

ECONOMY

❖ **What is windfall tax and why are countries imposing it on the energy sector right now?**

❖ **CONTEXT: Finance Minister Nirmala Sitharaman on September 2, defended the windfall tax imposed by the Centre on domestic crude oil producers, saying that it was not an ad hoc move but was done after full consultation with the industry.**

- The Central government on July 1, introduced a windfall profit tax of Rs.23,250 per tonne on domestic crude oil production, which was subsequently revised fortnightly four times so far. The latest revision was on August 31, when it was hiked to Rs.13,300 per tonne from Rs.13,000. Ms. Sitharaman explained the introduction of the windfall tax as a way to rein in the “phenomenal profits” made by some oil refiners who chose to export fuel to reap the benefits of skyrocketing global prices while affecting domestic supplies.
- Besides India, a wave of countries including the United Kingdom, Italy, and Germany have either already imposed a windfall profit tax on super normal profits of energy companies or are contemplating doing so.

❖ **What is a windfall tax?**

- Windfall taxes are designed to tax the profits a company derives from an external, sometimes unprecedented event—for instance, the energy price-rise as a result of the Russia-Ukraine conflict.
- These are profits that cannot be attributed to something the firm actively did, like an investment strategy or an expansion of business. The United States Congressional Research Service (CRS) defines a windfall as an “unearned, unanticipated gain in income through no additional effort or expense”.
- Governments typically levy a one-off tax retrospectively over and above the normal rates of tax on such profits, called windfall tax. One area where such taxes have routinely been discussed is oil markets, where price fluctuation leads to volatile or erratic profits for the industry.
- There have been varying rationales for governments worldwide to introduce windfall taxes, from redistribution of unexpected gains when high prices benefit producers at the expense of consumers, to funding social welfare schemes, and as a supplementary revenue stream for the government.
- For instance, in 1980, then United States President Jimmy Carter introduced a crude oil windfall profit tax on the country’s oil industry. This was because the U.S. government between 1979 and 1981 started releasing controls on oil prices and anticipated that this decontrol would lead to oil companies making huge profits. This meant that prices, capped till then by the government, would rise to world market levels; the U.S. government’s Joint Committee on Taxation had estimated that the decontrol would increase profits for the oil industry by over \$400 billion.
- So, to recoup much of the revenue that would have otherwise gone to the oil industry as a result of the decontrol, the government imposed the windfall tax, a CRS paper notes.

❖ **Why are countries levying windfall taxes now?**

- Prices of oil, gas, and coal have seen sharp increases since late 2021 and in the first two quarters of 2022, although having reduced recently. “The increase stems from a combination of factors, including a mismatch between energy demand and supply during the economic recovery from COVID-19, further amplified by the Russian war in Ukraine,” noted an August paper by the International Monetary Fund (IMF). Pandemic recovery and supply issues resulting from the Russia-Ukraine conflict shore up energy demands, in turn driving up global prices.
- The rising prices meant huge and record profits for energy companies while resulting in hefty gas and electricity bills for household bills in major and smaller economies. Since the gains stemmed partly from external change, multiple analysts have called them windfall profits.
- In early August, the United Nations Secretary-General, sharply criticised the “grotesque greed” of big oil and gas companies for making record profits from the global energy crisis on the back of the world’s poorest people.
- The U.N. chief urged all governments to tax these excessive profits “and use the funds to support the most vulnerable people through these difficult times.”
- The calls to introduce windfall taxes also found support in organisations like the IMF, which released an advice note as to how such a tax should be levied. The chief of the Organisation for Economic Co-operation and Development (OECD), Mathias Cormann also recommended in March 2022 that given the windfall gains, European governments levy windfall taxes on the energy company profits to help fund support programmes for those most affected by inflation.
- Former Chancellor of the U.K. Rishi Sunak in May 2022 announced a 25% windfall tax on oil and gas producers in the British North Sea, which was approved by lawmakers in July. The government said that the tax, called Energy Profits Levy (EPL), would raise 5 billion pounds (\$5.95 billion) in one year to help Britons struggling with soaring energy bills.
- In July, India announced a windfall tax on domestic crude oil producers who it believed were reaping the benefits of the high oil prices. It also imposed an additional excise levy on diesel, petrol and air turbine fuel (ATF) exports.
- India’s case was different from Europe’s, as it was still importing discounted Russian oil. The windfall tax was targeted mainly at Reliance Industries Ltd and Russian oil major Rosneft-backed Nayara Energy, who the government believed were making a killing on exporting large volumes of fuel made from discounted Russian oil at the cost of the domestic market.

- Analysts also saw the windfall tax as a way for the Centre to narrow the country's widened trade deficit.
- In Germany, had decided to levy a windfall tax or "coincidence tax" on electricity companies in order to partly fund a 65-billion-euro (\$64.7 billion) package to shield its citizens from soaring inflation.
- The IMF noted that Italy has already imposed a one-time 25% tax on energy companies, while Spain announced a temporary windfall tax for extraordinary profits earned in 2022 and 2023 by electricity utility companies.
- Romania too introduced an 80 % windfall profits tax on additional revenue earned by electricity producers.
- ❖ **What are the issues with imposing such taxes?**
- Analysts say that companies are confident in investing in a sector if there is certainty and stability in a tax regime. Since windfall taxes are imposed retrospectively and are often influenced by unexpected events, they can brew uncertainty in the market about future taxes.
- That such taxes are populist and politically opportune in the short term.
- The IMF advice note also said that taxes in response to price surges may suffer from design problems—given their expedited and political nature. It added that "introducing a temporary windfall profit tax reduces future investment because prospective investors will internalize the likelihood of potential taxes when making investment decisions".
- If rapid increases in prices lead to higher profits, in one sense it can be called true windfalls as they are unforeseeable but on the hand, companies may argue that it is the profit they earned as a reward for the industry's risk-taking to provide the end user with the petroleum product.
- Another issue is who should be taxed- only the big companies responsible for the bulk of high-priced sales or smaller companies as well— raising the question of whether producers with revenues or profits below a certain threshold should be exempt.
- Besides, the windfall tax imposed by Italy has already met with a roadblock; that many Italian power, oil, and gas companies had not paid their 40% instalment of windfall taxes by the prescribed June date, leaving the government with a revenue shortfall of nearly \$9 billion.
- Notably, even when a similar tax was introduced by the U.S in the 1980s on domestic oil companies, the revenue it generated for the government was significantly lower than what it had projected, while the tax also reduced domestic oil production and increased imports.

POLITY

- ❖ **Supreme Court's three-question test for validity of 10% EWS quota**
- ❖ **CONTEXT: The Supreme Court will examine whether The Constitution (103rd Amendment) Act, which introduced a 10 per cent quota for Economically Weaker Sections (EWS) in government jobs and admissions, violates the basic structure of the Constitution.**
- A five-judge Constitution Bench led by Chief Justice of India (CJI) U U Lalit and also comprising Justices S Ravindra Bhat, Dinesh Maheshwari, S B Pardiwala, and Bela Trivedi last week decided to examine three key issues to ascertain the validity of the amendment.
- The challenge to the EWS quota was referred to a five-judge Bench in August 2020.
- ❖ **EWS quota: What are the issues fixed by the Supreme Court?**
- Attorney General K K Venugopal had drafted four issues for the consideration of the Bench. On September 8, the court decided to take up three of them:
 - "Whether the 103rd Constitution Amendment can be said to breach the basic structure of the Constitution by permitting the state to make special provisions, including reservation, based on economic criteria";
 - "Whether it (the amendment) can be said to breach the basic structure...by permitting the state to make special provisions in relation to admission to private unaided institutions";
 - Whether the basic structure is violated by "excluding the SEBCs (Socially and Educationally Backward Classes)/ OBCs (Other Backward Classes)/ SCs (Scheduled Castes)/ STs (Scheduled Tribes) from the scope of EWS reservation".
- ❖ **What is the 103rd Amendment?**
- The 103rd Amendment inserted Articles 15(6) and 16(6) in the Constitution to provide up to 10 per cent reservation to EWS other than backward classes, SCs, and STs in higher educational institutions and initial recruitment in government jobs. The amendment empowered state governments to provide reservation on the basis of economic backwardness.
- Article 15 prohibits discrimination on grounds of religion, race, caste, sex, or place of birth. Article 16 guarantees equal opportunity in matters of public employment. The additional clauses gave Parliament the power to make special laws for EWS like it does for SCs, STs, and OBCs.
- The EWS reservation was granted based on the recommendations of a commission headed by Major General (ret'd) S R Sinho. The commission, which was constituted by the UPA government in March 2005, submitted its report in July 2010.
- The Sinho Commission recommended that all below-poverty-line (BPL) families within the general category as notified from time to time, and also all families whose annual family income from all sources is below the taxable limit, should be identified as EBCs (economically backward classes).
- ❖ **How is EWS status determined under the law?**

- The EWS criteria for employment and admission was notified on January 31, 2019 by the Department of Personnel and Training (DoPT) based on the 103rd Amendment.
- Under the 2019 notification, a person who was not covered under the scheme of reservation for SCs, STs, and OBCs, and whose family had a gross annual income below Rs 8 lakh, was to be identified as EWS for the benefit of reservation. The notification specified what constituted “income”, and excluded some persons from the EWS category if their families possessed certain specified assets.
- In October 2021, the Supreme Court, while hearing a challenge to reservation for EWS in the All-India quota for PG medical courses, asked the government how the threshold of Rs 8 lakh had been reached. The Centre told the court that it would revisit the income criterion, and set up a three-member panel for this purpose.
- In January 2022, the government accepted the committee’s report, which said that the “threshold of Rs 8 lakh of annual family income, in the current situation, seems reasonable for determining EWS” and “may be retained”. However, the committee said, “EWS may exclude, irrespective of income, a person whose family has 5 acres of agricultural land and above”. Also, the committee recommended, “the residential asset criteria may altogether be removed”.
- ❖ **What is the basis of the challenge to the amendment?**
 - When a law is challenged, the burden of proving it is unconstitutional lies on the petitioners. The primary argument in this case is that the amendment violates the basic structure of the Constitution. Although there is no clear definition of basic structure, any law that violates it is understood to be unconstitutional.
 - This argument in the present case stems from the view that the special protections guaranteed to socially disadvantaged groups is part of the basic structure, and that the 103rd Amendment departs from this by promising special protections on the sole basis of economic status.
 - The petitioners have also challenged the amendment on the ground that it violates the Supreme Court’s 1992 ruling in *Indra Sawhney & Ors v Union of India*, which upheld the Mandal report and capped reservations at 50 per cent. The court had held that economic backwardness cannot be the sole criterion for identifying a backward class.
 - Another challenge is on behalf of private, unaided educational institutions. They have argued that their fundamental right to practise a trade/ profession is violated when the state compels them to implement its reservation policy and admit students on any criteria other than merit.
- ❖ **What has been the government’s stand in this matter so far?**
 - In counter affidavits, the Ministry of Social Justice and Empowerment argued that under Article 46 of the Constitution, part of Directive Principles of State Policy, the state has a duty to protect the interests of economically weaker sections: “The state shall promote with special care the educational and economic interests of the weaker sections of the people, and, in particular, of the Scheduled Castes and the Scheduled Tribes, and shall protect them from social injustice and all forms of exploitation.”
 - Against the argument of violation of the basic structure, the government said that “to sustain a challenge against a constitutional amendment, it must be shown that the very identity of the Constitution has been altered”.
 - On the *Indra Sawhney* principle, the government has relied on the SC’s 2008 ruling in *Ashoka Kumar Thakur v Union of India*, in which the court upheld the 27 per cent quota for OBCs. The argument is that the court accepted that the definition of OBCs was not made on the sole criterion of caste but a mix of caste and economic factors; thus, there need not be a sole criterion for according reservation.

PRELIMS

1. **Ayurveda Day**
 - ❖ **CONTEXT:** All India Institute of Ayurveda (AIIA), under the Ministry of Ayush, recently launched the **Ayurveda Day 2022 programme**.
 - The Ayurveda Day is being observed every year from 2016, on the day of Dhanwantri Jayanti.
 - This year, it will be celebrated on 23rd October 2022.
 - Objective: The main objectives of the day are:
 - To focus on strengths of Ayurveda and its unique treatment principles,
 - To work towards reducing the burden of disease and related mortality by utilising the potential of Ayurveda
 - To tap into the potential of Ayurveda to contribute towards National Health Policy and National Health programmes
 - To promote Ayurvedic principles of healing in society.
 - Thus, Ayurveda Day is more an occasion of re-dedication to the profession and the society, than one of festivities or celebrations
 - AIIA has been chosen as the nodal agency for driving the Ministry’s mandate for Ayurveda Day in 2022.
 - Theme 2022: Har Din Har Ghar Ayurveda.
2. **World Dairy Summit 2022**
 - ❖ **CONTEXT:** Prime Minister officially inaugurated the International Dairy Federation World Dairy Summit (IDF WDS) 2022, being held at the India Expo Centre and Mart in Greater Noida.
 - Theme of the IDF WDS is ‘Dairy for Nutrition and Livelihood’.

- Last time India hosted the International Dairy Congress in 1974.
- The dairy summit is a congregation of global and Indian dairy industry leaders, experts, farmers, and policy planners.
- ❖ **International Dairy Federation**
 - IDF is the leading source of scientific and technical expertise for all stakeholders of the dairy chain.
 - Since 1903, IDF's network of dairy experts has provided a mechanism for the dairy sector to reach global consensus on how to help feed the world with safe and sustainable dairy products.
 - A recognised international authority in the development of science-based standards for the dairy sector, IDF has an important role to play in ensuring the right policies, standards, practices and regulations are in place to ensure the world's dairy products are safe and sustainable.
 - With over 1,200 highly qualified dairy experts in 43 member countries around the world, IDF represents 75% of global milk production and provides a permanent source of authoritative scientific and technical information relevant to the dairy sector.
- ❖ **Indian Dairy Sector:**
 - India is self-sufficient in milk and the world's top milk producer as well as consumer. India accounts for 23 per cent of the global output.
 - India's dairy sector is unique in many aspects. It has a unique smallholder milk production system, wherein more than 70 percent of dairy farmers own either 1 or 2 animals.
 - There are about 8 crore dairy farmers in India mostly small and marginal (having at an average 2 bovines). The annual domestic production of milk in the country is estimated at 220 million tonne. It provides a stable cash flow as compared to crop cultivation. There is a large network of dairy institutions, providing market access to the dairy farmers.
 - India is home to about 19 percent of in-milk cattle and 63 percent of in-milk buffaloes in the world.
 - It has a very rich reservoir of genetic diversity and possesses some of the best breeds of cattle and buffaloes in the world.
 - 50 well-defined breeds of cattle and 19 of buffaloes are well adapted to the local environment.
 - Milk and milk products are important constituents of Indian food basket.
- 3. **AT-1 Bonds**
 - ❖ **CONTEXT:** Two years after the YES Bank fiasco, Additional tier-1 (AT1) bonds are once again gaining popularity. After the YES Bank fiasco, the Securities and Exchange Board of India curtailed retail participation by increasing their face value to ~1 crore.
 - Additional Tier-1 bonds (AT-1 bonds) are a type of unsecured perpetual debt instrument.
 - They are used by the banks to augment their core equity base and thus comply with Basel III norms.
 - AT-1 includes perpetual non-cumulative preference shares and perpetual bonds. AT-1 bonds were introduced by the Basel accord after the global financial crisis to protect depositors.
 - Features of the AT1 bonds - AT-1 bonds are perpetual in nature - they do not carry any maturity date.
 - They offer higher returns to investors but compared with other vanilla debt products, these instruments carry a higher risk as well.
 - If the capital ratios of the issuer fall below a certain percentage or in the event of an institutional failure, the rules of the RBI allow the issuer to stop paying interest or even write down these bonds.
 - These bonds are subordinate to all other debt and senior only to equity.
 - Quasi-equity feature - To lend more, banks need to shore up their equity capital. However, issuing additional equity would dilute the bank's return on equity.
 - Instead, the banks issue AT1 bonds, which they can treat as equity for calculating their tier 1 capital.
 - ❖ **Risks involved with AT1 Bonds**
 - Key risk of AT1 bonds arises from its 'loss absorption' feature.
 - When a bank is being restructured or liquidated, the order of repayment is as follows: FD holders, secured debt, unsecured or subordinate debt, and perpetual debt (AT1 bond) holders.
 - The AT1 bonds rank last in repayment - just before equity - that makes them the riskiest among fixed-income securities.
 - This risk reduces in the case of banks having stronger fundamentals.
 - Compared to the normal bonds of the same bank, AT1 bonds would be riskier, which is why they offer a higher rate of return.
 - Another risk arises from 'coupon discretion'.
 - In the case of AT1 bonds, the payment of the coupon depends on whether the bank has profits. It can also dip into its reserves to pay coupons.
 - In normal bonds and debentures, payment of coupon is not contingent on whether the issuer is in profit or loss.
 - Non-payment of coupon has not happened to date in AT1 bonds, but the risk exists.
 - Call option Risk - As AT1 bonds do not have a maturity date, the banks have a call option that permits them to redeem these bonds after a certain period.

- The issuer bank can recall them after five years (or subsequently on the anniversary of issuance).
- If the bank exercises its call option when interest rates are going down, that subjects the investor to reinvestment risk.

ANSWER WRITTING

Q. What are the research and developmental achievements in applied biotechnology? How will these achievements help to uplift the poorer sections of the society?

Biotechnology is technology based on biology. Biotechnology generates cellular and biomolecular processes to develop technologies and products that help improve our lives and the health of our planet. Biotechnology is helping to heal the world by harnessing nature's own toolbox and using our own genetic makeup.

Research and developmental achievements:

- **Stem Cell Research:** Stem cells have the ability to keep on dividing infinitely and have the capacity to distinguish into different types of body cells during the early development of an organism. Researchers can program these stem cells to differentiate into specific types of cells.
- **Human Genome Project:** It was an international scientific research project coordinated by the National Institutes of Health and the U.S. Department of Energy. Officially launched in 1990, it had the goal of determining the sequence of nucleotide base pairs that make up human DNA. It has supported researchers in identifying genes that cause diseases.
- **Targeted Cancer Therapies:** The established standard chemotherapies are toxic for healthy cells at present. Targeted cancer therapies are drugs that operate either by interfering with the function of specific molecules or by only targeting known cancerous cells in order to reduce damage to healthy cells.
- **CRISPR:** Clustered Regularly Interspersed Short Palindromic Repeats (CRISPR) is a relatively new gene-editing system that has been hailed as a groundbreaking tool in medical research. HIV research is one of its many uses.

Role in uplifting poorer sections of society:

- Biotechnology is assisting to expand the income of marginal farmers by increasing crop yield and making it climate and pest resilient.
- It has revolutionised the medical science leading to controlled death rate and world class treatment possible in India itself.
- By genome sequencing, biotechnology helps in accessing health of the people from the corners of India which ultimately proves conducive for the government in framing targeted policy initiatives.
- It also proves beneficial in expanding the shelf life of food products, which in turn, keeps their price in check for the poor.
- Pollution attacks poor the most. Biotechnology helps in reducing pollution and, thus, alleviates their suffering. For example, landfills are cleaned through bioremediation techniques.

MCQs

- Which of the following statements is/are correct?
 - The First Backward Class Commission was established under the chairmanship of Kaka Kalelkar.
 - The Second Backward Class Commission was established under the chairmanship of Bindeshwari Prasad Mandal.
 - The Supreme Court upheld the 27% reservation for OBCs in the Indira Sawhney case.

Choose the correct answer using the codes

 - 1 and 2 only
 - 2 and 3 only
 - 1 and 3 only
 - 1, 2 and 3
- Consider the following statements about the provisions of the 73rd and 74th Constitutional Amendment Acts:
 - The reservation of seats for scheduled castes and the scheduled tribes shall cease to have an effect on the expiration of the period specified in Article - 334.
 - The reservation of seats for women shall cease to have an effect on the expiration of the period specified in Article - 334.

Choose the correct statement using the codes given below

 - 1 only
 - 2 only
 - Both 1 and 2
 - Neither 1 nor 2
- Consider the following statements with regard to ten percent reservation for economically weak in the general category
 - It was given by the 103rd Constitutional Amendment Act of 2019
 - The Constitutional Amendment bill was passed by the Parliament, by a simple majority.
 - The Constitutional Amendment Act amends articles 14 and 17 of the constitution.

Which of the above statements is/are correct?

 - 1 and 2 only

- b) 2 and 3 only
c) 1 and 3 only
d) 1,2,3
4. With reference to “windfall tax” seen in the news recently consider the following statements:
1. It is a tax levied by governments against certain industries when economic conditions allow those industries to experience above-average profits.
 2. Windfall taxes may also apply to individuals who suddenly become enriched from receiving a significant sum of money through a gift, inheritance, or through game show, gambling or lottery winnings
 3. The imposition of the tax makes the product costlier.
- Select the correct statement using the code given below:
- a) **1 and 2 only**
b) 2 and 3 only
c) 1 and 3 only
d) 2 only
5. Consider the following statements with regards to AT-1 bonds
1. AT-1 bonds are regulated by RBI
 2. They have no maturity, and their dividends can be cancelled at any time.
- Choose the correct statement using the codes given below
- a) 1 only
b) 2 only
c) **Both 1 and 2**
d) Neither 1 nor 2
6. With reference to the Indian Dairy Sector, consider the following statements
1. India is the world’s largest milk producer.
 2. Uttar Pradesh is the leading milk producing state in India.
 3. The per capita availability of dairy milk in India is more than the per capita availability of the world.
 4. E-GOPALA Portal provides digital platform for buying/selling of dairy animals, information on source of quality semen doses available for various breeds of cattle and buffaloes and availability of IVF embryos and sex-sorted semen.
- Choose the correct statement/s using the codes given below
- a) 1 and 2 only
b) 2 and 4 only
c) 1 and 3 only
d) **All of the above**
7. Consider the following statements
1. India is second largest fish producing country after Peru
 2. In India more fish production was contributed by inland fisheries than marine fisheries
- Choose the correct statement using the codes given below
- a) 1 only
b) 2 only
c) **Both 1 and 2**
d) Neither 1 nor 2
8. National Museum of Natural History functions under which ministry
- a) **Ministry of Environment, Forest and Climate Change**
b) Ministry of Tourism
c) Ministry of Culture
d) Ministry of Education
9. A renowned person Braj Basi Lal (BB Lal) recently passed away is associated with which of the following field?
- a) Economist
b) Mathematician
c) Sports
d) **Archeologist**
10. Which of the following is the leading rubber plantation state in India?
- a) Tamil Nadu
b) Andhra Pradesh
c) Meghalaya
d) **Kerala**