

EY Alert

India and Australia sign Economic Cooperation and Trade Agreement

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Executive summary

This Alert summarizes the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA) signed on April 2, 2022. The pact is expected to increase bilateral trade in goods and services from the existing US\$ 27.5 billion to US\$ 45 billion in five years¹ and create over one million jobs in India². Apart from increased trade and economic cooperation, IndAus ECTA will further deepen the people-to-people contacts between the two countries by expanding work, study, and travel opportunities.

¹ https://www.business-standard.com/article/economy-policy/india-australia-sign-trade-pact-bilateral-trade-to-reach-45-bn-in-5-years-122040200622_1.html

² <https://pib.gov.in/PressReleasePage.aspx?PRID=1812730>

Background

- ▶ India-Australia bilateral trade for both goods and services was valued at US\$ 27.5 billion in 2021.
- ▶ India's exports to Australia consist primarily of a broad-based basket largely of finished products such as petroleum products, textiles and apparels, engineering products, leather products, chemicals, Gems & Jewellery etc.
- ▶ India's merchandise imports from Australia consist largely of raw materials, minerals, and intermediate goods.
- ▶ 3/4th of India's imports from Australia consists of coal, with 70% of coal being coking coal.

IndAus ECTA- overview

- ▶ The IndAus ECTA is an interim arrangement and both countries will begin negotiations on a full-fledged free trade agreement in the next 75 days.

- ▶ The Agreement inter-alia covers areas like Trade in Goods, Rules of Origin, Trade in Services, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) measures, Dispute Settlement and Movement of Natural Persons. Eight subject specific side letters covering various aspects of bilateral economic cooperation: e.g., work, and holiday visa, post-study work visas, etc. were also concluded as part of the Agreement.

▶ Benefits

- Goods and services bilateral trade is expected to rise from the existing US\$ 27.5 billion to US\$ 45 billion in 5 years.
- India's exports of goods and services to Australia is expected to increase from US\$ 10.5 billion in 2021 to US\$ 20 billion by 2026-27.
- More than 1 million jobs to be created over the next 5 to 7 years, as labour-intensive sectors are likely to gain the most.

▶ Trade in Goods

- This is the first trade agreement with 100% tariff elimination by India's partner country: Australia will provide zero duty access to India for 100% of its tariff lines.
- India has kept many sensitive products in the exclusion category without offering any concession. Some of these are Milk and other dairy products, wheat, rice, bajra, gold, silver, platinum, jewellery, iron ore etc. This is a major gain for India in this Agreement.

▶ Rules of Origin

- Strict Rules of Origin have been included to prevent the third-party goods routed through the Partner country to get preferential benefit under this Agreement.
- For goods to avail the benefit of this Agreement, they would require substantial processing in the territory of the Parties.
- General Rule of CTS (Change in Tariff Sub-Heading) +35% or 45% based on the method applied, PSRs (Product Specific Rules) for 807 products and Wholly obtained criterion for several products, primarily Agricultural products have been provided.

▶ Trade Remedies

- The Agreement provides for a mechanism to apply provisional measures quickly to arrest the surge in imports and protect the domestic industry.
- The safeguard mechanism will be available for 14 years from the date of completion of elimination or reduction in tariff.

▶ Services

- Both the countries have undertaken commitments in 11 broad categories of Services. These include: 'IT and Communication Services', 'Business Services', 'Construction and related engineering services', 'Distribution Services', 'Educational Services', 'Environmental Services', 'Financial Services', 'Health related and Social Services', 'Tourism and travel related Services', 'Recreational Cultural and Sporting Services' and 'Transport Services'.
- Australia has offered 135 sub-sectors to India and India has offered 103 sub-sectors to Australia.
- Key areas of India's interest like IT, ITES, Business, Professional Services, Health, Education, Audio-visual are being committed by Australia under this Agreement.
- Australia has agreed upon post study work visa up to 4 years for Indian students.
- In case of Mode-4 Services (Movement of Natural Persons), the following commitments have been made by Australia:
 - ✓ Generous temporary entry and temporary stay commitments (up to 4 years) for Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives
 - ✓ Quota of 1800 per year for qualified, professional Indian traditional chefs and yoga instructors entering as Contractual Service Suppliers
 - ✓ Work & Holiday visa arrangement for young professionals

Analysis of Trade in Goods and Services

Signing of the IndAus ECTA shall bring about a host of opportunities for a large number of sectors. Likely gains for some of the sectors are summarized below:

Trade in Goods

▶ India's Exports to Australia

Australia is offering zero duty access to 100% tariff lines from India in the following manner:

- a. Zero duty with immediate effect on 98% of Tariff Lines constituting 96.4% value of our exports immediately i.e., for these tariff lines, Indian exports will have immediate market access @ ZERO duty from day one of the entry into force of the Agreement. Exports in below mentioned labour-intensive sectors, currently subjected to import duty of 4-5% by Australia, will gain from immediate duty-free access:
 - Most Textiles and Apparel
 - A few Agricultural and Fish products
 - Leather, Footwear, Furniture and Sport goods
 - Jewellery
 - Machinery, Electrical Goods, Railway wagons etc.
 - Selected Pharmaceutical products and Medical devices
 - Furniture
- b. Phased elimination of tariffs on the remaining 2% of Tariff Lines amounting to 3.6 % of India's exports (in value terms) in the next 5 years.

▶ India's Imports from Australia

Indian imports from Australia are more concentrated in raw materials and intermediates. As a result, many industries in India will get cheaper raw materials e.g., steel, aluminium, fabric/ garments etc.

Further, India has kept 29.8% of its tariff lines under exclusion list. The exclusion list inter-alia comprises the following items:

- Milk and other dairy products
- Chickpeas
- Walnut
- Wheat
- Rice
- Bajra
- Apple
- Sugar
- Oil cake
- Gold, silver, platinum jewellery
- Iron ore

▶ Sector specific gains

Currently, a large number of export products from India, particularly from labour-intensive sectors have a duty disadvantage of 4-5% when exported to Australia, in comparison to other FTA partners of Australia.

Sector	Expected Gains
Textiles	<ul style="list-style-type: none"> • With the elimination of duty, India's textiles and apparels exports are expected to increase from the current US\$ 392 million to US\$ 1.1 billion in the next 3 years. • Additional capacity creation due to exports and re-investment, is likely to create additional employment of 40,000 persons per annum. • Many of the new Made-up manufacturing units are likely to be set up in Tier 2 & Tier 3 cities & rural areas creating an industrial ecosystem in these areas and generating employment.
Engineering Products	<ul style="list-style-type: none"> • With elimination of tariffs, engineering product exports are expected to grow approx. 15% per annum • \$1.5 billion increase in exports in the next 5 years to reach \$2.7 billion by 2026-27.
Gems and Jewellery	With elimination of duty, there is a likelihood of increase in our exports of jewellery which currently suffers a 5% duty in Australia.
Leather and Footwear	<ul style="list-style-type: none"> • Around 94% of India's exports of leather products to Australia suffer from a duty disadvantage of 5%. • With the elimination of duty, Indian exports are likely to reach US\$ 100 million in next 2 years.
Pharma Sector	<p>Australia has agreed to an Annex on Pharmaceutical products. Following are the significant gains:</p> <ul style="list-style-type: none"> • Fast track approval for patented, generic and biosimilar medicines using the Comparable Overseas Regulator pathway • Fast track quality assessment/inspections of manufacturing facilities similarly <p>This will benefit all Indian Units/ medicines which have EU/ Canada FDA approvals. This is a Major breakthrough for India.</p>

Trade in Services

▶ Sectoral gains:

- Commercially meaningful Market Access, National Treatment, Local Presence, and Most Favoured Nation commitments have been provided by Australia in almost all important sub sectors such as Computer Related Services, Professional services viz. Legal Services, Accounting, Taxation, Architectural Services, Engineering, Integrated Engineering, Urban Planning and landscape architectural services, Medical, dental and veterinary services, Services provided by midwives, nurses etc.), Computer Related Services , Audio Visual Services, Research & Development services, Other Business Services, Telecommunication, Construction, Distribution, Education, Environmental, Financial, Tourism & Travel related, Recreational, Transport Services etc. with few non-conforming measures
- These commitments will not only enable a conducive business environment but also provide an element of certainty, predictability and transparency for our service suppliers.

▶ Mutual Recognition Agreement (MRAs)

- Detailed provisions to pursue mutual recognition of Professional Services and Other licensed/regulated Occupations have been agreed to. These are in the form of Annex on Professional Services annexed to Trade in Services Chapter.
- This will pave the way for initiating dialogues on MRAs in Nursing, Architecture, and other professional services between the professional bodies of India and Australia, which in turn will facilitate the movement of professionals in each other's territory.

▶ Double Taxation Avoidance Agreement (DTAA):

- The Government of Australia has agreed to amend Australian domestic taxation law to stop the taxation of offshore income of Indian firms providing technical services to Australia.
- Once the amendment is made, the Indian tech companies would no longer be required to pay taxes on offshore revenues in Australia thereby enhancing their competitiveness in the international market.

▶ Mobility gains

- High quality temporary entry and temporary stay commitments (up to 4 years) have been made for Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives. Besides commitments on Business Visitors and Installers and Servicicers have also been undertaken.
- Commitments on entry, stay and work rights for spouses and dependants: For a natural person of India who has been granted temporary entry and

temporary stay or an extension of temporary stay under the categories of Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives for a period of 12 months or longer and who has a spouse or dependant, Australia shall, upon application, grant the accompanying spouse or dependant the right of entry and temporary stay, movement and work for an equal period to that of the natural person.

Comments

The industry is looking forward to the benefits IndAus ECTA shall bring about. Our exporters may benefit from preferential market access provided by Australia on 100% of its tariff lines. This includes all the labour-intensive sectors of export interest to India such as Textiles, Gems and Jewellery, leather, footwear, food, and agricultural products, engineering products, medical devices, and Automobiles. Further, since Australian exports to India are concentrated primarily in raw materials and intermediates, many industries in India may get cheaper raw materials thereby becoming more competitive. E.g., Thermal power plants may get cheaper thermal coal, steel industry shall be able to procure cheaper coking coal and manganese, thereby making final goods cheaper. The pact may also go a long way in furthering people-to-people contacts between both the economies since the agreement comprehensively covers provisions relating to work, and holiday visa, post-study work visas.

We believe that IndAus ECTA may open a host of opportunities for both the economies. Detailed sector and product-wise analysis of the preferential treatment agreed to by India and Australia under IndAus ECTA may highlight the emerging opportunities.

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