



Windfall Tax

For Prelims: Windfall Tax, Russia-Ukraine Conflict, Covid-19, fiscal Policy.

For Mains: Rationale and Issues Related to Windfall Tax.

Why in News?

Recently, the Ministry of Finance has justified the **imposition of [Windfall Tax](#)** on domestic **[crude oil](#)** producers in July 2022, saying that it was **not an ad hoc (made or done suddenly) move** but was done after full consultation with the industry.

- 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?

- **About:**
 - 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.
 - A windfall is defined 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.**
- **Rationale:**
 - 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.

Why are Countries Levying Windfall Taxes Now?

- Prices of oil, **gas**, and **coal** have seen sharp **increases since late last year** and in the first two quarters of the current year, **although they have 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.**
- 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.

- The levies came as refiners made major gains by **boosting fuel exports to countries that were in a deficit like Europe**, which has now boycotted oil imports from Russia.
- The [U.N.\(United Nations\)](#) 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**.

What are the Issues with Imposing Windfall Tax?

- **Uncertainty in the Market:**
 - 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.
- **Populist in Nature:**
 - It is believed that such taxes are [populist](#) and politically opportune in the short term.
- **Reduces Future Investment:**
 - Introducing a temporary windfall profit tax **reduces future investment because prospective investors will internalize** the likelihood of potential taxes when making investment decisions.
- **Not Defined Precisely:**
 - It is not defined **what exactly constitutes true windfall profits and how it can be determined** what level of profit is normal or excessive.
 - If rapid increases in prices lead to higher profits, in one sense it can be called true windfalls as they are unforeseeable but it can be argued that it is the profit **the companies earned as a reward for the industries risk-taking** to provide the final product to the end user.
 - It is not defined 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**.

UPSC Civil Services, Previous Year Questions (PYQ)

Q. Explain the salient features of the Constitution (One Hundred and First Amendment) Act, 2016. Do you think it is efficacious enough “to remove cascading effect of taxes and provide for common national market for goods and services”? **(2017)**

[Source: TH](#)

Naval Exercise Kakadu

Why in News?

INS Satpura and [P8I Maritime Patrol Aircraft](#) have arrived in **Darwin in Australia** to participate in a multinational naval **exercise, Kakadu**, being hosted by the **Royal Australian Navy**.



What do we Know about Exercise Kakadu?

- **About:**

- Exercise Kakadu is a joint-enabled, **biennial exercise** hosted by the Royal Australian Navy and supported by the Royal Australian Air Force.
- Kakadu is the Navy's premier maritime exercise, **developing interoperability between nations in the maritime and air domains**, and providing training opportunities for maritime security and surveillance.
- It started in 1993.

- **Exercise Kakadu -22:**

- It's a two-week-long exercise, both in harbour and sea, involving ships and maritime aircraft from 14 navies.
- **Participation:** Around 19 vessels, 34 aircraft and more than 3000 personnel from 25 countries are expected.
- **Theme:** Partnership, Leadership, Friendship.
- Significance: As Navy's most significant international engagement activity, Exercise Kakadu is vital for building relationships between participating countries.
 - The exercise provides an opportunity for regional partners to undertake **multinational maritime activities** ranging from constabulary operations to **high-end maritime warfare** in a combined environment.

What are other military exercises with Australia?

- **Multilateral exercise:**
 - [Malabar](#)
 - [Exercise Pitch Black 22](#)
- **Bilateral exercise:** [Ausindex](#).

[Source: PIB](#)

Fall in Price of Natural Rubber

For Prelims: Natural rubber (NR), Hevea Brasiliensis, National Rubber Policy.

For Mains: Significance of Rubber & National Rubber Policy.

Why in News?

Recently, there have been protests by farmers and various organizations due to the price of [natural rubber \(NR\)](#) crashing to a sixteen-month low in the Indian market.

What has Caused the Sharp Fall in Prices?

- **Poor Demand and Other Factors:** Due to weak Chinese demand and the European energy crisis, along with high [inflation](#).
 - While the unremitting zero COVID strategy in China, which consumes about 42% of the global volume, has cost the industry dearly.
- **Import from Other countries:** There is an ample supply of block rubber from Ivory Coast and compounded rubber from the Far East in the domestic tyre industry.
 - The **Auto-Tyre manufacturing sector** accounted for **73.1%** of the total quantity of natural rubber consumption.

How does the Falling Price affect the Farmer?

- **Crop Shifting:** The impact of the price fall is felt more in the rural areas, where most people are solely dependent on rubber cultivation, therefore, they might switch to other crops.
 - It can even lead to the fragmentation of rubber holdings.
- **Effect on Small and Medium Enterprises:** As most of the production occurs in small and medium enterprises, the falling price could lead to their uncertain future and force them to stop production temporarily.
- **Panic in Kerala:** The state accounts for almost 75% of total production, as local economy depends on rubber production, therefore the falling price could lead to major panic in villages of Kerala.

What do we Know about Natural Rubber?

- **Commercial Plantation Crop:** Rubber is **made from the latex** of a tree called **Hevea Brasiliensis**. Rubber is largely perceived as a **strategic industrial raw material** and accorded special status globally for defence, national security and industrial development.
- **Conditions for Growth:** It is an **equatorial crop**, but under special conditions, it is also grown in

tropical and sub-tropical areas.

- **Temperature:** Above 25°C with a moist and humid climate.
- **Rainfall:** More than 200 cm.
- **Soil Type:** Rich well-drained alluvial soil.
- **Cheap and adequate supply of skilled labour** is needed for this plantation crop.
- **Major Producers Globally:** Thailand, Indonesia, Malaysia, Vietnam, China and India.
- **Major Consumers:** China, India, USA, Japan, Thailand, Indonesia and Malaysia.

What is the Status of Rubber Production in India?

- **Production:**
 - The **British established the first rubber plantation in India in 1902** on the banks of the river Periyar in **Kerala**.
 - India is currently the **fifth largest producer of Natural Rubber** in the world with one of the highest productivity.
 - The production of the material improved by 8.4%, to 7,75,000 tonnes, during 2021-22 compared to 2020-21.
 - It also remains the **second biggest consumer** of the material globally.
 - About **40% of India's total natural rubber consumption** is currently met through **imports**.
- **Top Rubber Producing States:** Kerala > Tamil Nadu > Karnataka.
- **Government Initiatives:**
 - **Rubber Plantation Development Scheme** and the **Rubber Group Planting Scheme** are examples of government-led initiatives for rubber.
 - 100% **Foreign Direct Investment (FDI)** is allowed in plantations of rubber.
 - **The Department of Commerce** brought out the **National Rubber Policy in March 2019**.
 - The policy includes several **provisions to support the Natural Rubber (NR)** production sector and the entire rubber industry value chain.
 - It is based on the **short-term** and **long-term strategies** identified by the **Task Force** constituted in the rubber sector for mitigating problems faced by rubber growers in the country.
 - Developmental and research activities for supporting the NR sector for the welfare of growers are carried out through **Rubber Board** by implementing the **scheme Sustainable and Inclusive Development of Natural Rubber Sector** in the **Medium-Term Framework (MTF)**.

What do we know about the Rubber Board of India?

- It is **headquartered in Kottayam, Kerala**, under the **administration of the Ministry of Commerce and Industry**.
- The Board is responsible for the development of the rubber industry in the country by assisting and encouraging research, development, extension and training activities related to rubber.
- **Rubber Research Institute** is under the Rubber Board.

Way Forward

- The Government needs to raise the import duties on compound rubber to make it on par with natural rubber.
- The government must address the demands of the farmers by raising the replanting subsidy and the support price of the crop under the price stabilization scheme.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. Which one of the following groups of plants was domesticated in the 'New World' and introduced into the 'Old World'? (2019)

- (a) Tobacco, cocoa and rubber
- (b) Tobacco, cotton and rubber
- (c) Cotton, coffee and sugarcane
- (d) Rubber, coffee and wheat

Ans: (a)

- New World refers to the Americas, which was discovered by Christopher Columbus during his voyage attempt to India. Old World continents during 15th century included Asia, Africa and Europe.
- Tobacco is one of the most important cash crops in American farming and is native to the North and South American continents. It first became known to the Old World when European explorers during the 15th and 16th centuries saw it being used as a medicine and as a hallucinogen by native Americans.
- Natural rubber trees originated in Southern America and from there it was introduced to the Old World. The cocoa tree is also native to the Amazon Basin, which was introduced to the Old World from New World.
- Cotton and Wheat were found in the Indus Valley Civilization. So both these crops were native of the Old World. **Therefore, option (a) is the correct answer.**

[Source: TH](#)

Registered Unrecognized Political Parties

For Prelims: Election Commission of India, Recognised Political Party, Registered Unrecognised Political Party, Representation of the People Act 1951, Symbol Order 1968

For Mains: Regulation of Political Parties, Roles and Responsibilities of Election Commission of India, Significance of the Representation of People Act

Why in News?

[The Election Commission of India](#) has delisted 86 non-existent **Registered Unrecognized Political Parties** (RUPP) and declared additional 253 as '**Inactive RUPPs**'.

What do we need to know about the Delisting by ECI?

- **Declared Inactive:**
 - 253 RUPPs have **not responded to the letter/notice delivered to them** and have **not contested a single election** either to the **General Assembly of a State** or the [Parliament Election](#) of 2014 & 2019.
 - As per **Section 29A of the Representation of People Act 1951**, every political party has to communicate any change in its **name, head office, office bearers, address, PAN** to the Commission without delay.
- **Delisted:**

- 86 RUPPs have been found to be **non-existent** either after a **physical verification carried out by the Chief Electoral Officers** of concerned States/UTs or based on a **report of undelivered letters/notices** from Postal Authority sent to the registered address of concerned RUPP.
 - Additionally, they would not be entitled to have **benefits under the Symbols Order, 1968**.

What are the Key Points related to the Political Parties?

- **Registered Unrecognised Political Parties (RUPP):**
 - **About:**
 - Either **newly registered parties** or those which have **not secured enough percentage of votes** in the assembly or general elections to **become a state party**, or those which have **never contested elections** since being registered are considered unrecognised parties.
 - Such parties **don't enjoy all the benefits** extended to the recognised parties.
 - **Symbol Allocation:**
 - Common symbols are provided to RUPP under **Symbols Order, 1968**.
 - Privilege of a common symbol is given to RUPP based upon an undertaking for **putting up at least 5% of total candidates with regard to said legislative assembly election of a State**.
 - Possibility of such parties occupying the available pre-election political space by taking benefits of admissible entitlements without contesting elections **cannot be ruled out**.
 - This also tends to crowd out the political parties actually contesting elections and also creating confusing situations for the voters.
- **Recognised Political Party:**
 - A recognised political party shall **either be a National party or a State party** if it meets certain laid down conditions.
 - To become a recognised political party either at the state or national level, a party has to **secure a certain minimum percentage of polled valid votes** or a certain **number of seats in the state legislative assembly or the Lok Sabha** during the last election.
 - The recognition granted by the Commission to the parties determines their right to certain privileges like **allocation of the party symbols, provision of time for political broadcasts on the state-owned television and radio stations and access to electoral rolls**.

What are the Conditions for Recognition of Political Parties?	
Conditions For Recognition of National Parties	Conditions for Recognition as a State Party
<ul style="list-style-type: none"> ▪ A party is recognised as a national party if any of the following conditions is fulfilled: <ul style="list-style-type: none"> ◦ If it secures 6% of valid votes polled in any four or more states at a general election to the Lok Sabha or to the legislative assembly and in addition, it wins four seats in the Lok Sabha from any state or states, or ◦ If it wins 2% of seats in the Lok Sabha at a general election and these candidates are elected from three states, or ◦ If it is recognised as a state 	<ul style="list-style-type: none"> ▪ A party is recognised as a state party in a state if any of the following conditions is fulfilled: <ul style="list-style-type: none"> ◦ If it secures 6% of the valid votes polled in the state at a general election to the legislative assembly of the state concerned and in addition, it wins 2 seats in the assembly of the state concerned or ◦ If it secures 6% of the valid votes polled in the state at a general election to the Lok Sabha from the state concerned and in addition, it wins 1 seat in the Lok

<p>party in four states.</p>	<p>Sabha from the state concerned or</p> <ul style="list-style-type: none"> ◦ If it wins 3% of seats in the legislative assembly at a general election to the legislative assembly of the state concerned or 3 seats in the assembly, whichever is more or ◦ If it wins 1 seat in the Lok Sabha for every 25 seats or any fraction thereof allotted to the state at a general election to the Lok Sabha from the state concerned or ◦ If it secures 8% of the total valid votes polled in the state at a General Election to the Lok Sabha from the state or to the legislative assembly of the state. This condition was added in 2011.
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What Powers does Symbol's Order 1968 provide to ECI?

- Under **Paragraph 15 of the Order**, EC can **decide disputes** among rival groups or sections of a recognised political party **staking claim to its name and symbol**.
 - The EC is the **only authority to decide issues on a dispute or a merger under the order**.
 - **The Supreme Court (SC)** upheld its validity in **Sadiq Ali and another vs. ECI in 1971**.
- This applies to **disputes in recognised national and state parties**.
- For splits in registered but unrecognised parties, the EC usually **advises the warring factions to resolve their differences internally or to approach the court**.
- In almost all disputes decided by the EC so far, **a clear majority of party delegates/office bearers, MPs and MLAs have supported one of the factions**.
- Before 1968, the EC **issued notifications and executive orders** under the Conduct of **Election Rules, 1961**.
- The splinter group of the party - other than the group that got the party symbol - **had to register itself as a separate party**.
 - They could lay claim to national or state party status **only on the basis of its performance in state or central elections after registration**.

What is the Representation of People Act 1951?

- **Key Provisions:**
 - It regulates the **actual conduct of elections and by-elections**.
 - It provides **administrative machinery** for conducting elections.
 - It deals with the **registration of political parties**.
 - It specifies the **qualifications and disqualifications for membership** of the Houses.
 - It provides **provisions to curb corrupt practices** and other offences.
 - It lays down the **procedure for settling doubts and disputes arising out of elections**.
- **Provisions Related to Political Parties:**
 - Every association or body in order to become a political party **must be registered with the ECI** whose decision regarding registration will be final.
 - Registered political parties, in course of time, **can get recognition as 'State Party' or National Party'**.

UPSC Civil Services, Previous Year Questions (PYQ)

Q. Consider the following statements: (2021)

1. In India, there is no law restricting the candidates from contesting in one Lok Sabha election from three constituencies.
2. In the 1991 Lok Sabha Election, Shri Devi Lal contested from three Lok Sabha constituencies.
3. As per the existing rules, if a candidate contests in one Lok Sabha election from many constituencies, his/her party should bear the cost of bye-elections to the constituencies vacated by him/her winning in all the constituencies.

Which of the statements given above is/are correct?

- (a) 1 only
(b) 2 only
(c) 1 and 3
(d) 2 and 3

Ans:(b)

Exp:

- In 1996, the Representation of the People Act, 1951 was amended to restrict from 'three' to 'two' the number of seats one candidate could contest in Lok Sabha and Assembly elections. **Hence, statement 1 is not correct.**
- In 1991, Shri Devi Lal contested three Lok Sabha seats, Sikar, Rohtak and Ferozepur seats. **Hence, statement 2 is correct.**
- Whenever a candidate contests from more than one seat and wins more than one, the candidate has to retain only one, forcing bypolls in the rest. It results
- in an unavoidable financial burden on the public exchequer, government manpower and other resources for holding by-election against the resultant vacancy. **Hence, statement 3 is not correct.**
- **Therefore, option (b) is the correct answer.**

[Source: PIB](#)

India Mexico Relations

For Prelims: ITEC, Cold War, Colonial Era, Latin America, Covid-19, Nuclear Non-Proliferation, Green Revolution.

For Mains: Significance of India Mexico Relations.

Why in News?

On the Occasion of Mexico National Day (16th September), India extended its greetings and felicitations to all Mexico Nationals and commemorated the **72 years of the establishment of [diplomatic Relations](#)**.



How is India-Mexico Relations?

▪ Historical Ties:

- Being colonies in the past, India and Mexico have **European connections of the [colonial era](#)**.
- Mexico was the **first Latin American country** to recognise India after Independence and establish **diplomatic relations with India in 1950**.
- Mexican wheat varieties **used in Indo-Mexican hybrids were the backbone of India's [Green Revolution in the 1960s](#)**.
- In the **[Cold War years](#)**, Mexico and India had worked together closely as **members of the [United Nations \(UN\)](#)**, both actively championing the interests of developing countries such as in the Uruguay Round of Trade Negotiations (**under the [World Trade Organisation](#)**).
- Both countries are members of **[G-20](#)**.

▪ Political and Bilateral Cooperation:

- Both countries established a '**Privileged Partnership**' in 2007.
- In 2015, both countries agreed to work towards achieving a '**Strategic Partnership**'.
- The two countries have several bilateral agreements and MoUs, including for Investment Promotion and Protection, **[Extradition](#)**, Administrative Assistance in Customs Matters, Space Cooperation, etc.
- India gives 20 scholarships to Mexico under the **[Indian Technical and Economic Cooperation \(ITEC\) programme](#)** and Mexican diplomats are also given training at **[Forest Survey of India \(FSI\)](#)**.

▪ Economic and Commercial Relations:

- India is the **10th largest trading partner of Mexico**, and the trade balance has remained in favor of India for eight years.
- Mexico is currently **India's largest trading partner in [Latin America](#)**.
- In 2021, exports to Mexico from India reached USD 5.931 billion and imports from Mexico were at USD 4.17 billion, taking the total trade to USD 10.11 billion.
 - **India's Exports:** Vehicles and auto parts, organic chemicals, electrical machinery and electronic equipment, aluminium products, readymade garments, iron and steel products and gems and jewellery.
 - **India's Imports:** Crude oil, mineral fuel, fertilizers, etc. Crude oil occupies 75% of the export basket from Mexico.
- India's **exports of pharmaceutical products remained steady in 2020** and increased

by more than 80%.

- **Security:**
 - Both countries share a **common concern** over growing traditional and non-traditional security challenges, particularly the rise of [global terrorism](#).
- **Cultural Ties:**
 - The **Gurudev Tagore Indian Cultural Centre** has been functioning in Mexico since October 2010, teaching Yoga, classical dances, music, etc.
 - An agreement on cultural cooperation has been in existence since 1975 and cooperation activities are carried out through four-yearly '**Programmes of Cultural Cooperation**'.
- **Indian Community:**
 - The Indian community in Mexico is estimated to be more than 7,000, comprising mostly software engineers of Indian IT companies, academics/professors, and private businessmen.
 - Tourism between the two countries is steadily increasing and Mexicans have been extended the [online e-Tourist Visa facility](#).
 - Indian nationals holding ordinary passports but having a valid visa for the USA, the UK, Canada, Schengen area or Japan, and holders of permanent residence in the same countries or Member States of [Pacific Alliance](#) viz. **Colombia, Chile and Peru do not need a visa for short tourism or business visits to Mexico**.
- **Differences:**
 - Mexico and India have had different viewpoints on the issue of [nuclear non-proliferation](#). However, during the Indian Prime Minister's 2016 visit, Mexico pledged support for India's bid to be part of the [Nuclear Suppliers Group \(NSG\)](#).
 - Both countries have differences on the issue of [United Nations Security Council \(UNSC\) reforms](#).
 - Mexico has been a member of the [United for Consensus \(UfC\) group/Coffee Club](#) that, unlike India and the other [Group of Four \(G-4\)](#) members (Japan, Germany and Brazil), opposes the expansion of permanent membership in the UNSC.

What are Recent Developments?

- In June 2022, India and Mexico signed an agreement for **cooperation in space**, focusing on areas **ranging from trade and investment to health and pharmaceuticals**.
- The specific cooperation agreement on crop monitoring, drought assessment and capacity building were signed on behalf of the [Indian Space Research Organisation \(ISRO\)](#).
 - ISRO and AEM (Mexican Space Agency) last signed a memorandum of understanding on **space cooperation for peaceful purposes in October 2014**.

Way Forward

- India and Mexico have striking similarities in geo-climatic conditions, biodiversity, physiognomy and people, cultural and family values. Both are heirs to a great civilizational heritage and contacts between them indicatively go back centuries.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q. In which one of the following groups are all the four countries members of G20? (2020)

- (a) Argentina, Mexico, South Africa and Turkey
- (b) Australia, Canada, Malaysia and New Zealand
- (c) Brazil, Iran, Saudi Arabia and Vietnam
- (d) Indonesia, Japan, Singapore and South Korea

Ans: (a)

Source: IE

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