Europe India Chamber of Commerce

Newsletter

Issue: 5 Volume: 1 July 2008

EU Trade Experts hold consultation with EICC

Three member external evaluation team of the European Commission held discussion with the EICC on 25 June 2008 in Brussels on the preparation of Phase II of the EU's Trade and Investment Development Programme (TIDP) which is currently underway. TIDP aims to further support the integration of India in the world economy by smoothening impediments to trade and investment flows through training and technical assistance in selected fields, such as customs, intellectual property rights and sanitary and phyto-sanitary measures/ technical barriers to trade (SPS/TBT) and trade/investment promotion. It is I this background that the EC Delegation to India has launched an evaluation mission to assess the results and impact of the first phase of the programme and to identify the main areas of cooperation for Phase II. Within the framework of the developments and implementations of the Joint Action Plan of the India-EU Strategic Partnership agreement, the TIDP is collecting information and views on the success of, and potential improvements for, the TIDP programme. However, the team was unable to provide specific information on the organisational and administrative setup of the programme.

The EICC conveyed its general observations on the TIDP programme: the programme is almost unknown to the business community and there already exists many publicly funded investment promotion bodies at the Member State level, and therefore, whether it would not make sense to combine the TIDP programme with some of these national organisations in order to achieve synergies and cost efficiency. The Experts' Team indicated that there was a possibility of combining the TIDP II programme with the European Business and Technology Centre, which is currently being established by the European Commission in Delhi. The EICC supported Team's view that the EICC assisting and associating in the organisation of and in the content to, the two expert groups would be an important step forward in enhancing the TIDP programme's visibility to promote the Indo-European trade relations - one expert group to deal with matters relating to Corporate Governance and the second should discuss issues relating to Public Private Partnerships. Both issues are mentioned in the EU-India trade agenda agreed between the EU and the Indian Government and should therefore be considered to be of high political importance. EICC also addressed issues like visa problems for Indian SMEs, rigidity on part of the EU on issues such as sanitary and phyto-sanitary standards, Intellectual Property Rights, public procurement policies, etc which the EICC views as major obstacles to the Indo-European trade. The EICC was represented by Board Members Mr. M S Chandramouli and Dr. Daniel Sharma and its Secretary General Sunil Prasad.

UK's DFID earmarks 825mn pounds for India country plan 2008-2011

The Department for International Development (DFID) of UK has launched an "India Country Plan for 2008-2011" under which it will spend 825 million pounds in the next three years to help India achieve the Millennium Development Goal (MGD) and assist the poorest of the poor in the country. DFID is the second largest contributor of Official Development Assistance globally. This assistance programme is by far the largest assistance provided to India by any country in the European Union. The DFID in its objectives has set to work with the three faces of India - global India, developing India and poorest India. According to the DFID, the future partnership with India will be built on its proven strengths and work with India on various developmental issues over the next three years. Noting that UK and India share a unique history, the DFID says that the launch of this plan marks the desire to look to the future as allies in the fight against global poverty. The plan also illustrates that in a country of India's size it is a bold ambition to give every mother the healthcare she needs to give birth in safety and raise a healthy child, to give every child a chance to learn and enough food to eat. This strategy represents a roadmap to work in partnership with the Government of India to get close to these goals. On India, the DFID programme states *"Home to a world beating information technology industry and a multitude of cultures, castes and languages, India is the world's largest democracy. India has accomplished a great deal since its independence, making slow but good progress in reducing the number of people living below the poverty line. More than 60% of the population can now read or write, compared to 20% sixty years ago"*.

At the UK-India Summit in January 2008, the Prime Minister Gordon Brown and the Indian Prime Minister Dr. Manmohan Singh had signed a partnership agreement to fight global poverty. This partnership committed both governments to a series of joint actions to improve progress on the Millennium Development Goals, both in India and worldwide. During this Summit the UK Prime Minister had announced that DFID would spend £825 million for development in India over the next three years.

Serious rise in EU counterfeit seizures

The European Union is concerned on the increase in imports of counterfeit drugs, cosmetics and toys, and has termed it a threat to public health and the region's economies. The EU's 2007 pharmaceutical counterfeiting data shows that almost 40 per cent of fake medicines seized by the EU originated in Switzerland. In a year where the volume of counterfeit pharmaceuticals seized rose by 51 per cent, China was cited as the country of origin for just 4 per cent of fake medicines, with Russia not even appearing on the list. The startling statistic on the level of Swiss counterfeiting has been attributed to five shipments totalling 1.6m morphine-based painkiller pills which were seized by German customs between March and May 2007. However, it is not clear whether the pills were manufactured within Switzerland. Nonetheless, EU Customs Commission added: "*The Swiss name carries a certain guarantee for consumers. It is therefore even more dangerous for the counterfeit products to come from Switzerland than from China*." The report also states: "*Given the fact that seizures in most product sectors continues to increase, yet counterfeit and pirated goods continue to be freely available within the internal market, one can draw the conclusion that the problem of counterfeiting and piracy is in fact still growing.*"

Enraged by the increasing fake drug supply, the European Commission had launched a public consultation on the dangers of counterfeit drugs and had invited ideas to be submitted for regulatory reform. There is no doubt about India's commitment to intellectual property rights (IPRs) and its intention to bring these products under the Geographic Indications (GIs) list. But the delay and dithering in pressing ahead with these matters of serious import would prevent Indian producers from deriving any benefit from these exotic varieties of products that are *sui generis* to India. India should devise sound and foolproof mechanisms for protecting its own products from being counterfeited and strengthen its intellectual property rights regime.

Indian auto industry eyes Eastern Europe market

With an eye to the large and growing market for their products, Indian auto component and tyre companies are making a beeline to set shops in Europe (especially Eastern Europe). In April, Apollo Tyres announced that it was setting up a Euro 200 million green field venture outside Hungary. Delhi based Amtek Auto has decided to set up a production base which will come in to operation in 2009 in Romania. But it is not only Eastern Europe that is the centre of attraction. Many companies have moved in by acquiring companies spread across Western Europe. Comprising 27 countries, the Economic Union is expected to grow as more countries like Turkey qualify for membership in the coming years. Currently the EU market is estimated at 13 million passenger cars and 3 million trucks per annum. The replacement market in Europe is around 250 million tyres a year. Replacement and OEM together adds up to around 300 million passenger car tyres a year are some of the reasons why Apollo is moving in into Europe. Another critical reason why Indian auto companies want to enter Eastern Europe is the possibility of labour arbitrage. While parts of Europe like the UK and Spain have expensive labour, Eastern Europe is cheaper. While they are 3-4 times more than India, they are 5 times less than the rest of Europe. As size does matter, Europe has the size and scale to become a large market for Indian auto component companies. Also European auto makers make vehicles which are more expensive than in other markets of the world which makes it an attractive market for Indian auto component manufacturers. Decades of protectionism deprived the Indian auto industry including auto component industry power of innovation, research and development including investment. However, with economic liberalization the Indian auto component companies of various sizes are venturing into global stage. Indian auto component suppliers have started to focus on core product research and development at home.

Indian government may ease FDI norms in insurance sector

Debate relating to Foreign Direct Investment (FDI) in the insurance sector has gained importance and there is a sense of optimism that financial sector reforms in India would make some headway in the course of next few months which would include the insurance sector. There has been some indication to this from Indian government. According to Lehman Brothers, financial reforms including development of a corporate bond market, pensions and insurance will spur investment and add as much as 1.5 percentage points to India's economic growth. Nearly 80% of the country's 1.1 billion people have no insurance cover and 88% of the workforce doesn't contribute to pension schemes. India's 1 trillion dollar economy has expanded at a record average pace of 8.7% each year since 2003. India in 2000 opened up its insurance industry to overseas investment by dismantling the 44-year monopoly of state-owned Life Insurance Corporation of India and its non-life counterparts. Though their stake in Indian insurers is limited, companies including New York Life Insurance and Prudential have entered the market.

India needs an increase in the FDI on Insurance as this would take care of the year's FDI target of the country in one go. Further, this would affect a lot of other industries in a positive way, and that we could even do without the FDI in many other sectors for sometime. FDI in insurance would increase the penetration of Insurance in India, where the penetration of Insurance is abysmally low with insurance premium at about 3% of GDP against about 8% global average. This would be through better marketing effort by MNCs, better product innovation, consumer education and so on. It would help the economy as India is hungry for long term capital needs to fund the building of infrastructures, which is the need of the hour.

India signs DTAA with Luxembourg

India on 1 June 2008 entered into an agreement with Luxembourg, a member of the European Union, for the avoidance of double taxation and prevention of tax evasion. Double Taxation Avoidance Agreement (DTAA) aims at promoting economic cooperation between the two countries and is expected to benefit the manufacturing and airline companies of Luxembourg having linkages with India. This agreement comes after five years of negotiations. The DTAA between India and Luxembourg will cover in the case of India, the Income-tax and the wealth tax including any surcharge thereon. In the case of Luxembourg it would cover the income tax on individuals, the corporation tax, capital tax and the communal trade tax. The DTAA provides for taxation of dividend, Interest, royalties and fees for technical services-both in the country of residence as well as the country of source. However, the rate of tax in the country of source shall not exceed ten percent of the gross amount of payment in case the beneficial owner of the payments is a resident of the other Contracting State. The DTAA provides that capital gains from alienation of shares of a company shall be taxable in the country where the company is a resident. The incidence of double taxation shall be avoided by one country giving credit for taxes paid by its residents in the other country. There is a provision for exchange of information in cases, which are under investigation in either of the two countries. Both the countries shall assist each other in collection of revenue claims. The Agreement is expected to further stimulate the flow of capital, technology and personnel between the two countries. It is also expected to contribute to the tax stability and facilitate mutual cooperation. The Indian government has entered into numerous tax treaties, trade agreements the double taxation avoidance agreements with over 70 countries to provide stability and certainty to the tax laws and commercial relationship between the parties in India and abroad. Some of these countries are Australia, Bangladesh, Canada, China, Mexico, Germany, Japan, Malaysia, Mauritius, Nepal, Singapore, Sri Lanka, UAE, UK, USA, USSR etc.

Europe emerging as likely destination for skilled Indian workers

With the government of India negotiating a slew of labour treaties with many EU countries, Indian workers may soon find job-hunting in Europe relatively painless. Recently India agreed to join the International Organisation for Migration (IOM), paving the way for smoother labour movement to Europe. The most important advantage for India's membership with IMO is the capacity of the IOM to facilitate bilateral instruments with potential destination countries. The first in line may be Denmark, the latest European country to come to India looking to plug its demographic hole of young working population. In May, a fact-finding team of the Danish Immigration Services had come to India - a follow-up to the visit of Denmark's Prime Minister Anders Fogh Rasmussen in February. It is learnt that India is planning to sign a social security agreement (on the similar lines as was signed with Belgium), as well as a labour mobility partnership. The Indian side has proposed that the labour mobility agreement be a tripartite one, with the IOM as third party. India as an observer had signed a Memorandum of Understanding (MoU) on regional dialogue and facilitating managed and legal migration with the European Union. A US-based manpower supply company's "Talent Shortage Survey 2008" had found that European countries had significantly high difficulty in filling up available positions, ranging from 73 percent in Romania to 18 percent in Italy.

The reasons for the shortage range from an aging population in west European countries to the flight of the educated young from East European nations. Recently, the European Union had introduced the idea of a "blue card" to compete directly with the American "green card" to attract the right kind of highly-skilled educated emigrant. But most of the countries have to still agree to implement it. Therefore, negotiation with individual countries to facilitate manpower supply seems a better proposition.

The European Commission in a policy document last year discussed attractive conditions for the admission and residence of highly qualified immigrants in member countries. And even though a common policy for EU nations on attracting and retaining highly qualified immigrants may not yet have become a reality, some of the issues which have been raised are very significant. The aim of the new proposal for entry and residence of third-country nationals for highly qualified employment is to provide member states and EU companies with additional tools to recruit, retain and better allocate the workers they need. By doing so, the EC intends to increase the competitiveness of the EU economy by enhancing the contribution made by legal immigration. Various countries in continental Europe have already implemented policies that will help attract skilled workers from countries such as India.

India receives WTO support in its battle against bio-piracy

India has received major support from the World Trade Organization in its call fight against bio-piracy at the multi-lateral level. In his report on 'GI extension and bio-diversity consultations', the WTO Director General has said that there is an important common ground on the need to implement Trips and the convention on bio-diversity (CBD) in a mutually supportive way. However, the DG also said that there is no agreement on whether the issue is part of the on-going Doha negotiations. At present, the WTO extends enhanced GI protection to only wines and spirits. Some countries, including the EU and Switzerland, are pushing for enhancement of the list of GIs accorded protection by the WTO. While the recognition that Trips and CBD have to be implemented in a mutually supportive way would mean that the important issue of disclosure of origin of a biological product and benefit sharing, which is a part of CBD, could also become a part of the Trips Agreement, it could all come to naught if the issue is removed from the Doha negotiations. Disclosure of origin and benefit sharing would result in a mandatory requirement for patent applicants for disclosing origin of the biological resource being patented and sharing the benefits being generated by the patent with the country where the resource originates from. India, which is leading a group of nine countries including Brazil, China, Pakistan and Cuba, has been pushing for an amendment to the Trips agreement to bring about the stated changes. The amendment is very important for developing countries as it would give them ammunition to fight against patenting of natural resources originating on their turf by companies or individuals in the developed world. A group of about 100 countries, including India, have recently submitted a non-paper to WTO stating that the issues related to bio-diversity consultations and extension of geographical indications (another issue related to Trips) be made part of the 'horizontal process' in which senior officials and trade ministers from key countries would meet to agree on the modality texts for liberalising trade in agriculture, industrial goods and other issues.

The process is expected to expedite the negotiations of the Doha round and move it closer to a conclusion. However, another group of countries, including the US and Australia have insisted that the Trips issue be kept out of the negotiating process as it would make it too complicated. The DG report adds that a common ground has been reached on the avoidance of erroneous patents for inventions that involve the use of genetic resources and related traditional knowledge and securing compliance with national access and benefit-sharing regimes. On the negative side, the report points out that the work continues to be characterised by different approaches to meet these objectives, including whether TRIPS Agreement needs to be amended and whether it was agreed at Doha that this issue is part of the negotiations and of the Single Undertaking. There are also different views on whether this matter should be addressed in the context of the modalities decision.
