

EMBASSY OF INDIA
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ECONOMIC AND COMMERCIAL REPORT
BELGIUM AND LUXEMBOURG
January 2005

A. GENERAL INTERNAL DEVELOPMENT

Belgian diplomacy: 'More Asia, less Africa'

Foreign Affairs Minister De Gucht wants to diversify Belgian foreign policy. In his New Year's statement made to the press. Foreign Affairs Minister Karel De Gucht clearly expressed that there would be some changes in the Belgian foreign policy. Mr. De Gucht does not necessarily share his predecessor's. Mr. Louis Michel's, view of Belgian diplomacy and this is confirmed by the Minister's priorities in foreign affairs. According to De Gucht the new horizon for Belgian diplomacy is Asia and it must invest in Asia, after having probably invested too much in Africa. Life of hundreds of thousands people has improved in the last ten years in Asia, and "what happened in Japan and Korea is now happening in the rest of the continent" he added. This is the consequence of liberalization of the economy, according to the Minister who claims that it does not create more poverty. "We cannot neglect this continent, the most important one. We must develop economic bonds, but also political, social and cultural relations," Mr. De Gucht stated. Belgium will soon be opening Embassies in Kazakhstan and Caucasus. The Minister will also be traveling frequently to Asia before the next summer. According De Gucht, a good external policy favors the national economy, the exports, and the employment situation.

Ajit Shetty Manager of the Year:

Ajit Shetty, CEO of Janssen Pharmaceutica since 1994, has been chosen as Manager of the Year by the economic weekly Trends. Shetty has Indian roots, and it is the first time a foreign-born manager has been awarded the title. He studied in India and England, and lives with his family in Belgium. Janssen Pharmaceutica has traditionally excellent business results. In 2003 the company had a turnover of 1.876 billion €, and a net profit of 355 million €. Janssen Pharmaceutica is a subsidiary of Johnson & Johnson, and employs about 4,400 employees, compared to 3,000 10 years ago. Last year the company opened a new R&D facility for 300 researchers.

B. ECONOMY & COMMERCE

Belgian Economy Performs Strongly in 2004:

2004 was by all accounts a very good year for the Belgian economy. According to the National Bank of Belgium, GDP grew in 2004 by 2.7%, faster than the 2.1% average in the euro zone as a whole. Meanwhile, inflation remained low at 2.0%. With more than 80% of its GDP exported, Belgium benefited greatly from the increase in foreign demand since mid-2003. The economy was also supported by an increase in consumer spending, higher than in the other European

countries. Indeed a survey among 8.000 Europeans in 12 countries by the bureau Cetelem shows that the Belgians had the most confidence in the economic situation of their country. Higher growth rates in 2004 led to almost 18,000 extra jobs, with 45,000 more expected this year. As a result, the unemployment rate will decrease from 8% in 2003 to 7.8% in 2004. On January 6, the government announced that for the fourth year in a row, it finished the financial year with a balanced budget. The economic outlook for this year is good too. GDP is expected to grow at 2.3%, compared to 1.9% in the euro zone, whereas inflation should fall slightly to 1.8%. Important factors such as oil prices and the value of the dollar remain of course uncertain. But with another balanced budget anticipated, the government should be able to focus increasingly on its main economic priority: job creation

Stock exchange:

Belgian stock values increased by almost 40% in 2004, whereas stocks in Paris were up 12.7%, in London 12.4%, in Amsterdam 7.5%, and in New York 5.8%. The main BEL 20 index increased by 31% in 2004 and its share values more than doubled since March 2003. In January 2005, it went past 3000 points for the first time since April 1998.

High Level of Foreign Direct Investment (FDI) & Productivity Level:

Belgium is consistently ranked among the productive nations (output per worker) in the world. It ranked 2nd worldwide in 2002 by the ILO, after the US (output per worker) and 6th in 2003 (World Competitiveness Report 2004, output per worker/hour). Belgium was one of six EU-15 countries with higher productivity levels than the US in 2004 (The Conference Board, January 2005).

Belgian Companies More Active on Foreign Markets:

The number of foreign companies controlled by Belgian companies increased in 2004 by 5.6% to 12,150 according to the study bureau Graydon. The increase confirms the trend of the last few years. There has been increase with 21% since 2000 when Belgian companies controlled 10,050 companies. About 60% of the participations are in Belgium's neighboring countries, but participations in Central and Eastern Europe are increasing as well. The companies with the most participation are the Belgian railway company NMBS-SNCB, Agfa-Gevaert, Suez-Tractebel, Solvay and Dexia Bank Belgium.

Record Year for Belgian Ports:

Preliminary data indicate that traffic at the Belgian ports rose sharply in 2004. Freight volume at the port of Antwerp increased by almost 7% to 152 million tons, a new all-time record. Cargo traffic between the US and Antwerp was the highest with 20.3 million tons or 13.4% of total freight volume. Over the past three years overall freight volume in Antwerp grew by one third. Like the other Belgian ports, Antwerp witnessed in particular an increase in container volume (+11%). It is still the second-largest port in Europe by a wide margin, with an expanding market share. There were similar patterns at the other ports. Traffic increased in Zeebrugge to 31.8 million tons (+4.3%), and in Gent to 24.3 million tons (+ 3.4%). 2004 also marked the first time the 7.5 million mark was overtaken in the port of Oostende.

Techspace Aero Works on GE Engine for Boeing 7E7, Airbus A350:

Belgian aerospace equipment company Techspace Aero, based in Herstal, has signed an agreement with General Electric for the design, the development and the production of the GENx low pressure compressor stators. The GENx is a very fuel-efficient engine designed to perform with reduced (up to 15%) fuel consumption. It will equip the future Boeing 7E7 and Airbus A350 aircrafts. Boeing estimates that the potential market for wide-bodied, twin-engine commercial aircraft like the 7E7 is between 2,000-3,000 over a period of 20 years. The 7E7 is due to enter into service in 2009, the Airbus A350 in 2010.

GM parts operation moves into Flanders:

Cadillac & Corvette Europe, an affiliate of General Motors, is to open a new European distribution center at Puurs in Flanders. The site includes 35,000 square meters of storage space, with a further 18,000 square meters available for future expansion. Logistics operations management will be performed by Caterpillar Logistics. Parts for GM's North American models (Cadillac, Corvette and Chevrolet) were previously distributed via a depot in Sweden.

Navigators Opens Belgium Office:

The Navigators Group, Inc., the international insurance holding company based in New York, announced the establishment of a new office in Antwerp, Belgium. The new specialist marine underwriting unit is Navigators' first office in continental Europe. Stan Galanski, CEO of Navigators, said that Navigator's presence in Antwerp will allow the company to access a client base which it currently does not reach through its UK operations.

Excellent Business Environment:

As the host of NATO and EU headquarters, and hundreds of other international organizations and international NGOs, and within a distance 200 miles or less to London, Paris, and Frankfurt, Belgium is right at the heart of the political and economic decision-making centers in Europe. Economically, Belgium is at the center of 60% of the EU's purchasing power, and more than 70% of its GDP is exported to EU countries. Its logical tools include the second largest seaport in Europe, the second largest petrochemical center worldwide, and the 5th largest cargo airport in Europe. Belgium is the third pharmaceutical producer, and the second pharmaceutical exporter in Europe. In terms of quality of life, the UN ranked Belgium sixth in the world in terms of health and life expectancy, education and earnings (UN Human Development Index 2004).

C. EUROPEAN UNION

Inflation:

The inflation was 2.4% in December 2004 in the EU-25, compared with 2.2% in November as per Eurostat. In 2003 the rate was 1.9%. Monthly inflation was 0.4% in December 2004. Euro-zone annual inflation increased from 2.2% in November to 2.4% in December 2004. A year earlier the rate was 2.0%. Monthly inflation for the Euro-zone was 0.4% in December 2004. This exceeds the 2% limit set by the European Central Bank (ECB) for ensuring price stability. In December 2004, inflation stood at 2.2% in the

EU and at 2% in the Euro-zone. Average annual inflation stands at 2.1. The main components with the highest annual rates in December 2004 were health care (8.5%) and alcohol and tobacco (8.4%). In December 2004, the lowest annual rates were observed in Finland (0.1%), Sweden (0.9%), Denmark (1.0%) and the Netherlands (1.2%) and the highest rates were recorded in Latvia (7.4%), Slovakia (5.8%), Hungary (5.5%) and Estonia (4.8%). Compared with November 2004, annual inflation rose in seven Member States, fell in 13 and was unchanged in four.

Currency:

A Euro barometer survey revealed that many people in Euro-zone area are still not aware that they can withdraw cash and make payments with bank cards in other Euro-zone countries without incurring additional fees. In 2004, only 27% of those questioned were aware of these facilities, compared with 29% in 2003. Likewise, just 38% of those questioned know that there are no supplementary fees when making a purchase with a bank card in another Euro-zone country. The survey revealed that a majority of those questioned no longer see a need for the maintenance of double price marking. The survey shows that citizens are increasingly accepting the Euro as their currency. Compared with results for 2003, the majority of those questioned generally think in terms of Euros for their day-to-day purchases. However, national currencies remain the benchmark for exceptional purchases. Most of those questioned consider the number of coins to be adequate. Most European citizens would not object to the withdrawal of 1 or 2 cent coins, though most fear this would result in a rise in prices.

Trade:

Eurozone External Trade: Eurostat's estimate for Eurozone trade with the rest of the world in November 2004 showed a surplus of 2.9 billion Euros, compared with 5.2 billion in November 2003. Extra-EU-25 trade, according to the estimate for November 2004, was a 8.5 billion Euro deficit, compared with a deficit of 5.9 billion Euros in November 2003.

EU-ANDEAN Working Group for Association Agreement:

A joint committee composed of EC and ANDEAN (Bolivia, Colombia, Ecuador, Peru and Venezuela) decided to have a joint assessment of regional economic integration in the Andean Community. This would result in the opening of negotiations with a view to a future association agreement for an integrated free trade area. The assessment will be conducted by a working group that will hold its first meeting in March or April 2005.

Common Database for Visas:

The European Commission presented its project for European Visa Common Database, which would be launched in 2007. The Visa Information System (VIS) will centralize information on visa from 3,500 consular posts of the Schengen member states. Any consulate will be informed in real time of any previous requests made by an applicant. This system will thus prevent applicants from doing 'Visa shopping'. The system will also record the photo and fingerprints of applicants.

Immigration as a solution for the ageing of the population:

The European Commission is launching a debate on economic immigration to the European Union, in order to fill the deficit of manpower in some sectors of the economy. It is clear that harmonizing immigration becomes a major issue in a Europe that has removed inside borders, and where demographic decline has started. The European Commission would publish an initiative on the subject of immigration. A Green paper on the management of economic migratory flows will form the basis of a debate on the question that will involve all stakeholder like governments, institutions, NGOs, economic entities etc. This exercise should provide a strategy by the end of 2005. The European Commission wants to make harmonization of the admission criteria at the European level. The aim of the Commission is to establish economic immigration is a natural process, and not a threat to Europe. Third countries will also get an opportunity to submit their comments in this regard.

Pakistan creates interest in Europe:

Some sixty Belgian company leaders met the new Pakistani Prime Minister Shaukat Aziz, on the invitation of the Walloon Export Agency (Awex). This event shows the growing interest of the business sector for a 160 million people market. Mr. Aziz, former Finance Minister and a former banker-was promoted as head of the Pakistani government in August 2004. He was in Brussels on an official visit where he met representative of the European Union, Belgium and NATO. Pakistan had never been an attractive place for foreign investors because of the bad reputation of a government that was associated with military regimes and, more recently, because of supposed links with Islamic fundamentalism and international terrorism. However, the image of Pakistan is changing and the European Union has welcomed the government for its actions for bringing democracy in Afghanistan, for its policy with India and for its contribution to dismantling of Al Qaeda. Premier Shaukat Aziz underlined that his country has become one of the most performing economy among emerging countries. Credit institutions, like the Belgian 'Office Ducroire' has positively re-evaluated Pakistan's risk level for investors.

Chemicals: Industry Mobilizes on Chemicals Regulation:

European Industry association UNICE warned that the costs and risk assessments for testing chemicals under the European Commission's so-called REACH proposal could be a huge burden. The warning concerns the draft Regulation for the Registration, Evaluation and Authorization of Chemicals (REACH). UNICE said that the volume alone is not a sufficient criterion to determine the amount of data that are needed to assess the potential impact of a chemical for human health or the environment. UNICE proposed to focus on substances which are clearly dangerous. Industry wants prioritisation based on risk, which would determine the amount of data needed to assess the potential impact of chemical products. UNICE suggested voluntary groupings to collect information on products and an obligation to share data drawn from testing on animals. They called for a single agency, the future Chemicals Agency, which should be responsible for the management of the entire system. Orgalime, the industry association for the inorganic industries (metals and minerals) has meanwhile called for their products and raw materials (ores, recycling residues, minerals and metal alloys) to be excluded from the scope of REACH. They say the rules would result in excessive bureaucracy given the number of products concerned.

They complain of no longer being treated in the same way as organic industries which have seen basic products (oil, coal and gas) excluded, along with polymers.

World Bank Criticizes EU Preferential Agreements and Quota Systems for Sugar:

A World Bank Report says that sugar producers in EU, US and Japan are getting paid three times more than the average world markets because of the protectionist mechanisms set up by these industrialized countries. According to World Bank, preferential and regional agreements often prevent low price producers entering markets covered by these agreements. The report also says that poorest countries are benefited less by the quota system. The World Bank thinks that in order to get rid of the trade distortion, multilateral liberalization should be introduced and abolish preferential trade agreements. The Bank believes that EU should revise its preferential system for sugar.

EU Aid for Tsunami Disaster:

EC decided to make Euros 14 million available in the context of the call for funding from World Food Programme. This aid is part of the EC's allocation of 450 million Euros pledged for disaster relief. In order to meet the humanitarian crisis in the stricken areas, EC has adopted a proposal to release emergency aid of Euros 100 million. A first installment of 23 million from this sum has already released during the first week of the disaster in order to cover emergency relief operations of the Red Cross, UN agencies and NGOs. The remaining 350 million Euros is to be paid out over 3 years for reconstruction and rehabilitation of disaster-stricken areas. In the fisheries sector EU is expected to create a working group for examining ways of deploying EU resources to help the fisheries and aquaculture sectors in these countries. The EC also plans to take favorable trade measures to help Sri Lanka, Indonesia, Thailand and India. It is considering the possibility of suspending certain anti-dumping procedures that are currently being directed against these countries and the early implantation of the new GSP scheme. Under the new GSP scheme India stands to get improved access to the EU market.

Bilateral Trade:

India-Belgium Trade:

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
India's exports	1650910	2042904	23.74%	34.7%
India's imports	3498255	3850375	10.07%	65.3%
Total trade	5149165	5893279		

Major items of Indian exports to Belgium:

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
Precious stones and metals	971423	1130357	16.36%	55.33%
Iron and steel	43872	158393	261.03%	7.75%
Mineral fuel, oils and products thereof	27326	79054	189.30%	3.87%
Articles of Apparel & Clothing accessories, knitted	65370	78170	19.58%	3.83%
Articles of Apparel & Clothing accessories, not knitted	57743	67338	16.62%	3.30%
Organic chemicals	42645	43636	2.32%	2.14%
Fish & crustaceans, mollusks & other aquatic	39288	43293	10.19%	2.12%
Man-made staple fibers	29660	34744	17.14%	1.70%
Electrical Machinery & Equip & parts	23603	34610	46.63%	1.69%
Other made-up textile articles	25380	33863	33.42%	1.66%

Major items of Indian imports from Belgium

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
Precious stones and metals	3094287	3309166	6.94%	85.9%
Boilers, machinery and mech appliances & parts thereof	70403	99042	40.68%	2.6%
Iron and steel	60847	72188	18.64%	1.9%
Pharmaceutical products	23511	71753	205.19%	1.9%
Organic chemicals	39442	52097	32.09%	1.4%
Plastics and plastics products	37839	47220	24.79%	1.2%
Electrical Machinery & Equip & parts thereof	27031	20952	-22.49%	0.5%
Optical, photographic, cinematographic & measuring equip	11836	13063	10.37%	0.3%
Photographic or cinematographic products	8347	12628	51.29%	0.3%
Pulp of wood or of other fibrous cellulosic materials	7093	10858	53.08%	0.3%

India-Luxembourg Trade:

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
India's exports	13374	11268	-15.75%	51.0%
India's imports	9197	10822	17.67%	48.99%
Total trade	22571	22090		

Major items of Indian exports to Luxembourg:

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
Man-made filaments	5409	4952	-8.4%	43.9%
Articles of iron and steel	3013	2719	-9.8%	24.1%
Boilers, machinery & mech appliances & parts thereof	836	547	-34.6%	4.9%
Precious stones and metals	785	532	-32.2%	4.7%
Plastic & Plastic products	118	461	290.7%	4.1%
Elec. Machinery, equipment and parts thereof	332	297	-10.5%	2.6%
Glass & Glassware	28	297	960.7%	2.6%
Articles of Apparel & Clothing Accessories, knitted	411	276	-32.8%	2.4%
Tanning or dyeing extracts, tanning & their de	382	141	-63.1%	1.3%
Articles of Apparel & Clothing Accessories, not knitted	330	119	-63.9%	1.1%

Major items of Indian imports from Luxembourg:

Figures in Million Euro

Product	Jan-Nov 03	Jan-Nov 04	% change	% share in 04
Boilers, machinery & mech appliances & parts thereof	5826	8065	38.4%	74.5%
Iron and steel	1231	902	-26.7%	8.3%
Plastics & Plastics products	726	471	-35.1%	4.4%
Aluminum and articles thereof	58	255	339.7%	2.4%
Optical, photographic, cinematographic & measuring equipment	185	217	17.3%	2.0%
Electrical Machinery & Equipment & parts thereof	257	142	-44.7%	1.3%
Other base metals; cermets; articles thereof	24	142	491.7%	1.3%
Articles of Iron & Steel	507	72	-85.8%	0.7%
Copper and articles thereof	35	50	42.9%	0.5%
Wadding, felt & nonwovens; special yarns; twine, cc	0	18	-	0.2%

Trade/Investment Enquiries:

During the month of January 2005, the Commercial Section received 39 trade enquiries. Appropriate action was taken on each of them.

Details of Tender Information:

During December, Commercial Section received 5 tenders, which were widely publicized among the Chamber of Commerce and relevant Trade Association in Belgium and Luxembourg, and also displayed on Embassy website & notice boards.

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