CUTS Memorandum to SAFTA Committee of Experts and SAFTA Ministerial Council

Background & Context

The Agreement on South Asian Free Trade Area (SAFTA Agreement) was signed on 6 January 2004 during Twelfth SAARC Summit held in Islamabad, Pakistan. The Agreement entered into force on 1 January 2006, and the Trade Liberalisation Programme commenced from 1st July 2006. Following the Agreement coming into force the SAFTA Ministerial Council (SMC) has been established comprising the Commerce Ministers of the Member States. To assist the SMC, a SAFTA Committee of Experts has been formed. The SAFTA Committee of Experts is expected to submit its report to SMC every six months. The SAFTA Agreement states that the "the SMC shall meet at least once every year or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the SMC for a period of one year on rotational basis in alphabetical order. (http://www.saarc-sec.org/areaofcooperation/detail.php?activity_id=5)

The 9th Meeting of the SAFTA Committee of Experts is scheduled to be held in Thimphu, Bhutan on 22-23 July 2014. It will be followed by the 8th Meeting of the SAFTA Ministerial Council in Thimphu on 24 July 2014.

At this meeting of the SAFTA Committee of Experts, the SAARC Chamber of Commerce & Industry (SAARC CCI), an apex body of industry associations of eight member countries of the South Asian Association for Regional Cooperation, will make a presentation on the future agenda for regional trade liberalisation.

In this context, SAARC CCI has requested CUTS International, a leading non-governmental organisation promoting consumer welfare through policy research, advocacy, networking and capacity building on trade, regulations and governance, to provide its recommendations on specific issues, which will be discussed at the 9th Meeting of the SAFTA Committee of Experts.

Even after more than eight years of implementation of the SAFTA Agreement (and other bilateral trade agreements currently in operation in the region), South Asia remains one of the least integrated regions in the world. Though the level of intra-regional trade has increased from 2.7 per cent of South Asia's global trade in 1990 to about 6 per cent in 2013, it is still very low when compared with corresponding figures from other regions. This low intra-regional trade growth has impacted consumer and producer welfare gains through trade.

A 2012 CUTS Study on 'Cost of Economic Non Cooperation to Consumers in South Asia' estimated that consumers of South Asian countries can approximately gain US$ 2 billion annually by way of savings on aggregate consumer expenditure if certain products are imported from within the region than from outside. This represents only a minimum level of static gain based on existing tariff structure, which constitutes only 15 to 20 per cent of cost of doing trade in South Asia.

This 'memorandum' provides a set of recommendations to the SAFTA Committee of Experts and the SAFTA Ministerial Council. They will positively impact intra-regional trade and welfare in South Asia through enhanced producer and consumer welfare gains, employment generation, etc.

<table>
<tr><th>Sensitive List of Items</th><th>Recommendations</th></tr>
<tr><td>The Working Group on Reduction in the Sensitive List has completed its exercise of reducing the Sensitive Lists of all countries, except Bhutan, by 20 per cent. The number of Products in the Revised Sensitive List (Phase-II, with effect from 1 January 2012) are as follows (figures in brackets are number of products in Phase -I):

• Afghanistan: 858 (1072)

• Bangladesh: 987 (from least developed countries; 1233), 993 (from Non-LDCs; 1241)

• Bhutan: 156 (150)

• India: 25 (from LDCs; 480), 614 (from Non-LDCs; 868)

• Maldives: 154 (681)

• Nepal: 998 (from LDCs; 1257), 1036 (from Non-LDCs; 1295)

• Pakistan: 936 (1169)

• Sri Lanka: 837 (from LDCs), 963 (from Non-LDCs) (1082)</td><td>Sensitive list of items under the SAFTA Agreement need to be further reduced in order to enhance trade between and among South Asian countries, particularly for strengthening regional supply chains.

In case of Pakistan, if a selection of 44 product lines from its sensitive list is done, there could be an aggregate annual saving of US$ 206.18 million, which is close to 60 per cent of Pakistan’s current import bill on such products.</td></tr>
<tr><th>Reduction in Tariff</th><th>Recommendations</th></tr>
<tr><td>Tariff Reduction Schedule of Non-LDCs

• India, Pakistan and Sri Lanka have completed their respective Tariff Liberalisation Programme – from 20 per cent to zero to five per cent in a series of annual cuts.

Tariff Reduction Schedule of LDCs

• By 2016, Bangladesh, Bhutan, Maldives and Nepal are to reduce their tariffs from 30 per cent or below to 0-5 per cent, preferably in equal annual instalments.</td><td>Further reduction in tariffs in the existing as well as potential traded products would lead to further opening trade for each of the South Asian countries.

For instance, the granting of non-discriminatory market access status to India by Pakistan may result in substantial tariff reduction in current and future traded products between the two countries.</td></tr>
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Rules of Origin	Recommendations
In order to avail preferential tariffs under the SAFTA Agreement, the following 'rules of origin' requirements will have to be fulfilled: • Change in tariff heading of the final product at the four-digit level and six-digit level of the HS Code • Minimum domestic value addition of 40 per cent in the freight on board (FoB) value of exported product of non-LDC Member States and 30 per cent of LDC Member States • Regional cumulation: i) aggregate content (that is the value of inputs originating in SAARC Member States plus domestic value addition) should not be less than 50 per cent of the FoB value of export and ii) domestic value content (that is the value of inputs originating in the exporting Member State plus domestic value addition for further manufacturing in the exporting Member State) should not be less than 20 per cent of the FoB value of export	Amendments to the provisions of 'regional cumulation' will reduce the complexities of doing intra-regional trade and will strengthen regional supply chains. The Bali Decision on Rules of Origin for LDCs, as agreed by the World Trade Organisation Members, has proposed non-reciprocal rules of origin for LDCs, considering their productive capacities. It is important to have a similar provision in the SAFTA Agreement, which will not only streamline the application of 'rules of origin' to intra-regional trade but also it will enhance the capacity of LDC Member States to better access regional markets.
Compensation Mechanism for LDCs	**Recommendations**
The Mechanism for Compensation of Revenue Loss is to be enforced one year after the implementation of tariff reduction (that is after July 2007) and will remain operative for four years. The compensation to LDCs (except to Maldives) will be available for four years and to Maldives for six years. The compensation was subject to a cap of one per cent, three per cent and five per cent of customs revenue collected on groups of non-sensitive items under bilateral trade in the base year.	The Mechanism for Compensation of Revenue Loss should be amended by assessing its effectiveness and what is needed in future. The amended agreement on the Mechanism for Compensation of Revenue Loss should have a provision that in future 'compensated revenue' should be utilised for improving trade facilitation measures, particularly trade-related infrastructure at specific land ports, which are mostly used for cross-border trade.

Trade Facilitation	Recommendations
The SAFTA Agreement has clearly emphasised the need for improving trade facilitation by simplifying rules and regulations pertaining to customs clearance, harmonisation of standards, reciprocal recognition and other inter-related areas. Despite all this, trade facilitation in South Asia remains a key challenge. For instance, in respect to 'Trading Across Borders', in 2013, India was ranked 132 out of 189 countries, while Bangladesh, Nepal, Pakistan and Sri Lanka were ranked 130, 177, 91 and 51, respectively.	SAFTA Member States need to take the following specific steps to improve their ranking on 'Trading Across Borders': • Development of Integrated Check Posts on all major land custom stations of India and corresponding development on the other side of these land ports • A regional agreement on standards, which should have, among others, provisions for mutual and reciprocal recognition of standards and development of regional standards by the South Asian Regional Standards Organisation • A regional agreement on customs clearance procedures, identifying areas of simplification and harmonisation • A regional agreement on transport and transit facilitation