

# India launches tax revolution amid business doubts

AFP, New Delhi

INDIA on Saturday launched its biggest ever fiscal reform with the government promising that a new nationwide tax would make the economy stronger and less corrupt, but businesses are nervous about the revolution.

The new goods and services tax (GST) replaces more than a dozen levies imposed nationally and by the 29 states. It aims to transform the nation of 1.3 billion people and its \$2 trillion economy into a single market.

Prime Minister Narendra Modi held a special mid-night session of parliament to launch GST which he called "a good and simple tax".

"With GST, the dream of one India, great India, will come true," the prime minister said.

"GST is a simple, transparent system which prevents generation of black money and curbs corruption," said Modi who jolted the country last year by withdrawing more than 85 percent of India's bank notes from circulation in a clampdown on under-the-table dealings.

But the prime minister, who has put huge efforts into the economy as he targets re-election in 2019, acknowledged there would be teething troubles.

Jammu and Kashmir state has refused to sign onto the one tax regime.

GST has sparked protests by traders, while the main opposition Congress Party boycotted the launch ceremony. Businesses are nervous about GST, which sets out four different rates of between 5 and 28 percent instead of the one originally envisioned.

The GST rule book runs to more than 200 pages and last-minute changes were still being made late Friday.

It allows local authorities to impose some taxes. The first fallout was seen Saturday when the southern state of Tamil Nadu announced a 30 percent levy on movie tickets, in addition to the 28 percent GST fee.

All 969 movie cinemas in the state will close from

Monday in protest, M Subramanian, president of the regional theatre owners association, told AFP.

"Because of this we will lose customers and it will encourage illegal downloads of movies," he said. "We will continue the strike till this 30 percent tax is removed." "That's the risk you have when you don't subsume all the taxes," said Pratik Jain, Partner and Leader Indirect Tax, PwC India. "It defeats the purpose of one tax."

Textile traders and other sectors went on strike ahead of the launch and many businesses say they are unclear about what to charge.

Bhartiya Udyog Vyapar Mandal, a national traders association that claims 60 million members, called a one-day strike Friday to protest the GST.

Many are worried because while returns have to be filed by computer, they do not have or do not understand the technology. "Since August last year we have put forward our demands on GST but the government has never responded," national secretary general Vijay Prakash Jain told AFP. "We told the government, either fix this, or we will strike."

Most economists agree the reform -- first proposed in 2006 -- is long overdue, but warn of an initial shock to the economy as businesses adjust.

Credit Suisse managing director in India Neelkanth Mishra warned that "the next few months will be a period of uncertainty in which no company would want to invest, that slows down the investment cycle and acts as a drag on the economy."

Rating agency ICRA said that while GST would increase in compliance in some sectors, smaller traders and businesses that are not compliant will lose business to large firms with big networks.

"Although it is still far from perfect, we realise how much better it is than the myriad taxes we've been subjected to over the last several decades," said PwC's Jain.

"The old India was economically fragmented. The new India will create one tax, one market for one nation," Finance Minister Arun Jaitley said.



Indian Prime Minister Narendra Modi and President Pranab Mukherjee arrive for a special session for the implementation of the Goods and Services Tax at Parliament House in New Delhi on Friday.

# GST set to transform face of Indian logistics industry

REUTERS, Mumbai

INDIA'S greatest tax reform - replacing an array of provincial duties with a nationwide goods and services tax - is transforming the logistics industry in a country where moving stuff around is notoriously difficult to do, executives say.

The advent of organised retail and e-commerce began modernising warehouses in India a decade ago, but most firms still rely on musty, dilapidated "godowns", as store-houses are known colloquially.

The unified tax system is expected to bring change on a far grander scale, removing distortions created by differential taxes and duty structures imposed across India's 29 states and 7 union territories.

"When we moved from one state to the other, it felt like moving from one country to another," said Ramesh Agarwal, chairman of New Delhi-based Agarwal Packers and Movers.

From July 1, the new Goods and Services Tax, or GST, introduced by Prime Minister Narendra Modi's government, will change all that, with the biggest tax reform seen since India won independence from British colonial rule 70 years ago.

Companies that have previously based storage models on tax efficiency can move to the much more cost efficient, demand-based hub-and-spoke model used globally.

Anticipating the change, Agarwal's firm, for example, has carved India into five regions and is setting up one massive warehouse in each.

"There's no tax arbitrage to be gained. So decisions on manufacturing, warehousing and selling will be purely driven by the real costs of manufacturing and going to market, that is the single biggest advantage of GST," said R Subramanian, managing director at DHL Express in Mumbai.

Subramanian still anticipates bureaucratic headaches, notably from GST's e-way bill system, requiring vehicle details from pickup to delivery, which he reckons would generate 90 million entries daily for the express delivery sector alone.

But, the reform, along with the gradual shift in India's service dominated economy toward more manufacturing, has paved the way for ultra-

modern storage sites with automated conveyers, RFID-enabled tracking and IT-enabled warehousing management systems.

The potential growth, and investment needed for modernisation has spurred a slew of deals between Indian firms and major global private equity players and pension funds.

In the last two years alone, as Modi made GST a priority, these investors have put \$1.5 billion in the warehousing business.

"GST is not only a tax reform, it is also a business reform as a whole, and a lot of businesses are now restructuring their supply chains," said Rohit Jain, a partner with Economic Laws Practice in Mumbai.

Canada Pension Plan Investment Board last month committed to spend \$500 million in a joint venture with India's IndoSpace. Other foreign firms putting money in the sector include Carlyle Group, Warburg Pincus and Fairfax India Holdings.

JSW Steel, India's biggest domestic steel producer, is also mulling a plan to bring down the number of its 20 plus warehouses across the country to five, and many more companies are following suit, said a company executive.

Reliance Retail, the retail unit of Reliance Industries, which has around 100 distribution centres across the country, also plans to "optimize some," said a company

executive. Mahindra Logistics is exploring an initial public offering, or a sale to a foreign partner, while rival Future Supply Chain Solutions is looking to do likewise, according to media reports.

With 45 percent of India's gross domestic product concentrated around seven major cities, Arif Siddiqui at Coign Consulting, specialising in supply chain management, expected investment in warehousing to focus on Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, and New Delhi.

Singapore-based urban and real estate developer Ascendas-Singbridge has just signed a \$600 million deal with Firstspace Realty, based in the south Indian city of Bengaluru, to create 14 million square feet (1.3 million square meters) of industrial warehousing space across six major Indian cities.

"Manufacturing, modern retail and the pharma sector were already driving change in Indian warehousing. GST has just fast-tracked the growth rate in logistics," said Alok Bhuniya, Chief Executive of Ascendas-Firstspace.

He reckoned that GST has boosted the industry's annual growth rate from 12-15 percent to 20-22 percent, and saw plenty of room for a lot more modernisation.



A forklift operator stacks containers at the godown of Agarwal Packers and Movers Ltd on the outskirts of Mumbai.

# Several UK banks stop selling Qatar riyals as diplomatic crisis mounts

REUTERS, London/Dubai

SEVERAL British banks said on Friday they had stopped dealing in Qatari riyals, as the diplomatic crisis surrounding the tiny Gulf country disrupted overseas trading of its currency.

Saudi Arabia, the United Arab Emirates, Bahrain and Egypt severed diplomatic and travel links with Qatar on June 5, accusing it of supporting terrorism and courting regional foe Iran, in allegations that have ignited a regional crisis between the U.S. allies.

Offshore trade of the riyal has become increasingly volatile and illiquid as a result, raising risks for banks.

A spokeswoman for Britain's Lloyds Banking Group said a "third-party supplier" which handles its foreign exchange service had ceased trading in Qatar's riyal as of June 21.

"This currency is no longer available for sale or buy-back across our high street banks including Lloyds Bank, Bank of Scotland and Halifax," she said.

Tesco Bank said it had halted dealings in the riyal, while Barclays stopped trading riyals for retail customers but continued the service for corporate customers, a source said. Royal Bank of Scotland said it had stopped trading riyals for retail customers.

Banks from the four Arab states that have cut ties with Qatar reduced or halted riyal transactions earlier this month, as have some other countries.

Some big international banks have continued riyal business, however; a spokeswoman for HSBC said on Friday that the bank was still providing riyals for high street customers.

This week the riyal traded between offshore banks as low as 3.81 to the U.S. dollar, its lowest level this decade and more than 4 percent below its peg of 3.64 to the dollar.

Most bankers in the Gulf do not think the peg will break; onshore, the Qatari central bank has continued to provide ample supplies of dollars near 3.6415 under its peg mechanism. The world's biggest liquefied natural gas exporter has huge reserves with which it could defend

its currency. The Arab states opposing Qatar have set a deadline of around Monday next week - officials have not publicly specified the exact time - for Doha to agree to demands such as shutting television channel Al Jazeera and reducing ties to Iran.

Publicly, Doha has shown little sign of complying, and the four states have said they could impose fresh sanctions if their demands are not met. This threat pushed the cost of insuring Qatari sovereign debt against default to a 16-month high on Friday.

In an effort to reassure markets that the riyal was still widely traded overseas, the Qatari central bank declared in the early hours of Friday that it would guarantee all dealings for customers inside and outside Qatar.

"Qatari riyal's exchange rate is absolutely stable against the U.S. dollar, and its exchangeability inside and outside Qatar is guaranteed at any time at the official price," the central bank said, calling reports that some exchange companies had stopped buying the riyal "baseless".

So far, however, the central bank has not taken the step which bankers say may be necessary to stabilise the offshore currency market: massive dollar-selling intervention.

Some Gulf bankers believe the central bank thinks such radical action is unnecessary; Qatar gets most of its dollar supplies from oil and gas exports, which are controlled by the government, so it does not need to fear offshore trade will suck dollars away from onshore companies which need them.

A source at an investment manager in London, however, said intervention to drive the offshore riyal rate back to 3.64 could be dangerously expensive for the central bank.

"In a month, two months' time, we would start to see the reserves numbers going down massively, and that could start a panic on the currency." The alternative to intervention is "the currency grinds down weaker and weaker from here," he added.

Exchange company Travelex said on Thursday it had resumed purchasing the Qatari riyal globally after a brief suspension "due to business challenges".

# Companies still hobbled from fearsome cyberattack

ASSOCIATED PRESS

MANY businesses still struggled Friday to recover hopelessly scrambled computer networks, collateral damage from a massive cyberattack that targeted Ukraine three days ago.

The Heritage Valley Health System couldn't offer lab and diagnostic imaging services at 14 community and neighborhood offices in western Pennsylvania. DLA Piper, a London-based law firm with offices in 40 countries, said on its website that email systems were down; a receptionist said email hadn't been restored by the close of business day.

Dave Kennedy, a former Marine cyberwarrior who is now CEO of the security company TrustedSec, said one US company he is helping is rebuilding its entire network of more than 5,000 computers.

"It hit everything, their backups, servers, their workstations, everything," he said. "Everything was just nuked and wiped."

Kennedy added, "Some of these companies are actually using pieces of paper to write down credit card numbers. It's crazy."

The cyberattack that began Tuesday brought even some Fortune 1000 companies to their knees, experts say. Kennedy said a lot more "isn't being reported by companies who don't

want to say that they are hit." The malware, which security experts are calling NotPetya, was unleashed through Ukraine tax software, called MeDoc. Customers' networks became infected downloading automatic updates from its maker's website. Many customers are multinationals with offices in the eastern European nation.

The malware spread so quickly, worming its way automatically through interconnected private networks, as to be nearly unstoppable. What saved the world from digital mayhem, experts say, was its limited business-to-business connectivity with Ukrainian enterprises, the intended target.

Had those direct connections been extensive — on the level of a major industrial nation — "you are talking about a catastrophic failure of all of our systems and environments across the globe. I mean it could have been absolutely terrifying," Kennedy said.

Microsoft said NotPetya hit companies in at least 64 nations, including Russia, Germany and the United States. Victims include drug giant Merck & Co. and the shipping company FedEx's TNT subsidiary. Trade in FedEx stock was temporarily halted Wednesday.

One major victim, Danish shipping giant A.P. Maersk-Moller, said Friday that its cargo terminals and port operations were "now running

close to normal again." It said operations had been restored in Spain, Morocco, India, Brazil, Argentina and Lima, Peru, but problems lingered in Rotterdam, the Netherlands; Elizabeth, New Jersey; and Los Angeles.

An employee at an international transit company at Lima's port of Callao told The Associated Press that Maersk employees' telephone system and email had been knocked out by the virus — so they were "stuck using their personal cellphones." The employee spoke on condition of anonymity because he's not authorized to speak to reporters.

Back in Ukraine, the pain continued. Officials assured the public that the outbreak was under control, and service has been restored to cash machines and at the airport.

But some bank branches remain closed as information-technology professionals scrambled to rebuild networks from scratch. One government employee told the AP she was still relying on her iPhone because her office's computers were "collapsed." She, too, was not authorized to talk to journalists.

Security researchers now concur that while NotPetya was wrapped in the guise of extortionate "ransomware" — which encrypts files and demands payment — it was really designed to exact maximum destruction and disruption, with Ukraine the clear target.

Computers were disabled there at banks, government agencies, energy companies, supermarkets, railways and telecommunications providers.

Ukraine's government said Thursday that the FBI and Britain's National Crime Agency were assisting in its investigation of the malware. Suspicion for the attack immediately fell on hackers affiliated with Russia, though there is no evidence tying Vladimir Putin's government to the attack.

Relations between Russia and Ukraine have been tense since Moscow annexed the Crimean peninsula from Ukraine in 2014. Pro-Russian fighters still battle the government in eastern Ukraine.

U.S. intelligence agencies declined to comment about who might be responsible for the attack. The White House did not immediately respond to questions seeking its reaction to the attack.

Experts have blamed pro-Russian hackers for major cyberattacks on the Ukrainian power grid in 2015 and 2016, assaults that have turned the eastern European nation into the world's leading cyberwarfare testing ground.



Trucks loaded with containers are lined up outside a terminal at the Jawaharlal Nehru Port Trust in Mumbai on Thursday.