White Paper

INDIA's FREE TRADE AGREEMENTS
SIAM POSITION AND RATIONALE

SIAM

Society of Indian Automobile Manufacturers

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Preamble

SIAM represents the auto industry in India that drives economic progress. Through our automobiles, we connect people, products and services to enhance quality of life and sustainable auto mobility. We are committed to technological innovation in the areas of safety, environment, fuel efficiency, and we seek global harmonization of safety and environmental standards to benefit consumers.

SIAM acknowledges the tremendous positive impact of judicious policy interventions by the Government of India during the last 15-20 years that have made Indian automotive industry as one of the finest example of development of successful manufacturing industry in post liberalized India.

However, SIAM is extremely concerned about the way India is negotiating Free Trade Agreements with various nations and groupings. India has signed FTAs with several important partners in the last few years and has lost in all cases in terms of trade balance. However, we are still going ahead with more and more FTA negotiations without doing a proper review of the past FTAs which are expected to damage our economy further.

One of the most demanding FTAs being negotiated by India at present is with European Union, which SIAM feels need to be concluded with utmost caution and after reviewing the results of all other FTAs concluded by India and convince the domestic stake-holders who are affected, about the gains. Even as India enters the final phase of the negotiations for a Free Trade Agreement (FTA) with European Union (EU), SIAM would once again like to caution the policy makers that it’s not just some irrational fear based on any dogmatic view, but a real danger that emanates from changing business environment that India will have to accept to reach an agreement with the EU. The negative fallout will seriously compromise our investment, manufacturing value add and employment at no obvious gain in trade or economic expansion.

Automobiles Represent Freedom and Economic Development

Automobiles allow people to live, work and play in ways that were unimaginable a century ago. Automobiles provide access to schools, to markets, to doctors, to jobs. Nearly every car trip ends with either an economic transaction or some other benefit to our quality of life. The global auto industry is a key sector of the economy for every major country in the world. The industry continues to grow, registering a 30 percent increase over the past decade (1995-2005). The automobile industry plays a significant role in economic development of nations - witnessed in all major developed countries - USA, UK, Germany, France, Italy, Japan, S Korea and now China.

The global automobile industry is also a major innovator, investing over €84 billion in research, development and production. The auto industry plays a key role in the technology level of other industries and of society. The world's automotive industry made around 80 million cars, vans, trucks and buses in 2011. These vehicles are essential to the working of the global economy and to the wellbeing of the world's citizens. This level of output is equivalent to a global turnover (gross revenue) of almost €2.5 trillion. Vehicle manufacturing and use are also major contributors to government revenues around the world, contributing well over €400 billion. In India, the automotive industry contributed to almost Rs 40,000 crores in Excise Revenue only.

All the developed countries e.g. Japan, EU and USA have protected their automotive industry during the time their industry was in the developing stage. Even now, EU maintains high duty on cars imported from Japan! The taxes imposed on shipping cars to Germany from Japan are many. Import duty comprises of 10% of the cost of the vehicle added to freight charges to the city of destination and the insurance on the freight. Value added tax which is 15% of the purchase price added to freight costs and import duty is another tax imposed. This is against zero duty import allowed by Japan for German cars.

Autos Create Jobs

Worldwide building 80 million vehicles requires the employment of about 12 million people directly in making the vehicles and the parts that go into them. This is over 5 percent of the world's total manufacturing employment. It is estimated that each direct auto job supports at least another 5 indirect jobs in the community, resulting in more than 72 million jobs owed to the auto industry. Many people are employed in related manufacturing and services. Autos are built using the goods of many industries, including steel, iron, aluminum, glass, plastics, glass, carpeting, textiles, computer chips, rubber and more.

Free Import of CBUs Ruined Auto Industry in Many Countries

Import of CBUs or fully built up cars, or even semi knocked down cars would lead to a reduction in manufacturing activity in India as has happened in every country around the world where there has been a significant increase in import of cars. For example, Australia reduced import duties from 17.5% in 1999 to 15% in 2000 and 10% in 2005 and as a result its domestic production has stagnated. While the number of imported vehicles has jumped from 11% of new vehicle sales to 66% in 1999, domestic manufactured vehicle sales declined from 325,216 in 1987 to 302,615 in 1996 and further to 271,500 in 1999. In 2002, the local production was 350,000 against a domestic market of 825,000. Since a third of domestic production is exported, the share of imported vehicles in the domestic market has increased to over 70%. Currently, with further lower duty import content has further gone up to over 75%.

Inverse Relation between Tariff and Technology Flow

A direct relation exists between level of tariffs and domestic value addition given the current world economic scenario or in other words, inverse relationship exists between Technology Flow and Trade. This has happened in IT hardware industry in India, which was significantly undermined with the reduction of tariffs.

Emergence of Automobile Industry in India

India is a big emerging economy but with a very low per Capita income. Though some sections of population and industry have made significant advancements, India still has its challenges of unemployment, skill gap, inflation, lack of infrastructure and investment and a trade deficit. Manufacturing as a sector, can be a backbone for economic growth and employment generation with a multiplier effect. Within manufacturing, the auto industry is a unique industry with a long value chain of Tier-1, Tier-2, Tier-3 vendors, dealers and service workshops, most of which are MSMEs and employ a large number of people. Also, the auto industry is a highly volume sensitive industry where only economies of scale can help make investments in modern manufacturing and technologies viable and cost competitive. A disproportionately large part of value-add and hence investments in manufacturing and technologies have to be made by auto component makers.

In 2011-12, the automobile industry reached a turnover of Rs 264,000 crores and vehicle exports revenue was around Rs 32,000 crores. The industry today supports employment of about 1.95 crores people, both directly and indirectly. This is significantly higher than 2000-01 when our turnover was only Rs 39,830 crores and exports revenue was Rs 1,354 crores.

The industry has been growing rapidly over the last one decade mainly through private initiatives and huge investments by Indian, Japanese, South Korean and US manufacturers. Recently, European companies have also started showing interest and have entered/entering India. In fact, all major European automobile companies are already present in India. Despite late entry, in number terms, European companies are selling almost 5.5% of total passenger vehicle sales in India today. This will be significantly more in value terms as European vehicles are mostly premium and luxury categories.

As per estimates, if the growth of the automotive industry is not hampered by external negative influences, it has the potential to grow to a level of 9 million passenger cars, 30 million two wheelers and 2 million commercial vehicles by 2020, thus making India the 3rd largest producer of cars in the world. This will support additional employment of around 2.5 million every year both directly in manufacturing and indirectly at different levels of the values chain. For this to happen it is imperative that the fiscal and trade policies remain stable and in line with the spirit of the Automotive Mission Plan (AMP).

However, if the volumes and economies of scale of domestic manufacturing are compromised, it will hurt employment and technology and R&D absorption on a large scale, increase trade deficit (and consequent evils of rupee depreciation and inflation) and ruin the Indian auto industry's prospects to be globally competitive for all times to come. Once the domestic industry is weakened, eventually Indian consumers will be at the mercy of foreign manufacturers.

In the past 50 years, the industrialized countries have gradually decreased their tariffs. However, even today the tariffs in EU or USA are quite high (22-25%) wherever they have sensitivities (Trucks). SIAM would like to point out that though there is a long history of vehicle manufacturing in these countries, the Indian automobile industry has virtually started in the last 10-15 years and it is at a very sensitive stage of development.

Auto Policy of Government of India

Due to the commitments under World Trade Organization (WTO), India removed Quantitative Restrictions on automotive products and also removed the mandatory localisation policies in the year 2000. India had two routes for providing market access to the world – first, the Trade route and second, the Investment route. India chose to offer "free" market access to the global automotive players in India through the route of "Investment". Consequently, while the import duties remained prohibitively high, for Foreign Direct Investment in the auto sector, all restrictions were removed. Today, FDI in the automotive sector can come without any condition and specifically, unlike many countries of the world automotive industry does not attract any of the following conditions:-

a) Minimum investment levels
b) Mandatory Export requirement
c) Mandatory local content requirement
d) Minimum mandatory employment
e) Mandatory technology or R&D spend

This is much more than what China and many other developing countries have allowed and going beyond this by opening the import route will hurt the industry significantly. On the other hand, if the import route is not opened, the Indian consumer will harvest the combined benefits of economies of scale (as the Indian market will grow) and competition (as almost all global car manufacturers are present in India already).

This policy has helped the industry to grow domestically as well as to attract large scale investments from multinational players including EU companies. Today we have more than 20 companies manufacturing cars and utility vehicles alone. However, most of the EU investments in the Indian auto sector have been directed at the domestic market and is not export oriented.

India has already opened the automobile market with 100% FDI permitted in the sector and there are no restrictions on MNCs relating to foreign exchange repatriation, or any other restriction. Therefore, India has allowed free market access to the global auto manufacturers through the route of Investment, while continuing to restrict free market access through the route of Trade. This policy has reaped huge dividends for the country and almost all global passenger vehicle manufacturers have now made investments in India thus doing value addition and contributing to Indian economy's growth. However, this is not to say that the

Indian auto industry has reached a stage of maturity. Many of the auto companies, Indian as well as foreign, are operating on sub-global scales of operation. Furthermore, most foreign companies, except one or two, operating in India are targeting only the domestic market and not exports, while their parent companies are highly export oriented. Under these circumstances, allowing these companies to opt for the easy route to access the Indian market at reduced Customs Duty through the Trade route will not create any value for our economy.

Most importantly, in 2006, after consultation with the industry, the Government of India reinforced its commitment to growth of the sector and came out with the Automotive Mission Plan 2006-2016 (AMP), which was launched by Dr Manmohan Singh, Prime Minister of India in January 2007. Through the AMP, Government of India reiterated that the policy environment would be kept stable and the industry also committed to reach certain targets in terms of output, employment, investment, etc.

The auto Industry was about 4% of India's GDP employing about 13 million people in 2005. The government of India has an aspiration to take it to 10% of GDP and 25 million additional employment as per the Automotive Mission Plan 2016 released by the Hon'ble Prime Minister. The headroom to contribute is still more given the fact that countries like Germany have 22% of GDP coming from their Auto industry. The Indian automotive industry is also socially sensitive and works hard on improving manufacturing efficiencies to insulate the consumer from input cost increases and impart better product features. From 2002 to 2012, steel prices have gone up by 240%, but the price of largest selling car in India, the Alto has remained almost the same (net of excise). It is also sensitive about the need of the nation and has uniquely developed India as a small car market, unlike most other emerging markets. Small cars consume less fuel, take less space on the road, pollute less and are affordable to wider section of society. All these use up less resources in areas where India is really challenged: oil import, road infrastructure, public health and per Capita income. The Indian industry is progressive also and has leapfrogged the technology gap. It is only about 5 years behind Europe in emission norms, despite the lack of higher quality fuel. At the same time it is quite frugal in its products and has not picked up the opulence of the west.

This is the model that serves India uniquely and we should not be under any pressure to copy anybody else in the world. If we follow this, India is today the 6th largest car manufacturer of the world and has the potential to become the 3rd largest car manufacturer by 2020 and the world leader in small cars by then. India's engineers have proven their intellectual prowess in fields like IT and are now to prove them in auto design as at least five global car giants are setting up world class R&D centres in India.

To achieve the targets set in the Automotive Mission Plan, the industry did not receive any special incentive from the Government except stability of policy which pegged the tariff at a high level, forcing companies interested in Indian market to invest and manufacture/assemble vehicles in India for market access rather than import and sell. Continued stability of this policy is imperative to nurture future growth of the industry and bring it to a level of maturity from the perspective of global scales of operation.

The AMP also identified 77 automotive tariff lines (vehicles and components put together), where custom duties would not be lowered under the Free Trade Agreements. Government of India has consistently maintained this policy in all FTAs including FTAs with Japan, ASEAN, S Korea, etc.

India's Free Trade Agreements

Government of India has been negotiating several free trade agreements (FTAs) and bilateral investment treaties (BITs) in the last two decades which may impact automotive industry if a proper strategy is not devised.

Status of Free Trade Agreements (As of 2012)

Country/ Region	Status	Outline/Developments
Japan	**CEPA in effect**	**Aug 2011: A Comprehensive Economic Partnership Agreement (CEPA) between Japan and India came into force. Tariff on gearboxes imported into India to be gradually reduced from 12.5% to 6.25% in eight years, tariff on diesel engines reduced from 12.5% to 5% in six years, and 10% tariff on mufflers to be completely removed in ten years. Tariff of 5% on iron and steel products to be completely removed in five years. Passenger vehicles /Two wheeler (CBU) excluded from concessions.**
China	CECA negotiations stalled	Nov 2006: Agreement was reached to begin negotiations aimed at forming CECA. However, talks were shelved with no progress to date as of 2012.
Korea	**CEPA in effect**	**Jan 2010: The Korea-India CEPA came into effect. India to remove tariffs on the equivalent of 75% of the import value of ships electronic parts, etc. within eight years. Tariffs on automotive parts to be lowered to 1-5% within eight years. However, passenger vehicle and two wheeler (CBU) excluded from concessions. Korea to remove tariffs on the equivalent of 85% of the import value of products from India.**
16 east Asian countries	**FTA under negotiations**	**Aug 2012: Basic agreement reached between 16 east Asian countries to begin negotiations for a Regional Comprehensive Economic Partnership (RCEP). Participating countries: Ten ASEAN countries, Japan, India, China, Korea, Australia, New Zealand. First round of negotiations to begin in 2013, with aims to conclude the agreement by the end of 2015. Will become the world's largest FTA if implemented.**
ASEAN	**FTA in effect**	**Jan 2010: An FTA between India and ASEAN came into effect. 75% of tariffs (trade base) on Normal Track items to be removed by the end of 2013 (removal on some parts delayed until the end of 2016). However, passenger vehicle and two wheeler (CBU) excluded from concessions. Came into effect with the Philippines and Cambodia in 2011 (with which, in effect with all ten ASEAN countries.) Agreement reached between India and the Philippines for a long-term tariff reduction schedule until 2022. Rule of origin (Regional Value Content) over 35%.**
Thailand	FTA under negotiation	Oct 2003: Signed an FTA framework agreement. Commenced an Early Harvest under the terms of the FTA framework in Sep. 2004. Tariffs on 82 early harvest items (including automotive parts, such as transmission and engine parts) removed in Sep. 2006. Second revisions to the FTA framework came into effect in June 2012, which expanded the range of early harvest items.

		As on 2012, negotiations underway for a full FTA
Indonesia	CEPA under negotiation	Oct 2011: Official negotiations aimed forming a CEPA began.
Malaysia	**CECA in effect**	**July 2011: The India-Malaysia CECA came into effect. Normal Track 1 tariffs to be removed by the end of Sep 2013; Normal Track 2 tariffs by the end of June 2016. Moreover, tariffs on sensitive items to be lowered to 5% by June 2016. Agreement schedule earlier than the India-ASEAN FTA. However, passenger vehicle and two wheeler (CBU) excluded from concessions.**
Singapore	**CECA in effect**	**Aug 2005: The India-Singapore CECA came into effect. India immediately removed tariffs on 506 items. Additionally, by June 2009, tariffs were removed on 2,202 items, while those on another 2,407 items were halved. Tariff concessions on 6,551 items. Singapore removed tariffs on all items. In Dec 2007, both parties signed an agreement to review the terms of the CECA. From Jan 2008 until the end of Dec 2015, India is to gradually remove or lower tariffs on 539 negative listed items. However, passenger vehicle and two wheeler (CBU) excluded from concessions.**
Pakistan	FTA under negotiation	March 2012: The Pakistani government issued official decree of introduction of a negative list of items imported from India. The list includes 1,209 items, such as automotive parts, textiles, chemical products and pharmaceuticals. Previously only positive list items (1,964 items) were approved for imports; however, it was changed to a negative list system. Change brought about in response to introduction of MFN status. The negative list was planned to be abolished by the end of 2012; however, implementation schedule is not clear.
Nepal	Conclusion of trade agreement	1991: Concluded bilateral trade talks. Both parties agreed to remove tariffs on primary products. As of 2012, India was drafting a CEPA.
Sri Lanka	**FTA in effect**	**March 2000: Bilateral FTA came into effect. Tariffs removed on items other than those on the Negative List (as of 2012). Negotiations were underway to expand the FTA to a CEPA.**
Bangladesh	**FTA in effect**	**April 2006: FTA came into effect.**
Bhutan	**FTA in effect**	**July 2006: FTA came into effect. To remain in force for ten years**
Seven South Asian countries	**FTA in effect**	**Jan 2006: The South Asia Free Trade Agreement (SAFTA) came into effect. SAFTA is based on the framework of South Asian Association for Regional Cooperation (SAARC), with membership by India, Bangladesh, Pakistan, Sri Lanka, Nepal, Bhutan and Maldives. Tariffs other than on sensitive items to be lowered to 0-5% between India, Pakistan and Sri Lanka by the end of 2012 and between all countries by the end of 2016.**
Seven Bay of Bengal neighboring countries	Tariff concessions underway	Feb 2004: Signing of the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) FTA framework agreement. Apparently began tariff concessions from July 2012. BIMSTEC is comprised of India, Thailand, Bangladesh, Sri Lanka, Myanmar, Nepal and Bhutan.
Australia	CECA under	March 2006: Concluded a trade and economic partnership

	negotiation	framework agreement. July 2011: Began negotiations aimed at concluding a Comprehensive Economic Cooperation Agreement (CECA).
New Zealand	FTA under negotiation	April 2007: Decision made to establish a joint study group aimed at a possible CEPA/FTA agreement. April 2010: Began negotiations. Initially aimed at reaching an agreement by March 2012, however not reached by Dec 2012.
EU	**CECA under negotiation**	**June 2007: Began CECA negotiations. Agreed to lower over 90% of tariffs (item based) by 2012. EU imposes a 6.5% tariff on vehicles imported from India (after deduction of 3.5% general concession); however, preparing to remove tariffs on vehicles and parts. On the other hand, India has a high duty on CBU – 60% and 100%. EU is insisting on inclusion of CBUs for concession, which India has not agreed in any other FTAs.**
EFTA	FTA under negotiation	Oct 2008: Began negotiations to conclude a FTA with the European Free Trade Association (EFTA). EFTA comprised of Switzerland, Liechtenstein, Iceland and Norway.
Russia	CECA under negotiation	Feb 2006: Established a joint study group aimed at possible CECA.
Serbia/ Montenegro	**TECA signed**	**Feb 2006: Signed a Trade and Economic Cooperation Agreement (TECA) with the purpose of promoting trade in sectors, such as automotive parts, IT, pharmaceuticals.**
Israel	FTA under negotiation	Dec 2004: Began FTA negotiations. Was expected to be signed in Feb 2011; however, had not been signed by 2012.
Canada	CEPA under negotiation	Nov 2010: Began negotiations to conclude a CEPA. Aims to conclude a CEPA during 2013.
Mercosur	**PTA in effect**	**PTA came into effect in June 2009. Tariffs on 450 items from India and 452 items from Mercosur countries reciprocally reduced by 10-100%. As of 2012, aiming to expand the scope of the PTA.**
Chile	**PTA in effect**	**Aug 2007: PTA came into effect. Tariffs reduced to between 10% and 50% on certain items. Apparently studies working towards an FTA were underway as of 2012.**
Peru	FTA under negotiation	Apparently an FTA is under negotiation as of 2012

It is to be noted that in all the FTAs negotiated earlier, auto CBUs have been kept out of any duty reduction and the FTA partners e.g. Japan, ASEAN, Korea have all accepted and respected India's stand. However, in the case of the EU FTA, EU is insisting on including CBUs in the duty reduction/elimination list and is making this as a mandatory condition for signing the FTA.

Furthermore, even in the case of the existing FTAs, there has been no rational analysis of gains versus losses. There is no public debate on the subject and SIAM welcomes the initiative taken by the Parliamentary Standing Committee to initiate a wider discussion on this subject from all concerned stakeholders.

Reversal of Policy

Reduction of tariff on CBUs under India-EU FTA will be a complete reversal of the policy of high tariffs to force investment, local manufacturing, local value addition and local employment.

This will jeopardize the entire Automotive Mission Plan 2006-2016 targets since already some manufacturers have started withholding investment because there is no clarity with respect to tariff reduction in this sector.

SIAM Position on FTA

SIAM has always maintained that auto CBUs should not be included in the FTAs for duty reduction or elimination. The policy of providing free market access through the route of Investment needs to be continued and not diluted by allowing free access through the Trade route. This rationale had also been accepted by Government in all the earlier FTAs.

Currently, the most controversial FTA on the table is with EU. SIAM is deeply concerned with the way India-EU FTA negotiations are taking place. From the beginning of the negotiations, EU had said that India EU FTA cannot be concluded without auto CBUs being included in the FTA. India seems to have bowed down to this condition by EU as it is still discussing with EU despite such threat. It is understood that negotiations on reducing the import tariffs on auto CBUs are in an advanced stage.

In terms of automotive exports, EU is a declining market. On the other hand, India is a rapidly growing market. Therefore, the gains through this FTA will only be for EU and not for India.

India EU FTA has become more dangerous with the introduction of the concept of Non-New Goods where EU is demanding that India cannot 'apply to non-new goods requirements or other measures, including enforcement measures, which are more restrictive than to new goods. Non-new goods shall be understood to include notably used and remanufactured goods'. This, along with the annexure on Automotive NTB seeking acceptance of EU certificates by India without reciprocal treatment, which EU is saying as non-negotiable will nullify our entire "Condition of Import of Used Vehicles" and with reduced tariff and restricted purchasing power of our consumers, India is going to become an ideal dumping ground of used cars from EU.

Nothing for Indian Automotive Industry in India-EU FTA

The proposed India-EU FTA is bigger than all FTAs involving huge trade and manufacturing implications for both the sides. We are again not going to gain anything but lose significantly in most sectors. In Passenger Cars, EU MFN Duty rate is 10% against India's import duty rate of 60%. As a developing country, Indian cars can already be exported at 6.5% duty to Europe. Obviously, India will not gain much by further reduction of EU duties for our cars but if Indian duties are reduced by 50% or even more, it will be a substantial reduction in tariff. The gains will clearly be for the EU industry.

SIAM understands from various sources that India is under pressure to make offers to EU on opening up of CBUs trade. There are talks of 50% reduction of tariff of all cars from 60% to 30% and additionally a certain quota of cars (much more than what EU is exporting today) that can be exported by EU to India at a highly reduced duty of only 10-15%. Talks are on for

quota for large cars which are defined in terms of more than 1500cc cars! EU is insisting on a roadmap for zero tariff regimes for all cars to ensure permanent opening up of the trade route with India. Considering the trade figures and the future export potential from India a reduction of tariff for CBUs under India-EU FTA, will be a total reversal of the policy of high tariffs to force investment, local manufacturing, local value addition and local employment and will not result in any incremental market access to the Indian auto-manufacturers. It will open up our domestic sector to severe and unjustified market distortions which will completely disrupt and even rollback the gains made in this sector over the last decade. Also, zero duty regime will create inverted duty situation which will further undermine manufacturing in India.

Moreover, over the last 10 years, the market has developed its own price equilibrium and tariff reduction should only be accompanied by concurrent internal reforms and infrastructure developments. Also, the kind of support the German, French, Italian Governments gave to their car manufacturers in 2009 downturn has made the environment highly uncompetitive (through such subsidies). It is unfair to expect Indian companies to compete with such subsidized products at reduced/concessional import duty rates.

There is a campaign that inclusion of automotive CBUs in the Indo-EU FTA would help in increasing exports of small cars from India to EU. Various reports emanating from the EU side also state that while India is exporting 300,000 numbers of cars to the EU, the export of cars by EU to India is only 6000, thus implying that there is a large positive trade balance in favour of India. Nothing can be further from the truth.

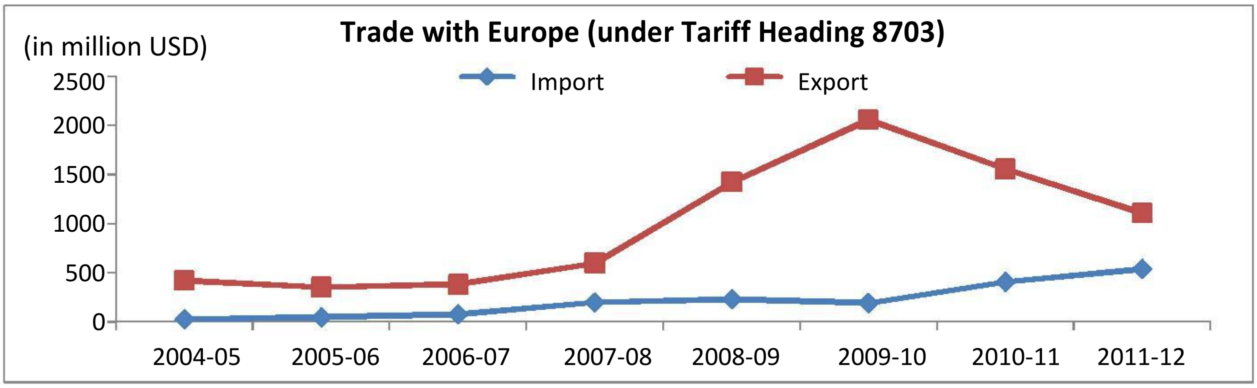
The trade data of the Ministry of Commerce reveal the following facts:-

A) In 2010-11, EU exported USD 3.4 billion automotive products to India including USD 400 million worth of car CBUs. Remaining items were mainly car CKDs which are nothing but unassembled cars which are classified as auto components. India's car exports to EU valued USD 1.7 billion worth of CBU of cars. India does not export any CKDs to EU. Therefore, EU is already exporting around USD 3.4 billion worth of cars as CBUs and CKDs, against India's export of USD 1.7 billion worth of cars. The real difference is that while India exports mostly small cars to EU with an average price of Euro 6000 – 7000 each, the cars being exported by EU to India are large luxury cars costing Euro 20,000 and above each. This makes the trade balance hugely in favour of the EU even without the FTA being operational. If duties on car CBUs are reduced under the FTA, this trade imbalance in favour of EU will only be further enhanced at the cost of domestic production and value addition.

B) Imports of CBUs from EU actually increased from 5,000 large cars in 2009-10 to 11,000 in 2010-11. Imports of CKDs increased from 17,000 numbers in 2009-10 to 22,000 in 2010-11. However, during the same period exports of our small cars have declined from almost 300,000 in 2009-10 to around 225,000 in 2010-11. These exports were also mainly as a result of the European scrappage scheme which spiked export of Indian small cars to EU in 2008-09 and 2009-10. The future potential of small car export from India to EU is much less as this scrappage policy has since been discontinued by EU.

C) Automotive products export of EU to India grew by 51% last year, including 109% growth in car exports. This is against 11% growth in import of automotive products from India to EU and (-) 15% in cars. After a 3% reduction in tariffs is made by EU and a 30-40% tariff reduction is affected by India under the FTA, this chasm would further expand against India.

This is despite 6.5% import duties in EU, while in India it is 60% for CBUs. Of course, to take advantage of the lower duty in India, EU companies have set up assembly lines in India and import as CKD kits at only 10% duty.



The exports of Cars from India to EU have been declining consistently over the last 3 years while the EU exports of Cars and CKD kits to India has been rising during the same period despite higher duty in India.

Head	EU	India
Exports Value	EU exported USD 3.4 billion automotive products to India including USD 400 million CBU of cars. Remaining mainly CKDs coming as components	India's automotive export to EU valued at USD 3.5 billion including USD 1.7 billion worth of CBU of cars. Remaining mainly components
Growth	Automotive products export of EU to India grew by 51% last year, including 109% growth in car exports	11% growth in import of automotive products from India to EU and (-)15% in cars
In Numbers	Import from EU increased from 5,000 large cars in 2009-10 to 11,000 in 2010-11. Another around 22,000 CKDs came in 2010-11 from Europe for local assembly, up from around 17,000 in 2009-10	Our small cars exports have declined from almost 300,000 in 2009-10 to around 225,000 in 2010-11. Mainly the European scrappage scheme spiked export of Indian small cars

Unfair to Automobile Manufacturers with Substantial Investment in India

An FTA with EU with reduced duties on auto CBUs will be patently unfair to the auto manufacturers who have made huge investments in India for vehicle manufacturing e.g. manufacturers from Japan, Korea, US as well as the Indian domestic manufacturers.

The Japanese and Korean companies are already protesting about tariff reduction under India-EU FTA and are withholding investments. They have made India a manufacturing base and from a strong base they are today exporting to not only EU but more than 100 other

countries. The EU FTA will seriously impact the domestic competitiveness of these companies and put them at a major disadvantage vis-à-vis their European competitors in the domestic market. If their domestic base weakens, their export efforts from India will also be negatively impacted.

Therefore, if the duties are reduced under the Indo-EU FTA, the same facility would be demanded by Japan, Korea and ASEAN. This will in effect reduce CBU Duties with most of the auto-producing countries in the world and would open a door for duty reduction on a MFN basis which will hurt the domestic manufacturers who have started making their presence felt on global stage only recently. Today companies like Tata Motors, Mahindra & Mahindra are acquiring prominent global companies to gain technology and market access because more than 95% of the technology are owned by companies in the developed countries through patents and network of non- tariff measures. Others, like Ashok Leyland and Bajaj Auto are also looking at opportunities in passenger car business and if they are supported, they would also come up as global players in future.

Europe is suffering from a recession, amongst other reasons, because of its own excesses and opulent over-spending and is expecting India to compensate its job losses by exporting them to India. The interest groups of developed countries and the advocates of globalization claim that it is good for India in the long term. That's not true. The falsehood of this concept has stood the test of time. Australia opened up its car market very early. It is a country with ten times India's per Capita GDP but half the car market size with more than 75% of the cars imported. Imagine the job losses catastrophe if this were to happen to India.

Industry yet to Gain Economies of Scale

As mentioned earlier, the Indian auto industry has not yet reached a level of maturity that is required to effectively compete in the global market. Out of a total 18 passenger vehicle manufacturers, only 3 manufacturers make more than 250,000 vehicles in a year, 3 companies more than 100,000 vehicles and rest 12 companies manufacture less than even 100,000 cars. Our industry is not yet mature and therefore, the policy initiative of the entire decade would go waste if either any tariff relaxations are permitted at this stage or policy environment is tampered with.

Industry is not Competitive Due to Systemic Deficiencies

Indian auto industry is totally a private initiative and is growing but still not competitive because of the external environment e.g., tax structure, infrastructure and facilities. Moreover, Indian automobile manufacturers do not enjoy the kind of Government support available to automobile manufacturers in developed countries. The bailout packages given to companies in US or Cash for Clunker schemes in Europe are unthinkable in India. One needs to have level playing fields to compete.

Vehicle manufacturers in India face higher costs due to embedded tax structure, deficiencies in labour laws, high finance cost, high energy cost & poor quality and availability, infrastructure inadequacies, state level levies, etc. These systemic issues need to be considered while negotiating internationally as these issues negatively impact our competitiveness. Tariff reductions need to be preceded by Internal Reforms and Infrastructure Development which has not happened.

Tax on Cars (other than small cars) is as high as 80%-86% in some states, while on small cars & other vehicles is as high as 58%-63%.

Tax on Cars (Other than SMALL Cars)				
S No	Head	Rate	Petrol Car	Diesel Car
A	Total Ass. Val - Rs.		1,000,000	1,000,000
CENTRAL TAX				
B	NCCD on (A)	1.00%	10,000	10,000
C	Excise Duty on (A) @ 27.125%	27.13%	271,250	271,250
D	Education Cess (Excise) of 2% on (B+C)	2.00%	5,625	5,625
E	Education Cess (Excise) of 1% on (B+C)	1.00%	2,813	2,813
F	CST on (A+B+C+D+E) @2%	2.00%	25,794	25,794
Total CENTRAL TAX			315,481	315,481
STATE TAXES & LOCAL LEVIES (MAHARASHTRA - MUMBAI)				
G	Octroi	4.00%	52,619	52,619
H	VAT	12.50%	164,435	164,435
I	Road Tax (petrol cars @18%, diesel cars	18%/22%	265,372	324,344
STATE TAXES & LOCAL LEVIES (G + H + I)			482,427	541,399
Gross Total			1,797,908	1,856,880
Total Duty Amount			797,908	856,880
Total Duty as % of Base Price			80%	86%

Tax on SMALL Cars				
S No	Head	Rate	Petrol Car	Diesel Car
A	Total Ass. Val - Rs.		400,000	400,000
CENTRAL TAX				
B	NCCD on (A)	1.00%	4,000	4,000
C	Excise Duty on (A) @ 12.125%	12.13%	48,500	48,500
D	Education Cess (Excise) of 2% on (B+C)	2.00%	1,050	1,050
E	Education Cess (Excise) of 1% on (B+C)	1.00%	525	525
F	CST on (A+B+C+D+E) @2%	2.00%	9,082	9,082
Total CENTRAL TAX			63,157	63,157
STATE TAXES & LOCAL LEVIES (MAHARASHTRA - MUMBAI)				
G	Octroi	4.00%	18,526	18,526
H	VAT	12.50%	57,895	57,895
I	Road Tax (petrol cars @18%, diesel cars	18%/22%	93,600	114,400
(18% & 22% are the lowest slabs for non-individuals.				
STATE TAXES & LOCAL LEVIES (G + H + I)			170,021	190,821
Gross Total			633,178	653,978
Total Duty Amount			233,178	253,978
Total Duty as % of Base Price			58%	63%

Preferential Treatment to Luxury Vehicles!

It is also important to understand what type of cars will be exported by EU to India under the FTA. Obviously, these would be those car models which have low volume demand which means these will largely be expensive luxury cars, many of which will be diesel based. We already have a raging debate on whether diesel used in driving luxury cars/SUVs by rich people is not a waste of the subsidy given by the government on diesel to reign in freight rates and prices of agricultural commodities? Government is already imposing higher excise duty on such cars used by the rich and in the last two years' budget has increased the customs duty on such vehicles from 60% to 75% last year and to 100% this year. There have been reports in the media that the increase in customs duty has been done by the Ministry of Finance deliberately to pre-empt the 50% reduction being sought by EU immediately. However, one needs to realize that for the India-EU FTA the base rate of customs duties will be the MFN duties applied on 1st March 2007 for India and 1st July 2007 for EU. Thus this will become only a temporary pain for EU based companies but a more lasting hurdle for companies based in Japan, Korea or US!

Also, under the AMP, Government of India has followed a deliberate policy of encouraging manufacturing of small cars. The distinction between small cars and large cars was introduced way back in 2006-07 when the Excise Duty on large cars was kept at a level of 24% and small cars at 16%. Large Cars are only among a few commodities like tobacco which has been discouraged by higher excise duty by Government. When manufacturers in India have always been discouraged to invest in the large car segment through higher Excise Duties, we fail to understand how the policy can suddenly be reversed to favour imports of such large and luxury cars through reduced Import Duties under the FTAs while continuing to discourage their domestic manufacturing in the country through high Excise Duties.

Against this background India is considering to allow such cars to be imported from EU at concessional import duty under pressure from EU! This is a major inherent contradiction in the policy of the current Government which will discriminate against domestic manufacture of such cars vs. imports.

No Gain for India

SIAM is not convinced that India will gain anything substantial out of the India EU FTA. In agriculture, we do not have capacity to export even if we gain market access since we are not able to feed our own people and are already facing a runaway food inflation situation in the country. Also, it is unlikely that EU will allow large scale import of Indian agricultural produce which can be easily stopped through SPS/TBT route.

In the services sector, are we capable of providing huge amount of services to EU, which is a conglomerate of mostly non-English speaking nations? Do we really have the capability to service the Greeks, the Germans, the Polish, the Romanians, the French, the Spanish and many other countries which have 15 different languages? If not, then what are the gains we can expect in the agriculture and service sectors in the EU FTA, which could justify sacrificing the automotive industry.

Also, the recent downturn in several EU economies has created huge unemployment, which is putting pressure on allowing outsourcing in any significant manner. This will definitely reduce potential gain further.

The industry chambers have given their views on the matter that they agree to

- The need for keeping 10% of our tariff line as sensitive (this is in line with our negotiations with Korea, Japan, and ASEAN, and future negotiations with Indonesia)
- The need for carve outs within sectors, based on the principle of special and differential treatment (giving India longer time periods for implementation)
- The need for being as proactive on EU NTBs as they are on ours. The focus being on facilitation, i.e. reducing the costs of compliance.

Conclusion:

Opening the CBUs to imports/ lowering import duties under the EU FTA is a retrograde step and will have a severely damaging and long term irreversible effect in several ways for the Indian economy, auto industry and consumer at large. It has to be avoided at all cost.

The list of tariff lines identified by SIAM which comprise of CBUs (Completely Built Unit) and Engines (20 items; given as Annex) should be kept in India's Negative List in all FTAs.

The Government of India has consistently maintained this policy in all FTAs including FTAs with Japan, ASEAN, S Korea, etc. These items have also been identified in the Automotive Mission Plan 2006-2016.

We would like to reiterate that these tariff lines should be kept in India's Negative List under India-EU FTA.

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__Annexure__

Sensitive Items List for FTAs/PTAs at 6 Digit Classification: To Be Put in Negative List		
S No	**Tariff Line**	**Description**
Motor Vehicles For The Transport Of Ten Or More Persons, Including The Driver		
Diesel Bus/MUV		
1	870210	With compression - ignition internal combustion piston engine (diesel or semi-diesel)
2	870290	Other Bus/MUV
Motor Cars And Other Motor Vehicles Principally Designed For The Transport Of Persons (Other Than Those Of Heading 8702), Including Station Wagons And Racing Cars		
Petrol Cars/ MUVs/Three Wheelers		
3	870321	Of a cylinder capacity not exceeding 1000 cc
4	870322	Of a cylinder capacity exceeding 1000 cc but not exceeding 1500 cc
5	870323	Of a cylinder capacity exceeding 1500 cc but not exceeding 3000 cc
6	870324	Of a cylinder capacity exceeding 3000 cc
Diesel Cars/ MUVs/ Three Wheelers		
7	870331	Of a cylinder capacity not exceeding 1500 cc
8	870332	Of a cylinder capacity exceeding 1500 cc but not exceeding 2500 cc
9	870333	Of a cylinder capacity exceeding 2500 cc
10	870390	Other
Motor Vehicles For The Transport Of Goods		
Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel)		
Diesel Trucks/ Goods Three Wheelers		
11	870421	g.v.w. not exceeding 5 tonnes
12	870422	g.v.w. exceeding 5 tones but not exceeding 20 tonnes
13	870423	g.v.w. exceeding 20 tonnes
Petrol & other Trucks/ Three Wheelers		
14	870431	g.v.w. not exceeding 5 tonnes
Chassis Fitted With Engines		
Four Wheeler Chassis		
15	870600	For motor vehicles of headings 8701-8705
Motorcycles (Including Mopeds) And Cycles Fitted With An Auxiliary Motor, With Or Without Side-Cars; Side-Cars		
Two Wheelers		
16	871120	With reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc
Engines for Vehicles under Chapter 87		
17	840732	Spark ignition internal combustion piston engine 50cc - 250cc
18	840733	Spark ignition internal combustion piston engine 250cc - 1000cc
19	840734	Spark ignition internal combustion piston engine exceeding 1000cc
20	840820	Compression ignition internal combustion piston engine for vehicles under chapter 87