Europe India Chamber of Commerce

Newsletter

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EICC will host Trade and Investment Conference on 9 December in Brussels

On the eve of 11th annual EU-India Business Summit which will take place in Brussels on December 10, 2010, the Europe India Chamber of Commerce is organising a high level Conference on "Building a New Paradigm for EU-Relations through Enhancing Trade and Investment" to be held in the European Parliament in Brussels on 9 December 2010**.** The Conference takes place during the Belgian Presidency of the European Union and being organized as a tribute to the growing EU-India trade and economic relations and to add to the importance of EU-India cooperation and to Business Summit. The Conference will discuss important trade related issues such as potentials for inward/outward investment, growing protectionism in Europe, regulatory and legal framework, taxation policies, IPR, etc. The event will serve as a key platform offering an unparalleled access to a full spectrum of industry leaders, business executives, policy makers and representatives of the European Commission to share their views on issues related to trade and investment. The forum will provide an opportunity for the delegates to access important presentations, engage in discussions and network with specialists across a range of topical issues. Nearly 150 participants and over 15 high-level speakers including from CII, FICCI, ASSOCHAM will address the conference. The Chamber is in contact with a Pan-European Chamber and there is a definite possibility that the event will be jointly organised in order to reach a larger segment of European business leaders, with interest in India and to add value to the objectives of the event. For more info, please visit EICC website: www.eicc.be

EU-India Business Summit to discuss challenges of sustainable development

Challenges of sustainable development will be the core of the 11th EU-India Business Summit which will take place in Brussels on the occasion of EU-India Summit on 10 December 2010. The current economic crisis brings sustainable development issue into sharp focus and there is now an urgent need to expand knowledge and develop innovative green technologies to address the challenges in which business have a big role to play. In this context, the business leaders will specifically discuss the role of sustainable development industry which offers excellent technology transfer opportunities, energy-efficient green technologies. Parallel sessions will include discussion on infrastructure-urban development including water management and Energy and Power. The Business Summit will also see a high level CEO Roundtable to discuss business opportunities, foreign direct investment and technology transfer. The EICC is coordinating with the FEB/VBO, the counterpart of CII in Belgium, in the preparation of the Summit and has offered its full support and cooperation.

Chamber shows social side of its business

Community service and social networking being recognized as important factors in business success, the Europe India Chamber of Commerce in collaboration with the Embassy of India and in association with the State Bank of India organised an Odissi Dance recital by Ms. Sandhyadipa Kar at the Indian Embassy premises on 3rd September 2010. Ms. Kar enthralled the audience with her classical Odissi dance skill. The event provided the Chamber an opportunity to network with the selected Indian Diaspora and the business community in Belgium. The State Bank of India, Associate Corporate Member of the EICC, had sponsored the event. Welcoming the guests, the Charge d' Affaires of the Indian Embassy Mr. Santosh Jha said that cultural heritage are valued part of life and Indians want to share the best of it with the rest of the world. Mr. P N Prasad, Chief Executive of the SBI spoke about the importance of promoting cultural history of India amongst Indian Diaspora and the Belgian community as a whole as it brings the communities closer. In a yet another musical event in Brussels, the Santoor artist Mr. Sudhanshil Chatterjee accompanied by tabla player Mr. Indranil Mallick regaled the audience with their Santoor and tabla in a programme, sponsored by the EICC and organised by Global Organisation of People of Indian Origin, Belgium in association with the Brussels Sammelani in the Indian Embassy. Mr. Santosh Jha said that that the Embassy very much welcomes such cultural activities and is committed to support cultural initiatives. Representing the Chamber, the Board Member Mr. Laurens Narraina said that one of the

major responsibilities of the Chamber is the community's economic well-being and building better community relation, and EICC is committed to serve business and firms and in promoting their business interest.

Manufacturing powers Indian economy to log 8.8% growth

Powered by a manufacturing rebound, the Indian economy has recorded an 8.8 per cent growth during the first quarter of the current fiscal. The 8.8 per cent year-on-year increase in the real gross domestic product (GDP) for April-June – compared with 6 per cent in the same quarter of 2009-10 – has been largely due to robust industrial (especially manufacturing) growth from a low base. The industry, as a whole, grew 11.4 per cent against 4.6 per cent in the corresponding period of the previous fiscal, when factories were struggling to emerge from the slowdown triggered by the global financial crisis of late 2008. Within industry, manufacturing registered a 12.4 per cent year-on-year jump, against 3.8 per cent during April-June of last fiscal. But, it is not only industry that has done better relative to last year. Even the farm sector and services have notched up higher growth rates for the first quarter. However, certain sectors like financial services restrained the growth in economy, which had recorded 6 per cent growth rate in April-June 2009-10. Agriculture and allied activities grew by 2.8 per cent, higher than 1.9 per cent in the year-ago period, but it is nowhere between the target of four per cent pegged by the government in the medium term. Construction too grew by 7.5 per cent compared to 4.6 per cent. The figures underscore the strong recovery in India's economy – Asia's third largest and among the earliest to emerge from the crisis. India's economy averaged 9% growth in the four years to march 2008 but slowed to 6.7% the next year, hurt by global crisis. Since then it has rebounded, growing 7.4% in the fiscal year to March 2010. India is expected to grow more than 8.5% this year.

India-Switzerland ink double taxation agreement

India and Switzerland have signed a protocol amending the existing Double Taxation Avoidance Agreement between the two countries, which would help the government obtain information on money stashed away in Swiss banks. The revised DTA in the area of taxes on income was signed in New Delhi by India's finance minister Pranab Mukherjee and Swiss foreign minister Micheline Calmy-Rey. The revised DTA contains provisions on the exchange of information in accordance with the OECD standard, which were negotiated in line with the parameters decided by the Swiss Federal Council. ''The protocol will be the basis or the institutional framework for getting information from Switzerland in cases where there are instances of evasion,'' spokesman in the ministry for external affairs informed the media. Under the amended DTA, dividends, interest, royalties and payments for technical services, there are provisions for the lowest withholding tax rate, which India has with other OECD countries, will automatically, apply to Switzerland also. Taxation of profits from shipping companies operating internationally will also be governed by the protocol, thereby avoiding double taxation. In future, shipping companies operating internationally will have to pay taxes on their profits solely in the country in which they are domiciled. Currently, India has signed DTA agreements with 79 countries, but all of them do not have provision for exchange of information related to taxation. The amended pact will not allow India to go on a "fishing expedition" nor will it be able to trawl through lists of accounts in the hope of finding a tax evader; it will however help to a great extend details of the suspected tax evasion by Indian citizens. The agreement allows exchange of information in accordance with the Organisation for Economic Cooperation and Development (OECD) standards which were negotiated in line with the parameters decided by the Swiss Federal Council, the Swiss Federal Department of Finance. The Paris-based OECD sets the international tax standards. Switzerland has entered into revised tax pacts with many countries in accordance with OECD's Model Tax Convention to facilitate bilateral exchange of information related to bank account details of tax evaders.

India will soon start releasing monthly data on FDI outflows

The Indian government will soon start releasing monthly data on outward foreign direct investments on the lines of FDI inflow figures that it makes public regularly, according to an official statement. The data will be released in coordination with the Reserve Bank, which has so far been the sole agency for compiling information on the outward FDI. The new mechanism has been suggested by a committee headed by RBI Deputy Governor Shyamala Gopinath, the official said. The Department of Industrial Policy and Promotion (DIPP), the nodal agency on FDI policy, is closely working with the RBI, the official said. At present, the DIPP releases detailed foreign direct investment inflows to India on a monthly basis.

"While we have a very detailed data base on FDI inflows, such data for outward investment is missing. Whatever information is available it is quite sketchy," the official said. India's outward investments were USD 10.3 billion during 2009-10. With firms becoming more aggressive in overseas mergers and acquisitions arena, the fund outflow may increase in the coming years. Recently, companies like Bharti Airtel and Mahindra's have done major overseas acquisitions entailing large outflow of funds.

Poland woos Indian investment with incentives

The Prime Minister of Poland during a visit to Bangalore in September invited Indian industry to invest in the country with a slew of incentives for setting up operations in manufacturing and the services sectors. "Being strategically located in the heart of Europe, Poland offers ideal investment opportunity to Indian entrepreneurs for setting up subsidiaries or explore partnerships in diverse sectors, with access to European and global markets," Prime Minister Donald Tusk told captains of the Indian industry in Bangalore. Leading a high-profile delegation as the first non-Communist Polish premier, Tusk said he decided to begin his three-day state visit to India from Bangalore to strengthen the bilateral relations through business and collaborations. "As India's tech hub, Bangalore is renowned the world over for its domain expertise in software, science and aerospace. Poland has been the preferred choice of Indian IT bellwethers TCS, Infosys and Wipro to locate their outsourcing operations," Tusk said at the Polish-Indian Investment Forum. Noting that Poland and India were among the few nations that remained resilient and grew their economy during the worst global recession in 2009, he said that the business environment was conducive to promote investments and joint ventures in both the countries. Poland's Gross Domestic Product (GDP) grew 1.8 percent in 2009 and 5.8 percent in 2008, while the rest of Europe, including Britain and the US, posted negative growth during the recession period. Recalling the historical and cultural ties between the two countries, Prime Minister said the freedom struggle in India through the non-violent movement of Mahatma Gandhi inspired the Solidarity movement in Poland during the eighties to achieve democratic freedom from decades of communist rule. "India is envy of the world today for its contributions through democratic process. Its impressive achievements in all spheres of growth, especially economy, science, technology, space and industry is an inspiration for Poland, which is trying to transform into a democratic and progressive country in the new world order," Tusk said in his address.

Poland is India's largest trading partner and export destination in the Central-European region. It has been a member of the European Union (EU) since 2004, and is one of the important gateways into the European Union and CIS. More than 20 Indian companies have invested in Poland, including Videocon, Escorts, Reliance, Ranbaxy, Essel Propac, Tata Consultancy Services, Tata Tetley, Berger Paints and Arcolabs. Polish companies have manufacturing facilities in India in areas like hygiene and sanitary products, metal packaging, air-conditioning systems; and they have been offering services in oil exploration and extraction. Poland will assume the Presidency of EU in the second half of 2011 and EICC in cooperation with its office in Poland has started planning its activities during the Polish presidency.

Economic recession forces more than 110,000 companies in Spain out of business

Spain lost more than 110,000 companies as a result of the economic recession. To be precise, the economic recession forced a total of 110,058 Spanish companies to go out of business, the Spanish ministry of labour and immigration has said. Businesses which employed between 6 to 50 people have been hit hardest by the slump, with 47,835 such firms shutting down. The other major casualties were 39,708 enterprises having between two and five workers. Interestingly, the number of companies with workforce over 500 increased by 96 between January 2008 and the end of July 2010. A total of 33,332 new companies were registered with the social security bureau since February this year. In a report, the PriceWater House Coopers (PwC) had said that Spain's economy is expected to shrink a further -1,2% during 2010. The report surveyed business and economy experts across Spain. According to the report, Spain's economy will not start to improve until dragged back up by the rest of the EU and the USA. The crunch engulfing Spain's property market is rapidly turning into a full-fledged national drama. The developers' association APCE said that house prices have already fallen 15% since September 2009. Unemployment has risen by 425,000 over the past year, reaching 9.9%. Over 10% of Spain's economy has been building houses. This compares with 6-7% in the US at the height of the bubble. The adjustment will be enormous. According to the European Commission, Spain's economy is expected to contract 0.3% in 2010 because of tax increases and public spending cuts sought by the Commission and enacted by the Spanish government in an effort to reduce the budget deficit. But Spain's credibility

problem isn't just economic – it's political. For if it is to win back the trust of the markets it needs to show that it can diagnose the extent of its financial problems, take the necessary measures to correct them and find the national willpower to carry them out.

European Commission moots new norms to regulate financial market trading practices

Framework to increase transparency and ensure coordination for short selling and Credit Default Swaps has been proposed by the European Commission. The EC on 15 September proposed a slew of new norms to regulate certain financial market trading practices, including short-selling, that were widely blamed for the global meltdown. Its main objectives are to create a harmonised framework for coordinated action at European level, increase transparency and reduce risks. The new framework will mean regulators – national and European - have clear powers to act when necessary, whilst preventing market fragmentation and ensuring the smooth functioning of the internal market. The latest proposals come against the backdrop of allegations that short-selling, where traders bet on securities they do not own, was a major factor in worsening debt crisis in Greece, Portugal and Spain. Short selling is the sale of a security the seller does not own with the intention of buying it back at a later point in time in order to deliver it. Naked short selling is where the seller has not borrowed the securities, or ensured they can be borrowed before settlement prior to the short sale. It can lead to specific risks of settlement failure (i.e. not completing the transaction). Since the onset of the financial crisis, many Member States have taken actions to suspend or ban short-selling. Uncoordinated actions can be less effective and lead to difficulties on the market, including impacting on investor confidence. The proposal enhances transparency by requiring that all share orders on trading venues be marked as 'short' (so-called "flagging") if they involve a short sale, so that regulators know which transactions are short. In addition, investors will have to disclose significant net short positions in shares to regulators at one threshold (0.2% of issued share capital), and to the market at a higher threshold (0.5%). These measures will mean market participants are better informed whilst allowing regulators to monitor markets and detect developing risk. Concerning sovereign bonds, regulators will be better able to detect possible risks to the stability of sovereign debt markets by receiving data on short positions, including those obtained through sovereign Credit Default Swaps (a derivative sometimes regarded as a form of insurance against the risk of default). Derivative is a contract between two parties and its value is linked to the future status of the underlying asset. In May, Germany had banned short-selling on concerns of rising volatility in the financial market. These measures would help in detecting possible risks to the stability of sovereign bonds and get a clearer picture about short positions in deals involving Credit Default Swaps -- a derivative sometimes regarded as a form of insurance against the risk of default. The rampant misuse of CDS was largely blamed for the 2008 financial crisis in the US.

European Policymakers give green light to new financial supervision architecture

Having fought for more than a year in favour of a radical reform of European financial supervision, the European Policy makers on 22 September gave the final seal of approval to a package of reforms which will see a fundamental shift in the way banks, stock markets and insurance companies are policed as of 2011. Three European supervisory authorities (ESAs) will be established to replace the current supervisory committees. Their powers will stretch much further than the advisory nature of the current system and their potential to gain further competences will be considerable thanks to a strong review clause. A European Systemic Risk Board (ESRB) will also be established with the task of monitoring and warning about the general build-up of risk in the EU economy. This new system should be able to provide better protection from events such as the Fortis bank crisis weekend, Germany's unilateral naked short-selling ban and the losses faced by life insurance policyholders in the UK, Ireland and Germany with the collapse of Equitable Life. It should at the same time strengthen the EU single market for financial services and provide much better investor protection. A number of Member States, particularly those with large financial centres, favoured the limited reform approach. This led to a significant reduction in the scope of the Commission proposals, themselves considered by the EP as not going far enough. Parliament's rapporteurs from the beginning argued that the system needed serious reform so that risk would be better understood, primarily through much improved communication between national supervisors. The final deal sees the transformation of advisory committees into watchdogs with a bite. The ESAs are set to get tough new powers to settle disputes among national financial supervisors and to impose temporary bans on risky financial products and activities. If national supervisors fail to act, then the authorities may also impose decisions directly on financial institutions, such as banks, so as to

remedy breaches of EU law. The daily work of the ESAs will see them drive coordination within the current system of colleges of national supervisors set up to watch over cross-border financial institutions. In the event of disagreements between national supervisors, ESAs will be able to impose legally-binding mediation and, if no agreement can be reached within the relevant college of supervisors, to impose supervisory decisions on the financial institution concerned ESAs will be able to intervene as mediators at their own discretion, rather than only at the request of one of the national supervisors. The ESAs will be able to monitor how national supervisors implement their obligations under EU law. If these obligations are implemented incorrectly, the ESAs may issue instructions to the national supervisor concerned and, if these go unheeded, directly instruct the financial institution to remedy any breach of EU law.

India, China to be top M&A targets till 2012, says UNCTAD

Merger and acquisition activities of trans-national corporations (TNC) are due for a rebound and will be the major focus in foreign direct investment (FDI) activities around the globe, according to UNCTAD survey. India, China and Brazil are likely to be the major beneficiaries of this rebound in global M&A business. According to the survey, the world's biggest companies intend to boost international investments over the next two or three years with most of the planned spending heading in the direction of major emerging economies. China, India, Brazil, US, Russian Federation, Mexico, UK, Vietnam, Indonesia and Germany are the top ten investment destinations for FDI until the end of 2012, says the survey. Last year's number two, the United States of America, is now in fourth place with India moving up from third position to occupy the second slot behind China. The survey says global FDI growth prospects for the next three years are brighter in the primary sector, principally extractive industries and to a lesser extent in the services sector than in manufacturing. The United Nations Conference on Trade and Development (UNCTAD) is a permanent intergovernmental body and the principal organ of the United Nations General Assembly dealing with trade, investment and development issues. The survey is based on the responses of 236 TNCs and 116 investment promotion agencies to an UNCTAD questionnaire. The survey indicates a recovery in global FDI flows in 2010 and further growth in 2011 and 2012. From an estimated $1.2 trillion in 2010, the report says, global FDI flows could reach $1.3-1.5 trillion in 2011 and $1.6-2.0 trillion in 2012. The survey assumes world economic growth of 3.0 per cent in 2010 and 3.2 per cent in 2011. The survey says that the recent global crisis succeeded in shifting the geographical focus of TNCs to emerging economies which weathered the downturn better and are now leading global recovery. These countries, the report says, are playing an increasingly important role in TNC strategies. Interestingly, TNCs perceptions of the international investment climate are more upbeat this year than in last year's survey. Compared to last year's survey, in which some 47 per cent of respondents expressed pessimistic views regarding 2010, only 36 per cent of respondents this year expressed pessimistic views for the current year. Beyond 2010, the outlook is more cheerful, with 47 per cent of respondents expressing an optimistic view for 2011 and a overwhelming 62 per cent expressing an optimistic view for 2012.

Landmark ruling in Vodafone; case may cost the MNC $2.6 billon in tax

In a landmark verdict that could cost Vodafone International $2.6 billion in tax and perhaps worry foreign investors, the Bombay High Court on 8 September dismissed a petition filed by the global telecom giant against the Indian income tax department's power to impose a capital gains tax on its $11 billion-plus acquisition in 2007 of a controlling 67% stake in Hutchison Essar Ltd (HEL). The significance of the case lies in the fact that this is the first time an Indian court has ruled on whether Indian tax authorities have jurisdiction over a transaction between two overseas corporate entities concerning a business venture in India. The court held that that the deal should be subject to Indian capital gains tax because the operating assets of HEL were in India. It did not accept the argument that the transaction took place overseas between British-born Vodafone and the Hutchison group of Hong Kong-based multibillionaire Li Ka-shing, and hence was outside the purview of Indian tax laws. Vodafone, by buying out Hutchison's 67% share, gained control of HEL, which it has since renamed Vodafone Essar. The remaining 33% rests with the Ruias of Essar Group. The Bombay high court's ruling in the Vodafone case is likely to have a significant impact on the structure of future cross-borders mergers and acquisitions (M&As), especially when a transfer of shares of a foreign company leads to an effective transfer of an Indian business. If the judgment stands, it'll represent an enormous windfall for the Indian exchequer -- $2.6 billion. It is expected to have ramifications for India's budget calculations, said economic analysts. All foreign direct investments coming into India must now factor in the fact that they will have to deduct and pay tax in

India. In a precedent-setting case -- one that has attracted the attention of transnational and Indian corporations alike -- tax authorities in Mumbai had asked Vodafone three years ago to show cause why it failed to deduct tax at source during its offshore 2007 deal. Vodafone had argued that it was under the belief that it was not liable to pay such tax. The court observed that at the heart of the matter, the transfer of one share at $11.01 billion also involved the transfer of rights and entitlements of local Indian partners and hence the "transaction required complex contractual arrangement in India". This, the court ruled, was sufficient to establish a nexus with Indian tax jurisdiction. There is no getting away from the fact that the ruling will act as a boost for the tax department in its quest to tax other cross-border mergers where the facts are similar to those in the Vodafone case. Going forward, this may not have a very significant impact on a majority of cross-border mergers given that most investors would choose to use intermediary jurisdictions such as Mauritius, Cyprus and Singapore, which offer treaty protection for capital gains in an Indian tax context. Further, the high court seems to have accepted that a transfer of a share of a foreign company would not be taxable but has gone ahead to hold the transfer as taxable by looking into the entire substance of the transaction. The decision could therefore bolster claims on the part of foreign investors in regard to the non-taxability of other global M&As where the transfer of shares of a foreign company involve transfer of assets other than Indian assets or where there is a transfer of assets spanning many jurisdictions. The verdict will be closely watched by companies like SABMiller, General Electric and AT&T, who have also been swept up in the tax department's increasing activism over the last three years. India generated just 7 percent of Vodafone's group revenues in the year ended March, but with over 100 million subscribers, a third of the group's total Vodafone's fast-growing India business is a key long term asset. The timing of Vodafone's huge tax bill could not have been worse. Vodafone agreed to fork over $2.5 billion to the government in May for third-generation spectrum, and months of blistering competition among India's 15 mobile operators has driven down call rates to less than 1 cent a minute. In May, Vodafone had to write down the value of its Indian business by more than 25 percent, or 2.3 billion pounds ($3.5 billion). The Supreme Court on 27 September refused to offer any immediate relief to Vodafone, which had challenged the Bombay High Court order allowing the government to tax the company's $11 billion deal with Hutch. While refusing to stay the high court order, the apex court issued notices to the tax authorities directing them to decide within four weeks the liabilities of Vodafone.

Indian whisky on the rocks: 6 Indian brands make it to top 10 whiskies

Cheers again! India is on a new high. One more whisky brand from the country has made it to the list of 10 largest selling spirit brands in the world. Officer's Choice Whisky, the single brand from the Kishore Chhabria-headed Allied Blenders and Distillers (ABD), is now the tenth-largest selling spirit brand in the world, with sales crossing 12 million cases. The findings are part of the 2010 edition of the survey conducted annually by UK-based Drinks International, a magazine that devotes exclusively on reporting on world spirit markets. Leading the list of world's largest ten brands is the 63 million-case Jinro from South Korea. The ranking is across all spirit segments such as rum, vodka, brandy etc. The other two Indian brands already in the list are Bagpiper and McDowell No.1, the flagship brands of Vijay Mallya-led United Spirits Ltd (USL). South Korea Jinro is followed by Smirnoff, the legendary vodka from the staples of Diageo that sells 24 million cases annually. Lotte Liquor BJ (21 million), Brazilian Cachaca brand Pirassununga of Companhia Muller De Bebidas (19.5), Tanduay rum from Tanduay Distilleries of the Philippines (16.5 million), celebrated rum brand Bacradi from Bacardi Martin (18.6) precede Bagpiper that has a sales figure of 16 million cases. While Johnnie Walker is ranked eighth with 14.5 million cases, McDowell No.1 with 13.5 million cases and Officer's Choice with 12 million cases occupy the ninth and tenth slot, respectively. Indian whiskies, which were unaffected by the recession, have now emerged as new power brands in the global arena. The millionaire brand list is dominated by India with six whisky brands figuring in the list of world's top 10—Bagpiper, McDowell No.1, Officer's Choice, Original Choice, Royal Stag and Old Tavern. Johnnie Walker, Jack Daniel's, Ballentine's and Jim Beam are the other brands in the list. Officer's Choice, at fourth position, is the latest entrant in the list. While Bagpiper and McDowell No 1 sit pretty at No. 1 and No.3, respectively, Johnnie Walker occupies the No 2 slot. The change in the ranking of Johnnie Walker, which occupied the numero uno position for at least a decade, is the fallout of recession that gripped the developed economy in 2008 and a major part of 2009, forcing many tipplers to opt for a brand a notch below. So, drink till you drop (hic!).