

Rules of origin delay FTA tariff discussions with EU

India for conservative norms, but EU wants more liberal criteria

ASIT RANJAN MISHRA

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India and the European Union (EU) have not been able to make major headway in the tariff negotiations under the ongoing free trade agreement (FTA) discussions due to differences over the rules of origin criteria.

“A major hurdle in the FTA negotiations between India and the EU is the rules of origin issue. We want conservative rules of origin, while the EU wants us to follow more liberal criteria. Five rounds of negotiations are over, but we have not yet finalised the criteria for rules of origin,” said a senior government official who did not wish to be named.

After the conclusion of the Fourth Round of Negotiations in Brussels in March, a report by the EU said: “Constructive discussions took place on the rules of origin. Negotiators focused on the general requirements (section A) where some progress was made. Section B was briefly discussed. Draft product-specific rules have not been tabled yet.” Both sides have not yet released a statement on the outcome of the fifth round of talks held in New Delhi from June 19 to 23.

The rules of origin criteria are critical to determining the country of



THE CRITERIA

- ▶ **Rules of origin are the criteria needed to determine** the national source of a product
- ▶ **It prevents an FTA partner country from re-exporting an imported item** to the other partner country without substantial value addition

TARIFF PLAY

- ▶ **While the EU asks for 95% tariff elimination** from India, the country is not ready for it
- ▶ **But the EU is ready to provide 100% tariff elimination** as a majority of its items anyway have zero tariffs
- ▶ **India seeks to get clarity on carbon border** adjustment mechanism and deforestation Act

origin of a product. The country of origin refers to the country where the products were manufactured or substantially transformed. It is crucial for FTAs, as it prevents a partner country from re-exporting an imported item to the other partner country without substantial value addition. Rules of origin are negotiated at the six-digit level of product classification for about 5,500 tariff lines.

Tariff level changes and minimum value additions are the two most commonly used criteria for a

product to qualify for the rules of origin requirements. Most developed countries prefer the flexibility to use either of the criteria, as it allows flexibility for exporters. India has traditionally preferred the use of both criteria and not given flexibility to use either of them.

Ajay Srivastava, former Indian Trade Service officer and founder of Global Trade Research Initiative, said India should identify core products where it can't meet the flexible criteria.

which could result in a passive buying of nearly ₹1,400 crore. While there won't be any immediate changes to the Bank Nifty Index, the weight of the merged entity, however, will be capped, resulting in a churn of ₹2,367 crore at the time of the merger implementation, observes Freitas.

FTA...

“India can look to be more flexible in most labour-intensive industrial products as it is more competitive than the EU. It may do the same for

petroleum products and also for most electronic products, like mobile phones, where import content may exceed 90 per cent. However, a case-by-case analysis is needed to allow such flexibility,” he said. The official quoted earlier said that while the EU was asking for 95 per cent tariff elimination from India, India was not ready for it. “However, the EU is ready to provide 100 per cent tariff elimination as a majority of their items anyway have zero tariffs,” he added.

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