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Accompanying document to the

Recommendation for a Council decision authorising the Commission to negotiate a trade agreement with India on behalf of the European Community and its Member States

Impact Assessment

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Introduction

This impact assessment accompanies the Commission's recommendation to the Council to authorise negotiations of a Free Trade Agreement (FTA) with India.

The recommendation contains a proposal for negotiating guidelines, authorising the Commission to negotiate a comprehensive FTA with India. As such, the proposal, which is the subject of the present impact assessment, does not constitute a legislative proposal and does not attempt to prejudge the precise commitments of the agreement which may eventually be negotiated, since these will depend entirely upon the final result of negotiations.

This impact assessment thus assumes that the negotiations will prove successful and that the resulting agreement will largely reflect the elements contained in the draft negotiating directives. Applying the principle of proportionality, this impact assessment is only able to describe the potential impact of such an agreement based upon the current situation and available information. A more complete assessment of the impact of such an agreement will become possible at a later stage once negotiations have commenced and once the potential commitments on each side are better defined. This more comprehensive assessment will take the form of a Sustainability Impact Assessment (SIA), which will be launched during the start-up phase of the negotiations.

1. Stakeholders' consultation

In the process of preparing these negotiating directives, the Commission engaged in a wide consultation with Member States, EU institutions and civil society (including European business) and India. This was done in the context of the future orientations for EU trade policy, the related adaptations in its FTA strategy and the specific prospects for an FTA with India.

1. Consultations in the context of the "Global Europe" Communication¹ setting out priorities for EU trade policy including bilateral policy both in the process of preparing the Communication and following its adoption. This includes among others:

- A specific workshop on trade and competitiveness in the framework of the Market Access Symposium in September 2005;
- A presentation at the public hearing on "The effects of globalisation on the Internal Market" organised by the Committee on International Trade of the European Parliament on 6 October 2005;
- Consultations with Member States between September 2005 and October 2006 (informal trade ministers meetings; discussions in the 133 Committee with Member States trade representatives and in the European Policy Group and the Council working party on competitiveness and growth with Member States industry representatives);
- A presentation on 18 January 2006 to representatives of the major manufacturing and services sectors such as the European Car Manufacturing Association (ACEA), European Association of Metals (EUROMETAUX), European Chemical Industry Council (CEFIC),

¹ "Global Europe: competing in the world" - COM(2006) 567, 4.10.2006.

the European Apparel and Textile Organisation (EURATEX) and the European Services Forum (ESF);

- Consultations with the Confederation of European Business (UNICE) between January and September 2006;
- A presentation to the “Civil Society Dialogue” organised by DG Trade on 8 March 2006;
- A presentation at the public hearing on the Commission's Communication “Global Europe: Competing in the World” organised by the Committee on International Trade of the European Parliament on 10 October 2006.

2. Specific consultations on the EU FTA policy:

- A specific workshop on FTAs in the framework of the Market Access Symposium in September 2005;
- Consultations with Member States at the Informal meeting of the 133 Committee in Vienna, 30-31 March 2006;
- Consultations with UNICE in April 2006;
- Consultations with ACEA on 7 April 2006;
- Consultations with ESF in 2006.

3. Specific consultations on a trade and investment agreement with India have taken place since the 2005 EU-India Summit and the launch of the High Level Trade Group.

- During the first half of 2006, Commission services have met with industry associations to discuss EU-India trade relations and a strengthening of bilateral links. Meetings covered UNICE, European Services Forum, Eurotextile, European Chemical Industry Council and the Association of European Automobile Manufacturers.
- The EU-India Business Summit and the EU-India CEO Round Table, which took place on 12 October 2006 on the eve of the EU-India Summit, addressed the issue of a broad-based trade and investment agreement between the EU and India. In the Joint Statement of the EU-India Business Summit, business expressed support for such an agreement "in line with WTO rules in terms of coverage and reciprocity and building and complementing the multilateral trading system." Business also considered that this agreement should "effectively address the trade and investment barriers faced by companies on both sides".

The comments received through the consultation were taken into account in the preparation of the negotiating directives. The main conclusions of the consultation can be summarised as follows:

- (1) Broad support for a renewed FTA policy, giving higher priority to economic considerations and aiming at deep integration between partner countries complementary to the multilateral liberalisation;

- (2) Broad support for the use of economic criteria, in particular market potential and level of tariff and non-tariff barriers against EU interest, to identify priority partners;
- (3) Call for attention to be given to countries which have or are negotiating FTAs with EU competitors and where we are losing market share;
- (4) Broad support for the need to secure our market shares in rapidly growing Asian countries;
- (5) Call for tackling non-tariff barriers including export restrictions, technical barriers to trade, intellectual property rights (IPR) protection, obstacles to trade in services and public procurement;
- (6) Broad recognition that India is an important partner for the EU and that there is a large untapped potential to facilitate and expand bilateral trade;
- (7) Shared analysis that potential benefits of an FTA would mainly arise from addressing the regulatory issues which are hindering the full development of our relations;
- (8) Hence broad support for an FTA with India provided it addresses real barriers to trade.

Further consultations of industry and civil society will be undertaken before and during the negotiations

2. Problem definition

2.1. Strengthening trade policy's contribution to growth and jobs through carefully chosen FTAs

The Commission recently adopted the Global Europe Communication reviewing the contribution of EU trade policy to the European growth and jobs strategy and setting out priorities for the years ahead. For trade to contribute to growth and jobs in Europe and open markets around the world, the Communication argues that we must have the right policies at home, which reflect the challenges we face, and maintain our openness to trade and investment. This internal agenda must be complemented with an external agenda that creates opportunities in a globalised economy. Rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad.

The Communication recalls that the EU's priority in recent years has been to pursue an ambitious, balanced and fair multilateral agreement in the World Trade Organisation (WTO) to liberalise international trade further. The WTO is the most effective way of expanding and managing trade in a rules-based system. It is a cornerstone of the multilateral system. The suspension of the Doha negotiations is a serious missed opportunity for global growth and development. The Communication delivers a clear message that the EU is fully committed to the WTO and the Doha Development Agenda remains its first priority. The EU is committed to the resumption of negotiations and their successful outcome.

However, the Communication argues that we can and should build on the platform created by the WTO to generate new opportunities for growth by opening markets further to trade and investment. To create open markets in the 21st century, Europe needs to look beyond tariff reduction to the trade barriers that lie behind borders. As tariffs fall, these barriers – such as

unnecessarily restrictive regulations – become increasingly important. We also need to step up our engagement with the major economies of the next generation, particularly in Asia, where there is huge potential for growth, but where Europe is not performing as strongly as it should.

The Communication sets out a series of linked trade policy initiatives complementing our efforts to resume negotiations in the WTO. As part of these initiatives, it proposes to develop a new generation of carefully chosen bilateral free trade agreements. FTAs, if approached with care, can go further and faster in promoting openness and integration, by tackling issues which are not yet ready for multilateral discussion.

FTAs are not new for Europe. But while our current bilateral agreements mainly support our neighbourhood and development objectives, our main trade interests, including in Asia, are less well served. The content of these agreements also remains limited. The Communication stresses that we should continue to factor other issues and the wider role of trade policy in EU external relations into bilateral trade developments. But in order for trade policy to help create jobs and drive growth, economic factors must play a primary role in the choice of future FTAs.

The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers), while taking account of our potential partners' negotiations with EU competitors.

In terms of content new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. Future FTAs would also need new ways of addressing non-tariff barriers. They should include new provisions for investment, IPR, public procurement and competition and state aid. There will also be a need to work to strengthen sustainable development through our bilateral trade relations. This includes incorporating co-operative provisions in areas relating to labour standards and environmental protection.

The Communication stresses the need to ensure that we share similar ambitions with our prospective partners at the outset in order to avoid negotiations later stalling because of a mismatch of expectations.

The Council conclusions of the 13 November 2006 GAERC state that "as one of the policy initiatives, the EU should aim at a new generation of WTO-compatible FTAs that extend beyond present agreements and build towards future multilateral negotiations. The agreements should strive for the highest possible degree of trade liberalisation, taking into account their positive contribution to the EU's competitiveness and their impact on internal European policies. The agreements, which should be part of a coherent framework of the EU's relations with each partner, should include far-reaching liberalisation of services and investment and should place special emphasis on the elimination of non-tariff barriers and on regulatory issues. In setting geographical priorities for these agreements, economic considerations should play a primary role, notwithstanding other, political considerations." Based on these criteria, the Council supports the early launch of negotiations with ASEAN² countries, India and the

² The Association of South East Asian Nations.

Republic of Korea and invites the Commission to submit proposals for the negotiating directives without delay.

2.2. Does an FTA with India fulfil the economic criteria set out to identify priority partners

India meets the economic criteria set out above, both in terms of market potential (size and growth) and barriers to EU exports.

With a population of close to 1.1 billion people, an annual growth rate of 8% and foreign investment of € 6 billion, the Indian market represents a significant and growing economic interest for the EU. India is currently one of the world's fastest growing economies, surpassed only by China. India's GDP amounted to € 607 billion in 2005, up from € 355 billion in 1995. With an estimated growth rate of 5.5% for the period 2005-2025, the market potential - i.e. the change in market size - in that period of time is estimated at € 58 billion. Engaging with India at this stage is essential to gain access to the growing Indian market and to avoid being marginalised in the dynamic growth of India.

European exports currently face high levels of protection in the Indian market. While India is in a process of economic reform and liberalisation that has helped boost growth levels, barriers to trade and investment remain high. Compared with other major emerging economies, India is one of only four partners (Mercosur, India, Russia and Iran) which apply rates of protection above 10% vis-à-vis our main export interests. EU exports to India encounter an average of 19.5% tariff rates (bound rates); 119.8% for agricultural products and 12.7% for non-agricultural products. In certain cases, duties are even much higher, such as wine and spirits. Even in an ambitious post-DDA scenario a level of 13% is expected, 73.5% for agriculture and 8.9% for non-agriculture.

Various additional duties, taxes and charges result in even higher barriers and a complex and non-transparent system.

Non-tariff barriers (NTB) constitute additional significant barriers for EU exports to the India market, in relation to both goods and services. Barriers include quantitative restrictions, import licensing, mandatory testing and certification for a large number of products, restrictions on market access and national treatment for services, closed procurement markets, as well as complicated and lengthy customs procedures. Several of these barriers fall outside the scope of WTO negotiations and therefore will not be addressed by multilateral trade negotiations. In relation to non-tariff measures, it should also be noted there is a tendency to increased recourse to non-tariff barriers as MFN tariff rates decrease.

The prospect of free trade agreements resolving NTBs should be assessed on a case-by-case basis country by country. A first analysis of how efficient FTAs can be in tackling various NTBs shows that for India, the expected effectiveness of tackling NTBs in an FTA is relatively high. In this context, India's readiness to address real obstacles to trade is of course key. As regards Public Procurement, India – not a party to the WTO Government Procurement Agreement - in April 2006 seemed to abandon at least partially its long-standing hostility to any discussions on procurement by indicating a readiness to negotiate a substantial procurement chapter as part of an FTA with the EU. As regards intellectual property rights, stronger enforcement and the protection of geographical indications (GI) could benefit from an FTA.

The EU-India High Level Trade Group (HLTG) report, endorsed by the EU-India Summit in Helsinki in October 2006, gives further indication of the willingness of India to address the issues outlined above. The HLTG discussed a number of specific areas, including trade in goods, trade in services, investment, trade facilitation, public procurement, technical regulations (TBT and SPS), intellectual property and geographical indications, competition policy and dispute settlement. While this is "without prejudice to a final decision on the nature of any possible future broad-based trade and investment agreement", the agreement that future negotiations should cover all these areas and be based on the principles and parameters set out in the report is noteworthy. As regards trade in goods, agreement on an ambitious level of tariff liberalisation (90% duty elimination in trade and tariff lines within 7 years of the entry into force of the agreement) is complemented by an understanding that "substantial benefits could be achieved through the elimination of non-justified non-tariff obstacles to trade". It should be noted that the HLTG report does not preclude a higher level of ambition as to tariff liberalisation within longer transition periods than 7 years. With respect to trade in services, EU and India agreed that an FTA should ensure substantial sectoral coverage and provide for the elimination of substantially all discrimination between the parties.

The combined effect of tariffs and NTBs, as described above, is that of a high overall protection against EU exports to India. A bilateral agreement with India could address both tariffs and NTBs and go beyond WTO rules in areas of mutual interest, as suggested in the report of the HLTG. A free trade agreement can build on WTO and other relevant international rules by going further and faster in promoting openness and integration between the EU and India, and help tackle issues which are not ready for multilateral discussion.

An additional element for consideration, as set out in the "Global Europe" communication, is the level of protection faced by the EU relative to its competitors. India has traditionally been a relatively closed market and has not engaged in bilateral trade liberalisation, but has in recent years embarked upon a policy of strengthened bilateral trade ties. While India does not have FTAs with the EU main competitors, it is currently negotiating or preparing FTAs with a number of trading partners. India has concluded an FTA with South Asia (SAFTA)³, Singapore and Sri Lanka; and is negotiating agreements with ASEAN, Chile, Thailand, BIMSTEC⁴, the Gulf Cooperation Council (GCC) and Mercosur. Agreements under consideration include Joint Study Groups launched with Japan, China, Korea, Malaysia and Indonesia. Reports of the Joint Study Groups of India with Japan and Korea are expected in the near future (end 2006 and early 2007 respectively), and could lead to the launch of additional FTA negotiations in the near future.

3. Objectives

A key objective of an FTA with India would be to secure EU positions on the Indian market.

The following are amongst the market access gains the EU can aim to achieve through a deep and comprehensive FTA:

- Highest level of elimination of duties possible;

³ The South Asian Free Trade Area involves India, Pakistan, Sri Lanka, Maldives, Bangladesh, Bhutan and Nepal. SAFTA entered into force on 1 July 2006.

⁴ Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan.

- Elimination of all forms of export restrictions except justified by security of environmental reasons;
- Addressing unjustified non tariff barriers to EU exports and investments: regulatory transparency, SPS, TBT, customs procedures, competition and state aid;
- Delivering better market access in services – across all modes;
- Improving investment climate;
- Opening public procurement markets;
- Enhancing IPR protection.

4. Options

4.1. Depth / coverage

There are three options to enhance trade and investment links between the EU and India, albeit at different levels: (1) Continuing cooperation under the existing framework, (2) a shallow FTA and (3) a comprehensive FTA.

The EU-India HLTG in its report to the 7th EU-India Summit recommended a broad-based trade and investment agreement, and the EU-India Summit on 13 October agreed to move towards negotiations for such an agreement. In light of these developments, this impact assessment provides a relatively short overview of options 1 and 2, and focuses its assessment on option 3.

- 1. No change.** A first option is to maintain the status quo, continuing co-operation on the basis of the 1994 Co-operation Agreement, the Strategic Partnership and the Joint Action Plan. In terms of economic and trade impact, the present EU trade regime, based on a combination of the most favoured nation (MFN) regime and the General System of Preferences (GSP), would continue. This option is not satisfactory for several reasons:
 - Experience in co-operating with India under these agreements show that such frameworks have been of limited effectiveness in addressing market access barriers and specific trade irritants;
 - A number of the market access barriers faced by European business seeking to export to India are NTBs, often of a regulatory nature. Addressing these issues would require an enhanced and binding framework between the EU and India;
 - Even after an ambitious DDA outcome, India will maintain a high level of tariff protection and significant restrictions in key services sectors. Nor would the DDA address restrictions on access to procurement markets or investment in the manufacturing sector;
 - Given the Indian level of growth and integration into the global economy, maintaining the status quo would effectively be a set-back. It would entail a risk of marginalisation for the EU compared to other trading partners in

relation to India. Politically, in light of global developments and India's role as a major economic player, the EU has an interest in building political momentum and engaging dynamically with India.

2. Shallow FTA. A second option is a shallow free trade agreement, which would cover only trade in goods. There are several reasons why this option is not desirable:

- Its positive impact would be of much more limited nature. It could be anticipated that the immediate, short term gains for the EU would be insignificant, while positive dynamic effects in the medium term may stem from an increase in bilateral trade;
- A shallow FTA would be less likely to tackle real obstacles to trade, restrictions to the services sector and NTBs would be left untouched;
- It would not support further multilateral trade liberalisation by covering issues which are not yet ready for multilateral discussion. It would send a very bad signal for the way Europe approaches FTAs. It would lead to trade diversion rather than trade creation. It would not lead to a real integration between both economies. It would not lead to economic reforms in India nor any progress in terms of regulatory transparency or IPR protection that would benefit all trading partners;
- For all these reasons, such an FTA would match neither the objectives nor the criteria set out in the Commission's "Global Europe" communication.

3. Comprehensive FTA. The third and preferred option is a comprehensive FTA. To create new trade bilateral agreements have to be ambitious. An EU-India agreement would have to be deep and substantive: not just goods, but services, NTBs and rules on issues such as investment, competition and state aid, and public procurement as well. It would also need to improve the enforcement of rules on the protection of intellectual property rights. As outlined in the Commission's "Global Europe" communication, to have a positive impact, FTAs must be comprehensive in scope, provide for liberalisation of substantially all trade:

- A large number of market access barriers with India are non-tariff issues, which would only be addressed under a comprehensive FTA. A first analysis shows that the bulk of gains from liberalisation with India would be on services as well as NTBs;
- A high level of ambition, aiming at the highest level of liberalisation possible to maximise the economic benefits. There is a significant amount of untapped potential in the EU-India trade relationship. EU exports to India are not negligible - about € 25 billion in goods and services in 2005 - but it still accounts for less than 2% of EU exports. This is low given the size of the Indian market;
- An FTA should also address investment. India is potentially a huge market for EU investment, which is good for both sides. The EU invested € 1.1bn in India in 2004, which represented 1.4% of total EU outflows, mainly in the energy,

telecommunications and transport sectors. However, India still attracts far less EU foreign investment than China.

5. Expected impact of the preferred option

5.1. Impact on growth and jobs in Europe

a) Impact on trade and production

As outlined above, the Indian market represents a significant economic interest for the EU, both in terms of size and expected growth of the market, and by the high level of barriers that EU exporters are faced with. The analysis of the options for EU-India trade relations above in section 4 also point to the need for a comprehensive FTA to address not just tariff barriers, but also trade in services and NTBs, investment and regulatory issues. The bulk of gains are estimated to lie in these sectors and issues.

The nature and size of the impact of an FTA with India will be addressed by a Sustainability Impact Assessment (SIA). Further quantitative and qualitative studies are also planned. A qualitative study has been commissioned and is due in early 2007 to underpin the impact analysis and the definition of an EU strategy in negotiations with India. These studies will also look at impact on trade and production in specific sectors, thus helping to define both market access and defensive interests. The SIA will also look at environmental and social impact. In particular the SIA will help the EU fine-tune its position.

Under the EU-India HLTG, market analysis showed essentially complementary trends in economic developments between the EU and India. The countries complement each other in their diversified economic structures in terms of output, capital stock, human resources and trade in goods and services. Taking bilateral trade patterns as an example, the EU's exports of goods to India are predominantly intermediary products for further manufacturing whilst India's exports to the EU are in both primary products and finished consumer goods. In terms of value, the EU's most significant exports to India are precious stones and gems, machinery and electrical equipment, base metals, chemical products and vehicles. India's exports to the EU comprise mostly textiles and clothing, precious stones, machinery, agricultural products and leather materials.

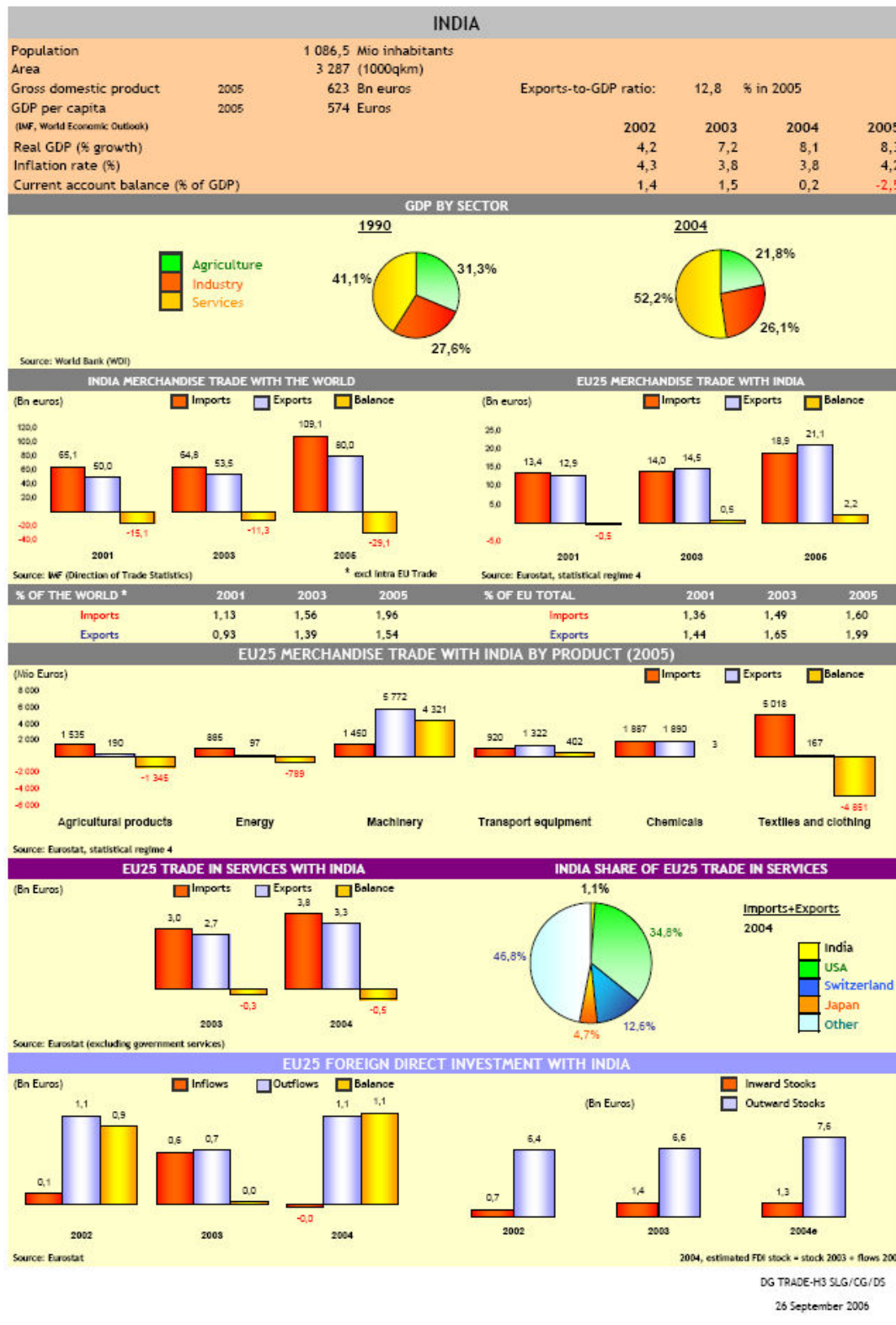
In bilateral services trade, the main products exchanged in both directions were transport services, travel services and business services. In addition, India has shown high growth in information technology, medical services, tourism and some financial services whereas the EU is a leader in professional services such as accounting and legal services, financial services, postal and courier services and telecommunication services.

In some areas, there is clearly reciprocal trade within the same product and service categories (precious stones, machinery, chemicals, base metals, transport services and business services). This can be explained, in some cases, by the structure of the industrial chain; for example, European traders export diamonds to India where they are processed and sent back as finished products. There are other cases when the data does not capture differentiation between products or services, where there is a complementarity in market demand in terms of quality or price.

Although trade between EU and India is to a large extent considered complementary, there will be sectors or products that are considered sensitive for either side and for which further

analysis is required to define an approach under negotiations. In services, in particular Mode 4 (movement of natural persons) is high on the Indian agenda, politically as well as economically. In goods, both the EU and India have sensitivities in the agriculture sector which require further analysis.

India Key Figures:



b) Specific impact on small and medium-sized enterprises

While they constitute a key asset of the EU economy, small and medium-sized enterprises (SMEs) find it more difficult than multinational enterprises to access third markets, due to their limited capacity to cope with NTBs.

Several components of an FTA with India would directly support them in their efforts to enter the Indian market. This is particularly the case of provisions related to regulatory issues (regulatory transparency). The inclusion of ambitious trade facilitation provisions in our future FTAs would also directly benefit SMEs as transaction costs are deadweight costs disproportionately felt by them. As SMEs are particularly vulnerable to IPR violations, the specific provisions on IPR enforcement would be of particular benefit to them. Again, costs related to lack of enforcement tend to hit SMEs relatively higher than larger companies.

c) Impact on jobs in the EU

Creating new market opportunities and enhancing bilateral trade between the EU and India through a comprehensive FTA will spur economic growth in Europe (see above on the impact on trade and production) and thus contribute to job creation in Europe. While the number of jobs will increase as a result at a European level, at the level of industry some sectors, in particular exporting sectors, will see a job creation while others are expected to contract. Further studies are required to assess the impact in different sectors and to help identify measures to address any negative impact.

A key objective should be to ensure smooth and progressive evolution for sectors and workers which are particularly weak or particularly vulnerable to international competition. The interests of such sectors can be addressed in the context of an agreement itself, e.g. by longer transition periods for liberalisation. They can also be addressed by a better anticipation and flanking measures to help minimise costs, facilitate and accelerate transitions.

Social dialogue, supported by public authorities, plays an important role in identifying and mitigating these adaptation needs. The Sustainability Impact Assessment (SIA) that will be carried out during the negotiations will constitute an important tool to allow such anticipation and dialogue.

The results of the SIA on an EU-India FTA should be further used in the framework of the EU's new generation of cohesion policy programmes for 2007-2013 which provide opportunities to anticipate and prepare for changes linked to globalisation. The partners concerned - national and regional authorities and the Commission – should ensure that they create a sound basis for investment in new activities and in the re-training of the workforce.

Whatever our efforts to anticipate and manage change, there will always be unexpected trade shocks which can adversely affect some workers. Again the new generation of cohesion policy programmes for 2007-2013 make it possible to set aside resources for unforeseen events arising over the period – such as trade-induced restructuring. The European Globalisation Adjustment Fund (€ 500 millions a year), soon to be established, will also provide a swift answer to one-off, clearly defined problems resulting from restructuring and changing global trade patterns. It will cover training, relocation of workers and outplacement (the costs of action to help find a new job).

5.2. Impact on development

The Commission Communication on “Global Europe” recalls that we should take into account the development needs of our partners and the potential impact of any agreement on other developing countries, in particular the potential effects on poor countries' preferential access to EU markets.

a) Development needs of India

The EU's agenda for market opening under the “Global Europe” framework focuses on the major emerging countries and regions which are able to sustain competition, which already draw huge benefit from their integration into the world trading system and whose opening to trade is an increasingly important factor in the prospects for growth around the world and in the country itself.

In the past years, India has shown a capability to adapt to and create economic benefits from the process of globalisation. India's ongoing process of economic reforms and integration into the global economy, in bilateral, regional and multilateral terms, and the current high growth level confirm that India belongs in this group of countries. Furthermore, there can be little doubt that India is fully capable of defining and defending her interests. In this context, India has presented a strong interest in strengthening trade co-operation with the EU via a broad based trade and investment agreement, including in the EU-India HLTG and the 2006 EU-India Summit.

With impressive growth rates and domestic economic reforms, India has halved the number of its people living below the poverty line in the last twenty years. However, poverty remains a serious problem with an estimated 35% of the population or around 350 million people still living below the international US\$1/day poverty line. The Government of India is committed to attaining the UN Millennium Development Goals and has paid considerable attention to the development challenge as part of its economic reforms, focusing on high economic growth, equitable growth and social justice, human development, and reform and governance to reduce poverty. As a result, India has reduced absolute poverty by more than half, and improved literacy and health conditions for the India population. However, economic growth has seen rising inter-state disparities in India. Higher-income states have successfully reduced poverty, but poorer states have not kept pace and are lagging behind their more prosperous counterparts.

The EU commitment to development through trade is long-established. Continued trade liberalisation and market opening can further unlock India's potential. It is clear, however, that trade liberalisation and market opening and the economic growth that ensues are not in themselves sufficient to address the poverty problem in India and bring sustainable development. The strengthened trade relations with India should therefore be seen in the context firstly of domestic Indian reform, but also of wider economic cooperation and development assistance, bilaterally and through multilateral agencies. The EU has confirmed its commitment to underpinning economic reform underway in India while helping the country address the most pressing priorities of its development agenda, notably in health and education.

The impact of the FTA on India's sustainable development will be addressed in the planned SIA.

Key Development Indicators –**INDIAGROWTH:** (2004/05-2005/06 Revised Estimates)**Population:** 1.6%**GDP:** 8.4%**Agriculture:** 3.9%**Industry:** 7.6%**Services:** 10.3%**Merchandise Exports:** 23%**Poverty** (at \$1 a day, 2000, PPP): 35%**Fertility rate** 2004:3 births per woman**Average life expectancy at birth** (1998-02): 63 years**Infant mortality** (per 1000 live births, 2004): 62**Maternal Mortality** (per 100,000 live births, 2001):540**Child Malnutrition** (below 5 years, 1998): 47%**Primary school enrolment, net** 2004: 87%;

Gap between boys' and girls' enrolment reduced

Male adult literacy 2000-04: 73.4%**Female adult literacy** 2000-04: 47.8%**Access to improved water source** 2001: 86%**Access to improved sanitation facilities** 2002: 30%*Source: World Bank; World Development Indicators, 2006 and CSO revised estimates of GDP****b) Potential effects on poor countries' preferential access to EU markets***

As regards the impact on other developing countries, an element of preferences erosion is inherent in any form of trade liberalisation, multilateral as well as bilateral. This will be an important issue to look at in order to identify sectors and countries affected. The planned SIA will help fine-tune our positions to limit the potential impact of preference erosion on least developed countries (LDCs).

Increasingly, EU's major emerging partners such as India also bear a responsibility towards poorer countries and emerge as preference givers and aid donors. As they grow, so does their role in providing market access to help spur development in other countries. Many emerging countries retain very high tariffs which are holding back export-led growth in their poorer neighbours. That's why the "Global Europe" Communication suggests that in line with our position in the WTO, we encourage our FTA partners to facilitate access for LDCs to their market, if possible by granting duty and quota free access. India appears willing to recognise the responsibility that follows her changing role in the world, and has indicated intentions to provide duty-free and quota-free access for LDC exports.

The impact on countries in the region, both LDCs and other developing countries, of an EU FTA with India will require further analysis and consideration in the planned SIA. In this context, consideration should be given to the economic impact on Pakistan, and possible immediate and longer-term responses.

5.3. Contribution to EU international social and environmental objectives

In line with the specific call by the June 2006 European Council in the context of the renewed EU Sustainable Development Strategy, future FTA, including the EU-India FTA will cover sustainable development concerns by addressing environmental and social issues in addition to economic considerations.

The coverage of these issues in the WTO is limited by the willingness of the WTO membership to address these issues, which many, particularly developing countries, believe are covered for protectionism. Bilaterally we can achieve more in these fields, provided we take a co-operative, not a sanctions-based approach. We will be aiming to do this.

The intention is to incorporate a sustainable development chapter including issues relating to the protection of core labour standards and co-operation on global and regional environmental issues. It is also envisaged to include provisions covering in particular the necessity not to relax existing standards to attract foreign investment, the importance of enforcement, exception clauses related to the protection of human health and the environment, liberalisation of trade in environmental goods and services, the role of civil society and the public at large in the design, implementation and monitoring of relevant measures.

Adequate focus on core labour standards, facilitation and promotion of trade in environmental goods, technologies and services in all sectors of the economy, as well as stronger co-operation in environmental issues would have positive social and environmental effects. On the other hand, potential negative environmental impacts may be caused by higher volumes of exports, imports, increased levels of economic activities, including the extraction and use of natural resources and the transport of goods and people, all of which could exacerbate pressures on our global climate, biodiversity, air and water quality, waste management, human health, etc. The challenge is to address these risks, both through the FTA itself and through other relevant agreements and instruments, and both by means of trade and non-trade related measures. In this connection, consideration will be given to measures aimed at preventing or, at the very least, minimising any negative effects that would result from enhanced trade, particularly in natural resource sectors. At the same time, attention will also be paid to provisions aimed at maximising the positive impact of trade liberalisation. All these aspects will be subject of the planned SIA.

5.4. Impact on the multilateral trading system

India is an important player in the multilateral trading system. The EU and India have traditionally co-operated closely in the World Trade Organisation (WTO), and in the Joint Statement of the 2006 EU-India Summit confirmed their commitment to the successful outcome of the Doha Development Agenda (DDA) negotiations. EU and India also confirmed that deepening bilateral trade relations should support, rather than undermine, the multilateral route. These are complementary approaches towards the common goal of progressively improving trading conditions within clear and fair rules to promote growth, employment and sustainable development for all.

However, India's engagement in the multilateral trading system has often been of a defensive nature, seeking to maintain a high level of protection of its market by tariff and quantitative restrictions, and focusing on special and differential treatment and opt-out possibilities for developing countries. A bilateral agreement with India provides an opportunity to address some of the issues that have not progressed at the multilateral level, going beyond what can be achieved at global level – investment, trade facilitation, public procurement, competition policy. Such cooperation would represent an economic interest for the EU in itself, but could also in term have a positive impact on the multilateral trading system, by engaging India on those issues and enhancing its readiness to tackle them, in the future in a WTO context. An FTA with India will also help maintain the dynamic of trade opening and economic reform, in India like elsewhere. In particular, an FTA with the EU can support and lock-in India's own domestic reform agenda. By doing so, we will help prepare and pave the way for the next generation of global trade liberalisation.

Our priority will be to ensure that an EU-India FTA such as any new FTA is a stepping stone for progressive liberalisation within the WTO system, not a stumbling block to it. The risks in

trade policy are not so much in the balance between multilateralism and bilateralism, but the choice between an open and ambitious approach to bilateralism that drives forward the dynamic of global liberalisation and a closed approach to bilateralism that looks for the quick political fix or opens some borders only to close others.

6. How to monitor and evaluate the results and impacts of the proposal after implementation?

As explained in the introduction, the proposal considered is not per se a fully-fledged text. The implementation of the Council Decision *stricto sensu* (i.e. the recommendation for a Council decision authorising the negotiations) will consist of carrying out negotiations with India. There will therefore be a need to monitor and evaluate the results and impacts of the proposal after the start of the negotiations.

As mentioned above, a Sustainability Impact Assessment (SIA) will be undertaken for the negotiations and provide an evaluation of their likely effects. The SIA will be launched by the Commission services in the start-up phase of the negotiations and will also entail further consultations with stakeholders concerned.

Finally, to cover the implementation phase of the Agreement, institutional structures will be put in place, building on existing structures where appropriate, including a platform for civil society dialogue. These structures will aim at monitoring and evaluating the impacts of a possible Agreement.

7. The Commission proposal

In line with the above preliminary analysis, the Commission proposes – in its recommendation for a Council decision - to negotiate a comprehensive FTA with India. Further consultations and in-depth analysis will be carried out as soon as the Council has authorised the Commission to negotiate and the Commission has started negotiations with India. Negotiations are expected to take two years. There will be thus ample opportunity to discuss, fine-tune and review, if appropriate, the approach proposed in the draft negotiating directives.