

# International Trade Select Committee inquiry: Agreement with India

## **Federation of Small Businesses (FSB) written evidence 11 February 2022**

1. FSB is a non-profit making, grassroots and non-party political business organisation that represents around 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.
2. FSB welcomes the opportunity to respond to the International Trade Committee inquiry into the Government's free trade negotiations with India. We would be happy to provide further detail on any of the issues raised in this response.

### **How adequately has the Government undertaken public consultation in formulating its strategic approach / negotiating objectives?**

3. FSB supports the launch of negotiations between the UK and India for a bilateral free trade agreement and believes that a trade deal has the potential to deliver important benefits for small businesses that already trade with India or are considering doing so.
4. In FSB's experience there has been sufficient opportunity to engage with the Government on the development of its strategic approach and negotiating objectives. FSB has provided input to Government via different channels; in particular FSB provided a written submission to the Government call for evidence in August 2021 and has engaged directly with officials including through the Strategic Trade Advisory Group.

### **How adequate and appropriate is / are the Government's strategic approach / negotiating objectives?**

5. FSB encourages the Government to use the opportunity of trade negotiations with India to deliver an FTA that delivers concrete benefits for SMEs doing business in India while also setting new precedents in trade policy.
6. FSB's priorities for all trade negotiations, outlined in a 2020 report written in conjunction with the University of Sussex UK Trade Policy Observatory<sup>1</sup>, include: SME-specific provisions, in particular a small business chapter; ambitious regulatory transparency and cooperation; provisions to tackle fixed costs of trade such as simplifying Rules of Origin; trade facilitation provisions; and commitments around digital trade.
7. The negotiating objectives set out in the Government's strategic approach are broadly in line with FSB's priorities for a trade agreement with India. We welcome commitments to uphold standards and to pursue regulatory cooperation in order to facilitate trade. The following paragraphs set out FSB's views on priority issues for small businesses in more detail, including where we would encourage Government to build on the objectives set out in the strategic approach.

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<sup>1</sup> <https://blogs.sussex.ac.uk/uktpo/files/2020/01/FSB-Trade-TPO-Report.pdf>

### SME-specific provisions

8. Smaller firms' capacity to understand and take advantage of the opportunities afforded by FTAs is a major challenge for SMEs due to their resource constraints. This is one of the central barriers preventing smaller firms from utilising FTAs when exporting or importing.
9. FSB has long championed the inclusion of small business chapters in the UK's free trade agreements and welcomes the Government's commitment to seek a dedicated SME chapter in negotiations with India. To ensure that the chapter is successful in helping small businesses reach their potential, the Government should seek to include within the chapter a designated SME contact point to act a comprehensive source of information on, amongst others: customs regulations and procedures, especially regarding rules of origin; regulations concerning IPRs; technical regulations and standards, sanitary and phytosanitary measures; foreign investment regulations; business registration procedures; employment regulations; and taxation information.
10. Further, FSB would like to see a UK-India FTA establish a dedicated SME Committee, such as that seen in the United States-Mexico-Canada Agreement (USMCA). The SME Committee should have a meaningful say in all areas that affect the trading prospects of SMEs, including e-commerce, intellectual property rights (IPR) and rules of origin.

### Rules of origin

11. Previous FSB research has found that only 19 per cent of smaller businesses exporting to non-EU markets were using an FTA to support their exporting activity, whereas 52 per cent were not, while a further 29 per cent did not know.
12. The ability of a smaller firm to act quickly and agilely in comparison to larger competitors is often appealing to clients. While there are significant potential benefits to small businesses from using preferential market access terms, the time and fiscal costs of applying FTA provisions are an important consideration for resource or time-poor SMEs. A UK-India FTA should seek to tackle the barriers that deter small businesses from using an FTA to support their exporting activity.
13. Rules of origin are one of the primary reasons that smaller firms do not make use of preferential market access available to them in FTAs. This can result from a lack of awareness or understanding of rules of origin under a trade agreement, limited cost benefit on using preference versus the administrative costs of calculating and proving origin, and/or an inability to meet rules of origin due to the configuration of particular supply chains.
14. We therefore welcome the Government's intention to simplify rules of origin in a way that reflects SMEs' place in global value chains. In particular FSB, would like to see proof of origin requirements that are based on principles of self-certification, as this reduces costs and administrative burdens for small firms.

### Trade facilitation

15. Customs facilitation is one of the most efficient and effective means of supporting SMEs in international trade via negotiated trade agreements. SMEs lack the resources of larger firms, and so are disproportionately affected by costs and delays relating to customs procedures. Addressing bureaucratic delays and the "red tape" of customs benefits business of all sizes, but particularly SMEs.

16. FSB members have reported experiencing extremely bureaucratic trade processes when doing business with India, exacerbated by the variation between federal and state rules. A UK-India FTA should seek to address these challenges and create a level playing field for the application and interpretation of new rules that are agreed.
17. FSB supports the Government's objective to improve the efficiency and transparency of customs procedures. Measures that would be particularly effective for smaller firms that FSB would like to see in the final agreement include reaffirming commitments to implement the WTO Trade Facilitation Agreement, commitments on the timely release of goods and express shipments, and the mutual recognition of authorised economic operator (AEO) schemes.

#### Digital trade

18. In its response to the call for evidence, FSB called on the Government to be ambitious in relation to commitments on digital trade. Digital trade is crucial for SMEs, as it can help even the smallest SMEs more easily enter the global marketplace and find new customers, whether exporting or importing goods or services.
19. Specifically, FSB called on the Government to pursue commitments that prohibit data localisation, except if they are required for national security and legitimate public policy objectives. In India, various sectoral data localisation requirements have been introduced in recent years, including in areas such as e-commerce, introducing significant new costs for smaller firms. We therefore welcome the Government's intention to seek commitments on unjustified data localisation.
20. FSB also supports the objective of securing commitments to facilitate trade digitalisation. While behind countries such as Australia and South Korea, according to UNCTAD India is the leading South Asian country in trade digitalisation. The negotiations represent an important opportunity for the UK to secure commitments on paperless trading and the recognition of digital signatures, which can deliver significant savings in costs and human resources for small firms.
21. India has opposed the renewal of the WTO E-Commerce Moratorium, which prevents electronic transmissions from being subject to tariffs. Tariffs play a significant role in determining where exporters decide to trade, and the introduction of tariffs on electronic transmissions could severely discourage many small firms from trading internationally in goods or services that rely on these transmissions. The Government should use the negotiations to engage India on this issue.

#### **What are the potential impacts of an agreement on particular sectors of the UK economy?**

22. According to FSB's 2019 trade survey, 14 per cent of small exporters and 10 per cent of small importers trade with India. There is a growing attraction to and awareness of the potential of trade with emerging markets among the small business community, and a UK-India trade agreement has the potential to tackling the issues raised by FSB members in trading with India.
23. FSB members have reported significant costs associated with India, and some small businesses have reported withdrawing from the Indian market due to problems encountered. According to FSB's 2019 trade survey, the most prevalent

issues that members identified when trading with India were: delivery problems; difficulties receiving electronic payments; the unclear or unequal application of local regulations; and rules around data protection and intellectual property.

24. For instance, delivery issues reported by 44 per cent of members exporting to India. Many delivery issues reported by members relate to hold ups at the border or in port when goods are clearing customs. Bureaucratic delays and the "red tape" of customs procedures raise business costs regardless of business size. As noted in previous answers, the simplification, modernisation and harmonisation of customs processes would make a significant difference to small businesses considering trade with India.
25. Although the majority of the world's businesses are SMEs, this is not reflected in their participation in international trade. Small businesses generally operate on tight margins, meaning that the costs and administrative burdens associated with international trade can deter small firms from exploring international markets. Further, disruptions to trade flows or changes in duties or tariffs could have a disproportionate impact on smaller businesses, making it more likely for SMEs to take a cautious and ad-hoc approach to internationalisation.
26. A new UK-India trade agreement that tackles effectively the variable and fixed costs of trade would reduce the barriers currently preventing small businesses from trading with India. Further, provisions locking in the conditions of doing business would enhance predictability and stability, providing SMEs with longer-range planning stability.
27. The capacity of small businesses to understand FTAs and their access to information is an important challenge for SMEs. This is one of the central barriers preventing smaller firms from utilising FTAs when exporting or importing. To fully achieve the potential benefits of a UK-India trade agreement, the FTA must include commitments to support small business awareness and use of the advantages available to them under the agreement. As noted elsewhere in this response, the establishment of an SME Committee would help ensure that any new trade agreement is properly implemented, and would provide an easy route to highlight issues relating to implementation that particularly affect small businesses.
28. Government could also look to examples of best practice in the promotion of FTAs, such as the Canadian Government's promotional strategy to raise awareness of the EU-Canada Comprehensive Economic and Trade Agreement to stakeholders. This included a three-month 'roadshow' across the regions of Canada and training workshops, resulting in the majority of participants reporting increased knowledge as a direct result.

**How should the Government communicate its progress in negotiations; and seek the views of stakeholders during those negotiations?**

29. FSB and the Department for International Trade have developed a very productive and collaborative relationship in recent years through our membership of membership of bodies such as the Strategic Trade Advisory Group (STAG) and numerous Trade Advisory Groups (TAGs), but also a proactive and open dialogue between members, staff, ministers, and officials.
30. The Government has provided regular updates to and exchanges of views with stakeholders via the various Advisory Groups during the negotiations for other free trade agreements. We welcome the Government's readiness to engage in

dialogue with stakeholders and look forward to continuing this excellent relationship throughout the negotiations.