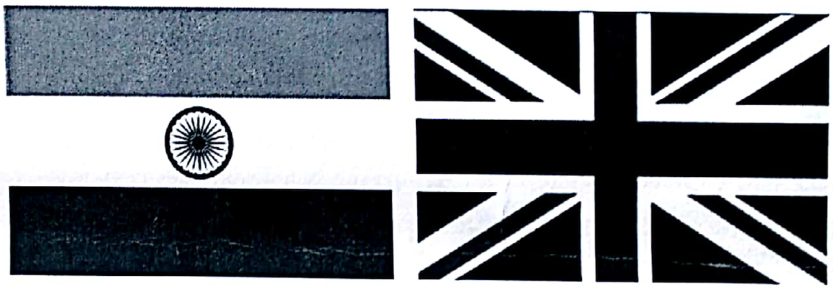
UK-India Joint Trade Review

Report for JETCO



11 January 2018

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Introduction

India and the UK have a strong partnership, characterised by extensive political engagement and deep economic cooperation. Both take a shared interest in each other's prosperity, generating jobs, developing skills, and enhancing the competitiveness of the two economies. Bilateral trade between the two countries was estimated at £15.4bn (US$20.9bn, Rs. 1400.8bn)[1] in 2016. As the UK plans its departure from the European Union, opportunities exist for India and the UK to build the closest possible economic and commercial partnership. India and the UK can boost bilateral trade by minimising barriers to trade. The UK-India Joint Trade Review (JTR) is the first step in this process and this report summarises findings from the first phase of the review based on the following structure:

- A background section summarises the JTR process to date and potential next steps;
- Section 1 presents findings from the empirical analysis undertaken by officials in the UK's Department of International Trade (DIT) and India's Department of Commerce (DOC);
- Section 2 highlights some of the perceived barriers to trade identified by businesses in key sectors.

Both India and the UK recognise that it would be beneficial to reduce barriers to trade, and to make progress on areas that are within the competence of the UK, while acknowledging that while the UK is a member state of the EU, certain issues remain within EU competence. India also will be unable to mete out separate dispensation to UK in areas of EU competence.

Background to the Joint Trade Review

Joint Trade Review process to date

At the UK-India Joint Economic and Trade Committee (JETCO) in November 2016, the Indian Minister for Commerce and Industry and Secretary of State for International Trade agreed to create a new Joint Working Group (JWG) to identify practical ways to broaden and deepen the trade and investment relationship between the UK and India.

Both Ministers agreed that the UK and India should undertake a **Joint Trade Review** to provide a comprehensive empirical understanding of bilateral trade between India and the UK, and seek ways to advance this relationship over the short and long term. DIT and DOC officials agreed on the terms of reference for the Joint Trade Review in early 2017, outlining that it should:

- identify market access barriers and potential quick wins in key sectors of mutual interest
- be a data-driven exercise that will look into a list of priority sectors
- include business engagement on both sides.

Initially the review focused on data analysis to establish an empirical evidence base that highlighted the existing bilateral trade flows and potential priority sectors. The sectors identified in this phase were not selected to exclude or minimise the importance or potential of trade in other sectors but

[1] UK Office of National Statistics (ONS) currency conversion rates taken from Bank Of England website: average annual spot rate for 2016

purely as a starting point for further analysis. Alongside the analysis DIT undertook business engagements with relevant trade associations and umbrella organisations such as the UK India Business Council. The UK-India CEO Forum also provided a significant input via its 'Bilateral Trade and Investment: Unlocking Potential' report. These business engagements supplied the JTR with a wide range of non-tariff barriers that both Indian and British businesses face when engaging in UK-India trade.

For the Joint Trade Review under the JWG on Trade, the DoC received inputs from Industry associations like FICCI and CII. Stakeholder consultations were organised by CII in New Delhi.

Joint Trade Review Recommendations

The analysis undertaken for the Joint Trade Review (JTR) reflects the existing strength and future potential for the trading relationship between India and the UK. Both India and the UK seek to continue to improve international relations between the two countries with a view to greater liberalisation of trade after the UK leaves the EU, leading to increased exports and foreign direct investment, and recognition of opportunities in both markets. The evidence gathered in this first phase of the review can be used to identify a number of potential areas where steps can be taken in the next phase of the review to improve bilateral trade.

The UK and India have a strong bilateral trading relationship. Trade in merchandise goods during the past few years has been around US$ 13 billion.

The review highlights a number of emerging themes which offer opportunities for mutually beneficial collaboration moving forwards. From the findings of the JTR it is also evident that the UK's existing trading framework as an EU member state means that many issues remain within EU competence. Consequently, the UK is unable to enter into separate trade agreements with India until it leaves the EU. Similarly, India is also unable to provide any separate preferential treatment to the UK which differs from the other EU member states.

In the thematic areas listed below the JTR identifies the potential value in greater government to government engagement and the identification of short-term cooperative initiatives to support increased trade. This will include, but not be limited to, expert exchange and consultation, knowledge sharing, providing policy clarity, increasing business dialogue, and support to enforcement of existing regulatory regimes. Where possible, these activities will be delivered under existing agreements and will report to the Joint Working Group on Trade.

- **Life Sciences.** Build on the existing dialogue between our two regulators (UK's MHRA and India's Central Drugs Standard Control Organisation) with expansion to potentially include other bodies, such as UK's Office for Life Sciences. This work will seek to address regulatory and market access issues raised by each side.

- **Food and Drink.** This can include new collaboration under the proposed MoU between the Indian Department of Animal Husbandry, Dairy and Fisheries (DAHDF) and UK's Department for Environment, Food and Rural Affairs (DEFRA), and increased dialogue on issues raised in the report related to agricultural and marine products, animal health and import procedures in the food and drink sector.

- **ICT and IT enabled Sectors:** Issues have been raised by both sides in this sector. There are opportunities for policy clarity for example on the UK's approach to the General Data Protection Regulation (GDPR) or India's ICT conformity assessment procedures.

- **Services Statistics:** The analytical work of the JTR highlighted the differences in services data between India and UK. This Review recommends an officials level interaction between relevant agencies, for sharing of information and to better understand the methodologies used by both sides.

JETCO has two other working groups - the Smart Cities Working Group and the Technological Collaboration, Advanced Manufacturing and Engineering Working Group. The Trade JWG welcomes input on a number of non-tariff measures from these groups for the next phases of activity, specifically on issues around digital technology, automotive and professional services to deliver actionable recommendations in the next phase.

Following on from the valuable inputs received from businesses in 2017, the JWG for Trade will also welcome additional inputs from businesses to inform government policy planning. Both sides commit to further explore the barriers to UK-India trade – including but not limited to the mechanisms outlined above – and to collaboratively identify opportunities for increasing bilateral trade.

Additional sectors identified by each side

India: Medical Value Tourism and Media and Entertainment

- India noted the importance of Medical Value Tourism and Media and Entertainment as sectors of their interest

UK: Intellectual property

- UK noted the importance of intellectual property as a cross-cutting area sector of their interest

Section 1: Summary of Findings from Empirical Analysis

Explanatory Note

This report is the outcome of the UK-India Joint Trade Review and should not be interpreted as a policy statement or the official position of the UK or Indian Governments. Section 1 is analysis based on economic data and Section 2 reflects business perceptions of trade barriers. The information is not government policy, it reviews the trend and composition of bilateral trade and presents perceived barriers to trade by businesses in both countries. Classification of sectors in the report has been made by stakeholders and is not endorsed as reflecting trade policy by either government.

Note on data used to produce this report

The data used for bilateral trade and investment between the UK and India have been taken from a number of sources, including the UK Office of National Statistics (ONS), UK Office of Budget Responsibility (OBR), the Indian Directorate General of Commercial Intelligence and Statistics (DGCI&S), the Indian Department of Economic Affairs (DEA), the Reserve Bank of India, the Indian Agricultural and Processed Food Products Export Development Authority (APEDA), OECD Stat, World Bank, UNCTAD, International Monetary Fund (IMF), World Trade Organisation (WTO) and ITC Trade Map.

Where possible the data presented in this report have been drawn from international sources, such as ITC Trade Map and UNCTAD Bilateral FDI statistics, which ensure a single set of figures used across sections of the report drafted by DIT[2][3]and by DOC[4]. However, this has not been possible in every case and for this reason there are some instances where the basis on which two similar statistics have been calculated differs between sections of the report. We have strived to ensure that sources are clearly set out throughout to provide readers with clarity on this point.

1.1 Economic Overview

As per the estimates of the International Monetary Fund (IMF, October 2017)[5], the global upswing in economic activity is strengthening. Global growth, which in 2016 was the weakest since the global financial crisis at 3.2%, is projected to rise to 3.6% in 2017 and to 3.7% in 2018[5]. Growth is projected to rise over this year and next in emerging market and developing economies, supported by improved external factors - a benign global financial environment and a recovery in advanced economies. Growth in China and other parts of emerging Asia remains strong, and the still-difficult conditions faced by several commodity exporters in Latin America, the Commonwealth of Independent States, and sub-Saharan Africa show some signs of improvement. In advanced economies, the notable 2017 growth pickup is broad based, with stronger activity in the United

[2] Sections 1.1.1, 1.2.1, 1.2.2, 1.2.4, 1.2.5 and 1.3.1
[3] Sections 1.1.2, 1.2.3, 1.2.6 and 1.3.2
[4] Sections 1.1.3, 1.2.3, 1.2.6 and 1.3.2
[5] World Economic Outlook, October, 2017

States and Canada, the euro area, and Japan. The WTO forecasts growth in world trade will be 3.6% in 2017 and 3.2% in 2018, up from an average of 2.2% over the previous three years. Stronger trade growth than was previously expected is driven by Asia and North America, where import demand is recovering from weak results in 2016.

1.1.1 UK Economy

The UK economy is the 5th largest in the world in nominal terms[6], comprising 3.5% of the world's GDP on this basis. On a purchasing power parity (PPP)[7] basis the UK is the world's 9th largest economy. It is the world's second largest services exporter and tenth largest goods exporter. In total the UK makes up 3.7% of total world trade, worth an annual average of £1.69 trillion ($US 2.60 trillion, Rs. 157.45 trillion)[8] over the period from 2012 to 2016.

Exhibit 1 UK Key Economic Indicators[9]

Indicator Description	Unit	2012	2013	2014	2015	2016
GDP Growth Rate (2013)	%	1.313	1.911	3.070	2.194	1.806
Inflation CPI (average)	%	2.8	2.6	1.5	0.0	0.7
Current Account Balance/GDP	%	-2.4	-4.2	-5.5	-5.3	-5.2
Exports of goods and services/GDP	%	30.5	29.7	29.7	28.2	27.4
Imports of goods and services/GDP	%	32.0	31.7	31.7	30.3	29.1

UK Growth and Outlook

UK GDP growth was robust through much of 2016 and the economy grew by 1.8% over the year, the second fastest rate amongst major advanced economies[10]. Growth slowed at the start of 2017, with GDP increasing by 0.2% in Q1 and 0.3% in Q2. The UK's Office of Budget Responsibility (OBR) November economic forecast was for 1.5% GDP growth in 2017.

The fundamentals of the UK economy are strong. It has grown continuously for more than four years, and the deficit has been reduced by three quarters as a percentage of GDP since 2010. The UK unemployment rate was 4.3% in the three months to September 2017, the lowest level since 1975.

UK Trade

In 2016 the value of UK goods exports and imports both grew at their fastest rate since 2011, with goods exports increasing by 4.6% and imports by 7.4%[11]. Both exports and imports of services also increased from their 2015 levels.

On the investment side, the UK's overall outward direct investment (ODI) position with the world is worth over £1 trillion, and has been every year since 2007. Financial services accounts for 25% of the UK's ODI position abroad at £270 billion[12].

The 2018 World Bank 'Doing Business' report ranked the UK as the second best place for doing business in the G7, and the 7th best in the world. This reflects the UK's cutting edge research, a highly skilled labour force and an efficient business environment.

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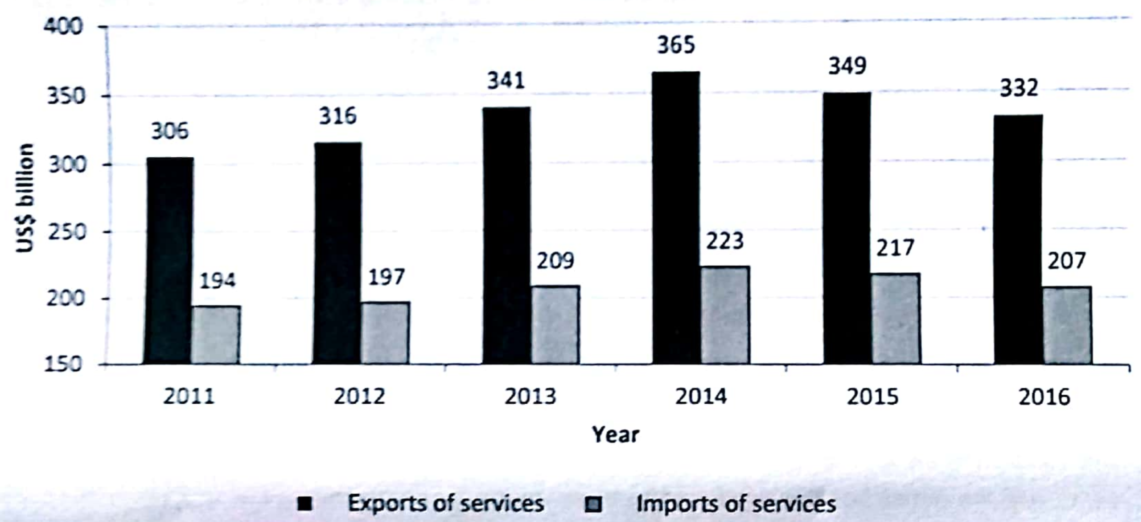
[6] Calculated using IMF October 2017 World Economic Outlook data (data for 2016)
[7] World Bank, GDP on PPP basis
[8] Calculated using Bank of England annual average spot exchange rates, 2012 - 2016
[9] OECD Economic Outlook
[10] Office for Budget Responsibility: March Economic Forecast 2017
[11] ONS Pink Book, 2017
[12] ONS Foreign direct investment involving UK companies, 2015 publication

This section drafted by UK's Department for International Trade

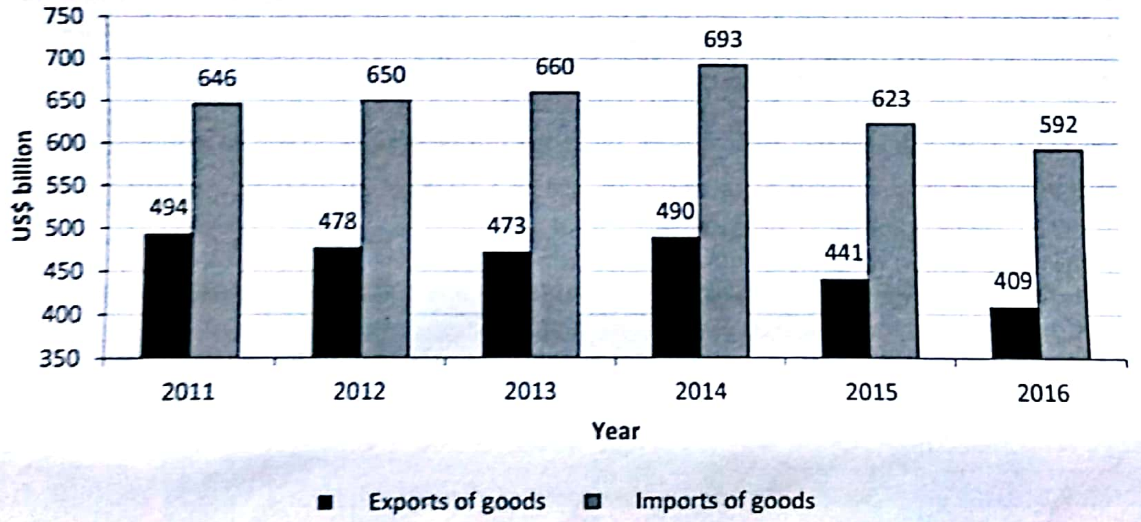
UK exports to the world stood at £547.5 billion in 2016 (US$ 741.4bn[13]), a rise of 5.9% from 2015. This reflected increases in exports of both goods and services, which were driven by a growth in exports of finished manufactured goods (7.7% increase) and financial services (17.5% increase). UK imports also grew from 2015 to 2016, by 7.5%. Import increases were driven by finished manufactured goods (up 9.4%), travel services (up 10.0%) and business services (up 10.3%).

The current account deficit stood at £115.5 billion in 2016 (US$ 156.4bn), increasing from £98.1 billion (US$ 132.8bn) in 2015.

UK Trade in Services (US$ billion)



UK Trade in Goods (US$ billion)



[13] Bank of England exchange rate, annual average spot rate for relevant year

1.1.2 Indian Economy

The early 1990s had marked a profound change in India's economic policies. The immediate goals were macro-economic stabilization and structural adjustment ensuing reforms aimed at enhancing efficiency, productivity and competitiveness of the economy; *inter alia*, these included industrial deregulation, liberalization of foreign direct investment, trade liberalization, and reforms in public sector, infrastructure and the financial sector. Since then India has embarked on a higher economic growth trajectory.

Table: India's Key Economic Indicators

Subject Description	**Unit**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
GDP Growth Rate (at 2011-12 Prices)	%	5.6	6.6	7.2	8.0	7.1
Index of Industrial Production (Growth) (at 2011-12 Prices)	%	1.1	-0.1	2.8	3.4	7.1
Inflation (WPI) (average)	%	7.4	6.0	2.0	-0.5	0.6
Inflation CPI (Combined) (average)	%	10.2	9.5	5.9	4.9	4.5
Current Account Balance (CAB)/GDP	%	-4.8	-1.7	-1.3	-1.4	-0.7
Foreign Exchange Reserves	US$ billion	292	304.2	341.6	360.2	370.0

Source: Economic Survey 2016-17

India registered robust GDP growth of 7.2% in 2014-15, 8.0% in 2015-16 and 7.1% in 2016-17 thus becoming the fastest growing major economy in the world. Additionally, the other macroeconomic parameters like inflation, fiscal deficit and current account balance have exhibited distinct signs of improvement.

Wholesale price inflation has been in negative territory for a year and the all-important consumer prices inflation has declined to nearly half of what it was a few years ago. However, weak growth in advanced and emerging economies has taken its toll on India's exports.

GDP Production and Structure

Table 2: Growth in GDP and Major Sectors (In%)

Sector	**2014-15**	**2015-16**	**2016-17**
Agriculture, forestry and fishing	-0.2	0.7	4.9
Industry	5.9	10.2	7.0
Mining and quarrying	10.8	10.5	1.8
Manufacturing	5.5	10.8	7.9
Electricity, gas, water supply etc.	8.0	5.0	7.2
Construction	8.8	8.7	8.3
Services	10.3	9.7	7.7
Trade, hotels, transport and communication	9.8	10.5	7.8

Financing, real estate, professional services etc.	10.6	10.8	5.7
Public administration, defence and other services	10.7	6.9	11.3
GVA (Gross Value Added) at constant basic prices	7.1	7.9	6.6
GDP at constant market prices	7.2	8.0	7.1

Source: based on data from CSO

Growth in the agriculture sector in 2016-17 was 4.9% compared to 0.7% in 2015-16 and -0.2% in 2014-15. Growth in the services sector moderated slightly, but still remains robust; while the acceleration in manufacturing growth compensated for it.

Growth in industry is estimated to have accelerated during the current year on the strength of improving manufacturing activity. The Index of Industrial Production (IIP) showed that manufacturing production grew by 7.9% during 2016-17, vis-à-vis a growth of 10.8% in the corresponding period of the previous year.

Recent years have witnessed robust macro-economic stability for India despite the global challenges. In spite of radical changes such as demonetisation and implementation of Goods and Services Tax (GST), India's macro-economic parameters have been stable. GDP growth during recent years has been one of the highest in the world. . India's macro-economic stability has been achieved by reducing inflation, current account deficit and fiscal deficit. The government's agenda has been "reform to transform". Reforms have taken place across the economy; ranging from

- macro-economic sector (e.g. reducing inflation) to financial sector (e.g. Jan Dhan Yojana, GST),
- from governance (e.g. passing legislation on black money) to creating new institutions (e.g. Niti Aayog), and
- from business environment (e.g. liberalizing FDI flows) to environment and climate change (e.g. launching a major push to increase renewable energy capacity).

India is poised to grow at a steady pace in the near future as a result of the impetus provided by the recent initiatives and projects taken up by the Government of India such as 'Startup India', 'Make in India', 'FDI Policy', 'Ease of Doing Business', 'Digital India', 'Smart City', 'Skill India', Demonetisation and Remonetisation, GST, etc.

In World Bank's Ease of Doing Business 2018 ranking, released on 31st October, 2017, India has jumped up by 30 places and is now placed at 100 out of 190 countries. A number of steps have been taken to make it easier to do business in India. These include steps to facilitate trade. For example, the number of mandatory documents required have been reduced to 3 each for exports and imports. Earlier 7 documents were required for exports and 10 for imports. Applications for Importer Exporter Code (IEC) have been simplified from 1st February, 2016 and only two documents are required to be uploaded. On 5th December, 2017, the Mid-Term Review of Foreign Trade Policy 2015-20 was released. An Indian Trade Portal has been launched by DoC.

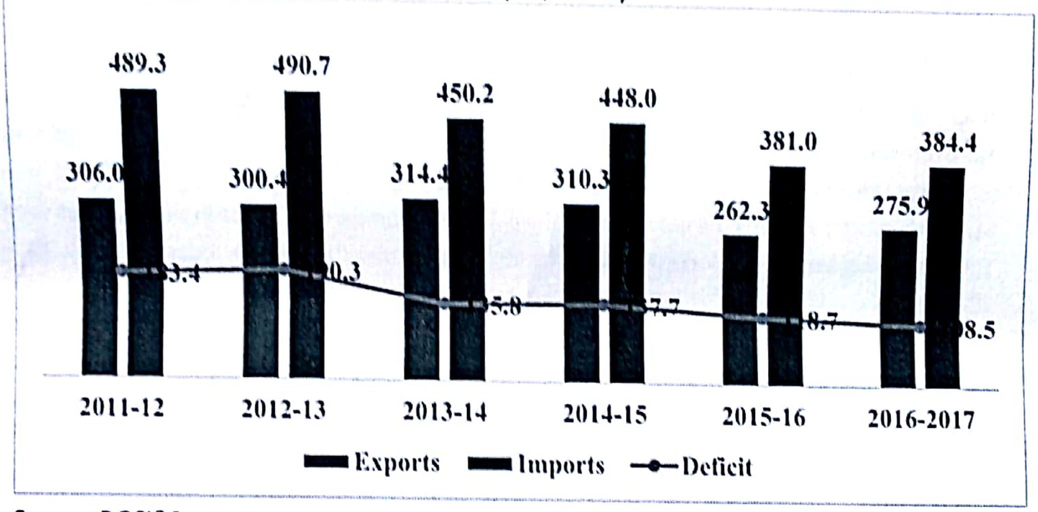
This section drafted by India's Department of Commerce

Indian trade in Merchandise Goods

India's merchandise exports have increased from US$ 83.5 billion in 2004-05 to US$ 276 billion in 2016-17. The merchandise exports comprised a high growth in exports of petroleum, oil and lubricants (POL) as well as non-POL exports. Although the trend has reversed in 2016-17 after reaching a peak level of US $ 314.4 billion in 2013-14. India's exports for the year 2016-17 stood at US $ 275.9 billion as against US $ 262.3 billion recorded in 2015-16, registering a growth of 5.17%. Despite the global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 6% from 2006-07 to 2016-17.

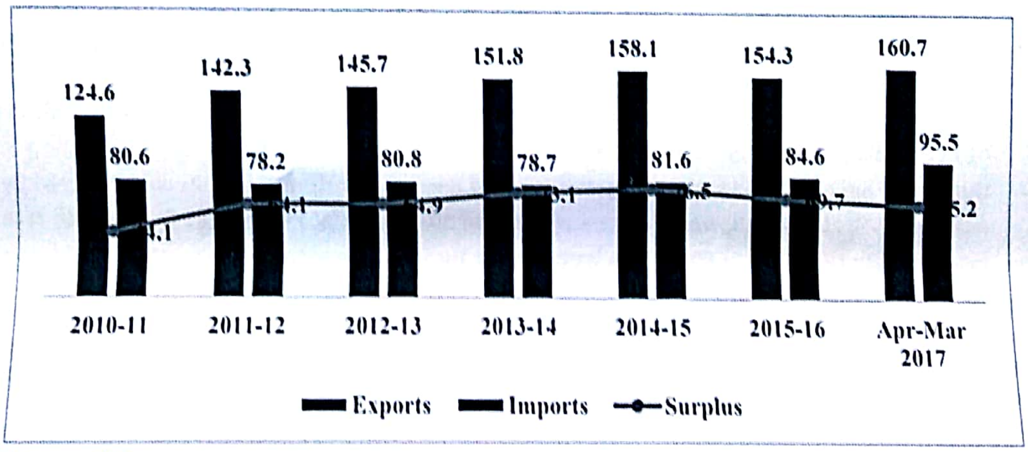
India's merchandise imports for 2016-17 was US$ 384.4 billion as against US$ 381 billion in 2015-16 registering a positive growth of 0.9% over the last year. The CAGR for merchandise imports stood at 8.4% during the period 2006-07 to 2016-17. The trade deficit for 2016-17 was around US$ 108.0 billion which was 8.99% lower than the deficit of US$ 118.7 billion in 2015-16.

Figure 1 – India: Trade in Merchandise Goods (US$ bilion)



Source: DGCI&S

Figure 2 – India: Trade in Services (US$ billion)



Source: RBI

Indian Trade in Services

- Services remain the key driver of India's economic growth, contributing to almost 53% of Gross Value Added in 2015-16 (61.5 including construction). It is an important net foreign exchange earner and the most attractive sector for foreign direct investment inflows. Worldwide, the share of services sector accounts for around 70% of GDP.
- India has maintained a steady surplus in export of services over the years, which in recent years has financed more than 50 percent of India's merchandise trade deficit.

(Amount in USD million)

S.No	Details	2014-15	2015-16
1	Merchandise deficit (-)	1,44,940	1,30,079
2	Services surplus	76,529	69,676
3	Net Remittances - private transfers received by India	66,264	63,139
4	(2)+(3)	1,42,793	1,32,815
5	(4) as a percent of (1)	99%	102%

Source: RBI Balance of Payment Statistics

- India's services sector growth, which was highly resilient even during the global financial crisis, has been showing moderation in recent times. However, pick up is seen in recent months with some segments of the sector showing better performance.
- Services exports, witnessed a growth of 9.3% in 2016-17 compared to 4.6% in the previous year. Transportation services exports increased by 13.2% in 2016-17 as against a decline of 19.9% in 2015-16 reflecting the improving merchandise trade activity. Business services exports recorded a higher growth of 13.6% compared to 2% in the previous year and financial services exports increased by 3.1% as against a decline of 12.7% in the previous year.
- India's services imports registered higher growth of 13.0% in 2016-17 with higher payments for two major services, travel services and miscellaneous services category mainly financial services and software.
- As per the latest World Trade Organization (WTO) data for 2016, services export growth is in negative territory for many economies, though for India it is positive at 3.6% and higher than the 0.4% global services export growth.
- In 2015, among the World's 15 largest economies in terms of overall GDP, India's ranking improved to 7th from 9th position in 2014. However in terms of services gross value added (GVA), India's position slipped to 13th in 2015 from 10th position in 2014.In the period 2001-15, the highest increase in services share to GVA was recorded by China (8.9 pp), followed by Spain (8.1 pp) India (7.6 pp) and Russia (7.6 pp).
- During the period 2010-15, the highest compound annual growth rate (CAGR) was achieved by India at 8.5%, closely followed by China at 8.4%. In 2015, as in 2014, services GVA growth rate (at constant prices), was 2.6% for the world, while for India it was the highest both in 2014 and 2015 at 10.2% and 9.0%.

Country	Rank in		Services growth rate (per cent) Y-o-Y			Share of services in			Services export growth	
	Overall GDP	Services GVA	2001	2015	CAGR 2010-15	GVA 2015	employ-ment 2016*	total exports 2016	CAGR 2001-08	CAGR 2010-16
USA	1	1	2	2.8	1.6	79.3	80	33.5	9.5	5.1
China	2	6	10.3	8.3	8.4	49.7	42.4	9	23.6	2.6
UK	5	4	3.4	2.4	2.2	79.9	80	44.6	14.5	3.3
India	7	13	7.2	9	8.5	53.2	28.6	37.9	30	5.6
Brazil	9	10	2.2	-2.7	1.3	72	68.9	14.9	18.6	1.8
S. Korea	11	12	4.9	2.9	3	59.7	70.2	15.6	17.4	1.8
Mexico	**15**	**9**	**1.1**	**3.6**	**3.4**	**60.4**	**61.2**	**6.1**	**5.3**	**7.9**
World			**2.6**	**2.6**	**2.4**	**67.2**	**50.9**	**23**	**14.9**	**3.8**

Source: Economic Survey 2016-17 volume-2

Computed from UN National Accounts Statistics for GDP/GVA, ILO and World Bank database for employment and World Trade Organization (WTO) database for services trade.

Note: Rank and share are based on current prices (2015); growth rates are based on constant prices (US$); construction sector is excluded in services GDP; *For employment data in 2016 for China, India and World, the available data of nearest preceding year is used.

1.2 Overview of bilateral trade and investment relationship

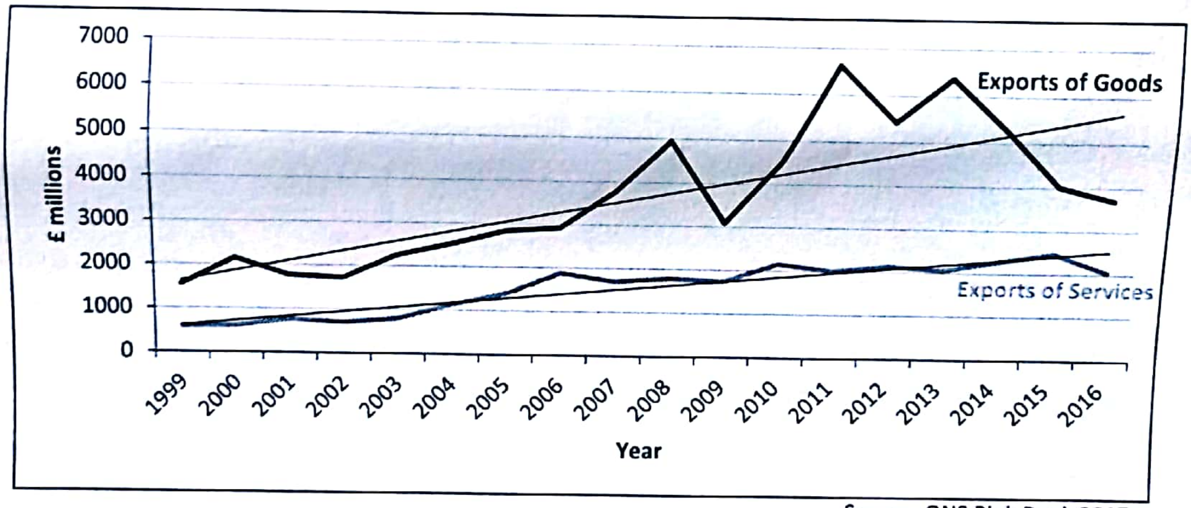
1.2.1 Overview of Trade Relationship

The UK and India have a strong bilateral trading relationship, as evidenced by the increasing trade in goods and services over the past decade. According to the UK's Office for National Statistics (ONS)[14], bilateral trade in goods and services in 2016 was approximately £15.4bn (US$20.9bn, Rs. 1400.8bn)[15]. Trade in goods accounted for more than 60% of the total trade, totalling £10.1bn ($13.7bn, Rs. 918.7bn), while bilateral trade in services stood at around £5.3bn (US$7.2bn, Rs. 482.1bn) in 2016.

1.2.2 UK exports to India

UK exports to India have grown over the last decade and India is an important export destination for the UK. According to data collected by the UK's ONS[16], in 2016 India accounted for 1.0% of the UK export market at £5.7bn (US$7.7bn, Rs. 518bn). In 2016 India was the UK's 13th largest services export market outside the EU and 13th largest goods export market.[17]

Exhibit 1: UK exports of goods and services to India, 1999-2016
Exports of goods accounted for approximately 69% of UK exports to India over the period 2012 to 2016. This percentage has been declining over the past few years.



Source: ONS Pink Book 2017

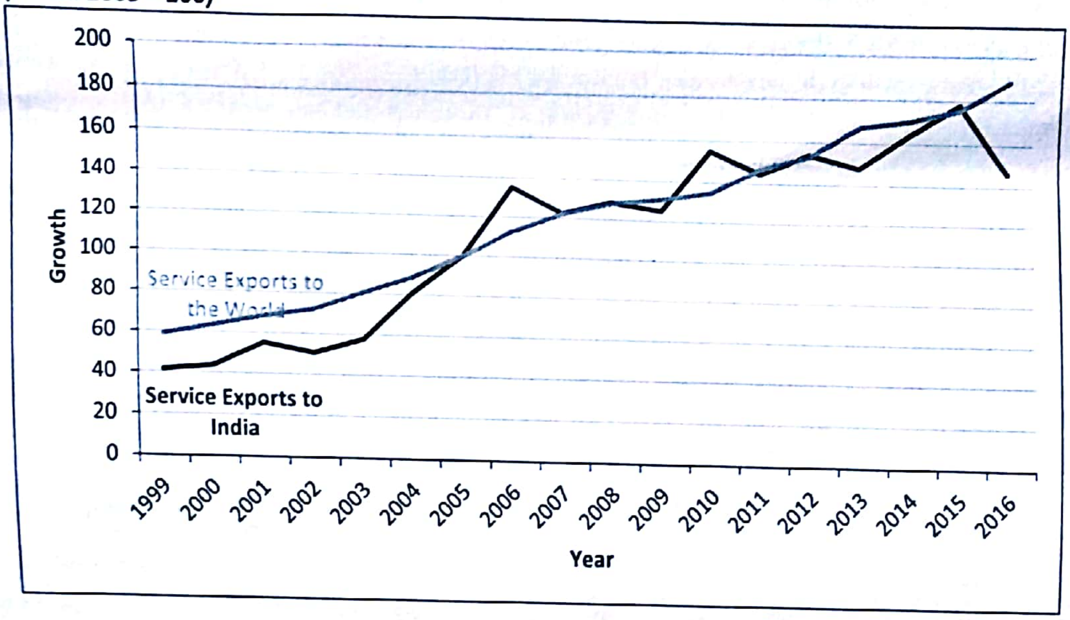
Services

UK exports of cross-border services to India were valued at around £2.0bn ($2.7bn, Rs. 181.9bn) in 2016[18], making India the 13th largest UK service export market outside of the EU[19]. Since 1999, the

[14] ONS Pink Book, 2017
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2017
[15] Currency conversion rates taken from Bank Of England website: average annual spot rate for 2016
[16] ONS Pink Book, 2017
[17] ONS Pink Book, 2017. Rankings calculated excluding UK offshore islands.
[18] ONS Pink Book, 2017
[19] ONS Pink Book, 2017. Rankings calculated excluding UK offshore islands.

trend in UK exports of services to India has grown broadly in line with UK services exports to the world.

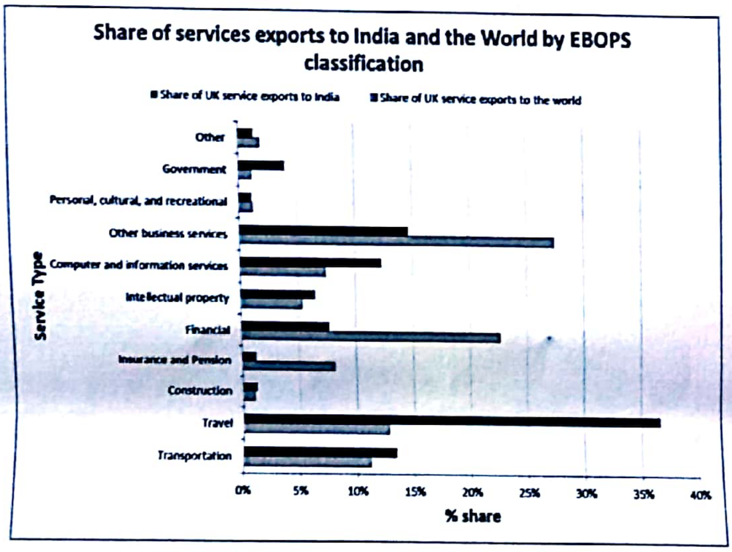
Exhibit 2: Cumulative growth in UK service exports to India and the world, 1999-2016 (Index: 2005 = 100)



Source: ONS Pink Book 2017

Using the EBOPS classification[20], the top four categories of UK service exports to India in recent years have been: **Travel services, Transport services, ICT services** and **Other Business Services.**

Exhibit 3: Share of services exports to India and the World by EBOPS classification (2014-2016 average)



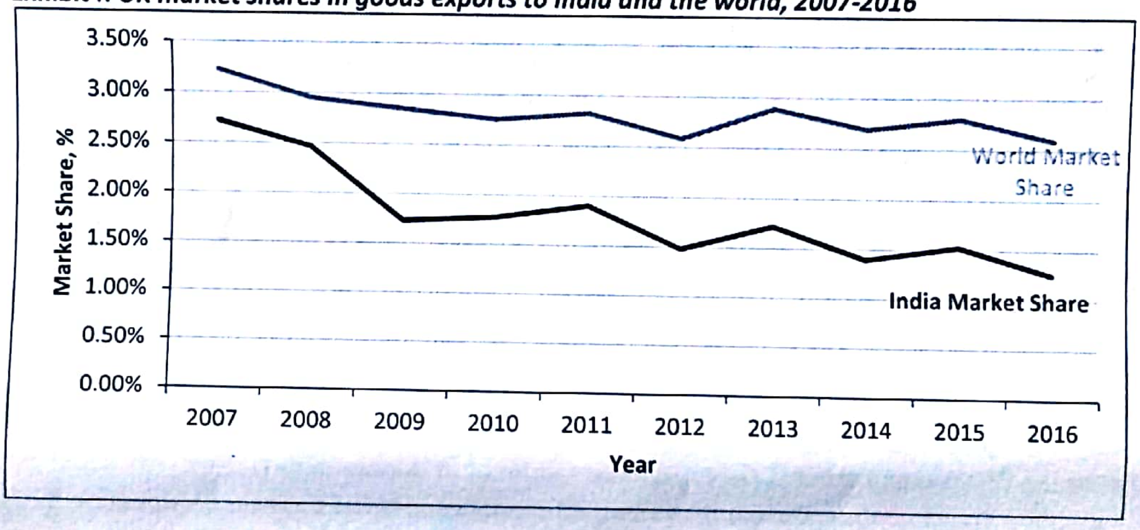
[20] The extended balance of payment services (EBOPS) classifications is an internationally agreed classification for services exports.

Source: ONS Pink Book, multiple years

Goods

The data suggest that there is scope to strengthen the UK's goods exports to India. Despite a long-term upward trend in the value of UK goods exports, growth in Indian imports from the world has far outstripped growth in UK exports over the last decade (Exhibit 5). This has led to a sustained decline in the UK's import market share in India (Exhibit 4). Though part of this decline in market share is likely to reflect the growing importance of regional imports in India's trade[21]. This is reflected in the fact that the EU's market share in goods exports to India has fallen over the same period, although to a lesser extent than is the case for the UK.

Exhibit4: UK market shares in goods exports to India and the world, 2007-2016

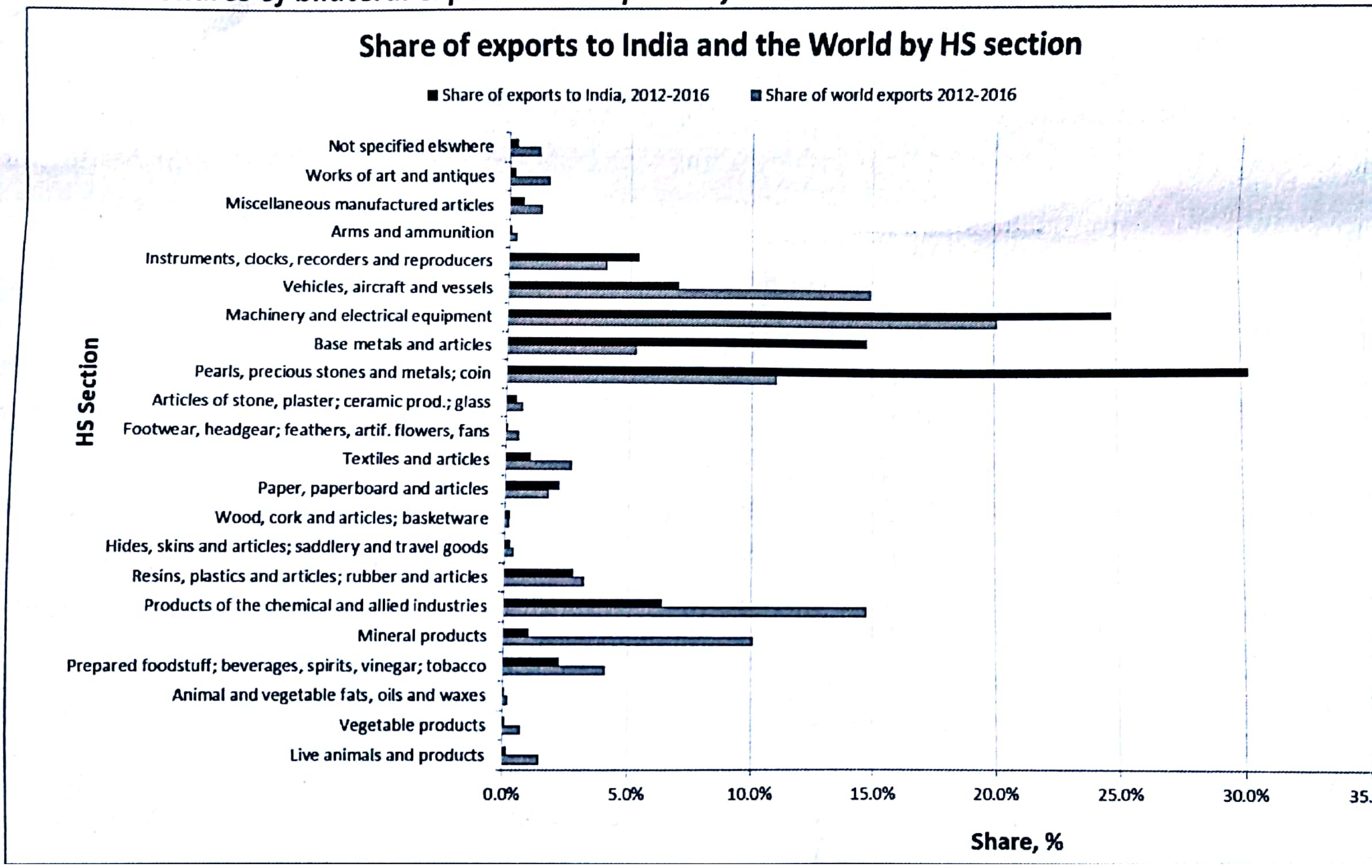


Data from the ITC's Trade Map shows that, at the Harmonised System Section level the UK exports the highest volume of goods exports to India in the 'precious metals', 'machinery', 'base metals', 'vehicles, aircraft and vessels' and 'chemicals' sectors.

[21] ITC Trademap data show the share of Indian imports from non-OECD markets has grown from 56% in 2001 to 67% in 2016

This section drafted by UK's Department for International Trade

Exhibit 5: Shares of bilateral exports and imports by HS section



1.2.3 Indian Exports to the UK

1.2.3.1 India-UK Trade in Merchandise Goods

From year 2012-13 to 2015-16, bilateral trade in merchandise goods had averaged around US$14 bn which went down to US$12 bn in year 2016-17 with decline of 13.02% ; both exports and imports decreasing by 3.38% to US$ 8.53 bn and by 29.42% to US$ 3.67 bn, respectively in comparison to year 2015-16[22].

The top five sectors of exports in financial year 2016-17 were Readymade Garments; Drug formulations, Biologicals; Motor vehicles/Cars; Readymade Manmade fibres; and Leather Footwear. These five together accounted for 31% of India's total exports to the UK. Among the top 10 commodities of exports, Aircraft, Spacecraft and parts (72.32%) and Electric machinery and Equipments (60.85%) recorded very high growth rate. The top five sectors of imports from UK during year 2016-17 were Iron & Steel; Aluminum, Products of Aluminum; Alcoholic Beverages; Electronics Instruments and Electric Machinery and Equipments. Among top 10 commodities, imports of Electronic Instruments (20.43%) and Aluminum, Products of Aluminum (14.78%) saw very high growth rates.

A comparison of the top ten exports from India to UK shows that while in 2016-2017 the top ten exports constituted 46.93% of the total exports to UK, a decade ago, i.e. in 2007-08, the top ten exports to UK used to constitute 64.63%. This indicates diversification in the amount of exports to UK with the passage of time, although Ready Made Garments of Cotton, including Accessories; Drug Formulations & Biologicals, Motor Vehicle/Cars/Transport Equipments, Leather Footwear, Gold and Other Precious Metal Jewellery continued to remain in the top ten exports in 2007-08 through 2016-17.

S.No.	Commodity	Apr-Mar 2017 (US$ million)	%Share	Commodity	Apr-Mar 2008 (US$ million)	%Share
1	Ready Made Garments Cotton including Accessories	982.49	11.49	Petroleum (Crude & Products)	1075.87	16.04
2	Drug formulations, biologicals	439.43	5.14	Ready Made Garments Cotton including Accessories	939.81	14.02
3	Motor vehicle/cars	424.25	4.96	Machinery and instruments	568.89	8.48
4	Ready Made manmade fibres	406.62	4.76	Manufactures of metals	412.02	6.14

22 DGCI&S

5	Footwear of leather	372.59	4.36	Gems & jewellery	285.57	4.26
6	Electric machinery and equipment	328.24	3.84	Drugs, pharmaceuticals & fine chemicals	285.32	4.26
7	Gold and other precious metal jewellery	315.92	3.69	Footwear of leather	216.45	3.23
8	Aircraft, spacecraft and parts	274.65	3.21	Transport equipment	203.14	3.03
9	Products of iron and steel	251.51	2.94	Other commodities	182.94	2.73
10	Ready Made Garments of other textile material	217.12	2.54	Electronic goods	163.49	2.44
Total of Top Ten commodities		**4012.82**	**46.93**		**4333.5**	**64.63**
India's total exports to UK		**8,551.13**	**100**		**6,705.49**	**100**

1.2.3.2 India-UK Trade in Services

Services trade is very important for India and the UK. As per the World Bank data, share of services in GDP for 2014 for India was 52.1% and for UK it was 78.4% in 2013. Similarly, in 2014, trade in services formed 14.8% share in GDP for India and 19.2% for UK. The services trade has demonstrated higher resilience vis-à-vis merchandise exports.

1.2.4 Overview of Bilateral Investment Relationship

Investment is a key part of the UK-India bilateral relationship; the UK has been the largest G20 investor in India over the last ten years and India has the fourth largest number of investment projects in the UK[23].

Long-term prospects suggest that the UK and India are attractive investment destinations. Both the UK and India rose one place in the A.T. Kearney FDI Confidence Index[24] in 2017, demonstrating the strong potential for growth in investment in both countries. The UK rose to fourth position in 2017 reflecting the UK's strong long-term fundamentals, while India rose to 8th in 2017. India's continued rise in the rankings reflects India's position as the world's fastest-growing major economy, and the government's commitment to liberalise FDI regulations to support Prime Minister Modi's "Make in India" initiative.

The termination of the India-UK Bilateral Investment Treaty (notified by India in March 2016, and terminated one year later) diminished protection for investors. UK business stakeholders raised concern around fair and equal treatment.

Case studies: UK investment into Indian manufacturing

Chemicals In October 2015 Hindustan Zinc (a subsidiary of UK-based Vedanta Resources) announced plans to invest $208.36 million in a chemicals manufacturing project in Rajasthan. This investment will establish a fertiliser plant in Debari to produce 500,000 tonnes a year of di-ammounium phosphate. The project is expected to create 7,000 jobs and is scheduled to launch in 2018.

Automotive In December 2013 Magneti Marelli (a subsidiary of Fiat Chrysler Automobiles) invested $41.2 million into opening a new facility in partnership with India-based Hero MotoCorp. The plant will focus on the production of powertrain and fuel injection technologies aimed primarily at the Indian two-wheelers market.

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[23] DIT Inward Investment Results 2016-17.

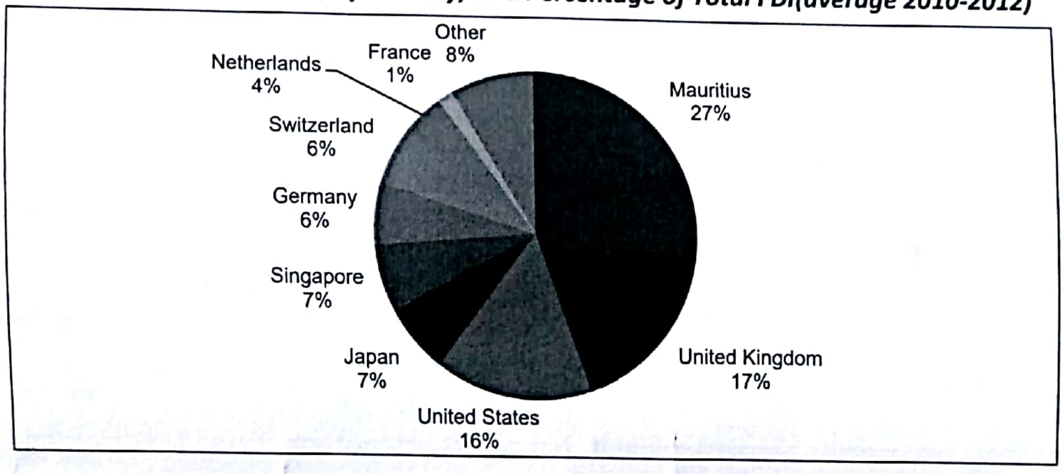
[24] The A.T. Kearney Foreign Direct Investment (FDI) Confidence Index is an annual survey of global business executives that ranks which markets are likely to attract the most investment in the next three years.

1.2.5 UK investment in India

In 2016, India was the 8th largest destination for UK investment abroad outside the EU, with the value of UK investment stock in India currently standing at £13.2bn[25].UK investment stocks in India have shown signs of growth in recent years; strong investment in 2015 and 2016 means the investment stock has grown by more than£8bn by 2016 compared to 2007.

Investment data published by the Reserve Bank of India shows the UK to be the largest G20 investor in India[26], followed by the United States and Japan (exhibit 6).

Exhibit 6: FDI Stocks in India, by Country, as a Percentage of Total FDI(average 2010-2012)



Source: UNCTAD Bilateral FDI Statistics based on Reserve Bank of India data

UK investment plays an important role in supporting Indian manufacturing and service sectors. Latest Eurostat data[27] showed that there were 271 British companies operating in India in 2014 generating a turnover of £9.37 billion and employing **305,636 people in India**, more than any other EU member state. Over half of these businesses are in the services sector, and services sector firms account for almost five sixths of employment.

The three largest sectors (on which data is available) for UK ODI stocks in India are 'financial services', 'information & communications' and 'petroleum, chemicals, pharmaceuticals, rubber, plastic products'.

International data sources point to a number of restrictions which impact on FDI flows into India. For example, the OECD's FDI Restrictiveness Index shows India's highest level of investment restrictions to be in the business services and other services categories[28], followed by retail and financial services categories. Despite an improving picture resulting from the Government's "Make in India" initiative, there remain a number of restrictions on foreign ownership and caps set on the amount of equity able to be held by foreign investors.

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[25] Foreign Direct Investment Involving UK Companies, 2016. Ranking calculated excluding UK offshore islands.
[26] UNCTAD bilateral FDI statistics based on data from Reserve Bank of India, average 2010-2012
[27] Eurostat FATS data, measured on an outward basis (i.e. recorded by UK companies)
[28] Business services include accounting, auditing, legal, engineering, and other business services. Other services include hotels and restaurants and also real estate investment.

1.2.6 Indian Investment in UK

India is the third largest source of FDI into the UK, creating over 7,000 jobs in 2015-16 alone[29]. Both Indian IT firms and UK businesses rely on close cooperation between the two Governments as a critical driver for businesses to employ the best global talent.

UK-India bilateral investment and trade ties are booming: Indian businesses invest more in the UK than the rest of Europe combined. Out of 845 FDI projects made by Indian companies in 16 European countries since 2003, around 50% have been in the UK. In 2016, approximately 800 Indian companies were operating in the UK, accounting for around 110,000 jobs and recording combined revenues of £47.5 billion[30].

In no sector of the economy is this trading relationship stronger than the IT industry. India was second only to the US with nearly $19 billion of ICT exports in 2015.

Outward Direct Investment (ODI) to UK[31] during the last ten years

Year	Total in US$ Million
2008-09	457.35
2009-10	329.23
2010-11	440.84
2011-12	380.49
2012-13	553.76
2013-14	436.54
2014-15	330.71
2015-16	521.93
2016-17	889.76
2017-18*	463.98

Note: The data is provisional and subject to change on account of the online reporting made by the authorized Dealer banks.

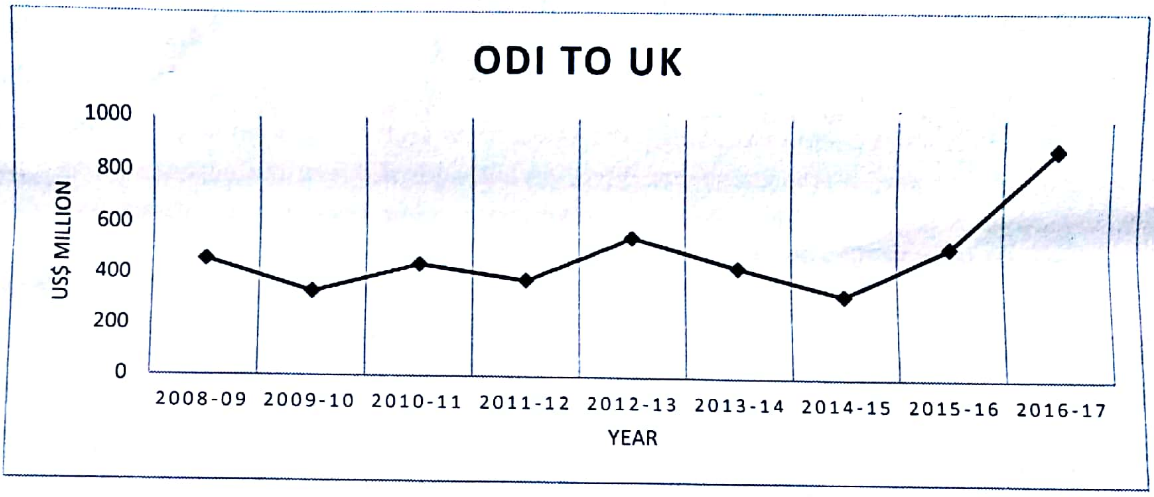
* up to 30 Sept 2017

[29] Department for International Trade's Inward Investment Results 2015-16https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/550779/DIT_Investment_Results_2015-16_v1_05-09-2016.pdf

[30] India meets Britain Tracker 2017, by Grant Thornton & CII (http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/india-meets-britain-tracker-2017.pdf)

[31] Department of Economic Affairs

This section drafted by India's Department of Commerce



India's ODI to UK has been increasing by more than 50% on year to year basis during the last three years.

The main sectors attracting ODI from India to UK are Manufacturing, Financial, Insurance & Business Services and Transport, Storage& Communication Services.

This section drafted by UK's Department for International Trade

1.3 Sectors of interest identified through empirical analysis and initial business engagement

Joint Working Group officials undertook detailed data analysis in order to identify 'sectors of interest' for the UK-India trade relationship. The selection of sectors has been largely empirically-driven and the high-level methodology was discussed and agreed during the analyst visit to New Delhi in June 2017. This methodology highlights some sectors which the data suggests are currently, or have the potential to become, economically important to the UK-India trade relationship. . The analytical work has guided the business engagement processes aimed at identifying barriers to trade and investment affecting trade and investment in the sectors of interest (outlined in section 2).

1.3.1 Initial UK Sectors of Interest

The identification of sectors of interest for the UK has combined consideration of a range of relevant factors, including measures of[32]:

- Current importance of product or service for UK exports to the world
- Current importance for UK exports to India
- Indicators of 'potential', such as:
  - Evidence of tariff and non-tariff measures
  - Evidence of unmet potential (based upon an international comparison of market shares)
  - Growth of imports into the Indian market.

The analysis identified 5 goods and 4 services sectors of interest.

Goods	Services
Life sciences	ICT
Food and drink	Education
Chemicals	Other business services
Automotive	Financial Services
Aerospace	

The non-tariff measures which are reported to affect UK-India trade in these sectors and which have been highlighted in discussions with business stakeholders operating in these sectors are included in section 2. This list is non-exhaustive and there are other sectors of interest to the UK not included here.

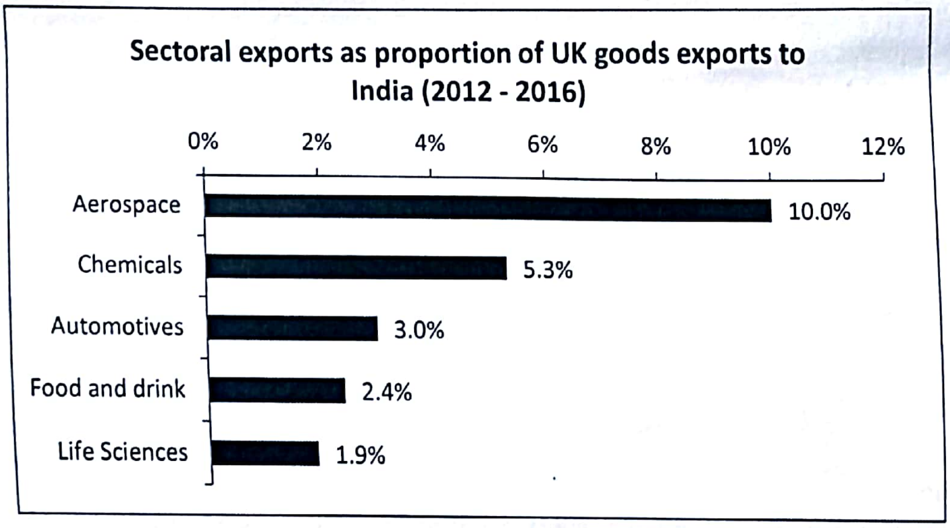
[32] The data used to identify and assess sectors of interest was the ITC's Trade Map, using the Harmonised System for the classification of goods. This is derived from data provided by the UK's HMRC.

This section drafted by UK's Department for International Trade

UK goods sectors of interest

Together, the 5 UK goods sectors of interest account for around 20% of UK exports to India, as shown in exhibit 7 and described in sequence below.

Exhibit 7: Shares of UK sectors of interest in UK goods exports to India



Source: DIT analysis using ITC Trademap

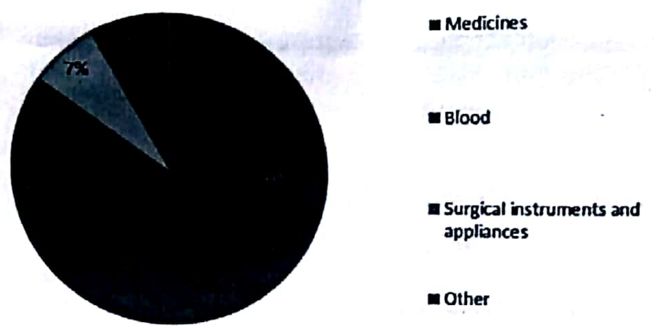
Life Sciences (Pharmaceuticals and Medical Devices)

- **Pharmaceuticals products are both an area of export specialism for the UK and a sector in which Indian imports from the world have grown relatively strongly over the past decade.** There is some evidence that UK pharmaceuticals products have a lower market share than in comparator markets.
- **Medical Devices is also an area of relative export specialism, with evidence of a growing market in India.**

Life Sciences statistics

The Life Sciences sector accounts for 7.4% of UK goods exports to the world, worth an average of US $35.9 billion over the period 2012-2016.The sector makes up 1.9% of the UK's exports to India, worth $0.12 billion.[33]

UK Life Sciences exports to India, average 2012-2016



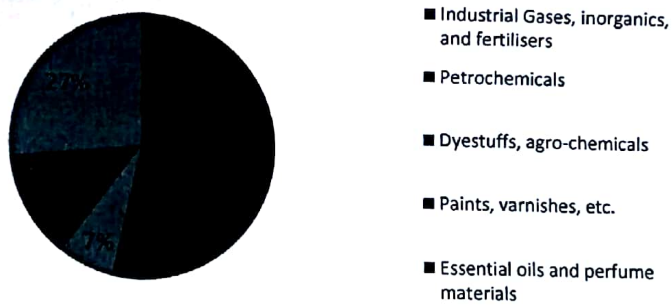
Chemicals

- **The chemicals sector includes several areas of UK export specialisation**

Chemical statistics

The chemicals sector accounts for 7.8% of UK goods to the world, worth an average of $37.6bn over the period 2012-2016. The sector made up 5.3% of UK exports to India over the same period, worth $0.3bn.

UK chemical exports to India, 2012-2016 average



Food and Drink

- **The food & drink sector is a large and diverse sector, with a number of areas of UK export specialisation.**

[33] All goods sector statistics sourced from ITC Trademap data

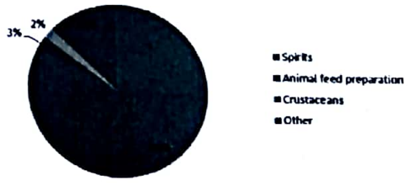
Food and drink statistics

The Food and Drink sector accounted for 5.4% of UK goods exports to the world over the period of 2012-2016, worth an average of US$26.3 billion. This sector contributed to 2.4% of the UK's exports to India on average, worth on average $0.15 billion per annum.

Composition of UK exports and Indian imports

- The UK's export specialisation in the food and drink sector is in spirits, predominantly whisky, which comprised over 80% of the UK's exports to India in this sector, worth an average of over US$122 million.
- The composition of Indian imports in the sector is quite different to that of the UK's sector exports, with oils comprising almost 80% of India's imports in the sector.

UK food and drink exports to India (Average 2012-2016)



Indian food and drink imports from the world (Average 2012-2016)

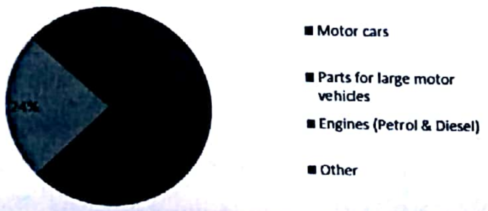
Automotives

➢ **The automotive sector is an area of relative export specialisation for the UK and area of relatively strong import growth from the world in India.**

Automotive statistics

The automotive sector accounts for around 11.5% of UK goods exports to the world, worth an average of $55.8 billion over the period 2012-2016. The sector makes up just over 3% of the UK's exports of goods to India, worth $0.18 billion.

UK automotives exports to India, average (2012-2016)



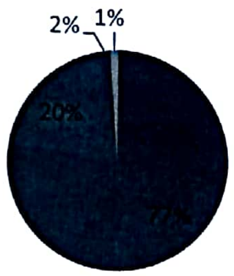
Aerospace

- The aerospace sector is an area of relative export specialisation in the UK
- The aerospace industry is covered by an existing business-led forum within JETCO - the Technology, Advanced Manufacturing and Engineering group.

Aerospace statistics

The aerospace sector accounts for around 6.4% of UK goods exports to the world, worth an average of $30.1 billion over the period 2012-2016.The sector makes up just under 10% of the value of UK exports of goods to India, worth $0.6 billion.

UK aerospace exports to India, average (2012-2016)



UK services sectors of interest

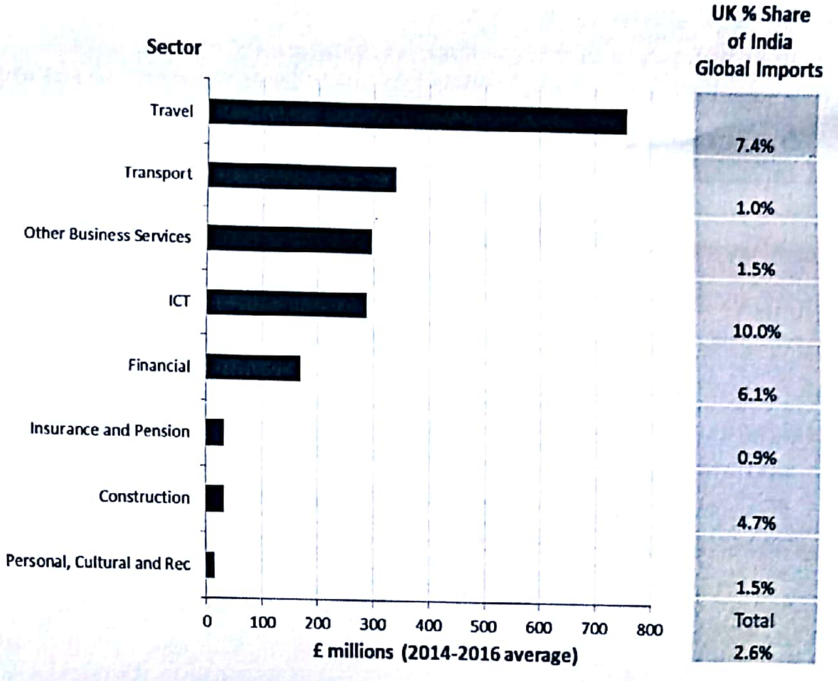
Despite more limited data availability and granularity, preliminary analysis has highlighted a number of services sectors of interest. The key sectors identified are both important for the UK-India trade relationship and are those in which barriers exist which, if removed, would generate the potential to further increase the volume of trade and investment.

The three services sectors of interest identified were **ICT, Education and Other Business Services.** Exhibit 8 below shows that the UK makes up a relatively large share of India's services imports in both the travel (of which a large proportion relates to education) and the information communications and technology (ICT) sectors.

Although a large sector in terms of absolute volume, the UK 'Other Business Services' sector – which includes professional business services such as accounting, engineering and architecture – represents a relatively small proportion of India's global imports. As such, there may be opportunities to increase trade in this sector.

Bilateral data on education services is not provided at a granular level by the UK's Office of National Statistics. However, on average 28% of the UK's global travel service exports were 'education-related'[34] and a further 14% of exports in the 'personal, cultural and recreation sector' related to 'training and education'[35]. As such, education has been chosen as a key sector of interest.

Exhibit 8: UK services exports to India, average 2014-2016



Source: ONS Pink Book 2017, 2016, and ITC Trade Map

ICT

- The ICT sector accounts for 7.5% of UK services exports to the world, worth an average of $22.7 billion over the period 2012-2016.[36]
- ICT is a strategically important sector in the Indian economy. Data on a slightly different basis from the World Bank suggests that in 2015 67% of India's service exports were in the ICT sector, compared to 36% in the UK and 32% worldwide.[37]

Education

- Although education services data is not collected directly, travel related to education (likely to be an underestimate of the total size of the sector) accounts for accounts for 3.7% of UK services exports to the world, worth an average of $11.2 billion over the period 2012-2016[38].
- There is evidence to suggest that India is a strategically important destination for UK education services exports.
- The UK is a world-leading destination for study and research, with four universities in the world's top 10 and 16 in the top 100 – second only to the USA. India is our fourth biggest

[34] ONS Pink Book 2017, average 2014-2016
[35] ONS International Trade in Services reference tables, average 2013-2015
[36] ONS Pink Book 2017, converted to US$ using Bank of England annual average spot exchange rates
[37] World Bank, ICT Service exports as % of service exports
[38] ONS Pink Book trade in services data, own calculations

international student cohort with around 16,700 Indian students enrolled in UK higher education institutions in 2015/2016, behind China, Malaysia and the US.[39]

- Further, UNESCO data[40] shows the UK is the third most popular destination for tertiary level Indian students, behind only the US and Australia

Other Business Services

- Other Business Services make up 26.8% of the UK's services exports to the world, worth an average of $80.8 billion over the period 2012-2016.[41]
- The sector comprises 15% of the UK's service exports to India, a relatively low figure in comparison to the UK's pattern of exports worldwide[42]. This suggests the potential to increase UK exports to India in this sector.

Financial Services

- Financial services made up 23.4% of total UK service exports to the world over the period 2012-2106, worth an average of £52.1 billion43.
- In bilateral trade with India, financial services made up only 7.9% of total UK service exports in the period 2012-2016, worth an average of £171 million44. Financial services is a sector in which there is the potential for the UK to increase the volume of its exports to India.
- Financial services issues are discussed at the annual India-UK Economic and Financial Dialogue, the last meeting of which took place in April 2017 between the Chancellor of the Exchequer, Philip Hammond, and Indian Finance Minister, Arun Jaitley. The next meeting of the EFD will be in spring 2018.

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39 Higher Education Statistics Agency, student record for 2015/2016.
40 UNESCO, Global Flow of Tertiary-Level Students
41 ONS Pink Book 2017
42 ONS Pink Book, average 2014-2016
43 ONS Pink Book 2017
44 ONS Pink Book 2014, 2015, 2016, 2017

1.3.2 *Indian Sectors of Interest*

The Department of Commerce noted that the EU market presents several challenges in goods trade in the areas of sanitary and phytosanitary standards and technical standards. These include several systems of quotas and tariffs and trade remedial actions which affect Indian products. Such tariff and non-tariff barriers cut across sectors. Some of these affected sectors are agricultural products, food products, marine and aquaculture products and life sciences. Exports of agricultural products, including food products and marine and aquaculture products (Chapters 1 to 24 at 2-digit HS Code) accounted for 8.3% of India's total exports to UK in 2016-17.[45]

Services Sectors of Interest to India

Availability of robust data on trade in services, including reliable bilateral trade data, is a big challenge faced by several countries including India.

Existing statistics indicate that the UK is India's second largest trading partner in services. Given the importance of the UK Services market a number of potential sectors have been identified for boosting India – UK Services trade based on existing data and stakeholder consultations. This potential can be fully realised provided various hurdles faced by the service providers are removed and certain trade facilitative initiatives are taken up by both the sides. More sectors and issues of concern can be incorporated later into the report on the basis of subsequent stakeholder consultations.

These identified sectors are: Business services – particularly Computer Related Services (CRS) and Professional Services, Education Services, Health Services, Financial Services, Tourism, Recreational and Audio-Visual services, viewed by Indian stakeholders and the Indian government as across all modes of supply. There are also certain emerging areas of interest to India, and these include Medical Value Travel and Indian System of Medicine. These sectors have been attracting an increasing number of tourists over the years for holistic health and wellness treatment.

Business services – (Particular emphasis on Professional Services and Computer Related Services)

- Computer and Related Services and Professional Services make up for approximately 65% of India's Services exports to the World. Exports of Computer and related services have witnessed a robust growth over the years and have grown at a CAGR of around 1.97% during the period 2013-14 to 2016-17. Similarly, Business Services which includes Professional Services have grown by a CAGR of 4.97% during the same period.

- As per the bilateral trade statistics available, this sector also accounts for the highest share in India's exports to the UK. Also these services have contributed the biggest share to the net trade surplus in bilateral trade with UK.

- Promoting Mutual Recognition Agreements in professional services and concluding a bilateral social security agreement to address issues, such as double payment of social

[45] DGCI&S

security contribution, exportability of accumulated benefits and totalization of coverage, will improve the business environment for service providers.

Education Services

- India's education services exports to the world of travel services are growing rapidly and have witnessed a CAGR of 4.49% during 2013-14 and 2016-17

  The Education system in India is robust consisting of 1.5 million schools and 259 million students. As a result, India produces one of the biggest pools of teachers in the world offering large numbers of educators of excellence who are preferred by various overseas institutions. Estimates suggest that there are 7.7 million talented school teachers in diverse fields right from science, technology and math to language subjects. Stakeholders have highlighted the opportunity for greater bilateral cooperation in the area of education

Health (including Indian Systems of Medicine, Yoga and MVT)

- Healthcare has become one of India's largest sectors - both in terms of revenue and employment. Availability of highly talented human resource, coupled with technological advancement, enables India to provide cross border services, such as tele-medicine, tele-surgery and tele-diagnosis; along with process outsourcing services such as medical transcription, back office support, coding and billing, etc.

Indian System of Medicine

Over the years we have witnessed increasing global awareness, interest and demand for the Indian Systems of Medicine (including AYUSH – Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy), which is based on the concept of holistic healthcare.

Medical Value Travel (MVT)

- Medical Value Travel to India has witnessed a rising trend during the few years. India's Medical Value Travel was pegged at 3 billion USD in 2015 growing at a CAGR of 15%.
- India has developed a strong presence in providing advanced healthcare services, e.g. organ transplants and cardiovascular procedures, with a high success rate. Moreover, less/no waiting time in hospitals makes the country an attractive destination for medical tourism[46].
- India is traditionally known for cardiac and orthopaedic treatments, but of late India is gaining traction in oncology and transplants and other high end treatments as well. There is presence of world-class hospitals and skilled medical professionals in India. India is cost-competitive in healthcare- Treatment for major surgeries in India costs approximately 10% of the cost in most of the developed countries[47].

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[46] International reports viz. Deloitte GES 2017 Report

[47] "The Indian Service Sector: Poised for global ascendance"; KPMG Report, April 2016.

- Healthcare services (including Indian System of Medicine and MVT) have gained importance for India and is a promising sector for deeper engagement in future.

Financial Services

- Financial services exports are an important component of India's services export basket to the world. Exports of financial services have also contributed a positive net balance in the services trade surplus with the UK.
- The sector has created wide-ranging opportunities for foreign as well as domestic players. Strong growth of the Indian economy has resulted in more business deals, not only in local markets but also internationally. However, links between the two countries are not yet deep enough to untap the full commercial potential for either side.

Tourism

- Tourism services contributed a healthy 12% to India's services exports to the World and have grown consistently over the past four years, with a CAGR of 8.96% during 2013-14 and 2015-16.
- The tourism sector is one of India's largest services sectors, and has proved to be a key contributor to India's economic development and employment generation. The sector comprises travel, tourist attractions, travel agents and tour operators.
- India offers geographical diversity, attractive beaches, 30 World Heritage Sites & 25 bio-geographic zones. India has a diverse portfolio of niche tourism products – cruises, adventure, medical, wellness, sports, MICE, eco-tourism, film rural & religious tourism.
- The wide array of opportunities which the sector offers for economic growth and mutually beneficial trade relationship could be further utilised.

Audio Visual services

- The Media and Entertainment (M&E) industry is one of the most dynamic industries in India and the fourteenth largest in the world, contributing about 1.7 per cent to the GDP.
- The major sectors within the industry include television, print, films, radio, music, live events, gaming, Out-of-Home (OOH) advertising, and animation and Visual Effects(VFX).
- The Indian film industry is the largest in the world in terms of number of films produced in more than 20 languages, and 2nd highest footfall in the world. Its market size was estimated to be $20.5 billion in 2016 and is expected to grow at a CAGR of 13.9 per cent during 2014-19

- India and UK could contribute to cultural and economic cooperation by encouraging the development of Media & Entertainment industry and the promotion of creativity in the audiovisual sector. Some possible initiatives in the future could include:
  - encouraging and fostering audiovisual production and cooperation between audiovisual industries
  - facilitating cooperation between the Parties in the audiovisual sector (including broadcasting programme, audiovisual production and cooperation, gaming and visual effects)
  - encouraging participation in various audiovisual events held in the territory of the two countries

Recreational Services Including Sports Services

- The sector has witnessed consistent growth in India's exports to the World during the past four years.
- The Indian sports sector has been experiencing developments initiated by the government, the private sector as well as non-profit organizations. Private sector and non-profit entities are also increasingly contributing to the sector by organizing leagues and tournaments, funding talented sportspersons and getting involved in grassroots development. There are opportunities for increased levels of collaboration in this sector between the UK and India.

Horizontal issues – Statistics on Trade in Services

- The UK and India could do further work to share practices followed in each country related to methodologies for collection & compilation of services trade data. Enhanced collaboration between the statistical organizations in the two countries would help to develop capacity to capture services sector data and exchange of trade data could serve to reduce the burden of data collection.

Section 2: Summary of Findings from Initial Business Engagement

2.1 Issues faced by UK businesses in sectors of interest

Following the analytical work outlined in section 1, DIT carried out a series of initial consultations with UK businesses to identify barriers exporters face when trading with India in the priority sectors. This section summarises the trade barriers that businesses raised at various engagements in India and the UK.

Where the barriers raised by businesses were non-tariff related, they have been classified according to UNCTAD's Non-Tariff Measure (NTM) classification index[48] to the extent possible, and have as such been labelled in brackets in the descriptions below (Technical or Non-Technical measure A, B, C etc.). Many of the barriers raised by business were also found to be cross-cutting in nature, i.e. they affected multiple sectors. The UK will continue its consultation with a wide range of stakeholders and the views below are preliminary.

2.1.1 Issues in the Goods sectors

Automotive

There were a number of non-tariff related barriers, primarily around regulatory hurdles.

Hurdles in the automotive sector relate to difficulties in complying with regulations, especially on the imports of passenger vehicles. UK businesses cited the need to simplify and standardise the customs requirements for imports of automotives and parts to make India a more attractive market. Customs procedures for automotive and parts are reported to be lengthy and opaque, though India is a signatory to the World Customs Organisation's Kyoto Convention and the World Trade Organisation's Trade Facilitation Agreement.

Businesses also call for the need to harmonize standards where global practices exist e.g. the current differing technical, safety and driving standards between the UK and India make compliance more costly. Further steps towards the adoption of international standards would allow increased bilateral trade and reduce border delays.

Automotive businesses seek policy clarity on a number of issues to allow for greater investment planning in India. These issues include India's policy on electric vehicles including on charging stations and more information on the scrapping policy for outdated vehicles and roadworthiness testing.

Whilst Intellectual Property Law in India is thorough, IP enforcement in the automotive sector is seen as major challenge that impacts the inflow of advanced concepts and technologies. Businesses face lower patent protection and restrictive patentability criteria combined with difficulties in enforcing patents and a broad criteria for granting compulsory licenses.

[48] http://unctad.org/en/PublicationsLibrary/ditctab20122_en.pdf

Aerospace

This sector faces lengthy customs procedures and a lack of transparency, which delays and deters manufacturers. Businesses call for clarification and simplification of the customs processes, standardizing the requirements for import of aircraft parts. Local content requirements (TRIMS, measure I) in aerospace are difficult to achieve where specific technical products are not available. Revisions to the Defence and Procurement Procedure (DPP) have made it easier to meet the requirements however exporters still report that the requirements make it difficult to bring world class technologies and practices to India.

Chemicals

Exporters reported the need to rationalize the current system of complex procedures across a range of agencies to improve the flow of trade. Approvals are required from a large number of agencies for example Drug Controller, Animal Quarantine, Plant Quarantine, FSSAI etc. Each has separate rules and regulations that are not always harmonized and make compliance difficult. For example, where a chemical is for dual usage and the registration application process is only geared towards use in a single sector, the registration framework does not allow for compliance. UK suppliers of biocides that are used for pesticides in agriculture as well as in preservatives for paints and adhesives face restrictions under the Central Insecticides Board (CIB) which do not fit with the use class of the industrial biocides. This has resulted in import permits being denied. Harmonization with global practices would simplify the registration process.

Additionally, businesses report that registration (Technical Measure B81) processes are too lengthy, taking from 1-3 years. In new agro chemicals the product has to be registered before it can be imported into India, and field trials registration is lengthy. Solutions could be proposed to reduce the time for registration especially of new agro chemicals.

Food and Drink

India has a complex regulatory environment for food and drink further complicated by federal, state and intra-state regulation. Exporters report that: changes in government policies and guidelines with short lead times adversely affect trade; product registration is difficult; and customs clearances can cause delays to consignments that result in higher costs. A number of measures fall under the UNCTAD Technical Measures relating to labelling, registration, certification, and licensing – both Sanitary and Phyto-Sanitary, as well as Technical Barriers to Trade.

Consultations covered the sector broadly, with specific examples from exporters of meat and animal products (dairy), and plant products. UK consignments of fresh produce face a product quality technical requirement (technical measure B7) – '60-65% shelf life from date of manufacture at landing in port'. Given the relatively short life of food products and lengthy transport times this has resulted in a high percentage of exports failing to meet this threshold and exporters having to find alternative markets. Retailers have told UK exporters that they are willing to stock the produce as is. A more flexible allowance for shelf life and improvements in distribution and cold storage would allow greater exports of fresh produce and provide a boost for domestic retailers and consumers.

The draft of India's Food Import Regulations 2016 proposes a continuation of restrictive processes for labelling (technical measure B31) of fresh produce. Labelling is often mandated to be done in the country of origin, this increases costs (compared to labelling in India) and has delayed consignments. Products not in the Food Standards and Safety Authority of India (FSSAI) nomenclature have to get a registration certificate (technical measure A81), which businesses explained was a lengthy process with the Ministry of Agriculture for imports of milk and animal products. Lamb meat faces stringent regulations by the same ministry, going beyond those of the OIE (World Organization for Animal Health) to prove that an exporting country is free of BSE. A UK certificate to show alignment with OIE standards was not accepted by Department of Animal Husbandry, Dairy and Fisheries (DAHDF).

India's Plant Quarantine Order 2003 requires the use of methyl bromide fumigation (MBF) for import of certain plant and plant products including UK exports of apples and grains. The use of methyl bromide as a fumigant is prohibited in the EU, even for phytosanitary purposes, which means that it is not possible for UK to meet the Indian requirement for fumigation pre-shipment. In March 2017, the UK requested permission to use another highly effective fumigant, phosphine gas, in place of methyl bromide for the treatment of grain (including oats) prior to export to India.

Non-tariff issues raised in the alcoholic beverage sector include regulation of alcohol and the formulation of alcohol policies reside at state-level resulting in a highly complex system for the supply and distribution of alcohol. Policy changes from a number of Central Government agencies also directly impact alcohol exporters for example labelling requirements from FSSAI. Exporters report that frequent changes to labelling requirements are issued without full consultation with industry or ministries or sufficient time for implementation. These requirements differ from international standards, making compliance more costly. Labelling requirements also differ from state to state.

A standard approach across states for licensing, labelling, brand registration and distribution and sale of alcohol and would enable companies to approach India as a single market. Exporters would welcome greater clarity in the division of responsibility between the centre and states on alcohol regulations, engagement on price controls and additives and a harmonised framework for licensing across the country.

It was suggested that greater engagement between DEFRA and the DAHDF to align UK and Indian requirements on non-notifiable diseases and improved consultations between FSSAI and FSA could offer ways to improve trade in the food and drink sectors.

Life sciences and Medical Devices

Businesses report a number of regulatory hurdles in this sector particularly regarding the list of notified medical devices, regulations for post approval changes to medical devices, and price capping and frequent price revisions of medical devices (Non-Technical measure F). UK businesses face higher costs having to seek multiple approvals across a range of agencies, and leading to higher administrative overheads than these firms incur in other markets. Customs gives only 24 hours to file import documents from the date of the consignment landing in port, which exporters find difficult to comply with. The Ministry of Health and Family Welfare published the new Medical Device Rules, 2017 (expected to enter into force on January 2018) which has taken steps to address some issues in the medical devices sector. Exporters welcome greater clarity on the classification of medical devices. In the pharmaceuticals sector exporters report that patenting criteria (Non-Technical measure N) is restrictive - Section 3d of the Patents Act prevents 'ever-greening' of patents and branded generics are allowed for marketing before the patent expires. This was reported as an entry barrier to UK businesses as it can potentially be used as a tool to deny patent protection to international pharmaceutical companies' products and encourage the Indian generic industry. Furthermore exporters seek policy clarity on clinical trial compensation regulations particularly with regards to determining causality of injury and costs and liabilities.

2.1.2 Services Sectors

ICT and Digital Trade Services

Businesses report that the regulatory regime in this sector is challenging. Few technology companies are in the 'pure' ICT space, with most of them cutting across different sectors and therefore needing to comply with the regulatory requirements of a range of Indian government departments, such as engineering, telecom, finance and health among others. This creates entry barriers for UK firms – having a single point of contact for regulatory issues within the Indian government would greatly help guide UK companies.

Firms offering ICT administrative processes are required to register with Bureau of Indian Standards-certified laboratories, despite having a certification from internationally recognized laboratories. Greater capacity in Indian testing laboratories would reduce delays in certification and improve market attractiveness. Other issues cited were regulatory delays in rolling out infrastructure and services needed to implement Digital India, such as securing approvals for rights of way for mobile base stations and fibre.

Exporters would also welcome clarity on a framework of regulations for the Internet of Things (IoT) technology and flows of data. The lack of clarity on permission for digital Smart City solutions under the current telecom licensing terms is holding back immediate deployments and preventing innovation. On cloud computing services, the restriction on flows of data to be maintained within India rather than on a remote server does not take into account the cross-border digital market place. A light-touch, well-defined regulatory framework could afford quick-wins – e.g. replacing 'know your customer' regulation (that was developed for consumer services rather than connected products) with instead a requirement for operators to maintain a database of their connected devices; allowing for IoT services provided in India to be supported by servers and analytics capability located outside of India; and allowing IoT providers to offer limited voice and SMS functionality for IoT services in emergency situations such as an automated call from a car to the emergency services.

Businesses also report measures that affect competition (Non-technical measures H and I), such as India's Preferential Market Access (PMA) Policy which requires local content up to 25-35% in public procurement of electronics and telecom, thus hindering international firms from competing. India's Software Product Policy and Open Source Software Policy also favour Indian software developers in government procurement contracts. Opening up to competition would help bring in global innovation and provide the government with a greater menu of options. Other factors deterring foreign investment include the fears of retrospective taxation, which holds back the inflow of innovation. A final point is that Patent protection on software is reportedly subject to loopholes – a clearer definition would help provide clarity and greater software IP protection.

Education Sector

Mutual recognition of education qualifications is not extended by India to one-year Masters programmes offered by UK universities, in turn affecting employment and PhD routes for these Indian students. Twinning programmes offering joint certificates and degrees, are also not recognized by the Government of India. Business would welcome the opportunity for information and consultation on the new education policy being drafted by The Ministry of Human Resource Development. In addition, foreign universities are unable to establish campuses in India. While they are allowed to operate in partnership with local institutions, conditions including stipulations on ranking, mandatory accreditation by Indian agency, long and uncertain approval process, make this challenging.

UK healthcare providers and educators operating in India are restricted in their ability to train and certify doctors and nurses in India. Foreign universities cannot provide educational services in India without a local partnership. This is a disincentive because local stipulations on ranking, mandatory accreditation by local agencies, non-profit status, and delayed regulatory approvals, all act as deterrents to investment in education. Furthermore, it is reported that there are restrictions on repatriation of investment profits in the education sector.

Other Business Services

Although services exports to India from UK have accounted for about 31% of total exports during 2012-16 (Exhibit 4), services trade numbers do not represent the true potential due to wide ranging restrictions that exist in the Indian services market, prominent ones being in other business services like legal, accountancy and architectural services.

i. In **Legal services,** existing regulations restrict foreign lawyers from establishing a presence in India, providing legal advice on non-Indian law, or entering partnerships and employment relationships with local lawyers. However, these rights are already enjoyed by Indian lawyers in the UK.

ii. In **architectural services,** the current regulations, governed by the Architects Act 1972, do not allow foreign architects to practice in the country unless they are invited to do so by the Government of India (in relation to specific projects only), or they are registered with the Council of Architecture (COA) as an 'Architect' in India. Stakeholders have highlighted that the invitation process is not transparent, and both of these conditions have not only restricted access for UK professionals from establishing office in India, providing architectural services, discharging professional duties, and employing Indian and foreign architects in India; but also given rise to varying interpretations of the law/rules thereby leading to disputes/litigations.

iii. In **audit**, stakeholders have raised concerns that Indian companies are not allowed to have their audit reports signed by member firms of international networks using their internationally recognised names thereby restricting the freedom of Indian companies to choose the firm of auditors best able to serve them and their shareholders.

This section drafted by UK's Department for International Trade

The sectors and issues described above are not exhaustive but rather focus on areas that the UK can see mutual benefit in and envisage progress on over the next few years, while the UK remains an EU member state. In the longer term, the UK and India have highlighted mutual services sectors of interest underpinned by analysis. This includes Professional Services, Financial Services, Communications Services, Computer Related Services (CRS) and Digital trade, where we can work in a variety of forums to jointly explore possibilities between the UK and India. There will also be an opportunity to discuss service sectors in a variety of forums outside of the trade dialogue, for example the Home Affairs Dialogue.

Cross-cutting issues

Intellectual Property

India launched a new national IP strategy in May 2016. It focuses on raising awareness and respect for IP; improving services for patent, design and trademark registration; and strengthening enforcement. UK businesses report a number of cross cutting issues around IP enforcement in India affecting a range of sectors, e.g. automotive. More broadly, current issues in the enforcement of trademarks for brand protection against sales of fakes and look-alikes, is called for. For example, a company in Chennai is using the trademark of Waitrose and functioning as Wait Rose. Such infringement of trademarks makes it difficult for law enforcement bodies to take timely and appropriate actions.

Other cross-cutting issues:

Repatriation of funds: The different rates of taxation for repatriating funds through various channels, in addition to the compliance requirements, unnecessarily complicate transactions for companies that are looking to repatriate funds. This has forced companies to look at other destinations for investment, especially nations that offer simpler methods of repatriating funds. A clear cut policy with rationalised tax rates in repatriation of profits will build investor confidence and ensure that companies continue to invest in India. In addition, it is vital to provide clarity on regulatory requirements for repatriating funds, especially for companies that use various channels of repatriation.

FRRO registration: Many large infrastructure projects in India require intermittent project inputs by expat staff – often a few weeks in a year. When expatriate staff are working on projects in India they need an employment visa and thus have to register with the Foreigner's Regional Registration Office. However, these staff are not resident in India and have no residential address as they stay in hotels. Companies report that guidance from the FRRO office is not clear.

2.2 Issues faced by Indian businesses in sectors of interest

The tariff and non-tariff issues identified by the business stake-holders in carrying out trade with the UK relate to EU tariffs and EU regulations and procedures. However, there are some issues which directly relate to the UK.

Since most of the issues identified by Indian businesses span across sectors, this section enlists the issues and some of the affected sectors.

2.2.1 Issues by Indian Exporters of Merchandise Goods in UK

Non-Tariff Barriers

Non-tariff barriers may be further classified as follows:

i. regulations related to residues;
ii. 'scientific criteria' for determination of endocrine disrupting properties;
iii. sampling issues;
iv. rejection of consignments;
v. Food and feed alerts;
vi. regulations and legislations;
vii. customs issues
viii. audits before exports; and
ix. other market access issues

(i) Regulations related to residues

The issue of Maximum Residue Limit (MRL) in food substances at Level of Detection (LOD) Level has affected a large number of exporters exporting from India to EU, including to the UK. Stakeholders report technological improvements have resulted in lower detection rates of LOD and lower MRL. Stake-holders have identified this as an important trade barrier. Some agricultural products which have been affected by EU's regulations in this regard are rice, grapes, tea, chillies and spices.

(a) Rice

Almost 40% of India's basmati rice exports to EU are through UK[49]. Regulations regarding residues of fungicides, such as Carbendazim and Tricyclazole (TCA), affect basmati rice exports to UK and the rest of EU. TCA is concerned, it is one of the most cost-effective fungicides in India and is widely used in farming of Basmati rice. The EU has notified a new MRL for TCA vide Commission Regulation (EU) 2017/983 dated 9th June, 2017. New MRLs will apply to Basmati rice imported after 30th December, 2017 and for other commodities including non-Basmati rice have become applicable from 30th June, 2017. The exporters of Basmati rice feel that a period of six months as a transitional measure will is not long enough since Basmati rice exports are undertaken with ageing of one year or more. Accordingly, increasing the period of transitional measure from six months to a minimum of one year whereby, exports of 2016 Kharif crop will be possible up to June 2018 may be considered. Dow

[49] *DGCI&S*

Agro Sciences (DAS) have submitted an application to Italy (as a rapporteur Member state) seeking import tolerance for husked rice at 0.4 mg/kg. Stakeholders request that information about the history of use in several rice producing countries be taken into consideration.

(b) Grapes

With regard to the reduction in MRL of Chlormequat Chloride Component (CCC) in grapes, from 0.05 mg/kg to 0.01 mg/kg, stakeholders suggested that the same may be maintained at existing level i.e 0.05mg/kg. EU Regulation No. 2017/555 dated 24th March, 2017, has extended CCC MRL at 0.05 mg/kg for two years. However, were the MRL to be lowered, stakeholders feel it would adversely affect India's exports to EU, including to UK, which accounts for more than 15% of India's exports of grapes to EU[50].

(c) Chillies and Spices

There are stringent EU parameters restricting the level of aflatoxins in imported food products, such as peanuts, chillies and other spices coming from India. The very narrow aflatoxin limit (measured in parts per billion - ppb) allowed in the EU for aflatoxin B1 is 5 ppb and the total is 10 ppb, which is applicable for chillies and several other spices, and even wheat and rice. This is restrictive in facilitating trade. Permissible amounts in the EU, including UK, are varied across different spice categories, which can be confusing. By comparison, the US permits aflatoxin levels of 20 ppb for all spices and is considered as the threshold defined by the US FDA for imports into the US. Putting it into perspective, the US limits are double those of the EU.

Indian suppliers carry out tests on aflatoxin levels before shipment of chilli and other spices. Usually 7-10 samples of chilli powder are checked from each lot before shipment. The Spice Board of India carries out a final check on the sample drawn from a container. Once it passes the Spice Board test, the product is shipped to the UK and rest of EU. However, the concern of stakeholders is that there is a possibility that aflatoxin levels may rise during transportation depending on moisture and humidity levels, and their suggestion is that there needs to be some allowance to permit this differential. This year alone, several containers from India were rejected from entry into the UK for slight variations from the permissible limits, with each container containing approximately 20 tonnes of produce. These containers then had to be diverted to other countries where up to 20 ppb was permissible, which caused significant expenses and delays. The level of permissible amounts must be practically achievable without adding undue hassle or cost, yet without compromising on food safety. A certain 'range of flexibility' in permissible amounts will be very helpful in achieving this objective. For instance, the limit could be defined for all spices as: "10 ppb, with a variance allowance for up to 20 ppb."

ii. Criteria for determination of endocrine disrupting properties

A concern was raised about draft measures in June 2016 which would specify criteria for identification of endocrine disruptors (EDs) as required under EC Regulations on Plant Protection and Biocidal Products. As a result it is likely that a number of already approved substances will not be re-

[50] APEDA

approved when their current registration expires. Out of 69 chemicals identified, 34 have direct effect on India[51], as these are registered in the country. Exports of a large number of products in which these chemicals find use may be affected. The assessment of impact on agricultural exports is around € 1.8 bn of exports to EU, including to the UK. Products like toys, chemicals, cosmetics, etc. are all likely to be covered in the long run. This impact will be much higher once these are taken into account. The stakeholders were of the view that there should not be any major disruption to trade, and adequate time and support may be provided in setting of import tolerances for chemicals identified as EDs.

iii. Sampling Issues

A number of issues around sampling were identified by stakeholders in areas such as automatic delisting of establishments relating to sea caught materials. The stakeholders opined that a de-listed establishment should be granted approval upon fulfilment of non-compliance identified by the Competent Authority.

Moreover, the stakeholders pointed out that the higher rate of sampling of 50% is becoming a trade barrier for Indian export of aquaculture shrimps.

iv. Rejection of consignments

In case of a rejection of a consignment, the extant appeal mechanism followed in EU, including in the UK, allows an importer to take up the issue with national member state and EU authorities. However, many times importers are not forthcoming in assisting the exporter. Hence, the stakeholders have suggested that the exporter should be allowed to appeal such issues with the member state concerned as well as the EU authorities in case of rejection of a consignment.

Further, in certain cases where the importer had requested for re-testing of a rejected consignment it was found to be compliant. Therefore, the stakeholders' suggestion is that as a matter of practice, before rejection of any consignment, testing should be allowed by another laboratory as well. An opportunity needs to be given for retesting of consignment rejected at border and the Competent Authority should be allowed to get back the rejected consignment for retesting the consignments.

v. Food and Feed Alerts

The stakeholders suggested that the analytical report of laboratory (based on which food and feed alerts are issued) may be shared with the Competent Authority in India. Further, they suggested that the alert may be removed from the system in case of compliance during re-testing.

vi. Regulations and Legislations

The Registration, Evaluation, Authorisation and restriction of Chemicals (REACH) was identified by stakeholders as impacting export of chemicals from India to EU, including to the UK. Indian exporters experience various difficulties in complying with REACH due to high Registration Fee, Concession to

[51] Based on a EC list, matched with the list of pesticides with label claim from Department of Agriculture, Cooperation and Farmers Welfare

SMEs, submission of CSR, submission of data by Non-OECD countries, issues with SIEFs etc. Non-EU exporters have no access to register directly with EU. Further, exporters do not have the right for retesting.

Additionally SPS Notification No.G/SPS/N/EU/190/Add.1 dtd. 13th June, 2017 on suspension of authorization of ethoxyquine as a feed additive from March, 2018 is expected by stakeholders to be a trade barrier in commodities where this feed additive is used.

Stakeholders view the **EU Decision no. 2016/1774** dated 4th October, 2016 as having imposed a restrictive legislation on import procedures by increasing the rate of laboratory testing required on consignments of aquaculture products imported from Indiabecause of the presence of chloramphenicol, tetracycline, oxytetracycline and chlortetracycline and of metabolites of nitrofurans in Indian aquaculture products. The legislation also mentions that the results of inspection carried out in India in March 2014 by the EU inspection service have confirmed that Indian guarantees on the residues status of aquaculture products rely to a large extent on the additional pre-harvest and pre-export testing programmes and unsatisfactory official controls on the use of veterinary medicinal products. The legislation has directly impacted the UK importers of Indian shrimp as they are now facing increased laboratory testing costs and demurrage costs, which is making import of shrimp from India less competitive. Stakeholders have informed that UK importers would like to carry on importing from their trusted Indian suppliers.

vii. Customs issues

Indian consignments of food products containing milk products as ingredients have been rejected at the UK border for non-compliance **of EU regulation** with the provisions of Regulation 178/2002. India has been exporting these products on the basis of certification from Export Inspection Council (EIC) which is recognised by EU as competent authority to monitor and supervise the official controls in compliance with EU regulation 178/02 but stakeholders perceived that since 2015 the restrictions as being placed without sufficient notice and justification.

As per EU regulations, a product which comes from a third country without an approved plan would not be compliant with Article 19 of 178/2002. Thus, UK port health authorities are detaining products from India which contain milk products as an ingredient saying that processing plants should follow the food hygiene as per EC Regulations. As per these regulations, though these products can be imported from countries without an approved residue plan, they cannot be placed in the market or used as an ingredient.

India has been exporting composite products containing milk products as an ingredient to UK for past several years. These products include instant mixes and ready to eat products (e.g. palak paneer, dal makhani, parantha, etc.). These products are processed at a very high temperature and packed either in retort / frozen condition. However, it has been reported by exporters that for past one year, these products are being restricted at Felixstowe port of U.K. Initially it was informed that Residue Monitoring Programme (RMP) of Govt. of India for milk products is not approved by EU, therefore, import of these products is not allowed. However, later U.K. customs has informed that approval of RMP for milk products is not an issue for composite products but the products must comply with the provisions of Regulation 178/2002.

Here it may be noted that the processing plants are under official control of EIC for monitoring, supervision and pre shipment testing and are in compliance to the requirement of EC Regulation 178/2002. In view of the above, it is reiterated that the composite products containing milk products as one of the ingredients were allowed for import in EU for past several years. Now since 2015 the restrictions are placed without any notice and technical justification. This has adversely affected trade.

UK authorities have shown reservation regarding releasing rejected consignments on the basis of an email request by the competent authority, i.e. Export Inspection Council (EIC). An update on the procedure pertaining to handling of rejected consignments, especially of marine products, would be helpful, specifically whether requests received by email can be accepted.

(Examples of Specific cases)
M/s. Wellcome Fisheries Limited, Door No:1-409, Vandram Village, Undi MandalamUndiMandalam, Bhimavaram – 534 199, Andhra Pradesh an approved fishery product processing unit having approval No. 934 had exported vide Health certificate No.EIA/BVM/2015-16/01547, Dated: 24.09.2015, a consignment consisting of 2800 Master Cartons of Indian origin frozen r aw headless shell-on vannamei shrimps block brand "king white" packed in 6x900 gram net weight per master cartons, to U.K. The container has been rejected by the Port Health Authority at Felixstowe, UK due to presence of Nitrofuran metabolite (AOZ). In this connection, the processor had requested EIC, the Competent Authority, to issue a letter to UK health authority to bring back the rejected consignment. Accordingly, EIC had requested the Suffolk Coastal Port Health Authority at Felixstowe, UK to permit the cargo to be returned to India for further testing However, the Port Authority did not release the consignment on the basis of the e-mail with a copy of scanned letter and insisted on receiving the hard copy of the letter. This lead to the exporter incurring demurrage.

viii. Audits before exports

Formulations containing Active Pharmaceuticals Ingredients (APIs) made in India are required to be audited by regulatory authorities before they can be exported to the UK. Indian companies are not audited by the UK Medicines and Healthcare products Regulatory Agency (MHRA) on a paid-fee basis due to cited lack of auditor resources. This reduces the possibility of imports of formulations containing APIs into the UK. Stakeholders requested that, given that the API formulations Industry in India is considered a centre of excellence and cost effective by formulators all over the world, UK purchasers and formulators could consider purchasing API formulations from cost effective sources such as India. Businesses felt that MHRA auditor resources could be enhanced via, for example, tying up with other agencies to conduct the audits. This can essentially become a potential revenue stream for the MHRA considering that there are as many as 3,000 API units in India and all audits are charged to the auditee.

The stakeholders were of the view that there is need for more clarity on Clinical/Bio Study Guidelines on studies done in India compared to studies done in Europe. For this purpose, expert committee meetings with regulators could be considered.

ix. Other market access issues

The EC Regulation no 836/2012 describes threshold concentration level of 0.05 % of Lead content in Jewellery Articles. The stakeholders have requested that the basis of this restriction may be altered, especially considering that the restrictions are applicable on jewellery items, while exempting crystal glasses and vitreous enamels for lead contents.

Stakeholders have requested that EU, including the UK, may accept digitally signed e-phyto certificates/digital health certificates for export of fishery products.

Stakeholders have pointed out that export of sweets made from pure clarified butter (pure Ghee) from India to UK have been stopped as all products containing dairy ingredients from India are not permitted to be imported into the EU if they are intended to be placed on the market, as per Decision 2011/163/EU (as amended). However, milk is not an 'ingredient' in ghee. Despite clarifications that the sweets are not made out of milk but besan (gramflour), ghee, and sugar, the products were not allowed into the country. The Food Standards Agency has pointed out that ghee itself is not allowed to be imported into UK/EU from India but several companies have been marketing ghee in UK retail markets. Stakeholders have requested for this anomaly to be addressed.

2.2.2 Business identified barriers in sectors of interest in Services

India has a surplus of STEM (Science, Technology, Engineering, and Mathematics) skills and produces approximately 4 million highly skilled graduates each year in specializations that UK businesses need. Indian IT companies play a crucial role in helping businesses to tap into this talent through intra-company transfers (ICTs), which is believed by Indian stakeholders to be a visa route that allows companies to bring skilled workers into the UK to address skills shortage. Furthermore, given that Indian highly skilled workers typically remain in the UK for short periods, they have only a minimal impact on public goods and services at the same time as delivering significant economic benefits.

Indian businesses are committed to increasing the skills base of the UK and invest several millions of pounds per year training their workforce, and the majority run graduate and apprenticeship programmes that help to inspire and engage young talent.

MAC recommendations

In March 2016, the UK Government announced its decision to accept the majority of the Migration Advisory Committee's recommendations on changes to Tier 2 visa route for those undertaking skilled work in UK. Indian businesses find the proposed changes affect the ease of entry and the competitiveness of Indian IT/ITES companies in the UK by making the UK visa application process more expensive and difficult. Businesses report that the move would significantly add to the financial burden faced by businesses that hire highly skilled foreign workers, disincentivise investment in the UK, and harm domestic businesses looking to access the skills needed to boost their own productivity and efficiency.

- Recommendations with immediate financial impact-
  (a) Increase minimum salary to £41,500 for tier 2 ICT category
  (b) Closure of Tier 2 (ICT) Short term visa route from April, 2017 which was used very widely by Indian IT/ITeS companies;
  (c) Implementing an Immigration Skills Charge (£1,000 per non-EU employee, p.a.) on ICT category. Stakeholders are concerned that there may be increases in future.

- Stakeholders had understood that the Immigration Skills Charge (ISC) is intended to generate funds that can be used to address skills gaps in the UK workforce. Stakeholders had expressed concern that the ISC will not be effective in helping UK workers to develop the skills required by technology companies, as they perceive that currently there is no mechanism to guarantee that money paid by technology businesses is being directed towards new initiatives that help boost STEM skills specifically.
- Stakeholders report that the combined effect will put significant financial burden on Indian IT companies, especially the small ones.
- The businesses have suggested that the Governments should treat short term skilled worker mobility as a trade policy issue, and not a generic immigration topic.

Data Protection and GDPR

- GDPR is expected to come into effect in May, 2018. This is expected to change the way the business is done in IT/ITES services and is creating uncertainty in the business environment. The UK's exit from the EU has further added to this uncertainty. Stakeholders seek clarity on the policy framework for data transfer between EU & UK and UK & India following the UK's exit from the EU and GDPR.

Social Security

- The UK has introduced new pension rules whereby an employee is required to have at least 10 years of contributions in the UK to be eligible for pension benefit.
- Indian professionals visit UK on a temporary basis for short periods and return to India. They also make contribution to the Social Security System of UK, but are not eligible for pension benefit as they do not contribute for 10 years which is a long period. They, thus, end up making contributions to both the countries without being made eligible for benefits. The stake holders have pointed out certain barriers to trade which include absence of a bilateral social security agreement to address issues such as double social security contribution, exportability of accumulated benefits and totalization of coverage and improve the business environment for service providers

Health Services

- National Health System (NHS) of UK allows reimbursements to patients who choose to go for treatment within the EU. India has world-class health facilities and has been offering treatment to International patients at less expensive rates.
- Stakeholders have suggested that in light of India's competence, India may be considered favourably for services under NHS of UK, especially following UK's exit from EU.
- Stakeholders have pointed out that currently the recognition of Indian Systems of Medicine is not adequate and this is a hindrance in market access of medicines in UK. Stakeholders specifically pointed out the lack of cooperation, collaboration, exchange and mutual interface between concerned administrative ministries, regulatory councils and professional or accreditation bodies for the recognition of the Indian Systems of Medicines in the UK. Moreover, there is absence of any facilitation for temporary movement of recognized qualification holders in accordance with relevant regulatory framework prevalent in both the countries.

Education services

- Stakeholders stated that curtailing of measures like allowing students additional (two) years of stay in the UK have put limitations on opportunities for engaging in delivery of services.

Mutual Recognition Arrangements

- The Institute of Company Secretaries of India (ICSI) has an MoU with Institute of Chartered Secretaries and Administrators – UK (Known as ICSA-The Governance Institute) for mutual recognition of each other qualifications which has been in force from 1st January 2000. However, ICSI members face difficulties in getting work visa/permit for employment in UK on the basis of ICSA qualification acquired under the said ICSI-ICSA-UK MoU.
- Institute of Chartered Accountants of India (ICAI) has informed that an MoU was executed between ICAI and ICAEW in 2008 and renewed in November 2014 for a period of 3 years whereby subject to bridging mechanism mutually agreed, the members of two bodies could be member of the other accounting body. Also, discussions with CPA Ireland had led to signing of MoU between ICAI and CPA Ireland in 2008 and Governmental clearance for its renewal is awaited.
- Stakeholders have pointed out that there is a need to sign MoU's in several more professional services.

Audio-Visual Sector

Cultural and economic cooperation between India and the UK in the form of encouraging the development of Media & Entertainment industry and the promotion of creativity in the audiovisual *sector have been less than adequate.* Specifically, the stakeholders have highlighted opportunities *to improve* present engagement in audiovisual production and cooperation between audiovisual industries of the UK and India; cooperation in the audiovisual sector (including broadcasting programme, audiovisual production and cooperation, gaming and visual effects); and participation in various audiovisual events held in the territories of the two countries

Data Annexes

Annex A: Limitations of bilateral investment data

Data discrepancies

The data for bilateral investment between the UK and India have been taken from a number of sources which don't always align, such as the Office for National Statistics (ONS), the Reserve Bank of India, OECD Stat, World Bank and UNCTAD.

UNCTAD Bilateral FDI Statistics[52] allow FDI to be compared internationally, providing data on both flows and stocks, both inward and outward investment, between the UK and India. The UK's figures in UNCTAD are based on data from the ONS, whereas figures for India are derived from data provided by the Reserve Bank of India.

The sources demonstrate large discrepancies. Using 2012 as an example, the UK's investment position in India is around $36 billion according to the Reserve Bank of India and worth only around $10 million according to the ONS.

Data Limitations: Intermediate and ultimate destinations of FDI

A large amount of FDI is channelled through 'special purpose entities' making it difficult to determine the ultimate destination for FDI. As multinational enterprises (MNEs) grow, they often use an international structure to manage production and reduce tax and regulatory burdens. Therefore, investment can be channelled through multiple countries before reaching its ultimate destination. This can cause bilateral comparisons to present a misleading picture, as the FDI statistics record the immediate rather than final destinations.

In recent years, Mauritius has been the largest source of FDI into India, accounting for 27% of the total FDI (Reserve Bank of India data, 2010-2012 average). Large flows between Mauritius and India may result from the advantages of the tax treaty, which may make it attractive for investors to route their investment through Mauritius to take advantage of the preferential provisions, which include exemption from capital gains tax.

Data limitations: Sectoral breakdown

In Office for National Statistics data, around 74% of the UK stocks in India are attributable to a particular sector as the data is deemed to be disclosive.

There are four sectors unattributed; mining, agriculture, forest & fishing, other services and "food products, beverages & tobacco products". Comparisons with global figures and figures for Asia as a whole, it is likely (although not certain) that UK investment in "food products, beverages & tobacco products" is the most significant recipient of UK investment of these sectors.

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[52] UNCTAD, Bilateral FDI Statistics; http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx

Annex B: Technical Annex - HS codes used for UK sector analysis

Sector	HS Codes
Life Sciences	Pharmaceuticals – HS 30 Medical Devices – HS 9018
Chemicals	1518, 1520, 2207, 2601, 2707, 2801, 2802, 2803, 2804, 2805, 2806, 2807, 2808, 2809, 2810, 2811, 2812, 2813, 2814, 2815, 2816, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2824, 2825, 2826, 2827, 2828, 2829, 2830, 2831, 2832, 2833, 2834, 2835, 2836, 2837, 2839, 2840, 2841, 2842, 2843, 2844, 2845, 2846, 2847, 2848, 2849, 2850, 2852, 2853, 2901, 2902, 2903, 2904, 2905, 2906, 2907, 2908, 2909, 2910, 2911, 2912, 2913, 2914, 2915, 2916, 2917, 2918, 2919, 2920, 2921, 2922, 2924, 2925, 2926, 2927, 2928, 2929, 2930, 2931, 2932, 2933, 2934, 2942, 3101, 3102, 3103, 3104, 3105, 3201, 3202, 3203, 3204, 3205, 3206, 3207, 3208, 3209, 3210, 3211, 3212, 3213, 3214, 3215, 3301, 3302, 3303, 3304, 3305, 3306, 3307, 3401, 3402, 3403, 3404, 3405, 3407, 3501, 3502, 3503, 3504, 3505, 3506, 3507, 3604, 3605, 3701, 3702, 3703, 3707, 3802, 3803, 3804, 3805, 3806, 3807, 3808, 3809, 3810, 3811, 3812, 3813, 3814, 3815, 3817, 3818, 3819, 3820, 3821, 3822, 3823, 3824, 3826, 3901, 3902, 3903, 3904, 3905, 3906, 3907, 3908, 3909, 3910, 3911, 3912, 3913, 3914, 4002, 4402, 5402, 5403, 5404, 5405, 5501, 5502, 5503, 5504, 7104, 8401
Food & Drink	0201-0210, 0303-0306, 0401-0406, 0408, 0502, 0504-0507, 0510, 0710-712, 0811-0814, 0902, 1101-1109, 1208, 1214, 1302, 1404, 1501-1504, 1506-1517, 1521, 1522, 1601-1605, 1701-1704, 1802-1806, 1901-1905, 2001-2009, 2101-2106, 2201-2206, 2208, 2209, 2301-2309, 2402, 2403, 3501, 3502, 3505, 4101, 4102, 6701
Automotive	- 8407, 8408 (Engines) - 8511, 8512 (Ignitions, signalling, etc.) - 8702-8708 (Motor cars, parts, etc.) - 9401 (Seats)
Aerospace	- 840710, 840910, 841111, 841112, 841121, 841122, 841191, 841210 - 880211, 880212, 880230, 880240, 880260, 880310, 880320, 880330 - 940110, 940190