Europe India Chamber of Commerce

Newsletter

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India unveils consolidated FDI policy framework

The government of India recently unveiled a consolidated version of its existing foreign direct investment policy (FDI) which will serve as the platform for future policy reforms in the ever-dynamic marketplace of foreign investment. By tying together 178 press notes, which made up the FDI policy since its conception in 1991, Minister of Commerce and Industry has said the potential for raking in $50 billion in foreign investment by 2012 and $75 billion by 2014 becomes greater. According to the minister, the current exercise had been initiated with the aim of integration of all prior regulations on FDI, contained in FEMA, RBI circulars, various press notes etc, into one consolidated document, so as to reflect the current regulatory framework. It was however informed that the intention of the exercise was not to make any changes in the extant guidelines, but to deal with them comprehensively, so as to make them more comprehensible to all investors and stakeholders, over one single platform. It is expected that such consolidation would make available all information on FDI policy at one place, which in turn would lead to simplification of the policy; greater clarity of understanding of foreign investment rules among foreign investors and sectoral regulators, as also predictability of policy. The ministry had released the Draft document on 24 December 2009 and the final document was prepared after considering comments from 60 stakeholder organizations (including various government departments, Reserve Bank of India, law firms, consultancy firms, chambers of commerce and private companies). Also, there are a number of issues related to FDI policy that were under discussion in the government, such as foreign investment in Limited Liability Partnerships (LLPs), policy on issuance of partly paid shares/warrants, rescinding schedule IV of FEMA, etc. These would be incorporated in the new consolidated press note as and when the government announces its decision. Foreign direct investment into India is a capital account transaction under the Foreign Exchange Management Act (FEMA), 1999. The Government of India and the Reserve Bank of India (RBI) regulate such transactions. It had been felt that there was a need for further simplification and consolidation of the FDI policy framework in India so as to make it more comprehensible to all investors and stakeholders.

Threat of higher entry barriers looms large for Indian export

Indian policymakers and businesses are likely to face the threat of higher entry barriers for their goods in the Western markets under the garb of environmental protection. The US and the European Union (EU) have given indications that they could levy carbon tax on imports, especially from developing nations such as India and China on the pretext of reducing carbon emissions and protecting the environment. The products that could be immediately hit by the carbon tax include iron & steel, aluminum, pulp and paper products, cement, glass and chemicals. While the EU is India’s largest trading partner with Euro 78 billion annual trade, the US is the fourth largest with $ 40 billion of trade in 2008-09. It is learnt that the EU has started the process of identifying product groups, which, supposedly are polluting like metals, certain textiles and chemicals. However, India has warned that it could exercise the option of moving the WTO Dispute Settlement Body if the European Union and the US impose carbon tax on Indian exports. The Europe India Chambers of Commerce is of the view that in case the developed world wants carbon tax in some form of production method this must be linked to transfer of greenhouse gas reducing technology from developed countries. Further, the rich countries, EICC feels have to shoulder the main responsibility for mitigating global warming as they have historically emitted most of the greenhouse gases. The EICC views that by imposing carbon tax EU and US are trying to serve their own interests in the guise of climatic issues and mixing environmental and trade concerns. The EICC is also of the firm opinion that the imposition of carbon tax on Indian exports will certainly act as a barrier for Indian SME exporters to carry on trade smoothly with the US and the EU, thereby hindering their prospects of increasing their overseas export growth.

The EU and the US have been threatening to use Carbon tax as an environmental tax on carbon emissions on exports from developing countries under the guise of controlling emissions. India, which is against any legally binding agreement, had voluntarily agreed to reduce its carbon emissions by 20-25 per cent by 2020. While India has the option of fighting such measures at the WTO, the Chamber feels that Indian industry should now seriously start taking firm policy initiatives in terms of making production method more environment friendly. The European Commission in January this year released a report titled "Europe's Climate Change Opportunity" in which it stressed that European countries were at a disadvantage compared to countries such as India and China, with less stringent climate protection laws. According to the report, energy-intensive industries in Europe would face a challenge during their transition to a climate-friendly economy. Besides rising costs of electricity, European companies will need to buy carbon credits, which the report terms "additional cost" that would make production of materials in EU more costly than those made in India.

Global audit firm PricewaterhouseCoopers has developed indices for the G20 economies to help assess the transition to a low carbon economy and it important that Indian industry takes advantage of this. The PwC Low Carbon Achievement (LCA) Index assesses how much progress countries have made this century in reducing the carbon intensity of their economies. The PwC Low Carbon Challenge (LCC) Index also assesses the 'distance to go' for key countries in reducing their carbon intensity.

EU mulls probe over Eurofer's complaint against Indian subsidies

The European Union is reported to have opened a probe into allegations of unfair Indian subsidies to its stainless steel makers, amid claims that they are hitting European producers. It is learnt that the European Commission proceedings will look at whether Indian manufacturers of stainless steel bars and rods, used in construction, automobiles and domestic appliances, are benefiting from market-skewing aid. The European Federation of Iron and Steel Industries (Eurofer), which represents the producers of a quarter of EU output of the steel rods and bars in question had lodged a complaint according to which it is alleged that the producers of the product under investigation originating in India have befitted from a number of subsidies granted by the government of India which has resulted in "substantial adverse effects on the overall performance and the financial situation of the (European) Union industry," the official journal added. It is learnt that given the great number of Indian steel producers, Brussels may choose to look at a sample to see how the system there works and the effects it has on the European industry. If the investigation by the Commission finds that the Indian firms have unfairly benefitted from subsidies which have hit European producers it may bring in provisional anti-subsidy duties in nine months time. The investigation will determine whether the Indian producers are "being subsidized and whether this subsidization has caused injury" to the EU industry, the European Commission, the 27-nation bloc's trade authority in Brussels, said in the Official Journal.

The Eurofer, representing about 25 percent of EU output of stainless steel bars and rods, alleges that Indian producers receive federal and regional subsidies. The complaint shows that the volume and prices of the imports have hurt the sales, prices and market share of European manufacturers, the commission said. Under EU practices, the commission can impose provisional anti-subsidy duties for four months and the bloc's national governments can turn those measures into "definitive" five- year duties at the same or different rates. The commission has nine months from the start of an investigation to decide on provisional measures. EU governments have 13 months from the beginning of a probe to impose five-year anti-subsidy - or "countervailing" - duties. Eurofer represents firms which account for only 25 per cent of the total production of certain types of stainless steel bars in the European markets. The subsidies, the complaint alleged, include benefits to industries located in special economic zones, loan guarantees from the Central Government and regional subsidies by Maharashtra and Gujarat. It is learnt that Indian government is all set to counter the allegation in the European Commission that its steel exports to Europe are subsidized. The commerce ministry will also give documentary proof that the complaint before the EC is ill-founded.

India will need 150,000 hotel rooms in 3 yrs

India will need 150,000 hotel rooms over the next three years, two-thirds of which would be rooms meant for budget hotels. In recent years Indian government has taken several steps to boost travel & tourism which have benefited hotel industry in India. These include the abolishment of the inland air travel tax of 15%; reduction in excise duty on aviation turbine fuel to 8%; and removal of a number of restrictions on outbound chartered flights, including those relating to frequency and size of aircraft. The government's recent decision to treat convention centres as part of core infrastructure, allowing the government to provide critical funding for the large capital investment that may be required has also fuelled the demand for hotel rooms. An interesting investment area for the global hospitality companies is the Indian hospitality industry. Many global hotel chains are now moving towards India for expanding their domain. The limited number of hotel rooms in the country is giving opportunity to these companies for big betting. As estimated by industries, approximately 40 international hotels are likely to be operational in the country in the next 3 years. Hotel Industry is inextricably linked to the tourism industry and the growth in the Indian tourism industry has fuelled the growth of Indian hotel industry. The thriving economy and increased business opportunities in India have acted as a boon for Indian hotel industry. The arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. The 'Incredible India' destination campaign and the recently launched *'Atithi Devo Bhavah'* (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. According to a study, it costs an average of US$50-80 million to set up a five-star hotels with 300 rentable rooms in India. The gestation period is usually between three and four years. Movements in real estate prices have to be watched, though they have stabilised in the past three years or so. Non-five-star hotels are obviously cheaper and have smaller gestation periods, but international chains are expected to go into the five-star category. The Indian hospitality industry is growing at a rate of 15 percent annually. A rapidly growing middle class, the advent of corporate incentive travel and the multinational companies into India has boosted prospects for tourism. India's easy visa rules, public freedoms and its many attractions as an ancient civilisation makes tourism development easier than in many other countries. Many foreign companies have already tied up with prominent Indian companies for setting up new hotels, motels and holiday resorts. The hotel and tourism industry is growing faster for the past few years, bringing in large revenues through foreign as well as domestic tourists in various parts of the country. Indian hospitality industry has become an attractive investment destination for global hospitality companies. Many global hotel chains plan to enter India and some that are already present in the country are keen on expansion.

M&A activity in India gains momentum as growth picks up

With the shadow of financial crisis receding, the M&A activity in India is picking up. During the first quarter of 2010, Indian companies were involved in a total of 134 M&A deals, a 76-per cent increase compared to the same period in 2009, according to a study by Venture Intelligence, a research service focused on private equity and M&A transaction activity in India. The deal activity remained largely on the same levels as Q4 '09, with 132 deals. The median deal value during Q1 '10 (for the 72 deals which had announced transaction values) was $25 million, higher than the median deal value of $10 million in Q1 '09 and $21 million in Q4 '10, the Venture Intelligence study said. In the largest deal during the period, listed telecom services provider Bharti Airtel Ltd. acquired Zain Africa, the African arm of Kuwaiti telecom group Zain, for $10.7 billion. This was followed by NMDC acquiring Ferrous Resources' Brazilian operations for $2.5 billion. Over 50 per cent of the deals in Q1 '10 were outbound acquisitions, as against only 25 per cent in Q1 '09. The most preferred destination for Indian acquirers was the UK with 10 of the 42 outbound targets in Q1 '10 located in that country, followed by the USA (with 9 deals). The acquirers in seven of the 24 inbound deals were US-based companies, followed by French firms with five deals and Japanese firms with three deals. The IT & ITeS and Manufacturing industries accounted for most number of acquisitions during Q1 '10 with a 19 per cent and 18 per cent share respectively. The activity in the IT & ITeS industry remained largely on the same levels as Q1 '09 while the share of manufacturing deals fell marginally (from 20 per cent).

EU clears GM crops for cultivation, sale

After more than a decade of public consultation, the European Commission (EC) recently cleared the cultivation of a genetically modified potato and the use of three types of modified maize for food and feed production. The approvals are the first such to be granted in 12 years. This decision was however immediately was attacked by critics as a move by the EC to cater to corporate interests at the expense of public health. The Amflora potato - developed by German chemical giant, BASF - has been cleared for cultivation, though not on an industrial scale. It will be the first genetically modified food to be allowed to be grown in the European Union in 12 years. The EC approved the marketing of three genetically modified maize products from the American bio-tech firm, Monsanto Co, for food and feed purposes, but not their cultivation. Amflora will be cultivated for industrial uses, such as paper-making and animal feed. The crop will likely be grown on 250 hectares in Europe, 150 hectares of which is in the Czech Republic, BASF said. The firm also said it expected peak license fees of about 20-30 million Euros ($27-40.6 million) per annum. The EC also approved three Monsanto genetically modified maize types for food and feed uses in the European Union. These can be imported and processed in the EU but cannot be cultivated, stressed the Commission. Environmental groups have criticized the decision as ignoring risks posed by the crop to human and animal health, as well as to the environment. The use of genetically modified crops in the European Union has been a matter of longstanding controversy, dividing EU member states. Many openly describe these as "Frankenstein foods".

17 per cent of the EU population at risk of poverty

The dark spectre of unemployment is stalking Europe and 2010 is the year it has earmarked in the fight against poverty. According to Eurostat, the Luxembourg-based EU statistics office, 17 per cent or more than 80 million of the 500 million members of the European Union are at risk of poverty, with children and the elderly most threatened. Around the same number of EU citizens are also in danger of social exclusion on account of material deprivation meaning that more than 160 million people in the EU suffer from social problems. The 2010 is the European Year Against Poverty and Social Exclusion and the aim is to help the 17% or 85 million people in the EU who are considered at risk of poverty because their income is less than 60% of the average national income in their country. Some EU countries already have a minimum income ranging from €1641 per month in Luxembourg to €123 in Bulgaria. The highest level of poverty is in Latvia (26%), Romania (23%) and Bulgaria (21%). Poverty is lowest in the Czech Republic (9%), the Netherlands and Slovakia (11%). The European Commission and the Spanish Presidency of the EU have launched the 2010 European Year for Combating Poverty and Social Exclusion. Under the slogan “Stop Poverty Now!”, the campaign aims to put the fight against poverty – which directly affects one in six Europeans – centre stage across the EU during 2010. The 2010 European Year aims to raise greater awareness of the causes and consequences of poverty in Europe, both among key players such as governments and social partners and among the public at large. It also aims to mobilize these different partners in the fight against poverty; promote social integration and inclusion; and encourage clear commitments on drawing up EU and national policies to tackle poverty and social exclusion. Eurostat defines poverty as income below the poverty threshold after social transfers. This threshold is calculated for statistical purposes as 60 per cent of the median income of the population as a whole, measured in terms of the net income of a household and its members. To permit a comparison between the twenty-seven EU Member States this threshold is converted into an artificial reference currency, the purchasing power standards (PPS), so as to compensate for differences in price between countries.

56 Indian companies make it to `Forbes Global 2000' list

As many as 56 Indian companies, including Reliance Industries and State Bank of India, have made the cut to the world's 200 most powerful listed companies, according to US magazine Forbes. The 'Global 2000' power list is topped by US banking giant JP Morgan Chase. General Electric, Bank of America and ExxonMobil follow in the pecking order. Among Indian top performing corporates are Reliance Industries, which takes the top spot and is at 126th place in the global list. Other Indian companies in the list include State Bank of India (130), ONGC (155), ICICI Bank (282), Indian Oil (313), NTPC (341), Tata Steel (345), Bharti Airtel (471), Steel Authority of India (502), Larsen & Toubro (548) and HDFC Bank (632). The global rankings cover 62 countries with the US (515 members) and Japan (210 members) dominating the list, which is in line with the usual pattern but the number of companies from developing nations in the Global 200 is fast on the rise.

EICC Board to meet in Brussels on 29 May

Due to unprecedented Icelandic volcanic eruption affecting entire Europe making the airspace and airports closed for nearly a week, the EICC was forced to postpone its Board of Directors and Annual General Body Meeting scheduled for 23rd April in London. The Board meeting will now be held on Saturday, the 29 May 2010 in Brussels in the Hotel Le Châtelain. Many new members who have recently joined the EICC will also be present to review the work of the EICC and guide it to plan its future activities. The EICC regrets the inconvenience caused to many of its members but assures that the meeting in Brussels shall be free from the shadow of the Icelandic volcanic ash.
