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Navaratnas beginning to feel the pinch of globalisation

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THE sweeping wave of globalisation and liberalisation has already claimed its first victim in the public sector. The Steel Authority of India Limited (SAIL), a profit making undertaking all through until 1997-98, has plunged into the red since 1996-99. This is primarily the result of tough competition — both from within and outside — leading to substantially reduced sales volume and unit price realisation.

Other *navaratnas*, especially those in the petroleum sector, namely, IOC, HPC, etc., are also beginning to feel the pinch. In products already decontrolled, i.e., naphtha, fuel oil, LSHS etc., they are facing intense competition from refineries in the private sector on the one had and cheaper imports on the other. With impending dismantling of the Administered Pricing Regime (APR) in 2002, they will have to face it in other products as well, namely, diesel, petrol, ATF and LPG.

As per commitments under the World Trade Organisation (WTO), the government will have to reduce the peak tariff; for instance, on petroleum products this has to be lowered to 15 per cent. This will result in intensification of threat from cheaper imports. Oil PSUs cannot also be unmindful of the likely onslaught from imported LNG which is a more attractive option than naphtha.

This situation points towards the urgent need for taking a focused look at the constraints facing PSUs including the *navaratnas* and assess as to what needs to be done to ensure that they keep afloat in a competitive environment.

The PSUs are affected by multitude of problems, namely, use of outdated technologies, small-scale of operations, low efficiency of input use (in steel, for instance, energy consumption per tonne of final product in India is 9.5 million K.cal against 6.08 million K.cal in the UK, 4.18 million K.cal in Japan and 4.03 million K.cal in Italy), high overhead cost, excessive manpower and so on. All these result in substantially higher cost of production. Under the erstwhile controlled regime, the high cost was automatically passed on to the consumers. As a result, PSUs continued to show fantastic profits and some of them were even branded as *navaratnas*. Under the present liberalised regime of consumers having access to cheaper alternatives, this is just not possible.

Seeing the writing on the wall, the government has been exhorting the managements to undertake major restructuring and revamp/modernisation with a view to bringing about required improvement in efficiency and reduction in cost.

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But, this won't be possible in the absence of any initiative to liberate them.

For setting up a new project or substantial expansion/revamp/modernisation of an existing unit, the management has to seek multiple approvals, namely, at the board level, administrative ministry concerned, the Public Investment Board (PIB), Cabinet Committee on Economic Affairs (CCEA) besides clearances from various environmental authorities. Any major change in critical parameters/scope of project and cost estimate necessitates repeat of the entire exercise.

In view of above, execution/commissioning of projects is bound to get delayed resulting in cost overruns. Thus, the revamp and modernisation of SAIL's plants at Durgapur and Rourkela were delayed by almost five years. Originally slated for commissioning in 1994 at an estimated cost of Rs 5,000 crore, these were commissioned only last year at an actual of Rs 10,000 crore. This has contributed, in no small measure, to losses of SAIL.

In a bid to give some freedom to PSUs, the government had taken a number of decisions in the early 90s. These included giving chief executives a minimum five years tenure, inducting professionals as directors on their boards, giving freedom/autonomy to managements in taking investment decisions and choosing their joint venture (JV) partners. These have, by and large, remained unimplemented.

While framing necessary guidelines, certain conditions are put that virtually tantamount to denial of freedom. For instance, autonomy is allowed only in respect of investment up to a certain limit. And, since, this limit is set at an unrealistically low level, all major investment proposals being of a higher value have to be necessarily taken to the government for approval.

Therefore, the only way PSUs could brace up to the emerging challenge is by way of government divesting its majority equity holding to the point of reducing it to minority status. Unfortunately, on this too, there is no consensus as amply demonstrated by the stand taken by Mr Ram Naik and Mr Manohar Joshi in the context of disinvestment in PSUs in petroleum and heavy industries sector.

Whatever disinvestment is taking place, is only in bits and has no relevance to the broader objective of restructuring. The finance ministry has all along been using this as a means of raising resources to reduce fiscal deficit. Unfortunately, even this limited objective is not achieved as may be seen from substantial shortfall in actual proceeds vis-a-vis targets! The PSUs are caught in a trap primarily because the government wants to have cake and eat it too. ◆