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India wide opens its doors to foreign investment, sweeping changes in the FDI policy announced

Innovative thinking has lead the Indian government to offer India Inc a better deal than any stimulus package could have. In a sweeping move to usher in more FDI into India, the government has announced that equity investments routed through companies in which a majority ownership and control is in the hands of Indians would be treated as fully domestic equity. This effectively then nullify's any FDI caps in the industry allowing room for millions of dollars to flow in. The retail, telecom, insurance and aviation sectors are expected to benefit most from the move. All investments directly by a non-resident entity into an Indian company will now be counted as foreign investment, while foreign investment through an investing Indian company will not be considered for calculation of the indirect foreign investment, in case the Indian company is owned and controlled by resident Indian citizens. However, for cases where the investing company is owned or controlled by 'non resident entities', the entire investment would be considered as indirect foreign investment. However, guidelines on transfer of ownership or control of Indian companies in sectors with caps from resident Indian citizens to non-resident entities would ensure that approval of the Foreign Investment Promotion Board (FIPB) would be required in all cases where an Indian company is being established with foreign investment and is owned or controlled by a non-resident entity. The landmark change in policy means that a company with 60 percent Indian equity and 40 percent foreign equity would be treated as a company with zero FDI. Previously if the same company had invested US$100 million in another firm, US$ 40 million of this amount would be treated as FDI.

The new FDI policy is all set to open India to open its doors on the FDI norms. The adoption of these guidelines will simplify, streamline and rationalise the methodology of calculation of indirect foreign investment across sectors leading to investor-friendly, credible and predictable regulations. This would facilitate greater foreign capital inflows and send a positive signal in the present difficult economic scenario. In the recent past, companies in many sectors faced issues relating to calculation of foreign investment, and therefore these guidelines. Telecom, media, aviation and defence are among the sectors likely to benefit from the new method of calculating the total foreign investment. When Vodafone bought the Hutch stake in Hutch Essar (now Vodafone Essar) around two years ago, the need for greater clarity in calculating foreign investment had come up. Also, foreign investment in Bharti had emerged as a tricky issue at the time of its launch of direct-to-home (DTH) broadcasting venture last year.

Indo-Canadian pact to take on the mighty DeBeers

Diamonds are a girl's best friend, and the trade knows it. Diamonds are living up to their claim of being good friends – for people in the western Canadian province of Saskatchewan, and Gujarat, a state in western India. In an ongoing trade mission currently in India, the Canadian team has pitched their province's diamond reserves, the largest in the world, in the hope of strategic business alliances benefiting both partners. According to a report, a new strategic business alliance between Gujarat and the Canadian province of Saskatchewan may have the potential to challenge De Beers' monopoly over the global diamond business, turning Canada into one of the world's biggest diamond producers and place Gujarat in a controlling position in the global diamond trade. This westernmost Canadian province has the world's largest diamond reserves. The initial indications are that Gujarat will soon be sending a high-power delegation to Saskatchewan to explore its business potential. While the details of the discussions have been kept under wraps by both the sides, it is learnt that the plan proposed by the Canadian delegation to Gujarat was for a win-win deal: "Bring your own people (from Gujarat) to mine diamonds in Saskatchewam as we don't have the labour force; ship the diamonds to India for polishing and sell them in the global market". This plan might sound music to the ears of a million-odd diamond workers in the state -- most of whom are currently jobless -- and also for the Gujarati diamond traders who run the diamond trade in Antwerp (Belgium). It remains to be seen whether a partnership emerges and becomes a beacon of hope for the slowdown-hit diamond industry in Surat and Ahmedabad. It will also give job opportunities to many Indians in Canada which has a tremendous shortage of labour. Indian diamond companies have strong trade links with Canada as most of the Canadian roughs are also polished in Surat and other places in Gujarat. Though India was known to have diamond mines many centuries ago - the fabulous Kohinoor is an Indian diamond - it has virtually no mines today. However, India has continued to maintain its tradition of diamond cutting and polishing and thousands of people are involved in this skilled occupation.

AMDAenergía of Spain to visit India

A delegation from AMDAenergía of Spain is visiting India this month to explore the possibility of collaboration and joint venture with Abellon BioEnergy. Ahmedabad based Abellon BioEnergy is part of Claris LifeScience global business group spread across 76 countries with business interests in diverse areas, and is an innovative initiative of its Chairman Mr. Sushil Handa. The EICC has coordinated this visit in cooperation with the Confederation of Indian Industry (CII) to look into the business opportunities in Gujarat. AMDAenergía is a Spanish company in the development of renewable energies plants all over Spain and in foreign countries. Its business is focussed on the development of wind and solar energy plant but also biogas cogeneration plant. The company wants to promote wind, solar and biogas energy in India, and especially the state of Gujarat, because of its huge renewable resources potential and the political and economical framework. The team is also likely to meet representatives from the Department of Energy and Petrochemicals of the Government of Gujarat and GEDA (Gujarat Energy Development Agency), to learn more in details about their expectations for the next years, for wind, solar and biogas plant development, and the future of the Clean Development Mechanism. They are also expected to meet officials from GERC (Gujarat Electricity Regulatory Commission) and GETCO (Gujarat Energy Transmission Company Ltd.) in order to obtain reliable information to define the area of interest for the future projects. Last month, Head of Global Business Development of Abellon Mr. Vivek Rastogi had visited Brussels and held consultation with EICC about enhancing trade and technical collaboration in the European BioEnergy sector. Abellon is the corporate member of the EICC

Nasscom lowers IT, BPO growth to 17 percent in the current fiscal

The economic downturn has forced Indian industry body Nasscom to lower its projection of the revenue growth rate from software and service exports (IT and BPO) to 16-17 percent in the current fiscal from the earlier forecast of 21-24 percent. According to Nasscom, factoring the impact of the global economic crisis in the second half of 2008-09, the industry is expected to grow by 16-17 percent by March 2009. However it is confident that despite an uncertain economic environment, the Indian IT-BPO industry will see sustainable growth over the next two years and the industry is likely to clock revenues of USD 60-62 billion by FY'11, growing at a compound annual growth rate of 15 percent per year. Software and BPO export revenue is expected to touch USD 47 billion in 2008-09 from the earlier anticipated figure of USD 50 billion. The combined revenue (export and domestic) is estimated to touch USD 60 billion in 2008-09, it said. Following are the key highlights of Nasscom's projections: total IT-BPO industry to touch 71.7 billion in 2008-09; the industry to account for 5.8 percent of the country's gross domestic product; domestic BPO market to growth by over 40 percent; BPO exports estimated to grow by 17.5 percent to $12.8 billion; IT services exports estimated to grow by 16.5 percent to $26.9 billion; Software products, engineering services to grow by 14.4 percent to $7.3 billion; Exports to Europe log highest growth, while US remains dominant market; Uncertain economic environment to prevail in 2009; Indian IT industry expected to grow 15 percent annually till 2010-11; Industry remains a net hirer with 2.23 million new direct jobs, and indirect job creation estimated at 8 million.

India likely to consider foreign stake in domestic airlines

The government of India is studying a proposal to allow foreign carriers to buy stakes in domestic airlines to help companies facing a cash crunch. According to the Minister of Civil Aviation, the consultation process is still on and they were unable to give a time line for it. Indian carriers can have foreign holdings of up to 49 per cent, including portfolio and direct investment, but foreign airlines are not allowed to invest. At present, foreign airlines are debarred from holding a direct or indirect stake in domestic carriers. Media reports suggest that the government might allow foreign airlines to pick up 20-25 per cent stake in domestic carriers to help them tide over the current crisis in the sector. A global credit crunch has made fund raising difficult for Indian carriers and analysts have forecast them to collectively post losses of Rs 8,000 crore ($1.6 billion) for the financial year ending in March. Kingfisher Airlines, controlled by Indian tycoon Vijay Mallya, has requested the government to let foreign airlines to pick up stakes of up to 25 per cent in Indian carriers. Civil Aviation forms a very important infrastructure segment in boosting trade and commerce, as well as, in enhancing overall international competitiveness. In value terms, nearly 30% of India 's foreign trade is handled by the airports. Until recently only two private airlines Jet Airways and Air Sahara offered competition to the national carriers, but in the last few years, a large number of private airlines such as Air Deccan, SpiceJet, Kingfisher Airlines, Go Air, Paramount, Indigo etc. have entered the domestic market. India at present has 350 aircraft but it is expected that there is a market for 500 general aviation aircraft by 2020 & may even reach 1000, including replacement of current fleet, presenting a huge business opportunity of US$ 80 billion. Most players in Indian Aviation Industry indicate an aggressive fleet acquisition plan to expand their fleet by nearly 250 additional aircraft. India’s aviation sector offers investment opportunity of $200 billion to $300 billion by 2020.

What slowdown? In January new phone users surge 15m

In another indicator that the economic gloom may be lifting in India, the telecom sector registered its sharpest monthly growth ever in terms of number of new subscribers added. In fact, the 15.26 million additional subscribers recorded in January represent a quantum jump over the 10.66 million added in December 2008. A TRAI press release announcing these figures said the growth has come mainly from the wireless segment, which added 15.4 million subscribers in January. With this, the total number of telephone connections in India has crossed the 400 million mark at the end of January, reaching 400.05 million compared to 384.79 million at the end of December, pushing up the overall tele-density to 34.5% from 33.2% in December. The overwhelming majority of telephone users are on wireless network, with subscribers in the GSM, CDMA as well as WLL segments adding up to 362.30 million at the end of January. In the wireless segment, Reliance Communications registered the highest growth rate in January at 8.1% followed by Idea at 5.4%, Aircel at 4.3%, Vodafone and Spice Telecom at 4% each and Bharti at 3.2%.

Europe seeks global carbon trading market

As part of a plan to aggressively tackle climate change, the European Commission has called for a global carbon trading market. The Commission, by 2015, wants to link the Emission Trading Scheme (ETS) to other carbon trading systems. The goal is to include emerging economies by 2020. The EU Emissions Trading Scheme (EU ETS) was set up as a market mechanism to help companies reduce carbon emissions. Polluters are granted a certain number of emissions allowances that can be traded. So a heavy polluter can buy carbon allowances from a company that has succeeded in reducing its emissions. The commission proposals presented last month are designed as the EU's contribution to the UN debate, with the aim of getting a new global pact on measures to tackle climate change. The pact would be a successor to the 1997 Kyoto Protocol, which was not ratified by the US, the world's biggest polluter. A UN climate conference in Copenhagen in December is to strive for a deal. The Commission, which draws up EU legislation, wants poorer developing countries to put in place plans to cut greenhouse gases. It says that to cut emissions, more investment will be needed globally rising to as much as 175bn euros annually by 2020, with more than half of that investment will be needed in developing countries. In December, the European Parliament backed a package of EU measures to combat global warming, including a pledge to cut carbon emissions by 20% by 2020, compared with 1990 levels. Also the EU aims to boost its use of renewable sources to 20% of total energy use and achieve a 20% cut in energy consumption by 2020. EU's ETS system for trading CO_2 allowances was launched in 2005 which covers heavy industry and big power plants, but gradually more sectors will be included.

According to the World Bank, India has emerged as a big player in the carbon trading market, ranking as the second largest seller of carbon credits in the global market in 2007. Although its share is only 6%, as compared with China's gigantic 73%, India now has 930 carbon credit projects in the pipeline. Most of India's carbon credits are bought by companies in developed countries that have ratified the Kyoto Protocol on climate change. Under the protocol, developed countries must cut all greenhouse gas emissions by an average 5% below 1990 levels by 2012. Carbon credits are generated by companies in the developing world when they move to cleaner technologies that help to reduce their greenhouse emissions. India is not obliged to cut emissions, as its energy consumption is low. For Indian companies, this trade offers a great opportunity. The World Bank estimates that the potential for India from this trade is around US$100 billion annually. Carbon credits are traded in European commodities markets. The reason for the success of the carbon credit business in India was that it is cheaper to buy credits from India than Europe. The Commission has also asked members of the Organization for Economic Cooperation and Development (OECD) to set up a joint market system for forcing heavy industry to buy permits to emit greenhouse gases by 2015. The European Commission has proposed that developing powers such as India and China, which are not members of the OECD, should join such a system no later than 2020, At the same time, the Commission wants that developing countries should receive substantial funding from the wealthy world in order to help them cut their emissions.

Globalisation of SMEs of Europe is a priority of the European Parliament

The European Parliament in a report (which has since been adopted) has urged the Commission and Member States to enable EU SMEs to develop in a harmonious manner, gain access to new markets and expand their export activities and internationalisation. SMEs account for 99% of the total number of businesses in the European Union, and create 75 million jobs, yet their international performance is "structurally weak". SMEs are defined as enterprises with fewer than 250 employees and have a turnover of less than €50 million. According to the report, there are 23 million SMEs in the European Union, but only 8% export goods outside their national borders. The House also stressed that the role of SMEs and their interests are needed to be taken into greater account in the WTO system. MEPs also called on the Commission and Member States to review their priorities at multilateral level by promoting the removal of tariff and non-tariff barriers and to foster international trade through appropriate measures to simplify and harmonise standards. MEPs also welcomed the Commission's decision to withdraw the proposals for reform of the trade defence instruments. The Trade Defence Instrument (TDI) system must continue to be a quasi-judicial procedure, based on objective and factual assessments, in order to provide for predictability and legal certainty, says the report. MEPs consider that the internationalisation of SMEs is a primary objective of trade policy and should constitute a cornerstone of the European Small Business Act, and stressed the need to improve access to finance, for SMEs, especially to micro-credit. SMEs should be encouraged to make use of instruments, such as patents, in order to secure their know-how and protect themselves against copying and counterfeiting. The report points out that facilitating access to international markets for SMEs can contribute to creating new jobs, protecting and adding value to existing jobs, safeguarding and exchanging know how and specific features of EU and giving Member States a guarantee of solid and lasting economic growth.

India, Germany set up joint working group on automotive sector

India and Germany have signed a joint declaration of intent on the terms of reference of a joint working group (JWG) on automotive sector. The joint working group also decided to form three working sub-groups - Technology Group, Institutional Cooperation Group and Training and Skill Development Group. 'The joint declaration of intent reinforces mutual commitment to further deepen the ties between the two countries. The economic downturn that has affected the German auto industry, has made this initiative between the two our countries more relevant and essential. In addition to meeting the concerns of sustainable automobility, the challenge before the Indo-German joint working group will be to initiate steps for quality improvement, enhance productivity through possible joint ventures and technology sharing. India is in a unique position of having twin advantages of possessing one of the largest pools of talented scientists, engineers and technicians in the world available at extremely competitive costs and believe that given the strength of Germany in the area of R & D, the two countries can gain from vast synergies through R & D and technology cooperation and tie-ups. 'The JWG will provide India and Germany an institutional framework to generate synergy in the auto sector for mutual development and the initiative would lead to greater exchange of information and cooperation in the fields of research and development, sustainable alternative fuels and drive efficient engine technologies.. The JWG will also facilitate institutional cooperation for the development of the auto industries in both the countries. The joint working group on automotive sector is the fourth JWG established under the aegis of Indo-German Joint Commission on Industrial and Economic Cooperation (JCM). The other three groups are in the areas of coal, infrastructure and tourism.
