

'Duty cuts only if automakers use 45% local parts'

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New Delhi, 21 December

The Indian government has proposed to provide duty cuts for British automobile makers in the UK-India free trade agreement (FTA) only if they increase the utilisation of local components in their vehicles to 45 per cent. This demand has faced resistance from the UK, which prefers to maintain localisation at 25 per cent.

The UK side has also opposed India's proposal to provide duty cuts for electric vehicles priced above \$85,000 (about 70 lakh).

"The UK is hesitant to raise its domestic value addition to 45 per cent, yet they are pressing for substantial duty cuts. Non-adherence to the stricter rules of origin could defeat the purpose of the FTA," a senior government official said.

The 'rules of origin' provision in the agreement ensures that a country, which has entered into an FTA with India, cannot introduce goods from a third country into the Indian market solely by rebranding them. They must incorporate a specified value addition in the product to export it to India. The rules of origin serve to restrict the influx of dumped goods.

India's demand for stringent 'rules of origin' guidelines stems from the potential risk of British automakers exporting vehicles assembled with components imported from China in the event of any reduction in these requirements.

FINDING MIDDLE GROUND



▶ UK prefers to maintain localisation at 25 %

▶ It has opposed India's proposal to provide duty cuts for EVs priced above \$85,000

▶ UK seeks for a decrease in duties for all EVs to the range of 15-20 %

▶ If India agrees to the demands, UK will be able to export nearly 40,000 cars without paying import duty

exports are becoming less vulnerable to changes in world demand and relative prices.

While a decline in elasticities is favourable in the presence of downside risks, such as a fall in global demand and an appreciation of exchange rates, it may not be beneficial during boom periods and could result in exports rising by a lower proportion in response to a rise in global demand or a depreciation of the exchange rate, the advisors pointed out.

In this context, an important step would be to hedge against downside risks emerging from less favourable growth in world demand and relative prices, they prescribed.

Calling skewed access to education and health as bad inequalities, the economic advisors noted the government has initiated steps, such as the Ayushman Bharat and towards improving schools' basic facilities and pupil-teacher ratio, besides the National Education Policy, to mitigate these gaps.

They said a steadfast commitment to these steps shall nurture the human capital in the country, making it the strongest pillar of India@100.

Lauding the role of India in the recent G20 presidency, the economists of the finance ministry said it contributed to advancing global multilateralism by putting in place a clear, ambitious, and pragmatic global agenda despite geopolitical differences.

UK FTA...

In the EV segment, the Indian side has proposed a duty reduction to 85 per cent from 100 per cent for cars priced above \$85,000. The UK has asked for a

reduction in duties for all EVs in the range of 15-20 per cent. Presently, fully assembled cars priced above \$40,000 (₹34 lakh) incur a 100 per cent tax, while those below \$40,000 face a 70 per cent charge.

"Domestic manufacturers are against substantial duty reductions. India aims to propose a solution that benefits both sides," the official said.

Import tariffs for EVs have been steep because the government has been protecting its domestic EV industry, which is a sunrise sector. Another factor is that the government is keen on establishing India as a manufacturing hub, and reducing tariffs could impede progress on this.

Additionally, the UK has requested a tariff rate quota (TRQ) for its cars, seeking to export 1 per cent of India's total car sales without any duty. "The quantity of cars exported will vary every year, depending on India's sales," another person aware of the development said.

TRQ is a two-tiered trade restriction that combines elements of both tariffs and quotas. It's like a hybrid system that allows a certain amount of a good to be imported at a lower tariff rate (in-quota tariff), but once that amount is met, any additional imports are subject to a higher tariff rate (out-quota tariff).

If India agrees to the demand, the UK will be able to export around 40,000 cars without paying import duty. India sold around four million cars in 2022.

India and the UK launched the talk for the FTA in January 2022, with an aim to conclude the talks by Diwali (October 22, 2022), but the deadline was

missed due to political developments in the UK.

In addition to automobiles, the ongoing negotiations encompass areas such as a social security pact, medical devices, the movement of professionals, rules of origin, intellectual property rights (IPRs), as well as discussions on products like scotch

whiskey, lamb meat, chocolates, and the liberalisation of norms within service sectors like banking and insurance.

With general elections in both countries next year, the window for a trade deal is rapidly closing. The fourteenth round of FTA negotiations will take place in January 2024.

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