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**IMPACT OF PROPOSED EU-INDIA FTA ON  
TEA AND COFFEE: AN ASSESSMENT**

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## ABSTRACT

India is actively engaged in FTA negotiations with EU and it is expected to realize in the near future. Though sensitive products list is not known to the public, agriculture sector is also under active negotiations and EU is aiming for bringing 90 per cent of Indian agricultural products to zero level tariffs with possibly no special safeguard measures to protect from import surges and special and differential treatment that exempts developing countries from the same strict trade rules and disciplines of more industrialized countries (Sing and Sengupta 2009). The agricultural sector in general and plantation sector in particular has been under protection for long time and plantation sector provides employment and livelihood for millions of people in India. It seems that opening up of the market to developed countries such as EU, will have larger impact on Indian plantation sector. In this respect the study makes an attempt to assess the impact of India-EU FTA on Tea and Coffee and explores long term advantages through deep integration. Assessment is based on present trends in tea and coffee export, import, export unit value, import unit value, tariff structure, composition and direction of tea and coffee trade of EU-27 and India.

In terms of tea and coffee trade structure, India is mainly a low priced market for tea and coffee and imports low priced tea and coffee from the world. In such a scenario, the high valued tea and coffee from Europe may not compete with Indian tea and coffee market. However, in India, small and marginal farmers contribute major part of production in tea and coffee sector and such farmers are not well equipped to make value addition to their produced products, and cater the market for value added products. Though, this sector is potential for private investment especially value addition in supply chain, the private sector investment is not taking place in a big way. In this respect, India needs to explore the opportunities to attract EU multinational companies engaged in coffee manufacturing to invest in India and collaborate with Indian coffee manufacturing units, so that Indian value added plantation products such as Tea and Coffee can access the European and other developed countries market.

## **I. Introduction**

With the slow progress at the WTO negotiations, FTAs have become an important tool of trade liberalization than through WTO. India which has been active member of the WTO, in recent years, shifting its trade policy more towards multilateral and bilateral agreements by increasingly engaging Free trade agreements (FTAs). India as a an active member of the G- 20 and other developing countries' group under WTO, aims for more concession to developing countries' agriculture sector. However, under its own FTAs, it concedes much more agriculture trade liberalization than under WTO. India under its recent FTA with ASEAN, bilateral trade agreement with Srilanka and with other nations, agreed for much more agriculture trade liberalization than under WTO. At present, India is actively engaged in FTA with EU and it is expected to happen soon. Though sensitive products list is not known to the public, agriculture sector is also under active negotiations and EU is aiming for bringing 90 per cent of Indian agricultural products to zero level tariffs with possibly no Special safeguard measures to protect from import surges and Special and differential treatment that exempts developing countries from the same strict trade rules and disciplines of more industrialized countries (Sing and Sengupta 2009). The agricultural sector, plantation sector in particular, has been under protection for long time and plantation sector provides employment and livelihood for millions of people in India. It seems that opening up of such market to developed countries such as EU, will have larger impact on India's

plantation sector. Assessing the impact of FTA on entire agricultural sector may not give clear picture as each commodity has diverse characteristics. Hence, there is need to assess the FTA impact on commodity wise. In this background, the present study considers Tea and Coffee for the analysis.

India is a major tea producing, consuming and trading nation of the world. In recent years India's tea import has been increasing. In case of coffee, though India is not a major coffee producing country in the world, in recent years, India's production and international trade in coffee is showing an increasing (Nagoor 2010). EU do not produce tea and coffee domestically, however EU is a major tea and coffee exporting region of the world. EU is very strong in distributing and marketing of high value added tea and coffee to its own huge market and in rest of the world. Large number of multinational companies are engaged in manufacturing and distribution of value added tea and coffee in EU region. The WITS data shows that at present India imposes 100 per cent tariff on import of tea and coffee from EU. Whereas EU imposes zero tariffs on import of tea and average tariff on coffee is around 8 per cent. If tariffs on tea and coffee are brought down to zero under proposed India-EU FTA, it seems that EU will gain and India will lose from such agreement.

India is low priced market for tea and coffee and imports low priced tea and coffee from the world. In such a scenario, whether high valued tea and coffee from Europe could be a better substitute for Indian tea and coffee market? How much is the high valued tea and coffee market in India? Larger picture will emerge if an assessment has been made by considering variety wise tea and coffee by considering price and quality of the products consumed and manufactured in India and EU.

The joint study by CARIS and CUTS International on "Potential FTA between the EU and India"(2007) finds that "If an agreement is

largely confined to issues of shallow integration – notably the reduction of tariffs, there is a strong possibility of trade diversion exceeding trade creation for both parties, and therefore a low probability of a shallow integration induced welfare gain. The gains from deep integration are potentially much higher as these can lead to trade induced productivity improvements driven by technological changes, spillovers between firms, niche specialization and economies of scale”. Thus there is a need to assess impact of FTA through dynamic approach rather than a simple static analysis (Joseph 2009).

Small and marginal farmers contribute major part of production of plantation sector in India, and such farmers are not well equipped to make value addition to their products and cater the market for value added products. Though, this sector has the potential for private investment especially value addition in supply chain, the private sector investment is not taking place in a big way (Nagoor 2010). In this respect, it may be of much relevance to explore the possibility of making use of EU multinational companies to enter into the manufacturing of high value added tea and coffee so that Indian value added plantation products could get access to the European and other developed countries market. In this respect more dynamic analysis is required. In this respect the study makes an attempt to assess the impact of India-EU FTA on Tea and Coffee and explores long term advantages through integration.

The present study is based on secondary data. Since, sufficient data is not available to assess the impact of FTA in terms deep integration, the study relies on qualitative analysis. From secondary data, export and import unit value of tea and coffee will be calculated for price comparison between India and EU. The other secondary data will be sourced from FAO, UNCTAD, WITS and WTO.

The study is divided into five sections. Section II deals with merchandise trade profile of India and EU and section III deal with

trade profile of tea and coffee of India and EU . Assessing the possible impact of proposed India – EU FTA has been dealt in section IV and section V is the conclusion

## 2. Trade Profile of EU-27 and India

EU -27 is major trading block in the world and its total international trade in the world trade is around 33 percent (Table-1). However, its international trade in world trade is on decline. EU total trade in the world trade has come down from around 42 per cent during 1995 to around 33 percent during 2011. On the other hand, compared to EU-27, India is small trading partner of the world, its share in the world trade is around 1.70 per cent. However, India's trade in world trade is on the increase.

**Table 1: EU -27 and India Merchandise trade (%)**

Year	EU total export share in world export	India total export share in world export	EU total import share in world import	India total import share in world import	EU import from India	EU export to India
1995	41.82	0.62	40.16	0.7	0.54	0.63
2000	37.38	0.67	37.08	0.81	0.5	0.5
2005	38.51	0.96	38.3	1.31	0.62	0.65
2010	33.78	1.45	34.27	2.29	0.92	0.89
2011	33.25	1.63	33.41	2.5	0.96	0.93

Source: Estimation based on UNCTAD, UNCTAD Stat

However, EU trade with India is on the increase. It has increased from 0.55 per cent during 1995 to 0.95 per cent during 2011. The UN COM trade data shows that the trade direction of EU -27 has been changing. In recent years, EU trade with China, Russian federation and India has been increasing. From India's side, EU has been India's major



trading partner since many years. However, in recent years it is on decline. The merchandise export and import of EU-27, India and India's major merchandise trading partners among EU has been captured in Table 2. Figures in the bracket in Table-2 shows EU percentage share in India's total merchandise import. During the year 1995, EU share in India's total merchandise exports was 28.18 per cent, it has come down to 18.04 per cent during the year 2011. Since 1995, it has been declining at the rate of 12.98 per cent per annum. Among the EU countries,

Germany and UK are major export destinations of India. Among EU countries shown in table-2, India's trade with Netherland is on the increase. However, the rest of the EU countries shown in Table-2, compared to the year 1995, during the rest of the years shown in Table - 2, their share with India has come down.

In case of India's merchandise import, though EU-27 is a major importing partner of India, in recent years it is on decline. India's merchandise import share from EU-27 has come down from 33.20 per cent during 1995 to 12.45 per cent during 2011. During the years from 1995 to 2011, the decline is at the rate of 11.52 per cent per annum. During the year 1995, Belgium (6.33%), Germany (9.07%) and U.K (6.39%) together met 21.79 per cent of India's merchandise import demand. However, in recent years these countries together share [Belgium (2.26%), Germany (3.42%) and U.K (1.78%)] has come down to 7.46 per cent. India's merchandise import from other EU-27 countries shown in Table - 2 also has been on decline. The trade openness of the economy measured by total trade GDP ratio, shows that EU is a more open economy with trade GDP ratio of 69 per cent than India with trade GDP ratio of 39 per cent. It shows that though EU -27 is a more open economy than India, India's trade share in EU-27 total trade is on decline. On the other hand, the share of EU-27 trade in India's total trade is on increase. It shows that with further trade liberalization through FTA, EU may increase its trade with India.

**Table 2: India's Merchandise Trade With EU -27 Countries (EU-27 percentage share in India's total merchandise export and import respectively).**

Year	World	EU	Belgium	France	Germany	Italy	Nether-lands	Spain	UK	Other EU-27 Countries
1995	100	28.18 (33.20)	3.51 (6.33)	2.36 (2.65)	6.22 (9.07)	3.19 (2.97)	2.42 (1.37)	1.31 (0.59)	6.33 (6.39)	2.84 (3.06)
2000	100	24.23 (27.50)	3.37 (7.65)	2.30 (1.88)	4.30 (4.47)	2.99 (1.93)	2.02 (1.10)	1.44 (0.40)	5.21 (7.47)	2.59 (1.95)
2005	100	22.54 (24.53)	2.78 (5.53)	2.01 (2.56)	3.47 (5.23)	2.52 (1.85)	2.39 (1.04)	1.59 (0.60)	4.94 (4.48)	2.84 (2.27)
2010	100	18.83 (12.95)	2.28 (2.43)	2.22 (1.14)	2.72 (3.49)	1.90 (1.27)	2.98 (0.63)	1.05 (0.43)	2.92 (1.62)	2.76 (1.46)
2011	100	18.04 (12.45)	2.58 (2.26)	1.61 (0.89)	2.80 (3.42)	1.88 (1.17)	2.75 (0.51)	1.10 (0.39)	2.79 (1.78)	2.54 (1.54)

Source: Estimation based on UNCTAD, UNCTAD Stat

Note: i) Figures in the bracket shows percentage share in India's total merchandise import

Looking into the present tariff of structure of EU 27 and India, the tariff data from WTO World Tariff Profile (2011) shows that compared to India's average MFN tariff of 31.8 per cent, EU'S average MFN tariff is 12.8 per cent . It shows that with India's growing international trade and increasing share of EU's trade with India, tariff reduction by India under proposed India-EU FTA along with its large domestic market might have attracted EU-27 to increase trade tie with India through Free trade agreement (FTA). From India's perspective, the data shows that with EU's low tariff and decline in India's trade with EU, the FTA with EU-27 may not be much beneficial to India. However, assessing the impact of FTA on the basis of mere tariff reduction , may not give clear picture. Thus there is need to assess the impact of FTA through dynamic approach rather simple static analysis (Joseph 2009)

### **3 Tea and Coffee trade profile of EU-27 and India**

This section analysis tea and coffee trade profile of EU-27 and India. Analysis is based on tea and coffee trade, export and import unit value, tariff structure and trade direction of tea and coffee of EU-27 and India.

#### **3.1 Tea trade profile of EU-27 and India**

EU and India are major tea trading nations of the world. During the year 2010, EU(including trade between EU countries) imported 27.7 per cent of world tea import (Table- 3). U.K, Germany, France and Poland are major tea importing nations among EU countries. These countries together imported around 15.7 per cent of world tea import (Table-3). From Table-3 we find that 13.2 per cent of world tea import has been taken place between EU nations. Though tea is not produced in EU region, by importing tea from other nations, EU exports (including tea exports among EU nations) 5.5 per cent of world tea exports (Table-4). Most of tea export of EU, takes place between EU nations. From Table-4, we find that not only EU region imports large

**Table 3: Major tea importing countries of EU and Tea import of India (US \$ Million)**

Year	World	EU-27	EU 27 Including trade among countries)	Import among EU countries	France	Germany	Italy	Netherlands	Poland	United Kingdom	India
1991	2602 (100)	543 (20.9)	679 (26.1)	136 (5.2)	63 (2.4)	86 (3.3)	37 (1.4)	53 (2.1)	17 (0.6)	333 (12.8)	0 (0)
1996	2687 (100)	637 (23.7)	806 (30.0)	169 (6.3)	64 (2.4)	159 (5.9)	29 (1.1)	44 (1.6)	70 (2.6)	318 (11.8)	2 (0.06)
2001	2824 (100)	550 (19.5)	756 (26.8)	205 (7.3)	74 (2.6)	97 (3.4)	31 (1.1)	51 (1.8)	54 (1.9)	290 (10.3)	15 (0.52)
2006	3611 (100)	650 (18.0)	1009 (27.9)	358 (9.9)	116 (3.2)	143 (4.0)	53 (1.5)	76 (2.1)	60 (1.7)	331 (9.2)	28 (0.76)
2010	5637 (100)	819 (14.5)	1562 (27.7)	742 (13.2)	156 (2.8)	169 (3.0)	66 (1.2)	101 (1.8)	135 (2.4)	421 (7.5)	369 (0.64)
CAGR (1991-2010)	3.65	1.13	3.29	8.62	5.39	2.30	3.80	3.90	4.68	0.24	26.77

Source: Estimation based FAO Trade Statistics

Note: i) Figures in the bracket show percentage share in the world

ii) CGAR: Compound annual growth rate

amount of tea from the world, the region experienced tea import growth rate of 3.29 per cent per annum. Tea import between EU nations experienced high growth rate of 8.62 per annum during 1991-2010. Tea import between EU nations experienced high growth rate of 6.31 per cent even in terms of quantity also. Among the EU nations, UK is major tea importing country. However, its tea import growth rate in terms of value has been stagnant and in terms of quantity it declined at the rate of 1.13 per cent per annum during the years 1991-2010. EU tea import unit value and export unit value shows that except France, the rest of EU countries import low priced tea from other countries and export their tea with value addition to other nations of the world (Table 5). It shows that EU not only possess the large tea market, its tea trade growth rate is high and region trades in high value added tea.

Tea is not a homogenous product. Black tea and green tea are main varieties, produced and traded around the world. EU mainly trades in black tea, however in recent years, green tea trade is on increase. It is evident from Table-6 that during the year 2011, of the total tea import of EU, the share of black tea and green tea were 83.7 per cent and 16.3 per cent respectively. However, the share of black tea import of EU is on decline and green tea is on increase. In case of tea exports of EU, the share of black tea and green tea were 76.5 per cent and 23.5 per cent respectively. The UN Com trade data shows that EU-27 countries mainly import tea from Kenya, India China and Sri Lanka. These countries together meet 75.7 per cent of EU import demand. EU-27 countries, mainly export tea to Canada, USA, Russian Federation, Japan and Switzerland.

India is one of the largest tea producing, consuming and exporting country of the world. Around 25 per cent of world tea production and 12 per cent of world tea exports come from India. It has large domestic low priced tea market. In India, tea industry is source of livelihood for millions of small and marginal farmers and provides employment for

**Table 4: Major tea Exporting countries of EU and tea export from India (Value are in million dollars)**

Year	World	EU(27)	EU- 27 (Including export among EU)	Export among EU Countries	Belgium	France	Germany	Nether- lands	Poland	United Kingdom	India
1991	2464	215 (8.7)	351 (14.2)	135 (5.5)	0 (0.0)	14 (0.6)	42 (1.7)	34 (1.4)	0 (0.0)	242 (9.8)	490 (19.9)
1996	2464	244 (9.9)	402 (16.3)	158 (6.4)	0 (0.0)	35 (1.4)	67 (2.7)	36 (1.5)	7 (0.3)	221 (9.0)	283 (11.5)
2001	2821	170 (6.0)	377 (13.4)	207 (7.3)	33 (1.2)	34 (1.2)	72 (2.6)	21 (0.7)	11 (0.4)	169 (6.0)	367 (13.0)
2006	3751	309 (8.2)	690 (18.4)	381 (10.2)	65 (1.7)	41 (1.1)	158 (4.2)	50 (1.3)	29 (0.8)	279 (7.4)	407 (10.9)
2010	6399	339 (5.3)	901 (14.1)	562 (8.8)	83 (1.3)	51 (0.8)	195 (3.0)	66 (1.0)	76 (1.2)	328 (5.1)	695 (10.9)
CAGR	4.91	2.23	5.28	8.51	7.97	5.98	8.56	2.84	16.47	1.77	2.11

Source: Estimation based FAO Trade Statistics

Note: i) Figures in the bracket show percentage share in the world

ii) CGAR: Compound annual growth rate

**Table-5: Import unit value (IUV) and Export unit value(EUV) of major tea trading countries of EU and India**

Year	World	EU-27	EU-27 (Including trade between EU countries)	Trade among EU countries	France	Belgium	Germany	Nether- lands	Italy	Poland	United Kingdom	India
1991	2.29 (2.06)	2.17 (7.34)	2.40 (5.99)	4.12 (4.64)	4.86 (12.74)	-	3.42 (5.88)	1.85 (2.25)	-	1.76	1.87 (7.56)	2.28
2001	2.03 (1.95)	1.96 (5.85)	2.33 (5.31)	4.83 (4.93)	4.33 (9.66)		2.58 (4.18)	1.85 (2.11)	1.43	1.62 (4.18)	1.77 (6.21)	1.43 (2.07)
2010	3.31 (3.16)	3.11 (10.45)	4.43 (8.29)	8.34 (7.37)	8.01 (12.87)		3.32 (7.51)	3.55 (3.75)	2.10	2.89 7.57	2.81 (10.68)	2.10 (2.96)

Source: Estimation based FAO Trade Statistics

Note: i) [Figures in the bracket shows Export Unit Value (Values are in dollars per K.G)]

millions of people (Nagoor,2010). During 1950s and 1960s, tea was major foreign exchange earner for the country and was responsible for over 21 per cent of India's average annual export receipt (Singh, 1962). In recent years, with stagnation in yield, area under cultivation, increase in domestic tea consumption and entry of new tea producing and exporting countries in the world tea market, have affected the India's tea export competitiveness in the International market (Nagoor ,2008).

It is evident from Table -7 that, India mainly trades in black tea. During 2011, black tea constituted 96.7 per cent and green constituted 3.3 per cent in India's total tea exports. In case of India's tea import, it imports small quantity of tea. Since 1991, India's tea import is picking up. During the years 1991-2010, India's tea imports increased at the rate of 26.77 per cent per annum (Table-3). India's tea export and import unit value show that India export low priced tea to the world. India's tea export unit value of US \$ 2.96 per k.g is lower than world tea export unit value of US \$ 3.16 per k.g. and EU-27 export unit value of US\$ 10.45 per k.g (Table- 5). The tea import unit value of India shows that India imports very low priced tea. Compared to world tea import unit value of US \$ 3.31 per k.g, India's tea import unit value is US \$ 2.10 per k.g (Table-5). The tea export direction of India shows that India was traditionally exporting its tea to USSR, U.K, Iran and Germany. During 1991, 75 per cent of India's tea export was towards USSR, U.K, Iran and Germany. However, in recent years, the share of these countries is on decline. In case of imports, India mainly imports tea from Nepal, Kenya and Vietnam.

### **3.2 Coffee trade profile of EU-27 and India**

EU-27 is major coffee trading region of the world. EU has the highest coffee consumption in the world. EU- 27 imports 50.45 per cent of world coffee and coffee substitutes (071). Though, coffee is not produced in EU region, with huge imports, the region exports 27 .60 per cent of world coffee and coffee substitutes (Table-9). Germany, France,



**Table-6: EU tea export and import (Tea, Green Tea, Black Tea) to World (million dollars)**

Year	Import			Export		
	Tea (902)	Tea, green (90210+90220)	Tea, black (90230+90240)	Tea (902)	Tea, green (90210+90220)	Tea, black (90230+90240)
2009	723(100)	110(15.3)	612(84.7)	303(100)	69(22.7)	234 (77.3)
2010	818(100)	131(16.0)	687(84.0)	339(100)	77(22.8)	261(77.2)
2011	920(100)	150(16.3)	770(83.7)	318(100)	75(23.5)	243(76.5)

Source: Estimation based on UNCOMTRADE data, HS Classification

Note: i) Figures in the bracket show percentage share in the world

**Table 7: India's Tea Import & Export Composition (Tea, Green Tea, Black Tea) to World**

	Export			Import		
	Tea (902)	Tea, green (90210+90220)	Tea, black (90230+90240)	Tea (902)	Tea, green (90210+90220)	Tea, black (90230+90240)
2009	554(100)	17(3.0)	538(97.0)	52(100)	2(3.9)	50(96.1)
2010	695(100)	38(5.5)	656(94.5)	49(100)	2(3.5)	47(96.5)
2011	865(100)	29(3.3)	837(96.7)	45(100)	3(7.1)	42(92.9)

Source: Estimation based on UNCOMTRADE data, HS Classification

Note: i) Figures in the bracket show percentage share

**Table 8: EU and India coffee and coffee substitutes (071) import share in the world (Percentage share in the world)**

Year	World	EU	France	Germany	Netharland	Poland	Spain	UK	India
1996	100	54.06	7.40	14.30	3.92	1.78	3.41	3.61	0.02
2001	100	50.40	6.16	12.97	3.28	1.71	2.84	3.38	0.06
2006	100	51.67	5.95	14.04	3.44	1.96	2.96	3.35	0.13
2011	100	50.45	6.05	12.93	3.49	1.84	3.46	3.11	0.23
CAGR (1995-2011)	5.15	5.15	4.25	4.41	3.92	5.85	5.41	4.25	25.08

Source: UNCTAD

Netherlands, Spain and U.K are major coffee consuming, exporting and importing countries among EU-27. According to FAO trade data, coffee is classified into Coffee Extracts, Coffee Husks and Skins, Coffee Roasted, coffee substitute and coffee green. The FAO trade data for the year 2010 shows that Coffee Extracts (17.87 %), Coffee Roasted (20.24 %) and coffee green (61.56 %) together constitute 99.7 per cent of world coffee trade (Table 10 and 11). Variety wise coffee trade of EU - 27 as a region shows that, during 2010, EU imported 42.5 % of Coffee green, 16.7 % of Coffee Roasted and 9.7 % of Coffee extract of the respective variety wise world coffee import (table-10). During the same year, EU-27 as a region exported 1.6 % of Coffee green, 11.6 % of Coffee Roasted and 7.1 % of coffee extract of the respective variety wise world coffee export (Table-11). It is also evident from table that large volume of coffee trade takes between EU- 27 countries. During the year 2010, 51.5 per cent of world Coffee Roasted export and 50.1 per cent of world Coffee Roasted import was between EU-27 countries (Table -10 and 11). The compound annual growth rate during the years for all varieties of coffee trade has been estimated in table-10 and 11. It is evident from tables that the coffee trade between EU-27 experienced high growth rate during the years 1996-2010. The EU region not only consumes and trades huge volume of coffee but also the coffee consumption and trade is expanding at high growth rate. The export and import unit value of all varieties coffee has been estimated in Table-12. It is evident from table that EU region trade in high priced coffee.

The UN COMTRADE data shows that EU-27 as a region mainly export its coffee to USA, Switzerland, Russian Federation and Australia. During 2011, EU-27 as a region exported 64.5 per cent of its coffee exports to USA, Switzerland, Russian Federation and Australia. USA alone imported 39.5 per cent of total coffee exports of EU -27 during 2011. The export direction of coffee of individual EU- 27 countries shows that most of their coffee export trade takes between them.

**Table 9: EU and India coffee and coffee substitutes (071) export share in the world (Percentage share in the world)**

Year	World	EU	France	Germany	Netharland	Poland	Spain	UK	India
1996	100	19.95	3.16	6.67	1.76	0.36	0.78	1.03	2.83
2001	100	26.71	2.17	9.02	1.55	0.99	1.57	1.46	3.01
2006	100	29.03	1.39	10.33	2.38	0.86	1.48	1.45	2.30
2011	100	27.60	1.58	8.98	2.63	1.17	1.67	1.37	2.09

Source: UNCTAD

**Table 10: Major Coffee importing (Value share) countries of EU and Coffee import of India (Percentage share in world)**

Country	1991			2001			2010			Compound annual growth rate (1991-2010)		
	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green
World	100	100	100	100	100	100	100	100	100	8.2	10.8	2.4
EU-27	16.4	3.8	48.4	18.3	11.0	47.5	9.7	16.7	42.5	4.5	16.4	1.7
EU-27 (Including imports among EU countries)	52.1	61.1	49.0	44.3	58.1	51.4	45.2	66.8	49.1	7.4	12.0	2.1
Import among EU Countries)	35.7	57.4	0.6	26.0	47.1	3.9	35.5	50.1	6.6	8.9	11.3	23.6
France	8.7	21.3	6.0	5.2	12.2	5.5	4.3	16.2	4.2	4.7	9.3	-0.7
Germany	8.1	5.1	18.2	7.6	6.0	16.3	8.4	7.2	17.2	8.6	15.9	2.2
India	0.00	0.00	0.00	0.17	0.01	0.02	0.03	0.01	0.24	59.7	43.6	33.8
Netherlands	3.0	14.8	16.4	2.5	5.5	18.3	2.1	6.3	9.7	5.5	5.3	-2.2
Poland	0.3	0.5	0.2	3.1	2.0	1.3	4.0	2.5	1.3	17.5	13.2	4.1
Spain	2.3	1.7	3.3	1.5	1.9	3.2	5.0	1.5	3.6	10.7	11.6	2.7
UK	15.0	5.8	2.4	5.9	5.7	2.2	6.4	4.8	2.3	3.2	9.2	1.2

Source: Estimation based FAO Stat

**Table 11: Major Coffee Exporting (Value Share) countries of EU and Coffee Export of India (Percentage share in world)**

Country	1991			2001			2010			Compound annual growth rate (1991-2010)		
	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green
World	100	100	100	100	100	100	100	100	100	7.9	10.3	3.2
EU-27	10.0	14.2	1.8	16.2	16.2	3.2	10.7	10.9	2.5	10.8	10.1	5.3
EU-27 (Including imports among EU countries)	48.1	62.5	4.8	47.8	71.8	8.4	45.1	62.4	10.8	9.0	9.02	8.9
Import among EU Countries)	38.1	48.4	3.0	31.6	55.5	5.2	34.3	51.5	8.4	8.6	11.6	11.1
France	5.4	2.5	1.1	5.6	2.3	1.0	4.2	4.9	0.1	4.7	14.9	-7.8
Germany	23.5	25.2	2.5	17.8	16.1	4.1	16.8	14.4	5.8	7.7	6.8	9.9
India	0.6	1.3	1.8	4.7	0.1	2.8	3.5	0.0	2.1	10.7	-8.1	2.9
Netherlands	8.8	3.3	0.2	3.3	1.4	0.1	0.7	4.7	0.3	2.0	12.4	-0.3
Poland	0.0	0.0	0.0	2.9	2.3	0.1	2.8	3.0	0.1	35.4	25.6	16.0
Spain	2.0	0.4	0.4	5.2	1.3	0.5	5.5	0.8	0.6	14.3	15.1	5.1
UK	6.6	1.0	0.2	4.7	21.2	0.2	6.2	2.1	0.2	7.5	15.1	0.0

Source: Estimation based FAO Stat

Unlike EU-27, India is not a major coffee trading nation of the world. However, India produces around 4 per cent of world coffee production. On the basis of UNCTAD data base, India's coffee import and export share in the world has been estimated in Table- 8 and 9. And, Table 8 and 9 also presents the compound annual growth rate of coffee export and import of India to the world . It is evident from table- 9 that India exports around 2 per cent of world coffee exports (071) . During 2011, India imported 0.23 per cent of world coffee import (Table- 8). Coffee imports of India which was very low during 1990s, has been increasing over the years. On the basis of FAO data base, variety wise coffee exports of India has been estimated in Table-11. It is evident from Table-11 that, India mainly exports coffee extract. During 2010, in terms of value, India exported 3.5 per cent of world coffee extract export and, in terms of quantity, India exported 5.8 per cent of world coffee extract export during the same year. The compound annual growth rate of India's coffee (UNCTAD Data, 071) exports show that during the year 1995-2011, Indian coffee export experienced growth rate of 2.83 per cent per annum. And, India's coffee import experienced growth rate of 25.08 per cent per annum (Table10). The export and import direction of India's coffee shows that during 2011 India exported its coffee towards Italy(26.8%),Germany(18%),Belgium(10.1%) and Spain(4.6%). And, imported coffee from Vietnam(50.5%), Indonesia(24.4%) and Uganda(9.0%). The export and import unit value of India's coffee shows that compared to world and EU export and import unit value of coffee, India trade in low priced coffee (Table-12).



**Table-12: Import unit value (IUV) and export unit value (EUV) of major coffee importing countries of EU-27 (US \$ per Kg)**

Country	Import unit value(IUV)			Export unit value(EUV)		
	Coffee Extract	Coffee Roasted	Coffee Green	Coffee Extract	Coffee Roasted	Coffee Green
EU-27	10.2	29.2	2.8	9.9	7.6	4.1
EU-27 (Including imports among EU countries)	8.8	7.2	2.8	9.1	6.6	3.1
Import among EU Countries	8.5	5.8	3.1	8.8	6.4	2.9
France	10.3	9.3	2.9	11.9	17.6	2.8
Germany	9.0	6.7	2.9	10.6	5.1	3.1
UK	9.4	7.1	3.0	9.0	13.0	5.5
Spain	11.2	5.9	2.4	8.3	7.2	3.5
Netherlands	7.4	6.3	3.3	6.9	6.3	3.2
Poland	8.4	4.7	2.3	6.1	4.8	4.2
India	10.0	11.5	1.4	4.0	4.6	2.1

Source: Estimation based FAO Trade Statistics

#### **4. India-EU- 27 FTA and Possible Impact on Tea and Coffee Industry of EU- 27 and India**

This section investigates the possible impact of India-EU-27 FTA on Tea and Coffee industry and an assessment is based on present trends in tea and coffee export, import, export unit value, import unit value, tariff structure, composition and direction of tea and coffee trade of EU-27 and India. Looking into the present trends in tea and coffee trade between India and EU-27, in case of tea, India's dependency on EU

market for the export of its tea is high and it has been on increase. During the year 2009, India exported 20.47 per cent of its total tea to EU-27, during the year 2010 and 2011, it increased to 22.09 per cent and 23.64 per cent respectively. Tea import direction of EU-27 shows that, during 2011, Kenya met around 31.3 per cent of EU-27 tea demand followed by India (15.7 per cent), China (14.7 per cent) and Sri Lanka (14 per cent). To capture the price of tea import of EU-27 from various countries, the tea import unit value of EU-27 from various countries is illustrated in Table-14. Table-14 shows that Kenya tea is cheapest among all the countries. It is important to note that at present EU-27 do not impose any tariff on tea import. In such circumstances, Can India-EU-27 FTA helps India to increase its tea exports in EU-27 market by pushing down Kenya?. The studies on FTA show that "If an agreement is largely confined to reduction of tariffs, there is a strong possibility of lesser welfare gain. The gains from deep integration are potentially much higher as these can lead to trade induced productivity improvements driven by technological changes, spillovers between firms, niche specialization and economies of scale. Thus there is a need to assess impact of FTA through dynamic approach rather simple static analysis (Joseph 2009). For instances, the acquisition of UK based tea company Tetley by Tata Tea Ltd, helped the home based Tata Tea Ltd in terms brand name, product innovation, transfer of technology and managerial skill. Through acquisition of Tetley, the home based TATA tea company expanded its tea business in Pakistan, Canada, USA and EU market. There may be possibilities of such investment in tea industry of EU-27 and India under proposed India-EU-27 FTA and such integration may result in increase in tea business between India and EU-27.

**Table -13: Tea and Coffee tariff structure of India and EU-27 to the World**

Country/Group	Tea				Coffee	
	Green tea		Black tea			
	HS code 90210	HS code 90220	HS code 90230	HS Code 90240	HS Code 90111	HS Code 90112
EU-27	0	0	0	0	0	0
India	100	100	100	100	1000	100

Source: WITS

**Table-14: EU-27 Tea Import Unit Value (IUV) in its major tea importing countries (US dollar per Kg)**

	2009	2010	2011
World	2.87	3.11	3.38
Kenya	2.48	2.73	3.03
India	3.58	3.73	3.96
Sri Lanka	5.05	5.54	6.14
China	3.53	3.40	3.69

Source: UNCOMTRADE

**Table-15 EU-27 Tea Export Unit Value (EUV) in its major export destinations (US dollar per Kg)**

	2009	2010	2011
World	10.11	10.41	10.08
Canada	15.91	17.75	16.64
USA	7.14	7.58	6.82
Russian Federation	8.49	12.10	9.92
Japan	14.30	15.90	16.00
Switzerland	9.34	7.40	7.38
Norway	15.21	15.75	14.99
Australia	10.38	11.44	10.41
United Arab Emirates	26.77	17.13	17.39
Ukraine	8.12	8.85	9.90
Saudi Arabia	35.23		17.54
India	3.96	5.13	4.39

Source: UNCOMTRADE

Looking into India's tea import, in recent years, India's tea import has been on the increase. Due to increase in domestic demand for tea and near stagnation in tea production, the import dependency is increasing. The demand for tea is primarily determined by the income elasticity of demand, as it is price inelastic and found to be low income elastic for developed countries and high income elastic for developing countries (Nayyar 1976). Since 1991, India's per capita income has increased by many folds, leading to an increase in the domestic tea consumption. The import unit value of India and export unit value of EU- 27 countries (table-5) shows that India imports low priced tea and European countries export high priced tea. This shows that there is less possibilities of large increase in India's tea import from EU- 27 and affecting tea producers here.

In case of coffee, though India is not a major coffee producing country of the world, in recent years, India's production and international trade in coffee is on increasing. EU do not produce coffee domestically, however EU is major coffee exporting region of the world. As in case of tea, India's coffee import unit value shows that India imports low priced coffee from the world and it's coffee import demand is mainly met by Vietnam, Indonesia and Uganda. It shows that India mainly trade low priced coffee, EU countries trade in high priced coffee, and India's import dependency on EU market is less. Leading to lesser possibilities of coffee trade expansion between India and EU-27 under proposed India-EU -27 FTA. However, EU-27 is very strong in manufacturing, distributing and marketing of high value added coffee to its own huge market and in rest of the world. Large number of multinational companies are engaged in manufacturing and distribution of value added coffee in EU region. In this respect, India needs to explore the opportunities to attract EU multinational companies engaged in coffee manufacturing to invest in India and collaborate with Indian coffee manufacturing units

## 5. Conclusions

Looking into tea and coffee trade structure, India is mainly low priced market for tea and coffee and imports low priced tea and coffee from the world. In such a scenario, the high valued tea and coffee from Europe may not compete with Indian tea and coffee market. However, in India, small and marginal farmers contribute major part of production in tea and coffee sector and such farmers are not well equipped to make value addition to their products, and cater the market for value added products. Though, this sector has the potential for private investment especially for value addition in supply chain, the private sector investment is not taking place in a big way. In this respect, India needs to explore the opportunities to attract EU multinational companies engaged in coffee and tea to invest in India and collaborate with Indian coffee manufacturing units, so that Indian value added plantation products such as Tea and Coffee can access the European and other developed countries market.

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