

**GTRI Brief**

**Dec 2022**

**India-Australia Economic Cooperation and Trade Agreement**

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**India-Australia ECTA-Creating  
opportunities for Trade in Tough Times**

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## Preface

### GTRI brief on India-Australia ECTA

India-Australia Economic Cooperation and Trade Agreement (ECTA) comes into force on 29 December 2022.

ECTA creates opportunities for more trade in tough times as **products of value US\$ 23 billion will become duty-free from day one**. This covers 93% of merchandise trade of US\$25 billion in FY 2022 between India and Australia.

**The bilateral trade (in merchandise and services) is expected to cross US\$ 70 billion in the next five years** due to buoyant trade relations.

ECTA will benefit both countries because of the **complimentary product and service profile**. India and Australia **do not compete in the same sectors** and need each other's products and services.

While India's exports are diversified, ranging from agriculture, garments, and railway engines to Telecom, ninety-five percent of India's imports from Australia are raw materials and mining products needed by industry. This makes **both countries gain from both exports and imports**.

**ECTA will be an antidote for Australia's China troubles**. China is Australia's largest trade partner, buying a third of Australian exports. Problems precipitated in Apr 2020 when Australian Prime Minister Scott Morrison favoured an inquiry into the role of China in the origins of COVID-19. China retaliated on the trade front. It soon restricted the import of beef, delayed customs clearance of lobsters, imposed an 80 percent tariff on barley and a 218 percent anti-dumping duty on wines from Australia. China also advised its firms not to buy coal, cotton, and timber from Australia. ECTA will provide much-needed relief to Australian firms. The bigger the engagement with India, the larger the benefits.

**Next phase**. ECTA completes the first phase of negotiations. Both countries will now work to expand ECTA into a Comprehensive Economic Cooperation Agreement (CECA). They will negotiate in many new areas like Digital Trade and Government Procurement. **India has negotiated ECTA well; it needs to use similar prudence in dealing with new subjects**.

**GTRI's Field Guide for firms for using ECTA**. ECTA offers many concessions to exporters and importers of both countries. But, the concessions are not automatic. They are product-specific, and firms must check if their products benefit from the ECTA. Utilisation rate of India's FTAs is low. One factor is low awareness of the FTA process and its benefits. The Guide seeks to fill this gap. GTRI has prepared a seven-step process guide to ensure that the firms do not miss critical details while exporting or importing under ECTA. Our best wishes to them.

This brief also includes notes on:

- Negotiations history, next steps,
- ECTA subject coverage
- Summary of offers/gains in merchandise trade and services

- Bilateral trade profile
- Link to original ECTA documents

Hope you find the contents useful

We would **love to get your feedback** at [ajay@centrefortrade.com](mailto:ajay@centrefortrade.com)

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## 1-ECTA: Creating opportunities for Trade In Tough Times

India and Australia will implement the Economic Cooperation and Trade Agreement (ECTA) from 29 December 2022. The critical question firms in both countries ask is: Will the FTA benefit them?

The answer is an emphatic yes for one reason—the complimentary product and services profile of both countries. India and Australia do not compete in the same sectors and need each other's products and services.

While India's exports are diversified, ranging from agriculture to Telecom, ninety-five percent of India's imports from Australia are raw materials and mining products needed by industry. This makes both countries gain from both exports and imports. Let us see the product and services details.

### **Merchandise Trade**

Australia has made a generous offer. It will allow duty-free import of all Indian products. To ninety-eight percent of products from day one. Key gainers will be India's labor-intensive exports. Duty on these will decrease from the current four-five percent to zero. These are textiles, apparel, footwear, furniture, sports goods, jewelry, machinery, railway wagons, and medicines. The onus is now on the Indian industry to translate this advantage into increase in exports.

Coal accounts for three fourth of Indian imports from Australia. LNG, alumina, and manganese are other vital imports. The Indian power sector will gain from cheaper coal. Factories will gain from cheaper minerals and intermediates.

Australian wine will gain from reduced-duty access to the Indian market. India charges 150 percent duty on wines, the highest on any product in India. Under ECTA, Australian wines priced above US\$ five for a 750ml bottle can enter India at reduced duties. ECTA also allows limited quantities of Australian almonds, pears, oranges, and mandarins. No threat to local produce is seen as India already imports these products in large values,

India has exercised prudence in opening its market. It did not provide any concession on dairy products, wheat, rice, bajra, apple, sugar, oil cake, etc. to protect the interest of farmers.

Overall, India allows duty-free import of Australian products covered under 40 percent tariff lines immediately. India will make duty on additional 30 percent tariff lines zero over a period ranging from three to ten years. In terms of value, 85.3 percent of Australian goods will enter India duty-free immediately. This figure will rise to 89.7 percent in 10 years.

## **Services Sectors**

Quantifying gains on merchandise trade is easy. Just measure the tariffs before and after the FTA. But services do not move through Customs or are shipped or attract tariffs. They are (I) supplied over internet (II) consumed abroad like an Indian boy flying to Australia for fancy haircut or Australian patient taking treatment in a hospital in India, (III) through opening offices in the partner country, or (IV) by professionals moving between countries to provide services.

Countries liberalize services in FTAs by binding existing market access and providing guarantees in various service sectors. Such commitments provide 'increased certainty' for service suppliers. Both India and Australia have done the same.

Australia has committed to facilitate India's services in IT, ITES, Business services, Health, Education, Audiovisual, and many other sectors. It has agreed to provide a post-study work visa of 2-4 years for Indian students and a work and holiday visa for youth. It has also offered a quota for entry of 1800 Indian chefs and yoga teachers.

Indian students spend over \$ four billion every year on education in Australia. India will help Australian business, communication, construction, and engineering services. India has agreed to lock in the existing market access in foreign equity limit and banking. It has also agreed to lock in the investment in private banks with a foreign direct investment ceiling of 74 percent.

## **ECTA an antidote for Australia's China troubles**

China is the largest trade partner of Australia buying a third of Australian exports. China has bought many mines, vineyards, and properties using Australia's relaxed investment laws. Both countries entered into an ambitious FTA in December 2015 but troubles started soon after. Australia angered China in Apr 2020 when Australian Prime Minister Scott Morrison favoured an inquiry into the role of China in the origins of COVID-19.

China accused Australia of teaming up with Trump and retaliated hard on the trade front. Soon it restricted import of beef, delayed customs clearance of lobsters, and imposed an 80 percent tariff on barley and a 218 percent anti-dumping duty on wine from Australia. China also advised its firms not to buy coal, cotton, and timber from Australia.

ECTA will surely provide some relief to Australian firms with duty-free access to the second largest market after China.

## **Next phase.**

ECTA completes the first phase of negotiations. It provides regulatory arrangements to help merchandise and services trade. Both countries will now work to expand ECTA into a Comprehensive Economic Cooperation Agreement (CECA). They will negotiate in many new areas like Digital Trade and Government Procurement. India has negotiated ECTA well; it needs to exercise similar prudence in the new subjects.

Australia is an important strategic partner of India. About eight lakh strong Indian diaspora makes a significant contribution to Australia's society and economy. The ECTA will deepen the trade relationship. The bilateral trade is expected to cross US\$ 70 billion in the next five years due to buoyant trade relations.

## 2-Guide to exporting and importing under ECTA

India-Australia Economic Cooperation and Trade Agreement (ECTA) will come into force on 29 December 2022. ECTA offers many concessions to exporters and importers of both countries. But, the concessions are product-specific, and firms must check if their products benefit from the ECTA.

Utilisation rate of India's FTAs is low. One factor is low awareness about the process and its benefits. We present a seven-step process to ensure that the firms do not miss critical details while exporting or importing under ECTA.

Step 1-Know the tariff classification for your product. Both India and Australia use 8-digit numeric codes to represent a product. It is critical to use the correct code as Governments notify all import duties and policies using this code.

The tariff classification of the same product may differ in India and Australia. For example, the Tariff classification for the product "Embroidered girls' suits made of silk" is HS 62041911 for India. For Australia, the code is HS 62041900. The firms must use their country codes in the trade documents.

Step 2-Know export and import policy for your product. FTAs merely provide duty concession and do not give relaxation on export or import policy provisions. Indian exporters must know the export policy of India and the import policy in Australia for their products. No imports are allowed if a product falls under the prohibited list of imports. The happy news is more than 98% of products can be freely exported from/ imported into India.

Step 3-Compare your product's MFN and FTA duties in the destination country. MFN or 'Most Favoured Nation' is a WTO term indicating that a country must charge the same import duty from all countries for a product. When two countries do an FTA, they decide to cut such duties on most products.

Under ECTA, all Indian products will enter Australia duty-free. Australian products covered under 70% tariff lines will enter India duty-free. Yet, the product level details will decide if the FTA is beneficial for a product. FTA are of no use if MFN duty is zero for a particular product.

A firm must compare the MFN and FTA duties for a product. A firm benefits from the FTA only when the FTA duty is lower than the MFN duty. Let's use a few examples: Since MFN duty on Cut and Polished diamonds is zero in Australia, Indian diamond exporters will not use ECTA. But many Indian labor-intensive products will benefit as Australia has reduced the duty from 4-5 percent (MFN duty) to zero under ECTA. The key sectors are textiles and apparel, agricultural and fish products, leather, footwear, furniture and sports goods, gems and jewelry, machinery, electrical goods, railway wagons, pharmaceuticals, and medical devices.

Australia's exports of coal, LNG, alumina, manganese and tungsten ores, pharma products, and rare earths will gain as India cuts duty to zero. Australian exports of almonds, oranges, and mandarins will also gain as India cuts duty on limited quantities. Australian wine valued at US\$ five for a 750ml bottle will gain from reduced-duty access. There is no benefit to Australian dairy products, walnut, wheat, rice, bajra, apple, sunflower seed oil, sugar, oil cake, gold, silver, platinum, jewelry, or iron ore. India offered no concessions on these. Exporters and importers must check the benefits provided for their products.

Zero duty under an FTA means zero basic customs duty. Other duties like "IGST" and "Special welfare cess," which are primarily in nature of domestic taxes, are still to be paid.

**Step 4-check if your product satisfies the rules of origin.** A product must qualify as originating goods of exporting Party to get FTA duty concessions. Rules of origin set specific and clear conditions on the level of processing an imported item from a non-FTA partner country must undergo. Rules of origin prevent FTA benefits to third-country products transhipped from FTA partner countries.

Rules of Origin is a work in Progress area of the ECTA. Both sides have framed product-specific rules of origin for essential products. For the rest, they have agreed to negotiate rules at the earliest. Both countries would use a general rule for products where a product-specific rule is not agreed upon. It is based on the twin criteria of value addition and product transformation. Firms must check the rules of origin for their products and ensure they can meet the requirements.

**Step 5-Get a Certificate of Origin.** Once a firm is sure that its product meets the rules of origin criteria, it applies for issuing a Certificate of origin (COO) to the agency nominated by the Indian or Australian governments. The agency may issue the certificate after verifying the documents or visiting the factory per the norms. The Indian firm shares the certificate of origin with the importer in Australia.

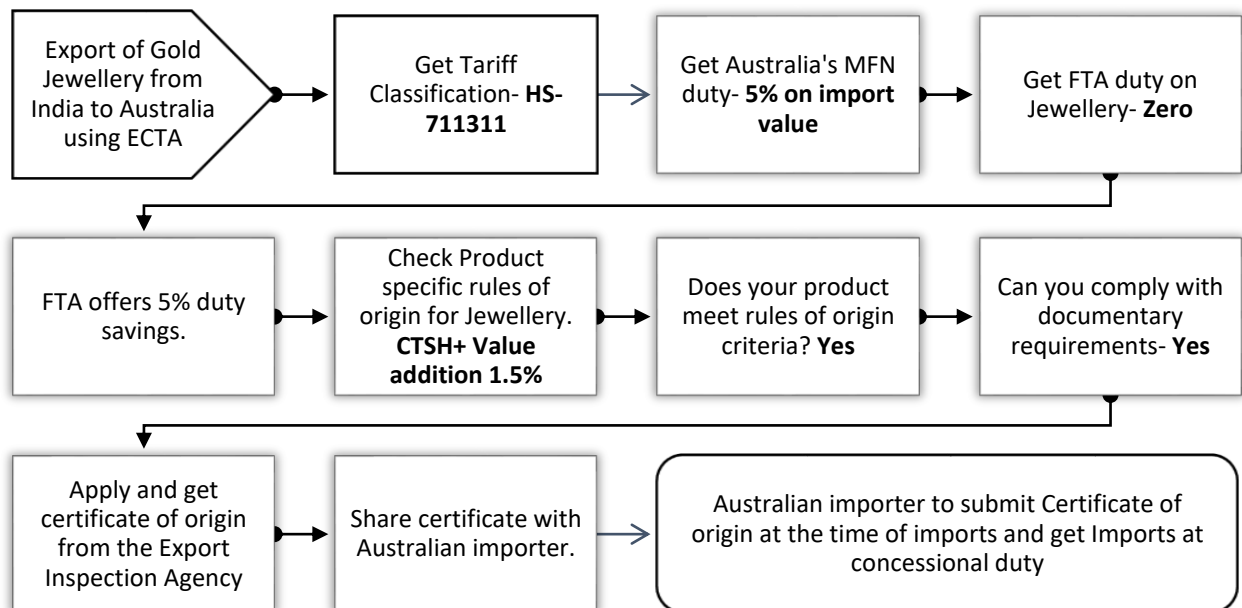
**Step 6-Export your product.** No additional customs formalities are carried out while exporting Goods under an FTA. FTAs for merchandise trade is about granting concessions on imports.



**Step 7-Importer presents COO and claims duty benefits.** The Australian importer uses COO issued by the Indian agency while claiming the tariff concessions at the Australian Customs if requested. The process applies in reverse to imports into India.

Current bilateral trade between India and Australia exceeds US\$27 billion. It is expected to double in next five years due to buoyant trade relations. Using the above process, Indian and Australian firms can make full use of ECTA concessions—our best wishes to them.

**Process Flow Example-Exporting Gold Jewellery from India to Australia under ECTA**



## 3-ECTA-Negotiations

### I-Timeline/History

- Negotiations for a Comprehensive Economic Cooperation Agreement (CECA) started in 2011.
- Negotiations suspended in September 2015 after nine rounds over market access issues with both sides feeling that other side is not doing enough. India felt that Australia is not opening its services sector enough while Australia insisted upon deeper market access in Goods.
- In February 2020, during the Joint Ministerial Commission (JMC) meeting, both countries agreed to reviving negotiations.
- In June 2020, Prime Ministers from both countries agreed to conclude a CECA during the India-Australia Leaders' Virtual Summit.
- Negotiation formally started on September 30, 2021 and concluded on a fast-track basis by the end of March 2022 mostly through virtual meetings. Negotiations at official level took place almost every day. Trade ministers of both countries resolved issues faced by negotiators with great speed.
- Both countries signed ECTA on April 2, 2022.
- Benefits will start flowing to businesses wef Dec 29,2022, the day of implementation.

### II-Next Steps

Teams will work to expand ECTA into Australia-India Comprehensive Economic Cooperation Agreement (CECA). They will negotiate in areas of goods and services, Product Specific Rules Schedule, Digital Trade, and Government Procurement.

## 4-ECTA: Subject Coverage

ECTA has 14 chapters. These include Chapters on:

### Merchandise trade

- Trade in Goods,
- Trade Remedies,
- Rules of Origin,
- Customs Procedures and Trade Facilitation,
- Sanitary & Phytosanitary Measures,
- Technical Barriers to Trade

These chapters provide appropriate regulatory arrangements to facilitate merchandise trade

### Services

- Trade in Services,
- Movement of Natural Persons

### Remaining

- Dispute Settlement
- Initial Provisions and General Definitions, Transparency, General Provisions and Exceptions, Administrative and Institutional Provisions, Final Provisions.

Additionally, ECTA contains eight subject specific side letters on bilateral economic cooperation are also part of the Agreement.

## 5-Offers in Merchandise trade and Services

### I-Market Access in Merchandise trade (Trade in Goods)

#### A-Summary of comparative offers

Duty on all products exported from India to Australia will become zero wef Dec 29,2022 except on few products where duty will come down gradually to zero in 5 years. These products include flat rolled iron or non-alloy steel, aluminium, bars and rods, angles shapes and sections, wire, tubes, pipes, and tanks.

From 29 December 2022, Australian exports of goods covered under 40 percent tariff lines will be tariff free, rising to 70.3 per cent tariff lines in 10 years. In terms of value, 85.3 per cent of Australian goods exports by value to India will be tariff free, rising to 89.7 per cent in 10 years.

No. of years duty will become zero*	India's offer		Australia's offer	
	Tariff Lines (%)	Value (%)	Tariff (%)	Lines Value (%)
<b>0</b>	40.0%	85.3%	98.3%	96.4%
<b>3</b>	1.6%	0.01%		
<b>5</b>	7.2%	3.3%	1.7%	3.6%
<b>7</b>	21.2%	0.3%	-	-
<b>10</b>	0.2%	0.05%	-	-
<b>Tariff Rate Quota</b>	0.04%	0.7%	-	-
<b>Total Offer*</b>	70.3%	89.7%	100%	100%
<b>Exclusion</b>	29.8%	10.3%	0	0
<b>Total Trade</b>	100%	100%	100%	100%

**\*For India: On 125 tariff lines duty will be reduced and not eliminated**

## B-Sectoral Gains-India

Indian labor-intensive products will benefit as Australia has reduced the duty from 4-5 percent (MFN duty) to zero under ECTA. The key sectors are textiles and apparel, agricultural and fish products, leather, footwear, furniture and sports goods, gems and jewelry, machinery, electrical goods, railway wagons, pharmaceuticals, and medical devices.

## C-Sectoral Gains-Australia

- Australia's exports of coal, LNG, alumina, manganese and tungsten ores, pharma products, and rare earths will gain as India cuts duty to zero.
- Australian exports of almonds, oranges, and mandarins will also gain as India cuts duty on limited quantities.
- There is no benefit to Australian dairy products, walnut, wheat, rice, bajra, apple, sunflower seed oil, sugar, oil cake, gold, silver, platinum, jewelry, or iron ore. India offered no concessions on these. Exporters and importers must check the benefits provided for their products.
- Australian wines valued above US\$ five for a 750ml bottle will gain from reduced-duty access.
  - less than US\$5—No concessions
  - between US\$5 and US\$15—duty reduction from 150 to 50 per cent over ten years
  - above US\$15— duty reduction from 150 to 25 per cent over ten years

## **II-Market Access in Services Sectors**

### A-Services Negotiations

FTAs commitments provide 'increased certainty' for service suppliers by binding of existing market access and guarantees.

### B-Australia's offer

- Commitments on market access in 135 subsectors and Most Favoured Nation (MFN) in 120 sub-sectors. These cover IT, ITES, Business services, Health, Education, and Audio visual.
- Quota for chefs and yoga teachers,
- Post study work visa of 2-4 years for Indian students on reciprocal basis,
- A work and holiday visa for youth
- Mutual recognition of Professional Services and other licensed/regulated occupations and
- Quota of 1800 for Yoga teachers and Indian Chefs

## C-India's offer

- Commitments on market access to Australia in 103 sub-sectors and Most Favoured Nation in 31 sub-sectors. The key sectors are 'business services', 'communication services', 'construction and related engineering services', etc.
- Australia can access 37 services subsectors through India's WTO commitments. Under ECTA, India would bind 85 more services subsectors.
- India has agreed to 'lock in' existing market access in foreign equity limit and banking
- India has agreed to lock in the investment in private banks with a foreign direct investment ceiling of 74 per cent.

## 6-Bilateral Trade Profile

### I-Trade Data

Trade ( US \$ Billion)	Goods*	Services**	Total
India's Exports to Australia	6.9	3.6	10.5
India's Imports from Australia	15.1	1.9+	17.0
<b>Total</b>	<b>22.0</b>	<b>5.5</b>	<b>27.5</b>
<b>Deficit(-)/Surplus(+)</b>	<b>-8.2</b>	<b>+1.7</b>	<b>-6.5</b>

**\*DGCI&S, \*\*RBI Data estimated for services for CY 2021**

**+ In addition, Indian students spend US\$ 4 billion on education at Australia**

### II-Key Sectors

	Goods	Services
<b>India's Exports to Australia</b>	India's exports are broad-based and dominated by finished products (consumer goods)	Telecom, IT/ITES and other business services.
<b>India's Imports from Australia</b>	Australia's exports to India are highly concentrated, primarily in Coal (74% of Australia's exports to India) out of which 71.4% is coking coal. India's trade deficit with Australia is mainly due to large import of Coal India's imports from Australia are primarily (96%) of Raw materials & Intermediate Goods	India spends \$ 4 bn approx. each year on education of students in Australia

## 7-Link to Original ECTA documents:

### **India**

<https://commerce.gov.in/international-trade/trade-agreements/ind-aus-ecta/>

### **Australia**

<https://www.dfat.gov.au/trade/agreements/negotiations/aifta/australia-india-ecta-official-text>

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## About Global Trade Research Initiative

GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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### **Feedback**

Your feedback on this report is most welcome. Please email at [ajay@centrefortrade.com](mailto:ajay@centrefortrade.com).