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FTA-NEGOTIATIONS BETWEEN THE EU AND INDIA

EUROCOTON - **European federation of Cotton and Allied Textiles Industries**, representing the cotton ginnerers as well as the spinners, weavers and knitters of cotton and man-made staple fibres in the EU, **fears that, overall, a free trade agreement between the EU and India will not be beneficial for its members.** Both parties are very different and EUROCOTON does not see how such an agreement can be a win-win for both sides.

As the talks for such an agreement are ongoing, EUROCOTON expresses **in this paper its views on a number of elements** (tariff dismantling and elimination of additional duties, levies and taxes, rules of origin, non-trade barriers, intellectual property rights, public procurement, chapter on trade and sustainable development, ...) in view of limiting the negative impact of a FTA with India on the European spinners, weavers and knitters of cotton and man-made staple fibres.

In general, the agreement should have a twofold **objective**. Firstly, the FTA should lead to a **rebalancing of the market access** as the European market is already very open to Indian products, while market access for European companies to India is limited. This is all the more important as the EU already has a large trade deficit with India with regard to textile and clothing. Secondly, the EU should **ensure that European and Indian firms compete with each other on a fair basis and a more equal footing**. To this end, the agreement should not only encompass a substantial and enforceable chapter on trade and sustainable development, but the **EU** itself should also **step up its efforts** with regard to **market surveillance** on the internal market in order to make sure that **imported products indeed comply with all applicable European legislation**.

THE VIEWS OF EUROCOTON IN MORE DETAIL

On 17 June 2022, after a standstill of more than eight years, the EU and India formally relaunched the negotiations on a free trade agreement (FTA). As a reminder, the EU-India talks had started in June 2007 but were put on hold in 2013 as the two sides did not show the same level of ambition.

EUROCOTON - European federation of Cotton and Allied Textiles Industries, representing the cotton ginnerers as well as the spinners, weavers and knitters of cotton and man-made staple fibres in the EU, **supports the conclusion by the EU of FTAs with third countries (or a group of third countries) on the condition that they create free and fair trade and are a win-win for the textile industry in both parties.**

EUROCOTON fears that it will lose more than it will gain from a FTA with India

EUROCOTON **fears** that the above mentioned conditions will not be met with regard to a FTA with India and that **overall, the impact of such an agreement on its members will be negative**. Indeed it is to be expected that the export of textile and clothing products of cotton and man-made staple fibres from India to the EU will benefit from a FTA, while the European spinners, weavers and knitters of cotton and man-made staple fibres do not expect much new market opportunities in India and this for the following reasons:

- The EU has a **large trade deficit** with India **for textile and clothing products**. Indeed in 2021 the exports of textile and clothing goods¹ from the EU27 to India valued 491.9 million EUR while the EU imported from that country that same year 6.1 billion EUR of textile and clothing goods.



¹ CH 50-63.

- In 2020 India was the **3th largest exporter for textiles in the world** and the **6th largest clothing exporter**².
- In India, the textile and clothing sector accounts for 2% of GDP and for 11.4% of merchandise exports.³ The textiles and apparel industry is one of the largest sources of employment in India and employs around 45 million people, many of whom are women and/or handloom workers, also in rural areas.⁴ As the sector has a large employment potential, the government is **increasingly investing in the sector**.⁵ The Indian textile and apparel industry is expected to grow from 103.4 billion USD in 2020-2021 to 190 billion USD by 2025-2026.⁶ The industry has strengths along the entire value chain from fibre, yarn, fabric to apparel.⁷
- India is the **largest producer of cotton in the world**. The crop grows over 11.7 million hectares in India compared to 31.2 million hectares globally.⁸
- **Labour costs in the Indian textile and garment industry are low, also compared to other Asian countries**. In the spinning sector the hourly wage in India amounted only to 1.29 USD in 2021 for skilled personnel and to 0.65 USD for unskilled personnel compared to respectively 1.39 USD and 0.63 USD in Pakistan, to 2.82 USD and 1.12 USD in Indonesia, to 3.51 USD and 1.32 USD in Vietnam, to 3.85 USD and 2.22 USD in China or to 28.50 USD and 21.38 USD in Italy.⁹

Also in the weaving sector, the differences are substantial as in India in 2021 the hourly wage was 1.71 USD for skilled personnel and 0.80 USD for unskilled personnel, while in Vietnam respectively 2.32 USD and 1.48 USD, in Indonesia 3.00 USD and 1.19 USD, in China 4.00 USD and 2.70 USD and in Italy 33.00 USD and 21.50 USD.¹⁰

² WORLD TRADE ORGANISATION, *World Trade Statistical Review 2021*, 2021, 77-78.

³ WORLD TRADE ORGANISATION, *Trade policy review – Report by the secretariat*, 16 March 2021, WT/TPR/S/403/Rev. 1, 12.

⁴ INDIA BRAND EQUITY FOUNDATION, *Promoting Indian Textile and Apparel Exports*, https://www.ibef.org/download/Promoting_Indian_Textile_and_Apparel_Export_compressed.pdf, consulted on 8 September 2022, 5; INVEST INDIA, *Sector Textiles & Apparel*, <https://www.investindia.gov.in/sector/textiles-apparel>, consulted on 8 September 2022.

⁵ INDIA BRAND EQUITY FOUNDATION, *Promoting Indian Textile and Apparel Exports*, https://www.ibef.org/download/Promoting_Indian_Textile_and_Apparel_Export_compressed.pdf, consulted on 8 September 2022, 5.

⁶ INVEST INDIA, *Sector Textiles & Apparel*, <https://www.investindia.gov.in/sector/textiles-apparel>, consulted on 8 September 2022.

⁷ *Ibid.*

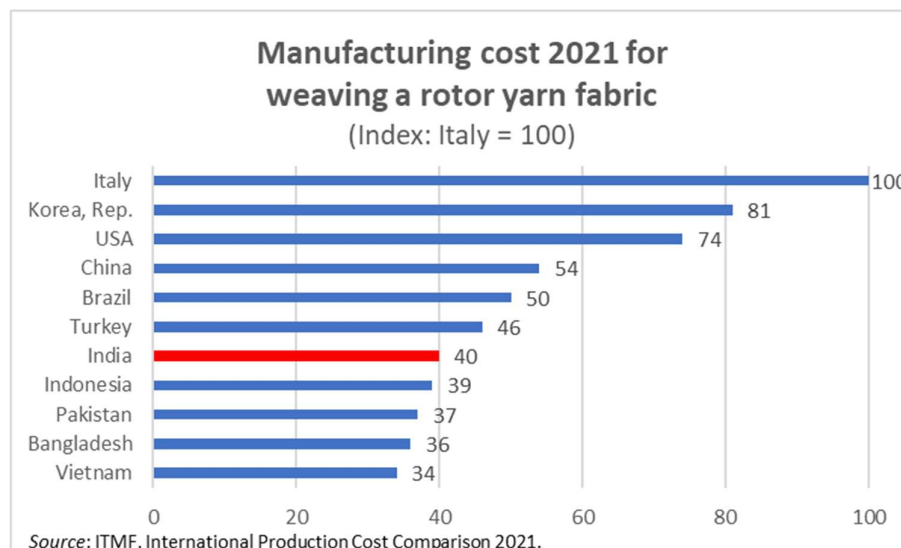
⁸ INDIA BRAND EQUITY FOUNDATION, *Cotton Industry and Exports*, <https://www.ibef.org/exports/cotton-industry-india#:~:text=In%202020%2C%20India%20stood%20as,between%20April%202021%2DFebruary%202022>, consulted on 8 September 2022.

⁹ INTERNATIONAL TEXTILE MANUFACTURERS FEDERATION (ITMF), *International production cost comparison 2021*, May 2022, 9.

¹⁰ *Ibid.*, 11.



- The **manufacturing cost** – covering apart from the wage costs also factors such as the costs of energy and auxiliary material but not including the cost of the raw material itself – for weaving a rotor yarn fabric amounted in 2021 to 0.22 USD/m in India, compared to 0.20 USD/m in Bangladesh, 0.29 USD/m in China and to 0.54 USD/m in Italy. For weaving a ring yarn fabric the total manufacturing cost amounted to 0.21 USD/m in India in 2021, compared to 0.19 USD/m in Bangladesh, 0.28 USD/m in China and 0.50 USD/m in Italy.¹¹



- In 2021, the **GDP per capita in purchasing power parity of India** was **7,333.5 USD** (European Union: 48,436.3 USD)¹² having as a consequence that the market opportunities for European textiles are limited in India.

¹¹ *Ibid.*, 21-22.

¹² WORLD BANK, GDP per capita, PPP (current international \$), <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>, consulted on 5 September 2022.

EUROCOTON's requests with regard to the FTA

Given the above, EUROCOTON is very worried about a FTA between the EU and India. The **overall objectives** of such an agreement should be twofold. Firstly, the FTA should lead to a **rebalancing of the market access** as the European market is already very open to Indian products, while market access for European companies in India is limited. This is all the more important as the EU already has a large trade deficit with India with regard to textile and clothing.

Secondly, the EU should **ensure that European and Indian firms compete with each other on a fair basis and a more equal footing**. To this end, the agreement should contain a **substantial and enforceable chapter on trade and sustainable development**, whereby India not only commits to effectively respect on the ground the basic international labour rights and environmental and climate standards, but also subscribes to the objectives of a sustainable and circular economy. Moreover, the **human rights situation** in India should **improve**¹³. As the European legislator imposes – and will continue to impose – increasingly strict and demanding **environmental, climate and circularity standards and norms** on the European industry in the framework of the Green Deal and the EU strategy for sustainable and circular textiles, it is in addition important that these **same high standards also apply to imported goods** and that efficient **market surveillance** is put into place on the European internal market **to ensure that imported products indeed comply with all applicable European legislation such as for example REACH**.

Once the FTA will be in place, **an evaluation should be made of the effects of the FTA on the manufacturers of textile and clothing products in the EU**. This should be done regularly, for example every two years.

In order to limit the feared negative effects on the spinners, weavers and knitters in the EU of cotton and man-made staple fibres, the FTA should meet the following demands:

- **India** is a complex country with different levels of government and it is therefore important that **all relevant levels of government** are involved in the negotiations. It must indeed be avoided that the market access promised in the FTA would not materialise in practice because of decisions taken by other policy levels, which undermine the foreseen market access.
- The tariff structure of the EU and of India with regard to textiles and clothing differ in many regards as is highlighted in the table below.

¹³ International human rights organisations, such as Human Rights Watch, still report important shortcomings with regard to the respect of the human rights in India (see: HUMAN RIGHTS WATCH, *World Report 2022*, 2022, 319-327). Also several international organisations expressed concerns about several aspects of the human rights situation in the country, such as the UN High Commissioner for Human Rights, Mrs Michelle Bachelet, in October 2020 (see: Press release of 20 October 2020 of the UN High Commissioner for Human Rights “Bachelet dismayed at restrictions on human rights NGOs and arrests of activists in India” (consulted on 5 September 2022)) and the European Parliament in its recommendation on the EU-India relations adopted in April 2021 (see: RECOMMENDATIONS OF THE EUROPEAN PARLIAMENT, *European Parliament recommendation of 29 April 2021 to the Council, the Commission and the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy concerning EU-India relations (2021/2023(INI))*, OJ C506, 15 December 2021, 109-118).

	Final bound duties			MFN-applied duties	
	Average	Maximum	Binding in %	Average	Maximum
Textiles					
EU	6.5	12	100	6.5	12
India	27.3	85	70.3	25.5	328
Clothing					
EU	11.5	12	100	11.5	12
India	37.7	68	58.7	24.1	119

Source: WTO, ITC AND UNCTAD, *World Tariff Profiles 2022*, 2022, 256. (Maxima based on AVE estimates are mentioned in italics.)

Consequently regarding tariff dismantling, EUROCOTON asks that:

- **Tariff dismantling from the Indian side starts from the applied tariffs** and not from the bound tariffs. As India also has for some textile and clothing products mixed duties in the form of “x %, but not less than y INR/m²”, it should furthermore be ensured that the tariff reductions cover both the ad valorem duties as well as the specific duties. It cannot be that the reduction in ad valorem duties does not bring a better access to the Indian market as the specific duties stayed the same or were not sufficiently reduced. Ideally, all specific duties should be converted into ad valorem duties.
 - **Tariffs dismantling from the European side should also start from the MFN-applied tariffs.** The lower import duties in the EU of which India benefits in the framework of the Generalised Scheme of Preferences (GSP) should not be taken into account as India will continue to benefit from GSP for some time after the entering into force of the FTA.
 - As the further opening of the European textile and clothing sector for Indian products will have a significant impact on certain European subsectors, EUROCOTON requests **long tariff dismantling periods in the EU for sensitive products.**
- India should, at the latest at the entry into force of the trade agreement or, if applicable, its provisional application, **abolish all additional duties, levies or taxes, it applies to imported products on top of the import duty stricto sensu, which are not applicable to locally produced goods or which do not have a local equivalent** and it should furthermore refrain from creating new ones. The tariff reductions to which India is bound in the FTA should not be eroded in practice by the imposition of taxes and duties on imports, whether at federal or a more decentralised level.
 - The **rules of origin** will be crucial part of the agreement as they will determine which goods will benefit from the preferential tariff treatment. EUROCOTON asks in this regard that:
 - The list rules should be based on a **double transformation rule containing two substantial manufacturing processes.** More specifically, EUROCOTON suggests to use for the yarns and fabrics of chapters 52 and 55 the list rules of the Generalised Scheme of Preferences (GSP) for other countries than the least developed ones, as these are the rules India is accustomed to, with however the addition that also the combination “weaving combined with laminating” confers origin. In case the European Commission would decide to take the transitional rules for the PEM-area as the basis for negotiations, a clear and strict definition of the term “any mechanical operation”, should be added so that the list rules in which this term is used, are based on two substantial processes.

- The definition of printing should explicitly mention that **printing on the selvedge cannot confer origin**, that the printing should have a permanent character and take place on the face side of the textile product.
- The agreement should **only allow for bilateral cumulation between the EU and India**. EUROCOTON opposes full cumulation as well as any other possibility of cumulation, such as cumulation with any other Asian country, also not with the countries that are part of the same regional group under the GSP-rules of origin or with whom the EU has a free trade agreement in place (for example South-Korea).
- The agreement should **not allow for duty drawback**.

EUROCOTON cannot stress enough that **efficient controls by customs** will be essential to ensure that the rules of origin are indeed respected in case the goods enter the EU at the preferential tariff rate.

- From the beginning of the agreement **all irrelevant non-tariff barriers** that are **purely designed to obstruct trade**, must be **eliminated**. The agreement must moreover comprise clear and enforceable provisions **preventing the creation of new ones in the future**. As experience has shown that non-tariff barriers can seriously erode the market access commitments that have been made and that once such obstacles are in place, it is difficult to have them quickly removed, early detection is key. In this respect, the trade officials in the EU delegation in New Delhi can play an important role: they should keep a close eye – through the local press and via their contacts – on proposals for new regulation and if these would especially hinder European exports to India, they should – before the new regulation comes into force – get in contact with the local authorities to discuss possible adjustments.
- The agreement should contain provisions **prohibiting the imposition of export taxes or restrictions on fibres and yarns**, so that situations like the one in March 2012, when India introduced an immediate ban on all cotton exports, are no longer possible.
- EUROCOTON asks for **more reciprocity** between the opening of the **public procurement** market in Europe for Indian companies and the access of EU companies to the Indian public procurement market.
- Both parties should commit in the agreement to effectively protect and enforce **intellectual property rights**, including designs and copyright.
- EUROCOTON requests that the EU would **closely monitor the imports** of textile and clothing products from India and asks for a **safeguard clause** that entails automatic action once the imports surpass certain levels.
- India should at the latest upon the entering into force of the FTA or, if applicable, upon its provisional application, **effectively implement on the ground the 11 fundamental principles and rights at work of the International Labour Organisation (ILO)**. The country has to date only ratified 6 of them.
- India should furthermore **implement and respect the basic international environmental and climate conventions** and subscribe to the principle of a sustainable and circular economy. It is in this respect important that the government ensures that certificates are delivered correctly.

About EUROCOTON:

EUROCOTON represents the European textile manufacturing industry of cotton and man-made staple fibres, starting from the cotton ginning, over the manufacturing of yarns and fabrics of cotton and man-made staples fibres. These yarns and fabrics are mostly used in the garment industry, for home textiles or for technical applications. We have members from the following EU-member states: Austria, Belgium, France, Germany, Greece, Italy, Poland, Slovenia and Spain. We urge for a favourable business climate for our industry and are in particular active on trade and industry topics where we advocate free but 'fair' trade.
