

The EU-India Free Trade Agreement

What
MEPs need
to know

Negotiations for a free trade agreement (FTA) between the EU and India began in 2007, with the intention of reaching a comprehensive deal to liberalise trade in goods, services, investment and government procurement, to enforce intellectual property protection, and to establish new rules in other trade-related areas.

- The FTA is intended to go much beyond what has been agreed in the World Trade Organisation – and would have far-reaching impacts upon industries, jobs and livelihoods, access to services, and the availability of affordable medicines and other technologies.
- After several rounds of negotiations, the two parties appear to be far from agreement – differing over what, how far and how fast to liberalise.
- The talks have been marked by a lack of transparency, with no negotiating positions or texts yet released by either party for public scrutiny.
- There is increasing opposition from Indian and European civil society to the continued pursuit of this FTA which, evidence suggests, would pose serious threats to India's development and to efforts to redress poverty and inequality.¹

The Global Europe strategy

The EU's decision to negotiate an FTA with India dovetailed with the launch in 2006 of its new trade strategy *Global Europe: Competing in the World*. The strategy is aimed at 'keep[ing] the EU at the forefront of international competitiveness' by accelerating the opening of large developing country markets towards European goods and investors – both through the multilateral route and, in parallel, through bilateral FTAs with select countries. In addition to liberalising goods trade by substantially reducing customs tariffs, the strategy seeks to minimise the regulation of European companies in host countries.

However, according to Nobel Prize winner and former World Bank chief economist Joseph Stiglitz, these bilateral FTAs 'often undermine multilateral trade and sustainable development efforts'.² This is a view shared by the United Nations Conference on Trade and Development, which has concluded that FTAs 'reduce or fully remove policy options and instruments available to a developing country to pursue its development objectives'.³

The European Parliament's role

The previous Parliament passed a resolution that, while offering overall support to the FTA, called for the parties:

- 'to address the potential disadvantages of the FTA and the ways in which human development and gender equality may be adversely affected by the rapid opening of markets.'⁴
- 'to recognise the right of governments to maintain necessary policy space and regulatory capacities to shape economic and social policies that serve their most vulnerable people.'⁴

The European Parliament has a responsibility to ensure that the European Commission does not conclude a trade deal that fails on either of the above counts. Such an outcome could drastically undermine India's achievement of the Millennium Development Goals.

Why the concern?

India's per capita income ranks it alongside Nicaragua, Angola and Vietnam. Its GDP is approximately 6% the size of the EU's. Based on Asian Development Bank figures from 2007, the Carnegie Foundation estimates that nearly three-quarters of India's population still live on less than a dollar a day (at PPP measure)⁵ – which is equivalent to the entire population of Africa, the Caribbean and Pacific countries combined. This is despite two decades of trade liberalisation. Yet, the proposed FTA would implement very fast and far-reaching liberalisation on a reciprocal basis, making no concessions to India's status as a much smaller economy with extreme poverty levels.

Threatening industries and jobs A number of studies have predicted that India could quickly face serious job losses as a result of elimination of tariffs on at least 90% of its trade, over a very short period of time, in sectors ranging from processed foods, paper products and plastics to machine tools and auto-parts, among others.⁶ In most cases those pushed out of employment are likely to lack the skills that would enable them to secure new jobs – and have no safety nets to help them to survive the transition.

Undermining access to technology, seeds and medicines

According to intellectual property rights (IPR) experts, the EU's proposals on IPR in the FTA negotiations would seriously undermine access to key technologies, tending to 'aggravate the exclusion of the poor from access to essential products, such as medicines and inputs for agricultural production,' and to 'limit rather than foster Indian industrial and technological development.' As India is the world's leading supplier of generic medicines to developing countries, such IPR rules would also severely affect poor people in other countries. Furthermore, it is predicted that millions of Indian people would be deprived of access to copyrighted work for education.⁷

Reduced credit for rural customers and small businesses

The EU seeks to further penetrate the banking sector in India, despite evidence that the increased presence of foreign banks has impacted negatively on credit provision for small businesses. Meanwhile, recent banking liberalisation has also hit the credit available for rural customers in India; now the EU's own *Sustainability Impact Assessment* predicts that the further liberalisation of banking is 'not going to help the rural sector [...] As a result of increased competition from foreign banks, domestic banks too would concentrate more on profitable segments of the urban and semi-urban markets.'⁸

Undermining benefits from foreign investment for domestic firms

The accelerated liberalisation of investment, proposed by the EU in the FTA, would remove tools that governments need to build up domestic firms, provide jobs and foster domestic value-addition. The Indian government drove the development of its auto-component sector by requiring multinational automobile companies to source from local firms. Investment provisions under the FTA would prohibit similar kinds of policies, such as obligations upon foreign investors to enter into joint ventures.

Limiting government support to domestic businesses and marginalised groups

The European Parliament has recognised that 'India is not willing to include public procurement in the FTA,'⁹ yet the EU is pressing hard for India to open up this market regardless – in order that European firms can access lucrative contracts. However, this would undermine the scope for the government to provide critical support for domestic firms, especially small and marginalised enterprises, during times of economic recession – just as European governments have been directing spending to support their own firms during difficult times.

Reducing budget for social spending The proposed FTA with the EU would place strain on the Indian government's already tight budget, because of a loss of trade taxes that would result from far-reaching tariff cuts. According to the OECD, India is reliant on income from trade taxes for 24.1% of total tax revenue¹⁰ – and another study estimates that the EU-India FTA would reduce the Indian government's tariff revenue by nearly one third.¹¹ This will reduce the financing available for social spending, including programmes aimed at achieving the Millennium Development Goals.

Increasing risk of financial crises The previous European Parliament warned that FTAs clauses committing parties to liberalise capital movements 'should be approached with extreme caution, given the importance of capital controls – especially for developing countries – in mitigating the impact of the financial crisis.'¹² Yet the EU's FTAs seek to liberalise capital markets, despite the fact that most economists, including those within the IMF, now advocate capital controls as a means of preventing financial crises.

© Traidcraft August 2009

This report was produced by Traidcraft on behalf of the following organisations:

For further information contact:
Sophie Powell, Traidcraft
Tel: 0207 400 4153
Email: sophiep@traidcraft.org



What are we calling for?

Given the extent of concerns about the content of the proposed trade deals as well as the un-transparent negotiation process, we are calling on the European Commission and European member state governments to:

- halt the negotiations until information is publicly available and a transparent, accountable and consultative negotiation process is adopted, as also requested in India by over 75 Indian trade unions, social movements and NGOs, in their statement of September 2008¹³
- adopt a fundamental change of approach to trade relations with India, which:
 - recognises the major economic disparity between the EU and India and the disproportionate need for India to retain scope to foster decent jobs, livelihoods and national development strategies that serve the most vulnerable of their people
 - desists from accelerating deregulation of the kind that would erode the scope for governments to intervene in markets for the public interest
 - prioritises human rights, gender justice, and environmentally, economically and socially sustainable development.

- 1 See *Immediately Halt EU-India FTA Negotiations: statement of concern from India*, Sept 2008; *Call of European civil society actors to immediately halt the ongoing FTA negotiations between India and the EU and India and EFTA*, April 2009 – both available on request.
- 2 *Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Financial and Monetary System*, chaired by Joseph Stiglitz, June 2009
- 3 UNCTAD, *Trade and Development Report 2007*
- 4 European Parliament INTA committee report on the EU-India FTA, A6-0131/2009, 26 March 2009
- 5 Calculations by Polaski S et al, *India's Trade Policy Choices*, Carnegie Endowment for International Peace, 2008 – based on Asian Development Bank 2007 Key Indicators.
- 6 Ecorys, CUTS International and Centad, *Global Analysis Report for the EU-India TSiA*, draft TRADE07/C1/C101, 2008; Centre for the Analysis of Regional Integration at University of Sussex (CARIS) and CUTS International, *Qualitative analysis of a potential Free Trade Agreement between the European Union and India*, 2006; Centad, *The EU-India FTA: critical considerations during a time of crisis*, 2009
- 7 Correa C, *Negotiation of an FTA EU-India: will India accept TRIPS plus protection?*, University of Buenos Aires, 2009; Centad op cit 2009; Oxfam, *Signing Away the Future*, 2006
- 8 Ecorys, CUTS International and Centad, *Global Analysis Report for the EU-India Trade Sustainability Impact Assessment, Phase 2 Report*, October 2008, p165
- 9 European Parliament, op cit, 26 March 2009, Article 31
- 10 Kowalski, *Impact of Changes in Tariffs on Developing Country Government Revenue*, OECD Trade Policy Working Group Paper No 18, 2005
- 11 Polaski S, Ganesh-Kumar A, McDonald S, Panda M, Robinson S, *India's Trade Policy Choices: Managing diverse challenges*, Carnegie Endowment for International Peace, Institute of Development Studies and Indira Gandhi Institute of Development Research, 2008
- 12 European Parliament, op cit, 26 March 2009, Article 29
- 13 See *Immediately Halt FTA Negotiations*, op cit, 2008.

