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Report

drawn up on behalf of the Committee on External Economic Relations

on the ~~Commercial~~ Cooperation Agreement between the European Economic
Community and the Republic of India

Rapporteur: Mr P. COUSTÉ

PE 35.959/fin.

By letter dated 21 January 1974 the President of the European Parliament authorised the Committee on External Economic Relations to draw up a report on the Commercial Cooperation Agreement concluded between the European Community and the Republic of India.

At its meeting of 5 February 1974 the Committee on External Economic Relations appointed Mr COUSTE rapporteur.

It discussed and adopted the draft report and the motion for a resolution at its meeting of 5 March 1974.

The following were present: Mr Boano, acting chairman; Mr Thomsen, vice-chairman; Mr Cousté, rapporteur; Sir Tufton Beamish; Mr Kaspereit; Mr de Koning; Mr Lange; Lord Lothian; Mr Muller; Sir John Peel; Mr Sandri; Mr Scholten.

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A

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with an explanatory statement:

MOTION FOR A RESOLUTION

on the Commercial Cooperation Agreement between the European Economic Community and the Republic of India

The European Parliament

- recalling its resolution of 1965¹ concerning commercial relations between EEC and India,
 - having regard to the report by the Committee on Development and Cooperation and the opinion of the Committee on External Economic Relations on the negotiations for the Agreement (Doc. 233/73),
 - having regard to the explanation given on 12 December 1973, at a joint meeting of the Committees on External Economic Relations and on Development and Cooperation, by the Chairman-in-Office of the Council of the European Communities, Mr Fitzgerald, on this subject,
 - having regard to the Commercial Cooperation Agreement between the EEC and the Republic of India signed on 17 December 1973,
 - aware of the importance of this agreement for the enlarged community and for international relations,
 - stressing India's political importance and its essential role in the third world,
 - stressing the significance of India's commitment to development through democratic institutions,
 - having regard to the report of the Committee on External Economic Relations (Doc. 402/73),
1. Welcomes the signing of the Commercial Cooperation Agreement between the EEC and the Republic of India;
 2. Approves the specific proposals for binding the tariff suspension already applied autonomously as set out in Annex II of the Agreement;
 3. Welcomes the tariff adjustments that are contemplated in Annex III and IV of the Agreement for products of interest to India through improvements in the Generalised Scheme of Preferences and total tariff suspensions;

¹ OJ No.209, 11.12.1965, p. 3120/65

4. Endorses the principles set out in the preamble and supports the declared objective of the Agreement, namely, the development of commercial exchanges between the parties on the basis of comparative advantage and mutual benefit so as to contribute to their economic and social progress and to the improvement of the balance of their mutual trade at a level as high as possible;
5. Welcomes, therefore, the setting up of a Joint Commission to devise practical and effective ways and means of achieving this objective;
6. Considers, however, that the Joint Commission will only succeed if it interprets its terms of reference with flexibility and boldness and accordingly invites the Joint Commission to seek ways of liberalising trade and progressively adapting trade patterns and marketing structures inter alia through technological, scientific, industrial and financial cooperation;
7. Expresses the hope that the work of the Joint Commission will contribute to a resolution of the energy problems;
8. Calls, therefore, upon the Member States of the EEC to give the Joint Commission the active support which it will undoubtedly need in all these matters;
9. Approves also the sectoral agreements on jute and coir products;
10. Urges that the current negotiations for an agreement on cotton textiles be concluded without delay;
11. Instructs its President to forward this resolution and the report of its Committee to the Council and Commission of the Communities.

EXPLANATORY STATEMENT

1. The Commercial Cooperation Agreement between the EEC and India was signed on 17 December 1973 after prolonged negotiations, the history of which has already been described in an earlier report by Mr RIVIEREZ on behalf of the Committee on Development and Cooperation¹ and an opinion by Mr COUSTE on behalf of the Committee on External Economic Relations². An exchange of views on the contents of the Agreement between these two committees and the Chairman-in-Office of the Council of Ministers, Mr FITZGERALD, took place in Strasbourg on 12 December.
2. The report and opinion already referred to also drew attention to the fact that trade between India and the EEC had been declining since 1966, and that although the adverse balance for India had decreased, this was the result of a substantial drop in imports rather than a rise in India exports. They pointed out that the various partial or sectoral agreements and the unilateral Community trade policy had not produced the desired results, and even the generalized preferences, introduced in 1971, of which India was one of the main beneficiaries, would not solve all of the problems. Moreover, from 1 January 1974, when the approximation of the United Kingdom customs tariff and the CCT was due to begin, Indian exports would face additional difficulties in that important market. New measures were clearly urgently needed.
3. More recent trade figures show some improvement between 1969 and 1972, but in the first three months of 1973 India was again in deficit. As expected, the decline in imports was not sustained because India was short of a number of essential goods³.
4. The present Agreement represents an attempt to reverse the decline in trade between the EEC and India and to correct India's growing trade deficit with the Community. It seeks to expand and diversify trade between the two partners by encouraging commercial cooperation between them.

¹Doc. 233/73.

²PE 34.905.

³ in mill. of US \$ Trade between the EEC and India

	I m p o r t s			E x p o r t s			t r a d e b a l a n c e	
	six	three	nine	six	three	nine	six	nine
1966	159	351	510	426	273	699	+ 267	+ 189
1969	196	272	468	277	155	432	+ 81	- 36
1971	206	282	488	317	316	633	+ 111	+ 145
1972	253	290	563	403	344	747	+ 150	+ 184
Jan.- March'73	79	86	165	88	75,5	163,5	+ 9	- 10,5

sources: ESCO-OECD.

5. The preamble refers to the friendly relations and traditional links between the parties, expresses their common will to meet each other's requirements to the full extent of their growing capacity to do so, establishes the principles that trade must achieve wider economic and social objectives, inaugurates a new phase of international economic cooperation and gives a new impetus to a mutual relationship founded on freedom, equality, justice and progress.

6. The agreement begins by affirming the determination of the two parties to develop their commercial exchanges so as to contribute to their economic and social progress and to the improvement of the balance of their mutual trade at as high a level as possible. They then agree to accord each other most favoured nation treatment in accordance with the provisions of the GATT. They further agree to grant each other the highest degree of liberalization which they generally apply to third countries and to this end, to provide maximum facilities for products of interest to either party compatible with their respective policies and obligations. The Agreement then provides in general terms for the encouragement of diversification of trade and for economic cooperation. Special emphasis is laid on taking particular measures relevant to the pattern and potential of their commercial exchanges and on support to institutions which aim at enhancing contacts and cooperation between their economic organizations. Provision is also made for cooperation between the two parties in the field of exports to, and the development of economic relations with, third countries, especially developing countries.

7. These provisions are followed by an 'evolutive clause' designed to expand the area of operation of the agreement consequent upon the enlargement of Community competence.

8. The heart of the Agreement lies in the setting up of a Joint Commission for commercial cooperation composed of representatives of the Community and of India. This Commission is given the task of ensuring the proper functioning of the Agreement, of devising practical measures to achieve its goals and of examining any difficulties likely to hinder the development of trade between the Community and India and recommending practical solutions. In particular it is required to concern itself with the development of economic and commercial cooperation, diversification of trade, overcoming of trade barriers (especially existing non-tariff and quasi-tariff barriers), recommending measures for the progressive adaptation of the trade pattern and marketing structures in accordance with the complementary possibilities and long term economic objectives of the parties, rectification of imbalances in trade, and exchange of information regarding, and the creation of favourable conditions for, cooperation in all spheres of economic activity.

9. In addition, the Joint Commission has the important task of ensuring the proper functioning of sectoral agreements. These agreements, which relate to particular products, are at present the principal method of giving concrete expression to the aims of the Agreement.

10. The conclusion of the Agreement coincided with the conclusion of two such sectoral agreements, on jute and coir products respectively. These agreements replace earlier agreements which expired at the end of 1972 and were continued on an ad hoc basis for 1973. The Community undertakes, within the framework of the system of generalized preferences, to apply the duties of the common external tariff reduced by 40% in 1974 and 60% in 1975 for most jute and coir products. Moreover, in Denmark, Ireland and the United Kingdom tariff adjustments resulting from the application of this tariff may be made gradually. They will apply a zero tariff for 1974. For her part, India undertakes to keep exports of these products intended for internal consumption within the Community within certain ceilings.

11. One more sectoral agreement, on cotton textiles, is still being negotiated. The new agreement, which will replace the present bilateral agreement on cotton textiles, will be negotiated when the multilateral multifibre agreement, concluded recently under the auspices of the GATT, is ratified. Certain other products, the most important being tea, which are not the subject of sectoral agreements, are dealt with in an exchange of letters annexed to the Agreement. This exchange has the effect of consolidating the tariff suspensions already applied autonomously in respect of these products.

12. These agreements are only a beginning, and it is to be hoped that the Joint Commission will be able to reach agreement on other measures to reduce tariff and non-tariff barriers. Liberalizing trade, however, will only go part of the way towards solving India's economic problems. In 1970-71 she had a balance of payments deficit of \$ US 1,256.9 million and prospects for improving this were not bright before the energy crisis¹. The recent sharp increase in the price of oil could prove disastrous for India. Oil is vital in every field of her economy - not only in transport, in her new industries and in the home, but perhaps most important of all in agriculture, where it provides the raw material for fertilizers and drives the motors for the tubewells on which irrigation depends. Although her imports of oil are marginal by European standards it is probable that they will, nevertheless, cost as much as three quarters of the hard currency which she will earn by exports in 1974-75. Thus an already chronic shortage of such currency will now become acute.

¹ see footnote overleaf

13. This crisis comes at a time when inflation is running at an annual rate of more than 20% and real per capita income has fallen to about £ 44 a year. Urgent action is needed to increase India's indigenous fuel production, to increase the productivity of her existing - often very sophisticated - industry, and to develop new industries, both in order to increase exports and to save imports. This will necessitate both capital investment on a large scale and the provision of technical assistance and 'know-how'. There is also a great need to develop the 'intermediate technology' which will harness India's vast labour force and, by providing work for the growing army of unemployed and underemployed, tackle India's social problems at the roots. India's Fifth Five-Year Plan, for the period 1974-1979, sets out in detail the magnitude of the task to be undertaken and the goals to be achieved. Cooperation between the Community and India within the framework of the development objectives which India has set for itself would not only contribute to the achievement of these objectives, but would also bring direct and immediate benefits to the Community.

14. The terms of reference of the Joint Commission have been drafted deliberately in very broad terms. It is clear that the future of cooperation between India and the EEC will depend on whether the Joint Commission interpret those terms of reference in such a way that they can seek and pursue every opportunity to develop trade and industry. It would be disastrous if they were to confine their discussions to the minutiae of the existing agreements. They will have to act with boldness and flexibility if India is to rise from the status of a developing country to that of the major trading partner she can and should become.

15. The commercial cooperation agreement constitutes a juridical instrument for cooperation between the Community and India. It is the first step in this direction - a step taken nearly nine years after the European Parliament urged the opening of negotiations. It is now essential that further progress must be rapid since the goals are well known and widely shared.

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	(in mill US\$)		
	1969/70	1970/71	April-Dec. 1971/72
Current account, net	- 436.7	- 631.7	- 604.4
Capital account	- 416.0	- 625.2	- 126.9
Deficit	- 852.7	- 1,256.9	- 731.3
which was financed by:			
External assistance (loans and grants)	1,043.8	1,038.1	800.3
Allocation of SDRs	126.0	100.5	-
Increase (+) or Decrease (-) in reserves	317.1	- 118.3	69.0