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India and United States – An Ambitious Agenda for Partnership

Recommendations Report

November 2010

The U.S.-India CEO Forum, reconstituted in November 2009 by President Barack Obama and Prime Minister Manmohan Singh, and comprising 12 Indian and 12 U.S. CEOs, has been tasked by the two leaders with providing them inputs and recommendations to enhance trade and investment between the two countries.

Building on the work of the earlier CEO Forum, the enclosed report proposes focused attention to select areas, which offer strong potential for bilateral trade and investment, and address the development agenda of the two countries. The sectors/ areas that the two governments have specifically asked the CEOs to address are: (1) Infrastructure; (2) Clean Energy; (3) Biotech/ e-Health; and (4) Education.

In addition, with a view to regularly flag to the two governments issues that impede greater economic and commercial ties, the 5th focus area is titled Impediments – and identifies material issues that need to be resolved or actions that should be taken across a range of sectors.

While the initial five areas provide recommendations that can and should be implemented in the near term, if not immediately, the 6th focus area takes a longer term view and identifies Breakthrough Ideas. Such ideas could be transformational in their impact and, if executed, may take the U.S.-India relationship to a different level.

For each area, this report begins with a description of the objectives as well as the main issues and opportunities, and recent government initiatives that provide the context. The specific recommendations thereafter endeavor to identify concrete actions for government and/ or industry. The CEOs believe that operationalizing these recommendations will greatly strengthen this important bilateral relationship.

The U.S.-India CEO Forum is privileged to present these initial recommendations to the heads of Government, and reiterates its commitment to developing the U.S.-India Strategic Partnership.

Ratan Tata
Co-Chair, India

David Cote
Co-Chair, U.S.

Key Recommendations on Focus Areas

Infrastructure

India is close to achieving a doubling of its investment rate in physical infrastructure, from 3.5% of GDP in 2001 to an expected 7.5%+ in 2012. Recent years have seen a larger contribution from the private sector and through Public-Private Partnership (PPP) models. India's ambitious goal is for about USD 1 trillion to be invested in infrastructure during 2012-17.

Key issues include a slow pace of capacity addition in several infrastructure sectors partly due to bottlenecks in physical clearances (e.g., land, approvals, etc.) and in domestic debt funding, the latter is exacerbated by the lack of a well developed corporate and municipal bond market. Opportunities include the use of U.S. technology and best practice in key sectors such as aviation, food storage and logistics, water and communications.

Recommendations:

1. Set up an Indian Infrastructure Debt Fund, with a corpus of \$10 billion, to provide long term financing for PPP projects awarded through competitive bidding.
2. Undertake regular sovereign debt issuance in the international capital markets, of perhaps \$500 million every year, to provide a basis for a sovereign debt rating that reflects India's fiscal position and impeccable track record of honoring international payment obligations. A high sovereign debt rating will provide access to a larger pool of global capital, especially for infrastructure funding.
3. Establish a joint project team to apply new affordable technologies suitable for safe drinking water, and recycling of agricultural, industrial and urban water usage.
4. Establish international safety standards for air traffic control in India, including the deployment of state-of-the-art navigation, communication and monitoring technologies, as also controller training.
 - a. Conclude a Bilateral Aviation Safety Agreement by April 2011 to help India upgrade its technology to world-class standards and harmonize its regulatory and monitoring systems with international best practices.
5. Upgrade security infrastructure using "best-in-class" technology for surveillance, collaborate on surveillance and intelligence/ SIGINT, and data analytics.
 - a. Partnering of U.S. and Indian cities on surveillance and data analytics for terrorism prevention – e.g. New York and Mumbai.
 - b. Reduce Indian import duties on security technologies and products.
6. Undertake joint efforts to spur innovation and technological advancement in agriculture and food processing, cold-chain distribution, marketing and retail.

- a. One opportunity is to reduce spoilage and waste of grain in India by leveraging U.S. commodity handling and storage capabilities; specifically, issue a global tender for logistics and warehouses for storage of grain (i.e., outsource some part of Food Corporation of India activity).
7. Accelerate deployment of advanced mobile communications networks/services.
- a. Utilize India's Universal Service Fund and 3G/BWA auction proceeds to subsidize sale of wireless devices (smart phones, tablet computers) and development of applications for healthcare, education, e-government, etc.
 - b. Avoid use of customs duties, taxes, technical and other measures that may make these devices less affordable for Indian consumers.
 - c. Leverage mobile-Health to bridge the urban-rural health divide. Incentivize proof of concept validation studies, and subsequent scale-up, so that the ubiquitous mobile phone becomes a tool to deliver health care.

Clean Energy

The U.S. and India share the challenge of combating climate change while working to ensure their mutual energy security. The two heads of Government launched a Green Partnership in November 2009 and the countries have also signed a Memorandum of Understanding to enhance cooperation on energy security, energy efficiency, clean energy and climate change.

Key issues for both countries center on high dependence on imported hydrocarbons, and inadequate incentives for clean energy. The opportunity is in synergizing R&D capabilities and funding for clean energy and in enhancing energy efficiency.

Recommendations:

1. Accelerate development and deployment of clean energy technologies:
 - a. Launch a \$1 billion venture capital / private equity fund for Clean Energy technology development projects with special focus on: (a) algal biofuels; (b) solar energy; (c) energy from biomass; and (d) fuel cells.
 - b. The Joint Research Center proposed as part of the Indo-U.S. Clean Energy Research and Deployment Initiative deserves to be supported.
2. Remove roadblocks to commercial nuclear trade: (i) Government of India should adopt an effective nuclear liability regime that will strengthen civil nuclear cooperation between both governments and private sectors; (ii) The Indian and U.S. Governments should conclude as soon as possible the recently finalized bilateral reprocessing agreement; and (iii) U.S. Government may respond, at the earliest, to non-proliferation assurances provided in January 2010.
3. Provide impetus to the Indian National Solar Mission:
 - a. Expeditiously finalize the list of project developers under Phase I of the National Solar Mission and sign the Memoranda of Understanding and Power Purchase Agreements with selected participants.
 - b. Provide for stringent selection criteria, regarding financial and execution capability, for the initial participants.
 - c. Double Phase I capacity to 2,000 MW
4. Promote sustainably produced 2nd generation biofuels from inedible oils (e.g., Jatropha, Pongamia) and waste biomass (from forestry and agriculture) by expanding India's National Biofuels Policy in a technology neutral manner.
5. Adopt a National Energy Management Standard for India to serve as a basis for institutionalizing energy efficiency. Legislate existing building energy efficiency codes to eliminate the gap between India's Bureau of Energy Efficiency code and its deployment by local authorities.

Biotech / E-Health

Ensuring the health of their citizens is a key element in the development agenda for both countries. This was reaffirmed during the November 2009 Summit by way of a “U.S.-India Co-operation to Protect the Health of their People” covering aspects such as a Global Disease Detection Programme, Medical Research, Co-operation on Urban Health & Health services and Regulatory Harmonization. A U.S.-India Health dialogue has also been undertaken.

Additionally, India is faced with an increasing population and the need for higher agricultural productivity to feed them. There is a critical need for the acceptance of new biotechnologies featuring joint collaborative research on some key staple crops.

A key issue for both countries is to improve health by lowering costs of treatment, improving outcomes and enhancing coverage.

Advancing medical and agricultural science, through collaborative research, are key enablers of these efforts.

Recommendations:

1. Collaborate in the fields of healthcare systems and health education:
 - a. Introduce innovative disease management programs utilizing e-health and mobile-health technologies and applications.
 - b. Support collaboration in medical education and standardization of hospital management systems.
2. Focus on a preventive healthcare model by initiating projects like the ‘Partnership against chronic diseases’ e.g. diabetes. Form a taskforce to develop an action plan to address issues related to ‘communicable diseases’.
3. Set up a Bi-National E-Health Team in 2011, to include government and private sector experts, with a mandate to harness telecom and wireless technology for disease management and launch E-Health demonstration projects no later than 2012.
4. Foster research collaboration for diseases of the developing world and provide incentives to innovate through a robust Intellectual Property Rights regime.
5. Promote harmonization of regulatory standards by encouraging the Drugs Controller General of India and U.S. Food & Drug Administration to work together to adopt global best practices in the evaluation of quality and safety standards of drugs and their development processes.

6. Develop an orderly policy framework for the sharing of Agri-Biotech Intellectual Property with respect to Public-Private-Partnerships (PPP) which will hasten the pace at which PPP projects are implemented in India.
7. Streamline India's regulatory process for agricultural biotech products through sharing of best practices adopted by USDA in order to remove the impediments that prevent such products reaching the market.

Education

Given the shortage in quality education at all levels, the Indian education system needs to implement proposed reforms on a rapid timeline. To fulfill its stated goal of 30% gross enrollment in higher education by 2020, India will need an estimated 800 more universities and 35,000 more colleges in the next 10 years. Additionally, students graduating from vocational institutions frequently do not have the specific skill sets required by the market. A U.S.-India Strategic Partnership in Education is being developed. The Obama-Singh 21st Century Knowledge Initiative will increase university linkages and support junior faculties between U.S. and the Indian universities, enhancing existing initiatives like the Nehru-Fulbright Programme.

The key issue for India is the limited quantity of quality education, at all levels and the near lack of vocational training. There is tremendous opportunity to bring to bear U.S. capabilities in the entire education sector.

Recommendations:

1. Expand access of Indian and U.S. educational institutions to opportunities in each other's country.
 - a. Establish a function within the Accrediting Agency Evaluation Unit of the U.S. Department of Education to formally recognize reliable accrediting agencies that can approve Indian higher education institutions to issue degrees in the United States.
 - b. Enact the Foreign Education Providers Bill during the 2010 Monsoon session of the Indian Parliament.
2. Enable vocational training collaboration, modeled on the Indo-U.S. Collaboration for Engineers, to further skill development initiatives announced by India.
 - a. Facilitate efforts by reputable education service providers to produce and manage job-oriented skill development training programs to help satisfy India's growing need for post-secondary vocational and career training.
3. Create a U.S.-India Educational Forum, modeled on the U.S.-India High Technology Cooperation Group, to facilitate collaborations between Indian and U.S. educational institutions and related businesses, and to provide a vehicle for private sector input to both governments and demonstration projects.

Impediments

While major strides have been made over the last decade to improve the trade and investment climate between the two countries, some issues and choke-points remain. CEO Forum recommendations below attempt to address some of these key impediments, the removal of which will have a strong positive impact on our bilateral commercial ties as well as the U.S.-India Strategic Partnership.

Recommendations:

1. To enhance U.S.-India defense and strategic cooperation, drive improvements in conventional arms and dual-use technology controls in India, foster longer term technology and hardware transfers between the U.S. and India, and enable economic growth in both countries, the U.S. Government should take the following actions:
 - a. Endorsement of India's admission into international regimes such as the Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group, and the Wassenaar Arrangement.
 - b. Initiate a review of the need for continued inclusion of Indian Public Sector Undertakings and Government laboratories on the U.S.'s denied entity list.
 - c. Consider easing unilateral controls such as those applied for "regional stability" or "crime control" reasons, especially in view of increasing bilateral cooperation in counter-terrorism and in addressing other global challenges.
2. India should broaden the definition of offsets beyond the current 'direct, 30% rule' to categories beyond Indian defense projects, including areas such as commercial aerospace and homeland security. This would spur Indo-U.S. joint development, co-production and technology sharing in these areas vital to India's security, indigenous development and capability enhancement.
3. Launch a "Movement of Skilled Professionals Dialogue", chaired by the U.S. Secretary of State and Indian Minister of External Affairs, to address visa policy-related and other barriers to the movement of skilled persons. As a first step, institute a procedure to expedite entry of senior-level government and non-government frequent visitors.
4. Resolution of outstanding legacy issues by Government of India, such as progress on remediation of the Bhopal site.
5. To address the difficulties faced by investors in having to deal separately with India's Federal and State government offices on the same matter, India should institute a single-window Government-to-Business interface throughout the business cycle (from establishment through ongoing operations). This would: (1) eliminate a business' need to physically interface on the matter with regulatory authorities at various government levels; (2) provide a single-stop entity for all business licenses and permits; (3) and allow businesses to file applicable returns, pay taxes and

submit compliances through a single interface. Also, the Central government should provide for an appellate authority to grant standard interpretation of rules and laws in case of inconsistent State interpretations of the same.

6. Facilitate efforts by U.S. and Indian banks to expand in each other's country.
 - a. Continue financial sector reforms in India; specifically, expedite new branch opening approvals by Reserve Bank of India, based on individual credentials and business plans, particularly for metro locations, of each applicant foreign bank.
 - b. Expedite categorization of Indian banks, by the U.S. regulator, as having "comprehensive consolidated supervision" given the track record of the Indian regulator and the banking system. This is a key step in Indian banks being permitted more branches in the United States.
7. Enhance Indian foreign direct investment policy reforms through further opening up of key sectors such as insurance, private sector banks, retail and defense to foreign investors. As a first step, the Insurance Laws (Amendment) Act should be submitted to the Lok Sabha during the next session of Parliament.
8. To increase predictability for multinational enterprises operating there, India should adopt and uniformly apply internationally-accepted tax principles. Under the current system companies are often faced with double taxation, which has increased as other countries are not willing to accept India's tax positions, particularly in the areas of transfer pricing, permanent establishment and source of income. To ensure tax controversies are resolved in an expeditious manner, India should continue efforts to streamline and simplify the tax dispute settlement process. Progress in these areas would measurably enhance the attractiveness of India as an investment destination.
9. Consider revisions to the Dividend Distribution Tax (DDT) which, as currently structured, generates multiple levels of taxation on the same dividend income stream for companies that have more than one level of subsidiary in India. Under the current DDT, a project company will be taxed on dividends sent to a local holding company whose dividends will be taxed again when sent to the parent company. This becomes a significant issue for the infrastructure sector where each project is often a stand alone company and where several projects may exist, all reporting to the same Indian holding company. The DDT is a disincentive for equity investment by foreign companies in the infrastructure sector due to the tax disadvantage.
10. Avoid protectionism such as Non-Tariff Barriers on trade by either government, e.g. barriers based on Climate Change issues, as these issues should be addressed through appropriate multilateral bodies.
11. Adopt a neutral "Open Standards" policy for E-governance that balances different approaches to achieving interoperability and is based on international best practices (e.g., ITU, ISO). India's May 2010 draft policy mandates the use of royalty-free

standards and technologies and should be modified to be technology-neutral and business model-neutral.

12. To address India's national security priorities and ensure predictable market access for industry, India should defer implementation of the Department of Telecommunications' March 2010 circular requiring foreign firms to transfer critical network technology/ source code. Broadening the current dialogue between Indian authorities and individual firms facilitated by the Prime Minister's office and focusing it on international best practices would help expedite a near-term resolution.
13. Expeditiously conclude negotiations and sign a U.S.-India Totalization Agreement. In the event an agreement cannot be reached, explore mutually acceptable methods by which the payment of Social Security taxes by foreign temporary employees can be mitigated or returned upon the return of the employee to his/her home country.
14. Adopt a modern Indian Postal Law that attracts greater investment globally and from world class U.S. express delivery and logistics companies. Specifically, reject proposals to reduce the permissible FDI in express delivery companies from 100% or restrict them from carrying smaller packages or letters.
15. Modernize regulations in mining and related areas for energy and power development; doing so in a way that protects the local public and the environment.
16. Expeditiously finalize and sign a U.S.-India Bilateral Investment Treaty.

Breakthrough Long-Term Ideas

The CEO Forum recommends to the Governments two high impact transformational projects, by bringing to bear the focus and efforts of government and private industry. These are projects that will, in all likelihood, extend well beyond the term of this Forum. It is hoped that their execution will have a material positive impact on the citizens of both countries while bringing them closer together.

1. Diabetes 'breakthrough' project

Both countries, and many parts of the world, are battling with the rise of lifestyle diseases. Recent data indicate that of the staggering 285 million people worldwide with diabetes, India is most affected with over 50 million, while the United States has almost 27 million people battling diabetes. The disease is affecting more people in the working age group and annually claims 4 million lives – it is the leading cause of blindness, kidney failure, heart attack, stroke and amputation. The majority of all diabetes is type 2 (85-95%), which in many cases can be prevented.

Possible components of U.S.-India collaboration:

1. Creation of linkages between (to be) identified institutions in the U.S. and India will be a critical first step. The effectiveness of the collaboration will depend to a very large extent on the partnering between these institutions.
2. Epidemiology & Genetics: Data collection on the vast genetic/ phenotypic differences in the population. A joint U.S.-India diabetes project could involve creating registries of patients and high risk population, gene banks from different ethnic groups, identification of new bio-markers for screening, diagnosis and disease management, case-control multinational studies of alternative forms of therapies for type 2 diabetes.
 - a. Large scope of extending the search for complex-trait associations, beyond the current focus in Europeans, to populations in India which is a different genetic architecture, may lead to discovery of new genetic loci influencing type 2 diabetes risk.
3. Research and clinical trials (monoclonal antibodies, stem cell transplants, oral therapies, regeneration of pancreas,) for cure or reversal – long term research/ study programme.
 - a. Organized Diabetes Care Services and Units could be a way forward which can be a good platform for research, drug development and business.
4. Alternative forms of therapy (Naturopathy, Ayurveda): Clinical trials on the effectiveness of alternate medicine.
 - a. AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha & Homeopathy) still has limited application. Though some treatments and agents have shown benefit, large clinical trials are required before its role can be fully established.

5. Study on Causal factors of Type 1 Diabetes in India
6. Conduct studies on how to prevent type 1 and type 2 diabetes in first degree relatives of existing diabetics. Factors to study could include diet, exercise, and could be specific to ethnicity.

2. Strategic Space Cooperation

The United States and India share a decades-long dedication to space exploration. That fact, combined with the ever-strengthening bonds between the two countries, presents a real opportunity to forge a true strategic cooperation in outer space. The pairing of National Aeronautics and Space Administration technology and capabilities with Indian Space Research Organization (ISRO)/ Antrix capabilities and value engineering – partnering was initiated during the Chandrayaan-1 mission – can result in more cost-effective scientific and technology breakthroughs for both countries. By combining our technical and other strengths, this project would bring the two countries together in a highly visible affirmation of our long-term strategic partnership.

Possible components of U.S.-India collaboration:

1. Advanced launch technologies: To help surmount the high cost of launching objects into space, we should partner in basic scientific research that could lead to a new generation of spacecraft.
2. Lunar exploration and beyond: Leverage synergies between our robotic lunar programs to chart, and lower the costs of, an ambitious plan for human exploration of the moon and inter-planetary space.
3. Commercial cooperation: Enhance the role of the private sector (including collaboration among U.S. and Indian firms) in commercial launch, rocket development, human space flight, satellite services and other areas.
 - a. ISRO/ Antrix can support U.S. Government plans to provide a greater role for commercial companies in rocket development and human space flight.
 - b. U.S. firms can help ISRO in the areas of launch escape systems, life support and environmental control systems, and reusable space systems and cryogenics tanks.

As cited in point 1(b) of the Impediments section of this document, the U.S. Government should review the need for continued inclusion on the U.S.'s denied entity list of Indian Public Sector Undertakings and Government laboratories. As long as doing so is consistent with U.S. national security interests, removing certain Indian entities from the list would be integral to enabling the type of cooperation described above.

Finally, the two governments should complete negotiations of a Commercial Space Launch Agreement to support full collaboration in space launch noted in point 3 above.

List of Members

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¹ In alphabetical order of company