

Zero Tariffs, Unclaimed Preferences: Free Trade Agreements and the Net Value of Market Access for India's Handloom and Handicraft Artisans

Debangee Karmakar¹, Mr. Mitesh K. Patel²

^{1,2}Research Scholar / Ph.D. Candidate, The Maharaja Sayajirao University of Baroda

ABSTRACT

India's recent free trade agreements (FTAs) with the UAE, Australia, the United Kingdom and the European Union promise zero or sharply reduced duties on textiles and handicrafts. Yet 67 per cent of India's 31.4 lakh handloom households earn under Rs 5,000 a month, and only an estimated 20 to 30 per cent of eligible Indian exports claim FTA preferences. This paper asks whether tariff elimination reaches artisans once the fixed costs of proving origin and meeting technical standards are counted. Using official data from the Ministry of Textiles, the Press Information Bureau, the Ministry of Commerce and the Fourth All India Handloom Census (2019-20), it combines descriptive trend analysis with a preference break-even model: a claim is rational only if tariff saved exceeds compliance cost, so the minimum worthwhile consignment equals fixed compliance cost divided by the preference margin. Three findings emerge. First, exports of handloom products fell from US\$369 million (2015-16) to US\$269 million (2021-22), and total textile and apparel exports including handicrafts were 15 per cent lower in 2024-25 than in 2021-22 in dollar terms, so aggregate data show no artisan export dividend from the first FTA wave. Second, the UAE and Australia agreements do not cover India's main craft markets; the EU and UK agreements do, so the decisive test lies ahead. Third, under illustrative assumptions a 10 per cent preference margin and Rs 65,000 of fixed compliance cost make claims unprofitable for consignments below about Rs 6.5 lakh, a threshold far above what a cooperative of low-income weavers' ships alone. The paper proposes cooperative-level origin certification, shared testing facilities, mutual recognition of geographical indications, and an artisan-ready path to the EU Digital Product Passport.

Keywords: free trade agreements; handloom; handicrafts; rules of origin; FTA utilization; geographical indications; Digital Product Passport; India

1. INTRODUCTION

Handloom weaving and allied crafts are among India's largest rural livelihoods. The Fourth All India Handloom Census (2019-20) counted 31.45 lakh weaver households and 35.22 lakh weavers and allied workers, more than 72 per cent of them women, working on 28.20 lakh looms, 25.30 lakh of which are in rural areas (Ministry of Textiles, 2020; PIB, 2026). Four states, Assam, West Bengal, Manipur and Tamil Nadu, hold nearly 18 lakh of these households. The sector is also an export sector: home textiles account for over 60 per cent of handloom exports, and the United States is the largest buyer.

Since 2022 India has concluded a series of trade agreements that explicitly name handicrafts and carpets among beneficiary sectors: the India-UAE CEPA (in force May 2022), the India-Australia ECTA

(December 2022), the India-UK CETA (in force July 2026), and the India-EU FTA (negotiations concluded 27 January 2026). The EU agreement is expected to remove duties of 8 to 12 per cent on all textile and clothing tariff lines. The policy narrative is that tariff elimination will translate into artisan incomes.

The evidence for that narrative is thin where it matters. Government statements report that exports to FTA partners have risen, but these are economy-wide figures. Whether a weaver household gain depends on three links that are rarely examined together: whether the artisan's product actually qualifies for and claims the preference, whether it meets the partner's technical and sustainability requirements, and whether any gain is passed down from exporters and master weavers to producers. This paper examines the first two links quantitatively with official data and discusses the third.

The contribution is threefold. It assembles in one place the official statistics needed to assess handloom and craft exports in the FTA era (provided in the accompanying workbook). It proposes and applies a transparent break-even model of preference use for small artisan consignments. And it translates the result into design recommendations for ongoing and future agreements.

2. LITERATURE REVIEW AND RESEARCH GAP

2.1 Craft, sustainability and value capture

The slow-fashion literature argues that traceable, low-impact production commands premium positioning (Fletcher, 2014). Global value chain analysis adds that rewards concentrate at the design and branding ends of the chain while fabrication earns the least (Kaplinsky, 2000). Applied to craft, the implication is that volume growth in low-margin export lines does not by itself raise artisan incomes; who captures the tariff saving matters.

2.2 Geographical indications and handloom

India's geographical indication (GI) regime has produced a large registry in which handicrafts account for more than half of registrations (Chaudhary, 2022). The Ministry of Textiles reports 103 handloom products and 6 logos registered under the GI Act. Case evidence from Banaras brocades suggests a price premium of roughly 10 per cent and reduced imitation (Verma and Mishra, 2018), but studies in Uttar Pradesh and Kerala find that artisans often do not understand GI rights or capture their benefits (Chaudhary, 2022; Weaver awareness review, 2025). This work is domestic and consumer-oriented. It does not ask whether GIs are recognised and enforced abroad through trade agreements.

2.3 Handloom export performance

EXIM Bank's working paper on the handloom industry (2018) profiles India as the second-largest handloom exporter with product-level detail, and census-based studies describe the long-run decline and partial stabilization of looms and weavers. These analyses end before the 2022-2026 FTA wave.

2.4 FTA utilization and rules of origin

Utilization studies show that signing an agreement is not the same as using it. The Global Trade Research Initiative (GTRI, 2026) estimates that only 20 to 30 per cent of India's eligible exports claim FTA preferences, against 60 to 70 per cent for partner exporters shipping to India, and cites compliance cost and low partner tariffs as the main reasons. Australian evidence likewise finds that smaller firms lag in utilization and that origin documentation is a key barrier (DFAT/PwC, 2018). The India-EU agreement reportedly shifts origin proof towards exporter self-certification, which moves legal risk to the exporter (BBC reporting, 2026). These studies are economy-wide or firm-generic; none is built around the cost structure of an informal artisan cluster.

2.5 Product regulation and traceability

The EU's Ecodesign for Sustainable Products Regulation introduces a Digital Product Passport (DPP). The Commission plans to adopt the textile delegated act in the third or fourth quarter of 2027, with at least 18 months before obligations apply (European Commission, 2026). Industry guides discuss readiness for apparel brands; I found no analysis of what the DPP implies for decentralised handloom clusters.

2.6 Research gap and questions

The literature thus runs in three unconnected strands: macro-FTA outcomes, generic utilization, and micro or consumer GI studies. No study links, for India's handloom and craft sector, the post-2022 FTA wave, the net value of tariff preferences after origin and technical-compliance costs, and artisan household incomes. The paper addresses three questions.

- **RQ1.** What do official export data show for handloom and handicrafts as India's FTA wave begins?
- **RQ2.** At what consignment size does claiming an FTA preference become worthwhile once fixed compliance costs are included?
- **RQ3.** Given artisan income levels and market structure, which institutional changes would let artisans capture the preference?

3. DATA AND METHODOLOGY

3.1 Data

All quantitative inputs are secondary and official wherever possible: Ministry of Textiles annual reports (2024-25, 2025-26) for dollar-denominated textile, apparel and handicraft exports; PIB releases of 24 March 2026 and 22 April 2026 for rupee series and FY2025-26 category growth; the Fourth All India Handloom Census (2019-20) for households, workforce and income; Ministry of Commerce statements for FTA partner exports and certificates of origin; and the European Commission for the DPP timeline. The handloom and handicraft dollar series for 2015-16 to 2021-22 comes from IBEF, which compiles Ministry of Commerce data, and is flagged as secondary. Every figure, with its source and any caveat, is in the accompanying workbook.

3.2 Why not a gravity model

A gravity specification with HS-level bilateral flows is the standard tool for evaluating FTA effects. It requires destination-by-product trade data for handloom and craft HS lines, which official public portals provide but which could not be assembled for this version. The paper therefore does not claim causal estimates. It reports descriptive pre and post comparisons and supplies a fill-in template (sheet Template HS Data) so that the gravity or difference-in-differences extension can be run directly on the same structure.

3.3 The preference break-even model

Let m be the preference margin, the MFN duty minus the FTA duty on the product, and let C be the fixed cost per consignment of claiming it, covering origin evidence, certification or declaration, administration, and any buyer-required testing. For a consignment of value V , the tariff saved is mV , and claiming is worthwhile only if $mV > C$. The break-even consignment value is therefore $V^* = C / m$. The model deliberately omits variable costs and price pass-through; it isolates the fixed-cost mechanism by which a zero tariff can fail to reach small exporters. Because no official per-consignment compliance cost for artisan exporters was available, C is treated as a parameter. Illustrative values are used and shown across a range; they must be replaced with survey or export-promotion-council estimates before the thresholds are cited as findings.

4. RESULTS

4.1 Export trends (RQ1)

Rupee exports of textiles and apparel including handicrafts rose from Rs 2,33,304 crore in 2020-21 to Rs 3,19,573 crore in 2024-25, a compound annual growth rate of 8.2 per cent, as the Ministry reports. Choice of base year matters: from 2019-20 to 2025-26 the rate is about 4.5 per cent, because 2020-21 was the COVID trough and 2021-22 a rebound peak. In dollar terms the picture is weaker. Total T&A exports including handicrafts were US\$44.4 billion in 2021-22 and US\$37.8 billion in 2024-25, a fall of 15.0 per cent; handicrafts alone fell from US\$2,088 million to US\$1,767 million (-15.4 per cent) over the same period.

Table 1. Export indicators relevant to handloom and handicrafts

Indicator	Start	End	Change	Source
T&A incl. handicrafts, Rs crore (2020-21 to 2024-25)	2,33,304	3,19,573	CAGR 8.2%	PIB 24 Mar 2026
T&A incl. handicrafts, Rs crore (2019-20 to 2025-26)	2,49,250	3,25,339	CAGR 4.5%	PIB/press
T&A incl. handicrafts, US\$ mn (2021-22 to 2024-25)	44,435	37,755	-15.0%	MoT Annual Rep.
Handicrafts, US\$ mn (2021-22 to 2024-25)	2,088	1,767	-15.4%	MoT Annual Rep.
Handloom products, US\$ mn (2015-16 to 2021-22)	369	269	-27.1%	IBEF (secondary)
Handicrafts excl. carpets, Rs crore (FY25 to FY26)	14,945.5	15,855.1	+6.1%	PIB 22 Apr 2026

Notes: The handicrafts and handloom series are not strictly comparable across sources; a coverage break appears in the handicraft series in 2021-22. FY2024-25 totals differ across two official releases (Rs 3,19,573 crore vs Rs 3,09,859 crore) because of revision or coverage differences.

Handloom products show a longer decline. Exports fell from US\$369 million in 2015-16 to US\$319 million in 2019-20 (a compound rate of -3.6 per cent a year, before COVID) and to US\$269 million in 2021-22 (-5.1 per cent a year over the full period). This series ends before the UAE and Australia agreements took effect, so it describes the pre-FTA baseline rather than an FTA effect. The most recent official signal is more positive for crafts: handicrafts excluding handmade carpets grew 6.1 per cent in FY2025-26, the fastest among major textile categories, while the cotton, fabrics, made-ups and handloom group grew only 0.4 per cent.

Two features limit any causal reading of these trends. First, 2021-22 was an unusual rebound year. Second, and more important, the first two agreements do not cover the main craft markets. The United States, the EU and the UK together took 53 per cent of India's T&A exports including handicrafts in 2023-24 (28, 19 and 6 per cent). Exports to the UAE rose from US\$28.4 billion in 2021-22 to US\$37.4 billion in 2025-26 and exports to Australia from about US\$4 billion to US\$7.3 billion, but these are all-goods figures, and neither partner is a principal handloom buyer. The UK agreement entered into force only in July 2026 and

the EU agreement has not yet been implemented. In that sense the central question has not yet been tested: the agreements that matter most for artisans are only now arriving. The aggregate data are consistent with, but do not demonstrate, the claim that early agreements did little for craft exports.

4.2 The artisan income base (RQ3)

The Handloom Census shows why fixed compliance costs bind. Of 31.45 lakh households, 67.1 per cent earned less than Rs 5,000 a month, 26.2 per cent earned Rs 5,001 to 10,000, 4.5 per cent earned Rs 10,001 to 15,000 and about 2.3 per cent more than Rs 15,000 (derived). Some 93 per cent therefore earn under Rs 10,000. Conditions improved from 2009-10, when 99 per cent of households earned under Rs 5,000 and average household income was Rs 3,042 a month, but remain low. A weaver household cannot individually fund certification, laboratory testing or customs documentation, so any preference must be claimed collectively or through an intermediary.

Table 2. Monthly income of handloom households, 2019-20

Income band (Rs per month)	Households	Share
Below 5,000	21,09,525	67.1%
5,001 - 10,000	8,24,021	26.2%
10,001 - 15,000	1,40,509	4.5%
Above 15,000 (derived)	70,784	2.3%
Total	31,44,839	100.0%

Source: PIB, 17 September 2020 (Fourth All India Handloom Census); last row derived as total minus listed bands.

4.3 utilization and the compliance wedge

India's agreements have generated large volumes of origin certification: 4.45 lakh certificates under the UAE CEPA and 2.73 lakh under the Australia ECTA. This shows that exporters in aggregate do use preferences. But GTRI estimates that only 20 to 30 per cent of eligible exports claim them, which implies that roughly three-quarters of potential preference value goes unclaimed. The explanation offered, that compliance costs exceed duty saved when partner tariffs are low, matters less for the EU, where textile duties of 8 to 12 per cent are high enough to make claiming attractive for large shipments, and more for small craft consignments, where the saving is small in absolute terms.

Table 3. FTA context for textiles and crafts

Agreement	Status	Partner exports (US\$ bn)	Origin certificates
India-UAE CEPA	In force May 2022	28.4 (2021-22) to 37.36 (FY26)	4.45 lakh
India-Australia ECTA	In force Dec 2022	~4.0 to 7.28 (FY26)	2.73 lakh

Agreement	Status	Partner exports (US\$ bn)	Origin certificates
India-UK CETA	In force 15 Jul 2026	13.44 (FY26, pre-agreement)	n/a
India-EU FTA	Concluded 27 Jan 2026	n/a	n/a

Sources: PIB and Ministry of Commerce statements as reported in Parliament (Feb-Mar 2026); press reports for dates. Partner export figures cover all merchandise, not crafts.

4.4 Break-even consignment values (RQ2)

Table 4 reports $V^* = C / m$ across plausible margins and costs. The cost values are illustrative placeholders, not measured data. With a 10 per cent margin, the midpoint of the EU's former textile duty range, and Rs 65,000 of fixed cost (for example Rs 25,000 for origin evidence and certification plus Rs 40,000 for product testing), a consignment must exceed Rs 6.5 lakh to be worth claiming. A Rs 3 lakh consignment saves Rs 30,000 in duty but costs Rs 65,000 to document and test, a net loss of Rs 35,000. For scale, Rs 3 lakh equals five years of income for a household in the lowest census income band.

Table 4. Break-even consignment value $V^* = C / m$ (Rs lakh), illustrative costs

Fixed cost C (Rs)	m = 5%	m = 8%	m = 10%	m = 12%
25,000	5.00	3.13	2.50	2.08
65,000	13.00	8.13	6.50	5.42
1,00,000	20.00	12.50	10.00	8.33
1,50,000	30.00	18.75	15.00	12.50

Source: author's calculation (workbook sheet BreakEven_Model). Cost levels are assumptions pending survey data; margin range reflects the 8-12 per cent EU textile duty before the agreement.

The mechanism has two policy implications. Reducing C, through pooled certification or shared testing, lowers V^* proportionally, so a 60 per cent cut in fixed cost cuts the threshold by 60 per cent. Pooling consignments raises V, because ten cooperatives shipping together can clear a threshold none can reach alone. Both point to collective rather than individual compliance.

4.5 New requirements arriving with the EU agreement

The EU agreement lowers tariffs while the EU's non-tariff regime tightens. The textile Digital Product Passport is planned for adoption in late 2027 with at least 18 months before it applies, so passports may become a condition of EU market entry around 2029. Indian officials have themselves warned that MSMEs must prepare for EU non-tariff rules, including ESG, CBAM and certification requirements, to gain from the agreement (Business Standard, 2026). For artisan exporters the DPP is both a risk, since it adds data and traceability costs, and an opportunity, since a verified record of manual production and provenance is exactly what premium buyers value.

5. DISCUSSION

Three conclusions follow. First, the claim that FTAs lift craft exports cannot yet be confirmed or rejected: the pre-2022 handloom trend was downward, the first two agreements cover marginal markets, and the agreements that matter most are only starting. Second, even where preferences exist, the fixed-cost structure of compliance biases benefits towards large exporters; small artisan consignments fall below plausible break-even values. This is consistent with the low overall utilisation estimates and with the observation that compliance cost, not tariff schedules, is what exporters cite. Third, income data show that producers have no capacity to absorb these costs, so preferences are likely to be captured by whoever sits at the point where compliance is performed: exporters, buying houses or master weavers. Whether weavers receive any of the gain is an empirical question that official data do not answer, and which a primary survey of cluster-level prices could.

These findings qualify, but are consistent with, the view that handicrafts are an attractive FTA sector. The sector's difficulty is institutional rather than tariff-related.

6. POLICY RECOMMENDATIONS

- **Cooperative-level origin certification.** Allow a registered cooperative, producer company or export promotion council to hold a standing origin declaration covering its members' output, with periodic audit in place of per-consignment proof. With a self-certification regime emerging under the EU agreement, an intermediary carrying the legal risk is essential.
- **Shared testing and certification facilities.** Fund common laboratories and pooled testing for natural-dye clusters, with test reports valid across buyers, so that C falls for every member.
- **Mutual recognition and enforcement of GIs.** Make partner-country registration and enforcement of Indian handloom GIs an explicit deliverable of each agreement and of a post-signature work programme, and fund GI user registration for artisans so the 103 registered handloom products can be used abroad.
- **An artisan path to the Digital Product Passport.** Rather than a bespoke blockchain system, build on the EU's own DPP data carrier and standards so that artisan provenance data (manual loom, location, natural fibre, dye) is machine-readable at EU borders. Distributed ledgers may be useful for cooperative record-keeping, but the EU requirement does not mandate them, and interoperability should come first.
- **Pass-through monitoring.** Require export promotion councils to publish cluster-level realised prices and the share of FTA savings passed to producers.
- **Data.** Publish handloom- and handicraft-specific HS-level exports by destination, including pre- and post-agreement series, so that agreements can be evaluated with gravity or difference-in-differences methods.

7. LIMITATIONS AND FUTURE RESEARCH

This study has four main limitations. It is descriptive and cannot identify causal FTA effects. Handloom-specific export data end in 2021-22 in the sources used, before the first FTA took effect. Compliance costs in the break-even model are illustrative assumptions, so the thresholds in Table 4 are illustrations of a mechanism, not measurements. And series from different official releases use different coverage, so levels should not be mixed. Future work should (i) estimate a gravity or difference-in-differences model on destination-by-HS data using the supplied template, (ii) measure compliance costs through a survey of

cooperatives and exporters in clusters such as Varanasi, Karur, Panipat and Kannur, and (iii) trace price pass-through from exporters to weavers.

8. CONCLUSION

India's agreements promise zero tariffs on craft exports, but tariff elimination is only the first condition of market access. Official data show a sector with a falling handloom export baseline and an income base that cannot fund compliance on its own. A simple break-even calculation shows how fixed compliance costs can make preferences worthless on small consignments even when duties are zero. The decisive test arrives with the UK and EU agreements. If those agreements are to deliver livelihood gains, the design of origin proof, testing, GI protection and traceability must be built around cooperatives rather than around individual consignments.

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