

Position Paper



FTA
Foreign Trade Association

Committed to free

EU-India Trade Agreement Position Paper of the Foreign Trade Association (FTA)

2007

INTRODUCTION

The aim to conclude a free trade agreement with India, with a growing economy of 8.8% in the past two decades, perfectly fits the Europe 2020 strategy which is aimed at keeping the EU at the forefront of international competitiveness. There is an enormous potential in connecting the world's biggest economic bloc with one of the most populous nations in the world. The EU is India's number one investor and largest trading partner, while India is the EU's ninth largest trading partner. This makes an economic alliance vital to both.

The Foreign Trade Association therefore strongly favours concluding a free trade agreement with India. Such a free trade agreement would provide European retailers and wholesalers with access to a huge growth market, both in terms of Foreign Direct Investment (FDI), exports and as a source for imports. The aim of the European Union should be to conclude a comprehensive, ambitious and balanced free trade agreement which will improve market access for goods and services, including provisions on regulatory transparency in areas relevant for mutual trade and investment.

In this position-paper, the Foreign Trade Association highlights the most important issues on which a result is welcomed by European retailers and importers.

TRADE IN GOODS

The Foreign Trade Association is pleased with the commitment of both sides to bring ostensibly all tariffs down to zero.

While India has made significant efforts to pursue the economic reform process, European retailers and importers want India to act as a free market economy and to open up their still highly protected market. Of course negotiating free trade agreements is a two way stream so protected EU markets should be opened up as well. While average duty rates have declined since the beginning of the (Uruguay-Round) reform process, India's tariff structure is still highly complex with high bound and applied tariffs.

India is an important supplier of textiles and clothing and shoes to the EU, therefore European retail and wholesale companies are particularly interested in the removal of any barriers to the flow of that supply.

FTA-members are also interested in Indian market opening for textiles and clothing, technical textiles, wines and spirits and other consumer products - especially branded consumer products - to India.

To achieve the full potential of connecting the two markets, all trade barriers such as quotas, tariffs and excessive import duties, should be eliminated.

TRADE IN SERVICES

Services are the fastest growing sector of the Indian economy, but services trade between the EU and India is unbalanced : the EU exports 1.5% of its services to India, while India exports 9.2% of its services to the EU.

European retailers call for the removal of all equity caps that may remain in India; the removal of all nationality or residency requirements for members of executive boards of branches, subsidiaries and joint-ventures. Transitional periods that would mutually be agreed and subject to regular review might be envisaged in sectors where it would be acceptable for both parties (see also paragraph on FDI). Altogether, retailers and wholesalers call for more openness to commercial presence in the Indian market (GATS mode 3).

The movement of services providers on a temporary basis (GATS Mode 4) is absolutely essential for retail companies to run their business. Retail companies with a presence in India need to be able to send their personnel to their subsidiaries for shorter or longer periods of time. We encourage the European Commission to ensure that India will improve these possibilities and facilitate the granting of necessary visas and works permits in an expedited manner.

FOREIGN DIRECT INVESTMENT IN RETAIL AND WHOLESALE

FTA strongly encourages the European Union, in the framework of the new competence granted by the Lisbon Treaty on foreign direct investment, to negotiate investment protection with India. While the EU is an important source of FDI for India (about 20% of India's FDI flows) compared to other important emerging economies India is still a very modest recipient of European FDI (India € 3.2 billion, Brazil, € 5.1 bn, China € 8.9 bn, and Russia € 10.4 bn).

India has not yet fully opened the retail sector allowing only 51% foreign investment in single-brand retail with prior government permission still needed. Retailers that sell multiple products under one roof however are not allowed majority ownership.

FTA members therefore call for the (if necessary, gradual) removal of all remaining equity caps that prevent EU businesses to fully control their investments and operations in India, or at least call for the possibility of majority ownership for all retailers and wholesalers.

India being a federal country, state governments should be fully taken into confidence while initiating trade liberalisation and reforms. Often European commerce experiences problems with differences between federal and state level in terms of policies and procedures. The present uncertainty concerning tax treatment, particularly concerning extra territorial transactions, should be removed.

TRADE FACILITATION

As many trade barriers such as tariffs and quotas are decreasing, the importance of other barriers to trade, especially non-tariff barriers, is increasing. More efficient customs and administrative procedures is one of the ways to cut trade barriers and increase the speed and quantity of trade flows. Trade facilitation has a positive effect on trade flows and with increased trade flows. European investment in India could get some boost as a secondary effect.

INTELLECTUAL PROPERTY

India has strengthened its intellectual property rights regime in recent years and has Trade-Related Aspects Intellectual Property Rights (TRIPs) compliant law in place. Although India has shown firm commitment to ensuring a strong IPR regime there are still controversies about implementation and enforcement of the regime, which create market access barriers in India and can be seen as a cause for the relatively low level of FDI inflows. Considering the focus of especially single brand-retailers on higher end and branded products, IPR protection should be improved, both on paper and with respect to enforcement.

FTA supports the initiative by the European Commission to introduce the Trade and Industry Development Project II to provide training and build capacity in IPR enforcement and awareness-raising in order to protect businesses and consumers.

TECHNICAL BARRIERS TO TRADE

The Indian label law (2009) requires certain mandatory information to be displayed on the label (name and address of manufacturer; name and address of the importer; generic or common name of the commodity packed; net quantity reported in metric; month and year in which the commodity is manufactured, packed or imported; Maximum Retail Price; contact number and email address for the customer service).

This is a lot of information that is unusual and makes business very complicated. Pricing information normally should be given in the stores and in catalogues. Given the regional differences on taxes and other costs in India, a Maximum Price indication would require separate labels for each province and increase handling costs substantially.

SUMMARY AND RECOMMENDATIONS

The Foreign Trade Association calls upon the EU to:

- Liberalise trade with India by bringing down to zero ostensibly all tariffs;
- Tackle market access barriers including: lengthy and cumbersome customs clearance procedures; non-transparent customs valuations; burdensome technical regulations and authorisations;
- Negotiate openness to commercial presence in the Indian market (GATS mode 3) accompanied by mode 4-access (temporary workers);
- Achieve abolishment of all existing equity caps that prevent EU retailers and wholesalers to fully control their investments and operations in India;
- Negotiate improved IPR protection both on paper and with respect to enforcement;
- Remove technical barriers to trade such as complicated label laws.

The FTA is the association for European commerce providing expertise in international trade issues. It is committed to achieving its goal of a true free trade environment. For 30 years, the FTA has supported its members, consisting of national trade associations and companies from all over Europe, through information and lobbying in the European and international arena.

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More information on the FTA:

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