Europe India Chamber of Commerce

Newsletter

Issue: 68 Volume: 7 **December 2013**

Chamber will celebrate its 10th anniversary with TIPS 2014 on 20-21 November 2014 in Brussels

The EICC mega business summit, the Trade and Investment Partnership Summit (TIPS) 2014 will be held on 20-21 November 2014 in Brussels around the theme ***"EU-India Strategic Partnership: Beyond the Lost Decade: What will it take for European and Indian Businesses to make it work?".***

The TIPS 2014 has a special relevance to the Chamber as it will mark the 10th anniversary of the EICC and also the 10th anniversary for the European Union-India Strategic Partnership Agreement which was signed on 8th November 2004 during the Fifth EU-India Summit in The Hague. The EICC will be commemorating its 10th anniversary in the service of promoting trade and economic relations between India and the European Union. Founded on 4 October 2004, EICC speaks for multilateral rule based trading system and improvement in European and Indian competitiveness. The chamber is realizing its mission through high level strategic dialogue and debate in which trade, commerce, economic and bilateral issues – political and strategic - are intensively discussed. EICC has been headquartered in Brussels from where it serves EU-India economic relations nationally and internationally. While the TIPS 2013 held on 16 October 2013 marked the 50 years of India's engagement with the European Union, the TIPS 2014 celebrates 10 years of the EU-India Strategic Partnership.

The Summit will be organized in partnership with **Eurochambres / EBTC** (EICC is the newest partner of the EBTC programmes and activities) and in collaboration with **Indian Chamber of Commerce** and **The Friends of Europe**.

The objective of the Trade and Investment Partnership Summit (TIPS) is to build an innovative relationship by exploring the dynamics of changing Europe through discussion and exchange of ideas among high profile business leaders, experts from wide range of discipline, policy makers from Europe and India. The Summit will discuss strategies for promoting SMEs in EU-India Economic Cooperation; entrepreneurial spirit of Indian CEOs to help India face the challenges of change; putting Clean-Tech and

Green Growth at the heart of Development Strategies; emerging trends in Renewable Energy; strengthening dialogue and consultation mechanism on the Intellectual Property Rights Protection in India; emerging business opportunities for EU-India Cooperation in the Higher Education System in India; meeting the Challenges of Urbanization through Infrastructure Development in India; EU-India Free Trade Negotiation; harnessing Intellectual Capital of Indian Diaspora for creating better understanding in business and culture. The summit will also discuss the broader side of the trade related issues such as regulatory and legal framework, taxation policies and other incentives in India and Europe. The Summit will make comprehensive overview of India-EU relations in content and context and will suggests ways to give it a strategic dimension, and will also serve as a key platform offering an unparalleled access to a full spectrum of industry leaders, business executives, representatives of the European Commission to share their views on issues related to trade and investment. The IPR will be the signature theme of the Summit Sessions.

EICC joins in Business calls for a deal on WTO Trade Facilitation in Bali

In continuing its support to the WTO Trade Facilitation agenda, Europe's Apex Chamber EICC, in a joint statement by business associations worldwide, called upon the WTO members and negotiators to conclude talks for a Trade Facilitation Agreement before the Bali Ministerial (3-6 December). This agreement is expected to generate substantial benefits for economic operators worldwide. The statement reads as follows:

“A few days ahead of the WTO Ministerial Conference in Bali, the undersigned organisations call upon the WTO members to finalise the deal on Trade Facilitation.

The simplification and harmonisation of customs procedures worldwide is a vital building block for economic growth and development. Trade Facilitation is the simplest, most regulatory efficient way to recover economic performance and generate wealth creation for the good of all societies, regardless of location or region.

In times of immense challenges, economic operators worldwide are waiting anxiously for negotiators to show leadership and demonstrate the ability of the World Trade Organisation to really deliver at the upcoming WTO Ministerial Conference in Bali.

The undersigned bodies believe the consensus-driven negotiations and the progress made in the last weeks on the Draft Agreement on Trade Facilitation now have sufficient shape to be concluded and implemented, for the good of all economies. We call on all developed and emerging economies to take significant step to finalise the deal with the least possible derogations or transition periods and commit to help poorer countries in achieving their customs reforms.

We believe that such an early agreement to implement the Trade Facilitation Agreement would offer a key and significant boost for the global trading community during these critical economic times and show the WTO has the determination to deliver.”

The signatories’ organisations include: ANTAD, Mexico; EABC, East Africa; Eurochambres, Europe; EuroCommerce, Europe; ESF, Europe; FTA, Europe; KITA, Korea; NRF, Unites States of America and RCC, Canada

The US and powerful developing-nation players, including India and China, have overcome differences in agriculture leaving the negotiators in Geneva to put the final touches to a deal that will impose binding requirements to reduce red tape and ease the path for goods at borders around the world. It could add about $1 trillion to annual global trade worth more than $18 trillion, some analysts have said.

In a statement the World Trade Organisation on 29 November said that negotiators have made a breakthrough in talks towards a major trade deal, just two days after the agency's chief signaled a stalemate. Diplomats in Geneva have secured agreement on a key sticking point of a trade package to be put to ministers at a crunch summit next week: trade facilitation, which involves simplifying customs procedures to make commerce smoother.

It is one of the elements making up an overall trade package to be examined during the December 3-6 ministerial meeting at the Indonesian island of Bali. The biggest element of the Bali deal is the chapter on "trade facilitation", WTO jargon for removing bureaucratic barriers at borders. It will set binding standards for WTO members on matters such as how long goods should take to clear borders, how customs officials can charge tariffs and penalties and what paperwork can be required at borders. After months of haggling, negotiators earlier this week settled on a four-year "peace clause" that will give India and other countries latitude to buy staples from farmers and operate food programs for the poor.

High Growth Possible if Complex issues resolved, says ADB

Multilateral agency ADB has said India will have to resolve complex policy and regulatory issues like land acquisition and environmental clearances in order to return to higher growth trajectory.

“Return to a high growth trajectory is possible, but this will require persisting with reforms and resolving some complex policy and regulatory issues, including those relating to land acquisition for industrial activity, environmental clearances, and allocation of licenses for natural resources,” the Manila-based agency said in a report.

Resolution of these issues, the Asian Development Bank (ADB) said, would invigorate the private sector that has been vital to economic growth, employment generation, and capital formation. India, which grew by over 9 per cent for three years before the 2008 global financial crisis, is facing slowdown. The growth rate fell to a decade low of 5 per cent in 2012-13.

Recently, various external agencies had lowered their India growth projections for this financial year. The World Bank had slashed its India growth projection to 4.7 per cent, while IMF lowered its India growth estimate to 3.75 per cent for 2013-14. ADB further said that to sustain high and inclusive growth, India needs to expand and consolidate structural reforms, remove its infrastructure deficit, and improve the quality and coverage of basic social services.

“Environmental sustainability is also a priority because population growth, rapid urbanization, and economic expansion have placed unprecedented pressures on the country’s natural resources,” it said. ADB said it would provide $10 billion over the five years till 2017 to India to create jobs, enhance investment reforms, and improve infrastructure.

India's GDP grew at 4.8% in July-Sept FY'14

India's economy is estimated to have picked up slightly, growing at 4.8 per cent in the July-September quarter of the current fiscal, against the 4.4 per cent growth rate recorded in the previous quarter. The country's gross domestic product (GDP) at factor cost at constant (2004-05) prices is estimated at Rs13, 68,000 crore for Q2 of 2013-14, against Rs13,05,000 crore in Q2 of 2012-13, showing a growth rate of 4.8 per cent over the corresponding quarter of previous year.

GDP growth, however, remained subdued in the September quarter despite hopes that strong rural demand and a rebound in exports will drive a sustained recovery ahead of elections due early next year.

Among economic activities, 'financing, insurance, real estate and business services' recorded the highest growth of 10 per cent year-on-year in Q2 of 2013-14, followed by 'electricity, gas and water supply' (7.7 per cent), agriculture, forestry and fishing (4.6 per cent), `construction' (4.3 per cent), `community, social and personal services' (4.2 per cent), 'trade, hotels, transport and communication' (4.0 per cent), 'manufacturing' (1.0 per cent) and 'mining and quarrying' (-0.4 per cent).

According to the first advance for 2013-14, production of coarse cereals, pulses and oilseeds are expected to have grown by 4.9 per cent, 1.9 per cent and 14.9 per cent, respectively, during the Kharif season of 2013-14. Apart from production of kharif crops, the growth in 'agriculture, forestry and fishing' estimates of GDP in Q2 are based on the estimated production of fruits and vegetables, other crops, livestock products, forestry and fisheries, the Central Statistical Organisation said while releasing the data.

According to the latest estimates available on the index of industrial production (IIP), the index of mining, manufacturing and electricity, registered growth rates of (-) 0.1 per cent, 1.2 per cent and 8.4 per cent, respectively, in Q2 of 2013-14. The key indicators of construction sector, namely, production of cement and consumption of finished steel recorded growth rates of 5.9 per cent and 1.3 per cent, respectively in Q2 of 2013-14.

In the service sector, key indicators of railways, namely, the net tonne km and passenger km have shown growth rates of 3.7 per cent and (-) 2.5 per cent, respectively, in Q2 of 2013-14. In the transport sector, the sale of commercial vehicles, cargo handled at major ports, cargo handled by the civil aviation and passengers handled by the civil aviation registered growth rates of (-)22.1 per cent, 5.9 per cent, 0.4 per cent and 12.6 per cent, respectively, in Q2 of 2012-13 over Q2 of 2012-13. The other key indicators, namely, aggregate bank deposits, and bank credits have shown growth rates of 12.0 per cent, and 15.4 per cent, respectively, as of September 2013-14. GDP at factor cost at current prices is estimated at Rs25,05,000 crore, against Rs22,28,000 crore in Q2, 2012-13, showing an increase of 12.4 per cent.

The wholesale price index (WPI) in respect of the groups - food articles, inland fish, machinery and machine tools, manufactured products, electricity and all commodities, has risen by 16.3 per cent, 35.8 per cent, 2.0 per cent, 2.2 per cent, 13.0 per cent and 6.1 per cent, respectively year-on-year, during Q2 of 2013-14.

The consumer price index for industrial workers (CPI-IW) has shown a rise of 10.9 per cent during Q2 of 2013-14 over Q2 of 2012-13. Private final consumption expenditure (PFCE) at current prices is estimated at Rs14,83,000 crore in Q2 of 2013-14 against Rs13,49,000 crore in Q2 of 2012-13. At constant (2004-2005) prices, the PFCE is estimated at Rs8,55,000 crore in Q2 of 2013-14 against Rs8,37,000 crore in Q2 of 2012-13.

In terms of GDP at market prices, the rates of PFCE at current and constant (2004-05) prices during Q2 of 2013-14 are estimated at 56.6 per cent and 59.8 per cent, respectively, as against the corresponding rates of 58.2 per cent and 61.8 per cent, respectively, in Q2 of 2012-13.

RBI permits Foreign Bank's subsidiary to acquire Private Banks

The Reserve Bank on 6 November permitted wholly-owned subsidiary (WOS) of foreign banks to acquire domestic private sector banks as well as set up branches anywhere in the country.

It also allowed foreign bank subsidiary to list on local stock exchanges. However, foreign bank subsidiary will not be allowed to hold more than 74 per cent, the sectoral cap for overall foreign investment, in the private banks they may acquire. “As a locally incorporated bank, the WOSs will be given near national treatment which will enable them to open branches anywhere in the country at par with Indian banks (except in certain sensitive areas where the Reserve Bank's prior approval would be required),” the RBI guidelines said.

Such conversion is also desirable from the financial stability perspective, the framework for setting up of WOS by foreign banks in India said. “The issue of permitting WOS to enter into merger and acquisition transactions with any private sector bank in India subject to the overall investment limit of 74 per cent would be considered after a review is made with regard to the extent of penetration of foreign investment in Indian banks and functioning of foreign banks (branch mode and WOS),” it said.

To provide safeguards against the possibility of the Indian banking system being dominated by foreign banks, it said, the framework has certain measures to contain their expansion if the share of foreign banks exceeds a critical size. RBI will put a stop on further entry of new WOSs of foreign banks or capital infusion, when the capital and reserves of all foreign banks in India exceed 20 per cent of the capital and reserves of the entire banking system.

As per the guidelines, the initial minimum paid-up voting equity capital or net worth for a WOS would be Rs 500 crore. As per the norms, it will not be mandatory for existing foreign banks set up before August

2010 to convert into WOSs, however, they will be incentivised to convert into WOSs by the attractiveness of the near-national treatment.

Banks with complex structures, inadequate disclosure in their home jurisdiction, which are not widely held etc, would be mandated entry into India only in the WOS mode, it said. However, it said foreign banks in whose case the above conditions do not apply can opt for a branch or WOS form of presence. “A foreign bank opting for branch form of presence will convert into a WOS as and when the above conditions become applicable to it or it becomes systemically important on account of its balance sheet size in India,” it said.

The parent of the WOS would be required to issue a letter of comfort to the RBI for meeting the liabilities of the WOS, it said. With regard to meeting priority sector lending, the guidelines said, it would be 40 per cent for WOS like domestic scheduled commercial banks with adequate transition period for existing foreign bank branches converting into WOS. As per the current norms, priority sector lending target is 32 per cent of the total lending for foreign banks with over 20 branches.

In India, there were 43 foreign banks operating through a network of 333 branches as of March 2013. Also, 47 foreign banks have representative offices in the country. Standard Chartered, the largest foreign bank by branch presence in India, has its depository shares trading on the domestic bourses, although it hasn't adopted a subsidiary route here. Only multinational banks Standard Chartered, HSBC and Citi have more than 30 branches in the country. Although the Royal Bank of Scotland has 31 branches, it is winding down local retail operations.

India surpasses China, US as most attractive investment destination

With relaxation in FDI norms to boost investor sentiments, India has emerged as the most attractive investment destination surpassing neighbouring China and the US, says a report.

The global survey of leading consultancy firm Ernst and Young (EY) has ranked India as the most attractive investment destination followed by Brazil and China at second and third positions, respectively.

While Canada has cornered fourth spot, the US is placed at fifth position. Other nations in the top ten are South Africa (6), Vietnam (7), Myanmar (8), Mexico (9) and Indonesia (10).

"With sharp currency depreciation and opening up of FDI in various sectors, India has become an attractive destination for foreign investors," EY, earlier known as Ernst &Young, said.

In August, the government announced relaxation in Foreign Direct Investment (FDI) norms in many sectors, including multi-brand retail and telecom.

According to the global consultancy firm, due to the present macro-economic pressures and heavy debt pile, several Indian companies are looking to divest non-core businesses. "This has created a large opportunity for foreign players vying for a greater role in the Indian market," it added.

When it comes to investments, the US, France and Japan have emerged as "top three investors likely to invest in India". The findings are a part of EY's latest Capital Confidence Barometer report, based on a survey of about 1,600 senior executives from large companies across 70 countries. It aims to gauge corporate confidence in the economic outlook and understand boardroom priorities, among others.

With respect to India, sectors with the highest level of anticipated deal-making include automotive, technology, life sciences and consumer products. About 38 per cent of the respondents felt that M&A volumes in India are expected to improve over the next 12 months.

"Indian companies also reflect a concerted focus on job creation as well as optimising operations to deliver cost reduction," the report said. Amit Khandelwal, who is National Leader; Partner (Transaction Advisory Services) at EY, said the investor outlook for India remains positive, despite the challenges the country's economy has faced in the recent past.

On the other hand, the report said that Indian corporate entities have started looking at developed markets for making acquisitions. "After two years, European countries (UK and Germany) have made a comeback on the potential investment destinations list for Indian companies," it added.

MNCs look beyond India slowdown

Have committed themselves to investing Rs 1,85,000 cr since last year

Amid a demand slowdown and an uncertain economic environment, India's domestic industry might be chary of making fresh investments, but the global business community seems to have a different outlook on the country. If the announcements made by multinational companies and their joint ventures since last year — of investments to the tune of Rs 1,85,000 crore in India over the next few years — are any indication, they clearly are betting big on the country's growth story.

This committed money is being pumped into the consumer-facing industries like FMCG, consumer durables, automobiles, telecom, airlines, retail and pharmaceuticals. The investment commitment by these foreign companies exceeds the $18.28-billion FDI inflows into the country (according to Reserve Bank of India data) in 2012-13. And, it is being made for a variety of reasons — expanding manufacturing capacity, new product development, increasing distribution penetration and raising stake in Indian ventures for more effective control.

At the top of the heap is the FMCG sector, primarily propelled by the huge investments announced by global beverage giants Coca-Cola and PepsiCo, besides a fresh splurge from Procter & Gamble to take on Hindustan Unilever, its key rival. The foreign FMCG companies have announced combined investments of around Rs 85,000 crore, nearly half of all the announcements made. (India in their sights)

Only two days ago, PepsiCo Chairperson & CEO Indra Nooyi announced her company would invest Rs 33,000 crore in the country by 2020. Add to this Coke's promise of $5 billion — made in June 2012 — and the money to be brought in by the two by the end of the decade exceeds Rs 58,000 crore. These investments are part of their plan to penetrate deeper into the market and be available at eight million retail outlets of the country — at present, they are present at a fourth of those — and offer their products cold. This will require more refrigerators, trucks, bottling plants and innovation.

The strategy needs to be backed with more money to ensure products are available at low price points.
Procter & Gamble had also announced a mega plan earlier this year — of investing $1 billion over the next five years. Currently, India accounts for only five per cent of the company's developing-market turnover. It plans to increase emerging markets' share in its global turnover from 38 per cent to 50 per cent by 2025. P&G's chief rival, Unilever, has brought in more than Rs 19,000 crore, only a few months back, to raise its stake in its Indian venture from 52 per cent to 67 per cent, under a buyback offer.

Also, Japanese consumer major Hitachi had in December last year said it would invest Rs 4,700 crore in India to set up five new manufacturing unit by March 2016.The Japanese, who have lost out to their Korean peers in the Indian consumer durables play, are now comitting big bucks to catch up. For example, Hitachi, which is planning to set up five new manufacturing plants by 2016, Panasonic and Daikin are together putting in Rs 6,500 crore to take on the Koreans.

Arvind Singhal, chairman of Technopak, which advices top consumer goods and retail companies in the country, said: "India has emerged as a key destination because the US and Europe markets are not growing. Those in Brazil and Russia collapsed last year, while China is a tough market to crack. This makes India a must-invest destination, as the untapped opportunity here is huge."

Singhal added, in a clear contrast with their foreign counterparts, Indian companies were not putting in large amounts of money in the country. "Unlike foreign companies, Indian consumer goods, retail, FMCG and other firms do not have strong balance sheets. Besides, they are highly leveraged because of their unrealistic diversification. So, they cannot raise funds."

A similar trend is also seen in the automobile sector, where investment plans are not being shelved, despite falling sales. As many as eight automobile companies, mostly passenger car makers, are putting in over Rs 41,000 crore. In July, Nissan-Renault CEO Carlos Ghosn said his company would bring in $2.5 billion over the next few years, doubling its investments in India so far. And, after deciding to shift its thrust to the lower end of the market, it hopes this money would help it grab at least 15 per cent market share in the country.

US car maker, Ford, also seems to have meant business when it said it was investing $1 billion in setting up a new plant at Sanand, Gujarat. This facility would help it raise its manufacturing capacity to 440,000 cars and over 600,000 engines by 2014. Besides, of course, there is Japan's Suzuki, which is investing Rs 3,500 crore in setting up a new plant in Gujarat to add 250,000 cars to its annual capacity.

The telecom sector, after a lacklustre 2012-13, in which it received a mere $92 million as FDI inflows, is again looking up. As much as Rs 24,000 crore worth of investments in the sector are lined up — much of that will be spent this year.

One of the reasons for the optimism is that the government has raise the FDI cap for the sector from 74 per cent to 100 per cent. Also, the industry is seeing consolidation, as well as better realisation from tariffs, with an end to price wars. Vodafone and Telenor will shell out more than Rs 11,000 crore to raise their stakes in their respective Indian ventures. In addition, the foreign telcos will put in more money, not accounted for, to buy spectrum in the 800-MHz, 900-MHz and 1,800-Mhz bands, which will come up for auctions in January next year.

Vodafone India CEO Martein Pieters said: "We are obviously bullish on the India opportunity. India has disappointed us a bit with regulatory uncertainty in the past two years, but now that phase is almost over. Our profitability has gone up."

So far as the Indian skies are concerned, the new FDI policy — permitting foreign carriers to take up to 49 per cent stake in their Indian domestic peers — has already brought in some action. Foreign carriers, including Etihad Airways, AirAsia and Singapore Airlines are investing more than Rs 2,500 crore in India. And, many like Qatar Airways are waiting in the wings to buy into Indian airlines.

In retail, the initial controversy and various FDI policy flip-flops aside, there have been some concrete strides. A WalMart or a Carrefour might still not have made an entry in multi-brand retailing, but Swedish furniture giant IKEA is set to open stores here. Its FDI proposal was cleared, opening the doors for more single-brand retailers to move in, as the government allowed 100 per cent FDI in single-brand retail. Also, Swedish retailer H&M also joined the group, with the Foreign Investment Promotion Board recently clearing its proposal to invest Rs 720 crore in the country.

IT exports to reach $86 b this fiscal, says Nasscom

The domestic information technology (IT) sector will grow by 12-14 per cent, while IT exports are likely to reach $86 billion in the current fiscal on the back of adoption of new technologies and tapping new geographies by corporates, the National Association of Software and Services Companies (Nasscom) said here on 20 November.

"The (IT sector) growth will be 12-14 per cent in dollar terms and in rupee terms, it will be higher because of currency (fluctuations)," Nasscom President Som Mittal said recently.

"Last fiscal, the IT sector grew by 10.3 per cent...but the last two quarters results (showed) companies are doing good," he said. Asked about the likely IT exports, Mr. Mittal said IT exports would reach $86 billion from $76 billion in the last fiscal.

"From $76 billion last year, it is expected $86 billion...it is $10 billion increase...lets not talk about slowdown, the base has increased. Therefore, the growth in percentage will certainly drop as the base has increased," he said.

The growth in IT exports would be possible because of existing customers moving to new technologies such as social media mobility, health care, utilities and moreover, new geographies, he added.

Asked about hiring in the sector, Mr. Mittal said companies in the IT sector were hiring more people in comparison to other industry verticals.

“We are adding net people... people talk about (that) hiring is going down. We added two lakh people last year, and we are hiring now. Tell me which industry is hiring,” he said. However, he said the IT sector had changed its hiring model. “We have changed our model. We will hire people in two tranches... we are hiring now from colleges and we will hire next year just in time,” he said. He said the hiring in current fiscal might be 1.80 lakh.

On emerging markets, Mr. Mittal said the U.S. market would continue to grow, while Asia-Pacific was also growing, adding that though the global economies were still struggling. There was also good potential in China and Japan while considering their size of economies, he said. Mr. Mittal noted that small IT companies were picking up in India as large ones were also seeking their help for IT solutions. “A large number of small companies are picking up which is a big change (in IT landscape). Large companies are going to small companies for solutions,” he said.

Swedish companies flag growing concerns about India

Swedish companies, including furnishing major Ikea, recently said that the business climate in India is 'non-favourable' while bureaucracy in the country remains a big challenge for their growth. According to a business climate survey conducted by the Swedish Chamber of Commerce in India, though the willingness of Swedish companies to invest in India remains high, 40 per cent of the 157 companies operating in India feel that "the current Indian business climate is non-favourable, a big jump from last year's 28 per cent stating the same".

The survey comes at a time when Ikea is planning to enter India with an investment of over Rs 10,000 crore. The company is, however, yet to announce the location for its first store. The government allowed 100 per cent foreign direct investment (FDI) in the single-brand retail sector September last year and Ikea's proposal is so far the largest in the sector. Some of the well-known Swedish companies present in India are: Oriflame, Tetra Pak, Scania, SCA, Ericsson, Kunskapsskolan and Volvo.

A statement from the chamber said, "17 per cent (participants) are stating that major senior management's time is spent on dealing with government authorities about application and interpretation of laws and regulations. 28 per cent state increased bureaucracy to be largest risk facing their business in India."

According to the survey, number of Swedish companies incorporated in India has increased and 8 of 10 companies that participated in the survey, have said that they are planning to increase their operational activities in the country. The companies are also bullish on the Indian market with one out of two companies expecting that in the coming three years, the investment climate is likely to become more favourable. Based on this optimism, 71 per cent Swedish companies said that they are planning to increase their local workforce by over 5 per cent in 2014.

However, "The perceived availability of workforce has significantly lowered from last year. Swedish companies are struggling with unskilled workforce both in white and blue collar," the survey showed. Also, 54 per cent respondents perceive Indian labour regulations to be problematic for their operations and growth.

Global telecom M&A volume hits highest level since 2000

Global mergers and acquisitions (M&A) in the telecom sector have witnessed the highest-ever volume wise growth since the year 2000 as they have soared to $ 343.4 billion till date.

According to a report prepared on global M&A telecom deals by Delogic which is a firm that tracks such deals across the world, the telecom sector reported the highest year-to-date volume since 2000 mainly due to the massive $130 billion Verizon Wireless transaction.

The deal volume has gone up almost two times as compared to the volumes the sector had registered in the same period last year. In the January-November 2012 period, there were transactions worth $ 164.4

billion. As per the report, January to November telecom deals tally of $343.4 billion is the highest for the 11-month period since 2000, when deals worth $ 733.4 billion were announced.

Global telecom M&A volume this year so far is driven by the $ 130 billion acquisition of a 45 per cent stake in Verizon Wireless Inc by Verizon Communications Inc from Vodafone Group plc. The deal was announced on September 1. Excluding this deal, global telecom M&A totaled $213.4 billion, up 30 per cent same period last year. In terms of number of total deals, there were 843 deals so far this year, down 12 per cent compared 960 deals in 2012 in the telecom sector. The telecom was the leading sector for global M&A volume in 2013 accounting for 14 per cent of total global M&A volume.

North America accounted for the largest share of telecom M&A volume with 55 per cent or $187.5 billion in 2013, followed by Europe and North Asia with 33 per cent of $114.6 billion and 4 per cent $13.5 billion respectively. Goldman Sachs led the global telecoms M&A advisor ranking in 2013, followed by JPMorgan and Morgan Stanley, the report said.

India has the potential to become a major manufacturing hub

It is a no brainer. In 2010, the largest chemical market was China, controlling 25 per cent of the global sales at $763 billion, followed by Europe with 21 per cent at $651 billion. The US was the third with 17 per cent at $524 billion. The rest of the nations, including India, controlled 23 per cent of global chemicals sales at around $720 billion.

By 2050, the ‘rest of the nations’ group’ is slated to become the largest market for chemicals. Though China will continue to be the single-largest market, Europe and the US will see their global presence shift in favour of India. India is expected to become the second-largest individual market after China, excluding the rest of the nations’ group, cornering 20 per cent of the global chemical sales by 2050, according to a report.

If the chemical industry is to have a new ‘Sun’ in the form of India rising on the horizon soon, could the specialty chemical industry be far behind? Specialty chemicals are manufactured on the basis of their performance or function. They can be single chemical entities or formulations whose composition influences the performance and processing of the end product. Though the specialty chemicals business is referred to as a knowledge-based industry, given that it caters to different applications, it makes the business more complex.

Specialty and fine chemicals are low-volume, high-margin in nature. It is estimated that nearly 70 per cent of fine chemicals produced in India are used by the pharmaceutical and agrochemical industries. Specialty chemicals include adhesives, additives, antioxidants, biocides, corrosion inhibitors, cutting fluids, dyes, lubricants and pigments.

Moreover, Indian specialty chemical manufacturers have a strong presence in the export market, too. Active pharmaceutical ingredients and colourants, including dyes and pigments, are some of the key products exported. India exports speciality chemicals to Asia-Pacific countries and also to Europe and US, where it leverages its low cost of production and quality talent pool. The spotlight is firmly focussed on the Indian specialty chemical industry, characterised by a substantially low penetration against a growing user base, despite the fact that the industry is beset by several problems.

With a potential to grow to $70-$100 billion by 2020 from the present $23 billion, the specialty chemicals market has plotted a strong growth at 14 per cent per annum over the last five years. But consumption levels are very low in India compared to other countries.

For instance, compared to China, which overtook the US to become the world’s largest chemical market in 2010, India has tended to be in China’s shadow for several decades. In 2010, India was ranked eighth.

Not only is China already a much larger market than India, it also offers similar growth rates and the same order of capital expenditure and labour cost advantages. Major international chemical players keen to invest in the region, are also making a beeline to the nation. Other statistics are also daunting. In terms of petrochemicals, India has no feedstock advantage compared to the production in West Asia, which is conveniently located to serve the Indian market. Juxtapose India's 4 million tonnes per year of ethylene capacity to US' 27 million tonnes/year or China's 16 million tonnes/year, to get a clearer picture. Moreover, if one takes into account the global capacity of ethylene at 147 million tonnes/year, India's production is a mere dot on the horizon.

Moreover, in the case of surfactants based on ethoxylates, most Indian ethylene oxide output is dedicated to monoethylene glycol production, with only the Reliance Industries' plant at Hazira, Gujarat, having substantial ethylene oxide volumes. However, the scene is very different with naphtha. India is a naphtha-surplus country and exports most of its naphtha because of lack of crackers. A recent report by the Tata Strategic Management Group has suggested that if the scenario continues to prevail, then there would be a lack of basic building blocks for the specialty chemical industry, with the dependence on imports for intermediates soaring to new heights.

Recognising the inherent drawbacks ailing the sector, the Indian Government announced five petroleum, chemicals and petrochemical investment regions in 2007. However, only one of the five - Dahej in Gujarat - has made progress. Despite the fact that the industry has been marred by a turbulent past, and foreign competition has been nipping at its heels, the domestic specialty chemical industry has accomplished a small measure of growth, bravely battling each hurdle.

According to Tata Strategic Management Group's report, the Indian specialty chemicals market is estimated to reach $60 to $70 billion by 2020, from the current $23 billion.

"The idea is to deliver growth through capitalising on opportunities and addressing imminent challenges," said Manish Panchal, Practice Head, Chemical and Energy, Tata Strategic Management Group, who has authored the report. Stating that the specialty chemical industry is a knowledge-driven industry, Panchal said domestic demand of specialty chemicals is expected to follow an accelerated growth path. "Demand is mostly driven by the strong growth outlook for the end-use industries. Along with increased adoption of specialty chemicals, newer applications are set to propel growth further," he added.

The report notes that the growth of the Indian specialty chemicals market is encouraging, given the small base and adds that the base case growth rate is expected to be slightly lower than the XIIth five-year Plan target, with an expected growth of around 13 per cent per annum, which could shoot up to 17 per cent per annum over the next decade. Given the increased dependence on raw material output, India could also develop into a major manufacturing hub with the global industry shifting away from developed economies, with its higher cost of production, to developing economies such as India. Creation of chemical clusters by the Government dedicated to specific segments of the chemical industry will also ensure that optimum safety, logistics and infrastructure are provided for making the infrastructure and manufacturing environment truly world-class at a low cost.

As Naina Lal Kidwai, Country Head, HSBC India, and President of FICCI noted, even as the chemical industry is critical for the economic development of any country, specialty chemicals are the fastest-growing segment in the chemical industry. Specialty chemicals are high value, low volume chemicals known for their end-use applications. While there is immense potential for increasing consumption within the country, most corporates believe it is time for India to become a reliable supplier of such quality chemicals to the world.

B. B. Swain, MD, Gujarat Industrial Development Corporation, noted that specialty chemicals is a knowledge-driven segment which facilitates different segments of the economy. Stating that Gujarat is the hub of the Indian chemical industry and that over the past two decades the State has become one of the preferred locations for industrial investment in India, Swain said it accounts for over 50 per cent of national chemical production.

Multinational chemical companies have also shown interest in the burgeoning specialty chemicals market in India, with most of these companies looking to strengthen their presence in the country through further investments in manufacturing capacity and research and development.

A McKinsey report has stated that the intensity of usage of specialty chemicals in India is at a much earlier stage of development than in Western markets and China, creating significant scope for growth. For example, as India's construction and real estate industries see how concrete admixtures can help reduce maintenance and repair costs, there is potential to at least double the intensity of admixture use in the country. The adoption of new product specifications and environmental standards also have the potential to boost specialty chemicals usage. In water treatment, for example, expected tightening of India's municipal water pollution norms is likely to increase water treatment chemicals usage substantially.

The McKinsey report puts it succinctly, "If India's specialty chemicals industry can capture the potential of these sectors, it could become the most attractive specialty chemicals growth market in the world over the next decade." Is the sector listening?

India Inc takes pledge to build a better nation

Each member is tapping his knowledge and experience to come up with ways and means to "build the nation".

A group of corporate chieftains, among other luminaries, have taken upon themselves the task of converting India into a force to reckon with by the time the republic turns 75. That is, by the year 2022. They propose to do this with the help of the Centre, partner institutions, community groups and individuals, who they hope will collaborate with them in this endeavour.

Called India@75, the initiative, led by Godrej Group chairman Adi Godrej, includes Tata Group chairman Cyrus Mistry, Infosys Executive Chairman N R Narayana Murthy and Vice-Chairman S Gopalakrishnan, Bajaj Auto chairman Rahul Bajaj, HDFC chairman Deepak Parekh and Mahindra & Mahindra chairman Anand Mahindra, among others.

Each member is tapping his knowledge and experience to come up with ways and means to "build the nation". As Godrej says: "The idea is to develop behaviour, values, systems, culture and processes that can take India forward."

The foundation has prepared a vision document that encompasses areas where work is required. These include areas such as education and skilling, technology and innovation, agriculture and food security, business and economy, urbanisation, and environmental sustainability.

According to Godrej, specific goals and targets will be set in each area to plug the gaps and build a modern India. To achieve this, the foundation will encourage common men and women, partner groups, organisations and institutions to either volunteer or take up philanthropic or pro-bono work. People will also be encouraged to donate for this cause, Godrej adds.

The foundation has already taken its first tentative steps in its drive to build a modern India by 2022 by setting up the India Backbone Implementation Network (IBIN), a website which will sensitise people to nation-building and what they can do towards the cause of India@75.

The second part of the exercise has also been set into motion with city-level platforms to facilitate exchange of ideas and concepts having been created in Pune, Bangalore and Chennai. Godrej says these city-level platforms will be taken to more places to include as many people as possible.

Skilling, an important area identified by the foundation, has seen the latter work closely with the National Skill Development Corporation to encourage students and entrepreneurs to pursue skill development as a means to improve their abilities as well as a viable business venture. "India@75 is a people's movement, where the idea is to take a focused approach to addressing fundamental issues that plague the country.

As a key call to action, we have launched a 'Count Me In' mobile app to facilitate maximum citizen participation," Godrej adds.

Foreign banks with complex structures can operate via wholly-owned subsidiaries only

The framework for setting up of WOS by foreign banks in India, released by the Reserve Bank also allowed foreign banks' subsidiaries to list on local stock exchanges.

In a bid to regulate and avoid 2008- type crisis, RBI said foreign banks with complex structures and which do not provide adequate disclosure would have to operate in India only through wholly-owned subsidiaries (WOS). However, it permitted WOS of overseas banks to acquire private sector banks.

The framework for setting up of WOS by foreign banks in India, released by the Reserve Bank tonight, also allowed foreign banks' subsidiaries to list on local stock exchanges. The initial minimum paid-up equity capital or net worth for a WOS would be Rs 500 crore.

"Banks with complex structures, banks which do not provide adequate disclosure in their home jurisdiction, banks which are not widely held, banks from jurisdictions having legislation giving a preferential claim to depositors of home country in a winding up proceedings, etc, would be mandated entry into India only in the WOS mode," it said.

Foreign banks operating in India before August 2010 have the option to continue their operations in branch model.

The RBI further said foreign bank subsidiary will not be allowed to hold more than 74 %, the sectoral cap for overall foreign investment, in private banks they may acquire.

"As a locally incorporated bank, the WOSs will be given near national treatment which will enable them to open branches anywhere in the country at par with Indian banks," the RBI guidelines said.

There were 43 foreign banks in India with a network of 333 branches as of March 2013. At present, foreign banks have presence in India only through branches. The guidelines come against the backdrop of the 2008 global financial crisis, which the RBI said has shown that growing complexity and inter-connectedness of financial institutions have compromised the ability of home and host authorities to cope with the failure of big banks.

"The lessons learn during the crisis lean in favour of domestic incorporation of foreign banks," it said. Spelling out reasons for subsidiarisation, it said this will create separete legal entities having their own capital base and local board of directors, which will help in better regulatory control.

Also, it would ensure that there is a clear delineation between the assets and liabilities of the domestic bank and those of its foreign parent and clearly provides for ring fenced capital and assets within the host country, RBI said.

Standard Chartered, the largest foreign bank by branch presence in India, has its depository shares trading on the domestic bourses, although it hasn't adopted a subsidiary route.

Only multinational banks Standard Chartered, HSBC and Citi have more than 30 branches in the country. Although the Royal Bank of Scotland has 31 branches, it is winding down local retail operations. The RBI's framework, aimed at safe guarding the Indian banking system, comes in the backdrop of collapse of several banks in advanced countries during 2008 global financial crisis.

"The issue of permitting WOS to enter into merger and acquisition transactions with any private sector bank in India subject to the overall investment limit of 74 % would be considered after a review is made with regard to the extent of penetration of foreign investment in Indian banks and functioning of foreign banks (branch mode and WOS)," it said.

To provide safeguards against the possibility of the Indian banking system being dominated by foreign banks, it said, the framework has certain measures to contain their expansion if the share of foreign banks exceeds a critical size.

RBI will put a stop on further entry of new WOSs of foreign banks or capital infusion, when the capital and reserves of all foreign banks in India exceed 20 % of the capital and reserves of the entire banking system.

Indian Commerce Ministry firm on limiting FDI in existing pharma projects

The Commerce & Industry Ministry has decided to go ahead with its proposal to restrict foreign direct investment (FDI) in existing pharmaceutical ventures despite objections from the Finance Ministry and the Planning Commission.

In its final note to be submitted to the Cabinet for approval soon, the Department of Industrial Policy & Promotion will incorporate all objections raised on the proposal and give its comment, a DIPP official told Business Line.

The DIPP wants to cap FDI in brownfield projects below 49 per cent in “critical” sectors such as oncology medicines and vaccines to ensure continued availability of generics (copies of off-patent medicines) at affordable prices.

It also suggested that foreign investors be mandated to create at least 25 per cent additional capacity and generate additional employment in the critical pharma projects they invest in.

The Finance Ministry and the Planning Commission are of the opinion that it was not good to reverse the existing FDI policy as it would serve as a disincentive for foreign investors. The current FDI policy allows 100 per cent foreign investment in the pharmaceutical sector. While investments in greenfield projects are automatic, those in brownfield or existing projects have to be routed through the Foreign Investment Promotion Board (FIPB).

The Planning Commission, in its comments on the draft Cabinet note circulated by the DIPP, further argued that there was no evidence of rise in prices over the last few years under the existing policy.

“Our proposal for restricting FDI in existing pharma projects is based on evidence and experience. We will leave the ultimate decision to the Cabinet and the Prime Minister’s Office,” the official said.

The DIPP, in an earlier note, had pointed out that most of the FDI that has come into the pharma sector in the country has come in brownfield pharma and if it is allowed to continue then the existing facilities in the country that produce cheap life-saving medicines would completely be taken over.

It had also given a detailed presentation to Planning Commission Deputy Chairman Montek Singh Ahluwalia on the issue recently, hoping to win him over. The Science & Technology Ministry, which has supported the DIPP’s move, has expressed concern that takeover of Indian pharmaceutical companies by foreign investors could lead to a waste of Government efforts, research and resources as many of these companies sourced their technologies from Government laboratories under the CSIR.

The Health Ministry, too, supports the DIPP proposal to cap FDI in pharma.

Despite objections raised by the DIPP, the FIPB has been steadily clearing FDI proposals in existing pharma projects. It recently approved US-based Mylan’s proposal to acquire Indian generic manufacturer Agilla for Rs 5,168 crore.

India may soon overtake US in number of internet users

The number of Internet users in India reached 205 million in October this year and will hit 243 million by June 2014 - overtaking the US as the country with the second-largest internet base in the world after China, according to a report by the Internet and Mobile Association of India and IMRB International. According to the report, the number of internet users in urban India was 137 million in October and is estimated to touch 141 million by December 2013. Observers are however taking these figures with a pinch of salt – for one thing, the study includes people using the web just once a month as 'active users'; for another, the World Bank estimates US internet penetration to be over 80 per cent or a little over 250 million users. India is nowhere near these levels of penetration, given the pathetic connectivity and speeds witnessed by most of the Indian population that lives outside the metros and large towns.

According to the IAMAI report, rural India has seen a growth of 58 per cent of active Internet users since June 2012. China takes the first spot with 300 million users, while the US takes the second spot with 207 million. Mumbai has India's largest internet population, with over 12 million users. Delhi is second with 8.1 million users, followed by India's 'silicon city' Hyderabad with 4.7 million users. Chennai and Kolkata are in the number four and five spots with 4.5 and 4.4 million users respectively. But Kolkata registered the highest growth of internet users among all the top cities in India. Rajan Anandan, chairman of the IAMAI, said, "The internet in India took more than a decade to move from 10 million to 100 million and only three years from 100 to 200 million. From here on, we can hope to develop a robust internet ecosystem with a multitude of local and global players and a thriving internet economy. Internet is now clearly mainstream in India". Indians use the net mainly for communications and entertainment, with social media a close third, finds the study. Online shopping does not appear to be popular outside the big cities. And most importantly the vast educational resources on the net are not being properly leveraged in a largely uneducated or under-educated country.

Giving reasons for the pre-eminence of Mumbai in internet usage, IAMAI associate vice-president Nilotpal Chakravarti said, "The primary reason is the increasing use of the internet by college students. There are various factors which have been instrumental in bringing about this change, with the major ones being the increase in mass media exposure and also the rising number of social networking apps targeting youth." Chakravarti however admitted that a significant portion of Indian users do not access news online, use e-commerce sites to buy their goods, or even use social media or networking sites. But "There is every reason to believe that they will turn into active users in the near future," he added.

Trade MEPs back tool to open up non-EU public procurement markets to EU firms

A draft law that could bar non-EU firms from bidding for public procurement contracts in the EU unless their home countries allow EU firms reciprocal access to their public procurement markets was endorsed by the International Trade Committee on 28 November. The proposed “international public procurement instrument” should strengthen the EU’s hand in trade talks and help EU firms wishing to bid for third country contracts.

"The new rules address a crucial imbalance in global trade whereby large multinationals from newly-industrialised nations profit from open access to EU markets, but are protected from global competition at home", said European Parliament rapporteur and International Trade Committee coordinator Daniel Caspary (EPP, DE). "The new rule is simple: 'same rights for both sides'. We are creating a level playing field", he added.

The international public procurement instrument, approved by 19 votes to 10 with 1 abstention, should help to open up access to third countries’ public procurement markets in exchange for access to EU ones. EU Commission data suggest that 85% of EU public procurement markets are already open to international tenders, but some EU trade partners are reluctant to open up these markets to EU firms. For example, EU firms are permitted to bid for only 32% of the public tenders in the USA and 28% in Japan.

The proposed instrument would apply to big public tenders (worth €5 million or more excluding VAT) and to tenders in which goods or services originating outside the EU exceed 50% of the total value of the goods or services involved.

MEPs amended the proposed rules to prevent fragmentation of the single public procurement market, by clarifying that Member States or their contracting authorities can restrict the access of third country goods and services only by measures provided for in this Regulation or by relevant European Union law and only after a European Commission investigation has found a ”lack of substantial reciprocity” by the third country concerned.

To reduce the risk that developing countries could become unintended victims of the new instrument, the committee backed the proposed exclusion of Least-Developed Countries from scope of legislation and also proposed excluding those developing countries which are ”considered to be vulnerable due to lack of diversification and insufficient integration within the international trading system”. Their bids for public contracts in the EU public tenders must be treated as intra-EU ones, said MEPs.

MEPs amended the draft to ensure that “lack of substantial reciprocity” restrictions could also be imposed where international labour standards, as defined by the recently-approved EU Public Procurement Directive, are breached in a third country.

The committee vote needs to be confirmed by the full House in a plenary vote (January tbc)

European Parliament approves EU’s long-term budget (MFF) 2014-2020

After months of complex negotiations, Parliament gave its blessing to the EU’s long-term budget for 2014-2020 on November 19. All the conditions set out in its July resolution – which followed a political agreement at the highest levels between Parliament, the Irish Presidency and the Commission were met. The overall budget for the next seven years is €960 billion in commitments and €908 billion in payments (at 2011 prices).

Payments shortfalls remedied: Firstly, Parliament wanted the recurring shortfalls in payments, which have made it almost impossible for the European Commission to fulfil its legal, financial obligations in recent years, to be remedied so as to avoid starting 2014 in the red. Member states agreed to add another €3.9 billion to 2013.

Legal bases for all EU programmes agreed: Secondly, Parliament also insisted all legal bases for the various EU programmes be finalised on the basis of co-decision between the Council and Parliament. This is now the case and as a result many programmes are being voted during this plenary session.

High-level group on own resources: Thirdly, Parliament insisted on the setting up of a high-level working group on “own resources” to work on reforming the EU’s income arrangements, as the current system, with all its exceptions, rebates, different sources of funding and dependence on national budgets, has become inexplicable. Member states agreed to the setting up of this group, which will start its work shortly.

Making best use of every euro: In the June 2013 agreement Parliament already secured the key priorities set out in its negotiating mandate. These included close to full flexibility to move unpaid funds (payment appropriations) between years and wide flexibility for commitments, both between years and between categories of expenditure. This flexibility is needed to ensure that every EU budget euro is used where it is most needed, especially now that annual budgets will decrease.

Mid-term revision: Another key achievement for Parliament was to insert a "revision clause", which will require the European Commission to present a review of the functioning of the EU’s long-run budget (Multi-annual Financial Framework -MFF) in 2016, taking full account of the economic situation at the time. Particular emphasis will be given to aligning the future duration of the MFF - currently seven years - with the 5-year political cycles of the EU institutions. The review will be accompanied by a legislative proposal for revision.

Next steps: The Council of Ministers is set to approve the MFF as an A point at the Competitiveness Council on 2 December.

Employment MEPs boost freedom of movement for workers throughout the EU

Measures to help EU citizens who want to work in another member state by clarifying their right to freedom of movement, providing suitable means of redress at national level if they suffer discrimination, and setting up contact and information points in the member states were adopted by employment MEPs on 5 November.

"The right of EU citizens to work in another member state is laid down in the Treaty and EU legislation. However discrimination based on nationality still remains. This legislation aims at clarifying, facilitating and better applying the rights under existing EU legislation but does not create new ones and does not impose new obligations on member states. The well-functioning single market should include an obstacle-free and smooth free movement of workers," Edit Bauer (EPP, SK) said.

According to European Commission figures, 6.6 million EU citizens lived and worked in a member state other than their own in 2012, accounting for over 3% of all workers in the EU. A further 1.2 million people lived in one EU country but worked in another. A 2011 study found that15% of EU citizens would not consider working in another member state because they felt that there were too many obstacles.

Existing legislation stipulates that EU workers who face discrimination on the grounds of nationality must be granted effective means of legal protection and redress.

The committee recently voted to enhance the role of social partners (NGOs, associations, trade unions) in supporting victims of discrimination in legal proceedings.

MEPs also proposed that the Commission and the member states should establish a European network of national contact points to improve cooperation among member states in enforcing the rights of workers from other EU countries. National governments should also make better use of existing information and assistance services such as Your Europe, SOLVIT, EURES, Enterprise Europe Network and Points of Single Contact, they said.

MEPs amended the new directive proposed by the Commission to specify clearly which groups of workers are affected by existing EU rules (regulation 492/2011). They are: permanent, seasonal, frontier and self-employed workers but not posted workers.

The draft directive also clarifies the scope of the rules, stipulating that they cover access to employment; conditions of employment, in particular as regards remuneration and dismissal; access to social and tax advantages; membership of trade unions; and access to training, housing and education for children. MEPs also amended the text to include health and safety at work and access to public employment services.

The text adopted by the committee sets out Parliament's mandate to start negotiations with national governments in the Council.
