HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

13th June 2012

Economic & Commercial Report on the United Kingdom
for the week ending 09.06.2012

Economy

Producer Price Index, May 2012

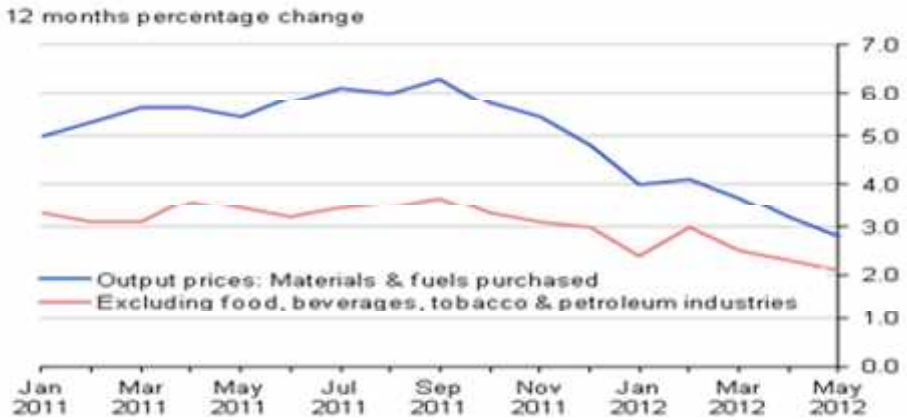
Between April and May the total input price index fell 2.5 per cent, compared with a fall of 1.4 per cent between March and April. This is the largest monthly fall since December 2008, when the index also fell 2.5 per cent. The last time there was a larger monthly fall was in November 2008, when the index fell 2.9 per cent.

· In the year to May 2012 the output price index for home sales of manufactured products rose 2.8 per cent, compared with a rise of 3.2 per cent last month. The last time the annual rate was lower was in November 2009, when the index rose 2.6 per cent.

· Between April and May the output index for home sales of manufactured products fell 0.2 per cent, compared with a rise of 0.6 per cent between March and April.

· In the year to May 2012 the output price index excluding food, beverages, tobacco & petroleum rose 2.1 per cent, compared with a rise of 2.3 per cent last month. The last time the annual rate was lower was in January 2010, when the index rose 2.0 per cent.

· In the year to May 2012 the total input price index rose 0.1 per cent, compared with a rise of 1.0 per cent last month. The last time the annual rate was lower was in September 2009, when the index fell 6.1 per cent.



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Bilateral Merchandise Trade (in £ million)

Year	UK Exports to India	% change	UK Imports from India	% change	Total	% change	India's Balance of Trade
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
2011	5677	+40.04	6114	+4.83	11791	+19.33	+397
2012 (Jan-March)	1261		1462		1814		

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade/Investment Enquiries

During the week ending 9th June 2012 the following enquiries from UK and India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India.

From India

Broad Items	Number of Queries
Export of Food product	4
Export of Home Furnishings	1
Export of Herbal products	2

Export of Towels and Bead Sheets	2
Export of Vector Fasteners	1
Export of Fruits and Vegetable	1
Export of Telecom Companies	1
Export of Yarn and Fabrics	1
Export of Caster Oil	1
Export of Medical Disposables	1

From UK

Broad Items	Number of Queries
Import of Garments	1
Import of Metal Scraps	2

Tenders from India

Organisation	Numbers of Tenders
Ordnance Factory	2

MEDIA REPORTS

Wind farms face deeper subsidy cut
F.T: 04 June 2012

The Treasury is pushing the energy department to go further in proposed cuts to subsidies for onshore wind power amid pressure from scores of Tory backbenchers who are hostile to new turbines. Chris Huhne, former energy secretary, set out proposals in October to cut the onshore subsidy by 10 per cent, enabling larger subsidies for offshore wind and other renewables. But George Osborne, chancellor, has urged the Department of Energy and Climate Change (DECC), now run by Ed Davey, to go further in the onshore cuts, scheduled for April 2013. The current subsidy is one ROC (renewable obligation certificate) per megawatt hour of power, which under the original proposals would fall to 0.9. According to people in the industry, the government wants this down to 0.85 or 0.8/MWh. Wind power groups fear the drive has been inspired by the vociferous hostility to onshore turbines from many Tory MPs, 101 of whom signed a petition against the industry this year. Chris Heaton-Harris, the MP behind the petition, has called for a "dramatic cut" in the subsidy. If the scheme was unchanged, the government would spend between £250m and £280m a year by 2016-17 to support onshore wind, according to official documents. A cut of 10 per cent would reduce this to £170m-£220m, while the deeper cut proposed by the Treasury would save more. The falls are designed to reflect the relatively low and dropping cost of onshore wind generation, a relatively mature technology.

The department's figures suggest that offshore wind typically requires double the subsidy of onshore wind. A consultancy called Poyry, which carried out modeling work for DECC recently, suggested that a 10 per cent cut would lead to 346MW less onshore generation. But this would be more than compensated for by an increase in offshore wind power of 844MW, the report said. The larger cut suggested by the Treasury would, however, have negative consequences for new capacity. However, Poyry suggested that even an ROC of 0.8 would be enough to support a typical new onshore wind farm. The figures should have been published this spring but were delayed after 4,000 submissions. DECC said its latest support levels would be published soon but added: "It is vital that our support for renewable electricity both encourages investment and represents value for money for consumers." The Treasury declined to comment.

Business warns of skills gap lasting 10 years
F.T: 05 June 2012

The UK faces a 10-year gap in its skills profile and damage to future economic performance unless it tackles the problem of youth unemployment, business leaders and recruiters have warned. They say that failure to acquire work experience and skills at the outset of their careers will damage young people's prospects and leave deficiencies in the workforce for decades. Jeff Joerres, chief executive of Manpower Group, the recruitment company, said the UK had been grappling with high youth unemployment for five years and looked set to continue struggling with the problem for another five. "You will have a 10-year gap, which means that 10 years from now when you are looking for that 35-year¬old with a certain level of skill, you are going to have a lot less to choose from," he said. The gap would still be there when that cohort reached their 50s. The UK has 1.02m jobless 16- to 24-year-olds, or 21.9 per cent of the workforce in that age group - just below the EU average. Slow growth is masking the country's skills problem. Only 11 per cent of UK employers are reporting difficulty in filling jobs, down from 34 per cent in 2007 and below the one-third global average, according to a Manpower survey.

John Cridland, CBI director-general, said employers were concerned at the long-term effect of unemployment on young people, which affects their later earnings and health. But he was optimistic that the government's £1bn Youth Contract, which offers employers up to £2,275 for taking on an 18-to 24-year-old, would make a difference. In a CEI survey, 49 per cent of employers said a lack of skills and 37 per cent a lack of aptitude among young people were barriers to employment. Half of employers said low skill levels among staff were a threat to labour market competitiveness.

Business group rejects easy firing plan
F.T: 06 June 2012

A leading business group has come out strongly against Adrian Beecroft’s proposal for employers to be free to fire staff at will, arguing that the radical move would not create jobs. The stance of the EEF manufacturers’ association indicates that business,

like the government, is divided over Mr. Beecroft's proposal for "compensated no-fault dismissals", under which employers could fire staff in return for a basic pay-off. The EEF said that the idea commanded little support from industry, its benefits would be limited and it would make little or no difference to recruitment plans. It also said the proposals risked undermining gains made by employers in increasing flexibility and productivity by working more collaboratively with staff. The EEF's view puts it at odds with the British Chambers of Commerce and the Institute of Directors, which have backed the idea. The CBI, the largest group, is cautious, saying the move "may be necessary" for small companies.

Mr Beecroft, a venture capitalist and Conservative party donor, made his proposal in a report on employment law commissioned by Steve Hilton, David Cameron's former policy chief. But it has run into stiff opposition from Liberal Democrats including Vince Cable, business secretary. The business department has been running a call for evidence on a watered-down version of the idea, potentially applying it to companies with fewer than 10 staff, which closes on Friday. But the prime minister appears set to drop even that proposal. Steve Radley, the EEF's policy director, said: "We question the logic that compensated no-fault dismissal would translate into increased hiring." He pointed to evidence published by the business department about the experience in Germany, Spain and Australia, where the introduction of similar rules for small companies had not led to higher recruitment. The EEF says that, while the move would protect employers from unfair dismissal claims, this account for fewer than 10 per cent of employment tribunal claims. Employers would still be vulnerable on other grounds, such as discrimination.

Mittal to scale back China steel ambitions
F.T: 07 June 2012

Lakshmi Mittal has signalled a dramatic scaling back of ArcelorMittal's ambitions to expand in China's steel industry through an agreement to cut the company's stake in one of the country's top metals producers. The chairman, chief executive and main owner of the world's biggest steelmaker had hoped to build up ArcelorMittal's 30 per cent stake in Hunan Valin into a controlling shareholding but has been frustrated by Beijing's refusal to loosen constraints over foreign ownership in the steel business. Through an outline deal to reduce the Hunan Valin stake to 10 per cent over the next two years, ArcelorMittal is likely to gain about $300m, about $200m of which will be reinvested in increasing its operations in China in the more specialised segment of making high-value steel for the automotive industry. Tony Taccone, a partner in First River, a US steel consultancy, said: "This is a pragmatic and sensible move by Mr Mittal to reallocate ArcelorMittal's position in China in a way that is more helpful for the business." Sudhir Maheshwari, head of ArcelorMittal's China operations, said it would be wrong to depict the new outline deal as part of a "reining back" of the company's overall activity in China. "Instead, we are refocusing on an area [automotive steel] with a lot of potential." The deal comes as ArcelorMittal has faced increasing pressures in its main markets in Europe and North America where many of its plants are operating well below capacity as a result of sluggish growth in steel demand caused by a weak global economy.

The Chinese government has for decades viewed steelmaking as a strategic industry over which it is adamant domestic companies – many of which are state-owned – should have complete control. China is by some way the world's biggest country for both making steel and using the commodity – the world's most widely traded metal with many applications in fields from construction to packaging. Mr Mittal has always regarded his company's investment in Hunan Valin – agreed in 2005 – as part of a long-term investment in China that he hoped could be turned into a foothold for controlling a big part of the country's steel sector. He has now settled on trying to increase ArcelorMittal's position in the relatively narrow field of making steel for cars – an area in which it has a strong global position, particularly in the area of specially treated flat steel for vehicle exteriors. ArcelorMittal will push up its capabilities in this sector by increasing from 33 per cent to 49 per cent its stake in a joint venture with Hunan Valin in making steel for cars.

City safeguards set Britain at odds with EU
F.T: 07 June 2012

Britain is once again set on a collision course with the EU about crisis-fighting reforms, as it resurrects its demands for City of London safeguards as the price to wave through a eurozone banking union. Speaking in Berlin, David Cameron added that he "wouldn't ask British taxpayers to stand behind the Greek or Spanish deposits". "It is not our currency, so that would be inappropriate," the prime minister said. George Osborne, the UK chancellor, said that while it is "necessary" for the euro area fully to integrate its bank rules and deposit guarantees, Britain will stand apart and would require legal protection to approve the use of EU institutions. "There is no way that Britain is going to be part of any eurozone banking union," he said. His demand comes after weeks of difficult internal debate in Whitehall about an issue with far-reaching implications, not only for London's standing as Europe's financial centre but also for Britain's long-term EU membership.

It sets the stage for a rerun of the diplomatic brinksmanship in December, which saw David Cameron vetoing an EU fiscal discipline treaty after his six demands were rejected. Almost all the financial services protection that the prime minister sought relates to issues surrounding a banking union. "Britain is at a cross-roads," said one European diplomat. "Will it be the centre for finance in Europe, for Europe, which is what it is now? Or does it go off-shore? Some people have the illusion that it could be a greater Guernsey. That is not a good way to go." The banking union concept is fast gaining traction among EU leaders as a grand fix to help cauterise the financial crisis, share banking risks and put the eurozone on a stronger footing. Deep disputes remain about how and when to move forward. But work is under way on long-term reforms to establish a single supervisor, deposit guarantee scheme and resolution system for European banks, with or without Britain. Mr Osborne now accepts this integration is vital, an essential step in the "remorseless logic" of a single currency. But given Britain will not join, it involves exactly the type of independent financial co-ordination on the Continent that London most fears.

Manufacturers' costs drop
F.T: 08 June 2012

Consumers are sceptical that price rises are slowing in spite of a key measure of inflation falling in May at the fastest rate since the global economic crisis. According to the Office for National Statistics, manufacturers' costs fell 2.5 per cent from April, the single largest monthly fall since December 2008. But if prices are falling, the latest survey from the Bank of England suggests that households do not believe it.The quarterly study of inflation attitudes, carried out by GfK/NOP, found the median view of the current inflation rate to be 4.7 per cent, down marginally from 4.8 per cent in February, while looking ahead, the public is convinced that inflation will rise. Over the next 12 months, the median forecast was for prices to rise at an annual rate of 3.4 per cent, up from 2.9 per cent in February. Households are also feeling the pinch of rising interest rates; the percentage of those reporting rising rates is the highest since August 2008. The input price index forms part of the overall producer price index and although there is no direct correlation between its movements and those of the much broader consumer price index, trends in the former often show up in the latter. Even though economists had expected a decline in input prices, the outcome was much larger than the consensus forecast of 2.1 per cent. The ONS said the fall was driven mainly by price decreases for crude oil, imported metals, fuels and other imported parts and equipment.

Events

India elected Vice Chairman of International Grains Council

The 35th Session of the Executive Committee meeting of the International Grains Council (IGC) which was held in London on 8th June 2012 has elected India as its Vice Chairman for the year 2012-13. India has also been elected as a member of the newly created Administrative Committee. South Korea, Vice Chairman of the Council in 2011-12 has been appointed chairman. Russia is the outgoing chairman. Under the IGC's rules of rotation, one of the Executive members is elected as Vice Chairman and the Vice Chairman of the previous year is appointed as the chairman. It means India will be appointed the Chairman for the Council in the year 2013-14. In the past India was the chairman of the Executive Committee in 2000-01. The Council also decided that a new Administrative Committee should be established to take over the major functions of the Executive Committee from 1 July 2012.

India also participated in the International Grains Conference 2012 held in London on 7th June 2012. The Indian delegation was led by Shri Nilambuj Sharan, Director in the Department of Food and Public Distribution, Government of India. He made a presentation at the conference on the topic "Demand and Availability of Food Grains" in India". Shri B.S. Mahapatra, Executive Director, Food Corporation of India was a member of the Indian delegation. Three private Indian companies also participated in the conference. The theme of the conference this year was "World trade: what prospects for growth?" The Conference was opened by Dr Joseph W. Glauber, Chief Economist, US Department of Agriculture, who spoke about the

outlook for Grains and Oilseeds. Other keynote speakers included Mr Bingzhou Cheng, Director General, Department of General Affairs, China Grain Reserves Corporation (Sinograin); Mr Waleed A. Elkhereiji, Director General, Grain Silos and Flour Mills Organization (GSFMO), Saudi Arabia and Dr Khairullah Hasan Babakr, Minister of Trade, Iraq. The day-long Conference also featured two workshops, one by the North American Export Grain Association (NAEGA) which explored progress in facilitating international grain trade with International Grain Trade Coalition (IGTC) members, while the other discussed efforts to improve market transparency in the Black Sea region.

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