



Free Trade Agreement between the EU and India

ACEM comments

ACEM Introduction

ACEM/Association des Constructeurs Européens de Motocycles G.E.I.E. was founded in 1994 and represents all major motorcycle manufacturers in the European Union (European α producing in Europe) whose products marketed under 20 different brand names range from 50cc mopeds to the biggest cruiser and touring bikes. ACEM represent also 14 motorcycle industry associations in the member states.

Powered Two-Wheelers (PTW's) are divided into different segments such as mopeds, scooters, super-sport, touring, commuter, custom, traditional and off-road bikes. This large range of products explains why we refer to them simply as Powered Two Wheelers.

The PTW sector¹ employs over 200,000 people and represents a turn-over of 10 bn EURO in EU, of which ACEM members are responsible for 90% of the total production and up to 95% of the total market in Europe. This represented over 2.2 million vehicles in 2006.

In accordance with the Request for Comments concerning the proposed Free Trade Agreement with the Republic of India, ACEM is pleased to offer the following comments in support of the Free Trade Agreement ("FTA") in relation to Powered Two-Wheeler (PTW) business and the great potential of the Indian market should the tariff barriers described below be removed.

¹ EU 15





Market reality

PTWs in India represent an essential means of personal transport providing Indian citizen with an efficient solution to urban congestion at affordable cost. The average small capacity motorcycles produced in India are marketed below 1.000 USD. As a result of their attractiveness, PTW sales reach more than 8 million units yearly, making India the second largest PTW markets in the world. Among all road vehicles the share of PTWs represents 78% of the fleet, but only 25% of the annual turnover.

In terms of evolution, the Indian market offers 1 million customers and 1 billion USD incremental every year since 2001.

The market is split among three main segments: the mopeds 5%, the scooters 11% and the motorcycles 84% massively dominated by small engine capacities (66% below 125cc).

The combination of excessive tariff barriers and the absence of offer from the local industry result in the marginalization of PTWs above 250cc on the Indian market with a insignificant market share of 0,38%.

Indian tariff barriers and duties

Significant and cumulative tariffs affect imported PTWs of all categories and capacities. A first excise duty of **10%** is applied for Complete Knock Down (CKD) imports. It raises up to **60%** for Semi Knock Down (SKD) or Complete Built Up (CBU) imports. In addition, there is a countervailing duty equal to the excise with effect of doubling the initial duty.

Then extra duties expressed in % of the duty paid value are calculated. They are listed below:

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| – Additional duty of customs to countervail local taxes (SPL) | 4% |
| – Countervailing duty (CVD) | 16% |
| – Educational cess (EDU) | 3% |
| – National calamity contingent duty (NCD) | 1% |

If the protection of the local industry can be understood up to a certain extend, the accumulation of duties applicable on all kind of PTWs generate an impassable and unnecessary barrier for the PTWs produced in the European Union.

The economic advantage of very competitive production costs in India constitutes by far a self-protection for the local industry preventing the small engine capacity PTWs produced in Europe to represent a serious threat for Indian manufacturers.

Customer demand of heavier PTWs is potentially expected to grow as ACEM manufacturers' brands are a mark of status in India thanks to the communication developed by all kinds of media, and as household incomes increase for certain categories of the population. This evolution, only



possible if current barriers are removed, would generate new business opportunities for the benefit of the Indian economy and citizen without impacting the local industry whose production is focused on small engine capacity PTWs.

European tariff barriers

A tariff of 8% is applicable on imported PTWs from India. If in theory this tariff is applicable on all kinds of PTWs, it affects practically only the small engine capacity vehicles produced by the Indian industry as mentioned above.

The current barrier by far does not compensate the competitive advantage of low production costs in India, thus does not represent a serious handicap for the sales of Indian PTWs across Europe. As public price remain relatively low, the success of these products depends more of their ability to match the other consumer expectations.

UN-ECE regulations

If India is a contracting party of the 1998 UN-ECE agreement on automotive technical regulations, the country did not adhere to the 1958 UN-ECE agreement, which still represents the major and unique source of internationally-recognized technical regulations. The relaxation of the tariff barriers would potentially generate increased flows of import/export PTWs provided that the Indian authorities recognize and introduce as soon as possible the ECE regulations at least as an alternative to the national current type-approved scheme.

Rules of Origin

The European production is increasingly globally integrated due to the predominance of the Asian motorcycle industry where India play a major quantitative role. Due to the competitive nature of the PTW industry, all PTWs produced in Europe have a significant extra EU imported content.

ACEM believes that the value added rule is not effective due to its intrinsic weaknesses: it is subject to multiple interpretations and possible manipulations, it represents an administrative burden incompatible with the limited resources of the PTW industry in a highly competitive context. Moreover it will create an unfair competition by giving an advantage to Indian manufacturers. As the Indian production is nationally integrated (very few components are imported), the calculation of the added value ratio becomes a very simple operation. On the contrary, for industries globally integrated this calculation represents very complex and costly administrative tasks.

The CTH rules with its objectivity and transparency will be able to maintain the sourcing flexibility required by our industry and in addition, it promotes international trade on equal and fair basis.





Conclusion

It should be emphasized once again that India does not have a heavy PTW industry but has a very competitive light PTW industry so that Indian motorcycle manufacturers would not be affected by the relief sought by ACEM. The removal of tariff barriers from both parties would only affect marginally the European PTW industry. Should the complete removal of the tariffs not be envisageable in the short term, ACEM would support a parallel and balanced reduction of the overall duties in terms of percentage of decrease and timing. The shortest timeframe, the largest tariff reduction balanced among between parties, and the most reduced number of steps would be beneficial for both parties.

However, it should be observed that the relaxation of tariff barriers should be accompanied in parallel by an adhesion of India to the 1958 UN-ECE agreement and the introduction of the PTW related regulations into the national regulatory systems.

Finally, the CTH rules of origin should be promoted in the negotiation between the EU and India for what concerns the powered two-wheeler related tariff headings (see annex).

ACEM appreciate the opportunity to bring these issues to the attention of the European Commission and look forward to working with the Directorate General for External Trade to resolve them through the FTA.

Annex

Tariff headings related to the powered two-wheeler sector

Powered two-wheelers

87111000	Motorcycles including mopeds and cycles fitted with an auxiliary motor with reciprocating internal combustion piston engine of a cylinder capacity <= 50cc
87112010	Scooters of a cylinder capacity >50cc but <= 250cc
87112091	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 50cc but <= 80cc (excluding scooters)
87112093	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 80cc but <= 125cc (excluding scooters)
87112098	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 125cc but <= 250cc (excluding scooters)
87113000	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 250cc but <= 500cc (excluding scooters)
87114000	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 500cc but <= 800cc (excluding scooters)
87115000	Motorcycles with reciprocating internal combustion piston engine of a cylinder capacity > 800cc

Components for powered two-wheelers

87119000	Sidecars for motorcycles
87141100	Saddles for motorcycles including mopeds
87141900	Parts and accessories for motorcycles including mopeds