

# **EU-INDIA JOINT INITIATIVE FOR ENHANCING TRADE AND INVESTMENT**

## **ISSUES AND RECOMMENDATIONS**

### **Textiles and Clothing**

**Revised version following discussions  
at the EU-India Business Forum**

**on**

**Brussels, September 26<sup>th</sup>, 2002**

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## EU-INDIA JOINT INITIATIVE FOR ENHANCING TRADE AND INVESTMENT

This section of the report is a synthesis of initial issues and recommendations as derived from the consultants' research. It is designed as an input for discussion at the EU-India Business Forum.

The final recommendations will be written after this discussions.

Issues and recommendations are divided along the lines of the main reports, and the criteria for "jointness" of the recommendations are that:

- Recommendations should result in an expansion of EU INDIA trade and investment
- They should be mutually beneficial
- They should be concrete and specific in terms of suggested policy action by the respective addressees

## TEXTILES AND CLOTHING

ISSUES	RECOMMENDATIONS
<p><b>Improve competitiveness of Indian textile industry to compete in a quota-free trade scenario</b></p> <ul style="list-style-type: none"> <li>➤ <b>Improve the infrastructure base, especially power availability to textile and apparel units</b></li>   <li>➤ <b>Improve the cost structure of Indian companies to counter the GSP tariff disadvantage vis-à-vis other countries</b></li> </ul>	<p><b>For India:</b></p> <ul style="list-style-type: none"> <li>• Allow textile and apparel cluster areas to set up distributive generation model for power</li> <li>• Create, within a short time period, one or more world-class Apparel and Textile Export Parks, with Special Economic Zone [SEZ] status, in selected port cities- Mumbai and Tamil Nadu having export clusters, follow international <b>best-in-class</b> practices in these parks, including customs bonded warehousing, zone-based export clearances, etc.</li> </ul> <p><b>For India:</b></p> <ul style="list-style-type: none"> <li>• Reduce import duties on all textile machinery not made in India for a period of five years to allow cost- reduction in capital investments</li> <li>• Delicense the import of used textile looms, and expedite the implementation of the present decision to allow imports of PU (1982-87 vintage) models</li> <li>• Allow relocation of EU plants especially in made-ups and industrial textiles.</li> </ul>
<p><b>Allow inter-sectoral competition on market-determined conditions</b></p>	<p><b>For India:</b></p> <ul style="list-style-type: none"> <li>• Remove disparity in excise duty structures on the basis of fibre and enterprise size in the textile sector <ul style="list-style-type: none"> <li>○ Fix uniform rate of excise/ duty across all type of yarns, fabrics, knitwear, processing etc, and remove- scale-based duties which are creating competitive distortions</li> </ul> </li> </ul>

<p><b>Remove anomalous disparities in the tax structure that distort the competitiveness of organised sector manufacturing base</b></p> <p><b>Enhance productivity and economies of scale by removing investment barriers and de-reserving knitting, de-reserving handloom items, and processing.</b></p>	<p>duties, which are creating uncompetitive distortions</p> <ul style="list-style-type: none"> <li>○ Rationalise excise duty structure across the entire value chain from fibre to garment retailing. Levying of moderated, uniform VAT should be the long-term objective.</li> <li>○ Do away with exemptions on ginned cotton, hank yarn, grey fabric, hand processors, knitwear and hosiery and Small Scale Industry [SSI] units in garments.</li> <li>○ Rationalise excise duty incidence at spinning stage. Spinning bears 55% of total excise revenue collections from this industry, but contributes only 39% to value addition</li> <li>○ Equalise Additional Excise Duty (Textile and Textile Articles) on mmf/yarn and cotton yarn.</li> </ul> <ul style="list-style-type: none"> <li>● Remove Small Scale Industry [SSI] reservation on knitwear and handloom processing segments</li> <li>● Allot a part of the available textile and apparel quotas to regular, large importers having branch offices or dedicated buying houses in India</li> <li>● Cap the premium level for all transferable quotas, to bring down transaction costs in apparel exports and improve utilisation levels</li> </ul>
<p><b>Improve the trade relationship with EU through positive and effective confidence-boosting measures with regard to market access, based on reciprocity</b></p>	<p><b>For India:</b></p> <ul style="list-style-type: none"> <li>● Initiate measures to improve customs procedures, especially with regard to arbitrary valuation of imported goods, through following steps: <ul style="list-style-type: none"> <li>○ Accept a self declaration basis for hazardous-materials-free certification, and for valuation, accompanied by international accountant's third party certification</li> <li>○ Introduce a random audit process for checking valuation rather than impose an arbitrary value on shipments</li> <li>○ Have a consultative panel including EU textile body, to resolve issues, as an alternative to appellate process</li> </ul> </li> </ul> <p><b>For EU and India:</b></p>

	<ul style="list-style-type: none"> <li>• Jointly work out the content of Marking and Labelling provisions on industrial trade transactions, considering the original intent of these provisions was consumer protection for retail purchases of fabrics for tailoring</li> <li>• Adopt an agreement for bilateral protection against piracy, for all registered textile designs, as provided for under Article 25.2 of TRIPS Agreement, provide a mechanism for implementation, under joint supervision by Euratex and equivalent Indian associations (ICMF, SASMIRA)</li> <li>• Sign a customs cooperation agreement in imports and exports, to smoothen out issues relating to customs valuation, and fund it under the Trade and Development Programme Budget</li> <li>• EU and Indian Textile Industry to establish a Joint Working Group to review <b>all tariff –related issues</b>, and submit a report on mutually ‘workable’ tariff reductions and other market access conditions, at the Fourth EU India Summit in 2003.</li> <li>• Take steps toward establishing a <b>Bilateral Trade Agreement</b> for removal of non-trade barriers and increased market access besides Outward Processing Trade arrangements.</li> </ul>
<p><b>Promote FDI in outward processing trade model as well as for retail in India</b></p>	<p><b>For India:</b></p> <ul style="list-style-type: none"> <li>• Allow FDI by buying houses in merchandising and trading of textiles for export as well as domestic sector, which will bring in management processes and skills into the domestic industry at par with levels in other competing countries</li> <li>• Simplify the operational procedures for bonded warehousing schemes</li> </ul> <p><b>For EU:</b></p> <ul style="list-style-type: none"> <li>• Disseminate information about India’s bonded warehouse schemes and encourage FDI in export-based trading activities, successfully being used by Japanese trading houses</li> </ul> <p><b>For EU and India:</b></p>

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|  | <ul style="list-style-type: none"><li>• Create an industry level joint working group to discuss practical steps to increase trade and investment, removal of trade barriers and increase the use of Outward Processing Trade arrangements</li></ul> |
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