Financial Services/Insurance

In October-November 1999, the Insurance Regulatory and Development Authority (IRDA) Act was passed by the Lower and Upper Houses of the Indian Parliament and received Presidential Assent. The act provides statutory status to insurance regulators and allows foreign equity in domestic private insurance companies to a maximum of 26 percent of paid-up capital. The act also opens up the industry to private sector participation by amending the Insurance Act of 1938 and the "exclusive privilege" granted to the General Insurance Corporation (GIC) of India (GIC Act of 1956) and Life Insurance Corporation (LIC) of India (LIC Act of 1972). The Indian partner, initially holding 74 percent of the joint venture, would be required to reduce its stake to 26 percent within ten years. The act restrains new companies from investing any funds abroad and requires that all insurance companies, with or without foreign equity participation, to carry out some business in rural areas.

Industry observers, including Canadian insurance companies with a presence in India's financial services sector, believe that the Government is trying to open up the Indian insurance market to foreign participation and competition and believe that these goals are likely to be achieved by October 2000. They do not, however, rule out a readjustment of the equity holdings of both partners in the longer term. The Canadian government will continue to press for further liberalization in the insurance sector and in other parts of the financial services sector, building on recent Canadian successes in India's asset management subsector.

Agricultural and Manufactured Goods

India maintains a number of restrictions related to balance-of-payments ("negative list"), affecting both agricultural and manufactured goods. The list includes banned items (for example, offal and animal tallow) and restricted items that require an import licence. A large number of items were removed from this list in the 1997 budget. In 1998, the first tranche of items from the bilateral agreements was removed from the import restrictions, and later in 1998, a number of other agricultural goods were freed, including many oil seeds. The entire 14.4 percent customs duty on the import of peas/pulses was removed effective November 23, 1998. The special additional duty (SAD) of 4 percent on imports of edible oils was also withdrawn.

Subsequently, the 1999 central budget removed about 1,000 consumer products from the restricted list and put those on the open general list (OGL). In the agri-food sector, up to 50 percent of the production of export-oriented units (EOUs) are allowed to be sold in the domestic market, as compared to a 20-percent limit in other sectors, thus encouraging foreign investment in the food sector.

As announced on January 10, 2000, the Government of India has agreed to lift QRs and import-licensing requirements on a total of 1429 agriculture, textile and consumer products. The agreement was pursuant to the decision of August 23, 1999 of the WTO Appellate Body in which the United States had successfully contested the WTO-consistency of the QRs maintained by India on the grounds of balance of payments (BoP) problems. A total of 714 of the tariff lines will be eliminated by April 2000, with the remaining 715 to be phased out by April 2001. The benefits of eliminating these restrictions should accrue to all of India's trading partners, including Canada, since under WTO rules the results will have to be implemented on an MFN basis. Canada is monitoring the process.

Since 1997, Canadian government officials have held discussions with the Indian government on the issue of access for Canadian live cattle, embryos and bovine semen. To date no resolution of Canadian concerns has been achieved; however, we continue to pursue the issue as a priority.

The non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in such sensitive sectors as agriculture and food. The effect of these policies on the Indian economy is to permit both public- and private-sector domestic firms to operate inefficiently, with little or no competition, and to limit the quality and quantity of goods available to Indian consumers. Tariffs remain high on many food and consumer items.