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Newsletter

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India's Q4FY23 GDP data: GDP rises to 6.1% in Q4, FY23 clocks growth rate of 7.2%

The National Statistical Office (NSO) on Wednesday released India's Gross Domestic Product (GDP) data for the January-March quarter. During the quarter, GDP grew by 6.1 per cent.

The National Statistical Office (NSO) on Wednesday released India's Gross Domestic Product (GDP) data for the January-March quarter. During the quarter, GDP grew by 6.1 per cent in comparison to 4.5 per cent growth during the previous quarter of the financial year and 4 per cent during the fourth quarter of FY22. The growth was driven by pickup in manufacturing activity, recovery in private investment and domestic consumption, government data showed. India's economy witnessed a better and significant growth than estimates. According to a CNBC TV18 poll, India was expected to report a GDP growth of 5.1 per cent.

"GDP at Constant (2011-12) Prices in Q4 2022-23 is estimated at Rs 43.62 lakh crore, as against Rs 41.12 lakh crore in Q4 2021-22, showing a growth of 6.1 percent. GDP at Current Prices in Q4 2022-23 is estimated at Rs 71.82 lakh crore, as against Rs 65.05 lakh crore in Q4 2021-22, showing a growth of 10.4 percent," said Ministry of Statistics & Programme Implementation (MoSPI).

For the full year, the government revised the growth rate to 7.2 per cent as against the estimates of 7 per cent. "Real GDP or GDP at Constant (2011-12) Prices in the year 2022-23 is estimated to attain a level of Rs 160.06 lakh crore, as against the First Revised Estimates of GDP for the year 2021-22 of Rs 149.26 lakh crore. The growth in real GDP during 2022-23 is estimated at 7.2 per cent as compared to 9.1 per cent in 2021-22," the statistics ministry said. It also added that the nominal GDP or GDP at Current Prices in the year 2022-23 is estimated to attain a level of Rs 272.41 lakh crore, as against Rs 234.71 lakh crore in 2021-22, showing a growth rate of 16.1 per cent.

GVA in agriculture, forestry and fishing recorded a growth of 4 per cent in FY23 as against 3.5 per cent in FY22. In rupee terms, the provisional estimate was at Rs 22,34,269 crore in FY23 in comparison to Rs 21,49,122 crore in FY22. The GVA in construction posted growth of 10 per cent in FY23 as against 14.8 per cent in FY22. Further, trade, hotels, transport, communication & services related to broadcasting posted growth of 14 per cent in FY23 as against 13.8 per cent in the previous financial year. Financial, real estate & professional services recorded a growth of 7.1 per cent in FY23 comparison to 4.7 per cent in FY22. Manufacturing sector, meanwhile, posted a fall in growth at 1.3 per cent in FY23 from 11.1 per cent in the previous year. However, in value terms the provisional estimates of the manufacturing sector was at Rs 26,17,059 crore in FY23 as against Rs 25,82,473 crore in FY22.

Fiscal deficit for FY 2022-23

Meanwhile, the centre's fiscal deficit narrowed to 6.4 per cent of the GDP in FY23 from 6.71 per cent in FY22. The Controller General of Accounts (CGA) said the fiscal deficit in absolute terms was Rs 17,33,131 crore (provisional), marginally down from the amount projected in the Revised Estimates (RE) in the Budget.

(Financial Express, 31/5/2023)

India, EU for expediting ongoing talks for trade agreement

Synopsis

Both sides also affirmed their commitment to work together on common priorities for WTO (World Trade Organisation) reforms including issues pertaining to the dispute resolution mechanism, subsidies on agriculture and fisheries, ecommerce moratoriums as well as domestic legislation, the commerce ministry said.

India and the European Union (EU) have agreed to expedite the ongoing negotiations for a free trade agreement by finding convergence on all issues, an official statement said on Tuesday. The issue came up for discussion during a meeting between Commerce and Industry Minister Piyush Goyal and Executive Vice-President of the European Commission, and the European Commissioner for Trade Valdis Dombrovskis in Brussels.

They met on the sidelines of the first Ministerial meeting of the India-European Union Trade and Technology Council (TTC). The meeting was also attended by senior officials from both sides..

"They emphasised the need for expediting the ongoing FTA negotiations by finding convergence on all issues after due consideration to mutual sensitivities including on market access for balanced and meaningful outcomes that would support the economies and employment on both sides," the commerce ministry said.

Both sides also affirmed their commitment to work together on common priorities for WTO (World Trade Organisation) reforms including issues pertaining to the dispute resolution mechanism, subsidies on agriculture and fisheries, ecommerce moratoriums as well as domestic legislation, it said.

Both sides recognised the need to build on their common goals to pursue consensus-based solutions that would support the livelihoods and food security for millions in India as well as in large parts of the developing world, it added.

A meeting of the Working Group- 3 stakeholders co-chaired by Goyal and Dombrovskis also held. The meeting included stakeholders representing India and the EU. The group 3 focuses on Trade, Investment and Resilient Supply Chains. The EU side had representatives from major European industrial bodies including Business Europe, Digital Europe, Food Drinks Europe, and Copa-Cogeca.

The delegation of Indian business leaders attending the meeting in person represented sectors including Chemicals, metals, textiles, digital infrastructure, and steel while representatives of other sectors like agri-food industry, marine/logistics were present in virtual mode.

(Economic Times, 17/5/2023)

CBAM no tariff barrier, India's high tariffs help compete with non-transparent nations: Piyush Goyal

Synopsis

Addressing the media after the first India-EU Trade and Technology Council meeting in Brussels, he also said that India has to keep tariffs high on many products at times to compete with certain geographies which are "very non-transparent" and the developed countries are the "unintended consequence of the high tariffs".

Commerce and industry minister Piyush Goyal on Tuesday said that the intention of the EU's Carbon Border Adjustment Mechanism (CBAM) is not to create a barrier to trade and the two sides are engaged to "find the right solutions" for it.

Addressing the media after the first India-EU Trade and Technology Council meeting in Brussels, he also said that India has to keep tariffs high on many products at times to compete with certain geographies which are "very non-transparent" and the developed countries are the "unintended consequence of the high tariffs".

"The CBAM is a mechanism that the European Union has proposed and we remain engaged with the European Union. I'm sure that the intention is not to create a barrier to trade but to find a way forward," Goyal said.

The mechanism, which is due to kick in from October, will impact India's steel and aluminium exports.

"We have a long time ahead of us within which we'll be working together to find the right solutions to this," he said.

On the issue of tariffs, Goyal said that India's tariffs very often are misconstrued to be high on most items of raw materials or intermediates.

Emphasising on India's ability to compete with certain geographies which are "very non transparent", Goyal said: "We need to keep our tariffs high on many products at times. Developed Countries are the unintended consequence of the high tariffs, and which is why we are engaged in free trade agreement negotiations with the European Union".

The tariffs, he said, are generally very low on duty on many items of technology, many items which are helping the Indian economy grow and India has kept the duties very low, the actual applied rates are much lower than what was agreed to at the WTO as bound rates.

He said the FTA will also open the doors of the European Union marketplace for Indian goods of high quality at very competitive prices, which will be good for consumers in European Union.

(Economic Times, 17/5/2023)

India-EU agree to engage on carbon tax

Goyal said that the TTC is helpful as it is supplementing the FTA negotiations and the FTA will make India-EU relationship the defining partnership of the century.

India and the European Union have agreed to a constant engagement before Carbon Border Adjustment Mechanism (CBAM) or Carbon Tax on exports to the 27-member block kicks in from January 2026.

“We have a long time ahead of us within which we will be working together to find right solutions to this,” Commerce and Industry Minister Piyush Goyal said at a press conference after the conclusion of the first meeting of India-EU Trade and Technology Council late Tuesday night .

“We will have continued engagement with India on this important topic,” European Commissioner for Trade Valdis Dombrovskis said.

Both sides held an expert group discussion on the CBAM. The issue also came up in bilateral meetings and Trade and Technology Council meetings in Brussels.

“TTC is a good platform to deepen our engagement on this issue (carbon tax) with India,” Dombrovskis said.

“While designing (CBAM) we ensured WTO compatibility. It is non discriminatory. We will apply the same price of carbon to imported goods that will apply to domestic producers,” he added.

Carbon tax will be calculated on the basis of price of Carbon Credits on EU Emissions Trading System (ETS). Tax will be imposed on the basis the difference between carbon emissions during making of the product and thresholds prescribed by the EU.

To help reduce the burden on the industry the Indian government has said that it would press the EU on mutual recognition of certification on emissions and recognition of its Carbon Credit Trading Scheme (CCTS) that is under preparation by the Ministry of Power.

If India’s CCTS is accepted then payment of tax for emissions beyond prescribed threshold will be determined on the basis of price of credits on Indian carbon exchange and not price of credits on EU ETS.

The EU has formulated CBAM under which it will put extra tax on imports of those commodities where carbon emissions at the production stage are higher than the threshold that will be prescribed.

To start with, the tax will be imposed on seven commodities – iron and steel, aluminium, cement, fertiliser, hydrocarbon products and power. By 2034 all goods will come under CBAM.

While the tax will be imposed on imports from January 1, 2026. The mechanism will enter into the transition phase on October 1, 2023. During this period importers in the EU of seven products will have to report greenhouse gas emissions embedded in their imports without making financial payment and adjustments.

Goyal said while India and the EU would remain engaged, he was sure that the intention of the tax was not to put barriers to trade.

After the two-day meeting of the Trade and Technology Council, Executive Vice President of the European Commission Margrethe Vestager said the EU has an arrangement like TTC with only one other country – the US.

“It has been a very promising two days. We have seen working groups already producing reports. Laying out their working plans. There is an understanding on how we will engage in high performance computing, on quantum computing, we have very ambitious ideas on tech and tech governance,” she said.

“We decided to concentrate on 4 areas in the coming years. Resilient value chains, addressing market access issues, working on growing trade relationships and global trade issues particularly in the context of the coming World Trade Organization ministerial conference,” Dombrovskis said.

The next Ministerial Conference of WTO is scheduled for 2024 in UAE and India is pushing for a solution to its long standing demands on e-commerce and agriculture.

Apart from computing, India and EU will also collaborate on artificial intelligence, semiconductor design and the whole ecosystem around semiconductors, microelectronics and the supply chains that today represent a big threat because of the extraordinary concentration of electronic supply chains in one particular geography which offers a great opportunity, Minister of State for Electronics and Information Technology Rajeev Chandrasekhar said.

“We feel that the TTC and India EU partnership can also address the issue of harmonising rules, regulations and approach towards the internet today and future as the internet grows and becomes a decisive force in all of our economies and all of our citizens’ lives,” he said.

“We have a clear plan and calendar on how we plan to go ahead,” External Affairs Minister S Jaishankar who also attended the TTC meeting said.

Goyal said that the TTC is helpful as it is supplementing the FTA negotiations and the FTA will make India-EU relationship the defining partnership of the century.

(Financial Express, 18/5/2023)

India plans to challenge EU carbon tax at WTO: Sources

Synopsis

Last month, the European Union approved the world's first plan to impose a levy on high-carbon goods imports from 2026, targeting imports of steel, cement, aluminium, fertilisers, electricity, and hydrogen, aiming to become a net zero emitter of greenhouse gases by 2050, ahead of India's target of 2070.

Indian plans to file a complaint to the World Trade Organisation over the European Union's proposal to impose 20% to 35% tariffs on imports of high-carbon goods like steel, iron ore and cement from India, top government and industry sources said.

This is part of New Delhi's strategy to combat the EU's Carbon Border Adjustment Mechanism (CBAM) designed to push local industries to invest in new technologies to bring down carbon emissions, while also raising the issue in bilateral talks.

Piyush Goyal, India's trade minister, is on a visit to Brussels to meet EU leaders to address bilateral issues and promote trade.

Last month, the European Union approved the world's first plan to impose a levy on high-carbon goods imports from 2026, targeting imports of steel, cement, aluminium, fertilisers, electricity, and hydrogen, aiming to become a net zero emitter of greenhouse gases by 2050, ahead of India's target of 2070.

"In the name of environment protection, EU is introducing a trade barrier that would hit not only Indian exports but also of many other developing countries," said a top government official with direct knowledge of the matter.

The government was planning to file a complaint to the WTO against the EU's unilateral decision and would seek relief for exporters, particularly small companies, the official said without disclosing further details.

India sees the proposed levy as discriminatory and a trade barrier, and would question its legality while citing that New Delhi was already following the protocols pledged in the U.N. Paris climate agreement, said another government official involved in the team dealing with WTO matters.

Three industry sources who attended a meeting last week called by the government to discuss the issue confirmed the plans to raise the issue at the WTO.

Officials declined to be named as they were not authorised to speak to the media.

The commerce ministry and steel companies did not comment.

'NEED MORE TIME'

Policymakers are examining proposals from the steel industry that has sought a "level-playing field" through safeguard measures against imports as a reciprocal measure.

"Sectors like steel and small manufacturers need more time to meet EU guidelines," said Ajay Sahai, director general, Federation of Indian Export Organisations, adding they would ultimately need to cut emissions to remain globally competitive.

The exporters' body warned the EU plan could make India's free trade agreements with other countries and a proposed pact with the EU "redundant" as the prices of many exporters' goods would rise by nearly one-fifth after the carbon tax and other trade partners hurt by the tax may dump goods in India.

Initially, nearly $8 billion of exports mainly steel, iron ore and aluminium would face tariffs, Sahai said, but by 2034, it will cover all goods exported to the EU.

The carbon border adjustment is likely to be followed by other advanced countries including the UK, Canada, Japan and the United States as they push to cut carbon emissions, he said.

A ministerial panel is looking into the impact of EU plans and steps to deal with it including mutual recognition of energy audit and carbon trading certificates, Santosh Kumar Sarangi, director general foreign trade, said on Monday.

(Economic Times, 16/5/2023)

India-EU trade, technology council first meeting at Brussels on May 16

Synopsis

Commerce and industry minister Piyush Goyal is one of the co-chairs along with external affairs minister S Jaishankar and Union minister of state for electronics and information technology Rajeev Chandrasekhar, the commerce ministry said in a statement. The EU side is co-chaired by Executive Vice Presidents (EVPs) Dombrovskis and Vestager.

The first ministerial level meeting of India-European Union Trade and Technology Council (TTC) will be held on May 16 in Brussels to discuss ways to increase cooperation in strategic technologies, digital connectivity, clean energy, trade and investments, an official statement said on Sunday. Commerce and industry minister Piyush Goyal is one of the co-chairs along with external affairs minister S Jaishankar and Union minister of state for electronics and information technology Rajeev Chandrasekhar, the commerce ministry said in a statement.

The EU side is co-chaired by Executive Vice Presidents (EVPs) Dombrovskis and Vestager.

It said that three working groups under the mechanism will report on roadmaps for future cooperation between the two sides -- Working Group on Strategic Technologies, Digital Governance and Digital Connectivity; Working Group on Green and Clean Energy Technologies; and Working Group on Trade, Investment and Resilient Value Chains.

"The first ministerial meeting will lay the roadmap for the cooperation under all three working groups and provide direction to achieve desired outcomes before the next ministerial meeting in the coming year," it added.

During the high level meetings with senior leadership of the European Union as well as Belgium various issues would come up for discussions and that include ongoing negotiations for Free Trade Agreement (FTA), addressing issues of mutual market access, reforms in the World Trade Organisation (WTO).

The working group on trade, investment and resilient value chains is steered by the Department of Commerce and the first meeting of the working group was co-chaired by commerce secretary Sunil Barthwal and Sabine Weyand, Director General for Trade, from respective sides.

The formation of the TTC was announced by Prime Minister Narendra Modi and Ursula von der Leyen, President of the European Commission in New Delhi, in April, 2022 with the objective of creating a high-level coordination platform to tackle strategic challenges at the nexus of trade, trusted technology and security.

The ministry said that on May 15, Goyal will have a bilateral meeting with EVP Dombrovskis followed by stakeholder consultations in the presence of business leaders of both the sides.

He would also participate in a meeting which would involve a discussion over the economic footprint of Belgium enterprises in India along with further plans of investments in India.

Besides, the three Indian ministers would also call on the Belgian prime minister as well as the president of the European Commission.

On May 16, Goyal would attend a stakeholder event for working groups 1 and 2. Group 1 focusses on digital governance and connectivity while Group 2 deals with clean and green energy technologies.

He will also hold a bilateral meeting with European Commissioner for Internal Trade Thierry Breton, wherein issues pertaining to the SME sector, startup ecosystem and e-commerce will be deliberated upon.

India had started negotiations for a trade pact with the EU in 2007 but the talks stalled in 2013 as both sides failed to reach an agreement on key issues, including customs duties on automobiles and spirits and the movement of professionals.

India's merchandise exports to EU member countries stood at about USD 65 billion in 2021-22, while imports aggregated at USD 51.4 billion.

In 2022-23, the exports aggregated at USD 67 billion, while imports stood at USD 54.4 billion in the last fiscal.

The EU accounts for 16.4 per cent share in India's exports and about 8.3 per cent share in imports in the last financial year.

(Economic Times, 15/5/2023)

India's exports to EU worth USD 1.3 bn to be impacted by EU's deforestation regulation: GTRI report

Synopsis

The Global Trade Research Initiative (GTRI) said that the EU-DR appears to prioritise protecting its own agricultural sector and promoting exports, making imports more difficult as it is a trade barrier disguised as a green measure. The regulation covers cattle, buffalo, the meat of bovine animals, preparations, Oil cake, soya beans, palm oil, cocoa bean, powder, chocolate, coffee, leather hide, skin, paper, paperboard, wood, wood articles, wood pulp, boards and wood furniture.

India's exports of products like coffee, leather hides and paperboard worth USD 1.3 billion annually to the European Union will get impacted due to the deforestation regulation adopted by the EU earlier this week, a report by economic think tank GTRI said on Thursday. Within three weeks of introducing the carbon border tax, the European Union Council on May 16 adopted the European Union Deforestation-Free Products Regulation (EU-DR).

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The regulation covers cattle, buffalo, the meat of bovine animals, preparations, Oil cake, soya beans, palm oil, cocoa bean, powder, chocolate, coffee, leather hide, skin, paper, paperboard, wood, wood articles, wood pulp, boards and wood furniture.

The exporters now have to ensure that these products have been grown on land, which has not been deforested after December 31, 2020. The new rules will apply to large firms after 18 months and small firms after 24 months. Thus, the timeline for large firms is December 2024 and for small firms is June 2025.

"EU DR will adversely affect India's exports to the EU of the value of US 1.3 billion (2022 data). The significant products affected and their export value to the EU are Coffee (USD 435.4 million), Leather hides, skin, preparations (USD 83.5 million), Oil cake (USD 174.5 million), Paper, paperboard (USD 250.2 million) and Wood furniture (USD 334.6 million)," the report said.

For the products covered under the carbon tax and EU-DR, the EU's share in India's global exports is 23.6 per cent, it said, adding the regulation poses challenges for small and medium-sized enterprises, as compliance costs and due diligence requirements may exclude them from global agricultural trade.

"Carbon tax would hit trade in industrial products and EUDR would hit trade in agri products. Both plan to cover all products in the near future. EU's assault on trade is near total," GTRI co-founder Ajay Srivastava said.

The European Union (EU) claims it wants to reduce its contribution to global deforestation by promoting 'deforestation-free' products, but this is seen as a deceptive narrative, the report said.

"The EU itself has extensively expanded agricultural land by cutting down primary forests, which now account for less than 0.7 per cent of its total forest area, compared to the global average of 33 per cent. Many other countries, facing the need to convert primary forests into cultivable land to feed growing populations, have a much larger share of primary forest," it added.

The EU, however, aims to prevent others from following a similar path while having already done so in the past.

The report stated that the introduction of the regulation would encourage local production and export of selected agricultural commodities by making imports more challenging.

"The products targeted by the EUDR are those the EU wants to reduce imports while promoting exports. The EU is already competitive in many of these products, as evidenced by its global export value of USD 96.2 billion compared to imports of USD 91.9 billion in 2022," it said, adding the EU aims to further cut imports through the implementation of the regulation.

It also said that the EU has a highly protected agricultural sector, largely dominated by large global firms.

Trade in agricultural products within the EU has nearly tripled between 2002 and 2022, with exports growing at a higher rate than imports. In 2022, the EU had a surplus of USD 36.2 billion, exporting USD 247.4 billion worth of agricultural products while imports stood at USD 211.2 billion.

"In addition to being seen as discriminatory, the EUDR imposes a significant compliance cost. Even exporters of high-quality products are required to invest in expensive due diligence, making it difficult for small and medium-sized enterprises to comply. This model of global agricultural trade favours large firms," the report said.

The EU's purported efforts to combat deforestation and promote deforestation-free products are questioned, given its own history of forest clearance for agricultural expansion. The introduction of the

EUDR appears to be driven by a desire to bolster local production and exports while reducing imports, Srivastava said.

It also said that the regulation's compliance costs and discriminatory nature are concerns, as they may disadvantage smaller firms in the global agricultural trade arena.

The report suggested the government take a few steps to deal with the regulation and that includes taking up the matter with the World Trade Organization (WTO) along with other affected countries as it violates MFN (most favoured nation) and national treatment principles.

"India has a functioning blockchain-enabled trace and track system being implemented by the Agricultural & Processed Food Products Export Development Authority (APEDA) for grape exports to the EU and other regions. It needs to be adopted for all covered products, and make exporters aware of the compliance requirement," he added.

(Economic Times, 19/5/2023)

Netherlands emerges as India's 3rd largest export destination

Synopsis

This can be attributed to a surge in shipment of goods such as petroleum products, electronic items, chemicals, and aluminium goods, reported PTI, citing commerce ministry's data. India's trade surplus with the Netherlands has also increased from USD 8 billion in 2021-22 to USD 13 billion in 2022-23.

The Netherlands has emerged as India's third largest exports destination after the US and UAE during 2022-23, showed commerce ministry's data on Sunday.

This can be attributed to a surge in shipment of goods such as petroleum products, electronic items, chemicals, and aluminium goods, reported PTI, citing commerce ministry. India's trade surplus with the Netherlands has also increased from USD 8 billion in 2021-22 to USD 13 billion in 2022-23.

The Netherlands has taken over major destinations such as the UK, Hong Kong, Bangladesh and Germany, the data showed.

India's exports to the Netherlands rose by about 48 per cent to USD 18.52 billion during 2022-23 as against USD 12.5 billion in 2021-22.

In 2021-22 and 2020-21, the outbound shipments to the European country stood at USD 12.55 billion and USD 6.5 billion, respectively. The exports are registering healthy growth continuously since 2000-01, when India's exports to that nation was USD 880 million.

Further, in 2021-22, the Netherlands was the fifth largest destination for Indian exports as against ninth in 2020-21.

Federation of Indian Export Organisations (FIEO) Director General Ajay Sahai said the Netherlands has emerged as a hub for Europe with efficient port and connectivity with the EU through road, railways and waterways.

In the calendar year, India's exports to the country increased to USD 18.1 billion in 2022 from USD 5.5 billion in 2017.

According to economic think tank GTRI (Global Trade Research Initiative), ATF (aviation turbine fuel) and diesel were the key petroleum products exported from India to that country.

Telecom equipment and smartphones with a value of over USD 1 billion were the largest electronic items, it said.

Mumbai-based exporter and Chairman of Technocraft Industries Sharad Kumar Saraf said the trend would continue in the future also.

Saraf said that the Netherlands is a gateway to Europe as their ports are very efficient hence cheaper than other European ports for shipping operations.

India and the Netherlands established diplomatic relations in 1947. Since then, the two countries have developed strong political, economic and commercial relations.

In 2022-23, the bilateral trade between the two countries increased to USD 24 billion as against USD 17 billion in 2021-22 and about USD 10 billion in 2020-21.

The Netherlands is among top trading partners of India in Europe, after Germany, Switzerland, the UK and Belgium. It is also a major investor in India. During April-September this fiscal, India received USD 1.76 billion in foreign direct investment from the Netherlands. It was USD 4.6 billion in 2021-22.

There are over 200 Dutch companies present in India, including Philips, Akzo Nobel, DSM, KLM and Rabobank. Similarly, there are over 200 Indian companies operating in the Netherlands, including all the major IT firms such as TCS, HCL, Wipro, Infosys, Tech Mahindra as well as Sun Pharmaceuticals and Tata Steel.

(Press Trust of India, 15/5/2023)

India’s exports to Germany may get adversely impacted due to recession: Exporters

Data released by the Federal Statistical Office on Thursday shows that Germany’s gross domestic product (GDP) declined by 0.3 per cent from January to March.

With the German economy contracting for two consecutive quarters, India’s exports from sectors such as apparels, footwear, and leather goods to the European Union nation are likely to be impacted adversely, according to exporters. Data released by the Federal Statistical Office on Thursday shows that Germany’s gross domestic product (GDP) declined by 0.3 per cent from January to March. This follows a drop of 0.5 per cent in Europe’s biggest economy during the last quarter of 2022.

“This is going to affect Indian exports not only to Germany but Europe as a whole since other countries are also already in recession,” Mumbai-based exporter and Chairman of Technocraft Industries Sharad Kumar Saraf said. He said India’s export to Germany stood at USD 10.2 billion in 2022-23 and it could see a fall due to long-term recession in Germany and the most affected sectors would be leather products, chemical, and light engineering items.

Economic think-tank GTRI co-founder Ajay Srivastava said: “Recession will adversely impact India’s exports of value USD 2 billion. This includes smartphone, apparels, footwear, and leather goods. In a recession, daily use products are the first to be impacted”. Export of iron and steel products will also be impacted due to the soon to be levied carbon border tax by Germany, he said.

Apparel Export Promotion Council (AEPC) Chairman Narendra Goenka said the recession in Germany would affect order flows into India. “Business will be down by minimum 10 per cent. This slowdown will definitely impact the investment flow from Germany,” Goenka added. However, Saraf said Germany is the ninth largest investor in India and investments from there may not be affected since in recessionary conditions, German companies would be looking at cheaper alternatives.

Yogesh Gupta, Regional Chairman, FIEO (Eastern Region), said since Germany is the main growth driver for the EU (European Union), recession in that nation will impact the purchasing there. “However, it is too early to comment on the impact of the recession on Indian exports,” Gupta said.

In 2022-23, India’s exports to Germany included machinery (USD 1.5 billion); electronics (USD 1.2 billion), including smartphones (USD 458 million); apparels (USD 990 million); organic chemicals (USD 822 million); footwear (USD 332 million); leather goods (USD 305 million); articles of iron and steel (USD 474 million); and auto components (USD 406 million).Two consecutive quarters of contraction is a common definition of recession, though economists on the euro area business cycle dating committee use a broader set of data, including employment figures. Germany is one of the 20 countries that use the euro currency.

(Financial Express, 27/5/2023)

India becomes Europe's largest supplier of refined fuels: Kpler

Synopsis

The reliance of Europe on Indian crude oil products has surged. This increase can be linked with the ban on Russian oil. The data also showed that Europe's refined fuel imports from India are set to surge above 360,000 barrels a day, edging just ahead of those of Saudi Arabia.

A recent report by analytics firm Kpler showed India has become Europe's largest supplier of refined fuels this month while simultaneously buying record amounts of Russian crude.

The reliance of Europe on Indian crude oil products has surged. This increase can be linked with the ban on Russian oil.

The data also showed that Europe's refined fuel imports from India are set to surge above 360,000 barrels a day, edging just ahead of those of Saudi Arabia.

The development is a double-edged sword for the European Union. On the one hand, the EU needs alternative sources of diesel now that it has cut off direct flows from Russia, which was previously its top supplier. However, it ultimately boosts demand for Moscow's barrels, and means extra freight costs.

It also means that more competition for Europe's oil refiners which can't access cheap Russian crude, and it comes amid wider market scrutiny about where the region's diesel imports are coming from.

Russian crude oil arrivals to India are expected to surpass 2 million barrels a day in April, representing almost 44 per cent of the nation's overall oil imports, reported ANI, citing the Kpler data.

Russia emerged as a major supplier to India for the first time in 2022-23 (FY23) after it started giving oil at discounted rates amid the Ukraine war. Despite concerns raised by the West to India's imports from Russia during the war. India has taken a strong stand and said that it looks at all options to achieve energy security.

Russia was the largest exporter of crude oil to India by value in February in spite of the western price cap of USD 60 per barrel, according to the data from the Union Ministry of Commerce and Industry. Crude imports from Russia in February stood at USD 3.35 billion, followed by Saudi Arabia at USD 2.30 billion and Iraq at USD 2.03 billion.

The price cap kept by the western countries was designed to limit Russian oil revenues while keeping the oil itself flowing to avoid a global price shock.

(Economic Times, 1/5/2023)

Economists divided on global economic recovery: WEF

At the other end of the spectrum, three-quarters of chief economists still expect a weak or very weak growth in Europe.

High inflation, financial turbulence and the cost-of-living crisis are expected to continue globally in 2023, while longer-term concerns about the return of industrial policy loom, the World Economic Forum (WEF) said in a report.

Experts are evenly divided on the prospects for the global economy, with equal shares of 45% saying that a global recession this year is likely or unlikely, according to the WEF's 'Chief Economists Outlook Report 2023'.

Chief economists expect both growth and inflation dynamics to vary widely across regions, while on the economic policy front, 72% predicts a proactive industrial policy to become an increasingly -widespread phenomenon over the next three years.

Although a majority does not see recent financial-sector disruption as a sign of systemic vulnerability, further bank failures and turbulence are considered likely this year.

"Labour markets are proving resilient for now, but growth remains sluggish, global tensions are deepening, and the cost of living remains acute in many countries. These results confirm the urgent need for both short-term global policy coordination as well as longer-term cooperation around a new framework for growth that will hard-wire inclusion, sustainability and resilience into economic policy." WEF managing director Saadia Zahidi said.

The most buoyant activity is expected in Asia, with China's reopening expected to drive a significant rebound for the country and bolster activity across the continent. More than 90% expects at least a moderate growth in both East Asia and Pacific and South Asia.

At the other end of the spectrum, three-quarters of chief economists still expect a weak or very weak growth in Europe. In the US, respondents were more optimistic in March-April than in January, but are still divided on the outlook, with the US growth prospects being clouded by heightened uncertainty on financial stability and the likely pace and extent of monetary tightening.

On inflation, there was a marked uptick in all regions in the proportion of respondents expecting high inflation in 2023, and 76% of chief economists said they expect the cost of living to remain acute in many countries. Headline rates have begun to ease, but core inflation has been stickier than expected. The dynamics are particularly stark in Europe and the US, where large majorities (90% and 68% respectively) expect high or very high inflation this year. China remains an outlier, with only 14% expecting high inflation, the report noted.

In the wake of recent bank collapses and financial market turbulence, chief economists expressed confidence in the systemic integrity of global markets. However, two-thirds highlighted the likelihood of further bank failures and disruption, while more than 80% said they expect businesses to find bank loans more difficult to secure as a result of tightening lending criteria. They also pointed to the knock-on effects of high interest rates, notably in the property sector, where two-thirds expect high rates to cause significant disruption in 2023-2024.

(Financial Express, 3/5/2023)

163 Indian companies invested USD 40 bn in US; created 425K jobs: Report

As many as 163 Indian companies have invested more than USD 40 billion in the United States so far which has created nearly 425,000 jobs in the country, according to a survey.

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The survey titled “Indian Roots, American Soil” of the Confederation of Indian Industry (CII), which was launched on Wednesday by India’s Ambassador to the United States Taranjit Singh Sandhu in the presence of US Ambassador-designate to India Eric Garcetti, also revealed that Indian companies spent nearly USD 185 million as corporate social responsibility in the United States and their financing of US-based Research and Development (R&D) projects is nearly USD 1 billion.

“Indian companies in the US bring strength, resilience and competitiveness to the US. They create jobs, support the local communities, and build capacity and technical know-how. They create virtuous cycles of prosperity,” Sandhu said in his address in the presence of a large number of representatives of Indian companies who are currently in the city to attend the Select USA Summit.

This is one of the largest India delegations ever at Select USA.

“In my travels across the US, I have been amazed to see what Indian companies have done to transform neighbourhoods in the US. They not only create virtuous cycles of employment, investment and growth in the US; but go beyond- they support local communities and partner with schools and universities. India has always believed that success is to be shared, and sharing is a success,” Sandhu said.

The survey said that as many as 163 Indian companies have invested over USD 40 billion in the United States that further has created nearly 425,000 jobs in the country.

According to Chandrajit Banerjee, CII Director General, Indian companies have demonstrated their resilience and commitment to the US market, with increasing investments and job creation, as well as growing sector diversification and expanding geographic presence across the US.

“Their future plans to invest and hire more, further indicate a positive growth trajectory for the US-India economic relationship,” he said.

The top ten states benefiting from jobs created by Indian companies are Texas (20,906 jobs), New York (19,162 jobs), New Jersey (17,713 jobs), Washington (14,525 jobs), Florida (14,418 jobs), California (14,334 jobs), Georgia (13,945 jobs), Ohio (12,188 jobs), Montana (9,603 jobs), Illinois (8,454 jobs).

The top ten states with the most reported FDI from Indian companies were Texas (USD 9.8 billion), Georgia (USD 7.5 billion), New Jersey (USD 4.2 billion), New York (USD 2.1 billion), Massachusetts (USD 1.4 billion), Kentucky (USD 908 million), California (USD 776 million), Maryland (USD 720 million), Florida (USD 711 million) and Indiana (582 million).

According to the report, 85 per cent of the companies plan to make more investments in the United States in the next few years and 83 per cent of the companies plan to hire more employees in the US in the next five years.

The reception at India House among others was attended by Governor Ray Cooper of North Carolina, Governor Lourdes A. Leon Guerrero of Guam, Governor Arnold Palacios of the Commonwealth of Northern Mariana Islands, Assistant Secretary of Commerce Arun Venkataraman and Executive Director of SelectUSA Jasjit Singh, with 250 participants from the business community and 25 US state representatives.

(Financial Express, 5/5/2023)

Derecognition of six Indian central counterparties by EU regulator: What will be the impact?

Central counterparties perform two main functions as the intermediary in a market transaction – clearing and settlement – and guarantee the terms of trade. With the withdrawal of recognition, they will no longer be able to provide services to clearing members and trading venues established in the EU, ESMA had said.

The European Securities and Markets Authority (ESMA), the European Union (EU’s) financial markets regulator and supervisor, has derecognised six Indian central counterparties (CCPs) from April 30, 2023. These six CCPs are The Clearing Corporation of India (CCIL), Indian Clearing Corporation Ltd (ICCL), NSE Clearing Ltd (NSCCL), Multi Commodity Exchange Clearing (MCXCCL), India International Clearing Corporation (IFSC) Ltd (IICC) and NSE IFSC Clearing Corporation Ltd (NICCL).

What is the issue?

As per the European Market Infrastructure Regulations (EMIR), a CCP in a third country can provide clearing services to European banks only if it is recognised by ESMA.

ESMA said it reviewed the recognition of all third-country CCPs (TC-CCPs) that had been recognised prior to September 21, 2020, as per the European Market Infrastructure Regulation (EMIR) regime.

The decision to derecognise Indian CCPs came due to ‘no cooperation arrangements’ between ESMA and Indian regulators – the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI) and the International Financial Services Centres Authority (IFSCA).

While ESMA wants to supervise these six CCPs, Indian regulators are of the view that since these domestic CCPs operate in India and not in the EU, these entities cannot be subjected to the ESMA regulations. They feel that these six CCPs have robust risk management and there is no need for a foreign regulator to inspect them.

Last year in December, Reserve Bank of India Governor Shaktikanta Das asserted that foreign regulators should trust the credibility of Indian regulations.

“It is also necessary for regulators on the other side to appreciate and trust the credibility and strength of Indian regulations,” Das had said, adding that the current market infrastructure in India is much more robust than what it used to be 10-30 years back.

In the Financial Stability Report, released in December 2022, the RBI said that after the global financial crisis of 2007-09, it is seen that the legislations governing financial market infrastructures (FMIs), like CCPs, enacted in some advanced jurisdictions have incorporated provisions that give them an extra-territorial reach.

“Such regulations, if implemented by all jurisdictions, can create a parallel maze of laws with overlapping requirements or restrictions and show a lack of trust in the capabilities and quality of oversight exercised by the host regulators,” the FSR report noted.

What will be the impact of the move?

With the withdrawal of recognition, these TC-CCPs will no longer be able to provide services to clearing members and trading venues established in the EU, ESMA had said.

Some of the major European banks dealing in the domestic forex, forward, swap and equities and commodities markets include Societe Generale, Deutsche Bank and BNP Paribas. The derecognition will impact these lenders and they will have to set aside additional capital to trade in the domestic market.

The clearing members will also be impacted by way of higher capital requirements, increased margin requirements, enhanced credit risk and lack of multilateral netting benefit.

Of the total foreign portfolio investors (FPI) registered in India, close to 20 per cent are from Europe, bankers said.

However, the Securities and Exchange Board of India (SEBI) has said that the derecognition of these six CCPs is unlikely to have any impact.

“We already have a plan B in place. We worked with the market players, the big ones who would be impacted. Our regulation is in place for action plan B. We do not expect any disruption in the market even if an agreement fails to be reached," SEBI's Chairperson Madhabi Puri Buch told reporters last month.

What's the role of CCP?

CCPs perform two main functions as the intermediary in a market transaction – clearing and settlement – and guarantee the terms of trade. CCP is a system provider, who by way of novation interposes between system participants in the transactions admitted for settlement, thereby becoming the buyer to every seller and the seller to every buyer, for the purpose of effecting settlement of their transactions. A CCP is authorised by the RBI to operate in India under the Payment and Settlement Systems Act, 2007.

(Indian Express, 6/5/2023)

The EU's carbon tax: What India must do

The adjustment to be made against carbon price paid in the country of origin is a built-in equaliser in the EU's carbon border adjustment mechanism (CBAM). This should nudge India to create a national carbon compliance market.

In December 2022, the EU Parliament approved a new tariff regime—the Carbon Border Adjustment Mechanism (CBAM). Upon enforcement on October 1, 2023, the CBAM will usher in a new era of carbon taxation in international trade. The stated goals are to avoid emission leakage (moving emission-intensive production out of the EU to jurisdictions that have less stringent rules for emissions) and encourage non-EU countries to embrace cleaner production.

Unlike other emission reduction programs such as the EU Emission Trading System (ETS) and India's Perform-Achieve-Trade (PAT) scheme, where emission or energy reduction relative to a benchmark was considered, the CBAM will take into account the entire embedded carbon of the goods for taxation. This means that emission measurement will extend to the upstream value chain, and goods covered will continue to face CBAM taxation until they achieve net zero emissions.

The CBAM will follow a calibrated and phased implementation. In the preparatory phase prior to the enforcement of the CBAM from October 1, importers are required to register with the respective national authorities. In the transitional phase between October 1, 2023, and December 31, 2025, the EU importers will, by May 31 of each interim year, declare the goods imported and their embedded emissions for the previous year, without any tariff obligations. In this phase, the mechanism will cover six sectors—iron & steel, aluminium, cement, fertiliser, electricity, and hydrogen—and their direct (Scope 1) emissions. At the end of this period, the European Commission will evaluate whether to extend the CBAM to more sectors or to include indirect (Scope 2) emissions in the embedded emissions calculation. Producers are required to measure and provide emission data to importers. In the absence of such data, importers can use default benchmarks that may be punitive in nature.

From January 1, 2026, the definitive period begins. By this time, the CBAM will expand to cover 50% of all EU ETS sectors. From here on, importers will be required to make annual declarations, buy CBAM certificates equivalent to embedded emissions in their imports, and surrender them.

The price of CBAM certificate will be calculated based on the weekly average auction price of allowances in the EU ETS, reported as in euros/tCO2. This unit price is currently inching close to 100 euros and is expected to move significantly higher going forward.

Between 2026 and 2034, while non-EU producers will be covered by the CBAM, EU-based producers will continue to be covered under the EU ETS. By 2034, the EU ETS will be fully phased out, and the CBAM will be fully rolled out, with all sectors under the EU ETS brought under it.

Although the EU claims that the CBAM is in full compliance with the World Trade Organization (WTO) rules, questions remain. The government of India has already written to WTO describing the CBAM as protectionist and discriminatory.

How does the mechanism fare when it comes to cost competitiveness of covered goods? It must be noted that the sectors covered under the CBAM, except hydrogen, are covered under the EU ETS. That means these sectors have already undergone significant decarbonisation.

Therefore, non-EU products are likely to be much more carbon-intensive, leading to significant carbon tax under the CBAM. The free emission allocation that these sectors continue to benefit from under the EU ETS will be neutralised by applying the CBAM to only that portion of emissions not supported by free allowances.

Even then, the CBAM applied on embedded emissions at the EU-ETS carbon-price levels could inflict serious harm to exports from India and other countries to the EU. On top, there are the costs of emission measurement and certification that come with the CBAM.

A significant built-in equaliser in the CBAM is the provision to deduct any carbon price paid in the country of origin from the calculated CBAM taxation. With this provision, it is reasonable to imagine that many non-EU nations will try to implement some form of carbon pricing internally to stop the outflow of money. This may just be the nudge that India needs to create a national compliance market for carbon.

The EU is India's second-largest trade partner, according to the Union ministry of commerce and industry. The sectors covered under the CBAM are hard-to-abate, and the emission-intensity of Indian products from these sectors remains high.

While the CBAM itself will be tested in the courts of law across the world, it is likely to prevail in the current or a modified format.

In fact, more countries like Canada and Japan are expected to implement similar tariff systems, eventually making carbon tax a norm in international trade. For many developing and least developed countries, this will be just one more slice of 'loss and damage' from climate change. However, for a fast-growing economy like ours, it is crucial to take action to decarbonise our industries and simultaneously raise our voices against discriminatory tariff regimes.

(Financial Express)

Govt tells industry: Get ready for EU carbon tax

To start with, the tax will be imposed on seven products whose production is carbon intensive – iron, steel, aluminium, cement, electricity, hydrogen and fertilisers.

The government has asked the industry to get ready for the "carbon tax" that European Union (EU) has said it will impose on import of products with carbon emissions higher than the prescribed threshold. However, it said efforts will be made for a legitimate waiver from this tax for sections of the industry.

While the tax will be imposed by the EU on imports from January 1, 2026, New Delhi will engage with the 27-country group to make the transition as smooth as possible, a senior official said Tuesday.

"The government sees carbon tax as a trade issue, and not an environmental issue. It has raised objections to it at the World Trade Organisation also, but the industry has to be ready for the new regime, so that exports can continue unhindered," the official who did not wish to be identified said here on Tuesday.

This was conveyed to the industry at the third stakeholder consultations on Tuesday even as different sectors of manufacturing listed out their expectations from the government, he said.

To start with, the tax will be imposed on seven products whose production is carbon intensive – iron, steel, aluminium, cement, electricity, hydrogen and fertilisers.

The carbon tax or Carbon Border Adjustment Mechanism (CBAM), which cleared all hurdles in April this year before coming into force, seeks to impose tax on imports of products into the EU from geographies where carbon emissions at production stage are higher than what the rules of the mechanism will prescribe.

The mechanism will enter into the transition phase on October 1, 2023. During this period, importers of seven products in the EU on which this tax will initially be imposed, will just have to report greenhouse gas emissions embedded in their imports without making financial payment and adjustments.

Gradually, the tax proposed will be extended to finished products too. Even indirect emissions like carbon emitted while producing electricity, which ultimately is used by a factory to make any of the products on the carbon tax list, will be taken into account while determining the tax.

The EU says it has imposed this tax to bring parity between domestic producers and imports which tend to be cheaper because they have to follow lower standards of carbon emission in their home countries.

The official said that the tax impact of the CBAM on India's exports to the EU will be substantial at around 20-35%.

To help reduce the burden on the industry, the government will press the EU on mutual recognition of certification on emissions and recognition of its Carbon Credit Trading Scheme (CCTS), which is under preparation by the ministry of power, the official said.

If India's CCTS is accepted, then payment of tax for emissions beyond prescribed threshold will be determined on the basis of price of credits on Indian carbon exchange and not price of credits on EU Emissions Trading System (ETS).

"India is dealing with the issue both at bilateral and multilateral levels so that our industry is not hurt. Bilaterally, we are asking the EU to have a mutual recognition agreement with us and make an exception for MSMEs when the carbon tax on products kicks in," the official added.

The UK, which is out of the EU, is independently working on a CBAM like mechanism. It also proposes to follow the timelines that the EU has adopted for implementing its carbon tax.

Domestic companies from sectors like steel are taking steps like setting up captive solar power plants and following climate friendly manufacturing processes to reduce carbon emission. The government is also taking steps like afforestation and promotion of use of renewable energy. “These measures will be stressed upon while negotiating with the EU,” the official added.

India’s exports to EU countries grew 15.19% on year to $74.84 billion. In the calendar year 2022, India’s exports of iron and steel to EU stood at $5.28 billion and aluminium at $2.22 billion. India does not export cement, fertiliser, electricity and hydrogen to the EU.

(Financial Express, 10/5/2023)

Next round of talks for India-UK trade agreement to be held in June

Synopsis

"The effort is to expedite the negotiations...(There was a) Diwali deadline (to conclude the talks last year) was given, but for variety of reasons, it was extended. But the effort on both sides is to conclude it at the earliest," he told reporters here. The tenth round of negotiation is from June 5-9 here and "hopefully we will make some substantial progress during that time," he added.

India and the UK will hold their next round of talks for the proposed free trade agreement in June here and both the sides are aiming to conclude the negotiations at the earliest, a senior government official said on Monday. Director General of Foreign Trade (DGFT) Santosh Kumar Saranagi said that trade negotiations are a matter of give and take and this has nothing to do with elections in individual countries.

There will be general elections in India next year.

"The effort is to expedite the negotiations...(There was a) Diwali deadline (to conclude the talks last year) was given, but for variety of reasons, it was extended. But the effort on both sides is to conclude it at the earliest," he told reporters here.

The tenth round of negotiation is from June 5-9 here and "hopefully we will make some substantial progress during that time," he added.

The negotiations were launched on January 13, 2021. The talks cover 26 policy areas/chapters.

Investment is being negotiated as a separate agreement -- Bilateral Investment Treaty -- which would be concluded simultaneously with the India-UK free trade agreement (FTA).

So far 13 chapters have been substantially closed for negotiations and regular meetings held at higher levels to review the progress of talks and to resolve the outstanding issues.

He also informed that the fifth round of talks for a trade pact between India and the European Union (EU) is scheduled from June 19-23 in India.

So far four rounds of negotiations have been completed till March.

During the last round, negotiations on 21 policy areas in 74 technical sessions were held.

Both sides also discussed modalities for exchange of offer in goods and services.

India's commerce secretary and EU's DG (Trade) will meet in August to review the progress.

About India-Canada trade agreement, the DGFT said that negotiations are at advance stage in goods and services market access.

Seventh round of talks was held during April 3-6 in Ottawa, Canada.

Apart from traditional areas, the interim agreement may cover areas like SMEs, trade and gender, environment and labour.

On the comprehensive India-Australia agreement, he said that good progress was made in the agreed tracks and detailed work plan with indicative deadlines has been drawn up.

It is envisaged by both the countries to hold the 3rd and 4th round of negotiations during 5th-16th June and 3rd-14th July, respectively, so as to pave the way for early conclusion of the negotiations.

On the G20 talks, he said the second Trade and Investment Working Group (TIWG) meeting is now scheduled to be held on May 23-25 in Bengaluru.

In dedicated technical sessions, G20 delegates will deliberate on priority on WTO (World Trade Organisation) reform along with key deliverables on identified priority issues on trade for growth and prosperity, resilient global value chains, integrating MSMEs in global trade, and efficient logistics for trade.

The meeting will set the stage for building consensus among G20 countries on deliverables and outcomes proposed by India on global trade and investment-related issues.

(Economic Times, 16/5/2023)

Round 9 of India-UK FTA talks concludes with 'detailed' policy discussions

Synopsis

The ninth round of negotiations for the India-UK free trade agreement (FTA) ended with comprehensive discussions, according to a joint statement released by the UK's Department for Business and Trade. Non-committal on when and how the 10th round of talks will take place, the FTA aims to significantly enhance the bilateral trading relationship, which amounted to about £34bn ($46.7bn) in 2022.

The ninth round of India-UK free trade agreement (FTA) negotiations concluded with detailed discussions across a range of policy areas, the UK government said on Wednesday. A joint outcome statement issued by the Department for Business and Trade (DBT) revealed that Round 9 of the ongoing talks took place between April 24 and 28 in a hybrid format, with some Indian officials travelling to London and others attending virtually.

There is no date set for the 10th round of negotiations, which is likely to be hosted by New Delhi, also in a hybrid format.

"In continuation of the eighth round of negotiations held during 20-31 March 2023 in New Delhi, the United Kingdom and the Republic of India held the ninth round of talks during 24-28 April for a UK-India FTA," the DBT statement said.

"As with previous rounds, these were conducted in a hybrid fashion - a number of officials from India travelled to London and others attended virtually. During the round, detailed discussions took place across a range of policy areas," it said.

"The tenth round of negotiations is due to take place in the coming months," it added.

India and the UK have been negotiating an FTA since January last year, with a goal towards a comprehensive pact that is expected to significantly enhance the bilateral trading relationship worth an estimated GBP 34 billion in 2022.

Recently, Britain's Chief Negotiator for the FTA - Harjinder Kang - was appointed the country's new Trade Commissioner to South Asia and Deputy High Commissioner for Western India, based in Mumbai.

UK Business and Trade Secretary Kemi Badenoch said he is expected to use the FTA talks experience to build on the UK's "outstanding track record" on trade in South Asia. Kang has been succeeded in the role of the UK's Chief Negotiator for the India-UK FTA by Kate Thornley, previously Deputy Chief Negotiator.

According to official UK government statistics, India was the UK's 12th largest trading partner in the four quarters to the end of Q3 2022, accounting for 2.1 per cent of total UK trade.

The DBT describes the UK-India investment partnership as "thriving", with over GBP 28 billion invested in each other's economies supporting over half a million jobs.

(Economic Times, 11/5/2023)

India, UK still far apart on free trade deal - sources

Synopsis

India and the United Kingdom are struggling to make progress in free trade talks due to differences on some key tariff lines and investment protection rules. A deal between India and the United Kingdom is crucial for New Delhi, which hopes to become a bigger exporter, while the UK would get wider access for its whisky, premium cars and legal services.

India and Britain are struggling to make progress in free trade talks due to differences on some key tariff lines and investment protection rules, making a deal unlikely during Prime Minister Narendra Modi's second term ending next year, Indian sources said.

The two nations are unable to agree on concessions on duties levied by India on car and liquor imports, a government official with direct knowledge of the matter said.

Besides tariffs, Britain is also pushing India to agree on strong investment-protection provisions either as part of the deal or in a parallel investment treaty, according to a second government official.

"Britain has insisted on investor protection if it were to proceed with a final deal," said the person who has direct knowledge of the talks.

A deal between India and the United Kingdom is crucial for New Delhi, which hopes to become a bigger exporter, while the UK would get wider access for its whisky, premium cars and legal services.

Both countries are aiming to double bilateral trade by 2030 via such a deal.

For India, a deal with the UK would be its first with a developed country after it signed an interim trade pact with Australia last year. It comes at a crucial time for Modi, who is looking to solidify India's business-friendly image in the run up to national elections next year.

Britain, on the other hand, has prioritised a deal with India as part of its Indo-Pacific foreign policy tilt aimed at enhancing ties with the region's fast-growing economies.

The main disagreement on the investment protection provisions is Britain's insistence that its companies be allowed to seek international arbitration should a dispute arise without going to Indian courts first, said the second government official who is directly involved.

This would be a marked departure from India's present provision that calls on companies to exhaust local remedies first, and is not agreeable to the Indian government, said a third senior government official.

"We had kept November as another soft deadline. But does not look like this is going to work out till at least next year. Maybe after the general elections in India," a fourth government official told Reuters.

Both nations are set to hold general elections next year where India's Modi will seek a rare third term while British Prime Minister Rishi Sunak faces a stiff test of electoral popularity after a choppy term for the Conservative Party.

As of the end of April the countries were unable to complete discussions on any more chapters than they had in December. They have agreed on terms of 13 out of 26 chapters that constitute the pact.

The two countries have also ruled out the possibility of an interim pact, two of the sources said.

All officials spoke to Reuters on the condition of anonymity as negotiations over the trade agreement are private.

India's ministries of trade, finance and external affairs did not respond to a request for comment.

A spokesperson for the UK's Department of Business and Trade said the two countries are "committed to working towards the best deal possible for both sides."

"We are clear that we will only sign when we have a deal that is fair, balanced, and ultimately in the best interests of the British people and the economy," the person said.

Sunak's approach to focus on quality over speed of the deal is in contrast to Boris Johnson, who as prime minister had set a deadline of Diwali last October for a deal, which was then missed under the tenure of his successor Liz Truss.

(Economic Times, 19/5/2023)

Desi versus imported: India has a whisky problem with the UK

Synopsis

The deal is stuck on whisky and a few other issues. India and the UK have been negotiating an FTA since January last year, when they had set the Diwali deadline to seal the deal. Both the countries have recently concluded the ninth round of FTA negotiations with detailed discussions across a range of policy areas.

India and the United Kingdom are not likely to raise a toast to free trade anytime soon. What could have been the toast to a free trade agreement (FTA) between India and the UK has instead become a sticking point.

The deal is stuck on whisky and a few other issues. India and the UK have been negotiating an FTA since January last year, when they had set the Diwali deadline to seal the deal. Both the countries have recently concluded the ninth round of FTA negotiations with detailed discussions across a range of policy areas.

One of these is whisky imports to India. The UK wants lower tariffs on its Scotch whiskey but Indian whisky makers fear that would hurt their business.

The tariff trouble

The UK has proposed that India cut the import duty on Socth whiskey from 150% to 75% immediately at the signing of FTA, and thereafter to 30% over a period of three years. While Indian whisky makers are open to a reduction, they don't agree to the scale which the UK has proposed. Indian companies want the duty to be reduced progressively to 50%, and over 10 years.

A tariff reduction for Scotch will not have a significant impact on its retail price in India, Nita Kapoor, the CEO of International Spirits and Wines Association of India, has argued in an ET article. It would remain a high-end premium product. This benefits Indian-made single malt (IMSM) products, as very often Scotch MRPs are used as a barometer of consumer affordability.

The share of Scotch whisky in India's market is less than 3 per cent while Indian-made whisky holds nearly 97% market share.

Will lower tariffs hit Indian manufacturers?

Indian tipplers consumed roughly 400 million cases in FY23, with demand increasing for all key segments of whisky, brandy, rum, gin and vodka, especially for premium products. That's about 4.75 billion bottles of 750 millilitres each on average.

The country's spirits market saw sales volume of 395 million cases during the year to March, a 12% increase over FY22, adding almost 40 million cases from its previous high about four years ago, industry executives said, citing the latest excise department data. Whisky remained the biggest category by far, accounting for two-thirds of the overall spirits demand and grew 11.4% despite a high base.

Companies, however, say rising costs are affecting sales at a mass level while it is getting increasingly competitive in the premium segment. "While the outlook is fairly good for premium brands, there has been a severe cost push pressure which is difficult to offset beyond cutting operating costs," Rakshit Jagdale, managing director of Amrut Distilleries, told ET recently. "Hence, posting double-digit growth going forward could be challenging and is not sustainable." Liquor companies have seen a record surge in prices of raw materials such as extra neutral alcohol, glass and packaging materials.

Paul P. John, chairman of Indian single malt and single cask whisky producer Paul John, has said the free-trade deal's projected tariff reduction would not augur well for the Indian whisky industry. The lower-end Scotch whiskies could affect domestic sales. "If the duty cut impacts lower-end Scotches favourably, this would release the floodgates of low-value Scotch in India, which would affect the Indian alcoholic-beverage industry severely," he told a London-based magazine 'The Drinks Business'.

"Earlier, customers used to fulfil their premium liquor requirements either from duty-free shops or from the black market, which had limited availability of brands. This has now been taken care of by high-end liquor stores." Prem Dewan, MD of DeVans Modern Breweries, told ET recently.

Premiumisation will certainly expand the market for imported Scotch, which is now minuscule compared to that of Indian brands.

However, Mark Kent, the chief executive of the Scotch Whisky Association, does not think Scotch whiskey at lower duties would hit Indian companies. "Even if we were to double, in a market that is growing, you're not going to see much percentage growth in the Scottish share of the market," he has told 'The Drinks Business'. Kent believes that in a growing market there is space for everybody.

The problem over angel's share

Tariff cuts are not the only issue with whisky trade. There's another issue that can put Indian manufacturers at great disadvantage, the angel's share. This refers to the alcohol that evaporates while it is stored in wooden casks for maturation and ageing before turning into whisky. According to legend in the spirits industry, the "angels come and drink their share of alcohol" as it matures in casks housed in dingy cellars.

While the UK is asking for a maturity age of three years for the spirit to be classified as whisky (same as that prevailing in Britain), Indian makers argue that with weather conditions being hotter here, they will lose more than one-third of the whisky due to this condition.

"In Scotland, it is colder than in India and the loss of spirit per year from a barrel is only estimated at 1-1.5%. In India, the weather is hotter and our whisky matures in just nine months compared to their three years. If we keep the whisky in the casks for a longer time, the per year loss due to evaporation and heat is 10-12%, which means in three years we lose roughly around 35% of the spirit stored in a barrel. This is a big loss and will also harm the quality of our whisky. The conditions being dictated by the UK are unacceptable and unaffordable. We are importing to the US, South America, and Africa without any such unfair conditions," Vinod Giri, director-general of Confederation of Indian Alcoholic Beverage Companies (CIABC), told TOI recently.

The CIABC has made several pleas to the Indian government on the matter as the latter negotiates the FTA and its various provisions with the UK government. "These laws around the maturity of the whisky were made by the British as per their climatic conditions,: Giri said. "To allay their fears over the quality of our products, we are even open to the idea of UK labs testing our whisky if they are concerned about its maturity. Also, we are ready to mention that our whisky is matured in less than three years."

Under the India-UK FTA, Indian spirit makers also seek a minimum import price of $5 (at cost, insurance and freight level) when international companies are shipping their products to their subsidiaries in India under transfer pricing, to prevent the practice of under-invoicing.

(Economic Times, 20/5/2023)

PM Modi and his British counterpart Sunak agree to work towards 'ambitious' FTA during talks in Japan

Synopsis

In relation to India's G20 presidency, Downing Street also indicated that the British Indian leader's first visit to India is expected to be for the G20 Summit in New Delhi later this year. "The leaders reflected on the deep ties between the UK and India, rooted in our human connections, and the vital importance of democracy and fair and open trade," said a Downing Street spokesperson.

Prime Minister Narendra Modi and his British counterpart Rishi Sunak on Sunday reviewed the progress of the ongoing free trade agreement (FTA) negotiations and agreed for their trade teams to continue at pace towards an "ambitious" deal, Downing Street said. Modi and Sunak met on the side lines of the summit of the G7 advanced economies here in Hiroshima.

In their second in-person meeting since the G20 Summit in Indonesia last November, the two leaders are said to have discussed the deep ties shared between the nations.

In relation to India's G20 presidency, Downing Street also indicated that the British Indian leader's first visit to India is expected to be for the G20 Summit in New Delhi later this year.

"The leaders reflected on the deep ties between the UK and India, rooted in our human connections, and the vital importance of democracy and fair and open trade," said a Downing Street spokesperson.

"They discussed progress on a UK-India Free Trade Agreement. The leaders agreed that their teams would continue to work at pace to finalise an ambitious and mutually beneficial deal," the spokesperson said.

"The leaders discussed the wider objectives of the G7 Summit and the Prime Minister [Sunak] committed his strong support for India's G20 Presidency, which comes at a crucial time for global security and prosperity. He looked forward to working closely with Prime Minister Modi ahead of a successful Summit later this year," the spokesperson added.

Modi is also said to have passed on his "warm congratulations" to Sunak on the Coronation of King Charles III earlier this month, where India was represented by Vice-President Jagdeep Dhankhar.

Meanwhile, the Ministry of External Affairs (MEA) readout of the meeting echoed similar outcomes of the in-person meeting between the two leaders, as they reviewed the India-UK Comprehensive Strategic Partnership, including taking stock of progress in the India-UK FTA negotiations.

The two nations last month concluded the ninth round of FTA negotiations with detailed discussions across a range of policy areas.

Recently, Britain's Chief Negotiator for the FTA - Harjinder Kang - was appointed the country's new Trade Commissioner to South Asia and Deputy High Commissioner for Western India, based in Mumbai.

According to official UK government statistics, India was the UK's 12th largest trading partner in the four quarters to the end of Q3 2022, accounting for 2.1 per cent of total UK trade.

They also agreed to deepen cooperation across a wide range of areas, such as trade and investment, science and technology, higher education, and people-to-people relationship.

During discussions on India's G20 presidency, Prime Minister Modi said he looked forward to welcoming Sunak to New Delhi for the G20 Summit in September.

The G7 Summit concluded in Hiroshima this weekend after wide-ranging discussions between leaders from the largest economies of the world. India was invited as a guest nation to the Group of Seven, which includes the United States, United Kingdom, Canada, Japan, France, Germany and Italy, with the European Union (EU) as a non-enumerated member.

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