March 2023

ACEA Position Paper

EU-India Trade Negotiations

EXECUTIVE SUMMARY

ACEA welcomes the relaunch of negotiations for a trade and investment protection agreement with India.

While India is one of the most important automobile[1] markets in the world, trade with the EU is heavily underexploited due to prohibitively high tariffs, significant non-tariff barriers, substantial regulatory divergence and oppressive domestic taxes.

It is imperative that all types of motor vehicles (tariff headings 8701–8705) and automobile parts (in particular, tariff headings 8407–8409, 8507, 8706, and 8708) benefit from all of the elements of the agreement. Completely built-up units (CBUs) should not be excluded from the scope of a final deal between both parties.

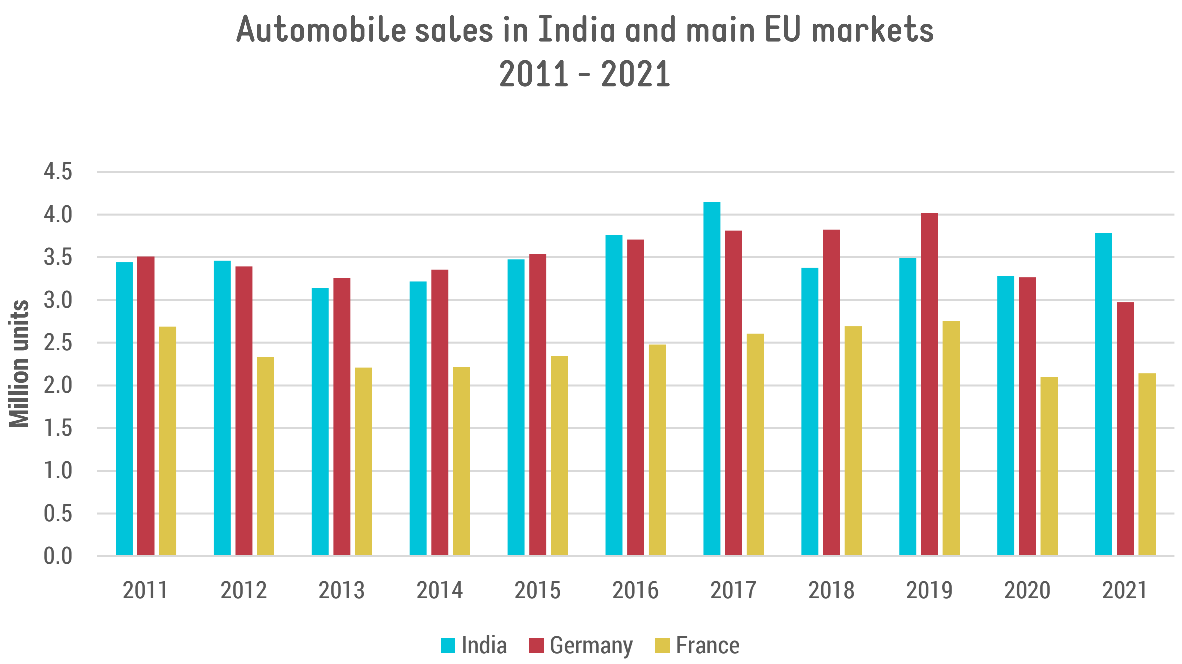
In particular, ACEA requests that the EU and India:

1. Pursue zero-for-zero tariff dismantling for all automotive tariff lines without any distinction.
2. Put workable rules of origin into place.
3. Ensure that a comprehensive automotive annex is part of a final deal, with the aim of enhancing regulatory alignment and therefore preventing technical barriers to trade.
4. Address the complex tax landscape for automobiles in India and aim for a more streamlined approach.
5. Successfully conclude negotiations for an investment protection agreement that ensures fair and equal treatment for established and new investments from EU automakers.

INTRODUCTION

ACEA welcomes the relaunch of negotiations for a free trade agreement (FTA) with India. Likewise, the opening of negotiations for an investment protection agreement is a positive step towards the EU's objective of strengthening its relationship with India.

India is currently the fifth largest automobile market[1] in the world, with nearly 3.8 million vehicles sold in 2021. This is a similar level to Germany – the EU's main motor vehicle market – and well above France.



Nevertheless, European vehicle exports to India have historically represented a negligible fraction of the market. This can be attributed to prohibitively high tariffs, significant non-tariff barriers, substantial regulatory divergence and oppressive domestic taxes that have been kept in place for decades to promote the development of the Indian automotive industry and protect the national market from international competition. In fact – as evidenced by the recent hike in import tariffs on certain motor vehicle categories – market access barriers have increased over time.

By contrast, with domestic production of around 4.4 million vehicles annually, India has become an important global exporter of automobiles. The EU has traditionally been one of its main destination markets.

[1] Throughout this document, the terms 'automobile' and 'motor vehicle' are used interchangeably to refer to cars, trucks, vans and buses. Three-wheeled vehicles are not included in these definitions.

ACEA NEGOTIATING OBJECTIVES

ACEA calls for a comprehensive trade agreement with India that provides significant market access for the EU automotive industry and strives for the high standards achieved in recent FTA negotiations with other countries.

At the same time, **it is imperative that all types of motor vehicles** (tariff headings 8701–8705) and automobile parts (tariff headings 8407–8409, 8507, 8706, and 8708) **benefit from all elements of the agreement.** Unlike FTAs concluded between India and other countries, completely built-up units (CBUs) should not be excluded from the scope of a final deal with the EU.

An agreement between the EU and India should address the following elements:

1. Tariff barriers to trade
2. Rules of origin
3. Non-tariff barriers to trade
4. Domestic taxes
5. Protection of investments

1. TARIFF BARRIERS TO TRADE

Automobiles

India applies a complex customs duty regime to the imports of vehicles:

Vehicle type	Import duty[2]
Car CBUs* whose CIF* value is more than $40,000 or petrol engine >3,000 CC or diesel engine >2,500 CC	100%
Full battery-electric car CBUs whose CIF value is more than $40,000	100%
Car CBUs whose CIF value is less than $40,000 or petrol engine <3,000 CC or diesel engine <2,500 CC	70%
Full battery-electric car CBUs whose CIF value is less than $40,000	70%
Commercial vehicle CBUs (trucks and buses)	40%
CKD* passenger cars (kits with engine, gearbox or transmission pre-assembled but not mounted on a chassis or body assembly)	35%
CKD passenger cars (kits with engine, gearbox or transmission not pre-assembled)	15%
CKD commercial vehicles and buses	25%

**CBU = completely built units*
**CIF = cost, insurance and freight*
**CKD = completely knocked down*

These prohibitively high tariffs – which effectively block access to the Indian market – should be eliminated completely. Both parties should consequently pursue a 'zero-for-zero tariffs' approach throughout the negotiations. European vehicle manufacturers could however agree to asymmetric tariff dismantling periods where these would be necessary due to local market sensitivities and differences in competitiveness.

Automobile parts

Likewise, while most of ACEA's members have manufacturing facilities in India, the domestic automobile market is largely dominated by Asian manufacturers. This can be partly explained by the existing trade agreements that India has with countries including Japan, Korea and the ASEAN bloc, under which many automobile components are imported tariff-free into the

[2] Table reflects increase in import duties for certain categories of vehicles as announced by the Indian Government in February.

country. As a result, European companies producing vehicles locally are at a significant competitive disadvantage.

ACEA therefore also requests that tariffs on automobile parts and components are fully eliminated. Special attention should be drawn to engines (8407–8409), chassis (8706) and batteries (8507).

ACEA requests that the EU and India:

- Pursue zero-for-zero tariff dismantling for all tariff lines without any distinction. Any discussion on potential asymmetric dismantling periods should be carried out in consultation with the industry. It is imperative that all motor vehicles, parts and components benefit from full tariff dismantling regardless of their category, engine displacement or vehicle price.

2. RULES OF ORIGIN

ACEA requests a threshold of 45% non-originating materials (NOM) for all motor vehicles and 50% NOM or CTH[3] for automobile parts and components, including engines.

Full bilateral cumulation – allowing for all inputs or operations carried out in either the EU or India to be taken into account in origin calculation – should be part of the agreement.

The rules of origin for the batteries of electrically-chargeable vehicles should reflect the state of development of both parties' integrated battery supply chain and their ability to meet the required targets.

ACEA requests that the EU and India:

- Apply a 'standard' EU rule of origin of 45% NOM for motor vehicles and 50% NOM or CTH for automobile parts and components, including engines.
- Allow for full bilateral cumulation.
- Apply flexibility on rules of origin for low- and zero-emission vehicles and/or their batteries and battery components to reflect the reality of battery manufacturing capacity.

3. NON-TARIFF BARRIERS TO TRADE

India is a party to the 1998 UNECE Agreement, which aims to promote the adoption of Global Technical Regulations (GTRs). However, as a consequence of India's reluctance to join the UNECE Agreement of 1958, the development of domestic regulations on automobile products has traditionally diverged substantially from international standards. ACEA therefore encourages India to bring its automotive regulations closer to the provisions of the 1958 UNECE Agreement, and to consider signing this agreement.

[3] CTH: production from non-originating materials of any heading, except that of the product.

In practice, this means that on top of high tariffs, EU manufacturers are confronted with numerous technical barriers to the export of vehicles and key automotive components in the form of Indian-specific requirements.

A comprehensive **automotive annex** that is applicable to all vehicle types (tariff headings 8701–8705) as well as to equipment and parts (engines 8407–8409, chassis 8706 and batteries 8507) is therefore an essential prerequisite for a successful conclusion of the trade agreement. This will help India to align its regulations to international standards, benefiting not only exporters, but also its domestic industry, as such an approach would significantly improve the access of Indian manufacturers to world markets. At the same time, it would help to prevent regulatory divergence over the long term, which is of crucial importance in the development of future technologies.

A vital prerequisite for a comprehensive automotive annex is **recognition** of whole vehicle type, system and part approvals between the two parties. This relies heavily on future alignment of all relevant regulations through a motor vehicle working group, as exists under the FTAs with Korea and Japan. During negotiations, both sides should make an effort to achieve an acceptable equivalence agreement on type approval regulations for Whole Vehicle Type Approval (WVTA), therefore reducing burdensome tests and approvals.

An accelerated consultative process and **dispute resolution system** should be available to the parties to promptly address matters of urgency. A fast-track procedure should be available in case any party to the agreement refuses to accept approvals or test reports, markings and certifications for systems, markings and certifications for components, or separate technical units in compliance with the recognised applicable legislation.

The technical regulation regime in India is being reviewed to address public health, safety and environmental concerns, as well as to safeguard national security requirements and discourage deceptive trade practices. Technical regulations include quality control orders (QCOs) and the compulsory registration order (CRO), which are based on various conformity assessment schemes. They include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.

We understand India’s need to put certain regulations in place for the purposes stated above, but these unique regulations add a burden to EU vehicle manufacturers (as technical barriers to trade), while being implemented in a way that does not provide appropriate lead time, as well as diverging from UN regulations.

ACEA requests that the EU and India:

- Include a comprehensive automotive annex in the agreement to ensure that domestic regulations align with international regulatory standards in the sector.
- Remove existing technical barriers to trade (TBTs). ACEA will prepare a separate document detailing current TBTs with India.
- Establish a dispute resolution system which includes a fast-track channel to address matters of urgency.

- Establish an automotive working group under the agreement, as currently exists for the FTAs with Japan and Korea.

4. DOMESTIC TAXES

Two types of taxes currently apply to motor vehicles at central government level. Under the goods and services tax (GST), passenger cars are subject to a 28% levy (with the exception of electric vehicles, on which a 5% tax applies, and hydrogen vehicles, which face a 12% tax). On top of this, a 'compensation cess' also applies. This is an additional tax ranging from 1–22% depending on vehicle length, fuel type, engine displacement and body type.

ACEA requests that the EU and India:

- Reduce taxes on larger or more expensive vehicles to the same level of other passenger cars (without discrimination regarding engine displacement, for example).

5. PROTECTION OF INVESTMENTS

As several ACEA members already have manufacturing operations in India and have invested in the country for decades, ACEA welcomes the relaunch of negotiations for an investment protection agreement.

EU manufacturers' large capital investments in the country contribute to supplying the domestic market with high quality vehicles and to strengthening the Indian economy by creating wealth and providing stable jobs. A successful conclusion of a trade agreement with India – while improving trade flows – would have no impact on the strategic decision of EU manufacturers to continue investing in local vehicle production for the Indian market.

In addition, some European auto makers are also considering making substantial investments in electric vehicle (EV) technology in the coming years in order to comply with the Indian government's target to reach a 30% sales share for EVs by 2030.

ACEA requests that the EU and India:

- Ensure that foreign investors and their established investments are treated in a fair and equal manner to domestic ones.
- Facilitate the regulatory conditions for new direct foreign investments to enter the market.
- Establish an appropriate dispute resolution mechanism in line with what has been agreed in previous EU agreements (eg CETA).

ABOUT THE EU AUTOMOBILE INDUSTRY

- 13.0 million Europeans work in the auto industry (directly and indirectly), accounting for 7% of all EU jobs
- 11.5% of EU manufacturing jobs – some 3.4 million – are in the automotive sector
- Motor vehicles are responsible for €374.6 billion of tax revenue for governments across key European markets
- The automobile industry generates a trade surplus of €79.5 billion for the European Union
- The turnover generated by the auto industry represents almost 8% of the EU's GDP
- Investing €58.8 billion in R&D per year, automotive is Europe's largest private contributor to innovation, accounting for 32% of the EU total

ACEA REPRESENTS EUROPE'S 14 MAJOR CAR, VAN, TRUCK AND BUS MANUFACTURERS

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