Europe India Chamber of Commerce

Newsletter

Issue: 39 Volume: 4 **May 2011**

Global India Business Meeting to focus on Indian economy and globalising Indian companies

Naples, the city of Pizza is all set to host the largest gathering of business leaders from India and around the world for the Horasis organised Global India Business Meeting on 26-27 June 2010. Europe's Apex Chamber, the Europe India Chamber of Commerce (EICC) and Commonwealth Business Council (CBC) are acting as co-organisers of the Conference which will focus on the potentials of Indian economy. With more than 400 delegates who will attend the meeting, the event is the largest gathering of its kind of selected and high profile Indian business leaders after the annual World Economic Forum (WEF) in Davos. This is the third such meeting being organised by Horasis focusing India, and is one of the most important trade and investment events outside India. The Conference will serve as a key platform for the industry and experts to exchange views and ideas on the strength and weakness of Indian economy and India's emerging role in the globalised business world. The city of Naples is ranked fourth in Italy, after Milan, Rome and Turin and is the world's 91st richest city by purchasing power with a GDP of $43 billion. Business leaders attending the meeting will also discuss state of global economic recovery, range of vulnerabilities including geo-political concerns, rising inflation, high fiscal deficits, as well as uncertainties surrounding global economy. Gianni, Origoni, Grippo & Partners, a leading well-known independent international law firm with 330 lawyers serving their clients around the world through their offices in all continents, and a Corporate Member of the EICC is coordinating the conference preparation with Horasis on behalf of the chamber. The EICC will be represented by many of its board members and those who will speak in the Conference from EICC include: Mr. Sanjay Dalmia, Mr. Ravi Mehrotra, Dr. Mohan Kaul, Mr. Sushil Handa and Mr. Dileep Patil.

FDI norms relaxed to boost capital inflows

In a significant policy change on the Foreign Direct Investment, Indian government has relaxed rules for FDI by permitting issuance of equity to overseas investors against imported capital goods and machinery. The government also removed the existing rule that makes prior approval of technology collaborations mandatory for FDI in existing joint ventures. In addition, the government has done away with the categorisation of 'investing companies', 'operating companies' and 'investing-cum-operating companies' and has instead classified them into 'companies owned or controlled by foreign investors' and 'companies owned and controlled by Indian residents. The need for such norms has been felt in the wake of a rising number of cases where shares are issued against non-cash considerations like trade payables and import of capital goods. The new policy may also give relaxation in a 13-year FDI rule by allowing foreign investors to bring in fresh money and technology to India irrespective of the impact on local partners in any existing joint venture. At present, a foreign player which entered India before January 12, 2005, has to take government approval and "demonstrate" that fresh investment in the same field would not affect interest of the domestic JV partner. The government also announced liberalised norms for overseas investors the likes of Monsanto in production and development of seeds. In the agriculture sector, FDI will now be permitted in the development and production of seeds and planting material, without the stipulation of having to do so under 'controlled conditions. While the existing policy provides for conversion of only ECB/lump-sum fee/royalty into equity, the new policy allows issue of equity, under the government route, in select cases, subject to specific conditions. Equity investment by overseas companies will be considered in cases of import of capital goods like machinery and equipment, including second-hand machinery, a government circular issued said. FDI may also be considered in cases where foreign investors are involved in pre-operative or pre-incorporation expenses, including payments of rent etc. This measure, which liberalises conditions for conversion of non-cash items into equity, is expected to significantly ease the conduct of business. The government has also done away with the condition that companies should get prior approval for FDI in case of existing joint ventures and technical collaborations in the same field. The Department of Industrial Policy and Promotion (DIPP) had issued a discussion paper on the possibility and need for inclusion of additional items into equity in September 2010 and the guidelines have been issued after consultations with stakeholders. Companies have now been classified

into only two categories - 'companies owned or controlled by foreign investors' and 'companies owned and controlled by Indian residents'. The earlier categorisation of 'investing companies', 'operating companies' and 'investing-cum-operating companies' has been done away with. Under the revised guidelines, companies will now have the option of prescribing a conversion formula, subject to the Foreign Exchange Management Act (FEMA) / Securities and Exchange Board (SEBI) guidelines, on pricing instead of specifying the price of convertible instruments upfront. This would help the recipient companies in obtaining a better valuation based upon their performance, an official circular stated. Last year the DIPP had released a discussion paper on the need for review of this condition in order to attract fresh investment and technology inflows into the country while at the same time reducing the levels of state intervention in the commercial sphere. The government has now decided to abolish this condition as a measure to promote the competitiveness of India as an investment destination and to help attract higher levels of FDI and technology inflows into the country.

Indian population pegged at 1,210.2 million

India's population has jumped to 1.21 billion, showing an increase by more than 181 million during the 2001-2011 decade, according to the provisional data of Census 2011 which was released on 31 March in New Delhi. Though the country's population is almost equal to the combined population of the U.S., Indonesia, Brazil, Pakistan, Bangladesh and Japan put together [1214.3 million], the silver lining is that 2001-2011 is the first decade with the exception of 1911-1921 which has actually added lesser population compared to the previous decade. The population, which accounts for world's 17.5% population, comprises 623.7 million males and 586.5 million females, said the provisional 2011 Census report. China is the most populous nation accounting for 19.4% of the global population. The percentage growth in 2001-2011 was 17.64 – males 17.19 and females 18.12. Among the States and Union Territories, Uttar Pradesh is the most populous State with 199 million people followed by Maharashtra at 112 million people and Lakshadweep is the least populated at 64,429 persons. The combined population of U.P. and Maharashtra is greater than that of the U.S. The percentage decadal growth rates of the six most populous States have declined during 2001-2011 as compared to 1991-2001. The graph of population growth in U.P. shows a decline from 25.85 per cent to 20.09 per cent, in Maharashtra from 22.73 per cent to 15.99 per cent, Bihar from 28.62 per cent to 25.07 per cent, West Bengal from 17.77 per cent to 13.93 per cent, Andhra Pradesh from 14.59 per cent to 11.10 per cent and Madhya Pradesh from 24.26 per cent to 20.30 per cent. Overall sex ratio at the national level has increased by seven points to reach 940 as provisional data for Census 2011 showed as against 933 in Census 2001. Increase in sex ratio was observed in 29 States/Union Territories. Kerala with 1084 has the highest sex ratio followed by Puducherry with 1038. Daman and Diu has the lowest sex ratio of 618. Three major States – Jammu and Kashmir, Bihar and Gujarat – have shown a decline in sex ratio as compared to Census 2001.

India among top 10 industrial nations in the world

According to a United Nations Industrial Development Organisation (UNIDO) report, India now ranks among the top 10 industrial nations of the world that has also withstood the financial recession with a growing trend of productivity in its manufacturing industries. However, India is still far behind China which ranks at the second position after the US, the report titled, 'International Yearbook of Industrial Statistics - 2011' says. The report says, during the global economic downturn, the share of manufacturing value addition of industrialised nations such as the US, Japan, Germany and the UK fell sharply, while that of developing countries such as China, India and Brazil has surged. The India section, titled, 'Performance of Manufacturing Industries of India', takes note of the country's new status as leader among developing countries in a number of high energy-intensive segments. Indian manufacturing output, as a proportion of all developing countries put together in chemical products, basic metals and textiles, is 22.2 per cent, 25 per cent and 16.8 per cent respectively. According to Unido, the sectors are also responsible for consumption of high-energy resources when compared to global leaders such as Japan. The report states that among the manufacturing industries in India, under the high energy category are textile manufacturing, paper products, refined petroleum products, chemicals, basic metals and non-mineral items. "India's high growth of industrial production has made significant impact on improvement of various indicators of industrial performance. In other words, higher output growth rates have allowed Indian industry to improve major performance indicators such as labour productivity, structural change (e.g. share of medium and high technology industries in the overall output has gone up), and increase in exports," the report stated. The report lists tobacco, machinery, motor vehicles and electrical machinery

among the low-energy manufacturing sectors in the country. The report adds that India lags considerably behind Thailand, Bangladesh, Taiwan, Malaysia, Vietnam and the Philippines in a number of sectors such as apparel, office and computing equipment and radio and television. India and Indonesia are seeing growth in manufactured exports now, whereas it has been happening for some time in China, Japan and Korea. The US tops the list of 10-top industrial producers. It is followed by China, Japan and Germany while Brazil stands at the bottom of the list. Though industrialised countries account for more than two-third of the world industrial output, the share of developing countries has risen from 20 per cent in 2000 to 32.1 per cent in 2010.The manufacturing output was up 3.7 per cent in the industrialised countries it underwent a severe decline in 2009. It further said that industrial growth in China remained largely unaffected during the recent economic crisis.

In an attempt to make India a manufacturing powerhouse, the government of India is mulling creation of manufacturing hubs that will offer infrastructure, facilities and incentives to manufacturers. The department of industrial policy and promotion (DIPP) has put on fast track the national manufacturing policy, which seeks to create National Manufacturing and Investment Zones, or NMIZs. Spread over 2,000 hectares, or about 8 sq km, these zones will be in line with the model adopted by China to boost its manufacturing sector. The DIPP is seeking sops such as tax incentives, flexible labour laws, easier exit norms for foreign investors and refinance facility for overseas debt for these zones. The government plans to raise the share of manufacturing in the national gross domestic product (GDP) from the present 16% to 25% over 10 years. The new manufacturing policy will seek to remove many of the handicaps faced by the Indian industry. The 12th Five-Year Plan, which is still in the works, is also expected to focus on boosting manufacturing for large-scale employment generation. The proposed policy is based on a discussion paper put out by the DIPP a year ago. According to the paper, NMIZs will be a combination of production units, public utilities, logistics, environmental protection mechanisms and residential areas. They would subsume special economic zones and industrial parks within their fold. India, however, may find it difficult to replicate China's model because of problems associated with acquiring land. The government hopes to get around the land issue through state procurement, unlike in the case of special economic zones where companies are required to buy land on their own.

India's semiconductor design industry likely to touch $10.2 billion in 2012

Driven by increasing sales of electronics and telecom sector, the Indian semiconductor design industry is expected to reach $10.2 billion by 2012. But issues such as quality and maturity of talent, absence of semiconductor ecosystem, and lack of policies as well as implementable incentives' continue to be a drag on growth prospects, according to a report on Semiconductor Design released by the India Semiconductor Association (ISA). The semiconductor design industry employed around 160,000 workers in 2010, nearly 82 per cent of them in the area of embedded software, the report said. This report comes at a time when the Government is finalising a new revamped policy for semiconductor manufacturing to give the much-needed push to the industry. Outlining the incentives being proposed for semiconductor manufacturing in India, the Minister for IT and Communications Mr. Kapil Sibal said, "We were trying to set up fabrication platform in 2007. We are trying to restructure it. We need to manufacture chips in India. We have the capability of creating software, but the processor has to be indigenous." The Minister was speaking at the inauguration of IT exposition ELITEX in New Delhi. The proposed policy being worked out is a revised version of the 2007 Special Incentive Package Scheme (SIPS), which did not yield the desired results for manufacturing. Sources said that one of the areas being looked at, this time, is a substantially lower investment threshold. "SIPS had stipulated US dollar 250 million investment threshold for ecosystem units (that is manufacturing of LCD, OLED and storage devices). That was perceived as being too high, especially since the threshold investment was a pre-requisite even to be in the reckoning for Government incentives. This had proved to be a dampener," the source said. While aspiration to become a semiconductor manufacturing hub has, so far, eluded India, the country is on a stronger footing in semiconductor design, given its large talent pool and demand-side drivers such as growing consumer electronics, telecom and networking market, and increasing demand for wireless products. Semiconductor design industry entails embedded software design (software 'built in' to the electronics in cars, telephones and appliances); Very Large Scale Integration design (designing of integrated circuits by combining thousands of transistors into a single chip); and hardware or board design.

According to the India Semiconductor Association, the Indian chip design industry, which comprises VLSI design, embedded software development and board design, is estimated to grow 17.3 per cent year-on-year from $7.5 billion in 2010. Consumer electronics and products contributed 34.43 per cent to the total demand, telecom/networking products and portable/wireless products comprised 30.77 per cent and 15.07 per cent of the demand for chip design projects, respectively. “Emergence of technologies like LED screens, 3G, WiMax translates into increased demand, while automobile electronics in passenger and industrial vehicles has also added to the requirement for chip designing,” the report added. The latest ISA report, however, points out that despite the general availability of talent, lack of product conceptualisation and management as well as analogue design skills posed a challenge. It has recommended setting up of specialised institutes for semiconductor design, with an aim to bridge the gap between fundamental research in Universities and technology development in the industry. Another issue highlighted by the report is the absence of a start-up and SME ecosystem. The report has suggested a slew of measures such as earmarking a share of indigenous products for sectors of strategic importance, new tax sops and identifying new avenues for venture capital funding, besides setting up of incubation centres.

Free trade agreement with EFTA expected this year

A broad-based trade and investment agreement between India and four-nation European Free Trade Association (EFTA), which includes Switzerland, is expected to conclude this year to facilitate closer economic cooperation. Seven round of negotiations have already been completed. EFTA include Iceland, Liechtenstein and Norway besides Switzerland. EFTA, not a part of the 27-nations EU, is an inter-governmental organisation that promotes free trade and economic integration between the four nations. In the seventh round of talk, which was held in April in India both the sides discussed about market access for industrial products, fish and agricultural goods, sanitary and phytosanitary measures, technical barriers to trade, customs procedures and trade facilitation, investment, intellectual property rights and dispute settlement. India and EFTA had agreed to launch negotiations on the trade and investment agreement in January this year, following recommendations of a Joint EFTA-India Study Group set up in December 2006. The trade between Switzerland and India stood at $18 billion in 2010 up from $15 billion last year. Swiss exports to India include machines, pharmaceutical and chemical products as well as precision instruments, while imports from India include textiles, agricultural products and components for the airline industry. There are about 170 Swiss companies doing business in India.

EU Sustainable Energy Week kicks-off in Brussels and across Europe

The EU Sustainable Energy Week took place in Brussels and across Europe with this year's theme being "Smart Energy for a Sustainable Future". On 12 April, the EU Energy Commissioner formally kicked-off the Sustainable Energy Week with an opening conference to address key issues such as energy efficiency. Over 30.000 attendees participated in more than 600 events across Europe. Other topics covered during the Week included energy-efficient buildings, products and appliances, renewable energy solutions (e.g. biomass, solar and wind energy), low-carbon technologies and sustainable urban mobility. The EU Sustainable Energy Week is the key annual event of the Sustainable Energy Europe Campaign which contributes to achieving the EU 2020 energy policy targets. Four years of increasing participation have shown that the Week is the reference event for sustainable energy issues in Europe and beyond. The Week is organised by the Executive Agency for Competitiveness and Innovation (EACI) on behalf of the European Commission's Directorate-General for Energy.

In 2009, oil remained the main source of energy in the EU27, with a share of 37% in the total gross inland energy consumption1. However, there have been changes in the mix of sources contributing to gross inland energy consumption over the last decade. The share of renewable energy has almost doubled, from 5% of total gross inland energy consumption in 1999 to 9% in 2009, while gas rose from 22% to 24%. Nuclear energy remained almost stable at 14% during this period, while oil fell from 39% to 37% and solid fuels from 18% to 16%. These figures were published by Eurostat, the statistical office of the European Union in connection with the EU Sustainable Energy Week from 11 to 15 April 2011, which promoted energy efficiency and renewable energy. The Eurostat stated that oil represented more than half of energy supply in Malta (100% of total gross inland energy consumption), Cyprus (96%), Luxembourg (63%), Greece (55%), Ireland (52%) and Portugal (50%). The highest shares of gas were observed in the Netherlands (43%), Italy and the United Kingdom (both 38%) and Hungary (36%). The

largest proportions for solid fuels were registered in Estonia (58%), Poland (54%), the Czech Republic (41%) and Bulgaria (36%), for nuclear energy in France (40%), Lithuania (34%) and Sweden (29%), and for renewable energy in Latvia (36%), Sweden (34%), Austria (27%) and Finland (23%). It also said that renewable energy remained the main source in Latvia and Sweden and the largest increases in the share of renewable energy was in Denmark, Sweden, Germany and Portugal. Renewable energy comprises hydro, wind, biomass, geothermal and solar energy. All Member States showed increases in the share of renewable energy in their energy supply between 1999 and 2009, with the largest increases in Denmark (from 8% of total gross inland energy consumption in 1999 to 17% in 2009), Sweden (from 27% to 34%), Germany (from 2% to 8%), Portugal (from 13% to 19%), Slovakia (from 3% to 7%), Austria (from 23% to 27%), Latvia (from 32% to 36%), Spain (from 5% to 9%), Slovenia (from 9% to 13%) and Hungary (from 3% to 7%).

European SMEs lead battle to boost EU exports

An increasing amount of help and advice is given to European companies that wish to sell their goods and services in emerging markets such as China and India, where renewable energy and green technologies are seen as major areas for growth. The Small Business Act adopted by European leaders in 2008 explicitly commits the EU and its member states to helping SMEs benefit from the growth of emerging markets in other parts of the world. The SBA says Europe should provide "market-specific support and business training activities" for smaller businesses, and calls for the setting up of 'European Business Centres' in countries such as China and India. The Enterprise Europe Network (EEN), which provides support services for SMEs in the EU, also helps businesses to expand into new markets. It has partners in 21 non-EU countries. European SMEs have consistently complained that they find it difficult to break into some foreign markets due to the legal, linguistic and cultural complexities of doing business overseas. Protectionism has also become a growing problem since the outbreak of the financial crisis, with governments making it difficult for foreign firms to access public procurement contracts and economic stimulus funding. Encouraging European businesses to grow by expanding their activities is seen as vital for the success of the 'Europe 2020' strategy, adopted by EU leaders last year, which aims to promote "smart, sustainable and inclusive growth". In this framework, the European Union seeks to provide support for companies, especially small and medium-sized enterprises (SMEs), that are interested in developing commercial activities in fast-growing markets such as Brazil, Russia, India, China and South Korea (the so-called 'BRICK' countries). The EU commissioner for industry and entrepreneurship, Mr. Antonio Tajani recently highlighted the importance of helping European SMEs to operate in China and India, in particular. "Internationally active SMEs yield better results," said Tajani, who noted that SMEs with international activities are able to expand and create jobs more quickly than those only serving customers in their own domestic markets. "Establishing business centres in both China and India is therefore extremely beneficial for enterprises because there they can find strong support helping them to enhance their competitiveness and become more sustainable in the long term," said the commissioner. The Commission is currently preparing proposals for an EU strategy on supporting SMEs in international markets, which should be published by the end of this year.

EU’s Trade Committee seeks limiting European Commission’s power on BITs

In a close vote in the EU’s International Trade Committee meeting on 13 April, Members of European Parliament strongly argued for limiting the power of the European Commission to review and withdraw authorisation from Member States' bilateral investment treaties. At the same time, the committee suggested a more robust mechanism for replacing bilateral investment negotiations with attempts to get EU-level agreements with third countries. The current legal framework for foreign direct investment (FDI) consists of over 1,200 bilateral investment treaties between EU Member States and third countries. Since the Lisbon Treaty took effect, however, foreign direct investment has become an exclusively EU competence. This raises the question of what should happen to this collection of bilateral investment treaties (BITs) in the future. The Commission has proposed a regulation that would require all Member States to notify the Commission of all of their BITs, in exchange for which they would be authorised to maintain these agreements in force. After reviewing these treaties, the Commission could then withdraw this authorization, if the BIT in question conflicts with EU law, overlaps with an EU investment agreement with the same country, or conflicts with EU investment policy more generally. The report adopted by a slim majority in the International Trade Committee primarily reflects the compromise amendments from various political groups. This set of compromises would grant the Commission weaker powers of review

over existing bilateral investment agreements by Member States. The committee refused to make such reviews mandatory, narrowed their scope to cases where bilateral agreements "constitute a serious obstacle to the conclusion of future Union agreements with third countries," and extended the deadline by which the Commission needs to inform Parliament of the results of the review process from five to ten years after the entry into force of the regulation. The report also limits the reasons for which the Commission can withdraw authorisation from BITs, by emphasising that this can only happen if the BIT conflicts with EU law, "constitutes a serious obstacle to the conclusion of future agreements" with the third country concerned, or the Council has failed to decide on opening negotiations for an EU investment treaty with the third country for over a year. The regulation allows for Member States to amend existing BITs or to conclude new ones, provided that they notify the Commission beforehand (the original proposal suggested a five-month minimum, MEPs want to reduce this to three months). The committee voted to include a mandate for the Commission to consult all other Member States in such cases, to see if it would be preferable to negotiate an EU-wide investment agreement, instead. If a simple majority of Member State is interested in an EU-level agreement, the authorisation for the bilateral negotiations could be withheld. Since the vote was quite close, and at the request of the rapporteur, the committee decided to put the report to a plenary vote (including potential new amendments by the political groups), in order to clearly establish the Parliament's negotiating stance on this issue. Therefore, no trialogue meetings will take place until the entire House has voted on the EP's amendments to the regulation. At the same time, a postponement of the final vote, and a referral of the report back to committee at the plenary stage would still leave the door open for a first-reading agreement.

Third Demographic Report speaks of demographic challenges in the EU

The European Union, with a population of half a billion, is facing important demographic changes. While the population is getting older, fertility has begun to increase again, life expectancy keeps growing and the EU continues to attract a large number of immigrants. These trends come from the third Demography Report published jointly by Eurostat, the statistical office of the European Union and the Directorate General Employment, Social Affairs and Inclusion of the European Commission. The Report is published every two years by the European Commission and provides the latest facts and figures that are needed to assess where Member States stand in responding to the challenges of demographic change. This year the report is a joint undertaking with Eurostat, and has a special focus on mobility and migration. It will be presented during the thematic week Europe for Families, Families for Europe – Population Issues and Policies Awareness Week organised in Budapest by the Hungarian Presidency. The aim of the third report is to provide the latest facts and figures needed for an informed debate on the demographic challenges. This News Release concentrates on the first part of the publication, which looks at historical and recent trends in fertility, life expectancy and migration, which are the three drivers of population change. A review of the population structure by age and family composition is also provided. The report also includes a second part on the increasing number of EU citizens who look across national borders for study, work and life experiences. A positive trend in the report is that fertility continues to rise slowly. It has increased from below 1.45 children per women to 1.6. However, for a population to be self-sustaining, 2.1 children per woman would be required. The report points to modern family policies as a good way to improve employment through better reconciliation between paid work and family commitments. It shows a positive correlation between women's participation in work and higher fertility rates. Life expectancy has also been increasing in an almost continuous and uniform trend at the rate of 2-3 months every year (in 2008 life expectancy for the EU-27 was 76.4 for men and 82.4 for women), and is the main driver behind the population ageing. At the same time, the demographic challenge is geographical with populations in four Member states (BG, LT, LV, RO) decreasing rapidly under the effects of natural growth (more people die than are born) and outward-migration. The population of Central Europe is ageing slowly at the moment but will age very fast from 2030-2040 to become the oldest population in the EU. The report also shows how Europe's population growth is still fuelled mainly by immigration. Non-EU citizens have been joining EU countries at a rate of 1 to 2 million per year and intra-EU mobility has also increased. By 2060 the proportion of migrants and their descendants will double. Although net immigration to the EU halved following the crisis, the total number of non-EU nationals within EU borders still continued to rise. Data shows this fall has been due to a drop in migration for employment, yet there has been an increase in requests for permits for education for example.