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India-European Union FTA: Talks to restart soon on realistic note

Experts, too, suggest that both the sides need to work on less controversial issues first; the more difficult ones can be taken up later, as any deal there will take time to materialise.

As India and the European Union (EU) prepare to resume formal negotiations for a proposed free trade agreement (FTA) after a gap of eight years, both the parties could focus on "low-hanging fruit" first, before switching to contentious matters that had hampered talks earlier, a source told FE.

"The idea is to first try and forge consensus where it's easy to achieve this. Even if both the sides can hammer out an early-harvest deal before a full-fledged FTA, that would be an encouraging sign. Otherwise, it would be like back to square one," he said.

Government officials are also studying the EU's recent investment agreement with China and its FTA with Vietnam for meaningful negotiations. Preparatory work for the next round of negotiations is in full swing, said a senior official.

After 16 rounds of talks between 2007 and 2013, formal negotiations for the FTA were stuck over stark differences, as the EU insisted that India scrap or slash hefty import duties on sensitive products such as automobiles, alcoholic beverages and cheese, among others. India's demand included greater access to the EU market for its skilled professionals, which the bloc was reluctant to accede to.

Since its pull-out of the Beijing-dominated RCEP trade negotiations in November 2019, India has been seeking to expedite talks with key economies. But it has made it clear that any such agreement will have to be "fair" and "balanced".

Since 2013, though, the situation has changed dramatically with Brexit, and the attractiveness of the EU as a large market has somewhat eroded. Nevertheless, it still remains an important export destination for India. Of course, New Delhi and London are separately exploring the feasibility of an FTA, formal negotiations for which may start later this year.

The EU, including the UK, was India's largest destination (as a bloc) in FY20, with a 17% share in the country's overall exports. Importantly, the UK accounted for 16% of India's $53.7-billion exports to the EU in FY20.

Experts, too, suggest that both the sides need to work on less controversial issues first; the more difficult ones can be taken up later, as any deal there will take time to materialise.

At a virtual interaction organised by the Trade Promotion Council of India last week, Arpita Mukherjee, professor at ICRIER who specalises in trade and investment, highlighted the need for innovative

solutions to break any potential logjam on critical issues. For instance, in case of alcohol, Mukherjee proposed a threshold price for such products for tariff liberalisation, as was done by Japan for Australian wines under the RCEP.

Dairy, Mukherjee thinks, is a complex issue since both the EU and India are already large producers. Automobiles present an altogether different challenge, as India's existing FTA partners, such as Japan and South Korea, are already large producers, and they may seek a level-playing field if New Delhi extends greater market access to the EU.

According to Pralok Gupta, associate professor (services and investment) at the Centre for WTO Studies, said India's demand for freer movement of skilled professionals (under Mode 4 of services) may face stiff resistance during negotiations; instead, Mode 3 is easier to access. According to the WTO, Mode 3 occurs when a service provider of one of its members offers a service through some form of commercial presence in the territory of another member. Gupta said getting physical presence (under Mode 3) can ultimately simplify India's goal of getting access to other modes of services.

The India-EU negotiations will also feature talks on geographical indications (GIs). RV Anuradha, partner at Clarus Law Associates, said the EU was seeking automatic recognition for a wide range of products, including wines, spirits, dairy and farm commodities. But any automatic recognition for its goods under the Indian GI Act will require a legislative amendment by New Delhi.

"While this may be considered, the problem for India is that in the EU, GI protection is linked to farm products, food stuffs and wine. However, out of 330-odd GIs in India, more than 210 are handicrafts (non-agricultural products)," Anuradha said. Also, India needs to ensure if its automatic recognition of the GI products from the EU will affect domestic industries, such as cheese, where it has its own production capacities. For instance, Amul has been manufacturing the Gouda and Emmental cheese for the past decade, having set up units set up with Swiss collaboration.

(Financial Express,15/6/20210

G7 nations reach historic deal to make big multinationals pay fair taxes

The Group of Seven said it would back a minimum global corporation tax rate of at least 15%
The United States, Britain and other leading nations reached a landmark deal on Saturday to pursue higher global taxation on multinational businesses such as Google, Apple and Amazon.

In a move that could raise hundreds of billions of dollars to help them cope with the aftermath of COVID-19, the Group of Seven large advanced economies agreed to back a minimum global corporate rate of at least 15% and for companies to pay more tax in the markets where they sell goods and services.

"G7 finance ministers have reached a historic agreement to reform the global tax system to make it fit for the global digital age," British finance minister Rishi Sunak said after chairing a two-day meeting in London.

U.S. Treasury Secretary Janet Yellen said the "significant, unprecedented commitment" would end what she called a race to the bottom on global taxation.

The deal, which was years in the making, also promises to end national digital services taxes levied by Britain and other European countries which the United States said unfairly targeted U.S. technology giants.

However, the measures will first need to find broader agreement at a meeting of the G20 - which includes a number of emerging economies - due to take place next month in Venice.

"It's complicated and this is a first step," Sunak said.

The ministers also agreed to move towards making companies declare their environmental impact in a more standard way so investors can decided more easily whether to fund them, a key goal for Britain.

Rich nations have struggled for years to agree a way to raise more revenue from large multinationals such as Google, Amazon and Facebook, which often book profits in jurisdictions where they pay little or no tax.

U.S. President Joe Biden's administration gave the stalled talks fresh impetus by proposing a minimum global corporation tax rate of 15%, above the level in countries such as Ireland but below the lowest level in the G7.

Germany and France also welcomed the agreement, although French Finance Minister Bruno Le Maire said he would fight for a higher global minimum corporate tax rate than 15%, which he described as a "starting point".

German finance minister Olaf Scholz said the deal was "bad news for tax havens around the world".

"Companies will no longer be in a position to dodge their tax obligations by booking their profits in the lowest-tax countries," he added.

Irish finance minister Paschal Donohoe, whose country is potentially a big loser with its 12.5% tax rate, said any global deal also needed to take account of smaller nations.

Sunak said the deal was a "huge prize" for taxpayers, but it was too soon to know how much money it would raise for Britain.

The agreement does not make clear exactly which businesses will be covered by the rules, referring only to "the largest and most profitable multinational enterprises".

European countries have feared that a business such as Amazon could slip through the net as it reports lower profit margins than most other well-known technology companies.

Explained: What is a global minimum tax and what will it mean?

Major economies are aiming to discourage multinationals from shifting profits - and tax revenues - to low-tax countries regardless of where their sales are made.

Finance Ministers from the Group of Seven (G7) rich nations have said they are close to a landmark accord setting a global minimum corporate tax rate, an agreement that could then form the basis of a worldwide deal.

Such a deal aims to end what U.S. Treasury Secretary Janet Yellen has called a "30-year race to the bottom on corporate tax rates" as countries compete to lure multinationals.

WHY A GLOBAL MINIMUM TAX?

Major economies are aiming to discourage multinationals from shifting profits - and tax revenues - to low-tax countries regardless of where their sales are made.

Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property has migrated to these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.

With its proposal for a minimum 15% tax rate, the Biden administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.

The Trump administration took a first stab with a U.S. corporate offshore minimum tax in 2017. The "Global Intangible Low-Taxed Income," or GILTI, tax rate was only 10.5% - half the domestic corporate tax rate.

(Graphic - Statutory corporate tax rates in OECD countries)

WHERE ARE THE TALKS AT?

The G7 talks feed in to a much broader, existing effort. The Organization for Economic Cooperation and Development has been coordinating tax negotiations among 140 countries for years on rules for taxing cross-border digital services and curbing tax base erosion, including a global corporate minimum tax.

The OECD and G20 countries aim to reach consensus on both by mid-year, but the talks on a global corporate minimum are technically simpler and less contentious. If a broad consensus is reached, it will be extremely hard for any low-tax country to try and block an agreement.

The minimum is expected to make up the bulk of the $50 billion-$80 billion in extra tax that the OECD estimates firms will end up paying globally under deals on both fronts.

HOW WOULD A GLOBAL MINIMUM WORK?

The global minimum tax rate would apply to overseas profits.

Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could "top-up" their taxes to the minimum rate, eliminating the advantage of shifting profits.

The OECD said last month that governments broadly agreed on the basic design of the minimum tax but not the rate. Tax experts say that is the thorniest issue.

Other items still to be negotiated include whether investment funds and real estate investment trusts should be covered, when to apply the new rate and ensuring it is compatible with U.S. tax reforms aimed at deterring erosion.

WHAT ABOUT THAT MINIMUM RATE?

Talks are focusing around the U.S. proposal of a minimum global corporation tax rate of 15% - above the level in countries such as Ireland but below the lowest G7 level.

That rate is, however, somewhat lower than the 21% in discussion leading up to the G7 meeting and countries including France argue it should be viewed as a floor for setting a higher, more ambitious level.

Any final agreement could have major repercussions for low-tax countries and tax havens.

The Irish economy has boomed with the influx of billions of dollars in investment from multinationals. Dublin, which has resisted European Union attempts to harmonize its tax rules, is unlikely to accept a higher minimum rate without a fight.

However, the battle for low-tax countries is less likely to be about scuppering the overall talks and more about building support for a minimum rate as close as possible to its 12.5% or seeking certain exemptions.

(Business Standards, 6/6/2021)

Indian economy to grow 9.3 pc in FY22, 2nd COVID wave raises risks to credit profile: Moody's

"The reimposition of lockdown measures along with behavioural changes on fear of contagion will curb economic activity, but we do not expect the impact to be as severe as during the first wave.

Indian economy would rebound in the current fiscal ending March 2022 and clock a growth of 9.3 per cent, but a severe second COVID wave has increased risks to India's credit profile and rated entities, Moody's Investors Service said on Tuesday.

Moody's, which has a 'Baa3' rating on India with a negative outlook, said it expects a decline in economic activity in the June quarter due to reimposition of lockdown measures along with behavioural changes on fear of contagion.

"India's economy rebounded quickly from a steep contraction in 2020, but a severe second wave of the coronavirus has increased risks to the outlook with potential longer-term credit implications. Risks to India's credit profile, including a persistent slowdown in growth, weak government finances and rising financial sector risks, have been exacerbated by the shock," Moody's said.

In an 'FAQ on the coronavirus second wave and the sovereign's medium-term credit challenges', the US-based rating agency said the pandemic will leave new economic scars and deepen pre-pandemic constraints and GDP growth would average around 6 per cent in the longer term.

"We expect a decline in economic activity in the April-June quarter, followed by a rebound, resulting in real, inflation-adjusted GDP growth of 9.3 per cent in the fiscal year ending March 2022 (fiscal 2021) and 7.9 per cent in fiscal 2022," it said, adding that the impact from potential subsequent waves remain a risk to its forecasts. Moody's had in February forecast a 13.7 per cent growth in current fiscal.

The Indian economy contracted by 7.3 per cent in fiscal 2020-21 as the country battled the first wave of COVID, as against a 4 per cent growth in 2019-20.

It said the government's ability to limit the spread of the virus and materially increase the rate of vaccinations will have a direct impact on the trajectory of both health and economic outcomes.

India began the third phase of its vaccination campaign for those aged 18-44 on May 1, making vaccines available to the entire adult population. However, as of late May only around 15 per cent of the country's population had received at least one dose of the vaccine, Moody's said.

A shortage of vaccines and logistical challenges reaching a large rural population (about two-thirds of the population) has complicated the vaccine rollout, it said, adding that it expects substantial progress in vaccination pace by 2021 end.

"Longer-term risks to India's economy would increase if the second wave extended beyond June and the pace of vaccinations was slower than we expect. This could contribute to more scarring if it caused a permanent loss of jobs and business closures, particularly in more productive sectors of the economy outside of agriculture in and around urban centers, resulting in a fundamentally weaker growth dynamic," Moody's added.

The Indian government aims to vaccinate the entire adult population by the end of December this year. India's active COVID caseload count reached around 37 lakh in early May with daily new cases exceeding 4 lakh, but has since started to decline.

Moody's said the surge in the virus, driven by a highly contagious variant, has put significant strain on India's healthcare system with hospitals overrun and availability of medical supplies limited.

"India's key credit challenges include a persistent slowdown in growth, weak government finances and financial sector risks. These vulnerabilities weighed on the sovereign credit profile before the coronavirus pandemic and have been exacerbated by the shock," it added.

It said the lockdown measures announced by states in the second wave would not have "severe impact" as during the first wave, when they were applied nationwide for several months. Businesses and consumers have also grown more accustomed to operating under unusual pandemic conditions.

Moody's said structural inefficiencies continue to constrain growth potential and limit resilience to shocks. If implemented effectively, government reforms that target these challenges would be credit positive.

It said India's government debt burden would rise to 90.3 per cent in the current fiscal and a small shortfall in budgeted revenue and a redirection of spending toward the response to the pandemic will result in a general government fiscal deficit of 11.8 per cent of GDP. Debt-to-GDP will edge up to 92 per cent by fiscal 2023, largely driven by relatively slow economic growth. Moody's said India's financial sector is the main driver of potential event risk to the sovereign.

"So far, the second wave has increased financial risks to households and small businesses, which may hurt bank profitability. New loan forbearance and liquidity measures by the central bank, and government plans to set up an asset reconstruction company to take over stressed loans, along with modest recapitalisation of public sector banks, will mitigate, but not eliminate, sector risks," it added.

Last month, another US-based rating agency S&P had said India's GDP growth rate could drop to 9.8 per cent under the 'moderate' scenario, where COVID infections peak in May. It could even fall to as low as 8.2 per cent in a 'severe' scenario under which cases peak in late June.

S&P in March had forecast India to grow at 11 per cent in current fiscal.

(Press Trust of India, 3/6/2021)

India-Norway Blue Economy model focuses on post-Covid economy recovery

Synopsis

Investing in the Blue Economy now can help countries out of the crisis, and make sure that the global community builds back better and greener.

Investing in the Blue Economy can help enable nations to address Covid crisis, and make sure that the global community builds back better and greener. This was the key theme at the fourth India-Norway Task Force on Blue Economy that met on June 9.

The task force was chaired by Norwegian Ambassador to India, Hans Jacob Frydenlund and Ratan Watal, Member Secretary, Economic Advisory Council to the Prime Minister (EAC to PM).

"Blue Economy partnership is the cornerstone of the bilateral cooperation between India and Norway. Since the creation of the Task Force in 2019, our cooperation has expanded and deepened", the Member Secretary, EAC to PM said at the Task Force meet.

The COVID-19 crisis has caused disruptions to ocean industries and coastal tourism globally, but the potential for growth and job creation is substantial. Investing in the Blue Economy now can help countries out of the crisis, and make sure that the global community builds back better and greener.

"The Indo-Norwegian Blue Economy partnership is already contributing to this. In the last year, Norwegian companies have entered into new contracts with Indian counterparts, creating jobs and enabling transfer of green technologies," Frydenlund said on the occasion.

Two key MoUs have also been signed in this regard -- one between the Norwegian university NTNU and DG Shipping, who will cooperate on establishing a Maritime Knowledge Cluster. And one between the Norwegian company Greenstat and the

Indian Oil Corporation

NSE -0.60 % on setting up a Centre of Excellence on Hydrogen.

Recently, a new India-Norway Integrated Ocean Management & Research Initiative has also been established, with the hope that it will help plan and improve the management of ocean resources, enabling an expansion of ocean industries without harming the environment.

"I want to commend the Government of India on its new Draft Policy Framework for India's Blue Economy. The draft clearly shows how committed India is to combining production and protection in the Ocean, making it a perfect partner for Norway," according to Frydenlund.

At the June 9 meet, results after the third Task Force meeting in 2020 were also highlighted, especially on the inclusion of the private sector in joint initiatives, creating solid ground for public-private partnerships. The parties agreed to enhance cooperation on green shipping, ocean research, fisheries, energy, marine and plastic pollution, and more.

The meeting was represented from both sides with representatives from the Indian Ministries of Earth Sciences, Environment, Forest and Climate Change, Shipping, Tourism, External Affairs, Department of Fisheries, Director-General Shipping, and several institutions and business bodies.

From the Norwegian side, Innovation Norway, Ministry of Trade, Industry and Fisheries, Ministry of Foreign Affairs, Ministry of Climate and Environment and other official bodies, companies, business organisations and research institutions took part.

(Economic Times, 11/6/2021)

US suspends tariffs on UK, India, European nations in digital tax dispute

Synopsis

The decision comes at the conclusion of a year-long investigation into taxes that Washington says discriminated against big US tech companies like Apple, Amazon, Google and Facebook.

The US government announced Wednesday it is suspending for six months punitive tariffs on Britain, India and four European nations while it works to resolve a dispute over digital services taxes.

The decision comes at the conclusion of a year-long investigation into taxes that Washington says discriminated against big US tech companies like Apple, Amazon, Google and Facebook.

The 25 percent duties were never imposed, but were intended to also target Austria, Italy, Spain and Turkey.

While trade authorities ruled the tariffs were justified, "The United States is focused on finding a multilateral solution to a range of key issues related to international taxation, including our concerns with digital services taxes," US Trade Representative (USTR) Katherine Tai said in a statement.

President Joe Biden's administration is pushing for a 15 percent global minimum corporate tax that aims to resolve the issue of corporations sheltering profits in low-tax nations.

The decision comes just ahead of a two-day meeting in London starting Friday of finance ministers from the Group of Seven rich countries to hammer out a deal on the tax issue.

Officials then would try to win broader support from the G20 and the 38-member Organization for Economic Co-operation and Development (OECD) which has led the effort to harmonize taxation.

However, Ireland, which has become a haven for many multinationals, has expressed opposition to the global minimum tax.

G7 leaders will meet later in June, following by a G20 finance ministers meeting in July.

USTR made clear it still has the option to impose the punitive duties on goods from the countries that adopted the digital services taxes.

"The United States remains committed to reaching a consensus on international tax issues through the OECD and G20 processes," Tai said.

"Today's actions provide time for those negotiations to continue to make progress while maintaining the option of imposing tariffs... if warranted in the future."

The so-called Section 301 investigation ruled that the tax "discriminates against US companies, is inconsistent with prevailing principles of international taxation and burden or restricts US commerce."

USTR in January also suspended 25 percent tariffs on $1.3 billion in French goods imposed in the dispute.

In March, USTR terminated investigations of Brazil, the Czech Republic, the European Union and Indonesia, since those governments did not implement a digital services tax.

(Economic Times, 3/6/2021)

India receives $64 billion FDI in 2020, fifth largest recipient of inflows in world: UN

The World Investment Report 2021 by the UN Conference on Trade and Development (UNCTAD), released Monday, said global FDI flows have been severely hit by the pandemic and they plunged by 35 per cent in 2020 to USD 1 trillion from USD 1.5 trillion the previous year.

India received USD 64 billion in Foreign Direct Investment in 2020, the fifth largest recipient of inflows in the world, according to a UN report which said the COVID-19 second wave in the country weighs heavily on the country's overall economic activities but its strong fundamentals provide "optimism" for the medium term.

The World Investment Report 2021 by the UN Conference on Trade and Development (UNCTAD), released Monday, said global FDI flows have been severely hit by the pandemic and they plunged by 35 per cent in 2020 to USD 1 trillion from USD 1.5 trillion the previous year.

The report said in India, FDI increased 27 per cent to USD 64 billion in 2020 from USD 51 billion in 2019, pushed up by acquisitions in the information and communication technology (ICT) industry, making the country the fifth largest FDI recipient in the world.

The pandemic boosted demand for digital infrastructure and services globally. This led to higher values of greenfield FDI project announcements targeting the ICT industry, rising by more than 22 per cent to USD 81 billion.

Major project announcements in the ICT industry included a USD 2.8 billion investment by online retail giant Amazon in ICT infrastructure in India.

The report noted that the second wave of the COVID-19 outbreak in India weighs heavily on the country's overall economic activities.

Announced greenfield projects in India contracted by 19 per cent to USD 24 billion, ?and the second wave in April 2021 is affecting economic activities, which could lead to a larger contraction in 2021,? it said, adding that the outbreak in India severely hit main investment destinations such as Maharashtra, which is home to one of the biggest automotive manufacturing clusters

(Mumbai,Pune,Nasik,Aurangabad) and Karnataka (home to the Bengaluru tech hub), which face another lockdown as of April 2021, exposing the country to production disruption and investment delays.

”Yet India’s strong fundamentals provide optimism for the medium term. FDI to India has been on a long-term growth trend and its market size will continue to attract market-seeking investments. In addition, investment into the ICT industry is expected to keep growing,” the report said.

The country’s export-related manufacturing, a priority investment sector, will take longer to recover, but government facilitation can help. India’s Production Linkage Incentive scheme, designed to attract manufacturing and export-oriented investments in priority industries including automotive and electronics can drive a rebound of investment in manufacturing.

The report said FDI in South Asia rose by 20 per cent to USD 71 billion, driven mainly by strong M&As in India. ”Amid India’s struggle to contain the COVID-19 outbreak, robust investment through acquisitions in ICT (software and hardware) and construction bolstered FDI,” it said adding that cross-border M&As surged 83 per cent to USD 27 billion, with major deals involving ICT, health, infrastructure and energy.

Large transactions included the acquisition of Jio Platforms by Jaadhu, a subsidiary of Facebook for USD 5.7 billion, the acquisition of Tower Infrastructure Trust by Canada’s Brookfield Infrastructure and GIC (Singapore) for USD 3.7 billion and the sale of the electrical and automation division of Larsen & Toubro India for USD 2.1 billion. Another megadeal Unilever India’s merger with GlaxoSmithKline Consumer Healthcare India, a subsidiary of GSK United Kingdom) for USD 4.6 billion also contributed, it said.

FDI outflows from South Asia fell 12 per cent to USD 12 billion, driven by a drop in investment from India. India ranked 18 out of the world’s top 20 economies for FDI outflows, with 12 billion dollars of outflows recorded from the country in 2020 as compared to 13 billion dollars in 2019.

”Investments from India are expected to stabilise in 2021, supported by the country’s resumption of free trade agreement (FTA) talks with the European Union (EU) and its strong investment in Africa,” the report said.

The report cautioned that while the Asian region has managed the health crisis relatively well, the recent second wave of COVID-19 in India shows that significant uncertainties remain.

”This has major impacts on prospects for South Asia. A wider resurgence of the virus in Asia could significantly lower global FDI in 2021, given that region’s significant contribution to the total,” the report said.

FDI inflows to developing Asia grew by 4 per cent to USD 535 billion in 2020, making it the only region to record growth and increasing Asia’s share of global inflows to 54 per cent.

In China, FDI increased by 6 per cent to USD 149 billion. While some of the largest economies in developing Asia such as China and India recorded FDI growth in 2020, the rest recorded a contraction, it said.

The report added that FDI inflows in Asia are expected to increase in 2021, outperforming other developing regions with a projected growth of 5 10 per cent.

Signs of trade and industrial production recovering in the second half of 2020 provide a strong foundation for FDI growth in 2021. Yet, substantial downside risks remain for the many economies in the region that struggle to contain successive waves of COVID-19 cases and where fiscal capacity for recovery spending is limited. "Economies in East and South-East Asia, and India, will continue to attract foreign investment in high-tech industries, given their market size and their advanced digital and technology ecosystem," the report said.

(Financial Express, 23/6/2021)