Ref. 19054

REPORT

OF THE

INDIA-EFTA JOINT STUDY GROUP

Chapter 1

INTRODUCTION

GENERAL BACKGROUND

Background of India-EFTA Engagement

1.1 Recognising the need to enhance bilateral trade, a Record of Understanding was signed by Mr Kamal Nath, Commerce and Industry Minister of the Republic of India, and Ms Doris Leuthard, Swiss Federal Councillor and Head of the Federal Department of Economic Affairs, Mr. Dag Terje Andersen, Minister of Trade and Industry of Norway, Ms Valgerður Sverrisdóttir, Foreign Minister of Iceland and Ms Rita Kieber-Beck, Minister for Foreign Affairs, Liechtenstein, on December 1, 2006 in Geneva, for setting up a Joint Study Group (JSG) between India and EFTA. The Joint Study Group was mandated to take a comprehensive view of bilateral economic linkages between India and EFTA, covering among others, trade in goods and services, investment flows, and other areas of economic cooperation, and to examine the feasibility of a bilateral broad based Trade and Investment Agreement (TIA).

1.2 India and the EFTA States are engaging both at multilateral as well as bilateral levels. Believing that bilateral arrangements serve as building blocks to the multilateral trading system India and the EFTA States are moving forward in this direction.

Structure of European Free Trade Association (EFTA)

1.3 The European Free Trade Association (EFTA) is an intergovernmental organisation for the promotion and intensification of free trade. EFTA was founded as an alternative for states that did not wish to join the European Community (EC). Its objectives were to promote free trade among its members and establish a broader economic union with the rest of Western Europe. The EFTA countries wished to give an impetus to the expansion of free trade.

1.4 EFTA was founded by the Stockholm Convention on May 3, 1960 with Austria, Denmark, Great Britain, Norway, Portugal, Sweden and Switzerland as its founding members. The present membership of EFTA is of four countries – Switzerland, Norway, Iceland and Liechtenstein.

1.5 EFTA is administered by the "EFTA Council", which is a forum for its Member States to consult, negotiate and act in concert. It meets regularly at the level of officials and generally twice a year at Ministerial level. Each Member State is represented and has one vote, though decisions are reached by consensus. EFTA is served by three institutions: the EFTA Secretariat and, in the framework of the Agreement creating the European Economic Area (hereinafter EEA Agreement), the EFTA Surveillance Authority and the EFTA Court. The EFTA Secretariat supports the Member states in managing the EFTA free trade area (which comprises EFTA participation in the European Economic Area and EFTA's network of free trade agreements (FTAs) with third countries). Under the EEA Agreement, the EFTA Surveillance Authority performs the role of a "guardian of the treaties" for the EFTA countries that are parties to the EEA Agreement (at present Norway, Iceland and Liechtenstein). The EFTA Court has jurisdiction with regard to the EFTA States which are parties to the EEA Agreement. It notably deals with infringement actions brought by the EFTA Surveillance Authority against an EFTA State with regard to the implementation, application or interpretation of the EEA Agreement.

Economy of India

1.6 The early 1990s marked a profound change in India's economic policies. The immediate goals were macro-economic stabilisation and structural adjustment. Ensuing reforms aimed at enhancing efficiency, productivity and competitiveness of the economy, included inter alia, industrial deregulation, liberalisation of foreign direct investment, trade liberalisation, and reforms in public sector, infrastructure and the financial sector.

1.7 There was major liberalisation of foreign trade policies. Customs tariff rates were slashed from peak levels of 150% in 1991-92 to 25% in 2003-04. These have been further reduced to 15% in 2005-06 and 12.5% in 2006-07. Import licensing was dismantled and quantitative restrictions on imports were phased out two years ahead of India's WTO schedule. The New Industrial Policy of 1991 dismantled the industrial licensing system. Progressively, new sectors such as mining, banking, insurance, telecommunications, air lines, construction and management of ports, roads and highways, have been opened to private investment, including foreign investment. The foreign exchange regime underwent a major change. Full convertibility of the Rupee on the current account was realised by August 1994. Progressive liberalisation of the capital account convertibility regime is being pursued.

1.8 The financial sector has witnessed major reforms which are reflected in the growth of the capital market, insurance and banking sectors. The capital market was opened to investments by foreign institutional investors (FIIs). FIIs can invest freely in all types of securities traded on the primary and secondary market with full repatriation benefits. The insurance sector has been opened up and a large number of insurance companies, including joint ventures of foreign companies, have set up business. The major banking reforms that were undertaken at different intervals in the past 10 years are re-capitalisation of banks, merger of weak banks with strong banks, opening of the banking sector for private sector banks and foreign banks and enforcing the adherence to Basel Committee norms for the banks.

1.9 The Indian economy has been growing at rates exceeding 8% reflecting strong fundamentals – a stable and vibrant democracy, commitment to reforms, a large skilled workforce, focus on education, active institutions, respect for law and a very large and growing middle class with increased purchasing power. There has been tangible progress towards fiscal consolidation and a strong balance of payments position. Economic growth is sought to be sustained by doubling the share of expenditure on education in gross domestic product (GDP), increasing the national expenditure on R&D activities, and investment in communication infrastructure.

Economy of EFTA

1.10 In 2006, the combined GDP of the EFTA States amounted to US$ 719 billion. Switzerland accounts for 52.5%, Norway for 45.5% and Iceland for 2% of EFTA's combined GDP. Economic growth in Switzerland reached 3.2% in 2006 sustained by robust domestic demand, investment in capital goods and continuing dynamic exports. Despite forecasts for low level of growth during 2007 and 2008, the GDP is expected to continue to rise above potential. Since mid-2003, the Norwegian economy has grown at 2.4%. Mainland Norway's growth in 2006 was 4.3%. In Iceland, the economic growth was 7.7% in 2004, 7.5% in 2005 and 3.6% in 2006.

ECONOMIC LINKS WITH THE REST OF THE WORLD

Global Trade and Foreign Investment: EFTA

1.11 EFTA's trade with the world in 2006 was US$ 481.9 billion. In that year, the EFTA States imported an equivalent of US$ 210.4 billion of merchandise from the world and exported an equivalent of US$ 271.5 billion. The EFTA States main source of imports is the European Union, which in 2006 accounted for 75.2% of their imports from the world, followed by the United States 6.1%, China 4.0% and Japan 2.1%. In 2006, EFTA's 15 FTAs, involving 19 Partners outside the EU represented about 2.8% of its imports. India accounts for 0.4% of EFTA's total imports. The main export destination for the EFTA States is the EU, which in 2006 accounted for 70.8% of EFTA's merchandise exports, followed by the United States 8.9%. EFTA's 15 FTAs outside the EU accounted for 4.0% of exports, followed by China 3.3%, Japan 2.4% and Canada 2.2%. 0.6% of EFTA's exports were destined for India.

1.12 The services sector is a key contributor to EFTA States' economies: in 2005, services accounted for 71.6% of Switzerland's GDP, 61% of Norway's GDP, 70.8% of Iceland's, and 51% of Liechtenstein's GDP. In 2005, Switzerland's worldwide services exports were US$ 44.0 billion and imports were US$ 25.1 billion, accounting for nearly

2% of the world's total exports of commercial services (source: WTO). Norway also had substantive services imports and exports. In 2005, Switzerland and Norway were net exporters of services while Iceland was a net importer.

1.13 The EFTA States are major worldwide investors both in terms of foreign direct investment and portfolio equity investment. The EFTA countries' combined stock of foreign direct investment outflows in 2005 amounted to US$ 769 billion. With an investment of US$ 678 million in India during the period 1991-2006, Switzerland accounted for 1.5% of total investment inflows into India and was ranked the tenth largest investor.

Global Trade and Foreign Investment: India

1.14 India's global trade in 2003-04 was US$ 142 billion; exports were US$ 64 billion and imports were US$ 78 billion. During 2004-05, India's global trade grew to US$ 196 billion; exports were US$ 84 billion. Imports also witnessed a robust growth, having increased to US$ 112 billion. During 2005-06, India's global trade grew to US$ 246 billion; exports were US$ 103 billion while imports were US$ 143 billion. India's share in world merchandise exports, which was 0.8 per cent between 2003 and 2004, increased to 1.0 per cent in 2005. According to provisional data available for the year 2006-07, India's global trade increased to US$ 306 billion; with exports of US$ 125 billion and imports of US$ 181 billion. Exports registered a growth of 21% over the previous year and imports registered a growth of 26 % over the previous year. Reflective of the import intensity of trade, the trade balance during the year 2005-06 was US$(-) 40 billion, which has increased to US$ (-) 57 billion (provisional) during the year 2006-07.

1.15 India's global trade in services was US$ 43.3 billion in 2003-04 of which exports amounted to US$ 25 billion. Exports of services reached US$ 61.4 billion, in 2005-06. Growth has been particularly rapid in the miscellaneous service category, which comprises software services, business services, financial services and communication services. In 2005, India's share in world commercial services exports was 2.3%. India's trade in services is largely with United States of America and the EU. The rapidly growing trade is marked by growing imports of services. This two-way flow of trade has created a vibrant services sector in India.

1.16 Cumulative FDI approvals from August 1991 to January 2005 stood at US$ 68 billion. Actual FDI inflows in 2005-06 were US$ 4.7 billion. Accelerating further in 2006-07, as per provisional data available, FDI in April-September 2006 was US$ 4.2 billion, almost twice its level during the same period in 2005. As per the latest data on foreign direct investment inflows, there has been a 98.4 per cent jump in the equity investment into India in April-September 2006, over the same period in 2005. Indian companies have been expanding their operations worldwide by setting up new establishments and acquiring existing businesses. Indian software companies have invested in several European countries. Indians have become major players in the international acquisitions market. Outward investment flows from India have reached sizable proportions.

INTERNATIONAL TRADE POLICY, MULTILATERALISM AND REGIONAL ECONOMIC COOPERATION.

EFTA Countries

1.17 EFTA was one of the first free trade areas of the world. EFTA supports the multilateral trading system. All member states of EFTA are members of the WTO. They have traditionally had outward-oriented economies and enhancing trade with other partners has been the key element of their trade policy over the past decades. Bilateral free trade agreements initially covering only trade in industrial goods were concluded with the EC in the early 1970s.

1.18 The EEA Agreement entered into force for Norway and Iceland on 1 January 1994 while Liechtenstein became a member of the EEA Agreement on 1 May 1995. The EEA Agreement extends the EU Internal Market to the three EEA EFTA Member States, meaning that economic operators in these three countries can conduct their business under the same legal framework and are subject to the same rights and obligations as operators in the EU Member States. The EEA Agreement, however, does not cover all EU policy areas; it notably does not include the Common Agricultural Policy or the Common Fisheries Policy. Following a referendum in 1992, Switzerland opted not to become party to the EEA Agreement. To update the legal framework that governs Swiss-EU economic relations, bilateral agreements covering several areas of economic cooperation were signed in June 1999 and in October 2004. Together with the Free Trade Agreement of 1972, the two sets of bilateral agreements provide for a level of economic integration between Switzerland and the EU that is comparable to the one of the EEA Agreement.

1.19 The EFTA States do not have a common agricultural policy due to their different production structures in the field of agriculture. Given these differences, the EFTA States have in their bilateral trading arrangements dealt with basic agricultural goods bilaterally (between each individual EFTA State and the FTA partner). On the other hand, EFTA deals with processed agricultural products (such as soups, chocolate, bakers' wares, sauces, jams) jointly as a group.

1.20 EFTA Free Trade Relations: Since the beginning of 1990s, EFTA has established an extensive network of trading relations with States and Territories in Central and Eastern Europe, in the Mediterranean region and overseas. At present, the EFTA States have a network of 15 FTAs with a total of 19 partner countries and territories around the world: Chile, Croatia, Egypt, Israel, Jordan, Lebanon, Macedonia, Mexico, Morocco, Palestinian Authority, the Republic of Korea, Southern African Customs Union (SACU, comprising Botswana, Lesotho, Namibia, South Africa and Swaziland), Singapore, Tunisia and Turkey. In addition, on 7 June 2007, the EFTA States successfully concluded negotiations on a bilateral Free Trade Agreement with Canada. The FTAs concluded by the EFTA States aim at enhancing mutual market access and economic cooperation and strengthening the legal framework for this purpose.

1.21 Currently, EFTA is engaged in free trade negotiations with Algeria, Colombia, the six countries of the Gulf Co-operation Council (GCC), Peru and Thailand. In addition, two

EFTA States are conducting free trade negotiations with prospective partners on a bilateral basis: Iceland with China, and Switzerland with Japan. Norway and China are currently conducting a joint feasibility study to evaluate the feasibility of a comprehensive Free Trade Agreement between them. At the end of 2006, the Joint EFTA-Indonesia Study Group finalised its report and concluded that Indonesia and the EFTA States would benefit from a comprehensive trade agreement. Furthermore the EFTA States are monitoring developments regarding a number of other important potential partners with a view to examining the possibilities of establishing free trade relations.

India

1.22 India has demonstrated a strong commitment to multilateralism in its trade policy while taking a keen interest in schemes of regional economic cooperation in Asia. India is a founding member of the 1975 Bangkok Agreement, one of the first Preferential Trading Agreements (PTAs) in Asia. Following the accession by China to the Agreement in 2001 India and China have exchanged tariff preferences between themselves. This Agreement has been renamed as Asia Pacific Trade Agreement (APTA).

1.23 India has been a member of South Asia Association for Regional Cooperation (SAARC) which evolved a SAARC Preferential Trading Agreements (SAPTAs) in 1993. A Framework Agreement on South Asian Free Trade Area (SAFTA) was signed in January 2004 and is in operation since. India is also participating in another regional grouping namely the Bay of Bengal initiative of Multi Sectoral Technical and Economic Cooperation (BIMST-EC), combining seven South and Southeast Asian nations that have adopted a Framework Agreement for a Free Trade Arrangements between its members. India has had free trade and transit treaties with Nepal and Bhutan, India’s landlocked neighbours. India signed a bilateral Free Trade Agreement with Sri Lanka in 1998 which became operational in 2000. India and Sri Lanka are negotiating on a Comprehensive Economic Partnership Agreement, involving trade goods, services, investment and other aspects of economic cooperation.

1.24 After becoming a dialogue partner of ASEAN at the Second ASEAN-India Summit held in Bali in October 2003, India signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN. The Agreement contemplates an FTA in goods, services and investments and an early harvest programme.

1.25 In 2004, India signed a Framework Agreement for establishing Free Trade Area with Thailand. In June 2005, India signed a Comprehensive Economic Cooperation Agreement (CECA) with Singapore. India signed a Preferential Trade Agreement (PTA) with Afghanistan in March 2003. India has also signed a PTA with MERCOSUR (Brazil, Argentina, Uruguay and Paraguay) on January 25, 2004. This PTA will be operational after its ratification by the legislatures of MERCOSUR countries. An India-Chile Framework Agreement on Economic Cooperation was signed in January 2005 and a PTA in March 2006. A Framework Agreement on Economic Cooperation was signed between India and the Gulf Cooperation Council (GCC) in August 2004, and an India-GCC FTA was signed in March 2006, covering goods, services, investment and economic cooperation. In January 2006, India and Korea, based on conclusions and recommendations of a Joint Study Group, established a Joint Task Force for negotiating an FTA. A Joint Task Force (JTF) between India and China has been setup to examine the feasibility of, and the benefits from a possible China-India Regional Trading Arrangement. A Comprehensive Economic Partnership Agreement (CEPA) is being negotiated with Mauritius. The negotiation process for an India-Israel PTA has commenced. Moreover, a decision has been taken to enter into a Framework Agreement with the South African Customs Union (SACU), to promote expansion of trade and provide a mechanism to negotiate and conclude a comprehensive Free Trade Agreement.

ECONOMIC RELATIONS BETWEEN INDIA-EFTA COUNTRIES

Trade in Goods

1.26 Bilateral trade between India and EFTA during the year 2004-05 was US$ 6835.90 million comprising India's exports of US$ 658.08 million and EFTA exports of US$ 6177.82 million. In the year 2005-06, bilateral trade was US$ 7475.36 million, comprising India's exports of US$ 623.11 million and EFTA exports of US$ 6852.25 million. The growth in bilateral trade in 2005-06 over 2004-05 was 9.35%. India's exports to EFTA States shrunk by (-) 3.8% and EFTA exports grew by 11%.

Bilateral Trade between EFTA and India 2001-2007

(Figures in US$ Million)

Financial Year *	Total Trade	Gold Import from Switzerland	Trade excluding Gold Import from Switzerland	Percentage growth in trade excluding Gold import from Switzerland
2001-02	3389.63	2429.42	960.21	-
2002-03	2902.82	1562.75	1340.07	40
2003-04	4168.96	2369.87	1799.09	34
2004-05	6835.90	5010.12	1825.78	1
2005-06	7475.36	5319.83	2155.53	18
2006-07**	10542.66.	NA	NA	NA

*Financial year is 1 April to 31 March of the next year. **Provisional.

Break-up of Trade in Goods between India and Individual EFTA States

(Figures in US$ Million)

Country	ICELAND		NORWAY		SWITZERLAND**			
YEAR	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT		
						TOTAL	GOLD IMPORT	GOLD IMPORT AS %AGE OF TOTAL IMPORT
2001-02	4.49	2.25	54.30	47.98	409.44	2870.72	2429.42	85
2002-03	8.29	13.54	70.83	96.95	383.05	2330.08	1562.75	67
2003-04	17.60	9.53	75.69	303.02	450.35	3312.72	2369.87	72
2004-05	12.91	2.30	103.81	235.08	541.36	5940.41	5010.12	84
2005-06	13.05	6.32	130.20	289.34	479.86	6556.59	5319.83	81
2006-07*	11.49	3.73	182.58	764.64	464.58	9115.64	NA	

* Provisional.

** Trade data for Switzerland and Liechtenstein are combined as they are a Customs Union.

1.27 Regarding trade in goods between India and EFTA, Switzerland is India's largest trading partner among the EFTA States. Exports from Switzerland to India are predominantly of precious metals and precious stones. Most of this is bullion. In the year 2005-06, such goods comprised 81% of India's imports from Switzerland. Other major Swiss exports to India are high-end machinery and equipment and high value chemicals. India's exports to Switzerland are mainly of precious metal and articles thereof, precious and semi-precious stones, low-end chemicals, textiles and clothing, and leather goods. Exports by Norway are predominantly of ships, boats and floating structures, boilers and machinery, nickel, and iron and steel. India's exports to Norway are predominantly textiles and clothing, leather goods and chemical products. It is evident that there are complementarities in the trade as goods exported by India are entirely different from the goods imported from EFTA countries. Trade in agricultural goods is presently negligible.

Trade in Services

1.28 Trade in services is an area of great potential between the EFTA States and India. It is an important sector of the economy for both sides. The services entities in both EFTA and India have already started making use of the complementarities and have started providing services through various modes of services supply. The EFTA countries with large services consuming economies offer a market to Indian service providers. The EFTA States are world-scale business places with a high density of enterprises that enjoy high per capita income. They offer a wide array of opportunities for the Indian services providers. On the other hand, the rapid economic growth taking place in India has created a vast opportunity for export of services to India. The improved availability of global standard services would be crucial to maintain the high levels of economic growth. The JSG noted that large potential for bilateral trade in services exists in a wide range of areas such as: tourism services, educational services, architectural services, information technology and telecommunication services, audio visual services, services auxiliary to trade, construction services, financial services, maritime transport, energy services and in all four modes of supply.

Bilateral Investment Flows

1.29 Major Swiss investors in India are: ABB (Asea Brown Boveri) (manufacturers of electrical equipment), Sulzer (industrial machinery and pumps), Nestle (processed food), EMS-Inventa (polyester chips), Ciba Specialty (specialty chemicals), Rieter (textile machinery), Electrowatt (power technology), Novartis (agrochemicals and pharmaceuticals), Bühler (food processing and preserving solutions). Other major investments are by Georg Fischer, OC Oerlikon Balzers AG, Firmenich, Agie Charmilles, Benninger, Zellweger Uster, Swisscom, Ascom, Holcim, and Unique Airport of Zurich. The insurance and tourism sectors in India have also attracted investments. Major Swiss banks namely, UBS and Credit Swiss have set up operations in India. There are nearly 40 medium and small Norwegian companies engaged in joint enterprises in India, with Indian partners. Several Norwegian companies are established in India for example, Aker Kvaerner (engineering), Barbership management, Fred Olsen and Odfjell (maritime solutions), DnV (technical testing), CAMO (ICT/outsourcing), Conax (broadcast solutions), Elkem (microsilica and carbon), Hydro (aluminum), Orkla Foods (processed food), SNPower (electricity) and Nera (telecom solutions). Several joint ventures have been established within sectors such as welding equipment, tools and turbine parts and fishing nets. In recent years, Icelandic companies have shown growing interest in investing in India. Actavis, the global generic drug company based in Iceland, is among those companies as well as Kaupthing Bank, one of the largest banks in the Nordic countries, and Promens, an Icelandic plastics manufacturer with global operations. In addition, several Icelandic IT companies, such as LS Retail and Calidris, have made investments, allowing them to enter the Indian market. There are a number of Indian companies present in EFTA, notably: TATA AG, Birla AG, Ramco, Infosys, Wipro, and Tata Consultancy Services.

1.30 EFTA countries are investing worldwide. Specifically, there is significant potential for investments into India from Switzerland and Norway. Switzerland has industries with a global outreach and a significant pool of financial resources. Since 1990, Norway has put economic surpluses from its oil sector into a government pension fund, in order to facilitate government savings necessary to meet the rapid rise in public pension expenditures in the coming years. The capital of the Government Pension Fund - Global (previously the Government Petroleum Fund) is invested in non-Norwegian financial instruments (bonds, equities, money market instruments and derivatives), and in 42 developed and emerging equity markets and 31 currencies for fixed income investments. As of spring 2007, this fund was Europe's largest pension fund and the second largest in the world, with a value of approximately USD 317 billion. The Government Pension Fund made its first investments in the Indian stock market in 2005, and at the end of 2006, the Fund had holdings in almost 60 Indian companies.

Complementarities in the Economies of India and EFTA

1.31 The economies of EFTA and India are structurally different in many aspects, such as industrial structure and output, employment patterns, labour productivity etc. It is these dissimilarities that translate into macroeconomic complementarities. The macroeconomic highlights are:

- Trade as a percentage of GDP is very high across EFTA countries implying the importance of trade in defining their growth path.
- The simple average import-to-GDP ratio (vis-à-vis goods) in the context of EFTA, as a grouping is 32.50. Such a high import-to-GDP ratio complements the export-intensive-growth strategy of India in the goods sector.
- EFTA countries are large importers of services. This complements the export-based-services growth strategy of India.
- While EFTA Members make investments globally, India is seeking FDI in various sectors of the economy.

1.32 The difference in the population dynamics of EFTA Members and India, with the former being less populous, is another dimension that makes the EFTA and Indian economies complementary. India can therefore become a human resource base for enhancing the productivity of capital in EFTA countries, either by supplying human resources on EFTA soil or by facilitating investments of EFTA countries into India, thereby giving rise to a symbiotic growth relationship.

1.33 The complementarities at the macroeconomic level are further strengthened by the complementarities evident from the presently traded goods and services. India's growing pharmaceutical and textile industry would create opportunities for exports of capital goods as well as high end inputs by EFTA countries. Norway's expertise in shipping vessels complements the growing shipping and marine products sectors in India. A major oil exploration program is under way in India. Norway has expertise in this sector. A major role for Norwegian companies in India could be visualised in this sector.

Chapter 2

TRADE IN GOODS

GENERAL

Bilateral Trade in Goods in 2005-06

2.1 In the last three to four years, merchandise trade between the EFTA States and India has surged, experiencing double-digit year-to-year growth rates in nominal value terms. According to the EFTA States' statistics, total India-EFTA trade (imports plus exports) increased by 38% in 2004 as compared to 2003, by 31% the following year 2005/04 and by 30% in 2006/05.

2.2 Based on EFTA States' statistics, the value of total bilateral merchandise trade, imports plus exports, amounted to US$ 2.7 billion in 2006[1]. In 2006, the EFTA States exported goods to India worth US$ 1.8 billion, up 41% from 2005 in nominal terms, and imported goods from India worth US$ 841 million, up 10% from 2005.

2.3 Among the EFTA States, Switzerland was the largest trading partner, accounting for 78% of EFTA's total merchandise trade with India in 2006 (imports plus exports) – compared with Norway (21%) and Iceland (1%)[1]. By virtue of Liechtenstein's customs union treaty with Switzerland, its trade with India is included in the Swiss trade statistics.

2.4 In terms of commodity structure, the EFTA States' leading exports to India in 2006 were as follows (see Table 2 in the Annex): Machinery and mechanical appliances constituted Switzerland's largest export item (worth over half a billion US$, up 33% from the previous year in nominal value terms) – followed by pharmaceutical products (US$ 214 million), and precious stones and precious metals (US$ 194 million). Norway's most

[1] See Table 1 in the Annex

important export item to India in 2006 was ships and boats (worth US$ 152 million) – followed by machinery and mechanical appliances (US$ 62 million) and nickel and articles thereof (US$ 26 million). Iceland’s main exports to India in 2006 consisted of fats and oils (worth about half a million US$), followed by optical, medical and surgical instruments.

2.5 The EFTA States’ leading imports from India in 2006 can be summarised as follows: organic chemicals represented Switzerland’s largest import item (amounting to US$ 121 million) – followed by precious stones and precious metals (worth US$ 86 million) and knitted apparel (US$ 81 million). Norway’s leading import items were woven apparel (worth US$ 35 million), textile articles and knitted apparel (both representing US$ 25 million). Finally, Iceland’s main import consisted of organic chemicals (worth US$ 5.5 million), knitted apparel (US$ 2.8 million) and woven apparel (US$ 2.5 million).

2.6 As per India’s statistics the value of total EFTA-India merchandise trade, imports plus exports, amounted to US$ 9.2 billion in 2006, up 15% from 2005 in nominal value terms. In 2006, India imported goods from EFTA worth US$ 8.5 billion, up 16% from 2005, and exported goods to EFTA worth US$ 634 million, almost the same level as exports in 2005 in nominal value terms.

2.7 The difference in EFTA and India’s trade data is substantial. Even though in theory, the export data of one country should be the mirror image of its trading partner’s import data, discrepancies in merchandise trade data are the rule rather than the exception. Discrepancies result from differences in coverage of national trade statistics, valuation systems, partner attribution in case of transit trade, classification, time of recording, as well as differences in exchange rates or methods of calculating trade data. Another reason for the difference is the inclusion of bullion trade by India in its trade statistics as opposed to Switzerland putting bullion out of the export data and instead classifying it as a financial asset.

2.8 In 2005, as per India’s statistics, merchandise imports from Switzerland alone were worth US$ 7.15 billion. According to Indian statistics, Switzerland was India’s fourth leading import partner – after Saudi Arabia, China and the United States, and before Germany. 85% of India’s reported imports from Switzerland were constituted by precious metals and precious stones (mainly gold). Thus in the case at hand, the main source of disparity in reported trade flows between EFTA and India seems to stem from differences in the statistical coverage of gold trade between India and Switzerland. Another source of disparity could be transit trade through the EU. Statistical disparities, albeit smaller in scale, also appear regarding trade with Norway and Iceland.

2.9 It was noted that India is included in the General System of Preferences of Switzerland and Norway.

COMPLEMENTARITIES IN SECTORAL STRENGTHS ON BOTH SIDES

Industrial Products

2.10 With regard to trade in industrial goods, the JSG noted that India’s tariffs are on average higher than those of the EFTA States. India’s average applied tariff on non agricultural products is estimated to be around 10.1% during 2007-08 as per the announcements made in the Union Budget on 28 February 2007. Switzerland's applied MFN rate is less than 2%. Norway’s applied MFN rate is approximately 0.5%. Iceland's average applied tariff on non agricultural products for 2007 was 2.4%.

2.11 Textiles and clothing is an important sector for India. Currently, the sector accounts for 14% of the industrial production of the country. The sector is the second largest provider of employment, after agriculture, employing close to 85 million people; 35 million directly in textiles and 50 million in related activities. It also contributes substantially to India’s export earnings, accounting for nearly 17% of the country’s total exports.

2.12 In the goods' sector, EFTA's strengths vary among its Member States. In 2005, Switzerland's strengths were pharmaceutical products, machinery and mechanical appliances, organic chemicals and clocks and watches (Liechtenstein's figures are included in the Swiss statistics). Norway's top exports during the same period consisted mainly in mineral fuels and oil, fish and crustaceans, aluminium and machinery. Iceland's main exports were fish, crustaceans and aluminium.

Fish and other Marine Products

2.13 The JSG took stock of the situation in the aquaculture and fisheries sector. The aquaculture and fisheries sector plays an important role in providing staple food, livelihood and employment for people in coastal communities. The sector is of high economic importance to two of the EFTA States; it is one of the most important exports for Norway and constitutes a large proportion of Icelandic exports.

Agriculture

2.14 Agriculture is sensitive to all Parties, due to non-trade concerns in the EFTA States and in India for the reason that the livelihood of a large section of the population depends on it. The JSG noted the particular status of the agricultural sector in the EFTA States and in India.

2.15 The EFTA States aim at a sustainable agricultural policy and attach great importance to the concept of multi-functionality. These concerns, in addition to its primary role of producing food and fibre, make agriculture a sensitive issue for the EFTA States, although it represents only a small portion of their total GDP.

2.16 Agricultural policy in India is guided by a number of goals: most importantly securing livelihood for the large section of population involved in subsistence agriculture, food security, rural development and reasonable and affordable prices for consumers. The share of agriculture and related activities in India's GDP was 18% in 2005/06. The sector employs around 60% of the working population.

POTENTIAL FOR INCREASING BILATERAL TRADE

General

2.17 The JSG noted that the high yearly growth rates in merchandise trade between the EFTA States and India in the last four years are a sign of the potential for further increased trade once barriers and constraints are removed. The comprehensive program of trade liberalisation and structural reforms initiated by India at the beginning of the 1990s has, no doubt, significantly improved its external trade performance. India's impressive economic growth – averaging over 8.5% with over 9% expected for 2006/07 – constitutes another important trade-potential enhancing factor.

2.18 India and the EFTA States have complementary production structures. The EFTA States are specialised in machinery and investment goods, chemical and pharmaceutical products, fish and oil as well as other high-quality products commanding high prices in world markets. India's merchandise exports concentrate mainly on chemicals and intermediates, textiles and apparel. Indian companies could also benefit from a future TIA with EFTA through cooperation in areas such as infrastructure development, sustainable utilisation of natural resources, mining, aquaculture and fisheries for which the EFTA States hold advanced expertise.

Industrial Products

2.19 The JSG noted that EFTA's basic position is to offer a duty free access for industrial goods as of the entry into force, depending on an overall balance in the outcome of the negotiations. The JSG also noted that EFTA is willing to consider gradual tariff dismantling by India.

2.20 The applied tariffs in India for the most important export commodities of the EFTA States are between 15% and up to 60%. Consequently, there is a high potential for increasing trade by establishing a free trade area.

2.21 Woven apparel, knitted apparel and clothing accessories account for a high percentage of India's exports to the EFTA States. The EFTA States have average tariffs of approximately 10 – 15% on those commodities. Therefore, opportunities exist to increase the flow of textiles and apparel products to the EFTA States from India with the elimination of tariffs.

Agriculture

2.22 The agricultural production is complementary and therefore the liberalisation of trade in certain agricultural goods could be favourable to all the Parties. The EFTA States are important net food importers, more than half (in calorific terms) of their domestic consumption is imported. The main import items of the EFTA States comprise fruits, nuts, vegetables, spices, juices and cereals.

2.23 In this context it was noted that there is a great scope for exports of agricultural products such as fresh fruits, coffee, tea, spices, vegetables, cereals etc from India to the EFTA States.

Rules of Origin

2.24 The rules of origin (ROO) are crucial in any bilateral or regional free trade agreement to prevent trade deflection. ROO may require that imported goods are wholly obtained or sufficiently worked or processed in the territory of the partner country. Sufficient working or processing is defined by either, or a combination of value added criterion, tariff shift rule, specific process tests etc. The goods on which tariff concessions are granted under a PTA/FTA should fulfil the criteria prescribed in the ROO. Therefore, ROO are an essential part of any preferential or free trade negotiations.

Customs

2.25 Customs rules and procedures should be transparent, user-friendly and simple. Trade facilitation aims at simplifying and accelerating the clearance of goods, which may include cooperation mechanisms between the Parties.

Trade Remedies

2.26 The JSG noted that rules on trade remedies should be built upon the WTO Agreements with GATT plus elements. They should be used in such a way as to have minimal trade-distorting effects and be less restrictive among free trade partners.

CONCLUSION

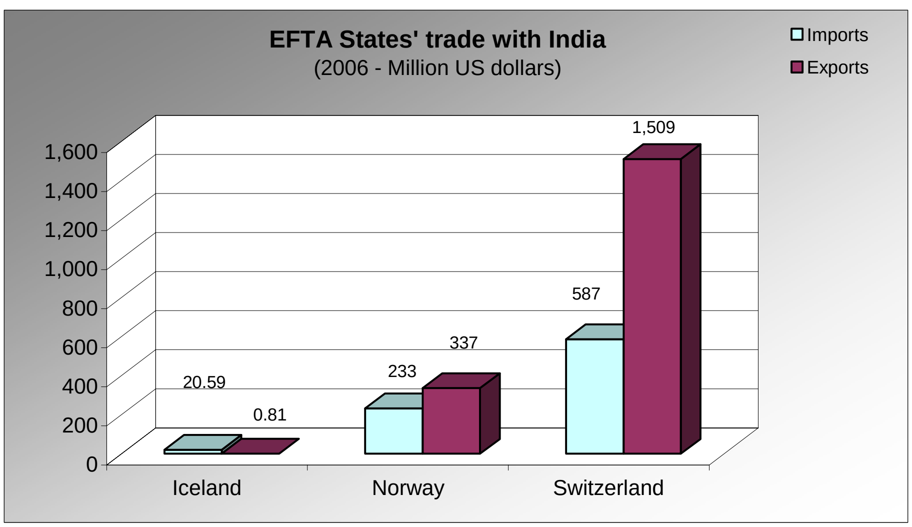
2.27 The JSG recommends that in order to maximise the trade potential between the two sides through a future TIA, the following principles should apply:

- product coverage should be comprehensive, encompassing substantially all the trade between the Parties, taking into account sensitivities of the Parties;
- coverage of tariff eliminations should be substantial;
- unduly trade distorting non-tariff obstacles to trade should be eliminated;
- the use of trade remedy measures should take into account the preferential relationship between the Parties.

Statistical Annex

Table 1: EFTA States' Bilateral Merchandise Trade with India, 2005-06

	2005	2006	2006/05
	In thousand US dollars		Annual percentage change
IMPORTS			
Iceland	17,608	20,593	17.0
Norway	213,036	233,341	9.5
Switzerland	531,135	586,557	10.4
EFTA	761,779	840,491	10.3
Share in EFTA's tot. imports	*0.41%*	*0.40%*	
EXPORTS			
Iceland	1,130	813	-28.1
Norway	199,837	336,536	68.4
Switzerland	1,108,161	1,509,447	36.2
EFTA	1,309,128	1,846,796	41.1
Share in EFTA's tot. exports	*0.55%*	*0.68%*	
IMPORTS + EXPORTS			
Iceland	18,737	21,406	14.2
Norway	412,873	569,877	38.0
Switzerland	1,639,296	2,096,004	27.9
EFTA	2,070,906	2,687,287	29.8
Share in EFTA's total trade	*0.49%*	*0.55%*	



Source: GTI, Global Trade Atlas (last update: September 2007)

Note: Switzerland's trade figures also comprise Liechtenstein's trade with India.

Table 2: Commodity Structure of Bilateral Merchandise Trade

(EFTA States as reporting countries)

EFTA STATES' TRADE WITH INDIA BY SELECTED COMMODITIES (HS)

	2005	2006	2005	2006	2006/2005
IMPORTS	In thousand US dollars		In per cent		% Change
Iceland					
Total imports from India	17,608	20,593	100.0	100.0	17.0
In per cent of imports from the world	*0.38%*	*0.37%*			
HS 29 Organic chemicals	5,360	5,470	30.4	26.6	2.0
HS 61 Knitted apparel or clothing accessories	2,415	2,752	13.7	13.4	13.9
HS 62 Woven apparel or clothing accessories	2,234	2,469	12.7	12.0	10.5
Norway					
Total imports from India	213,036	233,341	100.0	100.0	9.5
In per cent of imports from the world	*0.38%*	*0.36%*			
HS 62 Woven apparel or clothing accessories	32,979	34,535	15.5	14.8	4.7
HS 63 Miscellaneous textile articles	27,639	25,443	13.0	10.9	-7.9
HS 61 Knitted apparel or clothing accessories	23,854	24,656	11.2	10.6	3.4
HS 42 Leather articles, saddlery and harness	13,148	15,612	6.2	6.7	18.7
HS 94 Furniture and bedding	9,136	12,072	4.3	5.2	32.1
HS 57 Textile floor coverings	9,522	10,988	4.5	4.7	15.4
HS 85 Electrical machinery	7,911	10,798	3.7	4.6	36.5
HS 08 Fruit and nuts	8,897	8,273	4.2	3.6	-7.0
Switzerland					
Total imports from India	531,135	586,557	100.0	100.0	10.4
In per cent of imports from the world	*0.42%*	*0.41%*			
HS 29 Organic chemicals	112,419	121,311	21.2	20.7	7.9
HS 71 Precious stones and metals	77,696	85,818	14.6	14.6	10.5
HS 61 Knitted apparel or clothing accessories	73,812	81,108	13.9	13.8	9.9
HS 62 Woven apparel or clothing accessories	25,706	28,428	4.8	4.9	10.6
HS 85 Electrical machinery	28,364	28,195	5.3	4.8	-0.6
HS 84 Machinery, mechanical appliances	17,832	22,858	3.4	3.9	28.2
HS 32 Tanning, dye, paints, putty, inks	21,944	22,180	4.1	3.8	1.1
HS 64 Footwear	16,784	17,471	3.2	3.0	4.1
HS 42 Leather articles, saddlery and harness	14,292	14,304	2.7	2.4	0.1
HS 63 Miscellaneous textile articles	13,304	13,823	2.5	2.4	3.9
EXPORTS	In thousand US dollars		In per cent		% Change
Iceland					
Total exports to India	1,130	813	100.0	100.0	-28.05
In per cent of exports to the world:	*0.04%*	*0.02%*			
HS 15 Fats and oils	809	479	71.6	58.9	-40.9
HS 90 Optical, medical, surgical instruments	214	275	18.9	33.8	28.6
HS 38 Misc. chemical products	0	26	0.0	3.2	n/a
Norway					
Total exports to India	199,837	336,536	100.0	100.0	68.4
In per cent of exports to the world:	*0.19%*	*0.28%*			
HS 89 Ships, boats and floating structures	69,458	151,619	34.8	45.1	118.3
HS 84 Machinery, mechanical appliances	45,070	62,183	22.6	18.5	38.0
HS 75 Nickel and articles thereof	5,322	25,630	2.7	7.6	381.6
HS 85 Electrical machinery	19,856	24,794	9.9	7.4	24.9
HS 99 Other Special Import Provision	21,561	21,595	10.8	6.4	0.2
HS 90 Optical, medical, surgical instruments	8,990	12,214	4.5	3.6	35.9
HS 25 Salt, sulphur, earths and stone	3,476	5,599	1.7	1.7	61.1
HS 72 Iron and steel	4,963	4,750	2.5	1.4	-4.3
Switzerland					
Total exports to India	1,108,161	1,509,447	100.0	100.0	36.2
In per cent of exports to the world:	*0.85%*	*1.02%*			
HS 84 Machinery, mechanical appliances	410,224	546,298	37.0	36.2	33.2
HS 30 Pharmaceutical products	139,043	213,755	12.6	14.2	53.7
HS 71 Precious stones and metals	68,301	193,728	6.2	12.8	183.6
HS 85 Electrical machinery	112,051	124,290	10.1	8.2	10.9
HS 90 Optical, medical, surgical instruments	88,080	103,090	8.0	6.8	17.0
HS 29 Organic chemicals	107,145	66,975	9.7	4.4	-37.5
HS 32 Tanning, dye, paints, putty, inks	29,675	50,582	2.7	3.4	70.5
HS 91 Clocks and watches	31,119	48,241	2.8	3.2	55.0
HS 39 Plastic, plastic articles	18,813	28,530	1.7	1.9	51.7
HS 38 Misc. chemical products	11,453	21,273	1.0	1.4	85.8

Source: GTI, Global Trade Atlas (last update: September 2007)

Chapter 3

TRADE IN SERVICES

Services Trade in the Global Economy

3.1 In the knowledge-based economy, services are critical to the competitiveness of the countries. In 2006, world exports of commercial services grew at a double-digit rate of 11%. In 2006, Europe and North America recorded, as in the preceding year, export and import growth below the world average. Within the European Union services growth in Member States differed widely: services exports of France and Finland are reported to have declined, while those of Luxembourg and Poland expanded by one-quarter or more. The Russian Federation and Eastern European countries report export and import growth rates for commercial services of about 20%, the fastest growth of all regions.

3.2 In Switzerland, between 2003 and 2006, commercial trade in services (exports plus imports) has grown on average 7.6% annually. In Norway, the growth in services trade (exports plus imports) averaged 10.7% annually between 2003 and 2006. The services sector in Iceland has grown considerably during the last years and currently accounts for more than one third of Iceland's total export. Liechtenstein does not compile trade statistics.

3.3 Asia's commercial services exports, for the third consecutive year, continued to expand faster than the global average and faster than the region's services imports, thereby reducing the region's deficit in services trade. Japan, the region's largest commercial services trader, increased its commercial services exports by 12% and its imports by 8%. Among the major Asian traders India continued to excel in terms of its services trade expansion. The commercial services trade of Africa and the Middle East also expanded close to the world average in 2006.

3.4 Services currently account for nearly 60% of the world output, 30% of global employment, and nearly 20% of international trade. In a number of economies, including India's, the services sector is the single largest contributor to economic output. During the year 2006, India's commercial services exports grew by 34% and imports grew by 40%. Norway's commercial services exports grew by 10% and imports by 7% in 2006 (compared to 2005). The percentage growth rates for Switzerland were 8% and 5%, and for Iceland -18% and 5% respectively.

SERVICES SECTOR IN INDIA'S ECONOMY

Contribution of Services Sector to India's Economy

3.5 The Indian developmental trajectory owes much to the service sector of the economy. Services have contributed around 68.6% of the overall average growth in the GDP in the past five years from 2002-2003 to 2006-2007. Services growth has been broad-based and has shown a positive incremental growth since 2000-01 unlike the manufacturing and agriculture sector. Interestingly, services falling under the rubric of trade, hotels, transport and communications have clocked a double-digit growth for the last four years.

Table 1- Growth of Services Sector in India (in %)

Services	Percentage change over the previous year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Services	5.7	7.2	7.4	8.5	9.6	9.8	11.2
Trade, hotels, transport and communication	7.3	9.1	9.2	12.1	10.9	10.4	13.0
Financial, real estate & business services	4.1	7.3	8.0	5.6	8.7	10.9	11.1

3.6 The reasons for the growth of India's services sector in the 1990s are demand and supply factors. On the demand side, the high growth of services output was mostly attributed to factors such as increasing input usage of services by other sectors, mainly the manufacturing sector (i.e. higher domestic demand); higher foreign demand due to trade liberalisation; and high income elasticity for services. On the supply side, the increased trade in services following trade liberalisation policies and other reforms in the 1990s induced this growth. Studies show that the contribution of services input to output growth in manufacturing (organised), which was about 1% in the 1980s, increased to about 25%.

Exports of Services

3.7 India has been recording high growth in the export of services during the last few years. Services exports have increased threefold during the last three years; exports of services during 2005-06 reached US$ 61.4 billion reflecting a growth of 42%. Growth has been particularly rapid in the miscellaneous service category, which comprises of software services, business services, financial services and communication services.

3.8 In 2005, while India's share and ranking in world merchandise exports were 1% and 29th, respectively, its share and ranking in world commercial services' exports was 2.3% and 11th, respectively. Services exports grew much faster than merchandise exports and corresponded to almost 60% of merchandise exports in 2005-06. The composition of India's services exports and growth in specific sectors is represented in the Table below:

Table 2 - India's Export of Services (US$ Million)

	1990-91	% Share	1994-95	% Share	2000-01	% Share	2005-06	% Share
Total Services Export	4551		6135		18870		61404	
Travel	1456	32	2365	39	3168	17	7853	13
Transportation	983	22	1696	28	1913	10	6291	10
Insurance	111	2	152	2	257	1	1050	2
G.n.i.e.	15	0	41	1	657	3	309	1
Miscellaneous	1986	44	1912	31	12875	68	45901	75
of which:								
Software Services							23600	
Business Services							12858	
Financial Services							1704	
Communication Services							2182	

3.9 In recent years, a sectoral shift within the spectrum of service exports has also taken place. The buoyant growth of professional, technical and business services have provided a cushion against the slowdown in traditional services like travel and transportation. The relative share of travel and transportation in India's service exports has declined over the years.

3.10 Indian software services have always been widely talked about, and now even services like management and consultancy, advertising and trade fairs, financial services and architectural and engineering services are emerging as major earners.

3.11 "Business services", which also include accounting and auditing services and environmental services, earned the country a gross of US$ 12.9 billion in 2005-06 as against US$ 23.6 billion from software services. This has been made possible because of the widespread expansion of the telecommunications sector and the increasing digitization of various services, making it possible to supply services remotely. This is also referred to as cross border supply (Mode 1).

Table 3 - India's Business Services Export 2005-06 (US$ billion)

Exports of Business Services	2005-06
Architectural & engineering	US$ 3 billion
Management & consultancy	US$ 1.6 billion
Financial Services	US$ 1.9 billion

3.12 According to NASSCOM, the Indian software and services industry association, US$ 10-15 billion of the US$ 750 billion spent on engineering services is off-shored, and India's share is around 12% of this off-shore market. With the global spend in this sector expected to grow more than US$ 1 trillion, and outsourcing also expected to grow, Indian service providers have tremendous opportunity to expand. India has the single largest pool of engineering talent among the emerging countries, capable of taking on more work than Russia and China combined.

3.13 Finally, temporary movement of natural persons (Mode 4) is an area of significance for India's services trade. India's service providers, particularly in some professional services and in the Information technology sector, have earned a reputation worldwide to supply services of unmatched quality.

Import of Services

3.14 An emerging feature of India's economy is the growing import of services. India's import of services grew more than 10 times during the period 1990-91 to 2005-06. The rapid growth in import of services is being fuelled by sustained 8%-plus economic growth and India's increased engagement with the world economy. The growth in import of services is evenly spread across all the services sectors. The composition of India's services imports and growth in specific sectors is represented in the Table below:

Table 4 - India's Import of Services (US $ Million)

	1990-91	% Share	1994-95	% Share	2000-01	% Share	2005-06	% Share
Total Services Import	3571		5533		16392		37523	
Travel	392	11	818	15	2874	18	6464	17
Transportation	1093	31	1863	34	3170	19	7841	21
Insurance	88	2	181	3	122	1	1028	3
G.n.i.e.	173	5	165	3	341	2	506	1
Miscellaneous	1825	51	2506	45	9885	60	21684	58
of which:								
Software Services							1338	
Business Services							10496	
Financial Services							1308	
Communication Services							808	

SERVICES SECTOR IN EFTA ECONOMIES

Contribution of the Services Sector to the EFTA Economies

3.15 The services' sector is a key contributor to the EFTA States' economies. In 2005, services accounted for 71.6% of Switzerland's GDP, 55% of Norway's GDP, 70.8% of Iceland's GDP and 51% of Liechtenstein's GDP.[2]

Switzerland

3.16 Accounting for more than 70% of GDP, Switzerland's services sector is an important contributor to the growth and stability of the whole economy. The largest services sectors include financial services, distribution services, construction services, communication services and other business services. As is true of its whole economy, the Swiss services sector is deeply integrated in the world markets and some of its companies are highly competitive on a global scale. As a result, Swiss services exports represent 25.1% of total exports. Financial services, other business services and travel services are the three largest categories by value, accounting for approximately 76% of

[2] Sources: National Statistical Offices.

total commercial services export in 2005. Exports of other business services have increased at a fast rate, becoming the largest export category in 2004 and 2005.

Norway

3.17 In 2005, Norway exported services for approximately NOK 193 billion (approximately EUR 24 billion) Services are one of Norway's most important exports, accounting for just under one quarter (22 per cent) of Norway's total exports. Fields where Norwegian firms have specialised include marine technology, shipping, hydropower, mineral resources engineering, aquaculture, the fisheries industry, forestry, and the oil and gas industry. Norwegian service providers, being technologically advanced and highly educated, are also competitive in high tech industries such as software and communications technology, space-related technology, the engineering industry, and biotechnology.

3.18 The shipping industry accounts for roughly half of Norwegian services exports, while financial- and other business services is the second largest services export (2005). The largest Norwegian services imports are travel (accounting for roughly one third of services imports in 2005), shipping related services, and financial- and business services. Norwegian services imports are growing by an average of almost 10% annually (2003-2006). The largest increases are found in oil-related services and in tourism.

Iceland

3.19 Services are an important contributor to Iceland's economy. The service sector has grown considerably in Iceland during the last years and currently accounts for more than one third of Iceland's total exports. The largest services sectors in Iceland include financial services, construction, retailing, air transport, maritime services and tourism. The small domestic market in services has spurred expansion to other markets. As a result of a favourable and stable economic environment, a policy of liberalisation in the services market and a dynamic and well educated workforce, Icelandic companies enjoy a strong competitive position in the global market in a number of important service sectors. Primary examples of this expansion in the service sector are financial services, air transport services and maritime transport services, all of which have shown a robust growth in recent years and are, along with tourism, increasingly important export earners for Iceland's economy. Development of the service sector is therefore an essential part of Iceland's trade policy.

Liechtenstein

3.20 One quarter of gross value-added in Liechtenstein is in the area of general services. The largest private employers are in the field of services, real estate and information technology. They provide about 9% of jobs in Liechtenstein. A further 8% of employees in Liechtenstein work in the retail and repairs sector.

3.21 Financial services represent an important economic sector in Liechtenstein, albeit not the largest. The financial services sector employs 14.3% of the workforce and contributes as much as 30% to Liechtenstein's GDP, reflecting a high value-added intensity. Financial services include in particular private asset management, international asset structuring, investment funds and insurance.

EFTA States' Services Imports and Exports

3.22 In 2006 the four EFTA States together ranked 10th largest in world merchandise trade. In commercial services' trade, they ranked as high as 5th largest[3] in 2005 (latest available data). Switzerland's commercial services exports have increased by 78% between 2000 and 2006 in value terms. During the same period, Norway and Iceland's commercial services exports rose by 87%. For all the three countries, the growth rate of their services imports outpaced that of their exports between 2000 and 2006. Switzerland's commercial services imports rose by 87%, Norway's by 106% and Iceland's by 123%: see Tables 5 to 7 (source: IMF).

3 After the EU, the United States, Japan and China.

Table 5 - Switzerland's Services Exports and Imports, 2000-06 (US$ Million)

Switzerland, Exports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
All Services	29,884	28,469	30,306	35,237	43,085	47,106	51,955	
Commercial services (Services excl. government services)	28,620	26,789	29,061	33,497	41,752	45,794	50,585	100.0%
Other commercial services (Commercial services - Travel & Transport)	16,296	14,849	17,846	20,664	27,048	30,369	34,046	67.3%
Transportation	4,535	4,435	3,330	3,665	4,162	4,362	4,689	9.3%
Travel	7,788	7,505	7,885	9,169	10,542	11,063	11,850	23.4%
Communications services	879	767	839	974	1,223	1,156	1,039	2.1%
Insurance services	1,530	1,177	2,824	3,551	4,026	4,503	5,252	10.4%
Financial services	8,657	7,634	7,268	8,391	9,425	10,402	11,696	23.1%
Other business services	5,224	5,266	6,912	7,744	12,371	14,304	16,054	31.7%
Personal, cultural and recreational services	7	6	4	4	4	5	5	0.0%
Government services, n.i.e.	1,264	1,679	1,245	1,740	1,333	1,312	1,369	2.7%

Switzerland, Imports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
All Services	15,561	16,460	17,286	19,112	24,401	26,242	28,963	
Commercial services (Services excl. government services)	15,449	16,350	17,160	18,972	24,251	26,093	28,807	100.0%
Other commercial services (Commercial services - Travel & Transport)	3,888	5,128	6,046	6,837	10,208	11,267	12,533	43.5%
Transportation	5,226	4,987	4,441	4,673	5,263	5,563	6,092	21.1%
Travel	6,335	6,235	6,674	7,463	8,779	9,262	10,182	35.3%
Communications services	885	923	880	971	1,130	954	769	2.7%
Insurance services	216	218	235	277	305	486	525	1.8%
Financial services	783	651	593	668	856	1,023	1,281	4.4%
Other business services	1,943	3,270	4,271	4,832	7,821	8,717	9,867	34.3%
Personal, cultural and recreational services	61	65	67	90	96	87	91	0.3%
Government services, n.i.e.	112	110	126	140	150	150	156	0.5%

Table 6 - Norway's Services Exports and Imports, 2000-06 (US $ million)

Norway, Exports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
Services	17,718	18,355	19,488	21,663	25,263	29,305	32,929	
Commercial services (Services excl. governr	17,528	18,152	19,228	21,357	24,964	29,092	32,715	100.0%
Other commercial services (Commercial ser	5,873	5,323	5,837	6,625	8,068	10,368	13,875	42.1%
Transportation	9,606	10,871	11,212	12,233	13,917	15,392	15,227	46.2%
Travel	2,050	1,958	2,179	2,500	2,980	3,332	3,613	11.0%
Communications services	291	322	361	309	322	378	389	1.2%
Construction services	68	87	88	116	116	254	372	1.1%
Insurance services	153	130	294	394	335	341	321	1.0%
Financial services	386	406	462	558	594	734	759	2.3%
Computer and information services	660	589	301	373	566	899	1,239	3.8%
Royalties and license fees	161	159	171	195	242	524	760	2.3%
Other business services	4,014	3,458	3,987	4,470	5,709	6,888	9,568	29.1%
Personal, cultural and recreational services	139	172	175	210	185	351	467	1.4%
Government services, n.i.e.	190	203	260	306	298	213	214	0.7%

Norway, Imports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
Services	14,991	15,798	17,972	20,569	24,304	29,549	31,339	
Commercial services (Services excl. governr	14,832	15,667	17,834	20,415	23,871	28,817	30,609	100.0%
Other commercial services (Commercial ser	5,093	5,283	6,142	6,544	6,924	9,093	9,848	32.2%
Transportation	5,138	5,973	6,503	7,156	8,458	9,542	9,360	30.6%
Travel	4,602	4,410	5,189	6,716	8,489	10,182	11,400	37.2%
Communications services	165	190	216	217	233	286	299	1.0%
Construction services	31	32	44	48	39	42	49	0.2%
Insurance services	351	361	472	522	439	417	146	0.5%
Financial services	585	651	818	1,153	1,180	1,237	1,183	3.9%
Computer and information services	243	374	601	507	573	1,131	1,203	3.9%
Royalties and license fees	439	329	329	395	442	465	553	1.8%
Other business services	3,100	3,146	3,444	3,399	3,634	4,995	5,819	19.0%
Personal, cultural and recreational services	179	200	218	304	383	521	596	1.9%
Government services, n.i.e.	159	131	138	154	433	732	730	2.4%

Table 7 - Iceland's Services Exports and Imports, 2000-06 (US $ million)

Iceland, Exports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
Services	1,044	1,086	1,118	1,378	1,623	2,041	1,806	
Commercial services (Services excl. governi	936	1,004	1,034	1,281	1,527	1,956	1,749	100.0%
Other commercial services (Commercial ser	192	251	244	306	255	460	477	27.3%
Transportation	518	521	534	656	902	1,087	833	47.6%
Travel	227	232	256	319	370	409	439	25.1%
Communications services	10	24	8	8	10	9	12	0.7%
Construction services	2	0	1	14	2	0		0.0%
Insurance services	6	6	7	7	9	8	10	0.6%
Financial services	0	3	0	1	1	0	1	0.1%
Computer and information services	30	27	35	44	56	69	61	3.5%
Royalties and license fees	0		0		2		0	0.0%
Other business services	138	182	188	228	167	358	381	21.8%
Personal, cultural and recreational services	7	8	5	4	9	16	12	0.7%
Government services, n.i.e.	107	83	84	97	96	86	57	3.3%

Iceland, Imports	2000	2001	2002	2003	2004	2005	2006	%-share in 2006
Services	1,164	1,074	1,123	1,503	1,838	2,560	2,587	
Commercial services (Services excl. governi	1,149	1,058	1,105	1,481	1,818	2,538	2,566	100.0%
Other commercial services (Commercial ser	265	305	310	440	423	673	704	27.4%
Transportation	413	381	425	518	698	885	764	29.8%
Travel	471	372	371	523	697	980	1,098	42.8%
Communications services	2	28	38	45	21	43	46	1.8%
Construction services	19	17	8	24	9	7	18	0.7%
Insurance services	6	8	19	24	19	41	51	2.0%
Financial services	11	5	5	11	38	24	14	0.5%
Computer and information services	2	5	3	14	8	12	17	0.7%
Royalties and license fees	1	1	1	2	2	4	4	0.2%
Other business services	211	229	224	309	314	529	540	21.0%
Personal, cultural and recreational services	15	13	13	11	12	13	14	0.5%
Government services, n.i.e.	15	16	18	22	21	22	20	0.8%

3.23 Regarding the sectoral breakdown, Switzerland's services exports in 2006 were concentrated in the business and financial services' sectors. Norway exported, in particular business and transportation services and Iceland mainly transportation services - see Tables-5 to 7 above.

EFTA's Approach to Services in FTAs

3.24 In EFTA's FTAs, the rules and disciplines for trade in services are based on the GATS, but include improvements to achieve a higher level of trade liberalisation compared to the WTO obligations. The lists of specific commitments are also based upon the GATS model. Due to differences in the national laws of the EFTA States, EFTA presents separate lists of specific commitments for each EFTA State in its FTAs.

TRENDS AND PROSPECTS IN SERVICES TRADE BETWEEN INDIA AND EFTA

3.25 The services entities in both EFTA and India have already started making use of the complementarities and have started providing services through various modes of supply. The following are examples in this regard.

Switzerland

3.26 Companies in the service sector, like Zurich Insurance, Swiss Re and SGS Geneva have established their operations in India. Kuoni Travels has become very active in the tourism sector by acquiring major stakes in Indian companies like Sita Travels, SOTC etc. Major Swiss banks namely, UBS and Credit Swiss have a well-established and growing presence in India. In 2007 both banks have expanded their presence in India in the areas of investment banking and asset management.

3.27 Another area of bilateral trade in services between India and Switzerland, software and IT-enabled services, is becoming stronger as more Swiss companies are now outsourcing to India. The export of software and IT-enabled services from India to Switzerland has increased by more than 100% between the fiscal years 2003-2004 and 2005-2006. Indian IT companies are using Switzerland as the hub for European operations. The major Indian player in this field is Tata Consultancy Services (TCS).

3.28 Despite a small domestic market, the advantages offered by Switzerland, such as its strategic location in the centre of Europe, long-term stability, legal security, dedicated and professional labour force, liberal market conditions, reliable and highly developed financial centre, high-tech infrastructure, and modest tax system, have successfully attracted big Indian players.

3.29 Among the Indian companies operating in Switzerland are TATA AG, Birla AG, Ramco, Infosys, Tata, Wipro, Satyam, Polaris, and Tata Consultancy Services.

Norway

3.30 India’s presence in the Norwegian IT sector is increasing. WIPRO has supplied IT services in Norway since 1998. Besides adaptation, many small to medium-sized enterprises are involved in developing products and technologies that are required for IT solutions and services in the Norwegian market. Furthermore, Indian joint ventures are active in the Norwegian IT sector. The current growth in Indo-Norwegian eco-commercial ties is fuelled by complementarities of interests in sectors such as deep sea off-shore works, shipping, hydro-electricity, information technology, biotechnology and light consumer goods.

3.31 A number of Norwegian companies operate in the Indian services market. Several Norwegian service providers deliver services to the Indian oil and gas sector, including Aker Kværner and DNV. There is also a Norwegian presence in the shipping and maritime sector. SNPower, a Norwegian-based international hydropower company, has a joint venture with the LNJ Bhilwara group in India to construct hydropower plants.

3.32 Norwegian outsourcing to India is being propelled by high economic growth, a relatively high wage level and growing shortage of labour, including highly-skilled professionals. A recent success story was the design of Ormen Lange sub-sea gas platform by 1,100 Indian engineers in Mumbai.

3.33 By facilitating application procedures and reducing the processing time for work-permits, Norway could further benefit from the advantages of outsourcing services to India. To this end, Norwegian authorities are currently revising regulations and procedures.

Iceland

3.34 In recent years, trade in services between Iceland and India has been growing steadily. Indian companies such as Tata Consultancy Services and several smaller enterprises have actively been working with partners in Iceland, in particular providing IT-related services. Similarly, Icelandic companies are operating in India. Actavis, one of the world's largest generic drug companies, has research and production facilities in India, employing several hundred Indian professionals. Icelandic IT companies, such as LS Retail, already have a strong foothold, while the Icelandic-owned retail conglomerate Baugur Group has announced ambitious plans for its companies to enter the Indian market. Last but not least, Iceland's financial companies have expressed interest in India, with Kaupthing Bank recently entering into partnership with an Indian financial company based in New Delhi.

3.35 Given the strong growth in the services sector in the two countries, the prospects for bilateral trade in services between India and Iceland are promising. India's comparative advantage in the IT and financial sector, to name just two examples, and Iceland's expertise with regards to geothermal energy production, hydropower, retail, transportation, and financial services, creates conditions for a mutually beneficial relationship in the trade of services.

3.36 The prospect of a TIA between India and EFTA would certainly give further impetus to trade in services.

Complementarities between EFTA and India in the Services Sector

3.37 Calculations in Table 8 below show that the Compounded Annual Growth Rates (CAGR) of imports in Norway and Iceland exceed the CAGR of their exports of commercial services, which is different from the situation of India and Switzerland who enjoy a net surplus.

Table 8 - Global Trade in Commercial Services by India and the EFTA States (US$ million)

Country	Trade Flow	2002	2003	2004	2005	2006	CAGR (2002-06)
Iceland	Exports	1034	1281	1527	1959	1610	9.25%
Iceland	Imports	1105	1479	1814	2529	2643	19.05%
India	Exports	19125	23092	37184	54422	72800	30.65%
India	Imports	20778	25511	36538	49498	69532	27.33%
Norway	Exports	18517	20781	25354	29092	32103	11.63%
Norway	Imports	16771	19025	22918	28817	30861	12.97%
Switzerland	Exports	29061	33497	41752	45794	49511	11.24%
Switzerland	Imports	17160	18972	24251	26093	27367	10.00%

3.38 This CAGR-trade deficit within Iceland and Norway coupled with the fact that both economies are services intensive; opens up a window of opportunity for India to export commercial services to these counties.

3.39 The EFTA countries offer a market to Indian service providers. These countries are less populous than India. The EFTA States are world-scale business places with a high density of enterprises that enjoy high per capita income. They offer a wide array of opportunities for Indian service providers.

3.40 The rapid economic growth taking place in India has created a vast opportunity for export of services to India. The improved availability of global standard services would be crucial to maintain the high economic growth levels. Employment opportunities are being created in the rapidly expanding sector. This in turn is fuelling the growing demand for services. Disposable income is rising and so is consumption of services. International players have a big business opportunity due to the size of the market and the huge economy. The governmental emphasis on the growth of infrastructure is another big opportunity for service providers to leverage their expertise to set up base in India as the growth phase appears to be sustainable and lasting. Increasingly service providers are off-shoring processes to India. This is also helping them to ramp up their delivery model in India to reach out to their growing clientele.

POTENTIAL FOR TRADE IN SERVICES

General

3.41 The JSG examined the potential for trade in specific service sectors and modes of supply. The JSG identified a number of sectors of interest. The main sectors are tourism services, educational services, architectural services, information technology and telecommunications services, construction services, financial services, maritime transport and energy services. With regard to various sectors and all modes of supply, both sides should move towards removing administrative barriers and simplifying regulatory regimes. The areas having potential for future cooperation are discussed below.

Temporary Movement of Natural Persons (Mode 4)

3.42 Improved predictability for the temporary movement of natural persons is of great importance for the growth of bilateral trade flows. India is a country that has growing work-age population and a large potential in the supply of services through the temporary movement of highly skilled natural persons. Both sides need to address the issue of market access for the temporary movement of natural persons in various sectors in line with the GATS, particularly in the categories often used by WTO members in Mode 4.

3.43 Recognition of qualifications and experience of professionals, especially in professional services, also needs to be considered to make market access more effective. In this regard, a programme for creating training and educational opportunities in each others' territories could be considered in order to stimulate growth in bilateral trade.

Tourism Services

3.44 There is a great potential to facilitate trade and people-to-people co-operation between the two sides. The travel and tourism industry in each country needs to establish its presence in the other, and develop attractive tourist packages and products with careful attention to the consumer psyche of each country's tourist. There is a need to increase awareness among tourists, through various forms of media, about the tourism potential of both sides.

3.45 Among the EFTA States, India has strong tourism links with Switzerland and a large number of Indian tourists visit Switzerland. The tourism flows are largely one way - from India to Switzerland. The same is not the case with other EFTA countries.

3.46 India’s tourism potential needs to be marketed in EFTA countries as a destination offering cultural tourism, trans-Himalayan tourism, beach tourism, adventure tourism, wildlife and eco-tourism and tourism connected to teaching of yoga etc. India could promote MICE (meetings, incentives, conferences and exhibitions) tourism and health tourism.

Educational Services

3.47 The level of education development has direct bearings on the sustainability of the competitiveness and economic growth of a country. Against the background of economic globalisation, the development of human capital very much depends on the internationalisation of education.

3.48 Norway is a major importer of education services, mainly in mode 2. Switzerland is home to some of the best institutes for travel, tourism and hospitality sectors. This complements the thrust being imparted to the tourism sector in India. The projected expansion of the tourism sector in India would require large numbers of trained human resource. This creates an opportunity for trade in educational services.

3.49 Similarly, the premier precision engineering institutes of Switzerland and shipbuilding and marine engineering institutes of Norway could also be harnessed for trade in educational services for training Indian personnel in these sectors.

Information Technology and Telecommunications

3.50 In India, IT and IT enabled services have been the driving force of the services sector growth, contributing both in terms of output and foreign exchange earnings through exports. Growth of software services from India has been the highest, with IT business growth at over 21% in the 1990s and communications at over 15%. Markets for Indian software companies are traditionally in the West.

3.51 India has well established capabilities for business process outsourcing and knowledge process outsourcing. The EFTA countries have a well developed banking sector, ship building sector, precision engineering, pharmaceutical and chemical sector. In these sectors the Indian service providers can provide competitive supply of software and solutions.

3.52 The Indian IT and telecom sector is also characterised by the presence of a large number of foreign companies, who have come in encouraged by the liberal government policies and other incentives given to the sector. India has one of the fastest growing telecommunications markets in the world. Thus Indian markets which are fast growing in telecommunication and computer related services can be explored by EFTA countries for investment.

Architecture Services

3.53 India has a large trained human resource base for providing architectural services. The low-cost high skilled services that can be provided by India have the potential to add value to architecture services provided by EFTA firms. The expertise of EFTA architecture services in the area of heritage preservation and modernising urban infrastructure can be gainfully used in India, considering the huge demand for such services.

Construction Services

3.54 Growth in the Indian economy has created a huge need for quality infrastructure. The Government is focusing on public infrastructure and at the same time offering opportunities for private participation in the creation of infrastructure to support and sustain the rapid economic growth. With the Indian Government recently permitting 100% foreign direct investment (FDI) in construction and development projects, especially in construction of townships, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, and city and regional level infrastructure, both sides are in a position to benefit. This creates opportunities for enhanced trade in the construction services sector.

3.55 The EFTA states experience of developing world-class infrastructure could be used for enhancing cooperation in the new opportunities being created in India in the construction sector.

3.56 Engineering and consultancy companies in EFTA countries have developed extensive expertise in sectors such as oil and gas, construction and telecommunications and specifically in areas such as planning, feasibility studies, cost benefit analysis, surveys, design and project management. The potential for trade in these services can therefore be explored by EFTA companies.

Audio Visual Services

3.57 India is the largest film producing country in the world and the Indian music industry is third largest in Asia. With a developed entertainment industry, India has significant export potential in audio-visual services. Indian films have song and dance and melodrama which are universally liked and can find a ready market in EFTA countries. A number of Indian films are shot in Switzerland and therefore can find a larger audience in the country. The locations for film shootings have the potential for creating tourism flows.

3.58 India's strength in this sector, especially for post-production activities including editing, sound mixing, dubbing, animation and computer graphics has the potential for enhancing bilateral trade in this sector with increased market access in the EFTA countries. Other areas of interest to India are animation, computer games, broadcasting and telecasting services.

Financial Services

3.59 A bilateral trade agreement in financial services should create better conditions for the financial institutions of both sides to gain mutual access to the other's market. In order to facilitate trade in goods and services, both sides need to open banks and subsidiaries in each other's countries and need to trade financial services.

3.60 Switzerland which is a leading banking nation can provide expertise and knowledge to Indian banks in various banking fields. India, as the leading provider of banking software solutions in the world, can provide these solutions to the large and diversified banking services industry in Switzerland.

3.61 With its stable policies which can be predicted over the long term, and its efficient financial market infrastructure, Switzerland is a preferred financial services centre all over the world and its financial sector is closely interconnected internationally. The globally active large Swiss banks and insurance companies who operate in most segments of the international financial markets, rank among the global players and have in recent years expanded their presence abroad. Foreign banks operating in Switzerland are represented by subsidiaries or branches operating mainly in the area of globally-oriented banking services.

3.62 Norway has a very open financial market with a strong presence of foreign service suppliers, especially in the financing and insurance sectors. The market share held by foreign actors in these domains at the end of 2006 was 65.9% and 42.6%, respectively. Non-life insurance is an important service export for Norway, since it is one of the world's biggest suppliers of marine- and energy insurance.

3.63 The financial service sector in Iceland has expanded rapidly in the last years and the Icelandic banks are among the fastest growing in the world. This development is largely the result of reforms in the regulatory environment in the financial sector, privatisation of the state owned banks and the benefits of Iceland's participation in the EEA, which has allowed Icelandic banks and other financial institutions to expand their operations throughout the EEA.

3.64 India has allowed 100% FDI in 19 Non-Banking Financial Company (NBFC) activities (which are: merchant banking, underwriting, portfolio management services, investment advisory services, stock broking, asset management, venture capital, custodial services, factoring credit reference agencies, credit trading agencies, leasing and finance, housing finance, forex broking, credit card business, money changing business, micro-credit and rural credit) subject to capitalisation norms. The NBFC sector in India has therefore improved its attractiveness for EFTA countries' organisations in this field.

3.65 With the gradual opening up of the insurance sector in India there exists potential for insurance companies of EFTA countries to expand their operations in India. This will mean an opportunity for increased trade between EFTA and India in insurance services.

3.66 The JSG recognised that reaching a high level of efficiency and competitiveness in the financial markets of the two sides is of great significance in creating an environment for economic growth. Both sides could collaborate in the field of financial services with a view to promoting regulatory co-operation and sharing experiences to facilitate development of financial markets.

Maritime Transport

3.67 Maritime transport is a growth industry fuelled by globalisation and increased trade in goods. According to UNCTAD figures the maritime transport volume in ton miles grew by 70% from 1990 to 2005 and 22.5 % from 2000 to 2005. The industry is based on international division of labour where the factors of production (ships, equipment, crew, financing, insurance, classification, etc) are sourced in international and competitive markets.

3.68 Maritime transport is an important facilitator to world trade. More than four-fifths of world trade by volume is carried by sea. Liberalisation is key to reducing maritime transport costs, providing greater choices to shippers, and ensuring fast and efficient deliveries. Liberalisation will also encourage foreign investment, which will enhance employment opportunities within the sector itself and generate positive spin-off effects in related sectors such as ship repair and maintenance, ship classification, distribution, professional services, communications, banking and insurance services, etc.

3.69 Maritime transport is an important sector for Norway. The Norwegian fleet ranks 6th in the world and is comprised of 1665 vessels measuring 45 mill. dwt according to UNCTAD figures as on 1 January 2006. Close to half the value of Norwegian exports of services is related to maritime transport. The Norwegian fleet employs about 58000 seafarers, 20000 of whom are Norwegians, and 38000 foreigners of which 3950 (2005 figure) are from India.

Services Auxiliary to Trade

3.70 The EFTA States have expertise in the provision of all kinds of services auxiliary to trade in all modes of transport, including supply chain management services and door-to-door delivery services such as freight forwarding, warehouse management and cargo handling services.

3.71 The JSG took note of the interest of EFTA States in these areas.

Energy Services

3.72 A thriving energy sector - including energy services - is today a basic element of economic well-being. There is a high correlation between rising or more efficient energy usage and economic growth, increased life expectancy, and higher standards of living.

Moreover, modern energy services provide the means to develop energy resources in an environmentally sound manner and in ways that promote responsible and efficient development and use of energy resources.

3.73 The global energy services market is important for Norwegian service suppliers. The energy services market in Norway has already reached a very high level of liberalisation. As described in para. 3.4.2, there is already a substantial degree of co-operation between Norwegian and Indian companies in the energy field. Negotiations should seek to enhance the potential for this co-operation.

Social Security Arrangements

3.74 The Indian side proposed a Totalization Agreement with regard to social security contributions made by Indian professionals on short term assignments in EFTA countries. The EFTA States do not negotiate social security arrangements as a group. Such arrangements are made bilaterally by each EFTA State. The JSG recommends that this issue be discussed between India and individual EFTA States.

CONCLUSIONS

3.75 The JSG is of the view that both Parties will gain in exports of services through preferential market access. To maximise the gains India and EFTA should aim at**:**

- having substantial sectoral coverage measured in terms of number of sectors, volume of trade and modes of supply;
- providing for improved market access and national treatment both horizontally and sectorally;
- improving rules and disciplines over GATS provisions wherever possible.

Chapter 4

INVESTMENT

Existing Investment and Promotion Frameworks

4.1 The JSG emphasised the economic importance of international investment and the necessity of providing for a stable legal environment in order to foster foreign investment. Foreign direct investment is in particular an important element in the economic development of all Parties with positive effects in many areas, including employment opportunities and technology transfers. For both the EFTA States and India it would be important to include investment provisions in a future agreement in order to strengthen their mutual investment relations and to further enhance their ability to attract FDI.

4.2 While the EFTA States are important investors abroad, India seeks to attract more FDI. At the same time, recent developments have shown that India is increasingly becoming a significant capital exporter in its own right.

4.3 Switzerland and India have concluded a bilateral agreement on the promotion and protection of investments. Such an agreement between Iceland and India was signed in June 2007.

4.4 India has double taxation treaties with Switzerland and Norway. An agreement with Iceland is in the final stages.

Foreign Investment Policy

4.5 The Indian government has initiated a number of measures to facilitate the establishment process for foreign companies. In addition to the Foreign Investment Promotion Board functioning in the Ministry of Finance, the Indian government has also set up the Foreign Investment Implementation Authority (FIIA) in the Ministry of Commerce and Industry (Department of Industrial Policy and Promotion) to facilitate quick translation of FDI approvals into project implementations.

4.6 In Switzerland, traditionally an open economy, "LOCATION Switzerland“ is the official programme of the government to promote inward investment. In 2007, it started several promotional activities in India. Two seminars for investors focused on high technology areas, a media tour was organised in Switzerland for specialised Indian journalists and the presence of Switzerland at different international fora aimed at intensifying the knowledge among Indian investors about the Swiss market. The presence of LOCATION Switzerland in India will be further strengthened in the near future and several events and activities are planned in coordination with local Indian partners.

4.7 Norway is an open economy which welcomes foreign investment as a matter of policy. Norway generally grants national treatment to foreign investors, and specific exceptions from this principle are made only in a limited number of sectors, such as in the fishing industry. The government portal www.bedin.no contains information on rules and regulations pertaining to establishing and running a business in Norway. Foreign companies may also get assistance in business development throughout Norway from Innovation Norway. Its India office is located in, and actively cooperating with, the Royal Norwegian Embassy in Delhi.

4.8 In Iceland the Trade Council and the Ministry of Industry and Commerce of Iceland, have established the “Invest in Iceland Agency” to promote investment in Iceland. This Agency functions as a "one-stop shop" for foreign investors and provides information on investment opportunities in Iceland and the business environment. The Agency's team provides free of charge information and expert confidential service on all aspects of investment, arranges site visits and plans contacts with local authorities as well as local business partners and professional consultants. The Agency also runs the Film in Iceland Agency Project.

4.9 Liechtenstein does not have an investment promotion framework. It views favourable and stable conditions for economic activity and market rewards for performance as the best form of support. Almost every establishment of a profit making business in Liechtenstein requires approval according to the relevant laws of the country. This information is available at www.liechtenstein.li .

4.10 All EFTA States except Liechtenstein are Members of the OECD and have taken investment liberalisation measures by virtue of the relevant legal instruments of that organisation. They provide for non-discriminatory market access and for national treatment of foreign investors with few exceptions. Through this process, the EFTA States have not only liberalised their investment regime but also introduced legislation that provides for a high degree of transparency and predictability.

4.11 Since 1991 the aim of India's industrial policy has been to integrate the country into the global economy by following a calibrated approach to liberalisation which has led to the opening up of the manufacturing sector to 100% FDI without any prior approval of the Government. Equity caps and requirement of Government approval mainly remain in a number of services sectors. Liberalisation and rationalisation measures have helped to increase FDI inflows from US$ 5.5 billion in 2005-06 to US$ 15.5 billion in 2006-07.

Measures for Enhancing Investment Flows

4.12 Having looked into the investment framework and promotion policies on both sides, the JSG appreciates the importance of further improving bilateral investment flows. Sustained promotional policies and stable investment regimes will help to realise the substantive potential for enhanced investment flows between the two sides.

Conclusion

4.13 It was noted that investment flows are enhanced by ensuring:

- rules for establishment in non-services sectors based on national treatment;
- transparency of regulatory frameworks;

- free flow of payments and investment-related capital movements.

4.14 The JSG agreed that a chapter on investment should be included in a future agreement, based on the foregoing principles, and seeking to further strengthen the promotional framework. Such a chapter should offer flexibility to the Parties to reflect the special requirements of their national legislations in this regard.

Chapter 5

SANITARY AND PHYTOSANITARY MEASURES AND TECHNICAL BARRIERS TO TRADE
MUTUAL RECOGNITION AGREEMENTS
CUSTOMS COOPERATION AND TRADE FACILITATION

SANITARY AND PHYTOSANITARY MEASURES AND TECHNICAL BARRIERS TO TRADE

5.1 The JSG noted the importance of addressing non-tariff barriers, including technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS), with due regard to the right to apply measures to protect legitimate objectives such as the life or health of humans, animals or plants, food safety and protection of the environment.

5.2 EFTA and India are signatories to the WTO Agreements on TBT and SPS. The JSG noted that it should be the endeavour of both sides to build on these two WTO agreements in order to facilitate better understanding and cooperation in the area of non-tariff barriers affecting bilateral trade. The two sides will cooperate with each other to deepen the dialogue on existing and future TBT and SPS issues with a view to facilitating bilateral trade and increasing mutual market access.

5.3 The JSG discussed various forms of non-tariff barriers and concluded that technical regulations and SPS measures shall not be more trade restrictive than necessary to fulfil a legitimate objective. The JSG recommended setting up a bilateral mechanism to facilitate exchange of information on SPS measures and TBT and to resolve issues connected thereto. Appropriate provisions need to be built into the future TIA.

MUTUAL RECOGNITION AGREEMENTS

5.4 The JSG noted that three of the EFTA Member States (Norway, Iceland and Liechtenstein) are Members of the EEA Agreement. When the European Union (EU) extends the Internal Market to a third country, Protocol 12 of the EEA Agreement ensures the smooth functioning and homogeneity of the EEA market. The Protocol guarantees that whenever the Community takes the initiative to negotiate Mutual Recognition Agreements (MRAs) it will negotiate with the understanding that the third countries concerned will conclude, with the EEA EFTA States, parallel MRAs equivalent to those to be concluded with the EU. Such MRAs based on Protocol 12 are the following: EEA EFTA–New Zealand MRA, EEA EFTA–Australia MRA, EEA EFTA–Canada MRA, EEA EFTA–Switzerland MRA, EEA EFTA–USA MRA. Further information can be found on: www.efta.int . The JSG noted that following a possible future MRA between the EU and India the three EEA EFTA States will be in a position to jointly negotiate a similar agreement with India.

5.5 Switzerland is not a Member of the EEA Agreement; consequently Switzerland has the power to negotiate and enter into MRAs with third countries. However, it has so far only concluded three: the MRA with the EU, which entered into force on 1 June 2002, a parallel MRA with the EEA EFTA States and an MRA with Canada which entered into force in 1999. Regarding the functioning of such agreements, Swiss experience shows that in cases where the technical regulations of the Parties are not equivalent, it is difficult to find conformity assessment bodies interested in being recognised under such MRAs. The Swiss authorities came to the conclusion that MRAs are only beneficial in cases where the regulations of the Parties are equivalent. If this is not the case, there are more efficient means to solve problems related to the acceptance of foreign conformity assessment results, such as e.g. the recognition of test results from accredited certification bodies between the Parties or a cooperation between a test laboratory in the exporting country with a certification body located in the importing Party. The JSG observed that the issue of mutual recognition should be examined further between Switzerland and India in the context of a future agreement.

CUSTOMS COOPERATION AND TRADE FACILITATION

5.6 A key challenge for Customs Administrations globally is to maintain the right balance between enforcement and facilitation in order to meet both the requirements of security and legal compliance of imports and avoiding unnecessary obstacles to trade. Application of international customs and trade instruments in a uniform, predictable and transparent manner, implementation of efficient and effective procedures as well as international cooperation enable Customs Administrations and other similar agencies to achieve this balance. With the decreasing importance of tariffs, inter alia as a result of FTAs like the one envisaged by India and the EFTA countries, transaction costs of formalities and procedures related to border crossing, deserve increased attention and action to reduce such expenditure. In parallel measures to secure the supply chain entail increasing government attention.

5.7 The JSG noted that trade facilitation measures, while promoting trade, can yield higher customs revenues and reduce transaction costs without compromising on enforcement aspects. The JSG recommends that any future bilateral TIA should include provisions on trade facilitation. Furthermore, the JSG envisages that such an agreement may include provisions on mutual administrative assistance in customs matters.

Conclusion

5.8 Some of the key issues in a possible- trade facilitation chapter could be:

- simplification and harmonisation of border procedures and formalities by active implementation of WCO instruments such as Conventions, Recommendations and Standards and modern procedures to secure and facilitate trade;
- increased transparency.

5.9 Some of the key issues in a possible - customs cooperation chapter could be:

- exchange of information for proper implementation of customs law and for the prevention, investigation and combating of customs offences;
- sharing of best practices and cooperation in capacity building;

- improving intelligence and risk management processes to secure and facilitate trade.

Chapter 6

INTELLECTUAL PROPERTY RIGHTS, INCLUDING GIs, AND COMPETITION

INTELLECTUAL PROPERTY RIGHTS, INCLUDING GIS

6.1 The JSG recognised that intellectual property rights are a fundamental factor in developing a stable and predictable environment conducive to trade and investment and agreed on the importance of ensuring an adequate level of protection. It agreed that substantial provisions in this field, including patent protection, should be included in an EFTA-India TIA. The JSG also discussed the importance of protection of undisclosed information. The intention is to move towards effective protection and implementation of intellectual property rights.

6.2 The JSG agreed that the WTO Agreement on trade-related aspects of intellectual property rights (TRIPS Agreement) lays down minimum standards for protecting and enforcing intellectual property rights and that WTO Members have the possibility to provide a higher level of protection, if they consider this to be appropriate.

6.3 The JSG recognised the importance of protecting geographical indications (GIs) in trade between the EFTA States and India, and agreed that protection of GIs within each other's markets would be enhanced by an agreement on GIs. Recognition and protection of traditional knowledge is another area which could be explored.

COMPETITION

6.4 The Joint Study Group considers it important to avoid distortions and anti-competitive business practices, which would undermine the benefits resulting from trade liberalisation under a future TIA.

6.5 Encouraging effective competition is recognised as essential for the healthy development of economic relations. Parties shall work towards ensuring that anti-competitive practices do not distort trade between them.

6.6 In order to further contribute to that end, the relevant authorities on both sides may exchange information, cooperate and consult in order to promote effective competition, eliminate anti-competitive practices and strengthen coordination amongst the Parties.

6.7 The Joint Study Group recommends that provisions on competition based on the discussions in the above paragraphs should be included in a future TIA.

Chapter 7

GOVERNMENT PROCUREMENT, INSTITUTIONAL MATTERS AND DISPUTE SETTLEMENT

GOVERNMENT PROCUREMENT

7.1 The JSG noted that government procurement accounts for an important share of GDP, as governments and their various agencies are large purchasers of goods and services, ranging from basic commodities to high technology equipment.

7.2 A transparent and competitive government procurement system can bring benefits, allowing for efficient use of public resources and opening up new markets for competitive companies.

7.3 The JSG noted that liberalisation of government procurement is an objective of the EFTA free trade agreements. Comprehensive provisions have been included in EFTA FTAs with Chile and Mexico. Such provisions are also being taken up in the current negotiations with the GCC.

7.4 The JSG studied the Government Procurement systems on both sides. The EFTA States are all members of the WTO Government Procurement Agreement. Their legislation has been designed in order to assure the implementation of the provisions of the GPA. This means that the EFTA States only guarantee foreign bidders a right to participate in bidding processes if their home country is a member of the GPA or has signed another international agreement covering market access in government procurement. The treatment is reciprocal and includes the right to go to court.

7.5 India is not a signatory to the GPA. Nevertheless, India has a well established, competitive and transparent system of government procurement which is governed by the General Financial Rules. Procurement is made through an open tendering process. The procurement functions are decentralised within the Central Government and the State Governments. There is a provision to allow preference to Public Sector Undertakings and micro and small enterprises. Global tenders are usually issued for all large procurements.

7.6 The JSG observed that there is a need to develop a mutual understanding on government procurement policies and systems through exchange of information, including establishment of contact points. This exchange will also provide information on opportunities for businesses on both sides.

INSTITUTIONAL MATTERS AND DISPUTE SETTLEMENT

7.7 The JSG agreed that an institutional framework, in which all the Parties are represented, is an important element in FTAs. The role of such a mechanism is to supervise and review the implementation of the Agreement, oversee its further development and endeavour to resolve any possible difficulty at an early stage.

7.8 The JSG agreed that a possible EFTA-India TIA should include a dispute settlement mechanism which would be designed to settle any dispute relating to the Agreement. The mechanism should provide for consultations and, as a last resort, arbitration. If the Parties cannot agree on a mutually acceptable solution, each Party could have recourse to arbitration. The details of the dispute settlement mechanism would need to be negotiated at an appropriate stage.

Chapter 8

TECHNICAL COOPERATION

8.1 The JSG noted that with a view to facilitating the implementation of an agreement, some of EFTA's FTAs contain provisions on technical cooperation which are complementing existing bilateral and multilateral assistance.

8.2 The JSG further noted that individual EFTA States have for many years been engaged in various cooperation projects in India, ranging from humanitarian assistance to technical cooperation. The JSG exchanged information on the bilateral cooperation projects between the individual EFTA States and India, and discussed the possibilities of future bilateral technical cooperation

8.3 Looking at the possible scope of future technical cooperation, the JSG highlighted the following sectors:

- Energy
- Environment
- Food processing industry
- Infrastructure
- Organic agriculture and aquaculture
- Pharmaceutical
- Shipping
- Technical skill development
- Tourism

8.4 The JSG noted that technical cooperation in the aforementioned areas would further strengthen and expand economic cooperation between EFTA States and India.

Chapter 9

CONCLUSION AND RECOMMENDATION

9.1 The JSG has undertaken a comprehensive study of bilateral economic linkages between India and the EFTA States, covering among others trade in goods and services, investment flows and other areas of economic cooperation with a view to suggesting ways and means to foster closer economic engagement between the two sides. Based on this, the JSG is of the opinion that India and the EFTA States should advance their economic relationship by exploiting the potential for enhancing trade and investment flows. Deepening their engagement would bring forth a wide range of mutual benefits.

9.2 The JSG studied the complementary structure of the economies, existing trade and investment flows and potential for enhancement. The JSG concluded that both sides would significantly benefit from a bilateral broad-based TIA, the elements of which are outlined in the preceding chapters of this report.

9.3 The JSG recommends that the governments of the EFTA States and India enter into negotiations for a broad-based TIA keeping in view the recommendations made in chapters 2 to 8 of this report.