



**FOURTH REPORT OF THE
FOREIGN AFFAIRS COMMITTEE**

SESSION 2006-07

SOUTH ASIA

**RESPONSE OF THE SECRETARY OF STATE FOR
FOREIGN AND COMMONWEALTH AFFAIRS**

*Presented to Parliament
By the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
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RESPONSE OF THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

1. The Government welcomes the scrutiny by the Committee of its work to engage with and promote UK interests in South Asia.
2. South Asia is one of the most dynamic regions in the world, and its future success and stability will have a significant impact on UK interests. This is especially true of India, whose emergence both economically and politically on the world stage has in recent years dramatically altered the nature of the UK's relations with it.
3. The UK's relationship with India is increasingly broad. India's impact on our economy is growing, and with it the opportunities and competitive challenges for UK business. India is fast becoming a global player whose decisions and actions will increasingly be instrumental to the UK's international aims. India also faces important domestic and international policy decisions alongside developmental challenges, to which the UK can make a significant positive contribution.
4. As the Committee recognises, there are also a number of potential threats to regional stability in South Asia. The Government seeks, through its bilateral relations with countries in the region, including Afghanistan, Bangladesh, Nepal, Pakistan and Sri Lanka and with the European Union and the United States, to work towards a reduction in tensions, the strengthening of democracy and the peaceful resolution of disputes across the region.
5. These considerations are fully recognised in the Committee's Report into South Asia of 4 May 2007. The Government welcomes the detailed work that the Committee has undertaken. This Command Paper sets out the Government's response to the Committee's Report. The Committee's recommendations are set out in bold. Unless otherwise indicated, references are to paragraphs in the Foreign Affairs Committee's Report (HC55).

INDIA RISING

We conclude that the UK and India enjoy excellent bilateral relations on a wide range of shared interests. We recommend that the Government sets out in its response to this Report how bilateral relations between the UK and India could be strengthened further in the future. (Paragraph 20)

6. We warmly welcome the Committee's conclusion that the UK and India enjoy excellent bilateral relations on a wide range of shared interests. Our two countries have a modern and dynamic relationship, and we will continue to work to strengthen it further, as the Committee

recommends. Our business links are getting stronger, and we will work to encourage further business co-operation. Our relationship will be strengthened through our continued work together to help strengthen democracy and resolve regional tensions. We are also working increasingly closely together on global issues. The UK and India are key partners on issues such as climate change, energy security and counter terrorism. We are increasing the engagement between our two countries on these issues, through the sharing of ideas and experience. Further details of our increasingly close co-operation are given in our responses to the specific recommendations below.

INDIA AND THE INTERNATIONAL SYSTEM

We conclude that, given India's size, economic growth and large contribution to the work of the United Nations, there is a compelling case for granting it a permanent seat on the Security Council, as part of wider reforms of the United Nations. We recommend therefore that the British Government should continue its support for India's bid. We further recommend that the Government should encourage India to work to reassure other G77 members of the benefits of a more efficient United Nations. (Paragraph 30)

7. We welcome the Committee's recommendation for Indian permanent membership of the UN Security Council. The Prime Minister has strongly endorsed the need for a more representative UNSC, which includes India. At the World Economic Forum in January 2007 he said:
8. "A UNSC without Germany, Japan, Brazil or India, to say nothing of any African nation, will, in time, not merely lose legitimacy in the eyes of the world, but seriously inhibit effective action. By all means let us have some form of bridging mechanism – perhaps semi-permanent status without a veto – to a reformed Council; but get it done;...."
9. We have consistently supported enlargement, including permanent seats for the "G4" (Germany, Brazil, India and Japan) and permanent African representation. But reform has stalled. We welcomed the facilitators' report on UNSC reform debated in the UN General Assembly on 3 May 2007 and hope to see fresh thinking arise from it. We also welcome the recommendation that we should encourage India to work to reassure other G77 members of the benefits of a more efficient UN. We take every opportunity to encourage India to engage constructively in the wider reform discussions, and to adopt a more proactive stance to encourage the G77 to see reform as essential to equip the UN to face 21st Century challenges, and in the best interests of all UN members.

We conclude that the weakness of the existing nuclear non-proliferation regime was seriously exposed when non-signatories India and Pakistan carried out nuclear tests in 1998. We welcome the fact that the Indo-US nuclear deal will bring India's civilian facilities further within the broader non-proliferation framework. However, the political significance of the US offering civilian nuclear co-operation to a non-signatory of the NPT has seriously undermined the NPT. We recommend that the Government work to ensure the NPT is updated to take account of the reality of India and Pakistan's possession of nuclear weapons. We further recommend that urgent steps are taken to assist security and confidence-building measures between India and Pakistan. (Paragraph 45)

10. The Government agrees with the Foreign Affairs Committee that the Indo-US nuclear deal will bring India's civilian facilities further within the broader non-proliferation framework. In the Government's view, this is a more realistic way forward than seeking to update the Non-Proliferation-Treaty (NPT). The NPT is generally accepted as a 'one time' deal and it would be extremely difficult to renegotiate. Any attempt to do so could lead to the unravelling of the NPT and other non-proliferation efforts.
11. Though it is a Treaty under pressure, it remains very widely supported and is still the cornerstone of the nuclear non-proliferation regime. Recognition of India and Pakistan as nuclear weapon states under the Treaty would, in any event, be unacceptable to States Party. The Government is therefore firmly of the view that the way ahead is not to change the Treaty, but to supplement it with additional supporting measures.

We welcome the leading role India is playing in developing renewable energy sources. Nevertheless we conclude that India's use of non-renewable sources of energy will pose a major threat to global climate security in the future. India is right that the developed world has a responsibility to take the lead in reducing global emissions. However, it must also acknowledge its own interests to enter the framework that succeeds Kyoto. We recommend that the United Kingdom continue to work together with India to build trust on the climate agenda, including through joint co-operation on developing renewable sources of energy and climate change impact and adaptations projects. (Paragraph 57)

12. We agree that, whilst welcoming the leading role India is playing in developing renewable energy sources, India will need to address its use of non-renewable sources of energy if it is to reduce the emission intensity of its economic development. We also agree that the developed world has a responsibility to take the lead in reducing global emissions, but that India must also acknowledge its own likely future impact on climate change and recognise that it is in its own interests to contribute to global efforts to avoid dangerous climate change.

The United Kingdom has already engaged with the Government of India in the following areas:

- Working with the Government of India on a major project investigating the effects of climate change across a range of sectors important to the Indian economy. The second phase of this project will also propose some options for adaptation.
- The United Kingdom and the Government of India also held its first meeting of the Structured Dialogue on Climate Change (SDCC) on 15 December 2006 in New Delhi. The aim of the SDCC is to further co-operation and sharing of knowledge between India and the UK on climate change. The SDCC's work compliments and feeds into other processes/dialogues – including the Gleneagles Dialogue on Climate Change, Clean Energy and Sustainable Development (which was initiated under the United Kingdom's Presidency of the G8), the United Nations Framework Convention on Climate Change and the European Union (EU) initiative on clean development and climate change.
- As part of the UK's commitment to working with our international partners towards a New Paradigm on international technology co-operation, on 7 September 2005 the UK Government and the Government of India agreed to collaborate on a study to assess the barriers to the transfer of low carbon technology transfer. Relevant policy and financial interventions vary

according to the nature of the technology, its stage of commercial development and the political and economic characteristics of both supplier and recipient countries. We look forward to considering further ways in which different types of technology can be effectively developed and deployed within developing countries within Phase II of the study.

13. India is also engaged in the Renewable Energy and Energy Efficiency Partnership (REEEP), a multi-country initiative that covers China, India, the whole G7, Australia, Brazil, Mexico and South Africa. REEEP delivers projects on the ground that demonstrate the potential for reform of energy policy and financing frameworks in a sustainable way.
14. We welcome the Committee's recommendation as it reflects one of our own key strategic priorities with India over the coming 12 months. We shall be actively seeking opportunities to discuss how we can meet our prospective energy and climate goals more effectively through closer co-operation.

We conclude that an agreement for India to build a gas pipeline through Pakistan would be likely to have a positive impact on the two countries' relations. However, India should be cautious about becoming too reliant on Iran for energy. We recommend that the Government set out in its response to this Report what representations it has made to India with regard to the proposals for both the Tajikistan-Afghanistan-Pakistan and the Iran-India-Pakistan pipelines. (Paragraph 67)

15. We share the committee's view that India should be cautious about reliance on Iran for its substantial future energy needs though we agree that cooperation between Pakistan and India on a pipeline could be beneficial to their relations. We continue to discuss Iran with India as part of our ongoing strategic dialogue, and we believe India is well aware of international proliferation and other concerns about Iran.
16. In relation to the Iran-India-Pakistan and Tajikistan-Afghanistan-Pakistan pipelines, whilst the UK recognises the influence regional politics will play on the development of a gas pipeline it is not UK policy to intervene in a private commercial decision.

We conclude that India could gain large benefits from a successful Doha Development Round and we recommend that the Government continues to urge India to take the most constructive approach possible in the newly resumed World Trade Organisation negotiations. (Paragraph 72)

17. We agree with the Committee's recommendation. We believe that an ambitious, pro-development outcome to the WTO Trade Round would deliver considerable benefits for the global economy and developing countries in particular, including India. We will continue to engage with India, a key player in the negotiations and other WTO members to help encourage them to take a constructive position.

We welcome India's large contribution to the Commonwealth to date and recommend that the Government encourage India to continue to play an important role in the Commonwealth in the future. (Paragraph 77)

18. We welcome the Committee's acknowledgement that India has in the past made a large contribution to the Commonwealth. We see no reason for that to diminish over the coming months. Indeed India will be hosting the Commonwealth Games in New Delhi, from 3-14 October 2010. This will be only the second time the event has been held in Asia (Kuala Lumpur, 1998 being the first). Also, India is putting forward a strong candidate for the position of Commonwealth Secretary-General this year in the person of HE Mr. Kamallesh Sharma, High Commissioner of India to the United Kingdom. The Commonwealth will vote in the new incumbent at the Commonwealth Heads of Government Meeting in Kampala in November.

We welcome the India-Brazil-South Africa (IBSA) Dialogue Forum as a mechanism for co-operation between rising democratic powers. (Paragraph 82)

19. The Government supports the view of the Foreign Affairs Committee that there is value in the India-Brazil-South Africa (IBSA) Dialogue Forum. India, Brazil and South Africa, together with Russia and China, are increasingly important and influential in relation to emerging economies and as rising powers firmly founded on democratic principles. It is sensible for them to be developing closer ties with each other and important for the United Kingdom to look for opportunities to work with the IBSA Forum collectively as well as bilaterally with each country. The United Kingdom is already working with Brazil, South Africa and Mozambique on a regional initiative on biofuels, launched late last year. South Africa hosted the first steering group meeting in December, and cited it recently as "an excellent example of our collaboration to date."

We recommend that the Government sets out in its response to this Report the impact of Russia's developing energy relationship with India on the UK. (Paragraph 89)

20. According to the International Energy Agency's World Energy Outlook 2006, India's energy demand is likely to double between now and 2030. Energy security is therefore a high political priority for the Government of India. India's principle interest in Russia in this context is to be more involved in upstream energy exploration and production. Russia in return would like to be more involved in the Indian downstream market.
21. India currently imports oil from Russia via its stake in Sakhalin I. Due to the fungible nature of oil, and the fact that it is traded on global markets, this has no impact on UK oil supply. There is no direct relationship between the two countries on gas. We assess that this relationship has little or no direct impact on UK energy security.

We recommend that the Government urge its EU partners to work together to build stronger relations between the EU and India. In particular the UK should encourage Member States to agree on a negotiating mandate for a Free Trade Agreement with India. (Paragraph 97)

22. The Government works closely with the European Commission and Member States to promote good relations between the the EU and India; in particular it did so to secure the best possible outcome to the consultations on the Free Trade Agreement (FTA) negotiating directive (mandate). At the General Affairs and External Relations Council (GAERC) meeting on 23 April 2007, this mandate (along with those for the ASEAN countries and Korea FTAs,

and Association Agreements with the Central Americas and Community of Andean Nations) was agreed by the Council without discussion. The UK will also work in the EU to mitigate any negative impact of the FTA on other South Asian countries.

SECURITY IN SOUTH ASIA

We welcome the recent Confidence-Building Measures between India and Pakistan over the Kashmir question and their co-operation against terrorism. We conclude that the UK should encourage India and Pakistan to make further progress on the peace process, but that the Government should not get directly involved in negotiations nor try to suggest solutions to the question of Kashmir, unless requested to do so by both India and Pakistan. (Paragraph 147)

23. The Government shares the Committee's support of the recent Confidence-Building Measures between India and Pakistan, and the establishment of the Joint Anti Terror Mechanism (JATM). The United Kingdom fully supports the ongoing dialogue process between India and Pakistan and continues to urge both countries to seek a durable resolution to the issue of Kashmir, which takes into account the wishes of the Kashmiri people. The Government's position on Kashmir is well known. It is not for the United Kingdom to prescribe a solution. That is for those parties directly involved to determine, through dialogue. However, we hope that the ongoing engagement between India and Pakistan will in due course lead to the resolution of all the outstanding differences between the two countries, including over Kashmir.

We recommend that the Government continue to urge the governments of Pakistan and Afghanistan to take steps to improve security on their border. (Paragraph 160)

24. We fully accept the Committee's recommendation and will continue to urge the Governments of Pakistan and Afghanistan to improve security on their border. A secure border is crucial for regional stability. While we acknowledge valuable efforts already made in this area, much more is needed, and we are encouraging both Governments to co-operate more closely on border management.

Good relations between China and India are going to be very important to the international community in the future. We recommend that the Government welcomes areas of co-operation between India and China and encourages even closer relations between the two nations in the future. (Paragraph 168)

25. We agree that good relations between China and India will be very important to the international community in tackling effectively many of the issues of globalisation and other international challenges and in enhancing security and stability within the region. We welcome the increasing co-operation and dialogue that we have seen, for example, in the area of energy security, and we encourage both countries to continue to develop their engagement with one another and the development of good relations.

We are very concerned by the situation in Sri Lanka. We recommend that the Government urge India and the international community to take a stronger lead in pushing for peace. (Paragraph 176)

26. The Government agrees that the deterioration in the security situation in Sri Lanka is very worrying. The obstacles to peace in Sri Lanka are considerable. Our close contact with the Government of India on Sri Lanka leaves us in no doubt as to their concern over the escalation of conflict in Sri Lanka and their commitment to help with the search for peace. India has maintained a close dialogue with the government of Sri Lanka over the need to set out a credible framework for a negotiated settlement, building on the work of the All Party Conference in Sri Lanka, and has made clear its concern over the humanitarian crisis in north-east Sri Lanka.
27. We shall continue to work with the international community to push for peace in Sri Lanka. The Co-Chairs of the Tokyo Conference (Norway, US, Japan, EU) have an important role to play. We are in regular contact with Norway, the US and Japan on Sri Lanka. We play an active role in determining the direction of EU policy on Sri Lanka.
28. We believe we can continue to play a role in supporting peace in Sri Lanka. Our approach on Sri Lanka is distinguished by a readiness to talk to all sides in the conflict, including contact with the LTTE where such contact is in furtherance of the peace process, and by our readiness to share the benefit of our experience of conflict resolution in Northern Ireland. The Government of Sri Lanka tells us this support is valuable at this time, as does Norway. The Foreign Secretary recently told the Sri Lanka Foreign Minister that there can be no military solution to the conflict, urged the Government to set out a credible framework for peace, and called for an end to the erosion of human rights and humanitarian suffering. Dr. Howells, who visited Sri Lanka in February, repeated these clear messages in a recent debate on Sri Lanka at the House of Commons. We believe that behind the scenes activity with the communities in Sri Lanka can be important in these difficult times. A joint DFID/FCO/MOD programme under the Global Conflict Prevention Pool is funding activity that includes people to people contacts between communities, mechanisms to provide early warning of potential for conflict and development of civil society capacity to monitor conflict.

We recommend that the Government continues to monitor closely the situation in Bangladesh and that it considers a possible role for Commonwealth mediation or other assistance to help establish a stable democratic process. (Paragraph 189)

29. We continue to believe that Bangladesh has a real opportunity to introduce healthy democracy, tackle a deep-rooted problem of corruption and in the process address drivers of radicalisation. We are in close and regular contact with the Caretaker Government and continue to support their efforts.
30. We have consistently urged the Government to restore democracy at the earliest opportunity. Therefore, we welcome the Caretaker Government's commitment to hold elections in 2008 and look to them to set out and commit to clear milestones on the road to free and fair elections. We stand ready to provide practical support for elections, once the Government has made clear its requirements. It will be vital for the Caretaker Government to retain the support of the people. Regard for due process and human rights is essential in this respect. We are pleased to note the recent improved tone of relations between Bangladesh and India.

31. We speak to the Commonwealth Secretariat frequently about Bangladesh and we share a similar view on the way forward for the country. We agree that the Commonwealth has influence in Bangladesh. We believe the Commonwealth can be most effective when working in co-ordination with key international partners, including the UK, the US, India, the EU and the UN. As the report suggests at paragraph 180, international pressure to avert flawed elections in January was effective because it was co-ordinated. The international community should continue to help with the process of building stable democracy.

We recommend that the Government offer support through its Global Opportunities Fund and assist the Westminster Foundation for Democracy to help develop democratic institutions and political parties in Nepal. (Paragraph 196)

32. Nepal is a priority country for the freedom of expression strand under the Human Rights Programme of the Global Opportunities Fund. We support the decision by the Westminster Foundation for Democracy to focus its resources on three priority regions – Africa, Eastern Europe and the Middle East. However, we will continue to consider all strands of Government funding which could usefully be drawn on to support the establishment of a fully inclusive democratic process in Nepal.

We further recommend that the Government pushes for and supports a strong international observer presence in Nepal for the elections planned for June. (Paragraph 197)

33. Although elections to a Constituent Assembly can no longer be held in June, the United Kingdom, together with the EU and our other international partners, will continue to press for a strong international observer presence to help ensure that elections are free and fair and are held in a secure environment. Nepal is a priority for an EU Election Observation Mission. Through the Global Conflict Prevention Pool, the United Kingdom has already contributed funding to allow the Carter Centre and Asia Foundation to begin work on the election process.

We conclude that there is potential for increasing conflict over access to water in South Asia. We recommend that the Government monitor this situation carefully and that it encourages South Asian nations to use water in a more sustainable way. (Paragraph 203)

34. The United Kingdom is aware of significant tensions over water sharing and water usage both between and within the countries of South Asia. A number of treaties have been developed for the more significant watercourses, such as the Indus Waters Treaty, and there are some examples of co-operation. Existing tensions are likely to be exacerbated by economic and population growth as well as climate change, particularly as it affects the Himalayan Glaciers. New international models of best practice for co-operative transboundary water management were discussed in September 2006 by representatives from China, India, Pakistan, Nepal, Afghanistan, Bangladesh and Bhutan. That conference led to the formation of an “Abu Dhabi Group”, comprising senior representatives from each of the seven countries who will be meeting again in July 2007 to continue the dialogue. The UK Government hopes to continue to offer some support, financial and diplomatic, to the World Bank, which we judge to be best placed to take the lead on facilitating further exchanges on these matters for the Himalayan region.

We conclude that the South Asian Free Trade Agreement (SAFTA) is unlikely to greatly increase internal trade between countries in the South Asian Association for Regional Co-operation unless further agreements can be reached on trade issues, such as items on ‘sensitive lists’, which remain to be negotiated. The Government should welcome the steps taken so far to develop an institution that strengthens relations between countries in South Asia and encourage further progress in future. (Paragraph 210)

35. The 14th SAARC (South Asian Association for Regional Co-operation) Summit was held in Delhi on 3-4 April where discussion on SAFTA took place. The theme of the summit was “regional connectivity”. At the summit there was agreement on the need for full implementation of SAFTA in “letter and spirit”. SAFTA appears to be the most important of current activities within SAARC, and there seems to have been general agreement that widening the scope of SAFTA to include services and investment was a positive move.
36. Indian Prime Minister Singh also announced “zero-duty access” for goods from the least developed countries of SAARC by the end of the year. He also said India was ready to accept “asymmetrical responsibilities” by opening its markets to South Asian neighbours without insisting on reciprocity. He announced unilateral liberalisation of visits for students, teachers, professors, journalists and patients from SAARC nations, and proposed linking all SAARC capitals with direct flights. He said India would provide \$100 million for the SAARC Development Fund.
37. In terms of trade and economic relations, South Asia is the least integrated region of the world with high non-tariff barriers and transaction costs. Whilst recent developments in SAARC are undoubtedly positive moves, differences between India and Pakistan still require resolving if SAFTA is truly to become a vehicle for inter-regional trade agreements in South Asia. The Government welcomes efforts to develop the SAFTA. However, we are keen to ensure that all such agreements are consistent with the rules of the multi-lateral trading system. We shall continue to encourage further progress through our bilateral relations.

We welcome the fact that India has joined the Shanghai Co-operation Organisation (SCO) as an observer. We recommend that the Government should urge India to discourage the SCO from becoming an organisation hostile to the West. (Paragraph 215)

38. There is a growing regional interest in the Shanghai Co-operation Organisation (SCO) and its activities. The SCO has established itself as a multilateral body with a long-term role to play. But the extent to which it can develop is unclear. In recent years, the SCO’s focus has moved beyond its original task of promoting cross-border security and confidence building to encompass an ambitious, if loosely-defined, agenda for economic and security co-operation. We are aware of the perception by some observers that the SCO’s core unstated goal is to resist western political influence in Central and possibly South Asia. However, we do not believe this should preclude us from exploring opportunities to engage co-operatively with the SCO and its members.

INDIA'S ECONOMIC GROWTH

We conclude that the Indian economy is beginning to show signs of the major impact it could have on the world's economy in the future, in particular in the high-end knowledge-driven sector. The Government must ensure the UK is able to compete in this new environment. (Paragraph 226)

39. The United Kingdom has benefited from globalisation, thanks to its commitment to open markets, and its ongoing structural reforms to enhance competitiveness. But we cannot be complacent – both the scale and the pace of transformation of both the vastly expanding Indian economy (growth of 6-8% set to continue into the medium term) and that of the global economy require us to think in a new way about the changes needed to respond effectively. If the Government is to continue to deliver prosperity to United Kingdom citizens we need to take action including:
- *Raising the skills profile to ensure the workforce has the skills and flexibility to take advantage of new opportunities offered by globalisation with active labour market policies and increased labour market flexibility.*
40. In December 2006, Lord Leitch published his government commissioned report on skills in the United Kingdom entitled “Prosperity for all in the global economy – world-class skills”. The Leitch Report shows that the United Kingdom must urgently raise achievements at all levels of skills to respond successfully to the challenges of globalisation. The United Kingdom needs a world-class workforce with economically valuable skills to drive innovation and growth. This means doubling attainment at most levels of skill. The Report recommends new stretching ambitions to create a world class skills base in the United Kingdom by 2020. Responsibility for achieving ambitions must be shared between Government, employers and individuals.
41. The Government has also made major policy commitments to increase the supply of science, technology, engineering and maths (STEM) skills to the workforce with actions in the Science and Innovation Framework Next Steps.
- *Improving the United Kingdoms capacity for science and innovation, through investment in the science base and improving links with business.*
42. As economies mature, growth increasingly relies on productivity gains rather than on increase in factor inputs. Promoting innovation to drive forward scientific research and knowledge driven industries is a key to increasing total factor productivity.
43. The Global Science and Innovation Framework (GSIF), launched in autumn 2006, sets out United Kingdom objectives for internationalising science collaboration. International collaboration can help in terms of “division of labour” and bring economies of scale, especially where projects are large and complex. Research Councils UK have opened a representative office in New Delhi, as part of a co-ordinated effort to promote science and innovation links with emerging economies, such as the UK-India Education and Research Initiative (UKIERI).

44. The UK is internationally recognised as being at the forefront of innovation in bioscience, and its pharmaceutical and biotechnology industries are major global players. Our outstanding science base is supported by the Government's long-term commitment to biotechnology and pharmaceuticals. For instance, UK Trade & Investment (UKTI) has supported the London-based biopharma company Lipoxen in entering into a major partnership agreement with the Serum Institute of India, the leading vaccine manufacturer, opening up global markets for their products. Lipoxen's collaboration with the Serum Institute of India has resulted in an extra investment of approximately £700,000 in UK R&D, and a doubling of its laboratory staff in the UK.
- The Government will ensure that the UK continues to foster the conditions for business success. UKTI's 5-year strategy sets out a roadmap, including emphasis on India and other key markets to attract high quality R&D intensive companies to the UK.
 - *Continuing to minimise undue regulatory burdens for UK business.*
45. The Government will continue to ensure that the UK maintains and strengthens its appeal as a business environment, to attract and retain high-value business investment. Effective and well-focused regulation helps the market to function smoothly and in building an enterprising and flexible business sector where firms can succeed and seize the opportunities presented by a more open and competitive global economy.
46. Last year, outward investment from India was greater than inward investment into India, which was unusual for a country at India's stage of development. This reflects intense merger and acquisition activity happening across the globe involving Indian companies. The UK's pro-business, low tax environment and position as the gateway to the European market assists the UK in attracting some 60% of Indian investment into Europe. Increasingly this investment is in the knowledge-driven economy. The IT/Software sector currently accounts for half of all investment from India into the UK. There has also been the Tata Steel takeover of Anglo-Dutch steel firm Corus and Tata Tea's purchase of the UK's Tetley Tea.
47. The Government also has a role in facilitating access to world markets so that UK businesses can achieve the full potential benefits of international opportunities, whether through trade, joint ventures or other forms of investment. This is particularly true in the emerging economies where the UK can help tackle obstacles to foreign investment and business activity in these markets, and reduce restrictions on foreign investments. UK energy companies are already strongly represented in the domestic Indian energy industry and are involved in a number of alliances and partnerships with Indian Public Sector Undertakings (state-owned enterprises). More recently Vodafone completed its purchase of a controlling stake in Hutchinson Essar, India's fourth largest mobile operator. The UK Government will continue to encourage the Indian Government to remove remaining obstacles in key sectors.

We recommend that the Government encourage businesses to comment on the quality of advice and information they have received from UKTI. We also recommend that the Government set out in its response to this Report what progress is being made relating to the review of the representation of devolved bodies and Regional Development Agencies overseas, with reference to those in India. (Paragraph 236)

48. The Government agrees that it is essential for UKTI to receive regular, comprehensive feedback from its customers on the quality of the services it provides. UKTI's Performance and Impact Monitoring Survey (PIMS) is an independent monitor of users of UKTI's business services and measures the performance and impact of UKTI support. It covers all significant customer facing trade services and provides evidence about service quality and about the difference that UKTI makes to businesses by using a broad range of measures. Data from PIMS is also used to measure UKTI's performance against its Public Service Agreements and other corporate targets.
49. The surveys concentrate on gathering information on business performance and processes; how these have changed over the period since its service delivery; and the factors which lie behind the reported changes, such as improved knowledge and capabilities, or help with overcoming other barriers to overseas market entry. In addition to business performance measures, the survey captures information on the quality, relevance, and usefulness of information, advice, or contacts provided by UKTI.
50. The client interview based system is operated for UKTI by OMB Research, an independent market research company specialising in business support. The surveys are based on telephone interviews with a robust random sample of users, on a strictly anonymous basis. The survey has now been running for two consecutive years and last year some 3,000 companies were interviewed. The latest survey results show that the average quality and satisfaction rating for UKTI services was 73%. This rises up to 91% for some areas of UKTI support. All PIMS documents and results are publicly available on the UKTI website.
51. The Government has made significant progress on the review of the representation of Devolved Administrations and Regional Development Agencies (RDA) overseas. Arthur D Little have been commissioned to research and analyse the operation of RDA and Devolved Administration overseas offices undertaking inward investment work alongside those of UKTI. Arthur D Little will also make comparisons with the overseas operations of other countries. Concurrently bids have been invited for a survey of business perceptions of UK's overseas office network. This will include inward investors who have come to the UK and potential investors who did not. Arthur D Little will make final recommendations in July.

We recommend that alongside WTO and EU India negotiations, the UK Government should continue to call strongly in JETCO and in the Economic and Financial Dialogue for India to remove restrictions to Foreign Direct Investment and to emphasise to India that liberalisation of its markets should have benefits for its economy. The Government must also ensure that businesses are kept informed whenever restrictions on FDI are reduced. (Paragraph 241)

51. The Government continues to drive forward the India-UK Joint Economic and Trade Committee (JETCO) process, lobbying the Government of India on specific trade and investment issues as well as the wider liberalisation of the Indian economy as the opportunities arise.
52. A third meeting of the India-UK JETCO took place in New Delhi in January 2007, co-chaired by the Right Honourable Alistair Darling MP, Secretary of State for Trade and Industry and Shri Kamal Nath, Minister for Commerce and Industry. The meeting focussed on the successes delivered so far on JETCO, such as air traffic liberalisation and agreement on

co-operation in the creative industries, and the new JETCO initiatives embraced as a result of the October 2006 Investment Summit (such as a strategy to maximise UK involvement in India's planned \$320bn investment in infrastructure). Whilst the progress was welcomed, both Ministers indicated that the mid-year JETCO Officials meeting (scheduled for 5 July 2007) should be used to formally assess the opportunities and barriers to future success. They agreed that each Working Group should concentrate on real deliverables as well as making policy recommendations to senior officials where relevant. These would be used to review progress on JETCO and to advise on areas for future action by the two governments.

The current Working Groups are:

53. **Accountancy Services:** the reciprocity in the recognition of professional qualifications and removal of restrictions preventing foreign practitioners from entering the market is the main issue for this Group. A detailed review was undertaken of the respective examinations and syllabi as a foundation for taking forward discussions with the professional bodies. Talks on reciprocal membership between the Institute of Chartered Accountants of India (ICAI) and ICAEW and ICWA and CIMA are now reported to be advanced and the Limited Liability Partnership Bill, which will increase the maximum size and number of partners, has been introduced in the Lok Sabha.
54. Additionally UK industry concerns over the number of students that can be trained in India to become accountants (currently severely restricted) is being alleviated by the ICAI who have announced the liberalisation of student training; this now awaits final Government approval.
55. **Agri-Business:** The Group has identified a strong need for investment in farming technology, developing products for market and supply chain logistics including cold storage and packaging (some 40% of Indian produce perishes before reaching the market). UK retailers are beginning to express interest in investment - although concerns exist on the limited level of market access.
56. **Financial services:** established in January 2007, the Group (recognising the broad spread the financial services represent), elected to focus on the banking and insurance sectors. Barriers include: caps on overseas investors' voting rights in private sector banks (irrespective of shareholding), institutional investment in public sector banks, and insurance companies' participation in joint ventures.
57. Against that background the Indian Government announced in March 2007 its intention to raise the equity cap for the insurance sector from 26% to 49% (although legislation has yet to be formally enacted). There also appear to be positive signs related to the removal of the regulatory impediments to Lloyds entering the Indian market and the development of private sector pension funds.
58. The Chancellor of the Exchequer visited India in January 2007, and together with the Indian Finance Minister P Chidambaram launched the UK-India Economic and Financial Dialogue (EFD) in Delhi. The EFD provides both countries with an opportunity to discuss economic issues, including financial services. Both sides agreed to involve the private sector in future discussions on financial services, in coordination with the JETCO Financial Services Working group.

59. **Healthcare:** Established in early 2006, the group is focussing on a number of work streams including education, e-health and diagnostics and is now taking work forward in these areas. A group of approximately 50 healthcare companies and interests accompanied the Secretary of State (as part of a wider mission) to India in January 2007. One of the outcomes of this mission was a proposed e-healthcare pilot project, which would place diagnostic equipment in rural areas allowing patients to be diagnosed in situ. Two private sector hospitals have so far expressed interest – one in Delhi and one in Mumbai. Imperial College have also recently completed a UKTI-funded study on strategies for addressing the growing diabetes problem in India. UKTI will work with Imperial College to seek ways in which UK companies can both contribute towards tackling diabetes in India whilst simultaneously developing business opportunities in the market.
60. **Hi-Tech:** There are few regulatory barriers and obstacles in this sector. The working group has therefore focussed on the development of mutual business opportunities, particularly in the telecoms, nanotechnology and Information technology/telecoms sectors. The ICT activities are being driven by Intellect (UK's ICT industry body) and NASSCOM (India's IT industry body) and are concentrated on SME development. Both are members of the working group. Nano technology activities include a proposed visit by UK nano companies and Universities in September to India and an Inward mission to the UK NanoForum in London in November 2007.
61. **Infrastructure:** launched in early 2007 in response to Indian plans to spend approximately \$320bn on infrastructure improvements over the next 5 years, the Infrastructure Working Group has focussed on the increasing popularity of Public Private Partnerships as a model for delivering large-scale infrastructure projects in India, and the opportunity they might represent for UK technology, management and investment flows. Specifically they are looking to pursue engagement on sectors such as power and utilities.
62. **Legal Services:** regulation limiting the number of partners a law firm may have and their permitted size has been a considerable barrier to investment. The Indian Bar Council was also initially resistant to perceived overseas competition. There is however growing recognition in the Indian legal profession of the benefits overseas investment can play in upgrading their expertise and a key development was April's agreement by the Bar Council of India to lead the Indian side of the JETCO Working Group. Baroness Ashton, Parliamentary Under Secretary of State, Ministry of Justice, visited India in April 2007 to press for better market access for UK lawyers to operate in India.
63. An eighth strand, but not formally a Working Group as it is being dealt with on a Government-to-Government basis is the protection of **Intellectual Property Rights** (IPR). In June 2006 a Joint Statement of Intent on future co-operation was signed between Commerce and Industry Minister Kamal Nath and Lord Sainsbury. Since then the UK Intellectual Property Office has been taking forward a number of initiatives, including assisting the Indian Intellectual Property Office to prepare for its application as an International Searching Authority.
64. Information on Foreign Direct Investment (FDI) in India, including recent liberalisation measures, are featured on the UKTI website www.uktradeinvest.gov.uk/ukti/india. This information is updated as and when new regulations come into force. This website content is visible to all customers using the UKTI website; customers may also receive an email alert if

they have profiled themselves to receive this type of information. As the India pages of the UKTI website were the second most visited of all country pages (15,000 hits in 2006/7), the website does provide a useful source for disseminating information on India to our customers.

We welcome Indian investment into the UK and the work being done by UKTI to encourage further investment. However, we conclude that the Government needs to do more to continue to attract Indian business into the UK. In particular it should focus on promoting the opportunities for low-cost start-ups and on building links with Indian scientific institutions and journalists. (Paragraph 247)

65. The UK is continuously scored by independent bodies as the most attractive location for FDI within Europe. India is a success story in terms of UK receipt of FDI projects. In 2005/6 Indian investment into the UK grew by 111%. Formal results for 2006/7 will be announced on 4 July 2007.
66. UKTI acknowledges that not all start-ups will elect to come to the UK. Early stage companies as a group may not be ready for internationalisation. However, as a part of its new strategic direction, UKTI has begun to proactively target high value, innovative international businesses globally, including in India. This targeting centres on the value of the foreign headquartered business to the UK economy rather than company size/age. This provides mutual benefit and matches UK excellence in innovation to the potential investor. This is now UKTI's main FDI priority.
67. The Global Entrepreneurs programme, for which Alpesh Patel is a private sector Dealmaker, is actively seeking early stage Indian businesses with exceptional intellectual property and skills, and assists in their relocation to the UK by supporting early stage firms to access funding and networks.
68. The Government continues to explore opportunities for promoting innovation and wealth creation through science. Both JETCO and the Indo-UK Science and Innovation Council (with Government, academia and industry representation) are working together to bridge the gap between science and wealth creation, including sharing best practice in entrepreneurship, technology transfer and intellectual property with our Indian counterparts.
69. Links between UK and Indian scientific institutions (at the individual, research group and institution level) are being forged through an increasing number of research collaboration schemes run by the Office of Science and Innovation, Research Councils and The Royal Society, and perhaps most notably through the UKIERI. Under UKIERI, six major awards (£500k each) are being funded for research consortia that can demonstrate, amongst other things, sustainability through innovation.
70. The Government, through UKTI, works actively to help facilitate Indian journalists coming to the UK and also provides support to Indian correspondents based in the UK. In March 2007, UKTI and FCO co-sponsored a group of 5 Indian business journalists on a visit to the UK. The focus of the visit was to highlight and showcase identified areas of UK expertise in Financial Services - banking, accountancy and insurance, for example. The High Commission in Delhi has calculated that coverage generated by the visit conveyed the Government's inward investment messages and success stories to over 8,265,000 readers through 75 articles.

71. At the UK India Science and Innovation Summit, June 26-29 2006, UKTI arranged for the UK-based Indian correspondents, both broadcast and print, to cover the event.
72. During the UK-Indian Investment summit in London in October 2006 the Indian Prime Minister brought with him a team of 30 Indian journalists, which UKTI supported as part of the Summit programme. UKTI press office also arranged UK based Indian correspondents from broadcasters such as CNBC and NDTV to attend.

We conclude that restrictive labour laws are a key barrier to employment generation and therefore poverty reduction in India. We recommend that the Government continue dialogue with the Indian government on the benefits of liberalising labour laws. (Paragraph 254)

73. We agree with the Committee that appropriate reforms of India's labour laws could improve employment generation and contribute to poverty reduction, and are working with the Indian authorities on the issue. For example, in December 2006, the FCO's Global Opportunities Fund enabled the participation of DTI and TUC experts to attend a seminar for Indian policy-makers on the UK's experience of tripartite consultations leading to more effective labour laws, to the benefit of both employers and employees. DFID has also supported public sector enterprise reforms in a number of Indian states. These programmes encourage exit of enterprises (mentioned in paragraph 252 of the report) and encourage the trade unions to be more flexible.

We recommend that the Government point out to the Indian government that removing restrictions to Foreign Direct Investment in retail could provide opportunities for the agricultural sector to develop. (Paragraph 259)

74. The Government agrees with the Committee's view. India has the potential to be a world leader in agricultural and food production. Some UK companies are already taking advantage of that through joint ventures which aim to capitalise on the growth opportunities available in the Indian agricultural sector.
75. Allowing FDI in multiple brand retailing would also encourage large retailers to consider setting up a retail base in India. Such investments would help drive forward and backward supply chain linkages, which would not only help the domestic industry but also help develop India's agricultural export capability. The Government regularly raises this issue with the Indian authorities at Ministerial and official level. It has also been a key priority of the industry-led JETCO Agribusiness Working Group.
76. The Government believes that the Government of India understands and appreciates these arguments. But they also need to address the related socio-economic implications of such a policy shift, such as the effect on domestic, including small-scale, retailers, traders and food security.

We recommend that the Government should continue to support improvements to public education in India. (Paragraph 265)

77. The Government agrees that we should continue to support improvements to public education in India. The Government of India's universal elementary education programme (Sarva Shiksha Abhiyan or SSA) is being supported by DFID, the World Bank (WB) and the European Commission (EC) and is making excellent progress.

78. SSA is working: the numbers of out-of-school children in India have been reduced by almost 5 million per year since 2003 in both the well-off states and in the poor, populous states. SSA is a good model of effective delivery of a basic education programme. It provides a sound policy framework for making elementary education universal. It has enormous financial, political and bureaucratic support behind it at both national and state levels. It also has popular support, partnership arrangements that function well, and the potential to ensure that every child in India gets a chance to go to school. This achievement would have global significance.
79. DFID has contributed £210 million to SSA in the last three years. DFID is working with the Government of India, WB and EC to prepare a second phase of external support for the period 2007 to 2010. In addition, DFID has prepared and submitted for approval their support for Mahila Samakhya, an education for women's empowerment programme that contributes significantly to girls' education in nine states of the country.
80. From a baseline of 25 million out-of-school children in 2003, the numbers have reduced to about 7 million in 2006 (from state reports based on household surveys). There is a genuine hope that the remaining children still out of school in 2006 will be reached during the second phase of external support to SSA. It is crucial to get marginal and excluded children into school. We know that educating these children is their best route out of poverty.
81. India needs good universal primary education to take its rightful place in the global economy – the next phase of SSA will have to provide better quality schooling if India is to raise the educational attainment of the vast majority of its young population so that it can compete more effectively in a globalised world.
82. Our priority remains elementary education (the first 8 years of schooling) but we recognise that the greater access to secondary education is essential too, not least to improve quality at primary level but also to enable India to move to the next stage of economic development. Most importantly, we recognise the need to close the gender gap in secondary education to achieve the third MDG (promote gender equality and empower women). DFID is exploring with the WB how the two partners might support the development and implementation of the Indian Government's plans for increasing access to post-elementary education and skills development, particularly for girls through to 2015.
83. DFID is also working closely with others, including the British High Commission, British Council and the Department for Education and Skills, within the framework of a Joint Strategy for UK/Indian Education Co-operation.

We recommend that the Government encourages the Indian government to take steps to tackle corruption and excessive bureaucracy and that it continues to offer assistance to improve police training. (Paragraph 272)

84. We share the Committee's view on this recommendation. Corruption and excessive bureaucracy is a serious problem at all levels, but the Government of India is publicly committed to fighting it. We continue to offer assistance to improve police and judicial training, share best practice and encourage partnership working wherever we can.

85. The United Kingdom has a long and well-established record of co-operation on policing issues with India. ACPO, represented by the West Midlands Police, has been very active in trying to promote a professional policing partnership between UK and Indian police forces. In 2005 and 2006 senior ACPO officers visited India to take forward mutual police co-operation. This includes identifying opportunities for joint sharing of information and UK/Indian police management of crimes. A local post has been established at the British High Commission in New Delhi to facilitate liaison on UK/India police issues.
86. UK agencies are working to produce a draft Memorandum of Understanding on law enforcement co-operation for discussion with the Indian Government. This Memorandum of Understanding would help foster greater operational links and offer training and development of police officers when requested. We look forward to India's commitment to identify further opportunities for co-operation.

We recommend that the Government promotes opportunities for investment in Indian infrastructure to UK businesses and that it raises with the Indian government, at national and state level, the need to reform the power sector. (Paragraph 277)

87. Infrastructure and the removal of barriers to business have been identified as a key area for co-operation and partnership in the JETCO process.
88. Estimates suggest that infrastructure investment of \$410bn over the next 5 years will be required if India is to maintain its rapid growth. A significant proportion of the investment will have to come from the private sector in India and global markets.
89. UKTI's industry led Sector Advisory Groups specialising in infrastructure are fully engaged in the process and will be participating in events to promote the opportunities and to foster links with Indian partners throughout the year.
90. In order to influence the direction of reform of the power sector in India, UKTI has undertaken a number of activities, including road shows by the UK Power Sector Advisory Group, visits by UK experts to the market, arranging visits to the UK of senior decision makers from India (such as clean coal technology focussed Inward missions), and annual structured dialogues under the auspices of the Joint Indo-British Power Working Group. UKTI, working with UK business, will continue to raise the need for the Indian Government and State Governments to quicken the pace of the implementation of their power sector reform programme at every opportunity.
91. Through the Global Opportunities Fund and other mechanisms the Government has funded a number of programmes aimed at capacity building and reform of the Indian power sector. Every opportunity will be taken to continue to do so at both national and state level.
92. Besides commercial issues such as tariffs, metering, payment security and fuel linkages, reform in the power sector in India has a number of socio-political complexities and the slow pace of reform needs to be addressed. The Government continues to look for opportunities and take initiatives to influence decision makers and policy makers to speed reform and in the process make India an attractive destination for investment by UK companies in the sector.

THE WORK OF THE FOREIGN AND COMMONWEALTH OFFICE IN SOUTH ASIA

We recommend that the Government should make long-term investment in premises in Mumbai to ensure the United Kingdom is not left behind in a city that is driving India's economic growth. (Paragraph 281)

93. We share the Committee's view. On 16 April Dr. Kim Howells, Minister of State for Asia wrote to the Foreign Affairs Committee Chairman to confirm that the Foreign and Commonwealth Office had succeeded in negotiating the purchase of three floors, as well as a shorter-term lease of an additional half floor, for new Deputy High Commission premises in Naman Chambers building now under construction in the Bandra Kurla area of the city.

94. Dr Howells added that he hoped this news would be welcomed by the Foreign Affairs Committee as evidence of our commitment to ensuring that our offices in Mumbai are fit for purpose, and to improving the working conditions and the security of our staff who work there.

We welcome the work being done by the FCO's consular services in South Asia. (Paragraph 284)

95. We are grateful to the Committee for its recognition of our consular work in the region. The Committee noted in particular the work we do with respect to victims of forced marriage in South Asia. Our Forced Marriage Unit continues to provide support and assistance to potential victims, victims and survivors of forced marriage, and we welcome the Committee's acknowledgement. As well as our continued work with non-governmental partners in the UK and the authorities in Pakistan, Bangladesh and India (those countries from which we receive the most cases), we are also working with the European Commission to share best practice with other EU Member States. As part of the "Active Against Forced Marriage" conference series, we will be hosting an event in London in the autumn to publicise the work that the Forced Marriage Unit does both in the UK and overseas.

96. We will also continue to work hard to help parents who have had their children abducted overseas. The highest numbers of abductions we deal with are between the UK and Pakistan. We are trying to promote better international co-operation on child abduction issues and will be funding a conference in Islamabad next year involving judges, lawyers and NGOs from both the UK and Pakistan to share best practice. The conference will also seek to increase awareness of the UK-Pakistan Protocol on Children Matters which aims to return abducted children to the country where they normally live so that issues of custody and access can be decided by the courts there.

We conclude that the outsourcing of visa applications in India has made a big improvement to the application process. We recommend that the FCO work with the Department for Education and Skills to ensure that its register of recognised educational institutions is well policed. (Paragraph 286)

97. Our Posts in India received 453,602 visa applications in 2006/7, issuing 371,221 and refusing 85,398. VFS (our commercial partner in India) are due to open a 12th Visa Application Centre (based in Mumbai) in September 2007.

98. Visa staff from Chennai took part in the 2nd UKVisas International Student workshop held in London in May. The workshop brought together visa staff and education providers to examine practical ways of improving the student visa customer experience ahead of the introduction of the new Points Based System for managed migration. The Border and Immigration Agency are reviewing the DfES list of education providers and conducting site visits in preparation for the introduction of a separate sponsorship list under Tier 4 of the Points Based System.

We welcome the British Council's decision to target more funding on South Asia. We also conclude that the British Council is right to change its approach in order to make itself more relevant to the new generation of Indians. (Paragraph 293)

99. The rapid pace of economic growth in India, coupled with the revolution in IT-based industries and improvements in connectivity, provides a unique opportunity for the British Council to achieve a quantum leap in the numbers of young future leaders and influencers engaging with the UK.

100. The British Council therefore welcomes the endorsement of the Committee for its new approach, which will tap into the huge demand for self-development opportunities amongst 15 to 25 year olds, particularly those with leadership potential. Structural changes will enable the British Council to involve 0.75m people directly in its activities, 2m indirectly, 6m through remote reach via the media, and a further 10m through web-based services by 2010/11.

101. Their engagement alongside the building of networks for 25,000 young professional leaders with their counterparts in the United Kingdom will make a critical contribution to the development of the UK-India relationship over the next decade.

The establishment of the UK-India Education and Research Initiative is very important for the UK to maintain a strong position in the higher education market and we recommend that the Government continue to work to strengthen the promotion of bilateral educational links. (Paragraph 294)

102. With the first year of operation now complete, it is evident that UKIERI is proving to be an effective mechanism for developing Indo-UK education and research links. The first tranche of awards has demonstrated the high quality of potential partnerships between the two countries. We recognise the importance of maintaining the momentum following the initial round of collaborative awards and of meeting the long-term objective of establishing 40 research partnerships by 2010/11.

103. There is now a much stronger recognition on the part of the Government of India of the commitment of the United Kingdom to developing joint research work, and an increasingly receptive environment for developing more enduring partnerships. There is a growing interest on the part of India's education and scientific authorities in increasing collaborative work.

104. The UK-India Round Table has called for an additional £20m to supplement the £12m committed so far. Further commitment from the UK side, from a range of sources, would provide an important competitive advantage and help differentiate the UK from its international competitors. The United Kingdom also needs to encourage more British students, particularly at post-graduate level, to consider the option of a period of study or research in India.

We recommend that the Government set out in its response to this Report what representations have been made to remove Indian restrictions on broadcasting news so that the BBC World Service can broadcast on the FM wavelength. (Paragraph 297)

105. The radio market in India is currently buoyant, with the Government of India encouraging growth in private sector FM. However, coverage of news and current affairs on radio remains restricted to the state broadcaster. This restriction applies to all domestic and international providers.
106. The Government of India is currently preparing a new Broadcasting Bill, looking at the regulatory structure and provisions. However, the Information and Broadcasting Minister, Mr Priyaranjan Dasmunsi said on 17 May that there was no proposal at present to permit transmission of news and current affairs.
107. The BBC has made representations at the highest levels to the Indian authorities over the past few years, including to the Minister and senior officials. However, our High Commission has not raised this, nor has the BBC approached us for our help. We have, however, recently assisted them with their application for downlinking permission for two of their TV channels (BBC Entertainment and Cbeebies). This is now through and these channels are being aired on Tata Sky.



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