

Exporter tariffs

IN yet another volte-face, the government has announced that it will be withdrawing the reimposition of surcharges and taxes on the power tariffs of exporters. The announcement comes after the prime minister took stock of the situation. He decided he did not wish to stand by the decision of his power division through which not only was the power tariff concession given to exporters last year reversed, or reimagined in a way that amounted to a withdrawal, but the move was also made retroactive. Exporters were asked to start paying the surcharges applicable to their power tariffs, as well as reimburse the power utilities for all the months that these charges were not billed to them. Last year, the government had announced a relief measure for exporters only and fixed their power tariff at Rs7.5 per unit, inclusive of taxes and surcharges.

What we have, therefore, is one U-turn followed by another. No doubt the exporter community will hail the step, but it is nearly certain that the power division and even the finance ministry will view it with dismay. More importantly, the markets are watching and this sort of vacillation signals weakness. The weakness is two-fold. First, there is flawed decision-making, since the power and finance divisions both gave contradictory accounts of how the decision to withdraw last year's tariff incentive was made. Also the government's inability to live up to the financial implications of its own announcements has been made apparent. The second weakness that has been signalled is the inability of the government to stand by its own decisions. If an incentive is announced today, withdrawn tomorrow, then announced again a short while later, it betrays confusion and lack of ownership behind the scenes. It is now clear what is happening. The power sector is unable to meet its liquidity requirements from its own recoveries, despite massive power tariff increases over the past year. The finance ministry is unable to contribute the resources to tide over these liquidity problems. The result is the continued rise of the circular debt to arrest, and the Fund is demanding further tariff hikes that the prime minister is unwilling to sanction. The government is stuck in this situation now, and how the logjam is eventually broken will reveal a great deal about the way it is managing the stresses and strains of the Fund programme.