

## ERGO

*Analysing developments impacting business*

### INTERNATIONAL TRADE | COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT | INDIA - UAE

23 February 2022

#### **Background and Impact**

India and the United Arab Emirates (UAE) on Friday signed a Comprehensive Economic Partnership Agreement (CEPA), which is set to reduce tariffs for 80 per cent of goods and give zero duty access to 90 per cent of India's exports to the UAE.

The agreement, which is expected to come into effect in about 60 days, is expected to boost annual bilateral trade to \$100 billion within 5 years of its adoption, up from about \$60 billion currently.

Exports from India that could benefit from the CEPA include textiles, gems & jewellery, petroleum products, engineering and machinery products and chemicals. Market access in services, including mutual recognition agreements for various professions, is also an area of primary interest for India. The CEPA will also cover other areas including investments and government procurement.

The UAE was India's third largest trading partner in 2020-21 with the country exporting goods worth \$16.7 billion and importing items valued at \$26.6 billion. India's major imports from the UAE include petroleum and petroleum products, precious metals, gems and jewellery, minerals, chemicals and wood products. UAE has also investments worth \$11 billion into India since 2000 and is among the top 10 investors for the country.

#### **Key Aspects**

A key concern always is that the UAE should not be misused by entities from third countries to ship their products to India at concessional import duties negotiated under the CEPA and the rules of origin criteria under the CEPA are strictly satisfied and not circumvented. Rules of origin determine where goods originate, i.e. not where they have been shipped from, but where they have been produced or manufactured. As such, the 'origin' is the 'economic nationality' of goods traded in commerce. The tariff classification, value and origin of a good are determining factors based on which the customs tariff treatment is applied. The rules of origin provided under the relevant Trade Agreement and the related rules, determine whether goods qualify as originating from that country for which the special arrangements under the Trade Agreement apply. Only where all the requirements are met, the imported goods are provided with a Certificate of Origin ("COO") and are eligible to be imported with a beneficial customs duty rate.

However, with the enforcement of the Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 ("CAROTAR") which came into force on September 21,

2020, the possibility of abuse of preferential tariff arrangements has significantly reduced. Under the provisions of the CAROTAR, an importer is, *inter alia*, mandated to undertake due diligence before importing the goods and ensure that they meet the prescribed originating criteria under the relevant trade agreement and related rules. Under certain circumstances, the Customs can deny the preferential duty rate claimed and also require verification of the COO from the partner country.

Exporters and importers may consider prompt alignment with provisions of the CAROTAR and specific attention to compliance policies for ensuring accurate availment of rules of origin criteria. The agreement has also provided a permanent safeguard mechanism, which will safeguard exporters and businesses from both countries from any unwarranted surge in volumes of any particular product.

### **Conclusion**

Overall, the CEPA is an important development which will have a paradigm impact on trade between the two countries and will significantly impact businesses of all scale, specially the MSME sector, which also has a substantial presence in the trade.

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