Industrial Policy

4. The Government continued with industrial reforms in 1998-99. Coal and lignite, petroleum (other than crude) and its distillation products, bulk drugs and sugar were delicensed. At present, only five items of health, strategic and security considerations, remain under the purview of industrial licensing. Coal and lignite and mineral oils were also removed from the list of industries reserved for the public sector. To provide a strong stimulus to the infrastructure sector, boost industrial growth and accelerate overall economic activity, the Union Budget substantially increased allocations for energy, transport and communications. The Budget also announced disinvestment of specified portions of equity from select PSEs like IOC, GAIL, CONCOR and VSNL. A separate package of measures was announced in the Budget for the SSI sector. A number of items including some farm implements and tools have been removed from the products reserved for exclusive manufacture by SSI sector. The prevailing customs tariff structure was revised to provide a level playing field to the domestic industry by imposing an additional non-modvatable duty of 4 per cent on majority of imports. The duty was designed to compensate indigenous industry for price disadvantage suffered on account of sales tax and other local taxes.

5. Reforms initiated by the Government to revive the depressed capital markets and rejuvenate corporate growth include the issue of an ordinance permitting companies to buy-back their own shares; awarding nomination facility to holders of shares/debentures and fixed deposits; permission for intercorporate investments without prior approval of the Government; establishment of Investor Education and Protection Fund; and statutory enforcement of Accounting Standards. Certain changes in the provision on buy-back of shares like restricting buy-back to 25 per cent of paid-up capital and free reserves and defining 'free reserves' for the purpose of buy-back, have been introduced through the Companies (Amendment) Ordinance, 1999. The Government also constituted separate Task Forces on steel, capital goods and commercial vehicles for addressing the problems being faced by these industries. In the light of their recommendations, seven inputs used in steel manufacturing have been exempted from special customs duty. "Seconds" and "defectives" of specified steel inputs have been permitted for imports against specified c.i.f values. It has been decided that depreciation, for income-tax purposes, will also be allowed at 40 per cent for commercial vehicles purchased between October 1, 1998 and March 31, 1999 and at 60 per cent in cases where purchase has been made to replace condemned vehicles (over 15 years of age) in the same period. A Council on Trade and Industry to the Prime Minister has been set up for deliberating on critical policy issues put forward by industry leaders for accelerating industrial growth.

6. The scope of foreign direct equity investment under the automatic approval route of RBI has been enhanced in the current year. In a major drive to simplify foreign direct investment procedures, Indian companies have been permitted to accept investment under automatic approval route without obtaining prior permission from RBI. Foreign equity upto 100 per cent has been permitted in electricity generation, transmission and distribution (excluding atomic reactor power plants) and in construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. However, foreign equity in projects of these industries under the automatic approval route should not exceed Rs 1500 crore.

7. Requirement of prior approval from RBI for bringing in FDI/NRI/OCB investment and issue of shares to foreign investors after FIPB/ Government approval has been done away with. The existing norms for NRI/PIO/OCB investment in health services sector have been liberalised for facilitating investment in this key sector. Investment limits for individual NRIs/PIOs/OCBs in the paid-up equity capital of a company have been increased to 5 per cent from 1 per cent and aggregate investment limit for NRIs/PIOs/ OCBs in the paid-up equity capital has been enhanced to 10 per cent from 5 per cent. Aggregate investment ceiling for all NRIs/PIOs/ OCBs has been made separate and exclusive of the investment ceiling available for FIIs. NRIs/ PIOs/OCBs have been permitted to invest in unlisted companies with the portfolio investments subject to individual and aggregate investment limits for listed companies.