

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## THE COMMUNITY'S RELATIONS WITH INDIA

(Communication from the Commission to the Council)

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

The Community's relations with India:

Proposals for an Agreement for Commercial and Economic Cooperation

1. In December 1973 the European Economic Community concluded a Commercial Cooperation Agreement (CCA) with the Republic of India(1). This was the first agreement with any non-associated developing country embodying the concepts of commercial cooperation and economic cooperation linked with trade. It established a framework for the evolution of trade relations between the Contracting Parties "on the basis of comparative advantage and mutual benefit"(2). Despite shortcomings which, in the running-in period at least were perhaps attributable to lack of familiarity with the limitations and potential of a newly-created mechanism, the operation of the CCA, and of the Joint Commission which it set up, gave both sides reasonable grounds for satisfaction. Having come into force on 1 April 1974 for an initial term of validity of 5 years, the CCA is now about to be tacitly extended by one year.

2. Among the principal objectives of the EEC/India Commercial Cooperation Agreement were "the development and diversification of the Community's imports from India and India's imports from the Community"(3). The following statistics show that the efforts of the Contracting Parties to attain the first ("development") of these objectives have been moderately successful, despite the effects of the sudden increase in oil prices in 1973/74 on the trade and balance of payments of petroleum-deficit countries and in particular of India:

	mio EUA			
	1973		1977	
<u>Imports:</u>		%		%
Extra-EEC total	84,306	100	171,230	100
From India	655	0.77	1,641	0.96
<u>Exports:</u>				
Extra-EEC total	80,673	100	164,140	100
To India	678	0.84	1,388	0.85

The import figures for 1977 (the last complete year for which trade statistics are available) show that, despite the greater share of resources which the Community has had to devote to the purchase of petroleum since 1973, our imports from India have increased substantially relative to total imports. The latest available statistics indicate that, in 1978, the value of Community imports from India was about the same as in 1977, suggesting a decline in India's relative share of total imports to 0.93%. On the other hand Community exports to India are estimated to have risen in 1978 by about 30%, largely as a result of India's import liberalisation measures referred to in paragraph 6 below. This surge in exports means that for the first time India has become the destination of more than 1% of total Community exports.

1) OJ L82 of 27.3.1974;

2) CCA Preamble and Article 1;

3) CCA Article 4

3. Statistics on India's imports from all sources (4) indicate that the Community's share rose slightly between 1973 (27.1%) and 1977 (27.6%) even though India also had to contend with at least a threefold increase in her oil-import bill. The buoyancy of EEC exports to India in 1978 undoubtedly means a further increase in the Community's relative importance as a supplier to that market.

4. The CCA's second objective of "diversifying" trade clearly has greater relevance to India's exports to the Community than to our exports to that country, and in fact considerable diversification has been achieved both in the composition and in the geographical distribution within the Community of imports from India:

<u>A. Product Group by percentage</u>	<u>1973</u>	<u>1977</u>
Agriculture and Food Products	40	33.6
Primary and energy products	4.5	2.6
Manufactured goods	54.7	62.3
<u>B. Destination by percentage</u>		
"Six"	50.7	60.9
"Three"	49.3	39.1

The Joint Commission was active in encouraging both processes of diversification. Specifically it may be recalled that particular attention was devoted to India's exports of engineering products which, with an increase of almost 300% between 1973 and 1977, were among the most active components of the swing towards manufactured goods' exports seen in Table A. The improvement in India's export structure has clearly been substantial and the Commission believes that further progress is to be expected in this regard because of the emphasis that country is continuing to place on non-traditional exports. The Joint Commission's activities also contributed to the geographical diversification seen in Table B, by helping to increase India's contacts with and knowledge of the Community's continental markets.

5. Though the United Kingdom dominated exports less than it did imports in 1973, some diversification has also taken place since then in Community exports to India:

	<u>1973</u>	<u>1977</u>
<u>C. Origin by percentage</u>		
"Six"	61.2	68
"Three"	38.8	32

6. With a per capita income of about \$150 per annum, India is of course a poor country, and its economy is much less oriented towards foreign trade than is that of the European Economic Community. Significant improvements have, however, been achieved in recent years in India's internal economy and there are signs that the government intends to give greater importance to foreign trade in its development strategy in the coming years. This more open attitude reflects a higher degree of confidence based on recent achievements in the modernisation of agriculture, in the extension of industrialisation and in reversing the country's chronic balance of payments deficit. The steady increase in the area under irrigation, combined with the availability of better seeds and fertilisers and the gradual adoption of modern agricultural methods, has contributed to a succession of record harvests and justifies the expectation that India will find it possible to improve the nutrition of its population over the coming decade. The country now possesses an industrial base of considerable diversity, whose level of technology is already quite high in certain sectors and will no doubt continue to rise because of the availability of a well-endowed and quite sophisticated scientific research establishment. Though the non-traditional industries which have grown up in India behind strong protective barriers have not yet reached optimum productivity, they have become sufficiently efficient to compete successfully with those of the developed countries in many Third World markets, often in conjunction with adaptable and well-qualified technical personnel from India. It is largely thanks to the remittances of such emigrants, particularly in the Middle East, that India's balance of payments position improved dramatically over the last three years. This has enabled the government to tackle the problem of industrial inefficiency by embarking on a substantial liberalisation of imports of capital goods, industrial raw materials, spares and components. (It may be remarked that the encouragement given by the Community in the EEC/India Joint Commission may have helped to influence the Government of India in adopting this policy.) The effects of import liberalisation can be expected to be more marked, in export terms, on non-traditional industries than on those producing less-sophisticated consumer products (e.g. textiles), because the government is endeavouring to decentralise the latter in order to increase employment and to improve the supply of goods at the village level. This is paralleled by a policy of discouraging exports of various mass-consumption items such as edible oils, sugar, vegetables and rice. These measures reflect confidence in the country's ability to pay its way internationally by the export of increasingly sophisticated goods produced with greater efficiency by its non-traditional industries.

7. It is against this background that the Community must consider what form and content it should give to its future relations with India. India itself is on the threshold of a new phase of economic development for which its strategy is likely to be influenced by a more outward-looking attitude than hitherto. Perhaps for the first time, India has both the resources and the will to pursue self-reliance, not by attempting, as in the past, to create self-sufficiency in every sphere of production virtually regardless of economic cost, but on the basis of comparative advantage realistically assessed and subjected to the test of international competitiveness. The Commission is convinced that it will be to the Community's advantage to throw its weight behind those forces which are seeking to guide India towards greater participation in the world trading system, and that it can best do so by creating the framework for a relationship in which every sector of European economic life will be encouraged to cooperate with its Indian counterpart.

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8. By Note Verbale of the Indian Mission to the European Communities dated 9 October 1978 (5) the Government of India confirmed its wish, previously expressed by the Prime Minister, H.E. Shri Morarji Desai, during a visit to Brussels in June 1978, to enter into negotiations for replacing the present EEC-India Commercial Cooperation Agreement with one which would enable "both sides to achieve a more dynamic relationship calling for closer cooperation over a wider range of commercial and economic endeavour". That government's wish for a broader basis on which to develop its relations with the Community is readily understandable. Subjectively, India has gained new self-confidence. Objectively, its agriculture is no longer a dead-weight on the economy, its diversified industrial base is becoming more efficient, and its external resources position is, for the first time, relatively unconstrained. It is therefore in a position to present its economic size in general and its potential as a market for capital goods in particular as inducements for closer cooperation. In fact, as the discussion paper attached to the Note Verbale makes clear, India now feels that it would be appropriate for its relations with the Community to evolve along similar lines to those laid down in the agreements concluded with Canada in 1976(6).

9. In December 1978 and January 1979, the services of the Commission conducted exploratory discussions with Indian representatives to clarify the precise scope of their proposals and to explain the likely requirements of the Community as to the form of the new arrangements in the event that the Community were willing to enter into negotiations to that end. In these discussions the Indian representatives confirmed that their Government, while generally satisfied with the progress achieved to date under the CCA, now wishes to broaden the area of potential cooperation to the widest extent consistent with the evolving competence of the European Economic Community. In their view, this would imply continuing commercial cooperation along existing lines, extending the present concept of economic cooperation to areas not necessarily linked to trade, and intensifying consultations and information exchanges on all aspects of commercial and economic relations. They stated that India would wish to negotiate an agreement of similar scope with the European Coal and Steel Community. In this context they were informed that any such agreement would require that the Governments of the Member States be Contracting Parties thereto, jointly with the ECSC, and that a Protocol to the proposed agreement with the European Economic Community might be the most appropriate form for such an agreement with the ECSC. The Indian representatives made clear that their country is not seeking an agreement with the European Atomic Energy Community.

10. In the course of the exploratory discussions, the Indian representatives modified or explained a number of the ideas contained in their discussion paper. The more significant of these observations may be summarised as follows:

- a) The provisions relating to commercial cooperation in the CCA should be incorporated in their entirety in any new agreement, with some additions (see point (e) below);
- b) The concept of economic cooperation would also cover science and technology to the extent that there are Community activities in this area;
- c) The reference to "fostering mutually beneficial investment" does not imply a request for access to Community funds for industrial development;

- d) "Cooperation in the field of economic relations with third countries" includes both EEC-India collaboration in third countries and EEC-third country collaboration in India. Under the CCA, only the former is covered;
- e) The idea of "friendly consultations" on commercial and economic problems, both on the bilateral level, through the Joint Commission, and in the multilateral context, for example on the occasion of international conferences, is one to which India attaches great importance;
- f) The main lines of Annex I of the CCA might form the basis of the provisions in the proposed new agreement relating to the establishment and operation of the Joint Commission. It is not intended that that body should be given new competence in the financial field, but that it should be empowered to discuss and make appropriate recommendations on all matters arising in regard to commercial and economic cooperation.

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11. India's motives in seeking to formalise its relations with the European Economic Community and the European Coal and Steel Community on a broader basis are indicated in the foregoing paragraphs, as are the principal changes to the present CCA which it would consider desirable towards this end. However, the two Communities would also, in the Commission's opinion, derive several advantages from agreeing to India's request for negotiations leading to broader ties with that country:

- it would not be politically wise to reject India's request for an agreement of a type already concluded with other countries, in view of her influential role in the Third World, her economic attainments in certain sectors of industry, science and technology, and also her traditional friendship with the Community which inspired the Joint Declaration of Intent;
- at a time when the EEC is tilting the balance of its policies on non-associated developing countries increasingly in favour of the least-developed (e.g. in GSP), it would tend to disarm criticism if a gesture were made towards India taking account of its progress on the road towards industrialisation;
- the formalisation of broader links between India and the two Communities should, both by its timing and its content, have the effect of encouraging the trend towards a more open economy in that country;
- in the event that this trend is maintained, the existence of a formal relationship additional to the bilateral ties between individual Member States and India should facilitate participation in India's economic development by single industries which transcend national boundaries within the Community, or by consortia of industries from several Member States.

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12. The Commission is of the opinion that the right of Member States to maintain existing agreements for economic cooperation and, where appropriate, to conclude new ones, should not be referred to in the text of any agreement concluded with India. This, being a question involving the repartition of competence as between Community and Member States, is an internal matter, and the Commission considers that the most appropriate way to deal with it would be to inscribe the following statement in the minutes of the Council of Ministers:

"In the field of economic cooperation Member States retain the power to undertake bilateral activities and to conclude, where appropriate, new cooperation agreements with India, without prejudice however to the relevant provisions of the Treaties establishing the Communities or provisions adopted on the basis of these Treaties, and subject, furthermore, to the condition that any bilateral action undertaken by Member States must not affect the proper functioning and development of the relations established under the present agreement."

13. The Commission recommends that the Council adopt the attached draft decision (Annex II) authorising the Commission to open negotiations with India for an agreement for commercial and economic cooperation. The Commission also recommends that the Council consider issuing directives for these negotiations in the terms of the draft attached as Annex III.

14. The Commission further recommends that a protocol be agreed between the Member States of the European Coal and Steel Community and that Community on the one hand and India on the other, and that the Commission be authorised by the representatives of the Governments of the Member States meeting within the Council to negotiate such a protocol, in the terms of the draft attached as Annex IV.

No. BRU/M/204/1L/78

October 9, 1978

The Mission of India to the EEC presents its compliments to the Commission of the European Communities and has the honour to refer to the discussions which took place during the visit of the Prime Minister of India to Brussels on June 5, 1978, concerning negotiations for the modification of the Indo-EEC Commercial Cooperation Agreement of December 17, 1973. It may be recalled that during the discussions which the Prime Minister of India had on that occasion with the President of the Commission and the Vice-President in charge of External Relations it was expressed on the side of the Commission that the Community was committed to negotiate with India the increased implementation of the present Commercial Cooperation Agreement and that the possibility of supplementing trade relations by increased industrial cooperation would also be looked into. Further it was suggested on the side of the Commission that the Commercial Cooperation Agreement should go well beyond trade and provide for wider cooperation specially in the field of technology.

2. It was also suggested by the Commission side that official and technical level talks should take place between the two sides after the Commission's summer recess. The Prime Minister of India expressed his agreement with these suggestions.
3. In the light of the decisions taken during the visit of the Prime Minister of India, the Mission of India wishes to confirm that the Indian side is ready to participate in discussions with the Community on the review and modification of the Agreement.
4. A broad outline of the modifications that could be considered for incorporation in the Agreement are indicated in the attached statement. It is hoped that this would provide some guidance for the initiation of the discussions. The Government of India trust that the proposals will receive the urgent consideration of the appropriate authorities in the Community and that the discussions can be held at an early date and concluded expeditiously, preferably by the end of February 1979.
5. The Mission of India avails itself of the opportunity to renew to the Commission of the European Commission the assurances of its highest consideration.

The Commission of the  
European Communities  
Brussels



Broad outline of the modifications and new concepts sought to be included in the Agreement between India and the Community1. Title

- a) In view of the wider scope proposed for the Agreement, the title of the Agreement may be changed from Commercial Cooperation Agreement to "Commercial and Economic Cooperation Agreement".
- b) The European Coal and Steel Community may be mentioned as a co-signatory of the Agreement in order to clear the legal confusion regarding the competence of the Agreement to cover the coal and steel sectors.

2. Preamble

- a) The preamble may be strengthened to reflect the desire on both sides to achieve a more dynamic relationship calling for closer cooperation over a wider range of commercial and economic endeavour.
- b) The expansion of international trade may be added as one of the important principles subscribed to by both sides.
- c) A reference may be made to the role played by the CCA of 1973 in developing economic and commercial relations between the two sides.
- d) The evolutive nature of the cooperation between India and the EEC may be emphasised.

3. Commercial Cooperation

With a view to strengthen the existing provisions for commercial cooperation, the two sides may reiterate the need to comply diligently with the provisions of GATT, strengthen consultation procedures and streamline information exchanges on various aspects of commercial cooperation, identify products for developing exports and assist in their production and marketing, provide for comprehensive trade promotion programmes, and sponsor studies that would help in the fulfilment of the objectives of commercial cooperation.

4. Economic Cooperation

The Agreement should reflect the decisions of the two sides to advance beyond the limited concept of trade-oriented cooperation to economic cooperation in all fields of mutual interest in order to contribute to the development of their respective economies and their standards of living. The Agreement should cover the creation of favourable conditions for industrial cooperation, fostering mutually beneficial investment including that in third countries, cooperation in the field of science and technology, e.g. in the field of energy and improvement of environment, undertaking programmes in the field of agricultural and fisheries development and allied activities, streamlining information exchanges and promoting cooperation in the field of economic relations with third countries.

### 5. Friendly consultations

A provision for friendly consultations on problems that may arise in mutual relations will remove a gap in the existing CCA.

### 6. The Joint Commission

The Joint Commission is designed to be the principal operational institution of the Agreement.

The following provisions will contribute to strengthening its position and making it a more effective instrument of cooperation:

- a) Incorporation of the clauses in Annexure I of the present Agreement in the main body of the Agreement
- b) Empowering the Joint Commission to recommend allocation of funds for the implementation of the objectives of the Agreement.

**Recommendation****Council Decision**

authorising the opening of negotiations with India

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community;

Having regard to the Recommendation from the Commission that negotiations be authorised for an agreement of broader scope with India;

Whereas the aim of these negotiations should be to conclude an agreement for commercial and economic cooperation;

HAS DECIDED AS FOLLOWS:

Article 1

The Commission is hereby authorised to open negotiations with India for the conclusion of an agreement for commercial and economic cooperation between the European Economic Community and India.

Article 2

The Commission shall conduct these negotiations in accordance with the directives annexed hereto, in consultation with the representatives of the Member States.

Done at .....

For the Council

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NEGOTIATING DIRECTIVES

A. Nature of the agreement

1. Scope

The aim of the negotiations should be to conclude an agreement for commercial and economic cooperation between the European Economic Community and India(1).

2. Evolutionary nature

The agreement should be of an essentially evolutionary nature; no sphere for economic cooperation should be ruled out in advance, both parties to the agreement proposing to use the Joint Commission as the instrument for exploring practical cooperation possibilities.

3. Duration

The agreement should be of five years' duration, tacitly renewable thereafter from year to year unless denounced by either Party.

B. Content of the agreement

1. Preamble

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2. Commercial Cooperation

The negotiators should secure provisions similar to those of the current EEC/India Commercial Cooperation Agreement, with the addition of a commitment by the Contracting Parties to mutual consultations on bilateral and multilateral commercial problems and issues.

3. Economic Cooperation

a) Objectives

In the light of the potential complementarity of the Contracting Parties and the long-term aims of their respective economies, the envisaged economic cooperation should help to achieve the following objectives of the agreement, namely to:

- promote the development of European and Indian industries;
- contribute to scientific and technological progress;
- open new sources of supply and new markets;
- generally contribute to the development of their respective economies and to raising their standards of living.

1) See also draft Protocol concerning the ECSC set out in Annex IV

b) Fields

In view of its essentially evolutionary nature, the agreement should not seek to list the fields to be covered by economic cooperation. Therefore, no field suitable for economic cooperation should be ruled out in advance.

c) Means

The Contracting Parties could encourage and facilitate inter alia:

- broader inter-corporate links between their respective industries, especially in the form of joint ventures;
- greater participation by their respective economic operators in the industrial development of the Contracting Parties on mutually advantageous terms;
- increased and mutually beneficial investment;
- technological and scientific cooperation, including the development of new sources of energy;
- cooperation with and in third countries;
- exchange of information in all areas relevant to economic cooperation.

4. Joint Cooperation Commission

This Commission should be set up to supervise and promote the various economic and commercial cooperation activities envisaged, and to ensure the proper functioning of any sectoral agreements between the Contracting Parties. It should be empowered to create Subcommissions to assist it in the performance of its tasks.

5. Consultations

The agreements should provide for consultations, at an appropriate level and within the Joint Cooperation, on questions arising from or relevant to the implementation of the agreement. Each Contracting Party should undertake to give favourable consideration to any representations on commercial and economic problems made by the other in such consultations.

6. Other Agreements

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7. Territorial application

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8. Authentic languages

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Protocol to be agreed between the Member States of the European Coal and Steel Community and the European Coal and Steel Community on one hand and India on the other

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"The provisions of the agreement for commercial and economic cooperation between the European Economic Community and India shall also apply in matters covered by the Treaty establishing the European Coal and Steel Community".