

# India Trade Priorities



## Introduction

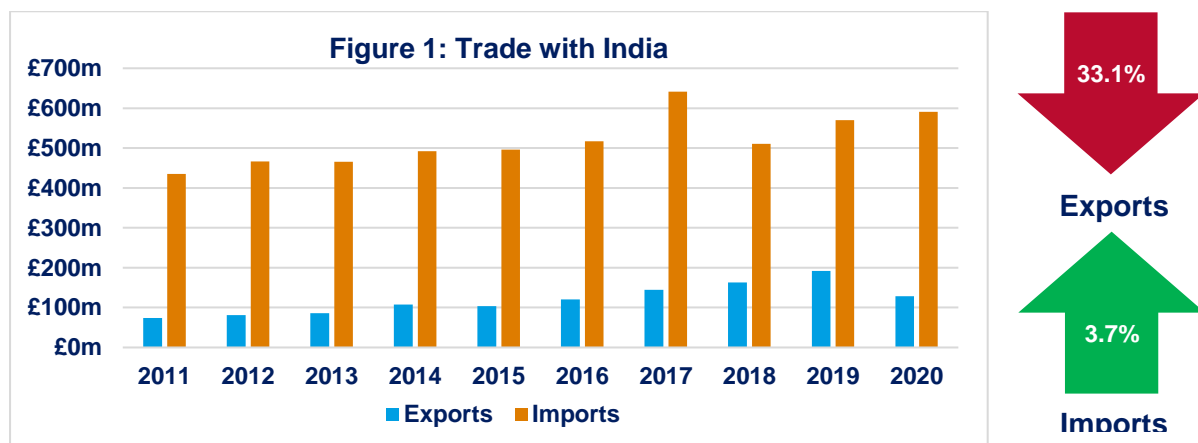
India is an important trading partner for many UK manufacturers, primarily as a source of ingredients and raw materials that are not produced domestically. A preferential trade agreement presents opportunities for UK producers but carries significant risks and will require a different approach from UK Government to talks with Australia and New Zealand.

During 2020, imports from India increased 3.7% to **£591 million** while UK exports fell by 33.1% to **£128 million**, largely due to the COVID-19 pandemic. India's rapidly growing middle class presents major opportunities for UK exporters. Demand is booming in India in the health, organic, fortified and ready-to-eat packaged food sector, driven by increasing consumption of convenience foods.

India's prohibitively high tariffs averaging 34% impede UK exports and significant opportunities exist to grow sales of UK chocolate and dairy products including protein concentrates, as well as whisky, gin and beer.

While opportunities exist for UK exporters, UK Government should exercise caution due to challenges presented by India's inconsistent application of production and labour standards and its use of trade distorting export subsidies. No outcome of negotiations should result in any weakening of protections for health, safety or the environment.

This paper sets out an overview of priorities for the UK in potential trade talks with India that have been identified by the FDF's members.



**Figure 2: Top five products (2020)**

Imports		Exports	
Husked rice	£121m	Whisky	£103m
Crustaceans	£85m	Breakfast cereals	£4m
Spices	£58m	Chocolate	£4m
Fruit	£33m	Protein concentrates	£2m
Vegetables	£31m	Gin	£2m

## Executive summary: ten priorities for UK Government



We have identified the following key opportunities and concerns for the negotiation of a preferential trade agreement with India:

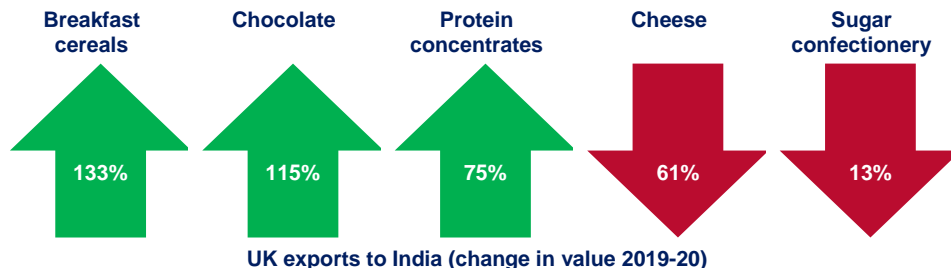
1. **Tariff reductions** are welcomed to increase UK exports and help deliver continued competitive prices for UK consumers and manufacturers. India applies prohibitively high tariffs to food and drink, and this shuts out many exporters. Improved terms can drive significant export growth for manufactured food and drink.
2. India's focus on self-sufficiency in food means it is unlikely to agree to the complete removal of all agri-food and drink tariffs. UK Government should **offer only targeted tariff reductions to India** for food and drink to protect the interests of UK manufacturing or consumers. Government must work with industry to ensure tariff reductions are targeted at sectors that will benefit from improved market access.
3. India is an important source of ingredients and raw materials. Reductions to UK tariff rates, higher tariff rate quotas and more flexible rules of origin can support growth in our trade with India and benefit UK producers and consumers. However, preferential access into the UK market must be contingent on meeting UK standards and subject to **robust safeguard measures** to ensure ongoing compliance. Government must guard against any risk of incorrect classification of goods or products being dumped on the UK market. Access to preferential tariffs should be linked to meeting equivalent environmental, animal welfare, food safety, human rights and labour standards.
4. The UK should as a priority seek to **address major non-tariff barriers**, such as extra SPS checks and extra regulations on products of animal origin, discriminatory and unnecessary standards and regulations, and the need for extra export licences.
5. **The EU** remains crucial for most UK manufacturers and in updating and expanding trade with India, Government must ensure that this doesn't undermine UK producers' ability to export to the EU.
6. The agreement should include **business-friendly rules of origin** that do not act as a barrier to trade. The use of 'wholly obtained' rules should be kept to a minimum and the use of detailed and complex exceptions included in the UK-EU Trade and Cooperation Agreement (TCA) should be avoided.
7. A mechanism should be included in the rules of origin that would enable the establishment of **full diagonal cumulation** between the UK, India and the EU in the future, should all parties be willing to do so.
8. More efficient **border and customs processes** should be targeted, ensuring that the UK Government's 'Borders 2025' work links in closely with key trade partners including India to expedite the flow of perishable goods.
9. DIT should create a **dedicated online trade platform** that provides access to vital information that will enable SMEs to effectively export to or import from India, or other markets. The UK offering on Gov.uk lags significantly behind the clarity and business friendly communications of most of our key trade partners.
10. The UK has **high environmental standards and ambitions** but at this stage India does not have an ambitious plan for carbon neutrality. The Government needs to ensure that through higher imports from India, that it is not encouraging increased carbon emissions outside our borders.

# India: trade priorities in detail

## 1. Tariffs

The FDF urges the Government to aim for **the highest possible tariff liberalisation for most sectors to help boost UK food and drink exports to India**, targeting products with high tariffs and exports which have significant room to grow. However, India's self-sufficiency policy means it is likely that they will not be open to reducing many of their prohibitively high tariff rates. As a result, UK Government should pursue a highly targeted approach to securing tariff reductions that will benefit export sectors that are best placed to take advantage of tariff reductions. The following products should be among the Government's priorities for our sector:

- Breakfast cereals (30% current tariffs)
- Chocolate and chocolate products (30% current tariffs)
- Protein concentrates and textured protein substances (40% current tariffs)
- Cheese (30%-40% current tariffs)
- Sugar confectionery (30%-45% current tariffs)



The complexity of India's tariff system also presents a barrier for UK exporters, creating uncertainty and delays at the border. Provisions such as multiple exemptions that vary according to product, user, or intended use add an additional layer of burdens to border checks and increase administration costs. Border delays quickly erode the shelf life of perishable products and this undermines both the value attractiveness of UK manufacturing to Indian buyers.

<sup>1</sup> [https://www.fdf.org.uk/corporate\\_pubs/FDF-Rules-of-origin-report.pdf](https://www.fdf.org.uk/corporate_pubs/FDF-Rules-of-origin-report.pdf)

Given the high volume of imports from India, UK manufacturers would also see benefits from UK tariff reductions for certain product lines, such as frozen prawns, as well increasing eligible types of husked rice to access preferential tariffs. However, the Government must exercise a cautious approach to tariff liberalisation with India given the inconsistent application and adherence to production standards in India, their use of export subsidies to support unfair competition and the risk this presents both to UK producers but also to the high safety standards of UK food and drink. Decisions around UK tariff reductions should take place on a product-by-product basis and handled with extreme care due to potential implications for domestic UK production in sensitive sectors of the industry.

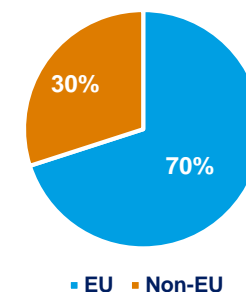
## 2. Rules of Origin

The need for non-UK inputs isn't going to change and given its proximity, the EU will always remain a key source of inputs used in UK manufacturing (see figure 3 for imports from the EU).

However, as the UK concludes new trade deals, new opportunities will arise for producers to source inputs from non-EU suppliers instead of the EU. It is essential that **the rules of origin seek to ensure processing takes place in the UK (and India) but that sufficient flexibility is provided to ensure EU or rest of the world content used in UK manufacturing allows continued access to preferential tariffs.**

The rules of origin should not act as a barrier to trade with the use of 'wholly obtained' rules and detailed exceptions as seen in the UK-EU Trade and Cooperation Agreement (TCA). As set out in FDF's previous publications on rules of origin<sup>1</sup>, a suite of options exists to enable this flexibility, including:

Fig. 3: UK food and drink imports



- simple and straightforward change of tariff heading rules without exceptions;
- more generous provisions on tolerance e.g. shifting to a 15% value or weight option; and
- a joint exemption for content originating from Least Developed Countries (LDCs).

In addition, given the recent decision between EU and Indian leaders to resume trade talks, the UK should look to build in mechanisms to future-proof the agreement by allowing the potential future agreement of full diagonal cumulation between the UK, India and the EU.

### 3. Standards and regulations

The FDF emphasises the importance of good cooperation and dialogue between UK and India regulators, political bodies, industries and other stakeholders to ensure regulatory coherence.

Given the high quality of the UK food and drink sector, our high standards of food safety and animal welfare must not be undermined, or we risk the loss of consumer confidence in UK food and drink. **Any deal should include a non-regression clause to avoid any lessening of these protections.**

The UK should ensure that robust measures are included in any deal to ensure continued, consistent and ongoing compliance with UK standards for all imports from India in order to benefit from preferential tariffs. For certain high-risk products, checks should take place in India to ensure there is no misclassification of goods to take advantage of preferential tariffs or quotas, for example to help ensure only qualifying types of rice benefit from preferential access to the UK market.

The UK should seek to address unnecessary and unjustified requirements facing UK exporters. This includes the required use of chemicals in UK factories that are banned in the UK and much of the world, and additional requirements in place for dairy products that are not relevant to the UK agriculture system. Removing these requirements would simplify export processes and reduce costs.

### 4. Customs and border checks

Where appropriate, both parties should look to minimise barriers and burdens businesses face when trading between the UK and India. **This could be achieved by using existing models of mutual recognition** such as the agreement in place between the UK and US for their respective AEO and C-TPAT schemes and using that as the basis to develop a system of trusted traders. Crucially, these benefits should be accessible to SMEs.



Simplifications to customs and border checks are important to reduce unnecessary costs and speed up trade. Many food and drink products are perishable, and delays at border erode the quality and value of products. **The UK should push for enhanced commitments around customs procedures, similar to those set out in the agreement in principle with Australia**, which look to digitalise processes to ensure perishable goods clear customs quickly.

The UK's 'Borders 2025' work should link in closely with key trade partners such as India to expedite the flow of perishable goods. The UK should work closely with international partners including India to streamline and standardise global customs processes where possible, with the aim of introducing a customs single window and removing the need for both export and import declarations.

The UK and India should look to **better coordinate SPS requirements and create a system where the high quality of UK production is recognised allowing us to be treated as a trusted partner**, to reduce checks and delays facing UK exports.

### 5. Small and Medium Size Enterprises (SMEs)

Government needs to improve the quality of its digital offer and the way in which it communicates with SMEs as Gov.uk is not fit-for-purpose to disseminate complex information on trade to time-pressed small businesses.

Given the complexity of the current tariffs, standards and regulations between the UK and India, it is vital that the UK government create clear guidance for businesses. The FDF would like to see the development of **a one-stop-shop that provides ease of access to essential trade information for**



**SMEs**, including those looking into trading with India but also for Mexican businesses exploring opportunities to trade with UK businesses and invest in the UK. This could be housed on the Great.gov.uk website, bringing together key information on processes, procedures, taxes, tariffs, rules of origin, barriers to trade and business opportunities. This could help improve businesses' understanding and utilisation of preferential trade agreements.

## 6. Intellectual property



UK whisky exports to India 2020

A more ambitious approach to the protection of UK Geographical Indications (GIs) for any trade deal with India is needed, with the **aim of securing recognition and protections for all registered UK GIs** and including a simplified and transparent process to support the future recognition of new GIs.

## 7. Labour standards

All trade agreements signed by UK Government should include a robust commitment with ongoing monitoring to ensure that they do not in any way contribute to lower labour standards within the UK or abroad. This is particularly important in any trade deal with India.

## 8. Environment/climate change

The UK should ensure that an agreement with India reflects the UK's zero carbon commitments. India does not have ambitious targets for carbon neutrality which may present a challenge. The UK should consider emissions when trading with India and should seek to ensure that the trade deal isn't driving increased carbon emissions outside our borders. The UK's food and drink industry operates to high environmental standards and as such certain increasing exports and growing UK production in place of manufacturing overseas can help lower overall global emissions.

## 9. Other

Much of our trade in food and drink is in perishable goods. As such, the long transport times, followed by unnecessary border delays can present problems for businesses that move short shelf life perishable goods when they reach India. It is therefore key **to ensure that a trade deal with India finds opportunities to improve the practical movements of foods between both countries**, while ensuring protections for food safety and biosecurity are not undermined.

Given the risks presented by India's huge export potential and use of export subsidies to support agricultural producers, UK Government will need to include monitoring mechanisms that will guard against the dumping of goods on the UK market alongside practical safeguard measures that discourage such harmful practices through the threat of a loss of preferential access.

India presents significant opportunities to deliver further growth for quality UK food and drink manufacturing, while also delivering access to competitively priced ingredients and raw materials that are not available in sufficient quantities domestically. An ambitious trade deal can help drive strong growth in trade in both directions between the UK and India if more ambitious market access is delivered, but this must be underwritten by relevant protections for food safety, animal welfare and the environment.