As announced on January 10, 2000, the Government of India has agreed to lift quantitative restrictions and import-licensing requirements on a total of 1429 agriculture, textile and consumer products. The agreement was pursuant to the August 23, 1999 decision of the WTO Appellate Body in which the United States had successfully contested the WTO-consistency of the quantitative restrictions maintained by India on the grounds of balance of payments (BoP) problems. The restrictions on a total of 714 tariff lines were eliminated by April 2000, with the remaining 715 phased out by April 2001. The benefits of eliminating these restrictions will accrue to all of India's trading partners, including Canada, since under WTO rules the results will have to be implemented on an most favoured nation basis. Canada is monitoring the process. Since the removal of quantitative restrictions on imports of consumer goods and the reduction in the rate of import duties, India has become a very lucrative market for value-added food products. Since 1997, Canadian government officials have held discussions with the Indian government on the issue of access for Canadian live cattle, embryos and bovine semen. To date, no concrete resolution of Canadian concerns has been achieved; however, we continue to pursue the issue as a priority.

India's non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in such sensitive sectors as agriculture and food. The effect of these policies on the Indian economy is to permit both public- and private-sector domestic firms to operate inefficiently, with little or no competition, and to limit the quality and quantity of goods available to Indian consumers. Tariffs remain high on many food and consumer items. Canada will seek the reduction or elimination of tariffs on priority goods in the WTO negotiations.

Investment

Extensive reforms were introduced in India in 1991 to liberalize foreign investment and simplify the approval process. Prior to that time, companies could enter India only if they brought technology with them. Although investors still face certain restrictions, the number of sectors that do not require approvals, or for which approval limits have been raised, has been growing rapidly in recent years. Total FDI inflows into India have increased dramatically from less than US$300 million in 1992-1993 to more than US$2.2 billion in 1999. Canadian direct investment in India is still modest, but increased to $257 million in 1999 from $122 million in 1997.

According to the current policy, foreign investment can be approved either through the automatic route or by the Government. Companies proposing FDI in areas covered by the automatic route do not require any Government approval. As of December 1999, three sectors are eligible for automatic approval of up to 50% foreign equity participation, 21 sectors automatically allow up to 51% foreign equity, and nine sectors allow up to 74% foreign equity. In addition, foreign equity positions of up to 100% are given automatic approval in the following sectors: electricity generation, transmission and distribution; and construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. These rules are being reviewed constantly, and more changes, favouring higher levels of foreign investment in more and more sectors, are likely in the short to medium term. Foreign equity participation in sectors not identified above, as well as in sectors eligible for automatic approval but where foreign equity caps are exceeded, will require the approval of the Foreign Investment Promotion Board. A number of other measures have been implemented to facilitate inward investment, including liberalized foreign exchange requirements and administrative procedures, simplified procedures for non-automatic FDI approvals and opening up of FDI in the non-banking financial services sector to include credit card business.

Non-resident Indians and overseas corporate bodies with majority non-resident Indian ownership may hold 100% ownership stakes in all industries except those reserved for the public sectors (e.g. defence industries, atomic energy, railway transport, coal and lignite). The current investment policy requires no local content for new and existing investment. However, in some consumer goods industries (e.g. automobiles) the Indian government requires the signing of a Memorandum of Understanding (MOU) by the concerned foreign party to ensure net inflow of foreign exchange. Foreign equity must cover the foreign exchange requirement for imported capital equipment.

In November 1997, India announced specific rules applicable to all new foreign automotive sector investment in India. Under the policy, new and