HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

7th March 2011

Economic & Commercial Report on the United Kingdom for the week ending 04.03.2011

Economy

GDP: No change since last week

Inflation: No change since last week

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

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

Trade/Investment Enquiries

During the week ending 4th March 2011 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 nuts, bolts screws, rivets	1
Textiles, Garments, Sarees	1

Edible oils	**1**

From UK

Broad Items	Number of Queries
Information on how to get PAN	2
Information on how to start business in India	1
Purchase of jewelleries	1
Information on import duty	1
Purchase of rice	1
Purchase of sugar	1

Tenders Received from India

Organisations	No. of Tender Received	Action Taken
Ministry of Defence, Ordnance Factory	2	yes
Ministry of Railway	1	yes
Oil & Natural Gas Corporation	1	yes

MEDIA REPORTS

UK manufacturing growth at record as price pressures build

The Telegraph 1 March 2011

British manufacturing growth held at a record level in February and factory costs stayed near January's survey high, suggesting price pressures are continuing to build. The Markit/CIPS headline manufacturing Purchasing Managers' Index (PMI) stood at 61.5 in February, unchanged from a downwardly revised 61.5 in January. That was the highest since the survey began in January 1992 and above the consensus forecast of 61. Signs of robust manufacturing growth and surging manufacturing costs could add to calls for the Bank of England to raise interest rates sooner rather than later to curb inflationary pressures.

Consumer price inflation is running at double the central bank's 2pc target and is set to rise further, while interest rates have been at a record low of 0.5 percent since March 2009. "Input cost and output price inflationary pressures remain elevated, which may raise a further eyebrow amongst the members of the Bank of England's Monetary Policy Committee," said Rob Dobson, senior economist at Markit. The PMI's input price sub-index's reading of 83.7 was close to January's revised survey high of 84.1 and was led by rising prices for raw materials such as cotton, energy and metals. Output prices rose for the 16th consecutive month in February to reach their highest rate since August 2008, with the steepest increases in chemicals, food and drink and timber.

Tuesday's PMI survey showed that employment in the manufacturing sector grew at a record pace in February. New orders in February eased slightly from a 16-year high in the previous month, although the reading was still among the highest in the survey's history. The upbeat survey may provide some cheer for the coalition government, which is counting on manufacturing to create employment and help offset job losses in the public sector as the government slashes costs in the next few years to reduce its high debt. However, while the manufacturing sector has maintained its strong start to the year, Markit's Dobson cautioned that it accounts for only 13pc of Britain's GDP, compared to 52pc for non-government services. "(It) can only partly offset the weaker parts of the economy such as services and construction," he said.

George Osborne to clamp down on internet VAT dodge in budget

The Guardian 2 March 2011

Rule waives tax on cheap goods from outside EU, costing the UK £130m in lost tax revenues last year. George Osborne is expected to use this month's budget to announce a crackdown on a ballooning internet VAT dodge on the sale of CDs, DVDs, memory cards, vitamin pills and contact lenses, involving some of the biggest names in British retailing. Industrial scale avoidance of VAT on these and other goods is estimated to have cost the exchequer £130m in lost tax revenues last year – a jump of more than 50% on five years ago – according to Revenue & Customs. Industry insiders believe the true figure could be much higher. If unchallenged, taxpayer losses are likely to soar higher still in the wake of the chancellor's decision to increase the rate of VAT to 20% at the start of the year. The move widened the price gap between websites and high street stores for a host of goods and has contributed to the current crisis faced by retailers such as HMV, which is suffering under ferocious competition from online rivals. Treasury minister Lord Sassoon told the Lords: "We are committed to tackling tax avoidance and, in that context, we hope to be in a position to announce possible changes to the operation of LVCR [low-value consignment relief] in the budget". He added that, in contrast to the Labour government – which had been "closely reviewing" the controversial European VAT relief since 2006 – the new administration had "immediately gripped the situation".

Osborne, who criticised the loophole when he was shadow chancellor, is thought unlikely to introduce any radical changes to the rules on LVCR without a formal consultation. The existing European LVCR rules on VAT – drafted 28 years ago, long before the potential of the internet had been imagined – waive a requirement to pay VAT for low-cost goods imported from outside the European Union. Currently this applies to any goods bought for £18 or less. The arrival of online retailing, however, has allowed larger firms to construct complex transaction and logistics structures, using Channel Islands-based subsidiaries or agent companies to qualify for the relief. Campaigners against the VAT loophole have blamed it for pushing hundreds of smaller retailers, especially music and DVD stores, out of business. The number of independent stores in this area more than halved between 2005 and 2009, dropping from 985 to 446, according to the Entertainment Retailers' Association. In addition, following its January profit warning, HMV pledged to shut 40 more music shops this year as it struggles for survival. Figures from consumer research firm Kantar show British shoppers spent £420m buying more than 45m CDs, DVDs and Blu-ray discs from online sites in the 12 weeks to Christmas. Retailers offering VAT-free prices include Tesco, Asda, Sainsbury's, Boots Opticians and Dollond & Aitchison – as well as fast-growing internet specialists Play.com, Amazon and TheHut.com. Previously Labour ministers had insisted Channel Islands internet trade was "not a loophole". Tuesday's Lords debate on LVCR was tabled by Conservative peer Lord Lucas, who urged the government to take urgent action. He said the wholesale exploitation of the tax relief was "ever-expanding and is costing us thousands of jobs and hundreds of millions of pounds in lost VAT".

Factories power UK recovery forward

The Telegraph 2 March 2011

Manufacturing continues to drive Britain's recovery after a record start to the year that threatens to fuel inflation, according to the much-watched Chartered Institute of Purchasing and Supply's (CIPS) activity index. A record number of jobs were created in February as activity maintained January's all-time high at 61.5, where a figure above 50 indicates expansion. However, selling prices increased at the second-fastest rate in the survey's history, as factories passed on the rising costs of cotton, energy, metals, oil, plastics and timber to customers. The positive outlook for manufacturing, the country's single biggest industry, came as the European Commission trimmed its growth forecast for the UK this year from 2.2pc to 2pc, reflecting the fall in output in the final quarter of 2010 and the austerity measures. However, UK growth remained higher than that forecast for the eurozone, which was raised from 1.5pc to 1.6pc. Inflation fears were heightened, however, by a sharp rise in pay settlements for the three months to January. According to Incomes Data Services, the media wage settlement rose from 2.2pc in the previous three months period to 2.8pc. Ken Mulkearn, editor of IDS Pay Report, said: "Our latest figures show that wage rises have picked up in manufacturing and the level of awards in private services appears to have picked up too. The number of awards at 3pc or above has been rising and this has emerged as a key figure in pay setting. However, pay awards are still trailing some way behind inflation. This gap looks set to continue if inflation continues to rise."

Evidence of rapidly rising wages will concern the Bank of England, which is keen to prevent high current levels of inflation becoming embedded into wages and so fuelling future price rises. Manufacturing is already pushing through its cost increases, the CIPS report showed. Rob Dobson, senior economist at Markit and report author, said: "The latest data also confirm that input cost and output price inflationary pressures remain elevated, which may raise a further eyebrow amongst the members of the Bank." However, sterling strengthened 0.4 cents to $1.6309 on the back of the better-than-expected manufacturing data. The CIPS report showed that growth rates in output and new orders dropped slightly from their 16-year high in January, but new export orders rose for the fifth month in a row. David Noble, chief executive of CIPS, added: "Strong growth in demand across the manufacturing sector continued to put breath in the sails of the UK economy in February.

Retail chiefs warn Treasury over wave of shop closures

The Telegraph 3 March 2011

The bosses of some of the UK's biggest high-street chains have warned the Treasury urgent action is needed to prevent a double-dip recession and the possible closure of thousands of shops. In a crisis meeting on Tuesday night, Danny Alexander, the Chief Secretary to the Treasury, met with a delegation of retailers including Justin King, chief executive of J Sainsbury, and Charlie Mayfield, the chairman of John Lewis Partnership, to hear their concerns. The retail chiefs told Mr Alexander that the sector is already absorbing £670m of extra Government-imposed costs and warned him not to increase the burden. They also said they need Government support in creating jobs to help the economy recover. The meeting, which took place in a central London hotel and was organised by the British Retail Consortium (BRC), over-ran its allotted time and was described by both sides as "constructive". "There was a frank exchange of views," said one of the people present. Rising petrol and food prices have led to a squeeze in disposable incomes, meaning that sales on the high street have dropped off sharply in recent weeks. This week both Primark, the fashion retailer, and HMV, the music chain, warned of slowing sales. At the same time retailers' costs are rising dramatically. Other retailers present at Tuesday's meeting were Ben Gordon, chief executive of Mothercare, and Walker Boyd, chairman of WH Smith.

Stephen Robertson, director-general of the BRC, who was also present, said: "We're not asking for handouts but we are saying it's more important than ever that the Government understands the finely balanced position many retailers are in." He said that anecdotal evidence suggests high street sales slowed dramatically in February as shoppers reined in their spending. Mr Robertson said: "Retail chief executives are telling me that, apart from a bit of a boost from half term, February's sales were pretty weak." One retail chief, who was not at the meeting, said that household incomes are being squeezed so much that people are not spending in stores: "If it costs £20 more to fill up your car and £10 more to feed your family, of course you are not going to go clothes shopping." Mr Robertson said: “Against a background of deteriorating sales, the Chancellor needs to support retail in creating new jobs, particularly new jobs for young people, by avoiding any new burdens and removing existing barriers.” At the weekend the BRC sent its Budget submission to George Osborne, the Chancellor, in which it laid out a 20-point plan for a "retail-led recovery". In the submission, which formed the basis of Tuesday's discussion, the BRC pointed out that 80pc of the new jobs announced at the Prime Minister's January Jobs Summit were in retail.

Measures the plan called for included the suspension of April's fuel duty increase, a moratorium on new employment legislation until growth is firmly established, and the extension of notice about National

Minimum Wage increases from six to 18 months. The BRC is also working with the Department of Business, Innovation and Skills on the Government's growth strategy. A Treasury spokesman said the meeting went well. "We are in the process of conducting a growth review and the retailers obviously had a lot of ideas," he said.

Doctors reject reform of NHS

The Independent: 3 March 2011

Ministers are facing a growing rebellion from doctors over their plans to reform the NHS. A major online survey for the British Medical Association found most doctors were not convinced the potential benefits of the plan outweighed the risks. Of the 1,500 doctors questioned by Ipsos MORI, 65 per cent believed increased competition in the NHS would reduce the quality of patient care. A similar percentage believed the proposed system of clinician-led commissioning would increase health inequalities. And 61 per cent thought the reforms would lead to them spending less time with patients.

Cable vows to cut red tape for business

FT 4 March 2011

Vince Cable has pledged to relax planning laws and cut red tape for small enterprises as part of a drive to stimulate the economy. But, addressing 200 business leaders at Thursday night's Mansion House dinner, the business secretary was at pains to spell out the limits on his influence. At a time of financial constraints, he said, the government was powerless to provide the private sector with an "all-encompassing plan" for economic growth. Mr Cable said ministers could do little more than build a framework to encourage "what Keynes called the 'animal spirits' of entrepreneurs" as he highlighted deregulation, trade, planning and skills as potential ways to boost growth. His central task was "to put growth at the centre of the government's work", he said, as he paved the way for a series of announcements on stimulating the economy ahead of the Chancellor's "growth" Budget on March 23. "I confess to a certain exasperation with commentators and opposition politicians who, for reasons of ignorance, amnesia or mischief, assume away the past and expect that the government can somehow guarantee an immediate, miraculous return to rapid economic growth through some all-encompassing plan," said Mr Cable. "Developed market economies can't be made to grow like the Soviet Union," he added. "The last administration churned out such documents every year or so, and failed to achieve anything resembling sustainable growth. We know business wants actions, not words," he said, in a nod to criticism that his department had become little more than a "talking shop" in recent months. David Cameron is determined to shift the debate away from cuts and towards growth as his £181bn austerity programme begins to take effect. But the absence of a published growth strategy is making that process harder. Officials privately admit the government has failed to convince business leaders and the wider public that it has a clear vision of how to build the economy. "This is the opening salvo in a government campaign to show that the focus is entirely on growth," said one official. "There is an appreciation within government that it has not made the case to the public." Mr Cable used the speech to announce that he was going to simplify company Audit rules which would save small and medium enterprises "tens of millions" in fees while he also promised to reduce the cost for subsidiaries of larger companies. The business secretary also said the government was "bent on planning reform", hinting that he was looking at measures to address "speculative hoarding" and the "slow and prescriptive planning regime".

Moves being considered include the introduction of "land auctions", which would give councils financial incentives to increase planning permission approvals, and reforms to "change of use" rules to help stimulate local regeneration. The business secretary is considering reviving enterprise zones, championed by Margaret Thatcher in the 1980s, to help deprived parts of the country, and may even review the rules restricting new building on "green land", in what would be a highly controversial move. The growth offensive comes as some of Britain's biggest retailers told the Treasury that high street sales were slowing and consumer confidence crumbling amid fears over job cuts and rising food and fuel prices. In a meeting with Danny Alexander, chief secretary to the Treasury, a delegation of retailers, including Justin King, chief executive of J Sainsbury, and Charlie Mayfield, chairman of the John Lewis Partnership, urged ministers to help stimulate growth. They want the government to bolster consumer confidence by providing clarity on public sector job losses as soon as possible.

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