BRIEFING

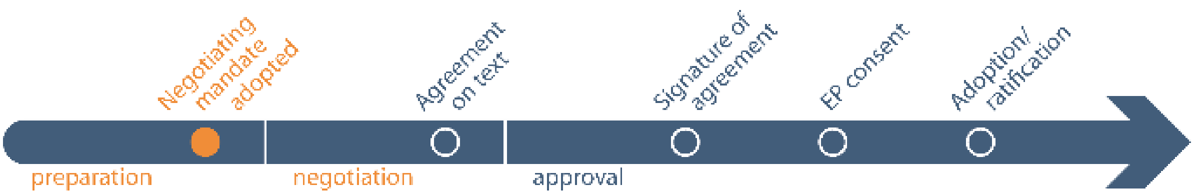
International Agreements in Progress

EU-India free trade agreement

OVERVIEW

India was among the first countries to establish diplomatic relations with the European Economic Community in 1962. Following the EU-India 1994 Cooperation Agreement, the parties built a multi-tiered institutional architecture of cooperation, and eventually upgraded their relationship to a 'Strategic Partnership' in 2004. During the same period, trade between the two partners grew significantly, reaching €115.4 billion in 2022. As a result, the parties began negotiations on a broad-based bilateral trade and investment agreement in 2007. However, after 15 rounds of negotiations, talks between the parties stalled in 2013, due to diverging ambitions between the counterparts. On 8 May 2021, the EU and Indian leaders agreed to resume negotiations for a 'balanced, ambitious, comprehensive and mutually beneficial' trade agreement, and to launch separate negotiations on an investment protection agreement and an agreement on geographical indications. The Commission and India aim to finalise the negotiations before the Indian elections in 2024. In addition, they decided in April 2022 to launch an EU-India Trade and Technology Council.

In its 5 July 2022 resolution on EU-India future trade and investment cooperation, Parliament encouraged the negotiators to achieve a comprehensive and mutually beneficial free trade agreement, giving priority to areas conducive to sustainable growth and addressing inequalities and the digital and green just transitions. They invited the Commission to ensure that the core principles of the ILO are applied in the future trade agreement and that the agreement is in line with the European Green Deal, the 'farm to fork' strategy and COP26. Lastly, they welcomed the willingness to negotiate an independent investment protection agreement, and urged negotiators to agree on the creation of a multilateral investment court and a specific EU-India investment court.



Free trade agreement between the European Union and its Member States, of the one part, and India, of the other part

Committee responsible:	International Trade (INTA)
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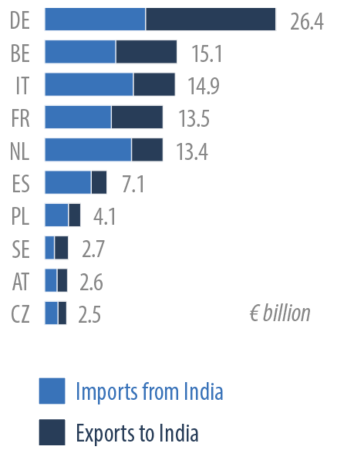
Introduction

India-EU bilateral trade in goods in 2022 was valued at €115.3 billion (€47.6 billion in exports and €67.6 billion in imports). At the same time, the trade relationship is asymmetrical; the EU is India's second largest trading partner in goods, accounting for 10.8 %, almost on a par with the US (11.1 %) and ahead of China (9.9 %). India, however, is the EU's 10th largest trading partner, accounting for 2.1 % of EU total trade in goods in 2022, well behind China (16.2 %), the US (14.7 %) and the UK (10 %).

Figure 1 – India's top EU trade partners (2022)

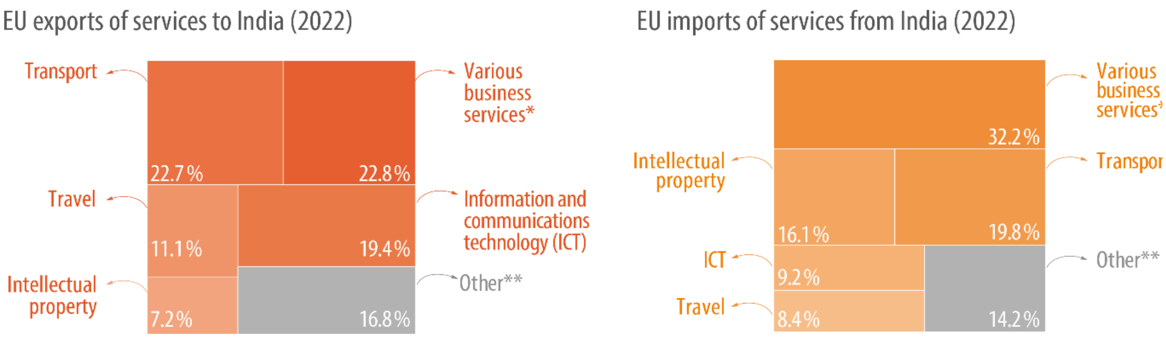


Source: India – Economic indicators and trade with EU, EPRS.

In 2022, around 87.4 % of EU exports to India were manufactured goods, including machinery & vehicles (43.3 %), other manufactured goods (27.9 %) and chemicals (16.2 %). Primary goods accounted for only 9 % of exports. That same year, 83.5 % of EU imports from India were also mainly manufactured goods, which included machinery & vehicles (21.3 %) and chemicals (18.1 %).[1] The EU also imported a smaller share (16 %) of primary goods.

The three largest importers from India in the EU (see Figure 1) were Germany (€8.6 billion), Italy (€6.6 billion) and Belgium (€6.1 billion), while Malta had the highest share for India in its extra-EU imports (6.7 %). The three largest exporters to India in the EU were Germany (€12.5 billion), France (€8.3 billion) and Belgium (€6.1 billion). Belgium (4.0 %) and France (3.7 %) had the highest share for India in their extra-EU exports.

Figure 2 – Trade in services with India



***Various business services** (both exports and imports): legal, accounting, consulting, public relations, research and development, architectural, engineering, scientific, advertisin market research, public opinion, trade-related, operating leasing, waste treatment, de-pollution. ****Other** (both exports and imports): manufacturing, maintenance and repair, insuran and pension, construction, government goods and services, personal, financial, cultural and recreational. Values are provisional.

With regard to trade in services, the value of EU services exports to India in 2021 was €19.2 billion, while the value of its imports from India was €20.7 billion. The trade balance in services has been fluctuating, from a €900 million surplus in 2015 to a €3.9 billion deficit in 2020.

The biggest exporters to India were Ireland (€4.7 billion), France (€3.9 billion), Germany (€3.7 billion) and Denmark (€2 billion). The biggest importers were Germany (€4.8 billion), the Netherlands (€4 billion), Ireland (€3.2 billion) and France (€2.4 billion). EU services trade with India is dominated by transport, telecoms/IT, other business services and travel. Together, these sectors account for more than 80 % of EU services exports to India and more than 90 % of EU services imports from India (see Figure 2). Furthermore, there was strong growth in bilateral trade in these key sectors between 2010 and 2019. For instance, EU imports of other business services[2] from India doubled from

US$5.29 billion to US$11.22 billion. Telecoms/IT services, another important sector for India, also saw increased imports by the EU, from US$4 billion to US$7.35 billion.

While at the beginning of the 2010s India had 72 bilateral investment treaties (BITs) in force, it has since terminated most of them, following a number of high-level investor-state dispute settlement cases. Moreover, India has a high FDI restrictiveness index (0.21, on a par with China and Saudi Arabia). Despite that, the EU's share of foreign investment stock in India increased to €87.3 billion in 2020, up from €63.7 billion in 2017. The EU's share of the total Indian FDI stock in 2020 was 18.1 %, making it one of the most important foreign investors in India, along with Mauritius, Singapore, the United States and the United Kingdom.[3] Nonetheless, while this amount is significant, it is still below EU foreign investment stocks in countries with a similar population, like China (€201.2 billion), but also with a much smaller population, such as Brazil (€263.4 billion).

Lastly, some 6 000 European companies are present in India, providing 1.7 million jobs directly and 5 million jobs indirectly in a broad range of sectors.

A study by the Jacques Delors Institute found that all but one of the top 20 EU exports to India have seen a reduction in their share of Indian imports over the past decade, particularly following India's signing of free trade agreements (FTAs) with Japan, Korea and ASEAN. Without a trade agreement, forecasts based on historical trends suggest a gradual increase in exports over the coming decade, reaching US$52.9 billion by 2025 and US$61.2 billion by 2030. Similarly, EU imports from India are projected to reach US$62 billion by 2025 and US$72 billion by 2030 in the absence of an FTA. At the same time, in 2023, India became the world's most populous country, and a considerable part (40 %) of its population will be under 25 in 2030. In addition, by 2030 India should become the fourth largest economy in the world. Lastly, its current per capita GDP (US$2 300) is still below the average of middle-income countries (US$6 100), meaning that consumption could still grow significantly. In other words, while trade between the EU and India has not reached the levels of trade between the EU and China over the past 20 years, it presents significant opportunities in the future.

Existing situation

India was among the first countries to establish diplomatic relations with the European Economic Community in 1962. With the formal establishment of the EU in 1993, India signed a Cooperation Agreement in 1994, which opened the door for broader political interaction between the two. A multi-tiered institutional architecture of cooperation has since been created, presided over by the India-EU Summit held periodically since 2000. The first India-EU Summit took place on 28 June 2000 in Lisbon and marked a watershed in the evolution of ties. The relationship was upgraded to a 'Strategic Partnership' during the 5th India-EU Summit held in 2004 in The Hague.

From 1980 to 2005, EU-India trade grew from €4.4 billion to €40 billion. At the time, the EU was India's largest trading partner, accounting for 22.4 % of Indian exports and 20.8 % of imports. While the EU accounted for 21 % of Indian trade, India's share of EU trade was less than 1 %, and while the EU was India's largest trading partner, India was the EU's 14th largest partner.

At the 7th India-EU Summit in Helsinki on 13 October 2006, EU and Indian political leaders recognised that stronger economic engagement is mutually advantageous. In that context, they endorsed the case that had been made for a future broad-based bilateral trade and investment agreement. Negotiations on such an agreement began on 28 June 2007 and covered trade in goods, trade in services, investment, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, rules of origin, customs and trade facilitation, competition, trade defence, government procurement, dispute settlement, intellectual property rights and geographical indications, and sustainable development. However, after 15 rounds of negotiations in Brussels and New Delhi, the talks between the parties had stalled by 2013 and remained in limbo until 2021.[4]

At the moment, the only legal basis for bilateral trade and services is the most-favoured nation (MFN) principle enshrined in WTO law. Although the EU grants tariff preferences to India under the Generalised Scheme of Preferences, it temporarily suspended them at the beginning of 2023 because the increasing Indian imports into the EU exceeded the defined safeguard thresholds. Moreover, there are currently no agreements for bilateral investment trade, since India unilaterally terminated almost all existing older nationally agreed investment protection treaties with EU Member States.

Most-favoured nation principle

This is the principle of not discriminating between one's trading partners. Under WTO rules, MFN means that, every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners.

Source: World Trade Organization.

On 8 May 2021, the EU and Indian leaders agreed to resume negotiations for a 'balanced, ambitious, comprehensive and mutually beneficial' trade agreement, and to launch separate negotiations on an investment protection agreement and an agreement on geographical indications (GIs).

Comparative elements

India has been negotiating trade agreements with several partners – both bilateral and regional. These include Comprehensive Partnership Agreements with Korea, Japan, Singapore and the UAE, as well as the India-Australia Economic Cooperation and Trade Agreement. They also include regional agreements, such as the Association of Southeast Asian Nations (ASEAN)-India Trade Area (AIFTA), the Asia Pacific Trade Agreement (APTA, previously known as the Bangkok Agreement), and the South Asian Free Trade Area (SAFTA). India has also signed limited coverage Preferential Trade Agreements; the global system of trade preferences (GSTP); the South Asian Association for Regional Cooperation (SAARC) preferential trading agreement (SAPTA); the India-Afghanistan PTA; the India-MERCOSUR PTA; and the India-Chile PTA. However, according to experts, these agreements contain practically no substantial tariff reductions or market openings, and therefore have not resulted in any significant trade expansion. This could bring the EU first-mover advantage in the Indian market.[5] Moreover, India is not a member of the Regional Comprehensive Economic Partnership (RCEP) free trade area or of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Lastly, India did not conclude significant new bilateral trade agreements in the 2014-2021 period.[6] This is likely to change, given that, in parallel to the FTA with the EU, India is also negotiating FTAs with the Gulf Cooperation Council, Israel and Canada, and is also in the final stages of negotiating an FTA with the United Kingdom.

In recent years, the EU has also completed or has been negotiating trade agreements throughout the wider region. For example, FTAs were concluded with Japan, South Korea, Singapore and Vietnam. Elsewhere in the region, negotiations have been launched with Indonesia and re-launched with Thailand. Lastly, the EU is negotiating an additional digital trade rules chapter with Singapore.

EU negotiation objectives

The overall objective of the negotiations will be to maximise the considerable yet largely untapped trade and investment potential between the EU and India. Further objectives include reaching the EU's climate goals under the European Green Deal, promoting high environmental and labour standards in the EU and India, increasing the level of confidence among investors on both sides and thereby leading to further increases in FDI, as well as supporting rural communities and helping preserve the cultural and culinary heritage of both sides.

In a departure from the earlier efforts, negotiations in the areas of trade, investment protection and GIs are this time being conducted separately and not, as is often the case, as chapters of a single, comprehensive agreement. Writing for SWP Comment, Hanns Günther Hilpert, Bettina Rudloff and Christian Wagner express the view that this increases the likelihood that a result can be achieved in at least one or two areas.

The authors are of the view that agreement seems easiest in the case of geographical indications, although they note that India would first have to establish its own implementation and control regime for GIs to be defined. At the time of writing, two negotiation rounds had been conducted on GIs, one in June-July 2022 and another in October 2022.

On the other hand, Günther et al. think that an investment protection agreement will be particularly difficult to reach. This is due to the fact that both the EU institutions and Member States must ratify it, but also due to the investor-state arbitration model, for which there might be pushback. Since the beginning of the negotiations, there have been five rounds on investment protection, in June, October and December 2022, March 2023 and June 2023.

There are also still obstacles to the conclusion of the third part, the trade agreement, although both sides have moved closer together.[7] In addition, as a result of the recently decreed temporary suspension of EU tariff preferences, India has a special incentive for legally binding, duty-free access to the EU's internal market. In view of the shortage of skilled workers, the authors speculate that the EU may be more open to movement of workers than in the past, for example in the IT sector.

Yet another challenging point during the negotiations may be agriculture. According to some experts, one of the EU's main objectives in this FTA is to secure cuts in import duties across all goods sectors, including agriculture and dairy. Nevertheless, India considers import duties as its main tool to protect domestic production and support the livelihoods of millions of farmers and milk producers, the largest percentage of whom are extremely small-scale and are focused on domestic markets rather than exports. The EU's average MFN applied tariff on agricultural products is 11.7 % compared to India's 39.2 %, so India would have to cut tariffs much more than the EU. In addition, the EU will not have to cut its substantial agricultural or dairy subsidies, something which, according to the same experts, should give it a tremendous price advantage in Indian markets.[8] Furthermore, the EU has tabled a chapter on sustainable food systems (SFS), which is seen by some as potentially creating major challenges for Indian farmers. While SFS is a progressive concept rooted in Sustainable Development Goal (SDG) 2 and advanced even by civil society organisations (CSOs), the same analysis notes that the way it is conceptualised seems aimed at protecting its agribusiness.[9]

India's position

For the time being, there is no published official position on the negotiations. However, according to researchers, a possible reason why India may be interested in putting the trade relationship with the EU on a new footing is the suspension of certain products from the current Generalised Scheme of Preferences (GSP). The GSP removes import duties from products coming into the EU market from vulnerable developing countries to help them alleviate poverty and create jobs based on international values and principles.[10] For the moment, India benefits from the 'standard GSP'. This is given by the EU to certain lower or lower-middle income countries, which can benefit from duty suspension for non-sensitive products, and duty reductions (3.5 percentage points) for sensitive products across approximately 66 % of all EU tariff lines. About 41 % of India's exports to the EU market are eligible for reduced tariffs granted under standard GSP, and about 88 % of eligible EU imports from India (€11.5 billion in 2021) currently make use of the preferential duties under GSP. However, as of 1 January 2023 a list of products originating in the GSP beneficiary countries referred to in Regulation (EU) 2022/1039 was suspended from tariff preferences until the end of the year, as the average value of imports of these products into the Union had been higher than the maximum limits for three consecutive years. In practice, this meant that India's exports of plastics, stone, machinery and mechanical appliances (worth approximately US$8 billion) to the EU were no longer eligible for low or zero-duty concessions.

Another key Indian objective is reform to allow skilled Indian professionals to temporarily reside and work in EU Member States. If rules on movement of professionals were liberalised, Indian businesses would benefit significantly from increased access to the EU services market. However, from the beginning of the negotiations the EU appeared reluctant, among other things because work permits and visas are within the remit of individual EU Member States. A related issue is the differentiated qualifications and professional standards between EU partners, which restrict Indian professionals' access to EU markets.

Yet another important aim for India is to be recognised as a data-secure country. At present, India is not considered data-secure under EU legislation, despite India amending its Information Technology Act in 2000 and issuing new Information Technology Rules in 2011, in line with the 'safe harbour' principles adopted by the United States. This hampers the flow of sensitive data such as information on patients, and means that Indian firms are unable to gain market access in the EU, increasing operating costs.

Parliament's position

On 5 July 2022, the European Parliament adopted a resolution on EU-India future trade and investment cooperation. Having regard to the relevant Council decisions of 19 April 2007 and of 14 July 2011[11] among other things, Parliament recalled that trade between the EU and India increased by 70 % in the decade from 2009 to 2019. It reaffirmed the need for a deep partnership based on the shared values of freedom, democracy, the rule of law, respect for human rights, workers' rights, women's rights and gender equality, and on the commitment to promote effective multilateralism, the fight against climate change, and peace and stability in the world.

Parliament encouraged the negotiators to make good progress in achieving a comprehensive, mutually beneficial free trade agreement, giving priority to areas conducive to sustainable growth and addressing inequalities and the digital and green just transitions. They invited the Commission to ensure that the core principles of the ILO are applied in the future trade agreement and that the agreement is in line with the European Green Deal, the 'farm to fork' strategy and COP26.

MEPs welcomed the willingness to negotiate an independent investment protection agreement, and urged negotiators to agree on the creation of a multilateral investment court and a specific EU-India investment court.

Earlier, following the initial launch of negotiations in March 2009, the European Parliament had adopted a resolution on an EU-India Free Trade Agreement (2008/2135(INI)). In general, Parliament believed that the FTA should be balanced and compatible with WTO rules and obligations, but also ensure that increasing bilateral trade brings benefits to the widest number of people and contributes to India's achievement of the Millennium Development Goals. Parliament was also of the view that the agreement should include an ambitious sustainable development chapter and be subject to the standard dispute settlement mechanism.

Regarding the various points of the agreement, Parliament noted that all efforts should be made to promote **trade in goods** and that, as a result, the FTA should include provisions aimed at reducing technical barriers to trade. With regard to **trade in services**, it called for the accreditation of qualifications and the liberalisation of the banking and insurance sectors, but at the same time stressed that service liberalisation must in no way hinder the right to regulate services.

In addition to the above, Parliament called on the Commission to incorporate in the FTA a **chapter on investment**, but to refrain from commitments to liberalise capital movements and renounce capital controls given their importance in mitigating the impact of the 2007-2009 financial crisis. It also called on EU-based transnational companies with production facilities in India to abide by core ILO standards, as well as social and environmental covenants.

Stressing that India was one of the major sources of counterfeit medicines seized by the customs services of the Member States (almost one third of the total), Parliament called on the Commission and the Indian authorities concerned to coordinate actions to address effectively the **fight against counterfeiting** and, in particular, against counterfeit medicines. At the same time, it called on the EU and India to ensure that commitments under the FTA do not preclude access to essential medicines while India is developing its capacity from a generic to a research-based industry.

Lastly, Parliament asked that both the EU and India ensure that trade and FDI are not encouraged at the cost of lowering either environmental standards or core labour, occupational health and safety legislation and standards. In that context, it called for the ratification and effective application of the basic conventions of the ILO and recalled that human rights and democracy clauses constitute an essential element of the FTA.

Preparation of the agreement

The parameters for an ambitious FTA were set out in the report of the EU-India High-Level Trade Group in October 2006, which was tasked with assessing the viability of an FTA between the EU and India. Other studies have reinforced the economic potential of an FTA between the EU and India – notably, the EU carried out a sustainability impact assessment.

The initial results of an analysis undertaken by CEPII and Copenhagen Economics (the analysis looked at three potential agreements – with India, Korea and ASEAN) suggested that all three agreements would create significant new trade and give a valuable boost to global trade, especially in services. Analysis released by the Commission in April 2007 concluded further that the India agreement would increase EU exports to India by 56.8 %, while India would see its exports to the EU increase by 18.7 %. The biggest gains for the EU would include exports of industrial and manufactured goods to India. Moreover, the agreements would result in large net additions to global trade, with trade diversion effects likely to be minimal.

In June 2008, a trade impact assessment was published by the Institute for International and Development Economics (with support from the Commission). The impact assessment (see below under 'The changes the agreement would bring' for more information) found that the FTA is expected to yield positive (albeit low, due to low bilateral trade) real income effects for both the EU and India. Given the degree to which circumstances have changed in the 15 years since then, as well as the resumption of negotiations in 2021, the Commission is currently preparing a sustainability impact assessment that will be published soon.

In June 2020, EPRS prepared a cost of non-Europe study on the EU-India FTA. The study estimates the potential effects of a FTA that partly liberalises trade in goods and services between the EU and India (see below under 'The changes the agreement would bring').

Negotiation process and outcome

Since the start of the negotiations, the European Commission has published both its textual proposals for the negotiations and the reports of the negotiation rounds with India. Below is a summary of the developments in several negotiation areas based on the reports of the negotiation rounds held between July 2022 and October 2023.

Six rounds of negotiations have been held between the parties on the **FTA**, in July, October and November-December 2022, as well as March, June and October 2023. As expected (see above) **progress in the various areas of the FTA has been uneven**. By the fifth round of negotiations, most of the text on *government procurement* had been agreed in principle, with only a few elements remaining bracketed (domestic review provisions). Similarly, the parties came to an agreement in principle on the chapter on *small and medium-sized enterprises* (SMEs). Another area where significant progress was achieved was *anti-competitive conduct, merger control,* where the parties concluded their negotiations, and *subsidies*, where they continued their negotiations.

Another area where negotiations advanced is *customs and trade facilitation* (CTF), where, by the sixth round of negotiations, both sides had managed to agree fully on 13 of the 17 provisions and partially agree on another two. Similarly, the parties discussed 15 articles of the chapter on *digital trade,* have fully agreed on three articles and have achieved good progress on several other provisions. Both sides also agreed to the inclusion of an *anti-fraud clause* in the FTA. In addition, discussions in the first four rounds of negotiations allowed substantive progress to be made on several provisions of the chapter on *dispute settlement*.

With respect to *sanitary and phytosanitary measures* (SPS), there was progress, albeit slower. By the fifth round, four articles (objectives, scope, general provisions and certification) were agreed upon and progress was also made on articles relevant to audit and transparency. In the *trade in goods* chapter, discussions allowed the marking of a preliminary agreement in some parts of the text, although sensitive provisions remain. Similarly, in the four first rounds the parties discussed all provisions, and agreed on a number of them, on *good regulatory practices* (GRP). Nonetheless, important differences between the two sides persist, particularly with respect to the scope of the chapter, impact assessment and retrospective review.[12]

In *trade remedies,* the parties noted that they had made considerable progress on substance, although the proposed texts are not yet integrated. As far as *rules of origin* are concerned, the texts of Section A (origin requirements) and Section B (origin procedures) were discussed, and by the fourth round some progress was made in section A (general requirements). Also, during the second and third rounds of negotiation, the parties identified significant divergences between their respective positions on *trade and sustainable development*.

Similarly, while by the fourth round of negotiations some progress was achieved in relation to the provisions on standards, transparency, marking and labelling in the chapter on *technical barriers to trade* (TBT), differences in positions arose due to the substantial differences that exist between the EU and Indian systems, and therefore further talks were deemed necessary. Significant divergences also exist between the two sides in the chapter on *trade in services and investment*, where the parties confirmed that there are key divergences in terms of ambition, the structure of the chapter and scheduling approaches.

Lastly, negotiations on the chapter on *sustainable food systems* are moving more slowly, with Article 1 agreed during the fourth round and limited progress being made on a few other articles. Similarly, discussions in the first rounds allowed the parties to estimate the gap between their positions with regard to *state-owned enterprises* and the main differences that remain to be tackled in subsequent rounds. The parties also had comprehensive talks on the chapter on *energy and raw materials*, which allowed the Indian side to highlight certain challenges that the EU's proposal posed for them. In addition, the parties discussed all provisions of the chapter on *transparency* and made some (albeit limited) progress in agreeing parts of the text.

Regarding the **Investment Protection agreement**, five rounds of negotiations have been held, in June, October and December 2022, as well as March and June 2023. Discussions during the first round helped to identify areas of convergence and divergence, and touched upon the respective sensitivities. In the second round, discussions revolved around the EU's proposals on dispute settlement (Chapter 3 – proposal for an Investment Court System and other provisions), as well as the Indian textual proposal on investment protection. Discussions on dispute settlement continued in the third round. During the fourth round, the parties discussed the standards of protection, identifying elements for consolidation, and undertook a side-by-side comparison of their respective proposals on exceptions (Chapter 5) and definitions (Chapter 1). Lastly, in the fifth round, the EU and India continued discussions on standards of protection and undertook to consolidate the text in their proposals on definitions.

Finally, there were two rounds of negotiations in the context of the **Geographical Indications agreement** – one in October 2022 and one in December 2022. During those two rounds, the parties held in-depth and constructive discussions which led to finalising the first reading of the draft text of the bilateral agreement. Since then, however, there have been no further rounds.

The changes the agreement would bring

The June 2008 trade impact assessment found that the FTA is expected to yield positive (albeit low, due to currently low bilateral trade) real income effects for both the EU and India, both in the short and long run. In the short run, the real income gains in the EU would be expected to range between €3 billion and €4.4 billion (less than 0.1 % of GDP), but in the long run the effects would be smaller.

For the Indian economy, the short-term income effects in absolute terms would be similar to those in the EU, but due to differences in the size of the economies, the relative effect would be bigger (i.e. 0.1-0.3 % of GDP). In the long run, the effects on the Indian economy would be larger.

The impact assessment also found that potential negative repercussions of EU-Indian trade diversion would have no substantial effect on anyone except India's closest trading partners (Sri Lanka and other south-east Asia), implying a national income loss equivalent to 0.1 % of GDP in the short run. The output changes across sectors would generally be small for both economies, with the exception of the wearing apparel and leather sectors in India, which would be expected to increase by 15-30 %. The electronic equipment and metal sectors would also be expected to expand. For the EU, output in agricultural sectors would be expected to expand, while manufacturing sectors in general would contract somewhat, but these effects would be very limited and fall over time.

The FTA was not expected to have any substantial effects on European wages, while it would result in Indian wages for both skilled and unskilled workers increasing by 1-1.5 % in the short run, and a little more in the long run. In terms of environmental impacts, the relatively small impact on the EU, and India's relatively small share of global output and emissions, mean the impact on global CO_2 emissions is negligible. Changes in the utilisation of natural resources in fisheries, forestry and primary agriculture would also be quite small.

Another impact assessment was conducted by the consultancy ECORYS in 2009. Like the 2008 impact assessment, the study found that: (i) the economic impact for the EU would be equal to a bit less than 0.1 % of GDP, while India would receive additional growth of 1.6 % – similarly, average exports for the EU would increase by 0.39 % (business services, machinery and transport equipment), while for India it would increase by 10.3 % (wearing apparel, leather and automotive); (ii) the social impacts of the EU-India FTA would be low for the EU, but more positive for India (including poverty alleviation and increased standards of living); (iii) the environmental impacts for the EU would be almost non-existent, while for India the environmental impacts would increase due to the use of fertilisers and increased production.

The benefits the agreement could bring for the EU would be: consumer benefits (more varieties of consumer goods to choose from); labour benefits in certain expanding sectors; reduction of trade barriers and NTBs; and commercial presence in India for the services sectors. For India, the benefits would include: substantial economic growth added to the already high GDP growth of 8-10 % per annum; consumer benefits through higher purchasing power; labour benefits through better remuneration and more jobs; access to the European market; and technological spin-offs from services, trade and investment. Nonetheless, given the degree to which circumstances have changed in the 15 years since then, as well as the resumption of negotiations in 2021, the Commission is currently preparing a sustainability impact assessment that should be published soon.

According to the 2020 cost of non-Europe study mentioned above, the potential FTA is expected to increase trade between the EU-28 (the quantitative analysis for the study was carried out before the UK left the EU) and India: in the most relevant scenarios, exports from the EU-28 to India increase by about 52-56 %, while imports from India increase by between 33 % and 35 %. The model does not consider the possible changes in foreign direct investment (FDI) related to trade.[13] Two effects are measured both for welfare and trade volumes; under the most relevant scenarios, gains from increased trade for the EU are between €8 billion and €8.5 billion (a roughly 0.03 % increase with respect to the baseline). A similar increase in absolute terms is to be expected on the Indian side, which represents a greater share of the initial welfare (about 0.3 %). These scenarios assume a heterogeneous decrease in bilateral import tariffs (with tariffs in most sectors, but not all, decreasing by 90 %). In both scenarios, a homogeneous and symmetric reduction of non-tariff measures (NTMs) by 3 % for both goods and services is assumed.

Stakeholder views[14]

In a 2011 opinion on 'The role of civil society in the free trade agreement between the EU and India', the European Economic and Social Committee noted the significant potential of the FTA, but expressed its concerns over its uncertain social and environmental effects for the EU, especially in terms of Mode 4 (mobility of workers) and for the poorer segments of Indian society. It called on the Council, Parliament and Commission to ensure that the agreement includes an ambitious sustainable development chapter, as well as a social safeguards clause.

BusinessEurope, representing European national business federations, supported the 2021 resumption of negotiations on an EU-India FTA. Regarding the trade and investment protection agreements, BusinessEurope published priorities. These include the comprehensive elimination of tariffs and quotas on a reciprocal basis (with parallel exclusion of sensitive products) and the elimination of all export duties on raw materials (including minerals and metals). They also include the implementation of a comprehensive electronic, single-window certification process to facilitate customs and trade. Regarding technical barriers to trade, a priority for BusinessEurope is compliance with international standards and eliminating burdensome technical requirements. Lastly, they noted the importance of public procurement liberalisation at national, federal and local levels and of enforcing international standards on intellectual property rights. Regarding the Trade and Technology Council (TTC – see separate EPRS publication), BusinessEurope welcomed the fact that priorities have been identified, and the TTC's work will focus on key areas under three main working groups. Moreover, within working group 3 (Trade, Investment and Resilient Value Chains), it identified as priorities: regulatory convergence within industrial sectors; and cooperation on subsides through the promotion of improved transparency, better measurement, and enhanced regulation of subsidies and the reform of the WTO (including its dispute settlement mechanism). It also stressed the importance of cooperation on investment (especially green investment and FDI screening) and on economic security – including supply chain resilience.

The European Automobile Manufacturers' Association (ACEA) welcomed the relaunch of negotiations. In that context, it asked that the EU and India: (i) pursue zero-for-zero tariff dismantling for all automotive tariff lines without any distinction; (ii) put workable rules of origin in place; (iii) ensure that a comprehensive automotive annex is part of a final deal, with the aim of enhancing regulatory alignment and therefore preventing technical barriers to trade; (iv) address the complex tax landscape for automobiles in India and aim for a more streamlined approach; and (v) conclude negotiations for an investment protection agreement that ensures fair and equal treatment for established and new investments by EU automakers.

Médecins Sans Frontières (MSF) noted that, in the original version of the text, there were harmful IP provisions, including provisions on IP enforcement, as well as 'data exclusivity,' which would delay the registration of generic versions of medicines, even when there is no patent on that medicine. If accepted, those provisions could have a significant negative impact on people's access to medicines in low- and middle-income countries. While in the previous rounds (2007-2013) the EU had agreed to remove these provisions, it brought them back in the draft FTA text in July 2022. MSF therefore called on the EU to withdraw them.

Another interesting element is provided by the aforementioned Jacques Delors Institute/Observer Research Foundation study. According to the study, both Europe and India have much to lose if they do not agree the FTA, because they are dependent on trade and investment for their prosperity and economic development. The authors note that the EU's trade-to-GDP-ratio (or 'trade openness' ratio) in 2021 was 43 %, compared to 46 % for India. This means that they are both more trade-dependent than China (with a 39 % trade-to-GDP ratio that has been falling in recent years) and the United States (26 % trade-to-GDP ratio as an effect of successful disentangling from economic dependencies).

On 9 December 2022, the Forum for Trade Justice – a national network of more than 100 organisations representing farmers' groups, trade unions, patient groups, traders, women's rights organisations, academia and NGOs – expressed concerns that the FTA could have a number of repercussions for India's development and undermine livelihoods across multiple sectors. In the agriculture, dairy and fisheries sectors, they expressed concerns that the proposed reduction or elimination of import duties for relevant products could threaten millions of small-scale Indian producers. The Forum also noted that the EU's ambitious demands in the area of digital trade – including on removing tariffs on e-transmissions – would make India lose revenue it badly needs. On the parallel investment negotiations, they expressed the fear that the provisions of the agreement will facilitate the extraction of Indian raw materials by EU companies and limit the government's ability to develop the domestic energy sector.

Next steps

When the FTA negotiations were relaunched in June 2022, the parties stated that the talks would be fast-tracked, with the aim of concluding them by the end of 2023. However, with significant differences remaining and the first part of 2024 being an election period both in the EU and in India, it is very probable that they will continue well into 2024.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

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ENDNOTES

1 When looking at the figures, the main category is 'other manufactured goods' with 44.1 %. However, at face value this result can be distorting, as this category groups several others with small percentages.

2 As seen in the graph, the category 'other business services' encompasses research and development services, professional and management consulting services, as well as technical, trade-related and other business services. This last category in turn includes: architectural, engineering and other technical services; waste treatment and environmental remediation, agricultural and mining services; operating leasing services, trade-related services.

3 It must be noted here that this ranking is distorted by the presence of Mauritius, a tax haven where special-purpose entities and other conduits are used for tax optimisation and to hide the origin of capital.

4 The various negotiating hurdles included: (i) the desire of India for better market access for services suppliers through Mode 4 liberalisation over market access for goods in trade negotiations; (ii) India's wish for the EU to cut tariff and subsidy support to its agricultural products for fear of EU exports displacing Indian agricultural products; (iii) the reluctance of the Indian government to negotiate government procurement issues; (iv) the desire of India to achieve 'data-secure' status for the country, to allow the flow of sensitive data, such as information about patents, under data protection laws in the EU.

5 This argument has been brought up by EU business associations as an argument in other FTAs, e.g. with Mercosur.

6 In 2021, the country concluded a free trade agreement with Mauritius, and in 2022 one with the United Arab Emirates (UAE) and one with Australia.

7 India signed important International Labour Organization (ILO) conventions on child labour in 2017. In the aforementioned agreement with the UAE, the country has partially opened its public procurement markets.

[8] Ranja Sengupta notes in this context that small-scale farmers, including millions of women farmers, are likely to be outcompeted by the subsidised agricultural products from the EU.

[9] They point to the fact that the economic profitability framework promoted under the chapter rests on enterprise profitability, maximisation of taxes and minimisation of subsidies in the agriculture and food sectors. They note, however, that the majority of Indian farmers, mostly small and marginal, are neither profitable nor able to pay taxes and are heavily dependent on basic subsidies just to survive.

[10] These include the protection of the environment, human rights, labour rights and good governance.

[11] Council Decisions of 19 April 2007 on a negotiating mandate concerning trade and investment negotiations with India and of 14 July 2011 on a mandate concerning trade and investment negotiations with India: negotiating directives for trade and investment negotiations

[12] Particularly with respect to the scope of the chapter, where India would like to limit the GRPs to Acts of Indian Parliament, excluding from the scope regulatory measures issued by government ministries and departments.

[13] This estimation does not consider Brexit (which is likely to reduce the gains on the Indian side, while heterogeneously affecting the EU-27, with gains from the FTA that are expected to be bigger for some countries and smaller for others with respect to the pre-Brexit simulation). The UK accounted for 16 % of EU exports to India in 2019, 16.5 % of the value added of EU-28 exports and almost half of all pre-Brexit EU FDI stock in India.

[14] This section aims to provide a flavour of the debate and is not intended to give an exhaustive account of all different views on the agreement. Additional information can be found in related publications listed under 'European Parliament supporting analysis' and 'other sources'.

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