Europe India Chamber of Commerce

Newsletter

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EICC Board Member M S Chandramouli passes away

It is with great sadness EICC announces the death of its Board Member M S Chandramouli. “Chandra” as he was called lovingly by his friends and “Guruji” to many of his dear friends and colleagues who studied with him in IIT Madras and Indian Institute of Management, Ahmedabad, passed away on 30 April in a hospital in Brussels after a brief sickness. Chandraji will be deeply missed by his family, friends, colleagues and the members of the Indian community here. He was the Founding Board Member of the Chamber as also one of the Founders of the GOPIO Belgium. Chandraji was a valued member of our Board of Directors and trusted counselor. His wit, wisdom and contributions to the success of our Chamber will be sorely missed. Chandraji was an example of for his dedication to the EICC and his contributions to the business community here over the years. We have lost him but we did not lose him as a model in our life. EICC extends its condolences to his wife Dr. Vijaya Chandramouli and her family. He is a great loss for the Chamber and EICC will miss a dear and valued friend.

EICC Study Report ready to be released

EICC Study Report titled “European Companies in India: Reigniting Economic Growth” is ready to be released. The Chamber together with European Business Group and under the patronage of EBTC, a partner for the Report, will release the Report in a meeting in New Delhi on 7 May 2014. The Meeting will be held in Hotel The Leela Palace New Delhi.

The Report is a joint collaboration between EICC and European Business and Technology Centre (EBTC). EICC was invited by the EUROCHAMBRES and EBTC to become its formal partner and this Report is an example of fruitful collaboration. This partnership paved EICC the way to access funding for its activities. During the launch of EICC Report “Indian Companies in the European Union: Reigniting Economic Growth” which was launched on 19 March, it was suggested by EICC Chairman Mr. Van Orden and India’s Ambassador H E Mr. Dinkar Khullar that EICC should produce a similar Report titled “European Companies in India: Reigniting Economic Growth”.

The Study Report, authored by Adith Charlie gives information on presence and impact of European multinational corporations in India. Information on FDI of India, who are the shining European multinational corporation of India? How these MNCs are affecting Indian economy. The Study Report gives in detail on the imprint of European multinationals on Indian industrial sector such as automobile, IT sector, food and beverages, telecommunication, finance, retail and many more sector. The Report has been prepared in the background that European corporate participation in India is important for policy-makers and social scientists given the present economic realities. Apart from playing an important role in globalization and international relations, European companies have notable influence in the country's economy. While investors in India are wading through what has been a tantalising period for doing business since 1991, the European Union has not fully recovered from the aftermath of the sovereign debt crisis. The current business environment in India is raising alarming questions for policymakers and industry watchers in

India and also globally. Is India losing its place of prominence in the global order for Foreign Direct Investments? Are European investors looking beyond India due to the country's recent tryst with slower growth rates, high inflation and policy inertia?

European firms face a host of complexities, but the smarter ones learn to stay focussed on the mushrooming opportunities in India. Tactical Greenfield investments, landmark acquisitions and steadfast dedication through uncertain economic cycles have contributed to the success of European companies. Due to these reasons, companies such as Unilever, GSK, Fiat, Vodafone and several others have emerged as solid brands. European FDI has boosted India's export competitiveness, generated employment, strengthened the skills base, enhanced technological capabilities and increased financial resources for development.

The report provides the apt economic framework by highlighting the participation of European enterprises in fresh capital generation and employment creation. While striving to create a better understanding of European enterprises in the Indian context, the report provides an overview of some of the key trends and challenges that companies ought to be prepared for.

The sheer scale, diversity, and regulatory and tax complexity of India can be overwhelming for a foreign company. Companies have to be patient and committed to experience sustainable growth in the country. In any new market, sound ground knowledge is important for success and this is predominantly true for companies venturing into India. Getting to grips with a continent-sized market, even approaching it one state or city at a time calls for meticulous planning. The suggestions and recommendations contained in this report will help the first time investor to understand the nuances of doing business in India.

EU's decision to ban Indian mangos and vegetables ill-conceived and misguided, says EICC

EU has imposed ban on Indian Alphonso mangoes and four vegetables from May 1. Europe's Apex Chamber, the Europe India Chamber of Commerce has condemned EUs decision to ban Indian Alphonso mangoes and vegetables from May 1 as "ill-conceived and misguided". In a statement Secretary General of the Chamber Sunil Prasad said that Indian mangoes and vegetables are being imported to Europe for centuries and by banning these, the European Union has once again showed its immaturity and utter nonsense in policy decisions. Prasad said that there are countries in Africa and Asia where cultivation and packaging process of imported mangoes are far worse than India and by singling out India, EU has demonstrated its complete disrespect and unbalanced attitude towards the existing negotiation on a free trade agreement.

EICC is recognized as the Apex Chamber of Europe which promotes bilateral trade, investment and economic relations between European Union and India and it speaks for multilateral rule based trading system and improvement in European and Indian competitiveness.

Knowing pretty well that the election process in India is under way in the world's largest democracy to elect a new government, Prasad said that the EU should have waited for few weeks more and discussed this with the new government. The EICC Secretary General further observed that if by rushing to ban Indian mangoes and some vegetables EU bureaucracy thinks that this decision will strengthen its bargaining position on FTA and other bilateral issues with the new government, EU's thinking is utterly "misplaced" and very childish, and will only harden India's new government's attitude towards EU.

Instead of engaging with the new incoming government to strengthen its bilateral trade and economic relations, the EU is behaving like a desperate child seeking special attention in hurry, which according to Prasad, will only be detrimental to the hopes for a sound beginning with the new government. He hoped that EU will rethink its decision and create conducive environment where issues of bilateral trade could be discussed with the new government in New Delhi.

Prasad observed that although WTO Agreement on Sanitary and Phytosanitary Measures allows countries to set their own standards, it also says regulations must be based on science and they should be applied only to the extent necessary to protect human, animal or plant life or health. The SPS agreement allows countries to use different standards and different methods of inspecting products, in this case there was no scientific justification to ban mangoes as there was no appropriate assessment of risks, Prasad emphasized.

I urge upon the European Union to behave like a matured trading partner and withdraw the decision with immediate effect so that the damage is not beyond repair, Prasad said. He also said that next week he will be visiting New Delhi and will raise this issue with the EU Ambassador.

EICC-Friends of Europe-FRIDE to organize Debate on outcome of the Indian Election

A policy insight will take place in Brussels on 12 June to discuss the outcome of the Indian General election. The on-going general election in India is arguably the country's most critical vote since 1977. An electorate of nearly 815 million are heading to the polls in the midst of a stagnant economy, a rapidly changing regional security environment, increasing urbanization and a burgeoning youth population. The precise character and makeup of India's next governing coalition will play a critical role in determining India's future trajectory on all of these fronts. The general election, which started on 7 April, will be the largest vote ever held and around 20% of these will be eligible for the first time. Turnout has traditionally been in the region of 55% but it is expected that this election will have the record turnout never seen in the history. So vast is the democratic exercise that it will require around 5 million people to conduct the procedure, and as many again to police it. The Election Commission of India has a stated ambition that no voter should have to travel more than 2km to a polling station, and nor should any one station serve more than 1,500 voters. The election takes place in nine phases, over a period of six weeks. As mentioned above, the first phase of the voting started in the remote hills and valleys of the far north-east on 7 April before moving into central upland areas and then broadly shifting further west and south. The election will be the most expensive in Indian history, with the government, political parties and candidates spending 300 billion rupees ($5 billion).

Indian markets are riding high as investors bet that an election and new administration will cure some of the country's economic ills. Global funds pumped $11 billion into Indian debt and equities this year, on optimism the new government will revive growth that slowed to a decade-low in the fiscal year ended March 31, 2013. The rupee gained 3.2 percent last quarter, its best performance since 2012, and the S&P BSE Sensex index of shares rose to a record on April 2. Bond risk for India has fallen in 2014. Much of the optimism hinges on forecasts that India's 815 million voters will make Bharatiya Janata Party candidate Narendra Modi the next prime minister. Victory for a Modi-led coalition would end the Congress Party's dominance, and create an opening for a new government to implement economic reforms. Analysts say India would benefit greatly from changes to its tax code, a reduction in excessive bureaucracy and more efficient agricultural policies. Momentum on these long-promised reforms stalled under the leadership of the Congress Party. Also important is what type of foreign policy the new government will evolve.

It is interesting to note the coincidence of India parliamentary election with the European Union parliamentary election (also to be held in May 2014): 1/4 of the worldwide population will thus contemporarily decide on the future of the two largest democracies in the world. The world is looking at India how it votes and whom it elects as the election result will decide the future of India's economic policies and most importantly its relations with the West, future of FTA and several other global and European issues.

All opinion polls show Modi led BJP is going to win the election and according to some pollsters the BJP and its allies may touch the magic number 272 to form the government without outside support. Given the importance of the outcome of the election, EICC, Friends of Europe and FRIDE together will organise the Discussion/Debate. His Excellency Manjeev Singh Puri, Ambassador of India to Belgium & Luxembourg and the Mission to the European Union will give introductory remarks. EICC Board Member Mr. Shishir K Bajoria who hails from West Bengal, the hotbed of Indian politics will be in the Panel together with Ms. Neena Gill (who is likely to be elected as a MEP), Dr. Harsh Vardhan Singh, former Deputy Director General of the WTO and Ms. Gauri Khandekar of FRIDE. Shada as usual will moderate the Debate with her extraordinary skill and passion. The Debate will take place from 17.30pm -19.30pm followed by a reception and you are invited to join. You shall receive further info about this in the coming weeks. In the meantime, this mail is to alert you of this important event. We could have organized the Debate towards the end of May just after the election but it is not only important that a government is formed but it is also important that it settles down to business and starts charting out its economic and future strategies and that is why we decided to organize this on the 12th June with the hope that three weeks are sufficient to learn about the policies the new government will chose.

Indian business confidence high amid hope of stable government

Indian business optimism has climbed to its highest since 2010, as a significant majority of businessmen expects revenues to rise and profitability to get a boost in the next 12 months, according to a report by global consultancy firm Grant Thornton. Businesses in the country are optimistic about their growth prospects as the country gears up for an election which is expected to return a more business-friendly administration, the Thornton report release said.

At 89 per cent, optimism amongst Indian business owners remains well ahead of the global average of 44 per cent. This optimism is driven by 92 per cent of Indian businesses expecting their revenues to rise in the next 12 months, while 87 per cent believe their profits will get a boost. The hope of a stable government, and a significant reduction in the volatility of the Indian rupee have also boosted the optimism level, the report said. While optimism has risen on several fronts, there are certain constraints being felt by businesses globally, the report said.

Rising energy cost is a pressing constraint for India, besides other factors such as shortage of finance, regulations/red tape, and lack of skilled workers. Economic uncertainty remains a key constraint. However, the proportion of businesses globally citing this as a constraint to growth is down from 42 per cent to 38 per cent over the last three months.

"Appreciation in the rupee, dramatic reduction in the gold imports, stock markets near lifetime highs, and improved forecasts for medium term GDP growth have all helped boost business optimism," Grant Thornton India national managing partner Vishesh Chandiok said. But Chandiok warned, "However the new regime will have its task cut out to demonstrate impact in the short term for the above to sustain, or else the sentiment will go down as quickly as it has improved.

India leads world in terms of foreign remittances

India was the world's top recipient of remittance abroad in the year 2013, with $70 billion of inflow, of which $65 billion was earned by the country's software services exports alone, the World Bank reported. India's neighbour China was second with $60 billion. According to the World Bank report, migrants from developing countries are expected to send $436 billion in remittances to their home countries this year, despite more deportations from some host countries.

In its latest issue of the Migration and Development Brief, the World Bank said this year's remittance flows to developing countries will be an increase of 7.8 per cent over the 2013 volume of $404 billion, rising to $516 billion in 2016. Global remittances, including those to high-income countries, are estimated at $581 billion this year, up from $542 billion in 2013, and rising to $681 billion in 2016, the report said. "Remittances have become a major component of the balance of payments of nations.

India led the chart of remittance flows, receiving $70 billion last year, followed by China with $60 billion and the Philippines with USD 25 billion," said Kaushik Basu, senior vice president and chief economist of the World Bank. "There is no doubt that these flows act as an antidote to poverty and promote prosperity." Basu added, "Remittances and migration data are also barometers of global peace and turmoil and this is what leads World Bank's KNOMAD initiative to organise, analyse, and make available these data so important."

The depreciation of the Indian rupee during 2013 appears to have attracted inflows through a surge in the deposits of non-resident Indians rather than remittances, the World Bank said. The bank said growth in remittances to the South Asia region has slowed, rising by a modest 2.3 per cent to $111 billion in 2013, compared with an average annual increase of more than 13 per cent during the previous three years.

The slowdown was driven by a marginal increase in India of 1.7 per cent in 2013, and a decline in Bangladesh of 2.4 per cent, the bank said. "In Bangladesh, the fall in remittances stems from a combination of factors, including fewer migrants finding jobs in the GCC countries, more migrants returning from GCC countries due to departures and deportations, and the appreciation of the

Bangladeshi taka against the US dollar," the bank said. Still, some rebound is projected in the coming years, with remittances across the region forecast to grow to $136 billion in 2016. In addition to the top three, other main receivers of remittances were Mexico ($22 billion), Nigeria ($21 billion), Egypt ($17 billion), Pakistan ($15 billion), Bangladesh ($14 billion), Vietnam ($11 billion) and Ukraine ($10 billion). In terms of remittances as a share of GDP, the top recipients were Tajikistan (52 per cent), Kyrgyz Republic (31 per cent), Nepal and Moldova (both 25 per cent), Samoa and Lesotho (both 23 per cent), Armenia and Haiti (both 21 per cent), Liberia (20 per cent) and Kosovo (17 per cent).

India to scrap Rs 15-cr threshold for auditing MNC deals

India is set to scrap the R15-crore threshold for referring every international transaction between an MNC's arms for compulsory transfer pricing audit, and about to embrace a more focused approach to zero in on cross-border transactions with potential for tax evasion.

The proposed risk-based selection of transactions between MNC arms for transfer pricing audit will spare many companies the unnecessary hassle and help reduce tax litigation. Experts say the 'risk-based' approach is much more efficient than the monetary threshold-based scrutiny and audit. The proposal, which is under the tax department's consideration, would be taken up by the next government as part of tax administration reforms.

At present, assessment officers refer every cross-border transaction above the threshold between associated enterprises to a transfer pricing officer, who checks whether it is on the arm's length basis. If it is found to be a dictated price with little relation to cost or value-addition, the assessing officer recomputes the income and makes extra tax claim. Choosing cases based on the monetary threshold leads to overburdening of field officers. Sources said that every TPO in India has to do about 50 audits a year on an average compared to 5-6 that his UK counterpart does. This seriously affects the scope and depth of the audit.

The idea of selecting transactions for audit based on their risk of revenue leakage stems from India's discussions with the OECD, which is working on new transfer-pricing documentation rules and a format for country-by-country reporting of income, taxes and economic activity of MNCs.

"By having this information (country-by-country reporting), tax authorities will be able to take an informed decision on which transactions to be audited, rather than going by the quantum of the transaction," said Rohan K Phatarphekar, head – India, Global Transfer Pricing Services, KPMG. He said that India is in support of OECD's Base Erosion and Profit Shifting (BEPS) action plan.

Selecting only those cases for audit that indicate a high risk of revenue loss would enable the department to devote more time and go deeper into minute details.

"A risk-based approach in selecting international transactions between related parties for transfer pricing audit is more efficient in checking possible shifting of profits. This helps the department in allocating precious resources to cases that can yield maximum revenue. The risk-based approach would also help the revenue department evaluate whether the case is even worth pursuing," said Amit Maheshwari, partner, Ashok Maheshwary & Associates.

India losing 30% grain output due to poor storage, says ASSOCHAM Study

About 40 per cent of India's grain output is stored in an "unprofessional" manner due to an acute shortage of storage capacity, which needs to be increased by 35 million tonnes, a study by the Associated Chambers of Commerce & Industry (Assocham).

Currently, 70 per cent of the total warehousing capacity of 112 million tonnes is owned by the government. An additional 35 million tonne of storage capacity is required in the current 12th Five Year Plan period (2012-17), it said. "About 30-40 per cent of foodgrain is stored in an unprofessional manner during the peak marketing season in India," said a joint Assocham-Yes Bank study. There is a dearth of grain storage capacity of about 35 million tonnes and there is an urgent need to augment modern and scientific storage facilities to keep pace with the marketable surplus, it said. Due to inadequate storage capacity and inefficient logistics, Assocham general secretary D S Rawat said, "Around 20-30 per cent of the total grain harvest is wasted ... each grain bag is handled at least six times before it is finally opened for processing."

To build additional storage capacity, he emphasised the need to renovate existing warehouses and implement a robust Negotiable Warehouse Receipt (NWR) system. The study also said that only 12 per cent of the total warehouse capacity accounts for agricultural commodities, while the maximum is industrial warehousing. The warehousing market, which is growing at 9 per cent annually, is expected to cross the Rs 35,000 crore market in the 2015-16 financial year, the study said.

According to Assocham, warehousing is the backbone for developing trade and commerce and agro-processing industry, as it plays a very crucial role in strengthening agricultural supply chain, ensuring food security and price stabilisation. Besides, it also solves the problem of glut and scarcity by maintaining uninterrupted supply of agricultural commodities in off season.

700 Indian firms in the UK employ over 1,00,000: study

Indian entrepreneurs are playing an increasing role in the growth of the British economy, creating employment opportunities and contributing to the country's gross national product (GDP), according to a new report.

700 Indian firms in the UK employ over 1,00,000: studyAbout 700 Indian-owned companies in UK collectively employ over 1 lakh persons, according to Grant Thornton UK LLP's India Tracker 2014 report. The report, prepared in collaboration with the Confederation of Indian Industry (CII), monitors UK offshoots of Indian companies to assess their growth in terms of turnover and employment.

Of the over 700 Indian-owned small to large-sized businesses in the UK, 41 organisations have reported year-on-year growth rates of more than 10 per cent, with 26 of these recording strong growth in excess of 20 per cent.

These 41 companies are in technology or telecoms, pharmaceuticals or chemicals, and engineering and manufacturing.

These 'Top 41' corporates, including large corporates (5), mid-sized corporates (17) and SMEs (19) across the UK, generated combined revenues of around £19 billion, according to the report.

Among major investors in the Top 41, Tata Motors account for more than 80 per cent of the total turnover. "The appetite and opportunities for successful UK investment by Indian companies remain as strong as ever. In light of sluggish growth potential in India, investors are increasingly eager to enter or scale up their UK operations as the British economy re-enters a growth phase," Anuj Chande, partner and head of the South Asia Group at Grant Thornton UK LLP, stated.

The report cited a close cultural interaction between India and the UK over the past as a contributor to Indian executives' decision to set up a base in the UK, which also provides them an access point to European market, he added.

Launching the report earlier this week, Ranjan Mathai, High Commissioner of India to the UK, said, "I am very pleased that this research has been conducted to show the strength of Indian investment and the range of business in which they have invested in the UK. This complements the UKTI statistics of India being the 5th largest investor in the UK last year."

"The pharmaceutical / chemical and technology / telecom sectors represent over half of the organisations in the Top 41 (22 per cent and 32 per cent, respectively); although the automotive, transport and engineering and manufacturing sectors are also strongly represented," Mathai added.

Geographically, of the Top 41 Indian companies operating in the UK, 29 per cent are based in London, 32 per cent in the South, 29 per cent in the North and 10 per cent in the Midlands.

There are also 12 Indian corporates in the UK employing more than 1,000 people each, according to the report.

Indian IT gears up as contracts of $113 billion up for renewal

Indian companies might end up with a smaller slice as more information technology contracts get restructured, warn analysts.

Recently, Bharti Airtel restructured a $2-billion deal and infotech companies TCS, Wipro and Tech Mahindra gained. But this may not be the norm.

According to data from ISG, a company that tracks outsourcing, $112.95 billion of infotech contracts are due for renewal in 2014. The share of Indian vendors in this is 16 per cent, a business opportunity of about $18 billion. Over the next three years, India's share in the renewal market will range between 16 and 18 per cent, ISG says.

Analysts point out Indian companies need to be cautious because they are the big players in several contracts coming up for renewal. Break-down deals that divide work among vendors have become a trend in the sector.

"We have been saying for some time that deals are getting smaller. Customers are looking at best-of-breed vendors and they prefer to divide work among vendors who are good at certain applications," said Siddarth A Pai, partner and president, ISG Asia Pacific.
"Almost two-thirds of the market is restructuring. If you look at application management, Indian services providers have increased their share consistently. But in infrastructure management they are now, in several cases, the incumbent players," Pai added.

The Global ISG Outsourcing Index (formerly known as the TPI Index) shows the annualised value of contracts restructured in 2013 was $7.5 billion. Though the value dipped by 2 per cent, the number of deals climbed by 22 per cent.

Talking about the IBM-Bharti deal, Manish Bahl, country manager for Forrestor Research, said, "We expect large deals broken into smaller parts with reduced tenure. Clients are looking to bring more suppliers into the system to encourage innovation and to get the best out of the each vendor. Also, they want to commit for a lesser period to their vendors."·

"I believe Indian infotech services players are well placed as large deals get split into multiple contracts. They may face competition from smaller and niche players that could disrupt the marketplace with their ability to connect digitally with customers. Enterprises will be willing to assume the risk of working with new vendors," added Bahl.·

Pai pointed out deal restructuring did not mean the incumbent vendors would lose, but it offered an opportunity for others to walk in. "Smart providers would have started discussions at least six months before contracts expire," he added.

According to Forrestor Research, rising customer expectations coupled with a tough economic situation in India has forced telecom companies to look beyond the subscriber base to improve their bottom lines. "While Airtel views IBM as a strong established infotech partner to run and manage infrastructure, the operator appears to be in need of new business technology partners to help engage customers with the ultimate goal to serve and retain them," said Bahl.

Netherlands to set up 10 centres of excellence in India

The Dutch government is jointly working with its counterpart in India to set up ten centres of excellence (CoEs) across the country to help raise agriculture outputs.

Of these 10 CoEs, Gujarat may house a CoE on potato or horticulture. Ambassador of the Kingdom of Netherlands to India Alphonsus Stoelinga, who was on a one-day visit to the city, said this while interacting with media persons here.

"In India, we are setting up agriculture CoEs through public private partnership. In Gujarat, we are exploring a CoE for potatoes or horticulture while in Kerala it will be set up for horticulture. Similarly, in North-East we are exploring a centre for cattle, pork while in other states it will be set up for banana ripening, dairy and piggery," said Stoelinga.

"As India is looking to double its food production, it has to intensify its agriculture to enhance output but at the same time prevent losses in the food supply chain," he said, adding that the Indo-Dutch joint initiative is about Indian and Dutch authorities along with the private sector sharing technology know-how and developing skills to double food output.

During his visit, Stoelinga inaugurated a plant of Royal DSM, a Dutch multinational company active in health, nutrition and materials, at Savli.

Later, he also visited M S University (MSU) campus where he interacted with deans, principals, directors of cells and nodal officers of the Office of International Affairs in which he discussed future prospects of academic collaboration between MSU and universities and institutes of Netherlands.

"India and the Netherlands are very important economic partners for each other. India is the fifth largest source of Foreign Direct Investment (FDI) in the Netherlands and the same is the case of Netherlands which is also the fifth large source of FDI in India," said Stoelinga.

Speaking on the bilateral trade, he said India's exports to the Netherlands are around 10 billion Euros a year while its imports from the Netherlands are nearly 3.5 billion Euros a year.

"India has an advantage of 6.5 billion Euros but we are also looking at reducing this gap," he said, adding that Indo-Dutch relations are over 400 years old.

"Netherlands identifies India as an important economic partner and we believe that India will be the biggest talent pool in the world," he said, adding that most Dutch companies have their R&D centres located at Bangalore because of availability of good engineers.

Stoelinga also offered help to Indian government and business sectors in the areas of reclamation of ocean land, erection of cold storages and supply chain management of agricultural products.

"We have explored collaboration in the fields of performing art, life sciences and nutrition. Also, our faculties have proposed to establish faculty and student exchange programmes along with joint research activities with universities of Netherlands," MSU's officer on special duty (registrar) Amit Dholakia said.
