



# Europe India Chamber of Commerce

## Newsletter

Issue: 31 Volume: 3

September 2010

### **EU-India Summit to be held on 10 December in Brussels**

It has been announced that the 11<sup>th</sup> EU-India Summit will be held in Brussels under the Belgian Presidency of the European Union. The Summit will be accompanied by a Business summit. The EU-India Business Summit will provide business leaders from India and Europe with a unique networking opportunity during which key matters of common interest will be addressed. The agenda of this year's summit foresees discussion on green technology and energy including cooperation in infrastructure development. The Summit will mark a decade of growing relations between EU and India, and will seek to further deepen relations between the two strategic partners in key areas of cooperation.

### **Chamber's France office inaugurated**

The EICC has its office in Paris now. The inauguration was held on 15<sup>th</sup> of August at the premises of Paris Star Business School where the EICC chapter in France will be housed. Heads of few enterprises from the Bordeaux region of France attended the official inauguration. EICC Director in Spain Mr Gour Saraff who has steered the chamber to become a vibrant organisation in Spain, addressed the function. He gave an introductory presentation of the organization, its mission, philosophy and its objectives. He also presented the model in which the EICC chapter in Spain with its sub chapters in Madrid, Barcelona, Valencia and Gran Canarias are functioning in order to reach out to local companies. This was of particular interest to the companies that came in from Bordeaux region who would also like to start sub chapters in their region after joining the EICC. Also present during the inauguration were assorted group of companies from Paris area primarily from the hospitality industry and from some social organizations who would like their business affiliates to connect with EICC. Mr Saraff also stressed the importance of getting membership which Resident Director Mr Prasad Sudhakar Deshpande and EICC Associate Corporate Member Mr Gurdial Singh agreed as priorities. It was also decided that a core group of members in France would be created who would propagate the EICC concept in the French business community. The inauguration terminated with festivities that Mr Gurdial Singh had organized for the summer camp which he hosts every year.

### **SMEs will be at the heart of EIC-CBC-CII strategy during the Vibrant Gujarat 2011**

Focus on developing business collaboration and entrepreneurship of the Small and Medium Enterprise (SMEs) in the development of emerging economies will be at the heart of the strategy during the Vibrant Gujarat 2011. The Europe India Chamber of Commerce (EICC) will join Commonwealth Business Council (CBC) and Confederation of Indian Industry (CII) to organize a high level Seminar to discuss ways to improve the investment and business climate and specific national measures and regulatory reform to improve business condition. The event will serve as a platform for discussion and sharing of experience for emerging economies to achieve lasting benefits through the development of SME sector and its role as a growth engine for economic development. The event dedicated to developing business collaboration between SMEs in Gujarat and SMEs in Europe and Commonwealth countries will be held during Vibrant Gujarat on 12-13 January 2011. The theme will be Gujarat & India: a model for emerging economies, large industry as a catalyst for growth of the SME sector and Identification of sectors, countries, markets where SMEs can collaborate to evolve global enterprise models. The event likely to be held on 12 January will focus on Small and Medium Enterprises with the objective that the framework for building capabilities of SME sector will be able to meet stringent trade and business criteria of developed countries with special reference to Europe. It shall also address the important role the SMEs can play in national growth through contribution to income generation, employment and overall GDP and identification and implementation of model projects in select sectors, involving entrepreneurs from Gujarat, partnering with countries from the commonwealth and Europe, with support from the Govt. of Gujarat. With CBC representing business in 54 countries of the Commonwealth, and with EICC playing a major role in the EU-India trade relations, the event will definitely contribute to bringing the SMEs of Europe and Commonwealth countries closer. The EICC is facilitating business meetings of trade and

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business missions from Gujarat which will visit Europe in September. The delegation will visit UK, Germany, France, Spain, Italy and The Netherlands.

#### **Boeing revises its market outlook for India**

Major aircraft manufacturer Boeing has revised upwards its market outlook for India saying that the country would require 1,150 commercial air planes worth US\$ 130 billion over the next two decades. The Chicago-based company in July 2009 had projected a demand for 1,000 planes worth about \$100 billion over two decades. As India is growing fast and accordingly air traffic has recovered sharply after global financial meltdown, Boeing's market outlook for India is significant. Boeing and Airbus SAS, the two biggest aircraft makers in the world have boosted sales in India with the doubling in per capita incomes over the past five years and the start of discount carriers which makes air travel affordable to more Indians. The nation's airline passenger numbers are set to rise to a record 50 million this year up from 44 million last year according to Boeing. In 2000, there were only two Indian carriers – Air India and British Airways serving the India-London route with 24 weekly frequencies. This year, there are six airlines serving the sector with 104 frequencies. Roughly two-thirds of the Indian aviation market is now served by no-frill carriers like IndiGo, SpiceJet, JetLite, JetKonnnect and Kingfisher Red. "This trend will continue over the next two decades". Despite going through the most severe recession in the history of the aviation industry, the Indian airlines have been "one of the fastest to recover". India is poised to emerge as the world's fastest growing aviation market in the next decade, the Airbus has observed. As India's economy has grown in the past six years, air travel has nearly doubled as rising disposable incomes encourage people to travel by air. Domestic air traffic climbed to 35 million passengers at the end of the previous financial year from fewer than 15 million six years ago, according to the Centre for Asia Pacific Aviation, an independent aviation research group. Seven carriers operate 11 different airline brands in India compared to four airlines in 2003. The size of India's commercial aircraft fleet is expected to rise to more than 1,000 planes by 2028 from the current 380 planes. The first decade of the 21st century has seen middle India grow beyond expectations and force a rewrite of various international equations. It has seen the number of Indians boarding planes multiply manifold. Airports have been privatized and modernized. However, the aviation infrastructure in the country has not kept pace with this meteoric growth, spawning serious safety concerns.

#### **India now a \$2 trillion economy**

The Indian economy would grow to \$1.72 trillion in 2011-12, moving closer towards the \$2 trillion mark, according to an assessment by the Indian Prime Minister's Economic Advisory Council (PMEAC). The country's gross domestic product (GDP) at the market and current prices was measured at \$1.31 trillion in 2009-10 and is estimated to be \$1.52 trillion in the current fiscal, the PMEAC said in its latest economic outlook. Pegging the GDP growth at nine percent, the economy would reach a level of \$1.72 trillion in 2011-12, it said. If the nine percent growth trend is maintained, India would become \$2 trillion economy in 2013-14 fiscal. In the assessment, the PMEAC, headed by noted economist C Rangarajan said that it is imperative for India "to preserve conditions that will enable it to return to the nine percent growth trajectory". After slowing down to 6.7% in 2008-09 and 7.4% in 2009-10, the Indian economy is projected to expand at 8.5% this fiscal and by nine percent 2011-12. According to experts, services and manufacturing sectors will remain the key drivers pushing the coveted growth to \$two trillion mark. "Services sectors particularly transportation and telecom sectors will lead the growth. Rising income levels and aspirations of people will further the industrial output," Credit Rating and Information Services of India Ltd. (CRISIL) said in a statement. In the first two months of current fiscal, the industrial production recorded an annual growth of 14%. If the tax reforms are implemented as planned from next fiscal, the economy would get further push, it was stated. Before the global economic slowdown since 2008, the Indian economy grew by over nine percent for three years in a row from 2005-06 to 2007-08 and expansion was maintained by industry and services sectors.

#### **UNCTAD predicts India emerging as third largest FDI destination**

The United Nations Conference on Trade and Development (UNCTAD) in its annual World Investment Report for 2010 has predicted that India would emerge as the third largest recipient of foreign direct investment (FDI) for the three-year period ending 2012. "If the situation continues to improve, India is likely to be among the most promising investor-home countries in 2010-12 as well as the third highest

economy for FDI in 2010-12," UNCTAD said in its Report. India broke into the top 10 destinations for FDI for the first time in 2009, when the world battled to emerge from a brutal financial crisis and FDI flows slowed dramatically. The country rose to the ninth place in 2009 from 13th in the previous year in the list of FDI destinations, the report said. According to the report, global FDI inflows declined 37 per cent in 2009, while inflows into India dropped by a much smaller 14 per cent. Global flows of foreign direct investment will start to recover this year and reach close to their previous peak in 2012, UNCTAD said. Total inflows will likely rise modestly to \$1.2 trillion this year from \$1.1 trillion in 2009, before increasing to between \$1.3 and \$1.5 trillion next year and between \$1.6 trillion and \$2 trillion in 2012. Increasing intra-regional FDI has become an effective vehicle for industrial upgrading in the South Asia region, providing opportunities to countries at different stages of development, UNCTAD said, and noted that "inflows from developed countries contracted the most, while intraregional FDI gained ground." Further, the report says the outward flow of FDI from the region, which had declined, is likely to recover riding on cross border mergers and acquisitions. "FDI outflows are expected to rebound in 2010, sustained by M&A opportunities associated with Indian and Chinese firms' persistent pursuit of natural resources and markets," it says. Besides, UNCTAD said recent forecasts suggest that the global economy has exited recession and returned to growth. "The world economy is expected to grow by 3 per cent in 2010," according to the report. It also forecasts that central banks are expected to maintain low interest rates till the end of 2010 and commodity price increases are likely to remain modest. The report also focuses on climate change and in particular the role of transnational corporations in supporting the transition of developing countries to a low-carbon economy. Low-carbon FDI is significant and its potential huge, says UNCTAD. In three key low-carbon business areas alone, FDI flows are estimated to have been \$90 billion in 2009. "A quarter of the greenfield investments in alternative or renewable power generation were in the developing economies including India and Pakistan," the report says.

#### **India may ease investment norms for FDI funded companies**

The Indian government is considering relaxing norms governing investments by Indian companies having foreign direct investment, allowing them to invest internally generated funds in subsidiaries without prior approval. Investment proposals funded through internal accruals of such companies currently need approval from the Foreign Investment Promotion Board (FIPB), the apex inter-ministerial body that clears foreign investment proposals. It is learnt that the government plans to lift this restriction and a decision is expected shortly. The permission may be given only for investment in sectors on the automatic route that do not require FIPB nod. The current thinking in the finance ministry is that FIPB approval for using internal accruals, or accumulated profits and depreciation charges, is an unnecessary hurdle for companies looking to invest in the country. The requirement has its roots in the fact that internal accruals of a company having foreign investment are counted as FDI in government and Reserve Bank of India statistics. In sectors where foreign investment itself is on the automatic route, then there is no reason as to why a company should be required to seek permission to invest its earnings, say analysts. The PwC has observed that if foreign investment can be made under the automatic route, it would be unfair to require companies to obtain FIPB approval for making such downstream investments. The reinvested FDI in India, or profit generated from foreign investment that is not repatriated, amounted to nearly \$6 billion in 2009-10. This amount is theoretically available for investment in downstream venture, apart from depreciation charge of such companies. The finance ministry had, in an earlier review of FIPB proposals, had asked the department of industrial policy and promotion, the nodal government body on foreign direct investment policy, to amend the FDI policy. However, the new FDI policy made public on April 1, 2010 by the DIPP continued with the earlier provision specified through Press Note 9 issued in 1999. The restrictions on allowing a company having FDI from making downstream investments will continue, as the country needs foreign capital to fund its large current account deficit. The PM's Economic Advisory Council has projected net in-bound FDI of \$30 billion in 2010-11.

#### **World's first multinational company East India Company reborn, with an Indian owner**

The East India Company, the world's first multinational company, is reborn after 400 years in a new avatar. Mr. Sanjiv Mehta, an India-born Briton who bought the remnants of the once-mighty British East India Company in 2005, re-launched it on 14 August after 135 years of its dissolution. Mehta has opened a luxury food store in Mayfair, London, which he says would eventually take the company to India once again. "The project is not simply a commercial venture - there is an emotional connection too. It is a dream come true to build a business like this and to acquire a brand like this to own the company," BBC

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quoted Mehta as saying. The British East India Company was dissolved in 1854 and a small part of the joint stock company survived to trade in tea and coffee under the East India Company brand name. While Mehta acknowledged the emotional connection, he dismissed fears that name would open up colonial era wounds and said instead many of his Indian friends have supported him in this venture. Mr. Mehta's shop in London is stocked with 350 luxury products, including 100 varieties of tea, chocolates, spices and mustards developed by the company from across the world. At its peak, the company was responsible for 50% of global trade, employed a third of the British workforce and ruled much of India. The history of East India Company is commonly known: its creation in 1600, establishment of its trading posts in several Indian cities, acquisition of special trading rights and exemptions, and resultant trade monopolies. By 1757, the "John Company" was spread over large tracts of the country and maintained its own army. The Battle of Plassey that year sealed its position as a quasi-governmental body, and Company Rule began in India. In comparison, the new luxury brands company is a tame animal. Other than the brand name, its only links with the colonial behemoth are some of the products that it trades in- notably, tea. To be sure, it is ironical that an Indian now owns the erstwhile arbiter of millions of Indian lives- a fact that is likely to arouse the ire of some imperial romantics and the fancy of many nationalists- but its significance is limited to its symbolism. The East India Company was created by the granting of a charter from Queen Elizabeth I in 1600 and given a monopoly on English trade to Asia. Its early business activities focused on cotton, silk and tea. At the height of its power, the company controlled large parts of India with its own armed forces. But it was disbanded after soldiers of the company's own Army rose in revolt against the British in 1857.

#### **India-China trade set to touch US\$ 32 billion by December; Economic Wing in offing**

Government of India has decided to set up an economic wing in its diplomatic mission in Beijing in the next six months, signifying the growing trade relations with China which is set to become India's largest trading partner by this year-end. This also comes close on the heels of China overtaking Japan as the world's second largest economy. The counsellor will be assisted by one Chinese-speaking Foreign Services Official, who will be appointed by the Ministry of External Affairs. The objective of such a wing is to attract investments from China and coordinate with various ministries and departments in Chinese government such as Finance and Planning Commission. The wing will also be in touch with the Chinese government on the issues of G-20 to have a coordinated approach. India has such economic units in its missions in the US, the UK and Japan among other countries and the fact that the wing is now being created in its embassy in Beijing indicates the importance it attaches to Chinese investments in the country. However, the mandate of economic wing is different from that of commercial wing, which is already functional in the mission. In the first six months of the year, the bilateral trade figure stands at US\$ 32 billion and is all set to achieve the target of 60 billion with China becoming India's single largest trading partner in the world. The bilateral trade has seen a drastic jump from a modest US\$ 3 billion in 2000 and is all set to touch US\$ 60 billion by this year-end. During May this year, a senior Chinese trade diplomat stated "we expect our bilateral (India and China) trade to touch the US\$ 60-billion mark by December this year." The Chinese diplomat said that though there was a decline in trade volume because of the global meltdown, it was expected to rise again in the near future. "Trade had come down because of the downturn in the global economy. The India China trade relations are regulated by the India China JBC, which ensures a free exchange of products and services between the two nations. India & China signed a Trade Agreement in 1984 which provided for Most Favoured Nation Treatment and later in 1994, the two countries signed an agreement to avoid double taxation. India and China are working towards a new comprehensive bilateral agreement that will expand trade relations between them. The joint economic group meeting held in Beijing in January this year addressed issues of increasing local stakes in Chinese projects in India and easing market entry for Indian companies in China particularly for its IT and pharmaceutical industries. New Delhi wants Chinese projects in India to have more Indian participation after getting strict with employment visas issued to Chinese workers in the country last year. In return, New Delhi has agreed to increase the number of foreign engineers and support staff allowed per Chinese project in India. India-China trade suffers from a huge imbalance with India's annual exports to China worth US\$11 billion while China's exports to India amount to US\$27 billion. Trade deficit with China ballooned to US\$16 billion last year from US\$11.2 billion dollars in 2008. Indian businesses cite China's tariff barriers as high as 30- to 35 percent for the manufactured equipment industry as a hindrance to market entry with the same barriers in place for the agriculture industry. Custom procedures, standards, certification, regulatory practices and quantitative restrictions are also

cited as problem areas in exporting goods to China. The India China trade relations have been further developed from 2006, with the initiation of the border trade between Tibet, an autonomous region of China, and India through Nathu La Pass, reopened after more than 40 years.

#### **Self-employed workers to gain maternity and pension benefits under new EU law**

Self-employed workers and their partners will enjoy better social protection – including the right to maternity leave for the first time – under new EU legislation that entered into force on 4 August. The Directive on self-employed workers and assisting spouses repeals and replaces an earlier law and improves the social protection rights of millions of women in the labour market, strengthening female entrepreneurship. At present only one in three entrepreneurs is a woman. "With the entry into force of this new law, Europe takes an important step forward in terms of increasing social protection and providing equal economic and social rights for self-employed men and women, and their partners," said Viviane Reding, EU Commissioner for Justice, Fundamental Rights and Citizenship and Vice-President of the European Commission. "The new European law ensures full equality in practice between men and women in working life, promoting female entrepreneurship and allowing self-employed women to enjoy better social security protection. I call on all Member States to start implementing the Directive swiftly so that our citizens can see the benefits in their daily lives." , she said. The European Parliament approved the legislation on 18 May and it was endorsed by EU Member States on 7 June. It considerably improves the protection of female self-employed workers and assisting spouses or life partners of self-employed workers, particularly also in case of maternity. They are granted a maternity allowance and a leave of at least 14 weeks, should they choose to take it. At EU level, this is the first time a maternity allowance has been granted to self-employed workers. The new rules also serve to encourage entrepreneurship in general and among women in particular. There is a currently a major gender gap in this area – only 30% of entrepreneurs in Europe are women. The provision on social protection for assisting spouses and life partners (recognised as such in national law) is also a considerable improvement from the 1986 Directive. They will have the right to social security coverage (such as pensions) on an equal basis as formal self-employed workers, if the Member State offers such protection to self-employed workers. This will help provide a stronger social safety net and prevent women from falling into poverty. EU Member States now have to introduce the Directive into their national laws within two years. Only when there are particular difficulties could this period be extended for another two years to implement the assisting spouses provisions.

#### **Indians remit \$1bn abroad in cash & gifts**

Resident Indians have remitted close to \$1 billion abroad and one out of every \$3 sent abroad is sent as gift and maintenance of close relatives. Reserve Bank of India's (RBI) latest data shows that overseas remittances by Indians under the liberalised remittance scheme (LRS) touched \$983 million in FY10, up from \$808 million in FY09. While gifts rose 20% to \$159.9 million from \$133 million, money sent as maintenance for close relatives touched \$170.9 million (previous comparison is not available as this was a part of other sources in the previous year). Together these two components accounted for almost a third of the outward remittances during the year. Other major sources of outward remittances were returns on investments in equity and debt (\$206.5 million) and for studies abroad (\$217 million). Under the scheme, each resident Indian can remit up to a total of \$200,000 in a financial year including gifts to relatives abroad, purchase of property, investment in fixed deposits (FDs), equities and bonds and donations. Though there are separate limits for certain transactions such as travel, studies and medical treatment, the \$200,000 facility, under LRS, is in addition to the already existing limits. A big chunk of the gift component of the money remitted overseas is believed to be the returns on investments made from the money their relatives had sent earlier. Corroborating this view is the data on inward remittances by the Indian Diaspora. These have been growing sharply since the nineties, which witnessed a boom in the information technology industry and a large-scale migration of Indian software professionals to North America and Europe. Inward remittances touched \$50 billion in 2010. According to an RBI study, only 61% of the money sent by relatives overseas is used for family maintenance. The balance is used for investments in bank FDs, stocks and real estate, among others. The returns too are much higher for an overseas Indian through this route than if she/he had invested in the NRI deposits directly. Going by the current trend in returns on domestic and NRI deposits, the differential between the post-tax return is positive. Besides, in times of a rising interest rate scenario, there is a perceptible positive difference in the

returns. Both the stock market and the real estate market in India have earned the best of returns in the global markets last year. Though bankers acknowledge such a possibility, they are not willing to comment officially. "It is difficult to track the trail of the money that a depositor comes to us for sending abroad," said a senior official with a large public sector bank. Besides, the money that is going out is just a trickle of what is coming in as remittances. In FY10, the country received remittances of over \$50 billion. Though the amount remitted overseas is still very little, what perhaps has escaped attention is the galloping pace at which such outflows are taking place every year.

### **Coming to America; US visa fee hike to cost Indian firms \$200 million more a year**

Legislation that passed the U.S. Senate and later signed into law during middle August would significantly increase fees for skilled-worker visas, a move that would deal a financial blow to Indian technology-outsourcing companies that send thousands of employees to the U.S. each year. The measure, which was attached to a \$600 million border-security spending bill that senators passed just before leaving for their August recess, would require all companies with U.S. staff that have more than half their U.S.-based employees on H1-B or L-1 visas to pay thousands of dollars in special new fees for each worker. All of the biggest Indian tech companies would be affected by the fee increases, including giants such as Wipro Ltd., Infosys Technologies Ltd. and Tata Consultancy Services Ltd. Big U.S. tech companies such as Microsoft Corp. and Intel Corp. would almost certainly avoid the fees because their foreign workers make up less than 50% of their overall U.S. work force. An Intel spokesman said, "We are aware of the legislation, we did not take a position on it and are not impacted by it." Indian software services and outsourcing companies generate about 60% of their combined \$50 billion in annual revenue from the U.S. The Indian industry has enjoyed explosive growth over the past decade, fueled by an army of skilled, low-cost, English-speaking workers in Indian cities. But Indian companies also have tens of thousands of employees in the U.S. and other countries, where they work at the sites of clients such as big banks and insurance companies. Indian companies account for about 12% of new H1-B visas issued each year, Nasscom said. Highly skilled foreign workers are a boon to public finances in the US. Non-immigrant Indian H1B workers contribute over 1 billion dollar a year in social security payment that they will not receive back in benefits. According to a summary of the Senate bill, the new charges would increase visa fees paid by affected companies by roughly \$2,000 per visa application. According to NASSCOM, the increase would actually be about \$4,500 more per worker for new visas and \$4,000 more for renewals. Currently, most visa applicants also face additional fees; in most cases, the H1-B visa fees amount to about \$2,320. Corporate America had warned that the passage of the Border Security Bill, which seeks to fund enhanced security measures along the US-Mexico border by raising fees for certain category of visas, would undermine the growing economic relationship between the two countries. The proposed increase in visa application fee by at least \$2,000 for next five years would raise nearly \$550 million out of \$650 million that have been allocated for increasing the security of the US-Mexico border. These fee increases would apply only to companies with more than 50 employees and for whom the majority of their workforce is visa-holding foreign workers.

Slamming the critics of H-1B, a US think-tank and corporate America have suggested removal of Congressional cap on this popular work visa programme and allow markets to determine number of skilled foreign workers eligible to work in the country. "The best policy for the United States is one that sides with freedom and innovation, not restriction. It is a policy where the H-1B cap is either eliminated or set high enough that we can let the market decide on the number of new skilled foreign nationals who work in America each year," a report titled "Regaining America's Competitive Advantage: Making our Immigration System Work" jointly prepared by US Chamber of Commerce, American Council on International Personnel said. Findings of this report show that leading US companies cite the role played by highly educated foreign nationals in the success of the organization. Noting that the critics argue US has too much talent entry of high skilled foreign nationals should be blocked, the report says real immigration-related problem is that many talented people have not been able to stay in US after graduation because of low quotas for H-1B visas and employment-based green cards. "H-1B visas are a large source of scholarship money for US students, with H-1B training and scholarship fees levied on each petition (and renewal) having funded more than 53,000 math and science college scholarships for US students through the National Science Foundation," it said.

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