GTRI Report

22-02--2024

India-UK FTA:

Focus, hurdles and possible outcomes in major negotiating tracks

India and UK trade teams are doing back to back negotiations to resolve final few issues from the 26 negotiating subjects.

1-The FTA with the UK will mark two significant changes in India's FTA journey. Firstly, it shifts India's focus from east to west in terms of preferential trade partnerships. Secondly, India negotiates many new non-trade areas such as environment, labor, gender, digital trade, data governance, etc under the FTA, reluctantly changing its earlier approach to focus only on traditional market access subjects like merchandise and services trade.

2-Focus, hurdles and possible outcomes in major negotiating tracks

India-UK FTA covers 26 subjects. The key subjects are: Goods, Services, Intellectual Property, Government Procurement, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Competition, Rules of Origin, Trade Facilitation, Customs Cooperation, Small and Medium-Sized Enterprises, Trade and Sustainable Development, Labour, Gender, Digital Trade, Dispute Settlement, General Provisions and Transparency.

This report discusses possible focus, hurdles and possible outcomes in major negotiating tracks.

3-Merchandise Trade

While the export of labour-intensive products will benefit from improved quality, the overall trade gains will be limited because most of India's exports to the UK already face low or zero tariffs.

I-Merchandise Trade-Gains to India

In FY2023, India's merchandise exports to the UK were valued at $11.41 billion. The FTA is expected to have a limited impact on increasing these exports because over half of Indian products already enter the UK with low or no tariffs. The average tariff on goods imported from India into the UK is 4.2%.

There won't be any benefit from reducing duties for Indian products worth $6 billion, as they already face no tariffs in the UK, even without the FTA. These products include items like petroleum products, medicines, diamonds, machine parts, airplanes, and wooden furniture.

However, there will be gains from reducing duties for Indian exports valued at $5 billion, such as textiles, apparel (shirts, trousers, women's dresses, bed linen), footwear, carpets, cars, marine products, grapes, and mangoes. These products face relatively low to moderate tariffs in the UK. For example, tariffs on yarn and fabric are 4%, while tariffs on shirts, trousers, women's dresses, and bed linen range from 10% to 12%. Handbags and trunk cases face 8% tariffs, and footwear tariffs vary from 4% to 16%. These products will benefit from the FTA's tariff reductions by the UK.

While the duty elimination in the UK can help Indian exports, significant growth requires improvements in product quality. Signing an FTA alone may not lead to a substantial increase in India's labor-intensive goods exports. For instance, India's textiles and apparel exports to Japan did not see significant gains from the FTA. From 2007-09 to 2019-21, India's exports to Japan grew from $257.7 million to $368.6 million, a cumulative growth of 43.1%, while India's global exports grew by approximately 67.9% during the same period. Therefore, the modest increase in exports to Japan may be attributed to natural growth factors rather than the FTA

II-Merchandise Trade-Gains to UK

India’s merchandise imports from UK were US$8.96 billion in FY2023. UK exports of value US$8.2 billion covering 91% value of total merchandise imports from UK enter India on payment of average to high tariffs duties. For example tariff on cars is 100% and on Scotch whisky and wines are 150%. The simple average tariff in India on goods imported from UK is 14.6%.

The following UK products will gain from FTA led tariff reductions. Figures in bracket show UKs exports to India for FY2023:

- Precious Metals-Silver (US$2.7 billion), Unwrought Platinum (US$ 206.13 million), Unwrought Gold (US$ 94.6 million), Diamonds-(US$26.2 million)
- Metal Scrap-Aluminium scrap (US$ 364.4 million), Ferrous waste and scrap (US$742 million), Copper waste and scrap (US$167.2 million), Paper waste and scrap (US$ 244.2 million)
- Petroleum products-Petroleum coke(US$105 million), Petroleum oil(US$66.1 million),
- Scotch and other alcohol-(US$373.7 million)
- Machinery-Turbojet (US$226.4 million), Taps, Valves (US$143.2 million)

- Medicine-(US$50.4 million),
- Make Up items(US$131.3 million)

III-Possible Tariff cuts by India on products of UK interests.

A-Automobiles. India may reduce, but not eliminate, tariffs on automobiles and Scotch whiskey from the UK. For luxury cars like those from JLR, Bentley, Rolls-Royce, and Aston Martin, the UK might want zero tariffs, but India could reduce them from 100% to 50%. India might also consider allowing a few thousand units at a 25% tariff.

B-Scotch whiskeys. India could reduce tariffs from 150% to 50% over a few years, similar to what it did for Australian wines.

These sectors in India have had high tariff protection, even more than agricultural products. Significant tariff cuts, especially for wines, will help the Indian market grow.

C-Dairy products. In the case of dairy products, India has been hesitant to reduce tariffs in FTAs due to opposition from dairy cooperatives and concerns about farmer welfare, making it a politically sensitive issue. GTRI recommends that India selectively open the sector to imports by allowing tariff reductions on predetermined quantities. Some of India's milk and dairy products may come from cattle suffering from Foot and Mouth Disease (FMD). Selective imports will encourage Indian firms to improve their systems and offer healthier choices to consumers, without negatively impacting farmers. Import opening aims to enhance domestic quality rather than primarily benefiting the partner country.

Foot and Mouth Disease (FMD) is a contagious viral disease affecting cattle, buffaloes, sheep, goats, and pigs. It causes significant losses in India, estimated at around ₹20,000 crore (US$2.6 billion) annually, with 80% of this loss attributed to decreased milk production. This suggests that a considerable portion of India's milk and dairy products may come from cattle suffering from FMD. The main goal of import opening is to improve the quality of dairy products within India.

4-Services-As India exports IT and business services to UK, an area of immediate advantage is UK issuing priority visa to Indian professionals that travel to UK to perform short term assignments. In all FTA negotiations, this has been the key request of India. Most countries take the stand that Visa is larger political issue linked to immigration not to FTA negotiations. In UK too, India may face challenges in obtaining large number of shortduration business visas for its professionals, as the UK erroneously associates it with immigration, a sensitive issue since Brexit.

UK firms may like to operate in expanding Indian telecommunications, legal and financial services like banking and insurance sectors. The UK may push for Indian commitments on these sectors.

While tariff cuts ensure immediate cost advantage to export products, no such advantage accrue to services exporters as the negotiators mostly focus on ensuring stability of existing investment rules. They negotiate binding commitments at existing autonomous levels.

5-Rules of origin. Rules of origin ensure that products from third countries do not receive FTA benefits until they undergo significant transformation in the exporting country. For example, an orange grown in USA can not be exported from UK to India, but juice extracted from same organge in UK can be, if rules of origin so permit. India prefers more conservative rules of origin compared to most developed countries, leading to extended consultations and negotiations. India may consider being more flexible in its Rules of Origin framework, especially as Indian firms in sectors like chemicals, electronics, and synthetic textiles are increasingly using imported inputs.

6-Government Procurement. Government Procurement is one of the limited policy tools still available to the government to incentivise domestic producers. India should not agree to stop preferential treatment to domestic suppliers in government procurement chapter. Allowing the UK producers to sell to India's Government Procurement sector would bring them at par with Indian firms. On the other hand, Indian firms face a very competitive and restricted Government Procure market in UK with little business prospects. India needs be conservative and careful.

7-Labour standards, Gender, Environment, Digital trade, IPRs. These subjects have been included in the FTA on the UKs request. India must make domestic rules/standards before tanking commitments under the FTAs.

India should not agree to free **cross-border data flows**. Ownership of national data is crucial for developing public services. India should never agree to binding commitments as it will lock in the future. Much the same way, the Information Technology Agreement (ITA) 1 agreement locked us out of electronic hardware manufacturing.

Negotiating **labour standards** could be tricky. Sample a provision from the United States-Mexico-Canada Agreement (USMCA). An auto component fitted in the car exported from Mexico to the US must be made by Mexican workers earning at least $16 per hour in wages. This is a problem as the typical wage for such workers in Mexico is $8 per hour. Most Mexican exports to the US will disqualify. Demanding labour standards might mean a ban on labour-intensive exports. India should be careful.

India should not agree to reiterate the ILO conventions agreed. Commitments at ILO are the best endeavour, but reiterating those under an FTA becomes binding and actionable. This logic applies to **environment, sustainability** and other chapters also.

Refrain from **reiterating the commitments taken at COPs**. If done so, for example, India may be prohibited from making more power from coal, even if needed on an emergency basis.

Inclusivity, Gender: A text about the participation of women and MSMEs may be a disguise for obtaining concessions in government procurement or services. Read between the lines.

India must Avoid taking onerous obligations on non-trade Issues

8-Investments. India terminated its bilateral investment treaties (BITs) with 77 countries, including the UK, starting 2017. Indian finance ministry is now negotiating a new bilateral investment treaty with the UK separately from the FTA. BITs help promote and protect investments in each other's countries. One key difference in these negotiations is the mechanism for settling disputes. India wants foreign firms to exhaust local judicial remedies before resorting to international arbitration, but its partners resist due to the lengthy nature of Indian judicial proceedings.

9-Ensure that the FTA text does not empower the UK to ban Indian products on grounds of promoting sustainability.

The report, "UK India FTA: UKs strategic approach" published by the Department of International Trade, UK, mentions the following text on garments.

"In India, the garment industry is one of the main drivers of water stress and water pollution – producing much higher rates than the Minimal National Standard. The chemicals used in textile manufacturing can contaminate water sources In India, the estimated GVA increases in the textiles and apparel sector (by 1.4 to 3.6%) are likely to increase water pollution, all other things remaining equal".

"The possible impact on carbon leakage is more uncertain, but estimates suggest that some risks exist in textiles and apparel. Increased market access could facilitate higher levels of trade in sectors where climate mitigation policies differ between the UK and India. These effects will depend heavily upon how the UK and India's environmental policies develop over the coming decades, as well as external factors such as technological change".

Text in sustainability chapter may provide legal justifications to UK for imposing non-tariff barriers on imports to promote sustainability. If this happens, the market access that India might expect under the FTA could get undermined. India must negotiate these issues carefully.

10-India must factor the possible introduction of Carbon Border Adjustment Mechanism (CBAM) by UK. The UK Government has launched a consultation on a carbon border adjustment mechanism. It intends to introduce emissions reporting in 2025 and a phased implementation of the CBAM in 2026. Once CBAM is launched, the UK products will continue to enter India at zero duties but Indian products may pay 20-35% tariff equivalent as CBAM charges. A suitable text may be inserted in the FTA chapters dealing with this possibility.

The brief is prepared by Ajay Srivastava

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GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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Feedback

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