

EY Alert

India and the UAE sign Comprehensive Economic Partnership Agreement

Our Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act s technical summaries to keep you on top of the latest issues. For more information, please contact your EY advisor.

Executive summary

This Alert summarizes the Comprehensive Economic Partnership Agreement (CEPA) signed between India and UAE on 18 February 2022 in New Delhi. The Agreement expected to enter into force on 01 May 2022, is likely to open a host of opportunities for both the economies. The merchandise trade between the two countries is projected to increase from \$60 billion in 2019-20 to US\$ 100 billion over the next five years.¹

1

<https://pib.gov.in/PressReleasePage.aspx?PRID=1810279#:~:text=From%20US%24%20180%20million%20per,India's%20third%20large st%20trading%20partner.>

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1799439#:~:text=India%20and%20UAE%20signed%20the,Shri%20Narendra%20M odi%20and%20H.E.>

Background

- ▶ UAE is India's third largest trading partner with US\$ 60 billion bilateral trade in FY 2019-20.
- ▶ Exports to the UAE were valued at US\$ 29 billion for the year 2019-20 making UAE the second largest export destination for India.
- ▶ Indian imports from the UAE were valued around US\$ 30 billion, including 21.83 MMT (US\$ 10.9 billion) of crude oil.
- ▶ The UAE is the eight largest investor in India with an estimated investment of US\$ 18 billion.
- ▶ Both sides have also agreed to a separate Annex on Pharmaceuticals to facilitate access of Indian pharmaceutical products, especially automatic registration and marketing authorization in 90 days for products meeting specified criteria.

CEPA- overview

- ▶ CEPA will cover the following areas:

Trade in Goods, Rules of Origin, Trade in Services, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) measures, Dispute Settlement, Movement of Natural Persons, Telecom, Customs Procedures, Pharmaceutical products, Government Procurement, IPR, Investment, Digital Trade and Cooperation in other Areas.

- ▶ Trade in Goods

The agreement covers almost all the tariff lines dealt by India (11,908 tariff lines) and the UAE (7581 tariff lines) respectively.

India will benefit from preferential market access provided by the UAE on over 97 % of its tariff lines which account for 99% of Indian exports to the UAE in value terms, especially for all labor-intensive sectors such as Gems and Jewellery, Textiles, leather, footwear, sports goods, plastics, furniture, agricultural and wood products, engineering products, medical devices, and Automobiles.

India will also be offering preferential access to the UAE on over 90% of its tariff lines, including lines of export interest to the UAE.

- ▶ Trade in Services

India has offered market access to the UAE in around 100 sub-sectors, while Indian service providers will have access to around 111 sub-sectors from the 11 broad service sectors such as 'business services', 'communication 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'.

Analysis of Trade in Goods and Rules of Origin

Trade in Goods

A. India's imports from UAE

Below is the summary of India's offer to the UAE for elimination/reduction in tariffs:

S. No.	Criteria	Number of tariff lines
1	Zero duty on entry into force of the agreement	7694
2	Phased Elimination of tariffs	2401
3	Reduction in tariffs	634
4	Tariff rate quota	22
5	Not on Offer	1157
6	Total	11908

- ▶ India has kept items such as dairy, fruit, cereals, vegetables, tea, coffee, tobacco, dyes, soaps, footwear, petroleum, tyres, toys, aluminium scrap, copper, processed marble, among others, out of the trade pact with the UAE.
- ▶ There is also a separate exclusion list for some products, including dairy, tea, coffee, spices, sugar, and tobacco, to protect the domestic industry.

B. India's exports to UAE

CEPA shall provide immediate market access at zero duty from day one of the entry into force of the Agreement, accounting for 90% of India's exports in value terms to UAE covering all labor-intensive sectors such as:
Textiles, Engineering products, Gems and Jewellery, Pharmaceuticals & medical devices, Plastics, Automobiles, Leather & Footwear, Agricultural products, Other - Furniture, wood products & sports goods
Zero duty within 5 to 10 years on additional 9% of our trade value shall be provided for the following products:
Electronic Goods, Chemicals and Petrochemicals, Articles of Stone, Cement, Ceramics, Machinery

Sector-wise gains from the FTA for India's top labor-intensive sectors

Sector	Expected Gains
Textiles	Increase in exports of \$2 billion over next 5 years
Engineering Products	Expected growth in exports to UAE: <ul style="list-style-type: none"> • 10% (first two years) • 15% (next three years) Exports are projected at <ul style="list-style-type: none"> • \$ 7 billion (2024-25) • \$ 8 billion (2025-26) • \$ 9.2 billion (2026-27)
Pharmaceuticals & medical devices	Growth in the next 5 years can touch over \$1 billion
Plastics	Additional increase in exports of approx. \$1.3 billion
Agricultural Products	Additional increase in exports is projected at \$ 850 million over next 5 years
Automobiles	Increase in exports over 5-year horizon is \$160 million
Leather and Footwear	Additional increase in exports projected at \$130 million over next 5 years.

Rules of Origin

CEPA has mandated stringent rules of origin conditions, with 40 per cent value addition for most industrial products to ensure that substantial processing takes place in UAE on the inputs imported in the third country before they are exported to India.

The Rules of Origin for major sectors are as below: -

- ▶ Wholly Obtained Criteria for most Agriculture products
- ▶ Change in Tariff Heading + 40% Value Addition for most Industrial products
- ▶ For Jewellery -Change in Tariff Sub-heading+ 3-6% Value Addition

Comments

The industry is looking forward to the benefits CEPA shall bring about. The enhanced market access for Indian exports due to reduction in tariffs will be beneficial, especially for labor-intensive sectors like textile, pharmaceuticals, gems and jewellery, plastic products, auto, etc. For example, the unit price for Indian manufactured vehicles will reduce, thereby opening up a bigger market for India's exports with likely addition of immigrants and locals of UAE, who prefer affordable new vehicles.

We believe that CEPA will open a host of opportunities in the form of development of new trade, investment, and innovation for both the economies. It would be interesting to analyze tariff concessions and the rules of origin changes brought about by CEPA for each sector in detail.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Bengaluru

12th & 13th floor
"UB City", Canberra Block
No. 24, Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Golf View Corporate Tower B
Sector 42, Sector Road
Gurugram - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur

1st Floor, Shantiniketan Building,
Holding No. 1
SB Shop Area, Bistupur
Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

Ernst & Young LLP

EY | Building a better working world

About EY

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2022 Ernst & Young LLP. Published in India.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.



Download the EY India Tax Insights App

ey.com/en_in

[@EY_India](https://twitter.com/EY_India) [in](https://www.linkedin.com/company/ey) EY [YouTube](https://www.youtube.com/channel/UCv31111111111111111111) EY India [f](https://www.facebook.com/EYCareersIndia) EY Careers India [ig](https://www.instagram.com/ey_indiacareers) @ey_indiacareers