

Australia-India interim free trade pact: Everything you need to know



Reinforcing a strong geo-economic partnership

ECTA Explained

The India-Australia Economic Cooperation and Trade Agreement (ECTA) is an interim trade pact or an early harvest deal signed by India and Australia on 2nd April 2022.

The ECTA is significant as it is the first trade agreement that India has signed with a developed country in more than a decade. It includes a wide range of sectors and covers broad areas of economic and commercial cooperation such as Trade in Goods, Rules of Origin, Trade in Services, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) measures, Dispute Settlement, Movement of Natural Persons, Telecom, Customs Procedures, Pharmaceutical products, and several other dimensions. Eight subject-specific side letters covering various aspects of bilateral economic cooperation have also been incorporated. According to government estimates, trade in goods is likely to rise by 85% to \$50 billion in five years from about \$27 billion presently. **About 1 million jobs will be created.**

Key Highlights of the Agreement

- Australia will provide 100% market access for all Indian goods over a period of five years
- 95% of Indian goods will attract lower duty
- All labor-intensive sectors such as apparel, footwear and jewelry will get zero-duty access whereas currently, most of the goods exported to Australia attract a 5% duty
- India will provide lower-duty access to Australia for more than 70% of goods. This will be increased to cover 85% of goods in 10 years

Additionally, Australia is set to invest over \$280 million to boost economic ties with India. This would include partnership in several areas such as space, research, and green steel.

Exceptions

Sensitive products are kept in the exclusion category (29.8% of tariff lines) by India. They include milk and dairy products, chickpeas, walnut, wheat, rice, bajra, apple, sunflower seed oil, sugar, oil cake, gold, silver, platinum, iron ore and medical devices

India-Australia Trade in Numbers



Australia is India's 17th largest trade partner whereas New Delhi is Canberra's 9th largest trade partner. India's merchandise exports to Australia were worth \$6.9 billion and imports aggregated to \$15.1 billion in 2021. Australian investments in India are beneficially pegged at \$15 billion, while India's investments in Australia are about \$12 billion. India has a merchandise trade deficit of about \$8.2 billion (largely due to coal import) and services surplus of about \$1.7 billion with Australia (2021). Bilateral trade in goods and services stood at \$27.5 billion in 2021 which is estimated to reach **US\$45 billion** in 5 years by **US\$ 100 million** by 2030.

Previous India-Australia Agreements

Since 1970, India and Australia have engaged in various agreements dealing with culture (1971), trade (1976), developing cooperation (1990), investments (1999), peaceful use of Nuclear Energy (2016) and Social Security (2016).

In 1976, a trade agreement was signed between India and Australia with the aim of facilitating, strengthening and diversifying trade. Holding trade fairs, trade exhibitions and other trade promotions by enterprises was the mainstay of the agreement. A Joint Trade Committee was also set up for this purpose.

ECTA is the first trade deal which directly deals with decreasing tariffs in order to boost trade between the two countries.

Recent agreements and relationship developments

Supply Chain Resilience Initiative (SCRI)- It's a trilateral agreement between India, Australia, and Japan, signed in 2021. It seeks to enhance the resilience of supply chains in the Indo-Pacific Region and develop dependable sources of supply, diversify supply sources, and attract investments.

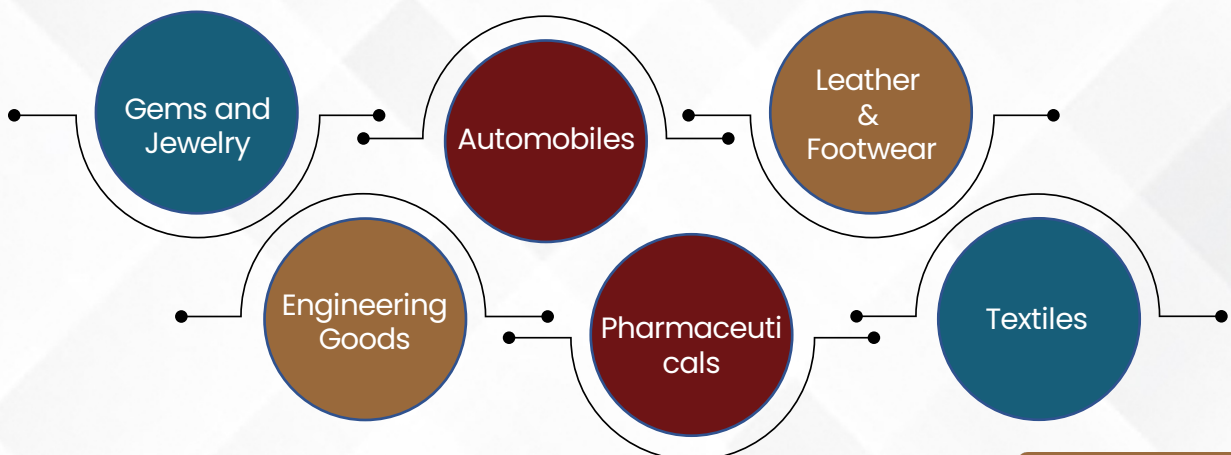
Quadrilateral Security Dialogue (QUAD)- Revived in 2017, it is a strategic dialogue between US, Australia, Japan, and India to enhance cooperation and develop partnerships across several issues to work for an open, free, and prosperous Indo-Pacific Region.

Mutual Logistics Support Agreement- Signed in 2020 between India and Australia to allow access to military bases for support. It allows for complex joint military exercises and improves interoperability between the security forces of both the countries.

INDIA

Some sectors expected to benefit from the agreement

India will benefit from preferential market access provided by Australia on 100% of its tariff lines. Some of the major sectors expected to benefit from the agreement include:

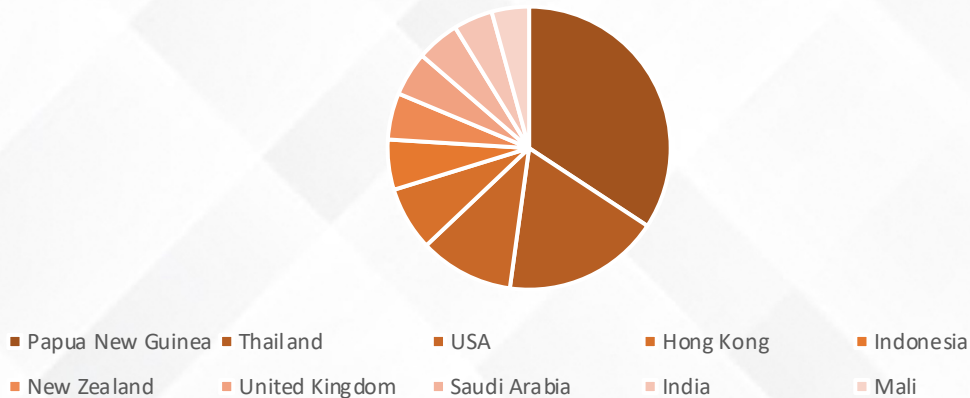


GEMS AND JEWELLERY

Current status

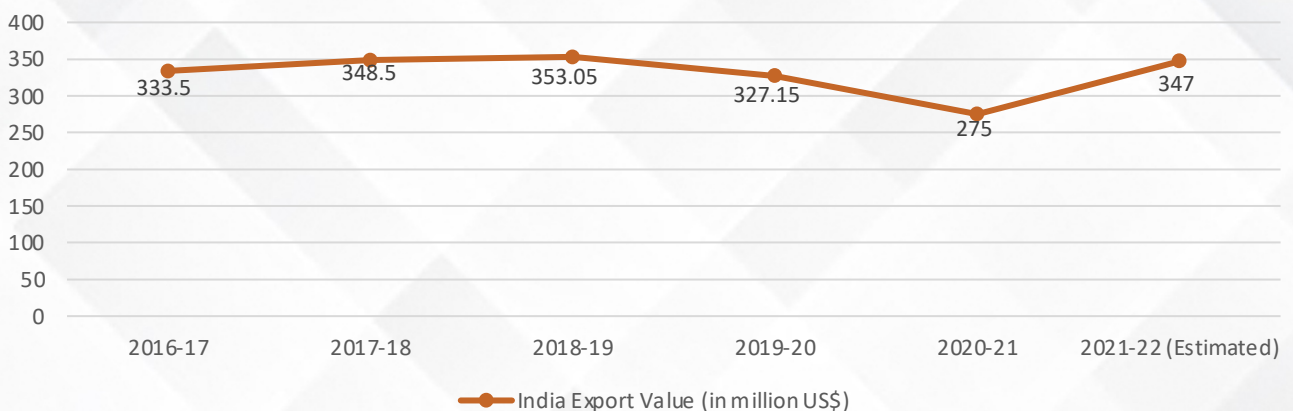
The Indian gems and jewellery sector is one of the largest in the world, contributing around 29% to the global jewellery consumption. The net Indian export of gems and jewellery worldwide [stood at \\$35.48 billion](#) between April 2021 and February 2022 with US, Europe, China and Japan being the top export destinations.

Australia's Import share of Gems and Jewellery (2020)



Even though Australian import of gems and jewellery stands at \$6.6 billion (2020), India only accounts for 4.1% of the same. The reason behind India's insignificant share in Australia's import mix was the imposition of **5% custom duty by Canberra**.

Indian export of Gems and Jewellery to Australia (2016-22)



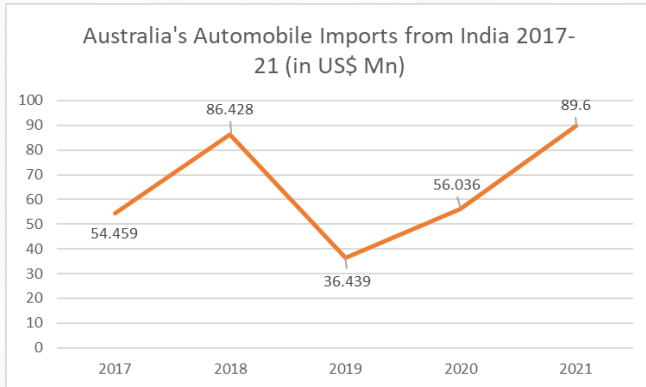
Key Observations

- On implementation of the ECTA, the customs duty on this industry would be waived off, which is likely to boost Indian exports of jewellery to Australia.
- Currently India and Australia have a bilateral gems & jewellery trade of US\$ 950 million (2020-21), which the Gem and Jewellery Export Promotion Council estimates will grow at a **rate of 57.9% and reach US\$ 1.5 billion by 2022**.

AUTOMOBILES

Current Status

In the automobile sector, Australia imported goods worth US\$19.4 billion in 2020, out of which India's share was US\$ 56 million, which is 0.29%. In 2021, Canberra's import basket increased to US\$ 27.28 billion, and India's share also increased to US\$ 89.6 million, which is 0.33%. China has dominated the Australian automobile market with more than 7% share.



In the first half of 2021, India's global automobile exports increased to \$23.61 billion (y-o-y growth of 49.9%). This represents the highest increase in Indian automobile sector exports since 2014. Indian automobile exports to Oceania region during this time increased to \$1.47 billion (111.3% increase). In comparison to other exporting countries such as United States (\$10.8 billion) and EU (\$4.2 billion), the proportion is still quite low and the upside for growth is huge.

Key Observations

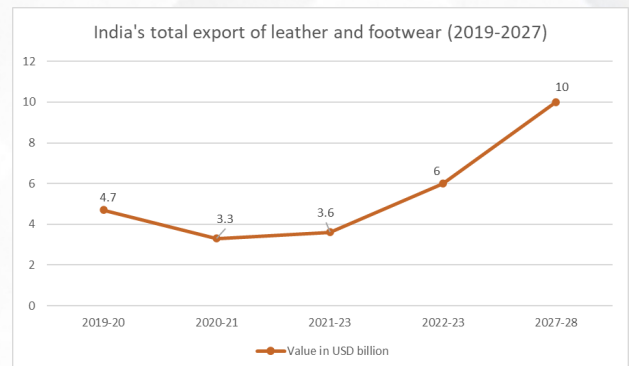
- With the ECTA between India and Australia, Indian companies will get access to the relatively **untapped \$27 billion automobile industry**.
- For Australia, the ECTA is an opportunity to reduce dependence on Chinese, Japanese and South Korean imports for cars and auto components.
- Sub-Sector Impact:** ECTA could spell huge opportunity for India's auto component makers, four-wheeler majors and farm vehicle companies as Australia is a major importer on these fronts.

LEATHER AND FOOTWEAR

Current Status

India is the second largest producer of footwear and leather garments and second largest exporter of leather garments in the world. Indian exports of footwear to Australia stands at US\$ 62.2 million (2020-21).

Compared to the net Indian leather footwear export of \$3.3 billion (2020-21) to the top destinations, the share for Australia is merely 0.018%, chiefly due to the existing import duty of 5%.



Key Observations

- With the elimination of import duty on 96.4% of India's leather exports to Australia, smaller Indian exporters will have access to the Australian market
- India's total leather and footwear exports to Australia is likely **to touch \$100 million in 2 years** from \$62.2 million in 2020-21

ENGINEERING GOODS

Current Status

India's engineering goods exports include value-added iron and steel products, tools, machines, and so on. India's exports to Australia was \$801 million in 2020-21. It is expected to have increased by 51% at \$1.21 billion for 2021-22. Despite this huge increase, India's share in Australian engineering goods market stands at around 1.5% only.

Key Observations

- As tariffs get eliminated under ECTA, Indian exports of engineering goods is expected to increase by **15% per year to reach \$2.7 billion** by 2027.
- Being a labour-intensive sector, the rise in engineering exports means thousands of new jobs.

PHARMACEUTICALS INDUSTRY

Current Status

India is the largest producer and exporter of generic drugs, making it the pharmacy of the world. In 2021, India exported pharmaceuticals worth \$24.44 billion with the US, South Africa and UK being the top destinations. Indian exports meet the standards requirements of highly regulated markets like the US and UK.

However, India's contribution to the Australian market is relatively sparse (exports worth \$350 million in 2021 compared to Australia's \$12 billion import of pharma goods). The main reasons: The approval process for medicinal drugs and products in Australia is time consuming and process-sensitive. ECTA will act as a catalyst for Indian pharma enabling fast-track approval for generic, patented, and biosimilar medicines. It would also facilitate faster and easier approvals for the Indian generic pharmaceutical products and thus provide India access to Australia's market.

Key Observations



- Indian export of pharmaceutical products has the potential to increase to \$1 billion by 2024 if the Australian government creates a framework for speedy approvals, according to Dinesh Dua, who was the chairman of Pharmaceutical Export Promotion.
- Generic drugs only comprise 13% of the Australian pharmaceutical market. Increase in generic pharmaceutical products via imports from India can make treatments more affordable and inexpensive.
- In 2020-21, more than half a million Australians deferred or did not fill a prescription because of cost. Expect this number to come down.

TEXTILES



Current Status

Within textiles, India is a net exporter of products such as RMG Cotton, yarn and fabrics, handmade carpets and coir. Its total textile export to Australia [stood at \\$392 million](#) (2020).

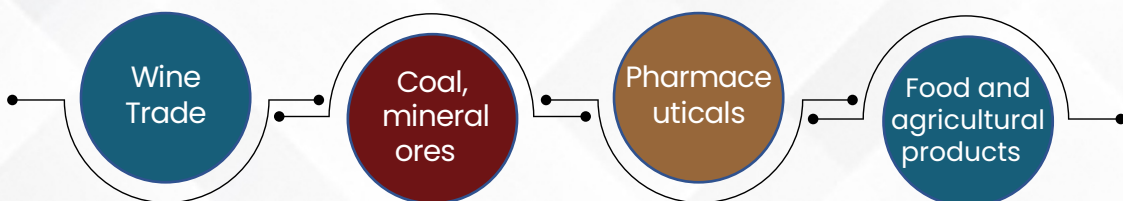
In February, the Indian government had permitted 3 lakh bales of duty-free cotton to be imported into the country, a move that will help high-quality, high-style cotton products with export opportunities in Australia.

Key Observations

- Upon relaxation of the import duty of 5%, India's textile exports are estimated to grow **three times** and reach [US\\$ 1.1 billion by 2023-24](#).
- Furthermore, the ECTA would create more than [40,000 employment opportunities](#) per year to cater to the increased demand.
- **Sub-Sector Impact:** The home textile segment in India grew at a rate of 9% despite the pandemic. Australia is India's 5th largest market and the ECTA is expected to boost India's major textile producers as well as MSMEs and small manufacturers. India's textile hub Tiruppur will majorly gain from the ECTA.

AUSTRALIA

Some sectors expected to benefit from the agreement include:



The ECTA is likely to boost Australian exports by \$15 billion as the country is an extensive source for raw materials such as coal, minerals, wool, food and agricultural products. A growing market for wine and meat, especially in the wake of tariffs from China, will benefit Australian farmers and manufacturers. The diversification of supply chains through the Supply Chain Resilience Initiative will act as a buffer during future supply chain disruptions.

WINE TRADE

Current Status

India's current wine market is valued at approximately \$150 million, with imported wine accounting for 30% and the rest catered to domestically. Australia (41%) and European Union (38%) account for majority of the wine imports but high tariffs and custom duties (of 150%) act as hindrances to the same.

As per the ECTA, a concession would be given on the custom duty imposed on Australian wine, depending on the price per bottle, as demonstrated in the following table:

Category	Price Range (per unit bottle)	Current customs duty	After implementation of the trade act (in approx 4 months)	In 10 years (tentatively)
Not included in the agreement to safeguard the Indian wine industry	< \$5	150%	150%	N/A
Premium	\$5 - \$14.99	150%	100%	50%
Super Premium	> \$15	150%	75%	25%

Sub-sector Impact

Premium wines: The price range of \$7 - \$10 per bottle attracts the majority of wine consumers in India and most of Indian wines have been strategically priced to cater to this segment. The key to capture the market for Australian companies would thus be to target the middle-income customers via strategic pricing of their products.

Super Premium Wines: Demand for more premium wines (greater than US\$ 15) has been on a gradual rise in India. By focusing on their **super premium range** (less domestic competition), Australian wine companies can appeal to and educate the consumers on the high-end varieties of wine and increase their demand.

Key Observations

- Duty-free wine and spirits exports from India to Australia would facilitate a scale up the wine industry: Grape farmers will get support in the area of **harvesting, crop cultivation, good quality wines, best practices, tracking and tracing and consistency of quality**, according to [Nita Kapoor, Chief Executive Officer](#), The International Spirits and Wines Association of India
- Australian wine producers were left with a giant hole in the export market in 2020 when the Chinese government announced it would place **tariffs of up to 200% on all Australian wine**.
- Australian Grape and Wine chief executive [Tony Battaglione said](#) the new deal with India would not recover all the losses, but was a vital step towards addressing the national oversupply of wine.

Coal Trade

Current Status

India imports around 300-400 million tonnes of coal, primarily from Indonesia, Australia and South Africa while Coal India produces over 600 million tonnes of coal for domestic consumption. Thermal coal and coking coal are required in several essential industries such as power generation, steel and cement. Presently Australian coal constitutes more than 70% of total imports and attracts a 2.5% duty.

(Million tonnes)

Coal	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21(Prov.)	2021-22(Prov.)*
Coking Coal	44.56	41.64	47.00	51.84	51.83	51.20	47.59
Non-Coking Coal	159.39	149.36	161.25	183.51	196.70	164.05	125.74
Total Coal Import	203.95	191.01	208.25	235.35	248.53	215.25	173.33
Coke	3.07	4.35	4.58	4.93	2.87	2.46	2.00

India coking coal imports						000t
Origin	Dec 21	Dec 20	± %	Jan-Dec 2021	Jan-Dec 2020	± %
Australia	2,885	4,185	-31	45,067	32,814	37
US	231	394	-41	3,157	4,220	-25
Canada	165	321	-49	2,370	3,483	-32
Mozambique	130	271	-52	1,776	1,919	-7
Indonesia	104	119	-12	1,187	1,671	-29
Russia	122	73	68	1,138	1,065	7

Thermal Coal: During the pandemic, with China imposing an unofficial ban on coal imports from Australia and India facing a domestic crunch, Australia emerged as a cheaper alternative to South American and Indonesian coal imports. Its share in India's thermal coal imports rose to 15% in 2021 from 4% in 2019 and 139% by volume over the previous year to 21 million.

Coking Coal: Due to the low natural fuel value of Indian coal, New Delhi imports coking coal to feed its steel plants. India imports approximately 50-55 million tonnes of coking coal with Australia accounting for the lion's share (73% in 2019). Following China's ban on Australian coal imports, their share of the Indian market further rose to 80% in 2021.

Key Observations

- The ECTA will allow zero-duty import of Australian coal. That means India can import Australian coal cheaper than earlier which will make Indian industries such as **steel, power, aluminum, engineering goods, and so on, more competitive.**
- Steelmakers' financials will be boosted as coal costs account for over **50% of production expenses.** A company like Tata Steel imports Australian coal worth **about \$2 billion annually.**
- With the uncertainties of Russian imports following the Ukraine crisis, Australia's contribution to thermal coal imports and coking coal imports is expected to grow.

ECTA and India's renewable energy journey

Green Steel Partnership: Australia's investments into India will include \$35.7 million in an Indo-Australia Green Steel partnership. The Government of India has already come out with a Green Hydrogen Policy to incentivize its use for numerous carbon-intensive industries. This could facilitate a full-fledged policy on green steel, which is likely in the works.

Lithium deposits: Recently, India had committed to [invest \\$6 million](#) jointly with the Australian government to explore lithium and cobalt mines in Australia in the next six months. This is aimed at tapping into lithium deposits for India's plans of green transition towards the use of electric vehicles and its battery swapping policy, to be announced in the next 3-4 months.

Is India really moving towards a renewable energy-reliant future?

India has committed to achieving net zero by 2070 at COP 26, held in Glasgow last year. Its climate targets, to be achieved by 2030, include reaching a non-fossil fuel energy capacity of 500 GW, fulfilling 50% of its energy requirements via renewable energy (RE), reducing CO2 emissions by 1 billion tons, and reducing carbon intensity below 45%. With its continued reliance on coal to feed numerous industries, and now with ECTA making coking coal cheaper to import, India's steel industry is likely to move more gradually towards its decarbonization targets.

Sector Specific Benefits – Services

Sector

Key Pointers/ Benefits

Chefs and Yoga Teachers

- Annual quota of 1,800 for chefs and yoga teachers to enter and practice in Australia as Contractual Service Supplier
- The duration of work permit is 4 years and is subject to prior evaluation based on eligibility criteria and regulations

Post-Study Work Visa

- Indian students studying in Australia would be given an opportunity to extend their stay post completion of their courses
- The duration of stay extension depends on the course and degree of the candidate :
 - upto 18 months (for Diploma/Trade)
 - upto 2 years for Bachelors Degree
 - upto 3 years for Masters Degree
 - upto 4 years for Doctoral Degree

Mutual Recognition Agreements

- India and Australia have agreed to acknowledge each others' Professional Services and licensed occupations
- Issuing licenses, Allowance of transient/permanent projects
- Mechanism of Working Group
- Collaboration with multiple departments namely, nursing, architecture, professional services

Work and Holiday Visa

- Grant of work and holiday visa to approximately 1,000 Indians (18-30 years of age) for the period of one year
- During this tenure, the applicants would be eligible to undergo training and education for upto 4 months, or, unpaid/paid internships and employments for the entire duration

Double Taxation Avoidance Agreement

- Until now, the Indian Tech Companies, offering technical services to Australia clients had to incur significant taxes on their offshore income
- The Government of Australia has agreed to amend the Double Taxation Avoidance Agreement according to which the offshore taxes would be waived off
- This will boost further participation of Indian Tech firms in the international market

Technology and IT

- There is an increasing demand of tech and IT specialists in the growing Australian start-up environment and India has a huge pool of tech resources
- ECTA will provide an opportunity for Indian IT companies to participate in Australian Government projects
- Low cost Indian Software as a Service (SaaS) to be offered to Australian SMEs
- Offers a developed market option for Indian start-ups to scale before launching in the US

Healthcare

- Access of Indian secondary, tertiary care facilities and other medical procedures like dental surgery, knee replacement, cataract, and so on to Australians thereby boosting the Indian medical tourism sector
- Medical manufacturing partnerships: India gets access to Australia's quality medical technology while Indian low-cost manufacturing solutions become available to Australian companies

Education

- Increased partnerships between India and Australian universities for collaborative research
- Dual degree program: Indian and Australian students would be allowed to study in Australia and India respectively for 2 years, subject to eligibility criteria and regulations

India–Australia bilateral relations: A snapshot

FTAs and India: New Momentum

Amid the ever-changing geo-political and geo-economic landscape, India is fast gaining confidence in its policy of strategic autonomy and economic openness. Developed nations have increasingly recognised India's growing economic and diplomatic importance, evidenced by the recent visit of leaders from the US, China, Russia, Japan, Germany and several other countries amid the ongoing crisis in Ukraine. India's forward-looking economic policies have enabled it to ink trade deals with the UAE, Australia and carry out negotiations with several other countries.

The way forward

As India navigates future trade talks, it should ensure that it strictly enforces protective measures such as rules of origin, value-addition norms, safeguard mechanisms in case of import surges, as it has under the ECTA. Currently, many Indian exports face a tariff disadvantage of 4-5% in several labour-intensive sectors relative to competitors such as China, Thailand, and Vietnam. The signing of the agreement and removal of such barriers would lead to a significant rise in merchandise exports and potentially create 10 lakh jobs in India. The trade deal will also have a positive impact on engagements such as the QUAD, helping to expand its scope from strategic and political to economic as well. Through the signing of a full free trade agreement with Australia in the coming months, India will set the stage for future agreements with the UK, Canada, Israel and the Gulf Cooperation Council (GCC), among several others.

Expert Take



Mr. Navdeep Suri

"Indian negotiators have done well to not just focus on the complementarities in the economies and protecting sectors that are vulnerable, but also in opening prospects for its products. The Indian pharmaceutical sector has received a boost through both the India-UAE and India-Australia agreements. The latter has also emphasised on the mobility of persons."

"Indian students in Australia will be able to stay and work and qualified professionals will have easier access to work visas."

(Navdeep Suri is a former Indian diplomat, who completed a distinguished career of 36 years in the Indian Foreign Service. He served in India's diplomatic missions in Washington, Cairo, Damascus, Dar es Salaam and London. He served as High Commissioner to Australia and as Ambassador to Egypt and the UAE, among several other professional and personal accomplishments.)

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