NOTE

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SUBJECT : EU-India Business Summit – Background Note

General background information on EU-India relations

The EU is India's main trading partner and investor. Trade with the EU represents 20% of India's imports and exports. However, this relationship has huge potential for development. Indeed, India accounts for less than 4% of total EU trade and attracts only around 2-3% of total EU global investments (between 1-2 billion euros).

BUSINESSEUROPE wants to encourage much greater trade and investment with India over the next few years and relations are improving. India EU trade in goods, while starting from a low base, almost doubled between 2004 and 2007 (23% per year). Services trade grew by 60% between 2004 and 2006 to reach at total of €12.2 billion. Our respective investment stocks are also increasing enormously, with Indian investment stocks in the EU growing from €0,7 billion in 2004 to €3.2 billion in 2006 (an increase of 350%) and EU stocks in India rising at a slower rate, from €9.1 to €13.4 billion in the same period. There is growing EU interest in the possibilities of developing better infrastructure in India under the Union government's 11th Five Year Plan (2007-2102), which the World Bank has estimated will require investment of over $425 billion (€333 billion).

Bilateral EU-India Free Trade negotiations

EU business has underlined their strong support for a bilateral FTA.

- In January 2007, BUSINESSEUROPE and the Confederation of Indian Industry agreed on the need for a rapid conclusion of the negotiations with implementation periods of 3-4 years.
- Unfortunately, FTA negotiations are not moving very quickly. The reality of negotiation has included disagreement on technical issues as well as on fundamental points of ambition. India is looking to exclude many important EU sectors from tariff liberalisation – such as automotive, many pharmaceuticals and high value added textiles – and is resisting any commitments on public procurement.
- Key items for BUSINESS EUROPE in a future FTA include
  - 100% industrial goods coverage for tariffs.
  - Strong commitments to remove NTBs

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- Ambitious liberalisation of services across all key sectors.
- Strong commitments to liberalise investment.
- Strong commitments to open India's public procurement markets.

- BUSINESSEUROPE and CII in their January 2007 statement agreed on a number of issues these issues – ambitious goods coverage, investment, services and procurement for example.

- Goods: India's initial offer on liberalisation of industrial goods is totally unsatisfactory from the perspective of European companies. The exclusion of sectors of huge export interest to the EU from full liberalisation is not the basis for a meaningful agreement. Sectors such as chemicals, automobiles and high-value added textiles could not remain out of a deal. On top of tariffs additional duties have a considerable impact on EU exports to India.

  Non-tariff barriers must also be addressed in any FTA. A 2003 WTO study has shown that the average percentage of tariff lines affected by NTBs is 93% in India compared with 22% in a similar emerging country like Brazil and 13% in the EU. NTBs result principally from the administrative burden and the number of procedures and authorisations that the European companies need in India.

  In particular, EU companies have to face obstacles such as extensive marking, labelling and certification requirements, export taxes, a complex excise tax structure, import prohibitions and restrictions, and complex and inefficient customs procedures.

- Services: India's services sector is competitive and fast growing. It is therefore surprising that the government's approach to these negotiations has been characterised by a lack of ambition. For EU companies the FTA must first copper-fasten the current level of openness to services trade and investment in India – this is particularly important for sectors such as express delivery – but then move beyond that to offer new market access. Foreign equity participation is prohibited in multi-brand retail and is significantly limited in sectors such as insurance, air transport services and printed news media (26%); some areas of broadcasting including cable (49%); banking, telecoms, construction, airports, power, power (74%-100%). Other barriers exist such as approval procedures for branching of banks.

- Investment: India's investment regime at the Union level for manufacturing has been liberalised extensively. Nonetheless, a number of sectoral limitations and prohibitions remain. Prior government approval is required for stakes of more than 24% in to the "small-scale" sector, covering 114 products in the food, chemical, paper and machinery and electrical sectors. Upper limits of between 74 and 100% apply on areas such as telecoms equipment, petroleum and natural gas and some food products. In addition further restrictions exist at State level. All of these limitations must be tackled in an FTA, which must include full market access and national treatment of EU investors. It should also include, as far as possible, investment protection provisions.

- Public procurement: Given the infrastructure interest outlined above, market access, national treatment and transparency provisions are an essential part of an FTA with India from the European business perspective. This is the case with respect to Union and state-level procurement policies. It is in the interests of both all levels of government to have an open procurement system as it both improves the price/quality of goods and services provided to the government and reduces opportunities for corruption. At Union level, procurement is currently governed by the General Financial Rules of the Ministry of Finance but not legislated. Under an EU-India FTA more binding procedures will be necessary and explicit provisions to implement market access, national treatment and transparency will be required. The EU has by comparison an extremely liberal regime, fully regulated by European public procurement directives.

- Other issues of importance included competition policy, intellectual property rights, and dispute settlement provisions.