faced by industry in mobilising resources have naturally compelled them to depend more on financial institutions. Even so, many of the vital industries cannot get adequate finance because of the impractical terms that are usually imposed. This question was examined in depth by a Committee appointed by IDBI, consisting of representatives of the institutions and Government, economists, financial experts and the borrowers. The report was unanimous and has been submitted to Government. It is imperative that the recommendations of this Committee are implemented as early as possible to enable industries to borrow,

help implement industrial licences and avoid uneconomic imports.

21. We have to usher in a new industry based on efficiency, capable of competing with the best in the world, expanding at a rate which is in keeping with our national needs, which all the time remains technologically up-to-date, respects quality—whether it is for foreign or domestic market—, and which is conscious of service to the consumer, the worker and the shareholder. Can the present system lead up to this result?

22. Unfortunately, not. Many of the present policies have become outdated. The manner in which they are made applicable in practice has divorced them from their original objectives. The vast changes in economic conditions, the advancement in technology, and the internationalisation of the economies in this interdependent world have made a review of these policies necessary.

23. I must appreciate the right step taken by the Prime Minister in appointing an Economic Administration Reforms Commission under the Chairmanship of Shri L. K. Jha. The choice is unique, since Shri Jha combines high intellect with extensive experience. His knowledge of the Indian economic situation is deep and, I am sure, he will find constructive answers to the issues that are referred to him.

24. There were two other major causes which have hit capacity utilisation adversely and to which I need to refer. Labour unrest is actute and power in short supply.

25. A developing country like ours cannot afford a forced production holiday caused by strikes, lockouts, go-slows or work-to-rule, sometimes accompanied by violence. In public sector enterprises in Bangalore in a recent strike which went on for 77 days involving 70,000 workers, there was a loss of production of over Rs 170 crores.

26. I do appreciate that labour is a partner in industrial enterprise and should share in the progress of the economy. However, the manner in which this can be done has to be clearly specified and should not be left to the bargaining strength of the unions. The next few years are crucial and it is, therefore, important that there is an industrial truce or understanding so that neither labour nor management resorts to means which would hold up production. This does not at all mean ceiling on wages. Any dispute which may arise should be compulsorily referred to arbitration. Such self-discipline is necessary, particularly in a democratic framework.

27. The energy problem has confronted all oil-importing countries—developed and developing alike. We are fortunate in having large reserves of coal and reasonable deposits of oil. Coal has to be extracted and carried over long distances and conventional methods may no longer be adequate to meet the growing requirements. More coal fields have to be opened up and possibly coal will have to be transported in the form of slurry or gas through pipelines.

28. A new dimension of development has to be thought of for making coal a more efficient energy source. This development can be undertaken with the least cost only under conditions of competition. I am not suggesting denationalisation of coal. But I fail to understand why new coal-mines cannot be opened up by private sector. Will this not introduce a high element of efficiency and, at the same time, help overcome management shortcomings, if any?

29. Take oil exploration. The Bombay High is an adventure we should be proud of. I equally compliment the Govenment for the very practical approach they have adopted in associating private parties with oil exploration. I am sure, this will yield handsome dividends and will correct the present imbalance in the composition of our trade. Imports of oil which now amount to 79 per cent of our export earnings will gradually decline as production steps up and our economy is relieved of balance of trade constraints.

30. In this perpective, I feel, the oil crisis which has overtaken the world economy can be a disguised boon for us. Endowed with rich coal reserves and with the possibility of self-sufficiency in oil, we would be able to produce a number of exportable items. The extent to which we can convert the present problem into a future opportunity depends on the way we organise ourselves as an integrated economy.

31. I have been wondering why with the installed capacity that we have, we cannot generate another

10 per cent electricity which can almost make up the present shortage. In the last three years, capacity utilisation has dropped from 55 per cent to 42 per cent. This, I believe, is primarily due to inept management, although an impression has been created that power shortage has ben due to insufficient and irregular coal supplies, or that coal production has been hampered by shortage of power, or that both have been affected by lack of transport facilities. There are instances where change of management has led to miraculous results. For instance, DVC. Why not others?

32. I have two specific suggestions. First, the State Electricity Boards should be made really autonomous, consisting of representatives of Government, industry and other consumers. Secondly, there should be greater involvement of private sector in electricity generation. Already, proposals have been made for setting up co-operatives in industrial areas on the understanding that the power generated by them and distributed through the national grid, will be made available to industries in the area even when there is an overall power shortage. These efforts would be further strengthened if in regard to coal or fuel such enterprises are treated on par with Government-owned undertakings.

33. It is equally necessary that the consumers of electricity use power-saving devices Japan has made commendable progress in this area, and our industry too should think on those lines. Also, alternative energy sources have to be tapped, as, for instance, solar pumps for irrigation.

34. During the year, I had the privilege of receiving 24 delegations from different countries including the EEC, UK, USA, Japan and so forth. I was greatly impressed by their keen desire to participate in our development, through trade, investment and technology transfer. However, there is an underlying fear that in our country, things do not move fast. There are delays not only in industrial licensing or in the approval of foreign collaboration agreements but also in all other matters which affect business operations. One visitor from France expressed it in a very dramatic way, "India," he said, "is a giant. It is not a sleeping giant. It is a hesitating giant." This observation was very penetrating and described precisely the attitude of Government to business matters.

35. In South Korea, Taiwan and Japan, I came to know during my visits, there are regular meetings of businessmen, economists and Government representatives at the highest level to review the performance of industry, to identify problems and take steps to remove them expeditiously. This cooperation between business and Government makes it possible for the economy to grow rapidly and create surpluses for export. It is no surprise that within a short time, South Korea has become a major exporter of textiles, iron and steel and electronics. If South Korea can do it, why not we?

36. We cannot export unless we produce, and produce quality goods at competitive prices. This presumes that our technology is up-to-date and industry is able to modernise, though 'without tears'. Our difficulty is that, with the increase in the prices of machinery, the corporate sector cannot replace worn-out assets. For, depreciation based on historical cost becomes far too inadequate and companies are forced to borrow only to keep their capacity intact. This is a matter which deserves serious consideration.

37. Public sector versus private sector, domestic market versus export market, and small industry versus large industry are 'dead' issues. One sector merges into the other to bring about coordination and inter-dependence Development of the private sector is greatly influenced by the growth of the public sector. The export market can be better served if industry has access to the domestic market. Small units develop faster when they are complementry to the growth of large industry.

38. In my visits to different centres in the country, I met a number of industrialists, owning and managing small enterprises. The problems they are exposed to are innumerable. The small units find it difficult to obtain proper banking facilities; they share the common problems of inadequate infrastructure; they do not receive the payment for bills in time, either from Government or others; and, above all, they do not have access to the necessary raw materials. I am aware of the sympathetic attitude of Government towards small units. However, the formalities that have to be completed and the procedures that are laid out often contravene the very intentions behind the facilities offered. It has also been complained that the small

units are pestered almost every day by inspectors who sometimes use their position unfairly.

39. Development of the small scale units can be greatly facilitated and speeded up if only the present incentives are made available to them through simple procedures. Every State Government should have a 'single window clearance' for the different types of permits and linences which are required before setting up and operating small units. Banks also should simplify their procedures and provide credit when the use is genuine and the party credit-worthy.

40. What I have said about industry holds equally true of trade. It is blamed for scarcities, for rising prices, and for malpractices of all kinds. There are, no doubt, black sheep in every sphere. Trade and industry would be no exception. However, for some reasons, the black sheep in the business sector have come to be spotlighted deliberately. So much so that trading and manufacturing have come to be identified with profiteering.

41. I am proud to say that Indian business is as patriotic, as responsible, as socially conscious, as any other section of society. Last year, when the free market price of sugar was zooming, the Indian Sugar Mills' Association assured Government that the free market stocks also would be sold at a fixed price, even though the industry had to forgo about Rs. 50 crores. The trade associations, at the instance of FICCI, assumed the responsibility of selling sugar through retail outlets at fixed prices. However, Government did not repose confidence in the assurance made and different State Governments endeavoured to utilise their own distribution channels. The result, it is well-known, was disastrous. Government have also assumed the responsibility for the distribution of cement and, I need not repeat, the results have not been any better.

42. I would like to mention that the private distribution system in India is the cheapest in the world. This does not mean that there is no place for public distribution to operate side-by-side with private trade channels. In fact, a healthy competition between the two would introduce a higher element of efficiency and serve the interests of the consumer better.

43. A Bill has been introduced in Parliament to tighten the Essential Commodities Act further by seeking to provide for summary trials, special courts, mandatory punishment and the like. These are extreme provisions, particularly when there are other statutes, such as the Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act as well as the National Security Act which give enough power. In this spate of legislation, one fact which tends to be forgotten is that legal provisions cannot augment supplies of essential commodities, which is really the crucial matter. Besides, the list of essential goods should be more selective in order to focus on commodities which are required by the masses. In view of the far-reaching implications, may I suggest that the Bill be referred to a Select Committee of Parliament ?

44. Our Federation has consistently pleaded that sales tax should be replaced by additional excise duty. As you will recall, the ruling party also in its manifesto had made the promise that a more modern and scientific system would be found to take the place of sales tax.

45. After assuming my office last year, I had requested the Finance Minister to appoint a Commission to go into this issue. At the Conference of Chief Ministers, it was decided to replace sales tax on vanaspati and life-saving drugs by additional excise duty. The Law Commission was also requested to draft model sales tax law. I do know that sales tax is a hard nut to crack for the simple reason that this levy provides the largest revenue to State Governments, and naturally they are anxious to safeguard not only their financial interests but also the power and patronage that go with it. But given the political will, a satisfactory solution can always be found. We, on our own, are trying to draft a model sales tax law, which we propose to submit to State Governments. This does not mean at all that we have given up the stand in favour of the abolition of sales tax. It is no more and no less than an attempt to get out of the present morass.

46 It is also surprising that a Bill to amend the Constitution has been introduced with a view to bringing transfers of goods and stocks between head offices and branches of commercial undertakings, work contracts, goods delivered on a hire-purchase basis and the like within the net of sales tax. I would like to submit that the levy of sales

tax on such transfers is against all canons of taxation, for these transfers are not sales in terms of the law as upheld by several judicial pronouncements, including the Supreme Court.

47. Whether it is industry or trade, the gains of development are minimised if population is left unchecked The last census has registered a population of 684 million, expanding at the rate of 2.5 per cent per year. Naturally, a minimum growth of GNP at this rate becomes necessary only to maintain the present standard of living. It is of utmost importance that through information and persuasion, the message about small family is brought home to the unsuspecting millions.

48. Development of the economy is never without difficulties. If I have touched on some of the barriers that exist, it is because I am convinced that, with their removal, our growth can be very much accelerated. I am hopeful that in the years to come, our economy will progress by leaps and bounds. The leadership provided by the Prime Minister, Smt. Indira Gandhi, is an inspiring motivation for those in business to improve upon their performance and expand the production and employment stream. There are many common objectives which Government and business share together and which can be achieved through cooperative effort.

49. Before I close, I would like to say that during the year, I received abundant cooperation from Government representatives and my own colleagues My Vice-President, Shri Arvind N. Lalbhai, extended to me full support and shouldered my responsibilities whenever I had to go abroad. The Chairmen and the Vice-Chairmen of the Sub-Committees as also the Chairmen of JBCs took upon themselves a number of functions which gave me time to address myself more closely to the other vital issues. To the Committee of the Federation, I am deeply grateful for the generous assistance that was given to me in my work as President. Above all, I would like to express my sincere thanks to all the Member-Bodies from whom ultimately every President draws his strength.

50. I take this opportunity to offer the Secretariat and staff my sincere thanks for their valuable cooperation and assistance in the discharge of my responsibilities. I am particularly thankful to Shri P Chentsal Rao, Secretary-General; Dr Ram Gopal Agrawal and Shri D H Pai Panandiker, Deputy Secretaries-General. They have worked hard, efficiently and unremittingly with zeal and devotion. With the end of the current Session, Shri Rao relinquishes the office as Secretary-General after 32 years of loyal, dedicated and distinguished service. For his contribution towards the building up of our Organisation, we owe him a deep debt of gratitude. I wish him a happy, healthy and active life. In Shri D H Pai Panandiker, who assumes the office of Secretary-General, I have every confidence that he will uphold, maintain and enhance the traditions of the Federation.