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India-EU trade pact: Negotiators begin third round of talks

India's bilateral trade with the EU rose by 43.5 per cent to $116.36 billion in 2021-22.

Senior officials of India and the European Union (EU) on Monday commenced the third round of talks on a proposed free trade agreement, which aims at boosting trade and investments between the two regions, an official said.

India's bilateral trade with the EU rose by 43.5 per cent to USD 116.36 billion in 2021-22. At present, the EU is India's second largest trading partner after the US, and the second largest destination for Indian exports.

India and the EU on June 17 this year formally resumed negotiations on the proposed India-EU Trade and Investment Agreement, including the Geographical Indications (GI).

The EU delegation is here for the third round of talks and the talks will continue till December 9, the official said.

The second round of negotiations were held in Brussels.

According to the commerce ministry, the trade agreement with the EU would help India in further expanding and diversifying its exports of goods and services, including securing the value chains. A GI is primarily used for an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory. Typically, such a name conveys an assurance of quality and distinctiveness, which is essentially attributable to the place of its origin.

(Financial Express, 29/11/2022)

FTA talks with EU to focus on goods and investments

Synopsis

"The negotiators from the EU are coming here for the talks. Negotiations on goods and investment are high on the agenda," said an official, who did not wish to be identified.

India and the European Union are likely to discuss issues related to investment and trade in goods during the third round of free trade agreement (FTA) talks, which will begin in Delhi on November 28.

"The negotiators from the EU are coming here for the talks. Negotiations on goods and investment are high on the agenda," said an official, who did not wish to be identified.

The two sides relaunched FTA negotiations after a nine-year hiatus and initiated separate negotiations for an Investment Protection Agreement and an Agreement on Geographical Indications in June.

The EU has proposed an anti-fraud clause in the goods chapter which deals with preventing, detecting and combating breaches or circumventions of customs legislation related to the preferential treatment, said people with knowledge of the matter.

FTA Talks with EU to Focus on Goods and Investments

The first round of talks, held in June, focused on the EU's proposals for 18 chapters. The second round took place in October in Brussels.

Discussions have happened on chapters on issues including digital trade, government procurement, anticompetitive conduct, merger control and subsidies, state-owned enterprises, dispute settlement, good regulatory practices, and energy and raw materials.

The EU's share in foreign investment inflows to India rose to 18% from 8% in the last decade, making the bloc India's largest source of foreign direct investment (FDI). Between April 2000 and September 2020, FDI inflows from the EU to India totalled $86.82 billion.

(Economic Times, 14/11/2022)

India-EU trade pact: Next round of talks from November-end

Synopsis

"The EU delegation will be here on November 28 for the third round of talks for India-EU Trade and Investment Agreement, including the Geographical Indications (GI)," the official said. The second round of negotiations were held in Brussels.

The next round of talks between India and the European Union (EU) on a proposed free trade agreement, which aims at boosting trade and investments between the two regions, is scheduled to start from the end of this month, an official said. India and the EU on June 17 this year formally resumed negotiations on the proposed agreement, after a gap of over eight years.

"The EU delegation will be here on November 28 for the third round of talks for India-EU Trade and Investment Agreement, including the Geographical Indications (GI)," the official said.

The second round of negotiations were held in Brussels.

India's bilateral trade with the EU rose by 43.5 per cent to USD 116.36 billion in 2021-22.

At present, the EU is India's second largest trading partner after the US, and the second largest destination for Indian exports.

According to the commerce ministry, the trade agreement with the EU would help India in further expanding and diversifying its exports of goods and services, including securing the value chains.

Both sides are aiming for the trade negotiations to be broad-based, balanced, and comprehensive, based on the principles of fairness and reciprocity.

A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory. Typically, such a name conveys an assurance of quality and distinctiveness, which is essentially attributable to the place of its origin.

(Economic Times, 14/11/2022)

RBI puts onus on EU banks to resolve stalemate with ESMA

Synopsis

This was conveyed at a meeting between senior officials of the MNC banks and RBI deputy governor T. Rabi Sankar on November 11, multiple sources told ET.

Reserve Bank of India (RBI) has put the onus on European Union banks to resolve the stalemate caused by the European Securities & Markets Authority's (ESMA) decision to disqualify key Indian institutions which act as central counterparties (CCPs) in securities, money market, and forex transactions.

This was conveyed at a meeting between senior officials of the MNC banks and RBI deputy governor T Rabi Sankar on November 11, multiple sources told ET.

"RBI's stand is clear. The new rules which have become a bone of contention were not introduced by RBI. They did not originate in India but have emanated from jurisdictions and countries where these MNC banks are headquartered," said an official of a large European bank.

Need for a Plan B

"So, the foreign banks should sort out (the matter) with their respective regulators and authorities to find a way out," said the official.

"RBI is expected to hold more meetings on the subject," said another banker.

According to banking circles, as of now it is evident that RBI is not comfortable with the dual regulatory arrangement; and under the circumstances European banks in India would have to think of a plan B to carry out their regular treasury operations.

The RBI spokesman did not comment on the matter.

As part of risk mitigating measures laid down in the wake of the 2008 financial meltdown, ESMA would carry out on-site inspection of all CCPs that European banks deal with anywhere in the world - a rule that RBI finds unacceptable as it boils down to a foreign regulator exercising supervisory power in CCPs which are outside its jurisdiction.

If RBI sticks to its stand, EU banks will have to cut bilateral deals with other banks, avoiding the Clearing Corporation of India (CCIL) which serves as a CCP that takes over the clearing and settlement risk in transactions like government bond trade, foreign exchange forwards, repos, and interest rate swaps.

"The advantage of putting trades through CCIL is that the counterparty risk is taken over by the CCIL which lowers the capital requirement for the bank. But bilateral deals would mean higher capital as the counterparty will be a bank carrying a higher risk weight. The risk weight will be higher if it's from a country with a lower sovereign rating," said a banker.

SHIELDING EQUITY MARKET

However, while it's possible to do bilateral trades in bonds and currency and interest rate derivatives, a CCP is unavoidable in trades done on stock exchanges. For instance, Deutsche Bank, which is a large custodian for foreign portfolio investors, has to deal with NSE Clearing Corporation for share transactions by offshore funds. NSE Clearing is one of the six CCPs, which includes CCIL, derecognised by ESMA.

Under the circumstances, Sebi (unlike RBI) is currently negotiating to find a middle ground and may be open to letting European regulators like ESMA and Bank of England (BoE) look into NSE Clearing Corp's books as long it carries out a joint inspection with Sebi and takes no-objection certificate from the Indian regulator before initiating any inspection. BoE has disqualified CCIL and Indian Clearing Corp, the CCP for trades done on Bombay Stock Exchange.

"Probably, the government's priority is to see that there is no adverse impact on the stock market. So, it may be comparatively more concerned about the derecognition of the stock clearing houses than the disqualification of CCIL. Thus Sebi may arrive at a solution quicker than RBI," said a senior official with a large brokerage.

Among the foreign banks impacted by the ESMA directive are Deutsche, BNP Paribas, Credit Suisse, and Credit Agricole while institutions like Standard Chartered and Barclays would have to deal with the BoE rules.

(Economic Times, 17/11/2022)

EU financial regulators disqualify 6 Indian counterparties

Synopsis

According to a communique by The European Securities and Markets Authority (ESMA) dated October 31, 2022, no "cooperation arrangements" (compliant with European Market Infrastructure Regulation) have been concluded between ESMA and each of the relevant Indian authorities, i.e. RBI, Sebi and IFSCA."

Over the last 48 hours, all European banks in India have been thrown into a quandary and are left knocking on the doors of the regulators with the European Union financial markets authority and the Bank of England derecognising some of the key institutions like Clearing Corporation of India (CCIL), NSE Clearing Limited (NSCCL) and Indian Clearing Corp (ICCL) through which significant volumes of trades on foreign exchange, derivatives, government bonds and securities are settled.

According to banking circles, the decision to disqualify Indian market counterparty institutions stems from the stand-off between Indian and foreign regulators.

"We understand the Reserve Bank of India (RBI) and Sebi are not comfortable letting key Indian institutions come under the scrutiny and inspection of overseas market regulators. They think it's a jurisdiction issue, and boils down to a regulatory overreach," a senior banker told ET.

According to a communique by The European Securities and Markets Authority (ESMA) dated October 31, 2022, no "cooperation arrangements" (compliant with European Market Infrastructure Regulation) have been concluded between ESMA and each of the relevant Indian authorities, i.e. RBI, Sebi and IFSCA."

Trades Could be Impacted

Under the circumstances, if the Indian and European regulators fail to strike a deal, all European banks in the country will either need a prohibitively high level of capital - about 50 times higher - to carry on trades involving the Indian central counterparties, or will have to unwind their positions (with these central counterparties) over the next six to nine months.

Since almost all foreign banks in India operate as branches of the parent organisations which are headquartered abroad, they are bound by the directives of their respective home country regulators. So, while banks like Deutsche, BNP, Credit Agricole, and Societe Generale have to follow the instructions of ESMA, lenders such as HSBC, Standard Chartered, and Barclays have to meet the norms laid down by BoE.

ESMA has derecognised six Indian central counterparties - CCIL, ICCL, NSCCL, Multi Commodity Exchange Clearing (MCXCCL), and India International Clearing Corporation Limited (IICC). BoE has disqualified CCIL and ICCL. CCIL is supervised by the RBI; NICCL is under the GIFT City regulator International Financial Services Centres Authority; and the rest are regulated by the Securities and Exchange Board of India (Sebi).

Discussions Needed

"Senior officials of these banks have been in touch with RBI and Sebi since yesterday. The Indian regulators must talk to their European counterparts to find a middle ground. It probably has to do with issues like disclosures or certain extra-territorial regulatory powers which have to be sorted out. We expect some discussions, advocacy in the coming months. Else, some of the European banks could find themselves at a disadvantage," said a treasurer of a foreign bank.

The trades that would be affected are foreign currency forwards - where a bank hedges the currency risk of a client buying or selling dollars or any other foreign currency; interest rate swaps in which two entities exchange fixed interest payment vis-a-vis floating rate payment to cover interest rate risks; and custody businesses of some of these multinational banks handling secondary stock and bond market trades of foreign portfolio investors and local institutions like mutual funds.

Global Meltdown of 2008

After the 2008 meltdown - which was worsened by hidden risks and the lack of transparency in large bilateral trades in complex financial instruments - European authorities, lawmakers and regulators had put in place rules on greater information sharing between regulators and institutions. Thus, the development will also bring to the fore the extent to which regulators can overcome the jurisdictional issues that crop up with greater disclosures.

For instance, paragraph 7 of Article 25 of European Market Infrastructure Regulation - the bone of contention in the current matter - states among other things: "... ESMA shall establish cooperation arrangements with the relevant competent authorities of third countries... Such arrangements shall specify at least:

a) the mechanism for the exchange of information between ESMA and the competent authorities of the third countries concerned, including access to all information requested by ESMA regarding CCPs authorised in third countries;

b) the mechanism for prompt notification to ESMA where a third-country competent authority deems a CCP it is supervising to be in breach of the conditions of its authorisation or of other law to which it is subject;

c) the mechanism for prompt notification to ESMA by a third-country competent authority where a CCP it is supervising has been granted the right to provide clearing services to clearing members or clients established in the Union;

d) the procedures concerning the coordination of supervisory activities including, where appropriate, on-site inspections.

"We are in a bit of a flux.. the market now faces conflicting directions. For instance, on one hand, authorised dealer banks were told (by RBI) to clear (through a central counterparty) all forex forward trades having a tenure of less than 13 months. On the other hand, beginning April we can't use CCIL even though such forex trades can only be cleared through CCIL," said a dealer.

RBI and Sebi spokespersons did not comment on the subject till the time of going to press.

(Economic Times, 4/11/2022)

UK delivering on new FTA with India, says Rishi Sunak

Synopsis

Delivering a talk Monday night at the Lord Mayor of London's Banquet -- his first major foreign policy speech since taking charge at 10 Downing Street last month --Rishi Sunak reflected upon his heritage and committed to promoting British values of "freedom and openness" around the world.

British Prime Minister Rishi Sunak has reiterated the UK's commitment to a Free Trade Agreement (FTA) with India as part of the country's wider focus on enhancing ties with the Indo-Pacific region.

Delivering a talk Monday night at the Lord Mayor of London's Banquet -- his first major foreign policy speech since taking charge at 10 Downing Street last month -- the British-Indian leader reflected upon his heritage and committed to promoting British values of "freedom and openness" around the world.

He also pledged to "do things differently" when it came to China, which he said poses a "systemic challenge" to British values and interests.

"Before I came into politics, I invested in businesses around the world. And the opportunity in the Indo-Pacific is compelling," said Sunak.

"By 2050, the Indo-Pacific will deliver over half of global growth compared with just a quarter from Europe and North America combined. That's why we're joining the Trans-Pacific trade deal, the CPTPP, delivering a new FTA with India and pursuing one with Indonesia," he said.

"Like many others, my grandparents came to the UK, via East Africa and the Indian subcontinent and made their lives here. In recent years, we've welcomed thousands of people from Hong Kong, Afghanistan, and Ukraine. We're a country that stands up for our values, that defends democracy by actions not just words," he noted.

On China, Sunak said he wants to "evolve" the UK's approach as he distanced his government from a slogan used by the previous Conservative Party led government to describe UK-China bilateral relations just over seven years ago.

"Let's be clear, the so-called 'golden era' is over, along with the naive idea that trade would lead to social and political reform. But nor should we rely on simplistic Cold War rhetoric. We recognise China poses a systemic challenge to our values and interests, a challenge that grows more acute as it moves towards even greater authoritarianism," he cautioned.

The 42-year-old former chancellor admitted that the UK cannot simply ignore China's "significance" in world affairs, something he pointed out that other leading economies such as the US, Canada, Australia and Japan also acknowledge.

"So together we'll manage this sharpening competition, including with diplomacy and engagement. Much of this is about dramatically improving our resilience, particularly our economic security," said Sunak.

Reiterating his pro-Brexit vision, Sunak ruled out any alignment with European Union (EU) law in favour of cooperation on shared issues such as illegal migration. He also committed the UK to standing by Ukraine in its conflict with Russia as part of Europe's "collective resolve" to protect democratic values.

"After years of pushing at the boundaries, Russia is challenging the fundamental principles of the UN Charter. China is consciously competing for global influence using all the levers of state power. In the face of these challenges, short-termism or wishful thinking will not suffice. We can't depend on Cold War arguments or approaches, or mere sentimentality about the past. So, we will make an evolutionary leap in our approach," he declared.

Sunak confirmed that further detail on the UK's foreign policy outlook will be laid out in an updated 'Integrated Review' in the new year, which will also cover closer collaboration with the Commonwealth.

"Under my leadership, we won't choose the status quo. We will do things differently. We will evolve, anchored always by our enduring belief in freedom, openness and the rule of law and confident that in this moment of challenge and competition our interests will be protected... and our values will prevail," he concluded.

The Lord Mayor's Banquet at Guildhall in the financial heart of London is an annual event where the UK prime minister addresses business leaders, international dignitaries and foreign policy experts on the subject of foreign policy.

(Economic Times, 29/11/2022)

India-UK trade agreement: What is on the agenda?

Synopsis

India will soon commence the next round of talks over a free trade agreement (FTA) with the United Kingdom in the coming months. On the agenda is securing a patent regime against evergreening by pharma companies, seeking easier work visas as well as access to Indian movies in the region under the proposed FTA.

India will soon commence the next round of talks over a free trade agreement (FTA) with the United Kingdom in the coming months. On the agenda is securing a patent regime against evergreening by pharma companies, seeking easier work visas as well as access to Indian movies in the region under the proposed FTA.

The move comes amid concerns that the inclusion of issues such as labour and environment may not be in the interest of the country, in the long run, reported TOI on Friday.

In a free trade agreement, two countries or regions either significantly reduce or eliminate customs duties on a maximum number of goods traded between them. Besides, they also ease norms to promote trade and investments.

Some civil society groups have argued the patent regime may be eased which will enable drug companies to get fresh protection by tweaking the composition.

Talks were reportedly derailed due to UK home minister Suella Braverman's comments over Indians overstaying their visas. Official sources said that they are not chasing a deadline as they want to secure a good deal. But, given the progress made, the agreement may be finalised over four-five months.

From the UK side, reduction in import duty on scotch and automobiles as also bringing labour within the ambit of the proposed treaty are focus areas.

FTAs may hamper exports

Taking binding commitments on new issues like environment, labour and sustainability in the proposed FTA, being negotiated by India, may hamper the country's exports in the future, according to a report by Global Trade Research Initiative.

India's already "weak" FTA outcomes may worsen if it takes obligations in the new issues, the report -- FTAs: Fabulous, Futile, or Flawed? An evaluation of India's FTAs with ASEAN, Japan and South Korea -- said.

It added that like many developing countries, India has an evolving regulatory framework on most new issues.

"International commitments must be taken only after the domestic regulatory framework is in place. And both must be in sync. New non-trade issues may serve as non-trade barriers and hamper our exports in the future," GTRI (Global Trade Research Initiative) report said.

Developed regions like European Union and the UK are pushing to include these new issues in the proposed trade pact with India.

The report said that in the FTAs under negotiations, India is discussing many new subjects not directly related to trade.

The subjects have been included at the request of developed countries and that include environment, labour, intellectual property rights, data governance, digital trade, gender, SMEs, anti-corruption, good regulatory practices, and sustainable food systems.

On the existing trade agreements of India, it said, the increase in trade deficit pattern as noticed in the FTAs with ASEAN (Association of South east Asain Nations), Japan and South Korea will continue in the new agreements.

"The key reason would remain higher import duties in India compared to new FTA partners," it said, adding that less than 20 per cent of world trade happens at concessional customs duties and because of that India needs additional strategies to promote its trade happening outside of such agreements.

"India's weak export performance with FTA partners should not surprise us. It happened because of high tariffs in India and significantly lower tariffs in its FTA partners," it said.

(Economic Times, 18/11/2022)

British PM Rishi Sunak committed to FTA with India, says Downing Street

Synopsis

The focus of the FTA negotiations is on reducing the barriers to trade, cutting tariffs, and supporting easier imports and exports into each other's markets. According to official UK government data, India-UK bilateral trade currently stands at around GBP 24.3 billion a year and the aim is for that to be at least doubled by 2030.

Intensive negotiations continue towards a free trade agreement (FTA) between India and the UK and new British Prime Minister Rishi Sunak is committed to achieving a balanced deal, Downing Street said on Wednesday.

Sunak, who took charge at 10 Downing Street last week, had a "very warm" introductory call with Prime Minister Narendra Modi during which both sides expressed their commitment towards an FTA.

The UK Prime Minister's office also reiterated that the focus remains on a balanced trade deal that benefits both sides and therefore no timeframe is being specified after a proposed Diwali timeline had to be abandoned last month amid political turmoil in the UK.

"Both sides are very committed to it, intensive negotiations are continuing led by the Department for International Trade (DIT)," a spokesperson told reporters at a Downing Street briefing.

"The Prime Minister had a very warm, introductory call with Prime Minister Modi last week. In terms of the speed of it [FTA], we have been very clear that we won't sacrifice quality to achieve speed. We will sign when we have a balanced deal that represents both of our interests but both sides remain committed," the spokesperson said.

In his first phone call after taking charge as Prime Minister last week, Sunak had referenced "good progress" being made to finalise the FTA.

"The Prime Minister hoped the UK and India could continue to make good progress in negotiations to finalise a comprehensive Free Trade Agreement," a Downing Street readout of the call said.

The two leaders are expected to meet in person at the G20 Summit in Indonesia later this month, unless they meet at the COP27 Summit in Egypt where the UK Prime Minister has confirmed attendance of the Leader's Day but Modi's visit is as yet unconfirmed.

Sunak is on the record expressing his commitment to an FTA with India while Chancellor of the Exchequer at No. 11 Downing Street when he flagged financial services as a particularly "exciting" aspect of the bilateral trade relationship.

The City of London Corporation, the financial hub of the UK capital, has expressed the hope that Sunak's focus on services would take the FTA in the right direction.

"Services make up around 70 per cent of annual trade between our countries. So, a deal that doesn't deliver for this sector would be a missed opportunity," said Chris Hayward, Policy Chairman at the City of London Corporation.

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According to official UK government data, India-UK bilateral trade currently stands at around GBP 24.3 billion a year and the aim is for that to be at least doubled by 2030.

(Economic Times, 3/11/2022)

UK economy: A crisis in the making for some time, with India trade deal offering hope

Synopsis

Economic experts agree on the massive scale of the challenge, even as they hold out the prospect of a free trade agreement (FTA) with India as a potential generator of much-needed economic growth. "The economic crisis in the UK is caused by some new and some longstanding factors," explains Dr Anna Valero, Senior Policy Fellow at the London School of Economics (LSE) Centre for Economic Performance.

It has been anything but a smooth ride for the Rishi Sunak led UK government, with the latest official data released this week reflecting a shrinking economy and a looming two-year-long recession.

The British Indian former finance minister, who took charge at 10 Downing Street last month with the promise to fix the fiscal errors of predecessor Liz Truss' disastrous mini-budget, has pledged to get a grip on the soaring inflation as a priority and warned of tough tax and spending decisions ahead.

Economic experts agree on the massive scale of the challenge, even as they hold out the prospect of a free trade agreement (FTA) with India as a potential generator of much-needed economic growth.

"The economic crisis in the UK is caused by some new and some longstanding factors," explains Dr Anna Valero, Senior Policy Fellow at the London School of Economics (LSE) Centre for Economic Performance.

"High inflation, high interest rates and tightening fiscal policy occurs against the backdrop of particularly poor productivity growth in the UK since the financial crisis which has been a drag on real wages," she says.

"There are also large and persistent inequalities in the UK. Combined, poor growth and high inequalities have made the UK a 'Stagnation Nation', in urgent need of a new economic strategy to move the country onto a stronger, fairer and more sustainable growth path," she adds.

Asked how an India-UK FTA might impact this scenario, the analyst welcomed the fact that Sunak was committed to an agreement.

"Such a deal could generate growth opportunities for the UK, particularly if there is potential to export services - the UK's key area of comparative advantage - to a market that is expected to grow significantly over time," she notes.

The energy crisis triggered by the Russia-Ukraine conflict is seen as a dominating factor behind Britain's current cost-of-living crisis of mounting household bills. A weak post-COVID recovery, hangover effect of the uncertainties of Brexit since the UK left the European Union (EU) in 2016 and years of underinvestment as a result of austerity in the aftermath of the 2008 financial crash stand out as the key ingredients behind today's mess.

"Long before the current crisis the UK economy was suffering from too little investment, economic inequality both between and within its regions, and resulting low growth," says Dr George Dibb, head of the Centre for Economic Justice at London-based think tank Institute for Public Policy Research (IPPR).

"This was compounded by the recent decade of 'austerity', which meant cuts that hit ordinary families and degraded the education and health services that are the building block of any flourishing economy.

"Things were made worse again by the huge impact on energy prices of Russia's invasion of Ukraine, with the resulting cost of living crisis that has provoked; and the final straw that broke the camel's back was the Truss government's recent mini-budget and its proposed unfunded tax cuts, which undermined market confidence in both the UK government and the economy," he reflects.

In his view, the constant churn of new prime ministers and governments with regularly changing agendas has made business decision-making even more challenging and the need of the hour is a period of stability with a plan that will deliver on the growth agenda as the Sunak government prepares to table the crucial Autumn Budget Statement next week.

"There are reports that the government is planning to scrap the dividend tax allowance, but that would be only a small step in the right direction, and we think it should go further and start taxing dividends at the same rate as income tax. Not only would this raise billions more to help support households and businesses, it would also end the injustice that working people pay a higher tax on their income than shareholders," adds Dr Dibb.

The City of London Corporation, which makes up the financial heart of the UK capital, also urged the government to focus on boosting growth and investment.

"Levelling up must include all parts of the UK - including London - as the capital's success benefits every corner of the country," says Policy Chair Chris Howard.

The National Institute of Economic and Social Research (NIESR), Britain's independent economic research institute, also calls for a focus on such an equitable growth agenda in the wake of the Russia-Ukraine conflict induced "terms of trade" shock where the cost of imports - food and energy in particular - has risen sharply relative to the value of exports.

"The Prime Minister needs to focus on enabling poorer households to cope with these shocks, while at the same time ensuring that there is a clear plan for stabilising the public finances in the medium term," says Hailey Low, NIESR Associate Economist.

She also views an India-UK FTA with positivity as the ongoing negotiations run into the new year. As the fifth largest economy in the world, India is situated at the heart of the Indo-Pacific region which adds to the attractiveness of such a free trade pact.

"The FTA with India will lead to increased exports, strengthen the UK trade position, and diversify trade routes, making supply chains more resilient and less vulnerable to political developments. In a bid to revive the UK's manufacturing industry, it will give the UK accessibility to cheaper raw materials for manufacturing outside of the EU," notes Low.

(Economic Times, 13/11/2022)

Australian parliament approves free trade agreement with India; to implement on mutually agreed date

"BREAKING: Our Free Trade Agreement with India has passed through parliament," Australian Prime Minister Anthony Albanese said in a tweet.

India and Australia would now implement the free trade agreement on a mutually agreed date as the Australian Parliament on Tuesday approved the pact between the two countries.

"BREAKING: Our Free Trade Agreement with India has passed through parliament," Australian Prime Minister Anthony Albanese said in a tweet.

The India-Australia Economic Cooperation and Trade Agreement (AI-ECTA) needed ratification by the Australian parliament before its implementation. In India, such pacts are approved by the Union Cabinet.

The agreement was signed between the two countries in April this year.

Commerce and industry minister Piyush Goyal said in a tweet: "Delighted that India-Australia Economic Cooperation & Trade Agreement has been passed by the Australian Parliament.

"A result of our deep friendship, it sets the stage for us to unleash the full potential of our trade ties & spur massive economic growth." Speaking at a function here on Tuesday, Goyal said that now the Australian government will take approval from their executive council and the ministry from the Union Cabinet here.

These approvals, he said, is "very much doable" quickly.

Goyal added that after then there will be harmonisation of codes and customs regime so that "we can enter into force at an early date".

The deal is fair and good for India, he said.

The minister asked the steel industry to take benefit of zero duty in the Australian market and push their exports.

Last week, the Joint Standing Committee on Treaties of Australia recommended the Australian government to ratify the pact.

After the ratification, both sides will decide a date to implement the pact and customs authorities will also issue a notification a day before the implementation.

Meanwhile, Australian trade minister in a statement said that the ECTA will enter into force 30 days (or another mutually agreed time) after the respective parties have confirmed in writing that they have completed their domestic requirements.

Australian exporters, businesses, workers and consumers will soon be able to reap the opportunities and benefits of more open trade with India with today's passage of implementing legislation through the Parliament, it said.

“The Albanese government has worked hard to expeditiously advance all processes necessary” to ensure that Australia is in a position to implement the free trade agreements before the end of 2022, the statement said.

The Australia-India Economic Cooperation and Trade Agreement (ECTA) is a great opportunity for Australian businesses as it will open up new markets to reach around 1.4 billion consumers in the world’s fastest growing major economy, it added.

Australia’s Minister for Trade and Tourism Don Farrell said that the agreement will support businesses to grow, to offer more employment opportunities, and will give Australian consumers more choice at the checkout.

He further said that Australia will work closely with the Indian government to implement the trade agreement “as soon as possible”.

The agreement, once implemented, will provide duty-free access to the Australian market for over 6,000 broad sectors of India, including textiles, leather, furniture, jewellery and machinery.

Under the pact, Australia is offering zero-duty access to India for about 96.4 per cent of exports (by value) from day one. This covers many products that currently attract 4-5 per cent customs duty in Australia.

Labour-intensive sectors which would gain immensely include textiles and apparel, few agricultural and fish products, leather, footwear, furniture, sports goods, jewellery, machinery, electrical goods and railway wagons.

India’s goods exports to Australia stood at USD 8.3 billion and imports from the country aggregated to USD 16.75 billion in 2021-22.

Goyal had earlier stated that the agreement would help in taking the bilateral trade from USD 27.5 billion at present to USD 45-50 billion in the next five years.

(Financial Express, 23/11/2022)

Binding commitments on new issues in FTAs may hamper India's exports in future: Report

Synopsis

The report said that in the FTAs under negotiations, India is discussing many new subjects not directly related to trade. Most of these subjects are important and are being discussed in the specialised multilateral and regional institutions where most countries, including India, are active participants, it said.

Taking binding commitments on new issues like environment, labour and sustainability in the proposed free trade agreements (FTA), being negotiated by India, may hamper the country's exports in the future, according to a report by Global Trade Research Initiative. India's already "weak" FTA outcomes may worsen if it takes obligations in the new issues, the report -- FTAs: Fabulous, Futile, or Flawed? An evaluation of India's FTAs with ASEAN, Japan and South Korea -- said.

It added that like many developing countries, India has an evolving regulatory framework on most new issues.

"International commitments must be taken only after the domestic regulatory framework is in place. And both must be in sync. New non-trade issues may serve as non-trade barriers and hamper our exports in the future," GTRI (Global Trade Research Initiative) report said.

Developed regions like European Union and the UK are pushing to include these new issues in the proposed trade pact with India.

Former Indian Trade Service officer Ajay Srivastava is the co-founder of GTRI. He took voluntary retirement from the Government of India in March 2022. He has a rich experience in trade policy making, and issues related to the World Trade Organisation (WTO) and FTAs.

He was involved in the negotiations process of India's free trade agreements with Japan and Australia.

The report said that in the FTAs under negotiations, India is discussing many new subjects not directly related to trade. The subjects have been included at the request of developed countries and that include environment, labour, intellectual property rights, data governance, digital trade, gender, SMEs, anti-corruption, good regulatory practices, and sustainable food systems.

Most of these subjects are important and are being discussed in the specialised multilateral and regional institutions where most countries, including India, are active participants, it said.

"Commitments on these issues in FTAs may prove too onerous and would increase the cost of manufacturing and services," it added.

Citing an example, it said, if India's exports fail to meet the stringent environment or labour obligations specified in the agreement, India's apparel exports may become ineligible for benefits under the pact.

"Similarly, taking commitments in data flows and digital trade when the domestic policy frameworks are not ready may not be in India's best interests," it added.

This report also claims to dispels eight myths surrounding these agreement such as FTAs weaken WTO, lead to accelerated increase in exports, promote domestic manufacturing, and that countries are rushing to do FTAs and such agreements promote investment and lower price.

On the existing trade agreements of India, it said, the increase in trade deficit pattern as noticed in the FTAs with ASEAN (Association of South east Asain Nations), Japan and South Korea will continue in the new agreements.

"The key reason would remain higher import duties in India compared to new FTA partners," it said, adding that less than 20 per cent of world trade happens at concessional customs duties and because of that India needs additional strategies to promote its trade happening outside of such agreements.

"India's weak export performance with FTA partners should not surprise us. It happened because of high tariffs in India and significantly lower tariffs in its FTA partners," it said.

(Economic Times, 18/11/2022)

India and the Global Trade Policy shifts

The primary objective of the Indian Foreign Trade Policy 2015-2020 was to make India a significant participant in world trade by promoting exports through initiatives such as "Make in India", "Digital India" and "Skills India" to create an Export Promotion Mission.

The new Indian foreign trade policy (FTP), which was first expected on April 1, 2020, has been delayed due to unprecedented times. It was first deferred for one year (April 2020 to March 2021) on March 31, 2020, and then in 2021 for one more year because of the turbulent situation caused by the COVID-19 pandemic. Subsequently, the old policy has been extended every six months due to the fluid global situation. The FTP lays out procedures, policies, and schemes to boost India's exports, reduce its import dependence, and create jobs. The previous two years have been enormously difficult for the world, especially India. The looming fears of a recession in 2023 make the picture look even more bleak. These disruptions are drastically transforming the global supply chains, which have been disrupted due to the COVID-19 pandemic and the Russia-Ukraine conflict that has also driven up inflation across the world amidst a difficult year for global trade. India needs a strong FTP to improve its trade, fight off disruptors, and take advantage of trade that is taken away from China.

Highlights of India's trade policy between 2015-2020

The primary objective of the Indian Foreign Trade Policy 2015-2020 was to make India a significant participant in world trade by promoting exports through initiatives such as "Make in India", "Digital India" and "Skills India" to create an Export Promotion Mission. While focusing on increasing exports, the central government wanted to make imports more focused and more rational. It introduced two new export incentive schemes: the Merchandise Exports from India Scheme (MEIS) and the Services Exports from India Scheme (SEIS). Efforts were made to sign multiple Free Trade Agreements (FTAs). Exports of defence and hi-tech items were also encouraged through measures such as modifications in the FDI policy; greater clarity as regards to industrial licences for this sector; fast-tracking of applications; listing of munitions; creation of HS codes for items in this sector; and setting up promotional institutions. Programs of interest subvention and other trade support mechanisms from the credit, banking, and insurance sectors were started to help Micro, Small, and Medium Enterprises (MSMEs) and exports. 108 MSME clusters were also identified for targeted export-boosting interventions.

Expectations of the New Foreign Trade Policy 2022-2027:

The District Export Hubs initiative is expected to be an important component of the new FTP. The objective of this is expected to increase the potential of each district in the country to achieve its potential as an export hub by targeting employment generation, export promotion, and manufacturing. The FTP is also expected to focus on correcting imbalances in trade and reducing the fiscal deficit by increasing exports through the improvement of operations of the domestic manufacturing and services sectors in combination with the development of efficient, cost-effective, and adequate logistical and utility infrastructure. The aim of doubling exports by 2025 is also expected to remain in focus. The new FTP is also expected on digitalisation and e-commerce.

How 2022 has been an important year for Indian Foreign Trade Policy?

The current government has placed a lot of emphasis on FTAs as they not only serve as a bedrock for a deeper geopolitical relationship but also as a trading partnership. As of April 2022, India had signed 13 Free Trade Agreements (FTAs) with its trading partners, including key trade agreements like the India-UAE Comprehensive Partnership Agreement (CEPA) and the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA).

In April of this year, India and the EU agreed to launch the EU-India Trade and Technology Council. India and the EU plan to sign the FTA by next year. The two sides can closely cooperate on matters concerning trade, climate, clean energy, digital technology, green hydrogen, and people-to-people ties. The EU had demanded that India lower its tariffs on automobiles, wines and spirits, while India also demanded the lowering of tariff barriers. The fear of European imports flooding into India made India apprehensive. India has also demanded to be recognised as a data-secure country. These were some points of contention between the two. An FTA will support EU businesses while also assisting India in the expansion of its industrial capacity and ensuring its greater participation in global supply chains. The FTA with the EU is crucial as it would help India in its plan to develop 100 smart cities in the future.

The India-UK FTA has been in talks for some time now, with negotiations progressing well through a year or more. The unstable political situation in the UK has played a role in delaying the FTA. PM Rishi Sunak has expressed his commitment to a FTA. Important contentious points include immigration, the mobility of professionals in the UK and tough rules on the origin of alcoholic drinks in India. The 'India (Trade and Investment) All Party Parliamentary Group (APPG)' has been set up by the UK Parliament to promote trade and investment between India and the UK. The completion of the trade pact could boost trade by £28 billion by 2035 and nationwide wage growth by up to £3 billion. The deal would give a significant boost to bilateral trade.

The India-USA FTA talks have seen little progress in the previous few years. Officials of the Indian commerce department have said that Washington's inability to prioritise the matter has led to the delay of talks. However, it is expected that talks will progress rapidly in 2023. US demands, such as the procurement of American dairy products and a more liberal data privacy policy, have extended the process. A series of punitive trade measures by the US led to the faltering of FTA talks. The changes to US priorities this year have also led to insignificant results. In January 2022, in an announcement, India agreed to import cherries, alfalfa hay, and pork and pork products from the US. Similarly, it was announced by the US that it had approved the import of mangoes and pomegranates from India. This was a significant development in trade relations.

Global supply chains, non-tariff measures (NTMs), and foreign direct investment (FDI) must be kept in mind while framing FTAs and our new FTP. Data on the utilisation of FTAs must be carefully studied as well, to understand the role of FTAs in trade promotion. Increasing global protectionism has affected the global economy significantly. The use of global practices like benchmarking will also play an important role in improving our FTP. The UK, US and EU have placed emphasis on worker rights, environmental aspects, gender and equity in their trade agreements as well as trade policy stances. While this is a positive step to promote sustainable development, the Indian trade policy needs to address these aspects, while considering that complying with such standards may erode our trade competitiveness in the future.

(Financial Express, 3/11/2022)

EU's Carbon Border Adjustment Mechanism: Why should Indian industry care?

Synopsis

If Indian businesses desire to integrate themselves into global value chains and the future trading order that will be driven by a critical mass of countries riding the green wave, they must pro-actively study and engage in discussions on carbon measures with relevant stakeholders.

As we write this, trade and climate change is being discussed at COP27 in Sharm Al Sheikh. The problem in a nutshell is that trade today is associated with an unsustainable level of resource consumption that is contributing to climate change, pollution, and biodiversity loss. It is, therefore, an imperative that we stop ignoring this and viewing trade as a goal in itself and rather, see it as the means for creating more sustainable opportunities of economic growth.

Reflecting a shift in trade ethos, various initiatives are trying to connect sustainable production with sustainable consumption. The European Union's Carbon Border Adjustment Mechanism (CBAM) is one of them. Having established the Emissions Trading System (ETS) in 2010 that provided carbon emission rights to domestic producers, the EU will now be imposing an equivalent cost on imports to level the playing field between foreign and domestic producers, thereby preventing carbon leakage. From 2026, for the chosen sectors of cement, fertiliser, iron and steel, electricity and aluminium, imports will face an additional tariff in so far as the country of source does not exact an equivalent price for the carbon embedded in them.

This will negatively impact the Indian industry which has significant export interests in the EU. The EU has been the destination for nearly 17 per cent of total Indian exports in the period of 2012-2021. Around six per cent of these exports will fall under the purview of the CBAM. Of these CBAM-implicated Indian exports, the iron & steel sector, followed by aluminium will be the most affected. Should CBAM expand beyond these five sectors, it will next seek to cover organic chemicals, plastics, polymers and hydrogen. Gradually, almost all carbon intensive sectors will be sought for coverage.

Even as the specific question of CBAM's legal compatibility with WTO norms remains undetermined, and the general question of the appropriateness of its extraterritoriality acts as a geopolitical thorn, the inevitability of CBAM or CBAM like measures cannot be disregarded. Most countries already have some form of domestic carbon pricing scheme in place. Should CBAM open the pandora's box of carbon border measures, others, especially the US and Canada may follow suit. This makes sense in light of highly ambitious carbon neutrality commitments undertaken by over 70 countries, including the biggest emitters – China and the US.

Crucially, over 2,000 companies globally have put in place targets to achieve net zero carbon emissions. These include 35 Indian companies engaged in sectors such as construction, electric utilities, mining, textiles, automobiles and chemicals among others. There is also a general acceptance of Internal Carbon Pricing (ICP) by various Indian businesses, indicating an openness towards adapting to a low carbon future. Thus, even as business and governments, especially from the developing countries register their protest against green protectionism, many of them are simultaneously and pragmatically adapting to the upheaval that greening of supply chains will bring to current levels of competitiveness.

Is the readiness displayed by the Indian industry towards a green transition enough for mitigating the commercial risks emanating from CBAM? Looking at existing surveys, it is safe to surmise that the industry is aware of the initiative but possesses a limited understanding of the same. Further, reliance on governmental opposition of CBAM to buy some respite from adaptation is not a reassuring business strategy.

Rather, the time to act is here and now, especially for the sectors implicated in the immediate future. They must formulate a clear action plan at the sectoral and firm level for mitigating the implementation and compliance costs of CBAM across their supply chains. Further, given that the disruption caused by CBAM will bring in a new paradigm of competitiveness, the industry's strategy must go beyond preserving the pie that exists and work towards tapping new opportunities for market expansion.

Opportunity in adversity

Pre-emptive adoption of low carbon pathways can catalyse differentiated and resilient growth. Growing public consciousness is leading to a change in consumer preferences that is increasingly creating an incentive to enter a 'race to the top' and distinguish products from competitors based on adherence to social values especially climate accountability rather than cost differential alone.

Significantly, even at this nascent stage, there is enough commercial demand to incentivise movement. Public and private steel buyers in downstream sectors are deploying their purchasing power through initiatives such as Steel Zero, Clean Energy Ministerial Industrial Deep Decarbonisation Initiative and the First Movers Coalition. By 2030, McKinsey projects that the demand for green steel in Europe could be double than the available supply. Similar supply shortages are predicted for recycled aluminium.

Beyond product differentiation, surging demand for green goods, services and technologies, especially zero-carbon technologies, give firms opportunities to venture into new business avenues such as electric vehicles, lithium batteries and green hydrogen among others. Top Indian conglomerates have begun this process of diversification.

In conjunction with businesses and consumers, investors too are relying on sustainability linked matrices to enable decision making. The EU and the US are already pushing vigorously for Paris compliant businesses. Several Indian companies are also taking a lead in announcing net-zero targets for raising environmental, social, and governance (ESG)-linked funds. Thus, even though ESG is a relatively new kid on the investment strategy block, India could get a head start in sustainable financing by being pro-active. It did so in the case of green bonds, establishing the second largest emerging market globally with $10.3 billion worth of transactions in the first half of 2019.

Seizing the day

However, the charms of ESG finance come with a caveat. As foreign ratings providers tend to compare entities globally, they fail to accommodate the socio-economic realities of emerging economies. This means that Indian firms will have to swiftly catch up with their global competitors.

Moreover, even for the firms that have already commenced the process of decarbonisation, the battle is only half won. Compliance with CBAM requirements will need continued vigilance and monitoring. Not

so far into the future, businesses will have to navigate through a blizzard of regulations on sustainability coming their way.

The related issue of coherence comes with an opportunity. Case in point, even though India has not explicitly set a carbon price, several governmental initiatives indirectly tax or put a price on carbon. These include government schemes like Perform, Achieve and Trade (PAT) (rewarding/penalising industrial sectors for achieving/failing to reduce energy consumption per government-mandated targets); Renewable Purchase Obligations (specifying the minimum quantity of electricity to be purchased by distributors from renewable energy sources) and the GST compensation cess on coal.

The PAT scheme is arguably comparable to the EU's Emissions Trading System (cap-and-trade). There is a potential for finding equivalence between the two or even linking them and creating a larger market for emissions trading through harmonisation of monitoring, reporting and verification (MRV) requirements. Such regulatory coherence could reduce the fears of green protectionism – real as well as perceived and must be studied extensively to arrive at the exact scope of equivalence possible.

Beyond this, the government should also be looking at increasing the capacity of businesses to opt for more sustainable options through domestic incentives as well as trade agreements to thereby shape greener supply chains. Decarbonisation of the value chain will also require lead firms to help shift associated SMEs towards renewable electricity and improve their overall energy efficiency. Notable initiatives in this regard are in progress. However, the overall policy environment remains disjointed in its application, especially with respect to industries implicated by CBAM.

For instance, even as the National Steel Policy of 2017 aims to significantly increase the production and consumption of steel, it does lip service to the idea of decarbonisation, failing to elaborate how the additional capacity could be rendered sustainable. The Production Linked Incentive scheme on speciality steel similarly remains silent on this aspect. While various Indian companies have, taken some noteworthy steps, such as the partnership between the Confederation of Indian Industry and Tata Steel to develop GreenPro, the first Indian ecolabelling framework for steel rebars, complementary participation by the public sector will determine the pace at which the Indian industry can adopt lower carbon pathways.

The recent direction by the government asking the steel sector for timebound action for its green transition offers the perfect opportunity for industry to take greater initiative and be more articulate in conveying its actual interest in trade and its associated challenges. At the heart of green transition are exceedingly technical and foundational issues like the standardisation of methods to measure carbon emissions. Greater transparency and regulatory coherence in such standards can accelerate decarbonisation and achieve environmental sustainability without creating unnecessary barriers to trade. Given that the implementation of CBAM is planned to be gradual and incremental, it offers the Indian industry ample openings to place its interests at the negotiating table – should it be primed for action with the right knowledge and intervene at the right time.

In sum, if Indian businesses desire to integrate themselves into global value chains and the future trading order that will be driven by a critical mass of countries riding the green wave, they must pro-actively study and engage in discussions on carbon measures with relevant stakeholders.

Preparing a roadmap for the Indian industry in navigating CBAM and related developments to not just retain but increase their overall export competitiveness will require coordination of efforts from the public and private sector. A dialogue kickstarted by industries implicated by CBAM in conjunction with investors, young entrepreneurs and policy experts can give a much-needed impetus for altering the status quo on discussions of sustainability and responsible business in global value chains.

Indian corporates have great capacity to ratchet measures relating to sustainability and achieve competitiveness that is resilient. The sooner they internalise this, the smoother their future will be.

(Pradeep S Mehta is Secretary General, CUTS International. **Vinay Piparsania is Business Advisor - India at Transnational Strategy Group (TSG), Washington DC. ***Julius Waller is Chairman, European Public Policy Advisers Partnership (EPPA), Brussels. Sneha Singh of CUTS contributed to this article).