CLEPA
European Association of Automotive Suppliers

POSITION PAPER

Free Trade Agreement EU-India

For a comprehensive trade agreement and reciprocal market access

Contents

Executive summary

India represents a significant market opportunity for the automotive supply industry, but high tariffs and regulatory divergence/uncertainty currently limit the ability to strengthen EU-India trade in automotive components. CLEPA therefore supports the efforts of the European Commission to negotiate a comprehensive free trade agreement (FTA) with India. Such an agreement should restore the level playing field and agree reciprocal liberalisation of tariff lines, based on modern rules of origin and appropriate facilitative customs procedures.

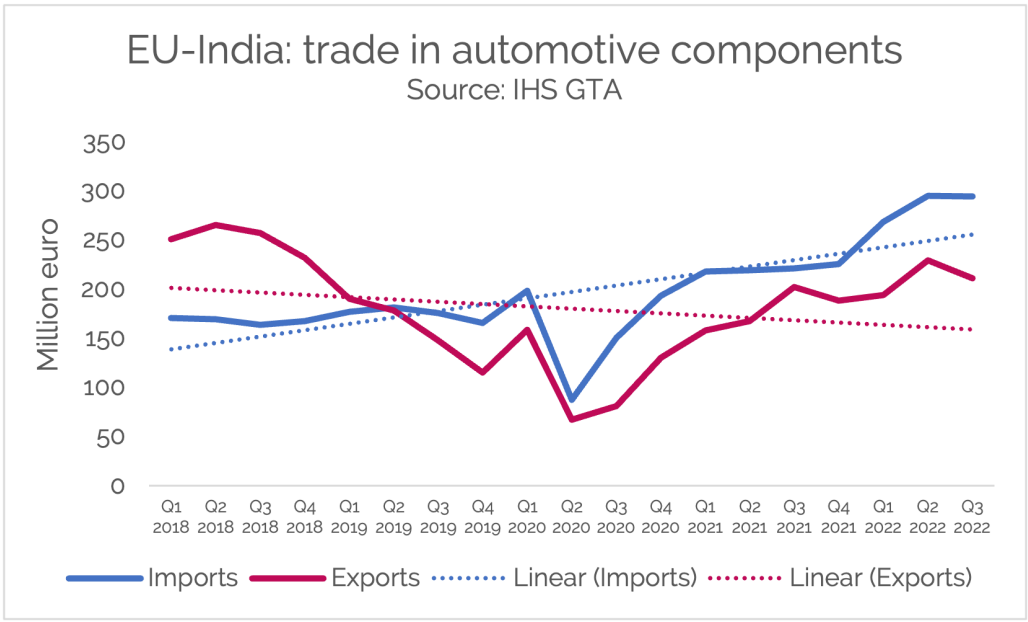
An automotive annex would be the best way to ensure closer regulatory cooperation and alignment of Indian standards with international standards. The automotive annex should include a commitment for India to become a Contracting Party to the UN 1958 agreement. Negotiations over a free trade agreement should seek to terminate non-tariff barriers, e.g. those related to safety glass, wheel rims and navigation linked to automotive services. The EU could leverage the momentum of FTA negotiations to work on a raw material partnership that could, for instance, help diversify the sourcing of magnesium, where the EU currently depends on Chinese production for 90% of its supply. Lastly, it is key that policymakers take note of the many automotive relevant Harmonised System (HS) Codes outside of the automotive chapter 8708.

Current trade relationship

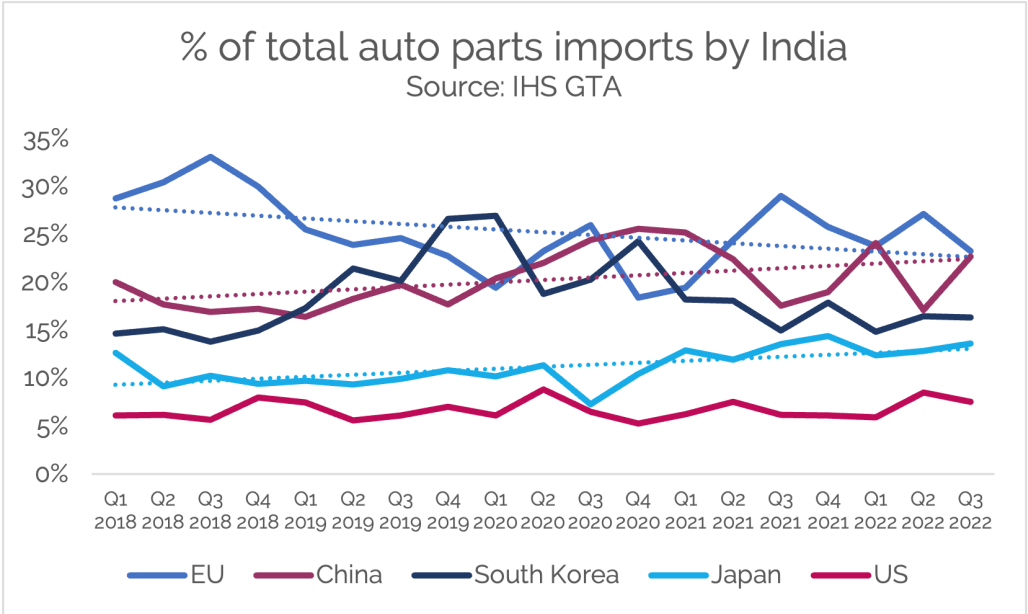
EU average tariffs on the import of automotive parts are at 4%[1], while average tariffs for automotive parts on Indian side are around 15%[2]. Furthermore, India benefits from significant tariff free access to the European market for automotive components falling outside of chapter 8708 under the EU's Generalised Scheme of Preferences (GSP).

EU-based automotive suppliers export annually around €700 million in components and import around €900 million from India. Since 2019, the EU's export surplus has transformed into a trade deficit.

1—https://taxation-customs.ec.europa.eu/customs-4/calculation-customs-duties/customs-tariff/eu-customs-tariff-taric_en
2—http://tariffdata.wto.org/TariffList.aspx



On average, the EU is responsible for around 26% of all the components imported by India. Since 2018, the EU's market share has however been under pressure, while China and Japan have gradually won ground. The European automotive sector in India is currently at a disadvantage compared to its competitors from ASEAN countries due to tariffs on imported components from the European Union. With the existing FTA between India and ASEAN, where Japanese and Korean manufacturers have a strong base, some components can be exported "duty-free" into India. Tariff liberalisation between the EU and India could therefore help strengthen the EU's position on the Indian market compared to competing trade blocks.



Market access and trade liberalisation

CLEPA supports an ambitious trade agreement that achieves a full and mutual liberalisation of all relevant automotive tariff lines (see Appendix). To allow adjustments of sectors a gradual liberalisation of up to seven years could be considered for a distinct group of tariff lines. India offers a significant opportunity as an export market and investment destination for the EU automotive supply industry. At the same time, the Indian automotive supply industry has become increasingly competitive and presents a serious challenge on the EU market, in particular, in the segment of highly commoditized components. It is therefore crucial that the liberalisation of tariff lines takes place on the basis of reciprocity.

Rules of origin

The Free Trade Agreement between India and the EU would benefit from modern rules of origin, allowing preferential treatment on the condition of a value added OR change of subheading rule. The value added rule should allow for 50% non-originating content.

Automotive suppliers support full bilateral cumulation. Full cumulation should be a critical element of origin calculations and would allow for a more accurate assessment of the real value created within the trade agreement zone. Full cumulation provisions are already provided for in trade agreements like EU-Japan and EU-Canada. Given the absence of mutual FTA partner countries, diagonal cumulation is currently less relevant.

The EU-India FTA should build on the precedents set by the EU-UK Trade and Cooperation Agreement (TCA) and the reformed rules of origin in the Pan-Euro-Mediterranean (PEM) convention, and allow average costs for the preference calculation. Fluctuation of raw material prices or forex movement cause a significant additional administrative burden. Being able to average material price calculations over an extended period (minimum 1 year) will give significantly more certainty when declaring the origin of a good and reduce the administrative burden of the origin calculation process.

Raw materials

The EU should foster close cooperation with India with regards to a select group of raw materials, such as copper, manganese and potentially lithium. India could play a role helping diversify supply of magnesium, where China is currently responsible for around 90% of the EU's supply.

Customs

Automotive suppliers fear that it will in practice be difficult for India to guarantee mutual recognition of Authorised Economic Operator (AEO) schemes. CLEPA would support India applying the Registered Exporter System (REX) system for the certification of origin of goods based on the principle of self-certification.

Regulatory cooperation and automotive annex

CLEPA is a strong supporter of the UNECE process, as the main focus for international harmonisation of technical regulations (and of ISO for international standards). CLEPA supports the abolition of all non-tariff barriers and welcomes the active, focused and political support of the European Commission to promote a strong, worldwide system of harmonised regulations, building upon the efficacy and functionality of the existing Global Technical Regulation (GTR) process under the United Nations (UN) 1998 Agreement, of which India is a Contracting Party since 2006. The EU and India should agree on an ambitious automotive annex, including the commitment for India to become a Contracting Party to the UN 1958 Agreement and to apply all the UN Regulations, annexed to the 1958 Agreement which the EU is applying, or at least it should recognise and accept the EU and UNECE approvals and markings for EU automotive goods, thereby accepting the corresponding UN and European Commission's type-approved products, without any additional requirements (e.g. further testing, marking or administrative procedures).

Technical barriers to trade

India has over the years imposed different non-tariff barriers to trade on top of the significant tariffs that protect the Indian market. The negotiation of a free trade agreement should be used to address NTB's. In particular:

⇒ **Additional licencing requirements for safety glass**:

- The Commission should seek to convince India that the Bureau of Indian Standards may adopt either virtual auditing or accept the quality management certificate from the suppliers, or conduct physical audits by commissioning a third party in the foreign country.
- Exemption to be provided for spare parts for CBU vehicles (completely built up cars) exempted by S.O. 3190(E) and end-of-production models.

⇒ **Additional licencing requirements for wheel rims**:

- Exemption for wheel rims imported/manufactured as spare parts for servicing vehicles exempted by S.O. 3227 and S.O. 4493(E).
- Exemption to wheel rims fitted on CBU vehicles imported under GSR 870 of Sep. 13, 2018, issued by Ministry of Road Transport & Highways.
- Exemption to the spare parts of CBUs and end-of-production models.

⇒ **National Geospatial Policy and Geospatial Guidelines**:

- Current regulations prevent any non-Indian company to collect, process or store high definition maps and services for automotive users. In addition, it also restricts non-Indian companies from using certain significant data collection and verification methodologies (terrestrial mobile mapping such or LIDAR) for standard definition data.
- CLEPA supports the abrogation of India's inward oriented policies that restrain non-domestics players in navigation related automotive services. It welcomes contributions by both EU and India in exchange of knowledge and technology to promote growth and innovation.

Tariff lines

Full reciprocal liberalisation should be targeted for all lines within the following categories:

HS Codes (4 digit level)	Description
8708	Parts and accessories of the motor vehicles of headings 8701 to 8705
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70 % or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations; waste oils
4009-4013, 4016	Tubes, pipes and hoses, of vulcanised rubber other than hard rubber, with or without their fittings (for example, joints, elbows, flanges)
5902, 5906	Impregnated, coated, covered or laminated textile fabrics
6813	Friction material and articles thereof (for example, sheets, rolls, strips, segments, discs, washers, pads), not mounted, for brakes, for clutches or the like, with a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textile or other materials
7005, 7009	Glass and glass ware
7315, 7318, 7320, 7326	Articles of iron or steel
7419	Copper and articles thereof (other)
7616	Aluminium and articles thereof (other)
8301, 8302	Miscellaneous articles of base metals (locks, mountings and fittings)
8409, 8411, 8412, 8413, 8414, 8415, 8421, 8425, 8448, 8481, 8482, 8483, 8484	Machinery and mechanical appliances and parts thereof
8501, 8503, 8504, 8507, 8511, 8512, 8513, 8517, 8519, 8526, 8527, 8528, 8529, 8532, 8533, 8536, 8537, 8539, 8542, 8543, 8544, 8545, 8547	Electrical machinery and equipment and parts thereof
850760, 850750, 850780, 850790	Electric accumulators, including separators therefor, whether or not rectangular
8706	Chassis fitted with engines
8707	Bodies (including cabs)
8714	Parts and accessories of motorcycles, bicycles, carriages for disabled persons
9025, 9026, 9029, 9030, 9031, 9032	Measuring and controlling instruments
9104	Instrument panel clocks and clocks of a similar type of vehicle

Context of Free Trade Agreements

CLEPA's support for completing a Free Trade Agreement between the EU and India logically follows from the advantages that globally connected supply chains provide for consumers, businesses, job creation, and prosperity. FTAs provide businesses with the means to diversify and reduce undesirable singular dependencies on a small set of countries.

CLEPA is concerned by the lack of progress in the ratification of the FTAs negotiated over the last years. We call upon the European Parliament, the EU Council and European Commission to ensure the FTAs with Mercosur, Mexico, Chile and New Zealand will be ratified as soon as possible.

CLEPA also supports the current negotiation of a Free Trade Agreement with Indonesia and Australia. Whereas Australia may not be the biggest market for automotive components, it will play a crucial role as a supplier of raw materials (e.g., nickel, cobalt, manganese, vanadium, zinc, copper, rare earths).

Indonesia has a more significant automotive market and an FTA could address the competitive disadvantage of European suppliers on this important emerging market. The market share of European suppliers has fallen from 6% to 3% since the entry into force of Indonesia's FTA's with Japan, Thailand and China (ASEAN). Nevertheless, Indonesia's integration in Asian supply chains will make it a less likely candidate for significant European export growth. The EU should therefore prioritise the conclusion of a partnership agreement on raw materials. Indonesia's significant nickel reserves would be critical to ensure sufficient supply to produce batteries to support the sector's ambitions regarding electrification. Working together with Indonesia to lower the environmental footprint of nickel mining in the country should be a further key priority to ensure a sustainable battery supply chain and compliance with the highest ESG standards.

CLEPA sees no reason in ongoing negotiations to deviate from the rules of origin and tariff lines, as proposed in the position paper for the EU-India FTA. Mutual recognition of AEO schemes should be evaluated on a case-by-case basis.

CLEPA will continue to be a partner to contribute to an open EU trade policy that provides access to markets for the European automotive supply industry. We stand ready to provide further market insight or assessments.

Would like to know more? You can contact:

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CLEPA
European Association of Automotive Suppliers

CLEPA, the European Association of Automotive Suppliers, represents over 3,000 companies supplying state-of-the-art components and innovative technologies for safe, smart, and sustainable mobility.

CLEPA brings together over 120 global suppliers of car parts, systems, and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.

- The automotive sector accounts for **30% of R&D** in the EU, making it the number one investor.
- European automotive suppliers invest over **30 billion euros** yearly in research and development.
- Automotive suppliers register over **39,000 patents** each year.
- Automotive suppliers in Europe generate **1.7 million** direct jobs.

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