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Confederation of European Business **Confederation of Indian Industry**

Joint Statement by UNICE & CII

Working together for an ambitious EU-India trade and investment agreement

India and the European Union (EU) are strategic partners. This partnership has been given a further boost because of the decision to move towards launching negotiations for an India-EU Trade and Investment Agreement.

UNICE – the Confederation of European Business and the Confederation of Indian Industry (CII) welcome this move for enhanced engagement between the two sides and look forward to an early conclusion to the negotiations for a Bilateral Trade and Investment Agreement. CII and UNICE also hope that these bilateral discussions will improve cooperation between the two major trade partners at the multilateral negotiations under the Doha Development Agenda (DDA) of the World Trade Organization (WTO).

Background

India's strategic choice since early 1990s towards economic reform has been the basis of its economic growth and poverty reduction. India has been autonomously lowering its applied tariffs on goods and is making steady progress in dismantling all procedures and processes that may hamper international trade.

There is a huge amount of untapped potential in the EU-India trade relationship. Although India currently accounts for only 1.8 percent of the EU's trade, the Confederation of Indian Industry believes that this could rise to 5 percent by 2011 with a comprehensive trade agreement. India is also potentially a huge market for EU investment.

With the Indian economy growing at more than 8% for the past three consecutive years and with foreign investment up 40% at €6 billion in 2005, India seems to be on the path to become a global economic heavyweight.

The EU represents the largest market in the world with a GDP of €10,800 billion in 2005 and is home to nearly half a billion consumers, with a high average level of income.

Thus it is in the interest of both EU and India to forge a strong bilateral relation with a Trade & Investment Agreement to leverage each other's strengths. Companies in EU and India look forward to improved market access and investment opportunities in each other's markets.

Complementary trade exchanges

Analysis shows essentially complementary trends in commercial transactions between the EU and India. The two sides complement each other in their diversified economic structures in terms of output, capital stock, human resources and trade in goods and services. Taking bilateral trade patterns as an example, the EU's exports of goods to India are predominantly intermediary products for further manufacturing whilst India's exports to the EU are in textiles, primary products and finished consumer goods.

Trends in bilateral trade and investment

Trade in Goods: In 2005, bilateral trade in goods grew by 20% to € 40billion and this growth rate seems set to continue into 2006. There has been a steady growth in bilateral trade of 11% on average between 2001 and 2005. Trade was also balanced with a minor surplus to the EU.

The EU is India's largest trading partner by far, accounting for nearly a fifth of India's total external trade whereas India is the EU's 10th main partner with 1.8% of trade.

Elimination of trade barriers can bring substantial improvements in trading conditions with the objective of promoting growth, employment and sustainable development in India and EU. Bilateral free trade agreements (FTA) aim to eliminate tariffs between the parties on substantially all trade and thus provide opportunities for current and potential exporters to develop their business and diversify the export base.

The India-EU High Level Trade Group (HLTG) constituted in 2005 to study the feasibility of an India-EU trade and investment agreement came to the conclusion that there was potential interest in elimination of duties in bilateral trade in light of the complementarity of EU and Indian economies.

CII and UNICE support a coverage of goods for tariff elimination which cover a substantial percentage, and as close as possible to the totality of tariff lines for industrial products. Only a very small percentage of products should be subject to limited liberalisation.

Both parties are convinced that substantial benefits could be achieved through the elimination of non-tariff obstacles to trade. India-EU trade is bedevilled by a variety of barriers other than tariffs - from EU health and safety standards (Sanitary and Phytosanitary (SPS) Measures) that Indian exporters find too high, to India's licensing and regulatory requirements that EU exporters find complicated. A bilateral agreement would help business to focus on contentious non-tariff barrier issues and to go beyond WTO rules in areas of mutual interest.

Trade in Services: Trade in commercial services has similarly increased at a good rate of about 10% average annual growth and with a marginal surplus to India.

In 2004, India exported €3.8 billion worth of services to the EU, whilst EU service exports to India amounted to €3.3 billion.

The importance of the service sector to both the EU and India reflects the need to ensure that no mode of supply in services should be excluded. For the services agreement on a bilateral level to be successful there is a need to look at commitments on both sides higher than their current offers at the WTO.

Mutual Recognition agreements will also need focus if the services agreement has to deliver on providing meaningful market access to both sides.

UNICE & CII call for meaningful and higher market access to service providers on both sides in all the four modes of supply through a negative list approach.

Investment: The EU and India remain important investment partners with investment flows becoming more balanced.

EU is India's largest source of foreign direct investment (FDI) with outflows amounting to €1100 million in 2004. India's FDI inflows into the EU increased from €140 million in 2002 to €600 million in 2003.

Nonetheless, India receives less than 1% of the EU's total foreign direct investment, which is definitely incommensurate with the potential of India or the capacity of EU investors.

CII & UNICE are of the view that the Trade and Investment Agreement must ensure transparency, non-discrimination and national treatment free access to markets and investment protection. It should address the issues that stall the exposure of investments into India and EU.

UNICE and CII believe that Investment is a very important tool for greater engagement between the two sides and support the recommendations by the HLTG that the chapter on Investment in the final agreement should address the following issues:

- Improve market access and provide for national treatment to investors;
- Foster transparency by clarifying the regulatory framework;
- Aim at freeing the flow of payments and investment-related capital Movements; and
- Seek to facilitate the movement of investment-related natural persons.
- Respect the right of home states to regulate in a non-discriminatory manner;

Trade Facilitation

Trade facilitation promotes transparency, cuts red tape and simplifies trade procedures, overcoming both resource and time constraint for business. Moreover, procedural barriers in export markets can be a particular burden for SMEs. Cooperation in this area therefore has considerable potential to improve supply chains and trade logistics between the EU and India, thereby enhancing trade flows.

CII and UNICE are of the view that the new bilateral agreement should develop provisions on trade facilitation as a complement to a future DDA Agreement and to the activities foreseen in the EU-India Customs Cooperation and Mutual Assistance Agreement. In particular, provisions should focus on accelerated and simplified procedures for release and customs clearance of goods and the minimisation of customs fees and charges.

Discussions could cover the modernisation of customs, simplified procedures, supply chain security, automation, the role of customs in enforcing IPR, and other modern challenges in customs work. Additionally, it must also be based on inputs from business and other stakeholders to ensure that it effectively makes trading easier.

Public Procurement

The aim of public procurement policies is to ensure that public money is spent in a transparent, efficient and equitable manner. An open and competitive tendering framework allows public authorities not only to make significant cost savings, but also to tap into the full financial and technical potential of the private sector. Companies also benefit from an open procurement regime in that it grants them unhampered access to larger markets and provides a level playing field for economic operators.

CII and UNICE support addressing government procurement in the agreement which should *inter alia* include better understanding of each party's procurement practices, measures to enhance transparency, as well as improvements in market access opportunities. The final aim is to make the agreement in line with the disciplines of the WTO Government Procurement Agreement.

Technical Regulations - TBT and SPS

Non-tariff barriers have become the scourge of international trade. Consequently, CII and UNICE are committed to removing as many of these barriers as possible.

Cooperation on technical barriers to trade (TBT) and sanitary and phyto-sanitary measures (SPS) aims to prevent and eliminate barriers to trade, while respecting legitimate objectives in terms of protecting health, food safety, the environment etc.

As signatories to the WTO TBT Agreement and SPS Agreements, EU and India are committed to follow common and accepted principles under the SPS & TBT Agreements.

CII & UNICE support the recommendation of the HLTG that a forum should be set up for examining and solving current barriers to trade and for exchanging information in general as well as on statutory notifications. An efficient NTB mediation mechanism, analogous to that proposed by the EU and India in the WTO DDA negotiations could be established.

Intellectual Property Rights

The protection of intellectual property is key to encouraging innovation and market access and foreign investment.

CII and UNICE support commitments on effective protection and implementation of intellectual property rights on the basis of TRIPs to be included in the new bilateral agreement.

Dispute Settlement

In accordance with the overall objectives of increasing trade and investment and providing greater commercial and legal certainty, bilateral dispute settlement mechanisms are designed to settle any trade irritant or manage it so as to avoid a spill over on the broader relationship. Consultations or other cooperative means remain the preferred means of resolution but where this is not possible, a dispute settlement mechanism can help enforce the rules.

The HLTG agreed that any possible future bilateral trade agreement should include a binding State-to-State dispute settlement mechanism. It noted the degree of convergence between the parties' approaches to this issue in existing bilateral trade agreements. The details of the architecture of such a mechanism, including appropriate time frames, mediation/consultation, selection of panellists and openness of procedures, would need to be negotiated at the appropriate stage.

Conclusion

CII and UNICE support the decision taken by the European Commission and the Government of India to move towards a bilateral trade and investment agreement. Indian and EU business look forward to rapid launch of negotiations and working closely during the negotiation process to provide meaningful inputs to the negotiators for ensuring a win-win conclusion to the negotiations for both sides.

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