

Opinion

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CAUTIOUS AGREEMENTS

Union minister for commerce & industry Piyush Goyal

India does not rush to conclude trade negotiations and follows a careful and calibrated approach because Free Trade Agreements impact the country for several years

Reduce the exits

To attract enough growth capital, India must help MNCs operate in a conducive environment

NEARLY 11 YEARS ago, in May 2013, Unilever announced the buyback of a 22.5% stake in Hindustan Unilever at a hefty 20% premium to the last traded price, resulting in an inflow of \$5.4 billion. There were several other buyback offers around the same time—the fact that many multinational companies (MNCs) bought back shares to try and raise their ownership level to 75% signalled their confidence in the large and lucrative Indian market. Of late, however, there have been several instances of MNCs quitting India or scaling down their stake in their India subsidiaries. Last week, Novartis AG, the Swiss pharmaceutical company, said that it has begun a strategic review that will include an “assessment” of its 70.68% stake in Novartis India. Exactly three months ago, Astra Geneca announced it was exiting India as part of a global strategic review.

The biggest of such exits was the Holcim group's sale of ACC and Ambuja Cement to the Adani group for \$6.4 billion in September, 2022. Given India's very promising growth story, it was surprising that Holcim wanted to exit, even though the official reason the group gave was its keenness to lower its carbon footprint. The exits from what is arguably the world's fastest-growing market suggests not every global corporation is necessarily enticed by the Indian opportunity. While consumer-oriented MNCs in India have done exceptionally well as have those in the engineering and automobile spaces, the list of casualties is not small. Many telecom ventures were compelled to shut shop due to an unreliable regulatory environment. So, while a Maruti has been a roaring success, Vodafone, which has invested billions, is in bad shape. Again, CarreFour decided to wind down its operations after a short stint though some of that was due to its own internal problems. Many other pharma giants such as Pfizer, Sanofi, and GSK have either trimmed manpower or trimmed operations in core functions.

Some of the exits or downscaling are for internal reasons. For example, one can appreciate that Citigroup sold off its retail portfolio in India as part of a larger global re-organisation aimed at making the operations simpler. It is also entirely possible that some, like Whirlpool, which has brought down its stake from 75% to 51%, or a Thomas Cook which has pared its stake to 64% from 72%, are trimming their ownership as they want the stock to become more liquid. That is good news for local investors. If some are offering more floating stock, that helps minority shareholders.

However, one hopes these stake sales are not aimed at driving up the share price before a total exit. At a time when India is looking to attract foreign direct investments (FDI), the environment must be conducive. The fact is FDI in India has fallen over the past year even though the bullishness on the country's prospects has increased. Net foreign investment in the year through September fell to \$13 billion, calculations from HSBC Holdings showed, from \$38 billion in the same period a year earlier. The PLI (performance linked incentive) scheme has attracted players like Apple, which is encouraging. But global corporations should be enabled to operate big businesses in the country, across sectors, in a stable regulatory environment. Importantly, the playing field should be level. Else, India may not be able to attract enough growth capital.

Rivian's expensive EVs can't find reverse gear

I'VE ALWAYS HAD a soft spot for Rivian Automotive Inc. The California-based EV manufacturer has an exciting brand, and its tech-laden vehicles are very compelling — provided heavy, insanely quick trucks and sport-utility vehicles are your thing. But its results this week were hard to admire. Having eaten through more than \$18 billion since 2019, the company still managed to lose more than \$40,000 on each vehicle sold in the fourth-quarter (and that's before considering huge research, administrative and selling expenses).

The stock sank by 26% on Thursday, cutting its market capitalization to a record low of \$11 billion — which is less than the sum it raised via a blockbuster initial public offering in 2021. The despair reflects the fact that Rivian can't find reverse gear; salvation appears to lie only in plowing ahead and spending billions more.

Elements of what makes Rivian so impressive — the fact that much of its technology is developed in-house (at great expense), and it builds vehicles itself, rather than outsourcing — have become big liabilities.

Investors hoped its high fixed costs would be absorbed by increasing vehicle output — in other words, spreading the burden over larger volumes. So this week's guidance of unchanged production in 2024 was a big blow. While the targeted output of just 57,000 vehicles reflects a planned shutdown of the Illinois factory for various improvements, the slowdown may also point to weaker demand for its vehicles that cost in excess of \$70,000.

Rivian will have to find other levers to curtail losses. Raising prices looks challenging given high interest rates and pricing pressure in EVs, hence its focus is on reducing engineering and purchasing costs, while boosting production efficiency.

Falling battery metal prices should help, as might the 10% workforce reduction announced this week. But I don't blame investors for being skeptical about its ambition to reach achieve positive gross margins by the end of 2024.

Profitable auto industry incumbents are tapping the brakes on their EV plans, and many of them have production lines that can churn out combustion engine models instead, depending on demand. Pure EV companies don't have this luxury, of course.

Indeed, in some areas, Rivian is having to spend more. For starters, the company's depleting order backlog requires that it find new customers by investing in showrooms and test drives. (As fellow EV neophyte Lucid Group Inc. has discovered, it isn't enough to build attractive vehicles, if buyers don't know about them.)

But its main focus is on a lower-priced midsize SUV, called the R2, which it hopes will transform it from a low-volume, premium automaker into one with mass-market appeal. The R2 will be unveiled next month but won't go into production until 2026, at a new plant in Georgia. Groundbreaking on the \$5 billion factory begins soon. On a superficial level, it seems insane to build a second plant when the EV market is slowing and the first site doesn't make money. While I share Rivian's conviction that the auto market will electrify eventually and that its new plant should be more efficient (due to lessons learned), its determination to keep expanding is quite the bet.

The company's \$9.4 billion cash pile sounds impressive but at the current rate of consumption, it will be cut in half by the end of this year. Analysts don't expect Rivian to become profitable until 2029, before which it could lose another \$15 billion or so, according to their estimates compiled by Bloomberg. So there's no question Rivian will have to raise capital at some point and an equity raise would now be highly dilutive (Rivian has also issued convertible bonds in the past).

During a call with analysts, Chief Executive Officer Robert Scaringe was asked whether a more protracted shift to EVs and the brutal pricing environment might require a rethink of Rivian's cash-consuming strategy. (Cost-sharing partnerships are a big trend in the automotive world.)

But beyond staggering the Georgia investment into two chunks, his response seemed to be that the R2 will save the day. I'm sure it will be another impressive vehicle but his answer was also a reflection of the corner Rivian has backed itself into.



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GLOBAL TRADE

MC13 COULD TACKLE APPELLATE BODY STALEMATE, PLURILATERAL TRADE DEALS, AND FISHERIES SUBSIDIES

WTO Ministerial: What is at stake

THE 13TH MINISTERIAL Conference (MC13) of the WTO is scheduled from February 26-29, 2024. At Abu Dhabi What is at stake at this edition?

Dispute settlement

The most critical issue on the agenda of MC 13 is the restoration of the Appellate Body (AB), envisaged in the WTO Agreement as the second tier of the dispute settlement system. The AB became non-functional about four years ago as a result of targeted action by the US to block nominations for appointment to vacancies due to retirements. Without the AB, the dispute settlement system of the WTO has ceased to be automatic and binding. As a result, it can now neither assure preservation of the rights and obligations of members nor serve to provide security and predictability of the multilateral trading system. There is a virtual return to the GATT era, when negotiations between parties played a major role and power-play prevailed in the settlement of disputes. In order to justify its action, the US launched a severe criticism of the functioning of the AB, but for a long time refused to participate in discussions to address its shortcomings. It was finally agreed at MC 12 that discussions would be held with a view to having 'a fully and well-functioning dispute settlement system' by 2024. Discussions have indeed been held and suggestions given on some aspects of dispute settlement procedures but with a few days to go before MC 13, there is no recommendation at all on the AB in the Abu Dhabi package put up to ministers. Now, the US is saying that the mandate is to conclude the talks by the year-end.

Negotiating function

The negotiating function of the WTO, particularly on rule-making, has been sluggish from the outset. With diverse economic situations and dif-

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ferences in stages of development among members, slow progress in concluding trade agreements is inevitable. However, decision-making by consensus, a legacy from the GATT days, makes the task doubly difficult. Many members have been looking at the possibility of making progress by sidestepping consensus and adopting open plurilateral agreements (OPAs), where a subset of members accounting for a substantial proportion of world trade decide to go ahead without waiting for all members to join. Doors remain open for the remaining WTO members to join later; irrespective of their participation, they get all the benefits. Precedents for OPAs have existed since the GATT days and in the WTO, but a group of members led by India and South Africa are firmly opposed to such agreements, as they consider the initiative to be inconsistent with WTO obligations. Meanwhile, there is growing momentum in favour of negotiating OPAs. Agreements have been given a final shape among large groups of members on Services Domestic Regulation and Investment Facilitation for Development. Can the opponents be persuaded at MC13 to show flexibility and support open multilateralism? The draft Abu Dhabi package hints very cautiously at the idea by talking of flexible, constructive, or responsible consensus. If the ministers are agreeable, OPAs can help to revitalise the

negotiating function.

Agriculture

At MC11 and MC12, ministers shied away from any substantive outcome on negotiations in agriculture. It appears that MC13 will be no different. Wide differences prevail among major players (the EU, the US, Cairns Group, G33, and G10) on the level of ambition to be aimed at for reduction commitments to be undertaken in negotiations. On the priority issue of public stockholding (PSH) for food security, the US and the Cairns Group maintain that finding a permanent solution can be possible only within the context of domestic support negotiations. The Abu Dhabi text does not reflect any agreed modalities for reduction of support and protection. At MC 13, ministers will do little more than suggest that members try to reach an agreement on modalities by MC 14.

Fisheries

Buoyed by the success in adopting the Agreement on Fisheries Subsidies at MC 12, the WTO members have now engaged in the second phase for negotiating additional disciplines on the types of fisheries subsidies that contribute to overcapacity and overfishing. The draft text seeks to list subsidy practices that would be presumed to contribute to overcapacity or overfishing and is, therefore, prohibited. However, the listed subsidies would be permissible if measures are implemented

Can opponents be persuaded at MC13 to support open multilateralism? The draft Abu Dhabi package hints cautiously at the idea

for the biological sustainability of stocks. A feature of the proposals is S&D treatment, whereby LDCs and developing countries with a share of no more than 0.8% of the global volume of marine capture production would be exempted from the prohibition. Other developing countries would be allowed to maintain prohibited subsidies in their EEZ for a limited period. Importantly, it is proposed to allow them to provide subsidies for resource poor fishermen or livelihood fishing without any time limit but up to a limited distance from the shores. Although negotiations continue on some aspects like the transitional period for which subsidies would be allowed to developing countries other than LDCs, a consensus is expected on all aspects.

Moratorium on customs on electronic transmissions

In 1998, the WTO ministers adopted a declaration which stated that they would continue the current practice of not levying customs duty on electronic transmissions. This comes up for renewal at every MC. This time, a group of industrialised and emerging countries and the ACP countries have called for the moratorium to be continued until the next conference. In its submission, India is silent on the issue and South Africa is alone in proposing its termination. A decision on continuing the moratorium will be welcomed by manufacturers and service industries alike, as in a globalised world, all of them rely on the flow of research, design, and process data and software across international borders.

Addressing key trade issues

Members have proposed that the WTO addresses some key trade issues. Two areas mentioned are trade & industrial policy and trade & environment. Dialogue in the WTO on these and other key issues could facilitate international cooperation and preclude trade friction arising from unilateral action by individual countries.

Pilgrimage commerce and sustainability



RAMEESH KAILASAM

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AYODHYA, A PLACE deeply woven into India's cultural and religious tapestry, is attracting millions of devotees from domestically and internationally, creating a convergence of spirituality and pilgrimage commerce. Ayodhya is still, I would say, in the greenfield category when it comes to pilgrimage tourism and has the luxury of establish practices and infrastructure to keep it environmentally sustainable. Many leading brands have already stepped in, to support various activities besides reinforcing the necessary supply lines to keep up with the pace of pouring pilgrims. There is a unique opportunity to transform Ayodhya into a sustainable model city and the administration seems to be actively involved in addressing the potential environmental impact of the increased footfall post inauguration of the Ram Mandir.

The city has become a magnet for various brands, with several leveraging the moment, marketing their initiatives to align themselves and the immense branding opportunities and potential for new business in the times to come. Global brokerage firm Jefferies estimates a footfall of around five crore people annually and to navigate this influx, a collaboration between the government and the corporate sector is crucial in establishing the new Ayodhya as a model sustainable city. As Ayodhya embarks on its journey to become a sustainable city, it requires solutions on multiple aspects. Emerging startups like Tinge of Green have proposed

various steps in this regard to address environment, air quality, water conservation, cleaning the Sarayu river, waste management, community engagement for sustainability, green homestays, and even recycling flowers and offerings. Ideally, such an effort should be taken up in all pilgrimage tourist spots with heavy footfall.

We can pick up, learn from, and collaborate with many Indian businesses that have successfully implemented these so far. For example, sustainable packaging could be a crucial area for adoption and implementation. One can draw many parallels to fix this issue. For instance, ITC's multifaceted initiatives that span diverse areas ranging from sustainable packaging to afforestation through innovation and digitalisation is a good starting point. Its sustainable packaging solutions leverage its R&D capabilities and use raw materials that come from renewable and natural sources, such as wood and bamboo fibers that can replace single-use plastics at Ayodhya. ITC's 'IndoBowl' is a sustainable substitute for single-use plastic containers commonly used in serving and delivering food, contributing significantly to plastic reduction. Its InnovPack campaign introduces bioseal coating technology, offering an

environmentally-friendly alternative to traditional plastics and poly films.

In Ayodhya, substantial efforts are underway to manage solid waste efficiently, with a solid waste plant near completion. India's largest flexible packaging and solutions company, Uflex, provides a good model for recycling through innovative technologies, as it has established industrial facilities for recycling MLP (multi-layer mixed plastic) waste and has recently made strides in enzyme-based delamination and recycling technology designed specifically for aseptic packaging. Another example of recycling is the Hyundai Motor India Foundation's (HMIF) initiative of utilising factory waste, upcycling 43,370 benches and desk sets. This has benefited 331 schools and 433,000

school children and thus serves as an example of sustainable practices and waste management that can act as a potential blueprint for Ayodhya's waste recycling initiatives. Initiatives from startups like Shayna Ecoumified Private Limited, which is working with various cities to convert plastic waste into walking tiles in pavements, bins, and seating furniture for parks, is worthy of a men-

tion.

One of the major waste management challenges stems from the lack of widespread sorting at the source. Ayodhya could possibly adopt ITC's Well-being Out of Waste (WOW) programme that aims to raise awareness about source segregation, recycling, reusing, and implementing effective waste management systems. This programme has collected 64,000 metric tonnes of dry waste across 1,270 wards in various cities and districts across the country with a participation of 2.2 crore citizens from more than 55 lakh households and approximately 2,100 corporates.

Prime Minister Narendra Modi, during his 'Mann ki Baat' address in 2018, mentioned the need for the country to emulate The Purnyam Poonkavanam initiative at Sabarimala to promote cleanliness. He commended the efforts undertaken by volunteers and staff engaged in keeping the Lord Ayyappa Temple and its surroundings clean. At the 2021 UN Climate Change Conference (COP26), PM Modi announced Mission LIFE to bring individual behaviours at the forefront of the global climate action narrative and strive to replace the 'use-and-dispose' economy driven by mindless and destructive consumption with a circular economy. It is therefore the responsibility of pilgrims to ensure that the *punya* they earn upon visiting the temple and holy city is retained by them being responsible and behaving in an ecologically conscious way.

LETTERS TO THE EDITOR

Ameen Sayani: The golden voice

The radio ruled indoor entertainment in India from 1950s-70s and with a voice that seemed to be shaking hands and a style that was intimate, Ameen Sayani not only personified the golden years of radio but also shaped and expanded it. At a time when songs sold films, his show was the pillar to the fortunes of the Hindi feature. Overcoming the faint and

wavering sound of short-wave radio, thousands would stick to the transistor to engage with a weekly register of songs. The format of playing 16 hit tracks of the week for an hour was novel and exciting. But it was Sayani's voice that became the 41-year-long show's USP. Sayani's easy, relaxed and flowing style led to first-rate interviews with major composers, lyricists and singers of the time. Sayani could entertain as smoothly as butter without the

slightest hi-tech help and he will always be loved by a particular generation.

—Sanjay Chopra, Mohali

India's space sector

Apropos of 'Set for a lift off', opening the space sector for FDI will ensure ample funding. It could be the single biggest reason for India to become a developed nation. However, more prudence is warranted. Since space stations have the potential to disrupt

all communication on earth, there could be military applications that could strengthen the hands of the enemies. It would be good if the government takes the Opposition into confidence and considers its inputs. At least on the issue of commercialising the potential of the space sector, no politics should be involved.

—Anthony Henriques, Maharashtra

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