Dossier on Preferential Trade Agreements

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1. EU inks FTA with Peru, Colombia

The European Union has reached a free trade agreement with Peru and Colombia in a bid to ease trade between the bloc and the two Latin American nations, an EU Commission spokesman says.

The European Commission held the ninth round of talks with the two South American countries over the past week.

"Yes there is an agreement," AFP quoted the spokesman as saying on Monday.

"The details will be published officially by the commission," a source close to the talks added.

By wrapping up the deal, the EU seeks to remove customs barriers and open up markets in Peru and Colombia to its industrial products, especially cars.

Peru and Colombia, on the other hand, are keen on boosting their export of agricultural products to Europe.

The bloc also mulls finalizing trade talks with Latin America's regional trade agreement, Mercosur, which it initiated in 1999.

According to Brazilian authorities, the odds are high for the 27-nation bloc and Mercusor to reach an FTA in May.

Mercosur is a regional trade agreement among Argentina, Brazil, Paraguay and Uruguay.

Source: http://www.presstv.ir/detail.aspx?id=119777&sectionid=351020605

CUTS Comments:

India's export to EU in 2008 totaled approximately US$39.2 billion with the major exports being mineral fuels, oils and distillation products; pearls, precious stones and metals; articles of apparel accessories (both knitted and not knitted); and iron and steel. Peru's export to EU in 2007 amounted to approximately US$5 billion while Colombia's exports to EU in 2009 totaled approximately US$4.7 billion. Peru's major exports to EU were ores, slag and ash; copper and articles thereof; residues, waste from food industry and animal fodder; coffee, tea, mate and spices; and vegetables, fruits and nuts. Colombia's major exports to EU were mineral fuels, oils and distillation products (accounting for 60% of total exports); edible fruit, nuts and citrus fruits; coffee, tea, mate and spices; iron and steel; and live trees, plants and roots. There seems to be no sectoral overlap (between India and Peru) of exports to the EU. However, as a result of the agreements mentioned above, EU could prefer to import mineral fuels, oils and distillation products and iron and steel from Colombia rather than India, resulting in losses for India.

India's exports to Colombia in 2008 totaled approximately US$ 571 million with the top five exports being mineral fuels, oils, and distillation products; vehicles, other than railway or tramway; cotton; organic chemicals; and pharmaceutical products. EU's exports to Colombia in 2009 totaled a much larger US$4.5 billion with the major exports being aircraft, spacecraft and parts thereof; nuclear reactors, boilers and machinery; pharmaceutical products; electrical and electronic equipment; and vehicles other than railway or tramway. There could be a possibility of trade diversion here resulting in losses for India, with Colombia preferring to import pharmaceutical products and vehicles other than railway and tramway from EU instead of India. Peru's major exports to Colombia in 2007 totaled approximately US$ 616 million with the major exports being copper and articles thereof; zinc and articles thereof; plastics and articles thereof; residues, wastes from food industry and animal fodder; and inorganic chemicals, precious metal compounds and isotopes. There seems to be no possibilities of sectoral overlap here.

India's exports to Peru in 2008 totaled approximately US$403 million with the major exports being articles of iron and steel; cotton; vehicles other than railway and tramway; iron and steel; and rubber and articles thereof. EU's exports to Peru during the same year totaled approximately US$3.2 billion with the top five exports being nuclear reactors, boilers and machinery; electrical and electronic equipment; iron and steel; articles of iron and steel; and vehicles other than railway and tramway. There is a possibility of trade diversion here where Peru could prefer to import iron and steel and articles thereof and vehicles other than railway and tramway from EU rather than India, thereby resulting in losses for India. Colombia's exports to Peru in 2009 totaled approximately US$788 million with the major exports being plastics and articles thereof; mineral fuels, oils, and distillation products; essential oils, perfumes, and cosmetics; paper and paperboard, and articles of pulp; and sugars and sugar confectionary. There do not seem to be any possibilities of sectoral overlap here which could result in losses for India.

Food for Thought:

It is interesting to note that although nuclear reactors, boilers and machinery is India's fourth largest export to the world (accounting for 4.4% of total exports) and its sixth largest export to EU (accounting for 5.2% of total exports), it does not feature as a prominent export to either Colombia or Peru. However, these goods do feature on EU's top five exports to both Peru (accounting for almost 31% of its total exports) and Colombia (accounting for almost 19% of its total exports). This could be a key area for India to explore, which could enhance its trading volumes with Latin American countries.

2. MERCOSUR, Israel FTA becomes effective

The free trade agreement between Mercosur and Israel, the first out of the region for the South American block, became effective this week for Paraguay. For the rest of Mercosur full members, Argentina, Brazil and Uruguay the official date is April first.

According to the Paraguayan Foreign Affairs Ministry, the agreement will help boost bilateral trade with Israel in a ten year period, through the concession of tariff preferences for a universe of approximately 8.000 products, mainly manufactured goods.

Of that total, 83% (approximately 6.674) products are immediately benefited from the tariff reduction. Paraguay's share is of 527 export products with 80% effective this week.

However for Israeli produce the timetable is more gradual: immediate effect for 26% of items, 10% in four years, 36% in eight years and 38% in ten years.

The Mercosur-Israel agreement also contemplates animal and plant health measures, customs cooperation, safeguards and mechanisms to solve disputes, plus cooperation and technology transfer.

The free trade agreement with Israel was signed in Montevideo on 18 December 2007.

Source: http://en.mercopress.com/2010/03/25/mercosur-israel-free-trade-agreement-becomes-effective

CUTS Comments:

India's exports to MERCOSUR in 2008 totaled US$3.74 billion with the major exports being mineral fuels, oils and distillation products; organic chemicals; electrical and electronic equipment; miscellaneous chemical products; and nuclear reactors, boilers and machinery. Israel's exports to MERCOSUR during the same period totaled US$1.33 billion with the top five exports being fertilisers; miscellaneous chemical products; electrical and electronic equipment; organic chemicals; and nuclear reactors, boilers and machinery. There are large possibilities of sectoral overlap here, where MERCOSUR could prefer to import organic chemicals; electrical and electronic equipment; miscellaneous chemical products; and nuclear reactors, boilers and machinery from Israel instead of India. These products account for 21% of India's total *exports to the region, and the occurrence of any trade diversion could result in significant losses for India.*

India's exports to Israel in 2008 totaled US$1.6 billion with the top five exports being pearls and precious stones; organic chemicals; plastics and articles thereof; aircraft, spacecraft and parts thereof; mineral fuels, oils and distillation products. MERCOSUR's exports to Israel totaled approximately US$736 million during the same year with the major exports being meat and edible meat offal; sugar and sugar confectionary; oilseed and oleagic fruits; cereals; and vegetables, fruits and nuts. There do not seem to be any possibilities of sectoral overlap here.

Food for Thought:

The adverse impacts on India's trade relations with MERCOSUR could be neutralised to a certain extent by India's existing PTA with this group which became effective on June 1, 2009. The major products in Indian offer list do include organic & inorganic chemicals, machinery and electrical equipment. However, since India only has a PTA with MERCOSUR as opposed to the FTA between Israel and the Latin American group, there could still be some trade diversion in favour of Israel.

3. HK, NZ sign economic partnership pact

Hong Kong and New Zealand have signed a closer economic partnership agreement to enhance trade and investment flows between the two places - Hong Kong's first free trade pact with a foreign economy.

The agreement is expected to come into force in the last quarter of 2010, after necessary domestic procedures are completed.

Financial Secretary John Tsang and other guests witnessed Secretary for Commerce & Economic Development Rita Lau and Minister of Trade of New Zealand Tim Groser sign the agreement at a ceremony in Hong Kong (March 29).

Under the agreement, liberalisation measures on both trade in goods and services will be introduced. The two sides will also work to strengthening bilateral trade and economic ties by facilitating investment and movement of business people.

New Zealand will phase out over six years its import tariffs on all goods originating from Hong Kong. Upon complete elimination of New Zealand's tariffs, Hong Kong's annual tariff saving is estimated to be about HK$7 million on the basis of average merchandise trade figures from 2006 to 2008.

Hong Kong service providers and the services they provide will enjoy secured preferential opportunities in the New Zealand market in a variety of sectors.

The agreement encompasses maritime transport services, logistics and related services, audiovisual services and business services, computer and related services, management consulting services, and services incidental to manufacturing.

It also includes the six industries where Hong Kong enjoys clear advantages: education, medical services, testing and certification, environmental industries, innovation and technology, and cultural and creative industries.

Restrictions in the form of limitations on foreign capital, number of service providers or operations, value of service transactions, number of persons employed, types of legal entity or joint-venture requirements will be eliminated in a variety of service sectors in the New Zealand market.

Hong Kong service providers and the services they provide in a wide range of sectors will be treated no less favourably than their New Zealand counterparts in similar circumstances. They will also automatically enjoy more liberalisation measures which New Zealand undertakes in its future free trade agreements with other trading partners.

Without compromising legitimate immigration control, business people of the two economies in the categories of business visitors, intra-corporate transferees, and installers or servicers in specified service sectors will be granted temporary entry into Hong Kong and New Zealand under favourable conditions.

To enhance bilateral investment flows, the two sides have agreed to negotiate an Investment Protocol to the Closer Economic Partnership Agreement, with a view to concluding the investment negotiations in two years' time after the Closer Economic Partnership Agreement has entered into force.

The investment negotiations will cover elements that aim to enhance the promotion and protection of investments between the two economies, including non-discrimination, fair and equitable treatment, full protection and security.

Source: http://www.hkmonitor.org.hk/hketo3_story1.html

CUTS Comments:

India's main exports to Hong Kong (HK) in 2008 were pearls and precious stones; electrical and electronic equipment; raw hide and skins; silk; and copper and articles thereof – and amounted to US$6.7 billion. New Zealand's (NZ) exports to HK totalled US$499 million during the same year and was mostly made up of fish, crustaceans, molluscs; meat and edible meat; dairy products and eggs; raw hide and skins; and live animals. The free trade agreement between NZ and HK may encourage HK to import raw hide and skins from NZ instead of India, resulting in some losses for India.

NZ's imports from India during 2008 totalled US$203 million in 2008 and mainly consisted of aircraft, spacecraft and parts thereof; nuclear reactors, boilers and machinery; pharmaceutical products; pearls and precious stones; and inorganic chemicals and precious metal. The Oceanic country's main imports from HK during 2008 amounted to US$143 million and was mostly made up of electrical and electronic equipment; nuclear reactors, boilers and machinery; articles of apparel; printed books and newspapers; and toys and games. Again there is potential for some sectoral overlap here with NZ preferring to import nuclear reactors, boilers and machinery from HK instead of India.

Food for Thought:

India and Hong Kong have so far not begun any talks on a possible trade agreement between the two countries. Given Hong Kong's strength in industries such as education, medical services, environmental industries and innovation and technologies; a comprehensive agreement encouraging investment by HK in India in these areas may benefit India tremendously.