

EMBASSY OF INDIA
BRUSSELS

Bru/Com/201/10/05

ECONOMIC AND COMMERCIAL REPORT
BELGIUM AND LUXEMBOURG
October 2005

A. GENERAL INTERNAL DEVELOPMENT

Brussels remains one of the most attractive cities to do business

According to the 2005 European Cities Monitor, Brussels takes the 4th position in terms of the best cities to establish a business. In the overall rating the top locations are London, Paris and Frankfurt. The study conducted by Cushman and Wakefield Healy and Baker examines the views of senior executives from 501 companies coming from the industrial, financial and services sectors, within the 30 Europe's leading business cities. The ranking shows that the Belgian capital continues to be an attractive location in terms of: access to markets (4th place); qualified staff (4th place); external transport links (5th place); quality of telecommunications (5th place); cost and availability of office space (12th and 8th place) and languages spoken (2nd place).

The Belgian pension system is too liberal

The current Belgian system of pre-pension and pension was made in the 1970s. Pre-pension was created to soften the passage from the work to retirement, ensuring to the 'pre-retired' a salary close to the salary at work. This system applied at different ages, depending on the sectors. As a result, only 26 percent of Belgians aged from 55 to 64 still work, while the European average is 40 percent. The average length of the career in Belgium is 36 years, while it was 41 in the 15 countries of the European Union before enlargement. The government has sounded an alarm and designed a new reform package that aims at reducing the number of people who take the pre-pension. One of the main aims of the reform is to further push the age of pre-pension and pension. The government considers that the small percentage of people from the generation 55-64 at work puts pressure on the system of the social security as the population is ageing.

Belgium awarded an additional EUR 1 million in emergency aid to Pakistan

In addition to the funds already released by Belgium, Foreign Minister Karel De Gucht has also offered a total of EUR 1 million out of Belgium's emergency aid budget via the International Committee of the Red Cross (ICRC) to help the victims of the earthquake in

Pakistan. This emergency aid is intended to give thousands of now homeless Pakistani families a roof over their heads as winter is fast approaching, which can be very harsh in the region affected. This brings the total aid donated to Pakistan by Belgium after the earthquake on 8 October to EUR 3,035,000. This total includes EUR 1,400,000 in food aid donated through the World Food Programme (WFP), most of which was awarded in the context of the UN donors' conference held in Geneva; EUR 1 million via the ICCR; EUR 350,000 via the Belgian Red Cross; EUR 135,000 for the emergency medical team (B-FAST), and EUR 150,000 awarded by the Flemish government to the Flemish Red Cross.

Confusion in Communication on Avian Influenza

Piet Vanthemsche, the head of the Federal Agency for the Safety of Food Chain, has been appointed by the Belgian government to coordinate all measures in the event of an outbreak of avian influenza. As yet there is no general penning-up obligation for poultry, as it exists in Germany or the Netherlands. However, this obligation does exist in risk areas, such as in the vicinity of nature reserves where migratory birds often alight. Although no focus of avian flu has been detected in Belgium, sales of chicken are down by as much as 50% and the price has already dropped to below the production price. If this situation continues, Belgian poultry farmers will be facing their third disaster in barely seven years, after the dioxin crisis in 1999 and the fowl pest in 2003.

B. ECONOMY AND COMMERCE

Business confidence rises again in October

The National Bank of Belgium's gross overall synthetic curve rose in October, thus confirming the sharp recovery recorded in September. Business climate strengthened considerably in trade and, to a lesser extent, in the manufacturing industry. The building industry, on its part, displayed a near stabilization. The recovery of business confidence in the manufacturing industry recorded since June 2005 for the first time showed in a rise of the production capacity utilization rate. Adjusted for seasonal effects this rate increased from 78,2 % p.c. in July to 79,1 % in October. The smoothed overall synthetic curve, which, by eliminating the extreme points, reflects the fundamental trend of activity with a few months' delay, is still showing a downward trend. As a result of the good gross results of the past few months, this drop should be the last one, though. In the business-related services, the results of which are not included in the overall synthetic indicator, the gross indicator remained unchanged. The smoothed synthetic indicator tends to stabilize in this branch of activity as well.

Investors in Telenet Shares lose 96 million Euros

The long awaited stock market introduction of the telecom operator Telenet turned out to be a severe disappointment. The company offered its shares at 21 euros per share, but the first quotation was already half a euro below this and at the end of the day the rate had dropped by 9.5% to 19.1 euros. Normally large numbers of shares are bought at the start of trading so that the rate increases. Analysts feel that the fact that this was not the case with Telenet proves that the shares were too expensive. Investors who signed up with Telenet, including 44,000 private Belgian investors, lost 96 million euros and the company's market value dropped by 192,3 million euros.

Belgium – UAE trade gets a boost

Trade between the UAE and Belgium is set for a period of rapid growth with the launch of the new Abu Dhabi to Brussels route by Etihad Airways – the national airline of the UAE. Currently bilateral trade between Belgium and the UAE is worth approximately AED 9 billion per annum, and with Brussels' unique proximity to the neighboring countries of France, Germany and the Netherlands the economic benefits of the route will be felt across the whole continent. Belgium and the UAE enjoy a substantial bilateral trade particularly in the export of machinery and electrical equipment, vehicles, precious metals, and diamonds. This connection between Abu Dhabi and Brussels will provide further incentive for new business relations to be formed.

C. EUROPEAN UNION

Euro-zone inflation estimated at 2.5%

Eurozone inflation over 12 months is expected to ease in October to 2.5 percent from 2.6 percent in September, according to an estimate by Eurostat, the Statistical Office of the European Communities. Economists had forecast a drop to 2.4 percent, owing to the recent slight drop in energy prices. If confirmed, it would show that inflation in the 12 countries using the euro single currency continues to be well above the European Central Bank's preferred level of close to but below 2.0 percent. Analysts and policymakers have been concerned that high oil costs will have a knock-on effect on other prices and wages, causing a spurt in inflation.

EU faces challenges of globalisation at Informal European Council

EU Heads of State and Government gathered on 27 October for an Informal European Council at Hampton Court Palace, United Kingdom. UK Prime Minister and current President of the European Council Tony Blair tried to get the EU's 25 Heads of State to reach a 'strategic consensus' on how to tackle the challenges of globalisation and

demographic ageing. They discussed six main priorities proposed by the European Commission:

Research: the 25 Member States aim to give new impetus to European research and innovation, and to the budget devoted to research. They even suggested setting up a European Council dedicated to Research.

A common energy policy: EU leaders discussed sudden oil price increases and the exhaustion of oil stocks. They decided to negotiate with oil and gas producing countries at European level.

Education: European universities are lagging behind their American, Indian and Chinese counterparts. EU Heads of State identified a set of measures to fight the decline of European universities.

Immigration: EU leaders agreed that the Union must find a coordinated solution to illegal immigration, while recognising the benefits of legal immigration to the European economy.

Demographic change: Heads of State and Government discussed how the EU could help the employed better reconcile their work and family lives. They also addressed the issue of Europe's ageing population.

The creation of a Globalisation Adjustment Fund: EU leaders discussed setting up a Globalisation Adjustment Fund to help workers who fall victim to globalisation.

The European Council did not deal with the controversial, but most important issue of the 2007-2013 financial perspectives in detail, but all EU leaders highlighted that an agreement should be reached at the European Council in December.

Towards a single EU tax base

On 26 October the European Commission set out a plan to harmonize the corporate tax base across the EU. The plan includes a number of existing taxation and customs initiatives, and proposes a set of new measures to modernise the EU's taxation and customs system. "With globalisation and increasing cross-border activity, a Community approach on some tax and customs issues would be of considerable benefit to business and trade," said Taxation and Customs Commissioner László Kovács. At present, the 25 national tax systems represent an obstacle to the smooth functioning of the single market, and impose extra costs on businesses across the EU. As such, they hamper investment in research and development (R&D) and pose a threat to sustainable economic growth. The Commission's move to simplify and improve customs and taxation systems across the EU

is part of a broader strategy to cut red tape and stimulate growth. Commissioner Kovács has already unveiled plans to combat counterfeiting and introduce a more unified approach to car taxation. Other Commission tax proposals will concern the modernisation of the Customs Code, the modernisation of VAT rules and a communication on R&D tax incentives.

WTO chief finds merit in EU's final offer in the Doha Round of negotiation

The head of the World Trade Organisation (WTO) backed the European Union's latest concession on agricultural tariffs, saying it was worthy of serious debate. WTO Director-General Pascal Lamy was commenting on EU trade chief Peter Mandelson's offer on 28th of October 2005 to cut farm tariffs by an average of 46 percent in time for the WTO summit in December in Hong Kong. The EU trade commissioner had made "a serious offer that merited serious discussion," Lamy said. The US, Canada and Australia have already said they are disappointed by the EU's offer to cut its highest farm tariffs by 60 percent and lower tariffs by 35-60 percent, almost halving the overall tariff rate from around 23 percent to 12 percent. Nevertheless Lamy was upbeat, saying "the Europeans and the Americans are now showing movement on agriculture questions." It's very good news for developing countries," he said. "It will unblock remaining negotiations." The parties in the Doha round of trade liberalisation talks are struggling to reach a deal in time for a ministerial meeting of the World Trade Organisation (WTO) in Hong Kong December 13-18. The new EU offer was conditional on its main negotiating partners -- the United States, Brazil, India and Australia -- responding constructively, notably on industrial goods, services and development. Lamy declined to comment on a threat by France to veto any agreement at the forthcoming summit. Britain, which holds the rotating EU presidency, advocates the slashing of farm subsidies in Europe and the United States to aid developing countries gain access to export markets. Lamy stressed the main aim was to re-balance world trade for the sake of development, he said. If Hong Kong was not a success this would be "bad news for world trade and development."

EU wages war on bird flu

The EU has banned imports of captive live birds from other countries in an effort to curb the spread of bird flu. The decision — by a top level meeting of leading European vets in Brussels — came after UK quarantine authorities discovered a parrot arriving from South America had the lethal H5N1 strain of the virus. The ban will not be applied to poultry imported for commercial purposes, although imports of live birds and bird products have already been stopped from Turkey, Romania, the Greek island of Chios, Russia, Croatia and Thailand. The EU stopped short of imposing a compulsory lock-up for poultry. The latest move is one of a series of measures taken by the European Commission to prevent the spread of bird flu in Europe. Although the H5N1 virus can be passed from birds to humans, it has not shown any signs yet of being transmissible from human to human.

However, fears remain that the virus could mutate together with a human flu strain and spark a global flu pandemic that could kill millions. At an emergency meeting of EU foreign ministers this month, UK Foreign Secretary Jack Straw sought to reassure the public that the European Union was well-equipped to cope with any eventual bird flu pandemic.

Pakistan earthquake: Commission propose €3.6 million aid package

The European Commission is proposing that an additional amount of at least €80 million be made available to address the immediate needs of survivors of the earthquake in Pakistan on 8th October (€30 million), and to contribute to the costs of rehabilitation and reconstruction (€50 million). This is in addition to the €13.6 million emergency humanitarian aid already released, bringing the total proposed for 2005/6 to €3.6 million (\$111.7 million). The very substantial sum proposed underlines the European Commission's commitment to Pakistan and to its people. The Commission has approached the budgetary authority (Council of Ministers and European Parliament) with this proposal, and has called for an early response to this proposal so that the EU can continue to act swiftly to help those still suffering the terrible effects of the earthquake.

D. TRADE ENQUIRIES:

During the month, the Commercial Section received 48 trade enquiries. Appropriate action was taken on each of them.

E. TENDERS:

During the month, the Commercial Section received 4 tender notices. These were widely publicized among the Chambers of Commerce and relevant Trade Associations in Belgium and Luxembourg. And also put on the Embassy website.

F. TRADE FAIRS:

During the month, information relating to one trade fair taking place in India was received. This was widely publicized among the Chambers of Commerce and relevant Trade Associations in Belgium and Luxembourg. And also put on the Embassy website.

G. BILATERAL TRADE:

India-Belgium Trade:

Figures in Thousand Euro

| Product | Jan-July 04 | Jan-July 05 | %change | %share |
|--------------------|----------------|----------------|---------|--------|
| India's exports | 1255745 | 1491929 | 18.8 | 32.1 |
| India's Imports | 2760664 | 3155679 | 14.3 | 67.9 |
| Total Trade | 4016409 | 4647608 | | |

Major items of Indian exports to Belgium:**Figures in Thousand Euro**

| Product | Jan-July 04 | Jan-July 05 | % change | % share |
|--|-------------|-------------|----------|---------|
| Natural/cultured pearls, Precious stones and metals | 741426 | 776174 | 4.7 | 52.0 |
| Textiles and articles | 180756 | 197419 | 9.2 | 13.2 |
| Base metals | 80573 | 187275 | 132.4 | 12.6 |
| Iron and steel | 58695 | 155694 | 165.3 | 10.4 |
| Chemical products | 36360 | 61188 | 68.3 | 4.1 |
| Articles of apparel and clothing accessories, knitted or crocheted | 54552 | 59145 | 8.4 | 4.0 |
| Articles of apparel and clothing accessories, not knitted or crocheted | 48017 | 56986 | 18.7 | 3.8 |
| Mineral products | 43216 | 54463 | 26.0 | 3.7 |
| Organic chemicals | 22720 | 40445 | 78.0 | 2.7 |
| Mineral fuels, mineral oils and products of their distillation | 27779 | 38087 | 37.1 | 2.6 |

Major items of Indian imports from Belgium:**Figures in Thousand Euro**

| Product | Jan-July 04 | Jan-July 05 | % change | % share |
|--|-------------|-------------|----------|---------|
| Natural/cultured pearls, Precious stones and metals | 2420253 | 2698230 | 11.5 | 85.5 |
| Base metals | 80802 | 161298 | 99.6 | 5.1 |
| Iron and steel | 47699 | 124175 | 160.3 | 3.9 |
| Machine/electric equipment | 79284 | 114765 | 44.8 | 3.6 |
| Nuclear reactors, boilers, machinery and mechanical appliances | 65164 | 103057 | 58.2 | 3.3 |
| Chemical products | 87915 | 99030 | 12.6 | 3.1 |
| Organic chemicals | 31102 | 45549 | 46.5 | 1.4 |
| Plastic and rubber | 33209 | 32137 | -3.2 | 1.0 |
| Plastics and articles thereof | 30689 | 27817 | -9.4 | 0.9 |
| Pharmaceutical products | 34057 | 19924 | -41.5 | 0.6 |

India-Luxembourg trade:**Figures in Thousand Euro**

| Product | Jan-May 04 | Jan-May 05 | %change | %share |
|--------------------|-------------|--------------|---------|--------|
| India's exports | 5125 | 5789 | 13.0 | 52 |
| India's Imports | 2430 | 5351 | 120.2 | 48 |
| Total Trade | 7555 | 11140 | | |

Major items of Indian exports to Luxembourg:**Figures in Thousand Euro**

| Product | Jan-May 04 | Jan-May 05 | %change | %share |
|--|------------|------------|---------|--------|
| Man-made filaments | 2427 | 2705 | 11.5 | 46.7 |
| Electrical machinery and equipments and parts thereof | 140 | 1263 | 802.1 | 21.8 |
| Articles of iron or steel | 1376 | 806 | -41.4 | 13.9 |
| Plastics and plastic products | 80 | 217 | 171.3 | 3.7 |
| Nuclear reactors, boilers, mechanical applicants | 262 | 217 | -17.2 | 3.7 |
| Tanning or dyeing extracts, tannins and their derivatives | 96 | 125 | 30.2 | 2.2 |
| Glass and glassware | 114 | 111 | -2.6 | 1.9 |
| Articles of apparel and clothing accessories, knitted or crocheted | 106 | 89 | -16.0 | 1.5 |
| Articles of apparel and clothing accessories, not knitted or crocheted | 76 | 75 | -1.3 | 1.3 |
| Miscellaneous chemical products | 18 | 68 | 277.8 | 1.2 |

Major items of Indian imports from Luxembourg:**Figures in Thousand Euro**

| Product | Jan-May 04 | Jan-May 05 | %change | %share |
|--|------------|------------|---------|--------|
| Natural/cultured pearls, Precious stones and metals | 1608 | 4117 | 156.0 | 76.9 |
| Iron and steel | 73 | 300 | 310.1 | 5.6 |
| Plastic and plastic products | 116 | 230 | 97.8 | 4.3 |
| Articles of iron or iron steels | 56 | 166 | 194.3 | 3.1 |
| Copper and article thereof | 14 | 112 | 685.7 | 2.1 |
| Electrical machinery and equipments and parts thereof | 50 | 40 | -18.9 | 0.7 |
| Optical, photographic, cinematographic, measuring | 105 | 40 | -62.2 | 0.7 |
| Toys, games and sports requisites | 0 | 34 | | 0.6 |
| Other base metals | 62 | 22 | -64.2 | 0.4 |
| Glass and glass ware | 0 | 7 | | 0.1 |

Trade/Investment Enquiries:**Total of enquiries for the month of October - 48**

| | |
|--|---|
| Handicrafts/Home furnishing | 5 |
| Pharmaceuticals | 4 |
| Textiles/garments/readymade/ sportswear | 4 |
| General trade and trade fair information | 3 |
| Agribusiness | 2 |
| Scrap and stainless steels | 2 |
| Jute goods | 2 |
| Stationary, Paper and its products | 2 |
| Industrial rubber mats | 1 |
| Wire working machines | 1 |
| Opto-Medical Equipments, Scientific & Laboratory Instruments | 1 |
| Cotton home furnishing fabrics | 1 |
| Tablet Press Machine and Pharma Machineries | 1 |
| Rubber Latex Condoms | 1 |
| Rice, Ceramic Tiles, Pharmaceutical and Herbal products | 1 |
| Herbal powders and extracts | 1 |
| Gum rosin and rosin derivatives | 1 |
| Hydraulic products | 1 |
| Sock manufacturers | 1 |
| Filming in India | 1 |
| Agrochemicals | 1 |
| Dyes & dyestuffs | 1 |
| Consulting firm | 1 |
| Machine Tools in Engineering, Plastics, Electronics | 1 |
| Wire working machines and wire nail making machines | 1 |
| Henna Powder & Henna Products | 1 |
| Spot light, power cord, schucko plug | 1 |
| liquor trade | 1 |
| Cruding oil | 1 |
| Packaging and converting machines | 1 |
| Bicycles and its spare parts | 1 |
| Food and agro products | 1 |

**Dissemination of Information on Tenders
(During October)**

| | | |
|---|--|---|
| 1 | AMUNITION FACTORY, KHADKI, PUNE, India | 3 |
| 2 | Indian railways diesel locomotive works, Varanasi, U.P. (India) | 1 |

**Dissemination of Information on Fairs in India
(During October)**

| SI. No. | Name of Fair | Date of Event | Place of Event |
|---------|---|---|--|
| 1 | 4 th International Land and Naval Systems Exhibition DEFEXPO India - 2006 | 31 st January – 3 rd February, 2006 | Pragati Maidan, New Delhi, India |

Siddharth
Adviser (Comm. & TD)

Distribution: As per standard list

Also available in the Reports section of the Mission's website: www.indembassy.be/reports.