NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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UAE - Israel Free Trade Deal enters into force

A MARKET INTELLIGENCE REPORT

Summary

- The UAE’s Comprehensive Economic Partnership Agreement (CEPA) with Israel entered into force on 1 April. Both countries estimate that bilateral trade will grow from US$2 billion to US$10 billion over the next five years as a result of the agreement.

- The CEPA itself was very comprehensive compared with the UAE’s earlier CEPA with India, particularly on goods market access. This confirms to many that the UAE can commit to high-quality outcomes in a bilateral trade agreement outside of the Gulf Cooperation Council.

- For Aotearoa New Zealand exporters, the conclusion of the UAE - Israel CEPA provides potential to better enter the Israeli market via the UAE – the region’s main international trading hub.

Report

On 1 April the United Arab Emirates (UAE) – Israel Closer Economic Partnership Agreement (CEPA) entered into force after being concluded in May 2022. The entry into force of the CEPA is a significant milestone for the Israel – UAE bilateral relationship that was only initiated after the 2020 Abraham Accords. The CEPA adds to the growing economic architecture between Israel and UAE, which includes a bilateral Investment Protection and Promotion Agreement. Both countries announced that they expect that the CEPA will lead to a jump in bilateral trade from the current US$2 billion to US$10 billion after five years and the UAE estimates that the agreement will increase its GDP by 0.4% by 2030. An official handbook about the CEPA and the full text can be found on the UAE Ministry of Economy's website.

After India, this is the second UAE CEPA to enter into force and the release of the agreement text was awaited with interest by many analysts to provide an indication of how comprehensive the UAE could be in terms of a bilateral trade agreement. The earlier India – UAE CEPA text was focused on services and investment outcomes, with less ambition on goods market access.

Comprehensive goods access

In terms of goods market access, the Israel CEPA was far more comprehensive than the Indian agreement – for full details see the CEPA goods tariff finder here. The Goods Chapter included split schedules for the UAE and Israel, with the UAE Ministry of Economy reporting that the combined schedules covered 96% of all tariff lines and 99% of value of goods trade. The 4% of excluded goods primarily focused on products with controlled regulatory regimes in both countries and it seems from a general view that Israel retained more restrictions on goods than the UAE.

The agreement includes most favoured nation (MFN)* provisions for most Israeli exports entering the UAE, which already has low tariff rates compared to most countries in the region (i.e. generally 5% on food products and 10% for machinery products). The goods schedules are particularly noteworthy in terms of key products of interest to Aotearoa New Zealand exporters in the UAE, with key highlights including:

- Virtually all beef and sheep meat lines go from the UAE's 5% base rate to 0% on EIF;
- Most dairy products impose a 80% MFN rate of the UAE's 5% base (i.e. 4% MFN) on EIF, with seemingly no mention of further reductions;

*Most-Favoured-Nation" ("MFN") treatment — requires WTO Members to accord the most favourable tariff and regulatory treatment given to the product of any one Member at the time of import or export of "like products" to all other Members.

- The majority of fish products are reduced to 0% on EIF with 5% retained for products at the margins (e.g. live fish);
- The majority of vegetable and fruit tariff lines are reduced to 0% on EIF, with most others reduced to 0% after 3 or 5 years;
- The majority of machinery goods go from 5%-10% to 0% on EIF, with others (e.g. wood processing machines) going to 0% after 3 - 5 years.

Services

In global terms, both the UAE and Israel are already relatively free markets for services, but the CEPA provides for certainty of entry in a range of sectors while maintaining both parties ability to agree to other commitments in the WTO or with other countries (i.e. no MFN commitment). Sectors of interest include communication, distribution, financial, management consultancy etc. For example, in most of these service sectors the CEPA allows for 100% equity participation for both countries' companies in their respective markets.

Technical barriers to trade (TBTs), Sanitary and Phytosanitary Standards (SPS) and Government Procurement

The CEPA includes some relatively liberal TBT and SPS provisions, including establishing a framework to ensure companies can access each other's markets without being subject to TBTs. This will be implemented by ensuring mutual recognition of standards, regulations and assessment procedures. The SPS chapter mirrors many of these provisions, including commitments to equivalency and strengthening cooperation between regulatory bodies.

Dispute resolution, SMEs and digital

The CEPA establishes a provision to establish an independent arbitration panel in case of disputes. Unlike some of the UAE's existing investment promotion agreements, this dispute mechanism only extends to state parties. The SME and digital chapters are excluded from the dispute resolution mechanism. The SME chapter also includes commitments to promote women-led SMEs.

In other/new areas, the CEPA includes a chapter laying down rules and standards on digital trade, with guarantees for open flow of data while maintaining intellectual property rights on digital trade. The Agreement also includes a SME chapter that has specific provisions to promote digital and women-led SMEs entering into international trade.

Link with wider CEPA policy

As noted in previous reporting below, the UAE is focusing its trade policy agenda on concluding bilateral CEPAs outside of the Gulf Cooperation Council format. The UAE's Minister of Foreign Trade Dr Thani Al Zeyoudi said last month that the UAE has currently concluded, or is working towards 26 bilateral CEPAs. Of these, India and now Israel have entered into force while deals with Indonesia, Turkey and Georgia have been concluded and are expected to enter into force over the next few months. The UAE continues to announce the initiation of CEPA negotiations with a number of countries, most recently with Viet Nam earlier this month.

Opportunities for Aotearoa New Zealand firms to leverage

The UAE is an important market for Aotearoa New Zealand exporters, with goods exports totalling NZ$870 million for the year ending June 2022. A number of Aotearoa New Zealand companies use the UAE as a base for wider operations into the region, with Dubai being a key re-export hub to other GCC markets – especially Saudi Arabia and other Gulf countries. Aotearoa New Zealand's economic links with Israel are more modest, with its exports to the Israeli market only totalling NZ$42.3 million for the year ending June 2022. The UAE's opening of relations with Israel since 2020 potentially creates an easier opportunity for Aotearoa New Zealand exporters to access the Israeli market. For example, firms could establish utilise one of the UAE's dozens of Free Zones to facilitate re-export of products to the Israeli market. Israel is now easier than ever for New Zealanders to access, as Emirates Airlines based in Dubai and Etihad Airlines based in Abu Dhabi have greatly expanded their air connections to Tel Aviv.

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