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POLITY AND GOVERNANCE

SUSPENSIONS CONTINUE AS 49 MORE MPS FACE ACTION



Business as usual: Proceedings carried on in the half-empty Lok Sabha after the suspension of more Opposition members. ANI

CONTEXT: In an unprecedented move, 49 more Lok Sabha MPs were suspended for “unruly behaviour” on Tuesday, bringing the total number of Opposition lawmakers from both Houses who have been kept out during this session to 141.

The Lok Sabha currently has 198 Opposition MPs, though this figure includes those from parties which often align with the government, such as the Biju Janata Dal, All India Anna Dravida Munnetra Kazhagam (AIADMK), and Yuvajana Sramika Rythu Congress Party (YSRCP). Of the 139 INDIA bloc MPs, 95 have been suspended. Despite the suspensions and repeated adjournments, three Bills were passed, and three key criminal law reform Bills were taken up for consideration in the Lok Sabha.

POLITY AND GOVERNANCE

T.N. MINISTER CONVICTED, FACES DISQUALIFICATION

Case history

The High Court’s decision comes 12 years after the FIR was first registered in the case in 2011

Sept. 26, 2011:
DVAC registers FIR against K. Ponmudy, wife

April 18, 2016:
A special court for Prevention of Corruption Act cases in Villupuram acquits both of them

Feb. 2, 2017: Madras

High Court orders notices to the couple on an appeal preferred by the DVAC

Dec. 19, 2023:
Justice G. Jayachandran of the High Court reverses the acquittal and convicts them. They were told to appear before the court on Thursday for sentencing



CONTEXT: The Madras High Court convicted Tamil Nadu Higher Education Minister K. Ponmudy and his wife, P. Visalakshi, in one of the multiple disproportionate assets cases faced by them.

The Minister now faces the threat of disqualification from membership of the Legislative Assembly with immediate effect, unless his conviction is stayed or set aside. His request for an appeal to the Supreme Court will be considered on Thursday.

Representation of People’s Act (RoPA), 1951

Section 8 of Representation of People’s Act (RoPA), 1951 deals with invoking / triggering disqualification upon conviction for offences with proof beyond reasonable doubt.

1. Sections 8 (1) and 8 (2) of Representation of People’s Act (RoPA), 1951 deals with disqualification upon conviction of offences and sentencing to imprisonment for varying terms.
2. Section 8(3): Disqualifies individuals convicted of any offence and sentenced to imprisonment for not less than 2 years to hold public offices for a further period of six years since his release.
3. Section 8 (4): Allows convicted legislators to file appeal or revision petition with a higher court and obtains any Measure of Abeyance on the Conviction and the sentence within 3 months.

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POLITY AND GOVERNANCE

NETANYAHU CALLS MODI TO DISCUSS MARITIME THREAT IN RED SEA



CONTEXT: Prime Minister Narendra Modi and Israeli Prime Minister Benjamin Netanyahu held a telephone discussion on the escalating threats to maritime security in the Red Sea because of the actions of Houthi militants of Yemen. The conversation came soon after the Pentagon announced an international mission to counter the growing number of attacks against Israel-bound international traffic.

India highlighted its consistent stand in favour of early restoration of peace and stability in the region with continued humanitarian assistance for the affected. The situation in the Bab el-Mandeb Strait has been worrying shipping companies after several attacks by Houthi rebels on container ships. These attacks have prompted several major international companies to hold ships from venturing in the strait that separates Yemen from eastern Africa.

U.S. Secretary of Defence Lloyd Austin announced the establishment of Operation Prosperity Guardian, an important new multinational security initiative, a coalition that includes the U.K., Bahrain, Canada, France, Italy, the Netherlands, Norway, Spain, and the Seychelles, apart from the U.S. The United States has called upon the UN Security Council to act against the Houthi militants.

ECONOMICS AND DEVELOPMENT

STATES CAN BORROW AN EXTRA ₹2 LAKH CRORE THIS FISCAL YEAR

Borrowing leeway

States may be able to borrow about ₹2.04 lakh cr. over their net borrowing limits for the year, Finance Ministry indicates

- Govt. had allowed 22 States to borrow almost ₹61,000 crore on top of net borrowing ceilings of 3% of GSDP, as of October 27
- Fifteenth Finance Commission mooted additional borrowing space of 0.5% of States' GSDP as performance-based incentive for power sector reforms



CONTEXT: The Finance Ministry allowed States to tap about ₹2.04 lakh crore as additional borrowings over their net borrowing limits for the year.

The Centre had allowed 22 States to raise additional borrowings of almost ₹61,000 crore this year on top of their net borrowing ceilings of 3 % of Gross State Domestic Product (GSDP). The extra borrowing ceiling was granted to States who met their pension liabilities by making required contributions to the National Pension System (NPS), which oversees the retirement savings of government employees since 2004.

Moreover, States are eligible to raise a little more than ₹ 1.43 lakh crore this year, based on the recommendations of the Ministry of Power. This is linked to the Fifteenth Finance Commission's (FFC) suggestion to grant States an additional borrowing space of 0.5 % of GSDP as a performance-based incentive for carrying out reforms in the power sector that improve operational and economic efficiency at the State level.

ECONOMICS AND DEVELOPMENT

'FARM SECTOR GROWTH TO SLIP BELOW 1% IN H2, FEED FOOD PRICE PRESSURES'

CONTEXT: Foodgrain output set to hit a four-year low and rabi crop sowing significantly lagging last year's levels by mid-December with kharif crop yields dropping.

ICRA on Tuesday warned of a further slowdown in farm sector growth in the second half which could weaken rural demand and accentuate food price pressures. GVA growth from the agriculture sector may slip below 1 % in the last two quarters of this year, from 1.2 % in Q2, dragging the full year's

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growth under the 2 % mark, compared with a 4 % uptick in FY23. The weak prospects for rabi crop output amid the El Nino effects, casts a shadow on rural sentiment and consumption demand going forward.

The first advance estimates of kharif output suggest foodgrain production slid 4.6% to a four-year low of 148.6 million tonne, with all kharif crops' output declining. Even crops that clocked an increase in their sown areas this year are expected to see a dip in output, including sugarcane (-11.4%), rice (-3.8%) and coarse cereals (-6.5%). The decline in the output of most crops is larger than the fall in their area sown, reflecting a contraction in yields.

ICRA noted in a report on the farm sector amid delayed harvesting of paddy in some States, the cumulative rabi sowing trailed the year-ago levels by 5.1% as on Dec. 15.

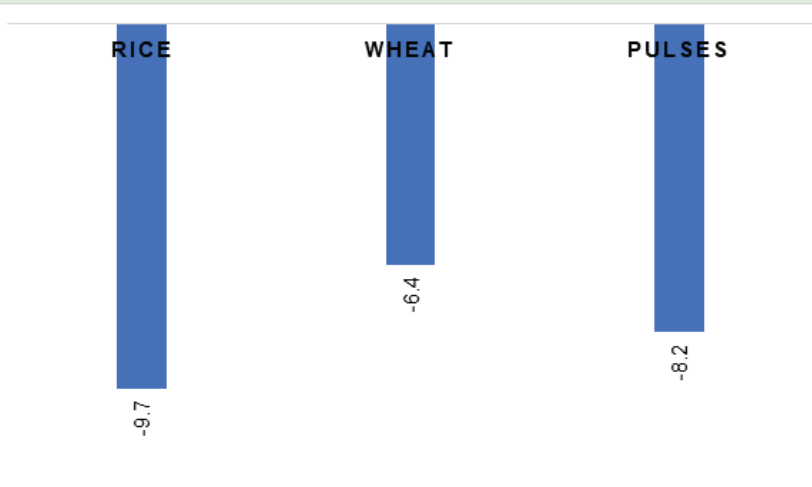


FIGURE: Column chart representation of year-on-year change in cumulative rabi sowing.

'Downside risks'

By December 15, about 77 % of the total area sown in 2022, had been covered for the rabi crop. A weaker rural economy also prompted the rating firm to add 'downside risks' to its forecast of a 0-2 % growth in tractor sales for the year, after they declined 3.7% in the first half and 0.5 % through October and November.

ECONOMICS AND DEVELOPMENT

TAXPAYERS CAN WITHDRAW COURT CASES, 'APPROACH GST TRIBUNALS FOR FASTER RULINGS'

CONTEXT: The Parliament's Lower House subsequently passed amendments to the central GST law aimed at operationalising the tribunals at the earliest.

Taxpayers can withdraw their GST-related cases filed in High Courts and the Supreme Court and lodge them with the upcoming GST appellate tribunals so as to speed up their outcomes, Finance Minister Nirmala Sitharaman said in the Lok Sabha on Tuesday. Ms. Sitharaman also indicated that every State will get two benches of the tribunal, which would include one in the State capital and the other in a key commercial hub based on States' inputs. The Lok Sabha also cleared the Provisional Collection of Taxes Bill, 2023, which seeks to rein in speculative trading by giving immediate effect to impositions or hikes in customs and excise duties.

The amendments are being moved for setting up the GST Appellate tribunals, the taxpayer is at liberty to withdraw from the High Courts and the Supreme Court and go to the tribunal that is being set up so that their cases can be speeded up, referring to new tribunal benches that would come up in States with an Appellate body in New Delhi.



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POLITY AND GOVERNANCE

THE DEEP IMPORT OF THE ARTICLE 370 VERDICT

CONTEXT: The Supreme Court of India recently upheld the revocation of Article 370 of the Indian Constitution.

Unlike in other federations, the states in India do not enjoy rights to territorial integrity. The Parliament can by unilaterally alter the boundaries or name of any State / UT by a simple majority. In case of union territories, it is not even necessary for president to obtain views of legislatures of union territories.

Legislative procedure:

1. The Union Council of Ministers consults* with all stakeholders to prepare a draft on reorganisation of States with proposals on area, boundaries and name of State(s).
2. The Union Council of Ministers introduces the State Reorganisation Bills in either House of Parliament with prior recommendation of the President. The State Reorganisation Bills shall not be deemed to be considered as a
3. The Parliament refers the State Reorganisation Bills to the respective State Legislature(s) express their views on the Reorganisation Bill within a period specified in the reference or so allowed by the President. In case of a union territory, no reference need be made to the concerned legislature to ascertain its views and the Parliament can itself take any action as it deems fit
4. The President is not required to submit such a Reorganisation Bill to the Union Parliament with assent of State Legislature(s).
5. The Parliament enacts the State Reorganisation Bills.
6. The President certifies the State Reorganisation Bills to an Act.

POLITY AND GOVERNANCE

TAX 'HFSS' FOODS, VIEW IT AS A PUBLIC HEALTH IMPERATIVE

CONTEXT: The consumption of High Fat Sugar Salt (HFSS) foods is one of the major risk factors to a host of health issues that include obesity, diabetes and high blood pressure.

According to a World Bank report of 2019, worldwide, 70 % of all overweight and obese people live in Low- and Middle-Income Countries, with a 55 % rise in rural areas across the globe, dispelling the perception that overweight/obesity is only a problem in high-income countries and urban and affluent communities. The Non-Communicable Diseases (NCDs) burden in India has skyrocketed from 38 % in 1990 to 65 % in 2019. Annually, 1.2 million deaths in India can be attributed to dietary risks alone. The base line projections estimate the economic impact of overweight and obesity in India at \$ 23 billion in 2017 is likely to rise to \$ 480 billion by 2060.

India's shift in dietary habits

India is the world's largest producer and consumer of sugar in 2022. About 50 % - 60 % of edible sugar, salt and fat produced in India is consumed by the processed food industry. Sales of snacks and soft drinks have tripled over the past decade, exceeding \$30 billion last year. The ultra-processed food sector in India witnessed a compounded annual growth rate of 13.4 % between 2011 and 2021. This not only poses severe health risks but also impacts productivity and economic growth, necessitating urgent interventions to curtail the rising consumption of these products.

There is a global trend of utilising fiscal measures to combat obesity. Taxation is considered to be an effective means to reduce the consumption of these products as most consumers are price responsive towards them. While taxation on sugar-sweetened beverages (SSBs) is far wider and more used in more than 60 countries, taxation on HFSS food is less common, although rapidly increasing. Some 16 countries including Denmark, France, Hungary, Mexico, South Africa, the United Kingdom and the United States, among others, now have a dedicated tax on HFSS foods. Most recently, Colombia's "junk food law" introduced a gradually increasing levy on ultra-processed foods, providing a model for other nations. In India, Kerala had also introduced a 'fat tax' way back in 2016, which later got subsumed into India's Goods and Services Tax in 2017.

Case for high HFSS tax

The imperative for taxing HFSS arises from significant market failures associated with their consumption, contributing to negative externalities and internalities. Negative externalities manifest as societal costs in the form of increased health-care expenditures. For example, the escalation of diabetes and obesity due to increased HFSS consumption leads to external costs imposed on society, necessitating substantial health-care expenditures, borne through elevated taxes to finance public health insurance such as the Ayushman Bharat Yojana. Meanwhile, internalities, stemming from consumers' limited understanding, influenced by aggressive marketing, result in inadvertent harm to themselves. Taxes can offer a targeted and effective means to curb detrimental consumption habits, thereby reducing societal burdens. Implementing such taxes has shown promise in various countries, demonstrating a reduction in the purchase of unhealthy items.

Unlike the taxation of other sin goods such as tobacco and alcohol, the HFSS taxation need not be viewed as a means for raising revenue, but should be seen as a fiscal tool to incentivise the industry to reformulate the products more in favour of healthier alternatives and for people to reorganise their food consumption basket in favour of a healthier diet. If properly designed, HFSS food tax can be both

non-regressive, and fiscally neutral. A recent study on South Africa's Health Promotion Levy showed that there were larger relative reductions in purchases of taxable beverages among lower socio-economic status (SES) households compared with reductions observed in higher SES households, making such taxes non-regressive. Tax rates need to be differentiated based on the nutritional quality of the food so as to incentivise product reformulations. For example, it is possible to have a GST system with HFSS foods in the highest rate structure while their healthier alternatives have either zero or minimal tax rates so that the net tax burden on a household's food consumption basket remains the same. This would create a level-playing field between HFSS and their healthier alternatives, making healthier food choices more affordable and accessible.

GST and nutritional content

Current GST rates on ultra-processed foods, such as salty snacks and SSBs, do not adequately align with nutritional content. For example, tax on SSBs with a 28% GST rate and 12% compensation cess, overlooks sugar content. All aerated beverages are taxed uniformly as well. Similarly, juices face a flat 12 % rate, irrespective of their fruit and sugar content. Salty snacks are taxed at 12 % regardless of their salt content. Such inconsistencies fail to consider the varying nutritional impact of these products and hence show limited impact on altering consumption baskets in favour healthier alternatives.

HFSS taxation in India should not be merely seen as an economic or fiscal policy concern but it deserves to be considered a public health imperative. Effectively designed taxes can reap multiple benefits — they can act as a deterrent to consuming HFSS; promote healthier food choices; prompt manufacturers to reformulate foods; improve public health outcomes; reduce the burden on the health-care system, and foster the nation's well-being. When combined with other measures such as promotion of nutrition literacy and effective food labelling, it can be a more potent tool to combat the rising epidemic of overweight and obesity by creating a more sustainable and equitable food system.

POLITY AND GOVERNANCE

INDIA'S ETHANOL CONUNDRUM

CONTEXT: As more than 100 countries at COP28 in Dubai pledged the tripling of global renewable energy capacity by 2030, India faces a tightrope walk with regard to its ethanol blending target.

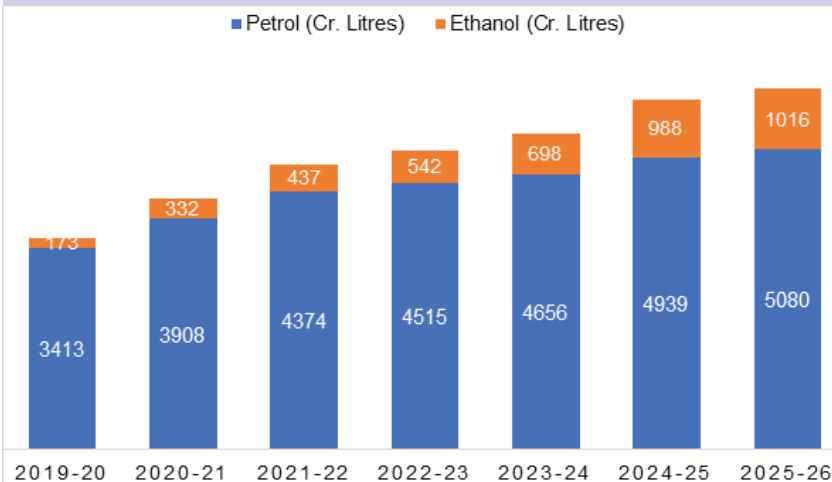


FIGURE: Column chart representation of the projected volume (Cr. litres) of petrol and ethanol consumption.

The ethanol blended petrol (EBP) increased from 1.6 % in 2013-14 to 11.8 % in 2022-23, the 20 % target by 2025 has run into trouble with low sugar stocks in 2022-23 and the impending shortfall in sugarcane production this year.

The government is looking at a major transition towards grains-based ethanol for meeting the target. The recent authorisation of the National Agricultural Cooperative Marketing Federation of India (NAFED) and the National Cooperative Consumers' Federation of India (NCCF) to procure maize (corn) for supplying ethanol distilleries indicates emphasis on this transition and will boost an organised maize-feed supply chain for ethanol.

Crude and food prices

The two major feedstock for ethanol production are sugarcane (Brazil) and corn (the U.S.). Ethanol production in both these countries boomed from 2000 when crude oil prices started rising and remained above a certain threshold for a decade. (At low crude prices, ethanol blending is not competitive; it is a slow process driven by heavy subsidies.) A crucial difference between the use of sugarcane and corn for producing ethanol is the degree of food-fuel conflict that emerges. In the case of sugarcane, ethanol is produced by processing the molasses (C-heavy/B-heavy) and constitutes minimal trade-off with the sugar output. The B-heavy molasses path produces less sugar compared to the C-heavy one, but both produce sugar and ethanol simultaneously from sugarcane. But using corn for producing ethanol directly reduces its use as food or livestock feed. It not only diverts



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grain to fuel use, but also links food prices directly with crude oil prices through the demand side. The very high crude prices that prevailed for a decade in 2004-14 pulled up ethanol and corn prices to historical highs. More importantly, the high corn prices were quickly transmitted to other grain markets as soft grains, such as wheat/barley, started getting redirected into the livestock industry as corn substitutes. Though only 5-7 % of the world's corn output was used for ethanol production at the peak of the U.S.'s corn-based ethanol programme, the price effect was widespread and remained the most important contributor to the 2006-14 global food crisis. This was primarily due to the relatively easy substitutability in grain use across food, feed, and fuel.

This strong link between crude and food prices in the era of agro fuels is re-emphasised by the fact that the food prices remained high even after the 2008 financial crisis caused most commodity prices to plummet. The Food and Agriculture Organization food price index softened only after 2014, when global crude prices fell below \$ 80 per barrel, which also slowed down the U.S. ethanol blending trajectory. The post-pandemic recovery of oil prices has again pushed up food prices. In 2021, the food price index breached the previous record levels attained in 2011.

Unlike in the U.S., sugarcane is the more obvious choice for tropical countries such as Brazil or India where cane yields are higher. This is not to argue that using sugarcane for ethanol does not have adverse impacts on environment or hunger. More land under water-intensive sugarcane cultivation can displace food production as well as degrade water tables, but these can be regulated by appropriate land-use policies. It is far more difficult to control the market dynamics, driven by easily interchangeable grain use, as illustrated by the U.S.'s corn-based ethanol experience.

Meeting the target

In India though, differential pricing introduced in 2017-18 incentivised the use of cane juice directly to produce ethanol and exacerbated the food versus fuel binary, which is otherwise relatively subdued in the case of cane-based ethanol. When price incentives were given for ethanol produced from cane juice without the extraction of sugar, a process which gives a substantially higher yield of ethanol, mills abandoned the more sustainable molasses route. This was driven by the urge to hasten the journey towards the 2025 EBP target, which it achieved. The success generated challenges in the form of reduced sugar stocks. The December 7, 2023 order by the Ministry of Consumer Affairs banning the use of cane juice for ethanol production is a timely, corrective step. But by adopting a transition to grains-based ethanol to fast-track the 2025 target achievement (maize is expected to supply around half of the ethanol feed in 2023-24 and beyond), is the government hurtling towards a looming spectre of uncontrollable food inflation? For this path to meet the EBP target by 2025, India needs 16.5 million tonnes of grains annually (government estimates). This is a sufficiently high quantity to trigger a short-run price spiral in grain markets.

The future of India's renewables strategy hangs on a delicate food-fuel trade-off; and a choice between intensifying hunger and reducing fossil fuel use. On the one hand, the government can reconsider its EBP target and stagger it to contain the contradictions. On the other hand, we need more investment in public infrastructure, urban design to contain the fuel demand for automobiles, and in renewables such as solar power.

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