

INFORMATION

EXTERNAL RELATIONS

INDIA AND THE EUROPEAN COMMUNITY

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INTRODUCTION

The first formal link between the European Community and India was made in January 1962 when India accredited a diplomatic mission to the European Community. In subsequent years a number of arrangements were made to meet the problems of access for certain Indian exports to the Community market, at first on a product-by-product, later on a sectoral basis. These arrangements took the form of autonomous tariff suspensions (e.g. tea, tropical woods, certain spices, East India kips), zero-tariff quotas on handicrafts, handloom fabrics, partial tariff suspensions and the removal of quota restrictions on jute and coir products.

Since 1971, however, the EC's arrangements for trade liberalisation measures vis-à-vis India have fallen within the framework of two wider arrangements: the Long-Term Arrangement on International Trade in Cotton Textiles (LTA) concluded within the framework of GATT and replaced in 1974 by the Multi-fibre Arrangement (MFA); and the EC's autonomous Generalized Scheme of Preferences (GSP) introduced in 1971, a scheme which has been widened in scope at annual intervals to take into account the problems of countries such as India, which is now a leading beneficiary of the Scheme.

EC-India relations took a further step forward in December 1973 with the signature of a five-year Commercial Cooperation Agreement (CCA) between the Community and India. This agreement, the precursor of similar agreements with a small number of developing countries provides for wide-ranging cooperation between the two parties to promote the development and diversification of their mutual trade.

This note sets out to summarise EC-Indian trade trends (including the special problem of textiles), current GSP and other arrangements for specific products, the main provisions of and progress made under the C.C.A., and EC food and other aid programmes to India.

TRADE

Three years of serious deficits in world trade have been followed in 1976/77 by a greatly reduced one. Imports during the first ten months were Rs 40,398 mn (US \$ 4,752 mn) and exports Rs 39,794 mn (\$ 4,681 mn) giving a deficit of a mere Rs 604 mn (\$ 71 mn). The European Community is India's leading export market, taking 21% of her exports in 1975/76 compared with 13% to the USA, 11% to Japan, 10% to the USSR and 8% to Iran. As a source of imports, however, the EC with 20% takes only second place, behind the 24% share of the USA; Iran, Japan and the USSR follow.

Indian Trade with the EC Nine
(£ million)

	1970	1973	1974	1975	1976 (provisional)
EC Imports from India	460	815	1054	1125	1589
EC Exports to India	461	846	1009	1349	1275
EC Surplus/Deficit	+ 1	+ 31	- 45	+214	-314

Source: European Community Statistical Office (ECSO).

While in most recent years India has run a trade deficit with the Community, the balance turned to a substantial surplus over £ 300 mn. This surplus was due in particular to a marked rise in India's exports of manufactured goods, reflecting efficient use of the Community GSP, of which India is the third largest beneficiary.

The rise was particularly striking for textile products, notably clothing (see next section).

The slight decline in EC exports to India in 1976 was caused mainly by the fall in Indian imports of cereals and fertilizers offset a modest increase in imports of machinery, transport equipment and chemical products.

Nearly 48% of Indian exports to the EC in 1975/76 went to the U.K. and 14% to the Federal Republic of Germany, with France, increasing its imports from India by 120% over the previous year, taking third place. As to Indian imports from the EC, Germany took the lead with 34%, the UK following with 26%.

In marked contrast with other developing countries, around 60% of India's exports to the Community were of manufactured or semi-manufactured products (leather, textiles, gems and jewellery). The main primary products exported are tea, feedstuffs and tobacco. EC exports to India consist almost entirely of manufactured products: machinery, iron and steel products, transport equipment, electrical machinery, fertilizers and chemicals.

RAPID RISE IN TEXTILE EXPORTS TO EC

The rise in exports to the Community of certain textile products was perhaps the outstanding feature of India-EC trade in 1976. It has given rise to major problems for the Community's textile industry, leading to temporary safeguards actions in certain cases. The first table sets out EC imports of certain products "under restraint" under the terms of the EC-India textiles agreement concluded within the framework of the Multifibre Agreement. The second covers exports not subject to such restraint. In each case the figures include handloom and machine made products.

TABLE I

EC Imports	Cotton Cloth (tons)	Household Linen (tons)	Women's Shirts and Cotton Blouses (1000 pieces)	Men's Cotton Shirts (1000 pieces)
1975	16,227	4,404	10,093	6,917
1976 (Jan-Sept)	29,730	9,269	23,232	18,797 (21,596 in full year)

TABLE II

	<u>Dresses</u> (1000 pieces)	<u>Shirts</u> (1000 pieces)
1975	1,084	828
1976 (Jan-Sept)	6,685	3,061

The tables above show that for all the products concerned, whether "under restraint" or not, the rise in imports in 1976 has been dramatic: EC imports from India of men's cotton shirts tripled in 1976, while during the first nine months they rose by a factor of six for women's dresses and more than tripled for shirts. For the other items (cotton cloth, household linen and blouses) imports rose during the first nine months of 1976 by 83%, 110% and 130% respectively over the levels for the entire year of 1975.

GENERALIZED SCHEME OF PREFERENCES (GSP)

Since 1971 India has been a major beneficiary of the Community's GSP. Under it, zero tariffs apply to all industrial products, including textiles imported into the Community from India and other developing countries, though subject to quantitative ceilings for a limited number of sensitive products. In addition tariff reductions are given on an increasingly wide range of processed agricultural products. The GSP system has been improved every year since its introduction and the Community has agreed to continue it beyond the originally envisaged 10-year duration.

The GSP has been a major instrument employed by the Community to solve problems arising from India's loss of privileged access to the British market under the Commonwealth Preference System and the alignment of the British tariff on the EC Common Customs Tariff, to be completed on 1 July 1977. In order to meet India's specific problems a wide range of additional concessions have been built into successive GSP offers on such products as footwear, sports goods, prawns and shrimps, packaged tea, castor oil and cashew nuts.

The most important innovation for India however has been the inclusion of Virginia flue-cured tobacco, the first unprocessed agricultural item brought into the Scheme. The concession took the form of a 50% reduction of the duty on tobacco imported from developing non-associated countries. As the concession was primarily intended to preserve India's share of the UK market, it was decided to allocate 80% of the quota to the UK. The favourable effects to India of this concession are evident. From a pre-1974 annual level of exports to the UK of between 16,000 and 20,000 tons of Virginia flue-cured tobacco, India's 1974 exports reached a figure of 29,000 tons. Additionally the tobacco manufacturers in the other Member States were, through the inclusion of this type of tobacco in the GSP, made aware of its availability from India. In consequence, exports to the rest of the Community rose from a negligible earlier level to about 8,000 tons in 1974. To prevent erosion of the quota as a result of rising prices, and partly to satisfy increased demand for Indian tobacco, the quota for 1975 was fixed at 30,000 tons, and increased in 1976 to 38,000 tons.

The Community's Tropical Products offer in the GATT Multilateral Trade Negotiations, which took effect on 1 January 1977, further broadens the scope of GSP concessions. India is a major beneficiary of the offer. The GSP quota on Virginia flue-cured tobacco, of which India is by far the biggest supplier, has been further substantially increased to 60,000 tons. It binds the existing tariff suspension on tea and, including other agricultural items, it is estimated that India will benefit from concessions on £ 230 mn worth of agricultural exports to the EC.

THE COMMERCIAL COOPERATION AGREEMENT (CCA)

The five-year CCA between the EC and India was signed on 17 December 1973 and came into force on 1 April 1974. It is the first of its type and is regarded by the Community as a model for future relations with LDC's with which the EC has no special links. The Joint Commission is regarded as the cornerstone of the Agreement with India. It has so far held four sessions, the most recent in October 1974, while two subcommissions meet between the sessions. The Joint Commission has wide terms of reference: it supervises the development of reciprocal trade, it studies and prepares actions to overcome barriers to trade, both tariff and non-tariff, and it devises measures to promote economic cooperation linked with trade.

The main activities of the Joint Commission have been in the following areas: cattle feed (the organisation of a steady flow of oilcakes of satisfactory quality from India to the EC) tobacco cultivation (an EC survey into cultivation, curing and marketing practices in India); joint product planning (development of reciprocal trade); engineering goods (examination of the possibilities for sub-contracting and component-supply contracts with European manufacturers); leather (examination of possibilities of improving Indian production facilities).

COOPERATION IN SCIENCE AND TECHNOLOGY

On the suggestion of the Indian authorities an "Action Defining Committee" was established in February 1977 to examine the possibilities for closer scientific and technological collaboration between the EC and India. Initially the main emphasis is on exchanges of information on research on the environment, remote sensing of resources, solar and geothermal energy and the management of scientific data. In addition, a joint research project on coal gasification is to be undertaken.

AID

During recent years the Community has become increasingly concerned with aid programmes to developing countries in Asia and India has been the main beneficiary. Initially the aid took the form of food aid under the EC Food Aid Programme. In 1975, taking special account of India's difficult economic situation, the Commission allocated about 40% of its direct aid under the "Cheysson Fund" (Emergency Aid) to India (about £ 75 mn out of the total of £ 187 mn). In addition India received a substantial allocation from the U.N. Emergency Fund, to which the Community contributed £ 63 mn.

Food Aid

India has long figured prominently in the Community's Food Aid Programme; indeed, India is the leading beneficiary of the programme, having received direct food allocations worth about \$ 40 mn over the last two years. In 1975 the food aid allocation for India was 163,000 tons of cereals and 5,000 tons of milk powder; in 1976 175,000 tons of cereals and 7,500 tons of milk powder. In view of the improved supply situation, however, India has not sought an allocation under the 1977 programme for these products. The EC Council has agreed that 3,000 tons of butteroil should be delivered direct while a decision is pending on a further substantial quantity to be delivered through the World Food Programme.

Development Aid

In 1976 the Community's Development Aid programme was for the first time extended to countries other than those linked to the EC under the Lomé Convention. Of the \$ 25 mn available under the 1976 budget India is receiving \$ 7.5 mn for three drought-prone areas in Uttar Pradesh. The Community is also contributing \$ 2.5 mn to the Indian Crop Research Institute for the Semi-Arid Tropics Research Institute (ICRISAT) in Hyderabad.