

India and Iran to Begin Trade Pact Talks in the Time of US Sanctions

A preferential trade agreement with Iran will give India greater market access for its pharma products, rice & auto components

New Delhi: India will soon begin talks with Iran on a trade accord just as the US has turned hostile toward the Persian Gulf nation, threatening it with renewed sanctions after walking out of a nuclear accord with the country.

The first round of formal negotiations on a preferential trade agreement (PTA) will be held between India and Iran by August, said people with knowledge of the matter.

Such an accord will see the two giving duty concessions to each other's goods, enabling greater market access for India's pharmaceutical, rice and auto component exports.

"We are making our wish lists," said one of the officials. "The first round of text-based negotiations will take place in a month or two."

Talks on a PTA began two years ago, then slowed because Iran had

Preferential Pact

India & Iran to start first round of PTA talks by August

Talks coincide with US sanctions against Iran taking effect | India looks to boost exports of pharmaceuticals, rice, auto components

- ▶ Plans to sign the pact began two years ago
- ▶ But process slowed after Iran sought clarity on GST
- ▶ Official say PTA talks and US sanctions not related

\$2.6 bn:
India's exports
to Iran in FY18



\$11.1 bn:
Imports in
FY18



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Govt official

concerns about India's indirect tax structure.

"Most of Iran's exports to us are intermediates," the official said. "Initially, they had problems with countervailing duty and its adjustment in the pre-GST (goods and services tax) regime but now it is confident of the new tax structure."

Iran has sought details on India's tax structure before and after the imposition of GST on around 100 products including urea, various dry fruits and chemicals.

India implemented GST on July 1 last year.

On the issue of PTA talks gaining momentum when the US was becoming belligerent on sanctions, another commerce department official said the two were

mutually exclusive of each other. "PTA is a permanent thing while sanctions are temporary. Moreover, there is already an existing solution — the rupee payment mechanism — which is working," the second official said.

Banks haven't objected to India going ahead with the pact despite the threat of sanctions, the official said. "In fact, with a PTA, banks will have to process less payments due to reduction of duties," he added.

Iran's major exports to India are oil, fertilisers and chemicals while imports include cereals, tea, coffee, spices and organic chemicals.

"India can benefit on products such as pharmaceuticals, man-made staple fibre, iron and steel,

tea, coffee, spices and chemicals", said Ajay Sahai, director general, Federation of Indian Export Organisations.

The two sides agreed to undertake text-based negotiations on PTA as well as the conclusion of a bilateral investment treaty in a fixed time frame during Iranian president Hassan Rouhani's visit to India in February.

"India never stopped trading with Iran even when there were US and EU sanctions on that country. Going ahead with a PTA now is a strong signal of our trade partnership," said an expert on trade issues.

India's exports to Iran were \$2.6 billion in FY18 while imports were \$11.1 billion.

The US withdrew from the nuclear accord in May alleging that Iran had violated the terms of the deal aimed at curbing the country's bid to develop nuclear weapons, raising the prospect of renewed sanctions.