

# **NON TARIFF BARRIERS TO TRADE NORMALIZATION BETWEEN INDIA AND PAKISTAN**

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14<sup>th</sup> March, 2013

- Progress on Trade Normalization
- Bilateral Trade Trends
  - Post the abolition of the Positive List
- Tariff Regime of India & SAFTA
- Non-Tariff Barriers
  - By Instrument
  - By Sector
  - By Port & Transport Protocols
- Recommendations

# Trade Normalization – Key Milestones



*Positive measures continue to gain momentum towards trade normalization*

Feb 2012

- Pakistan abolished the Positive List
- Pakistan committed to grant an MFN status to India by 31 Dec 2012

Aug 2012

- India opened Investments to Pakistan

Sep 2012

- India committed to 30% reduction of SAFTA Sensitive List
- Both Countries committed to reduce the Sensitive List to 100 items
- 3 agreements were signed to address NTBs

Oct 2012

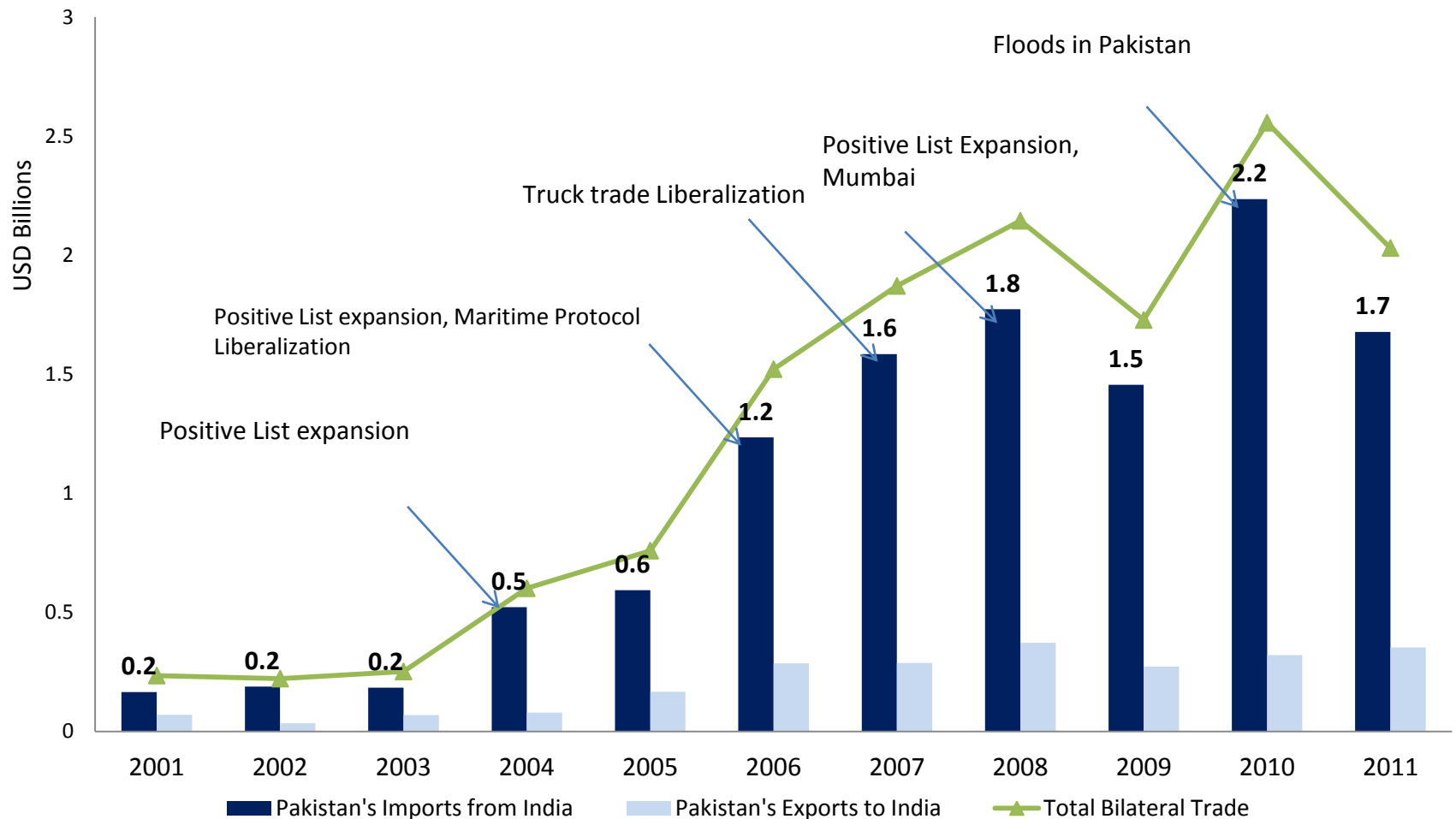
- Pakistan committed to phase out the restricted list of imports at Wagah

Jan 2013

- Visa liberalization implemented as scheduled (despite LOC skirmishes)
- SAFTA operational

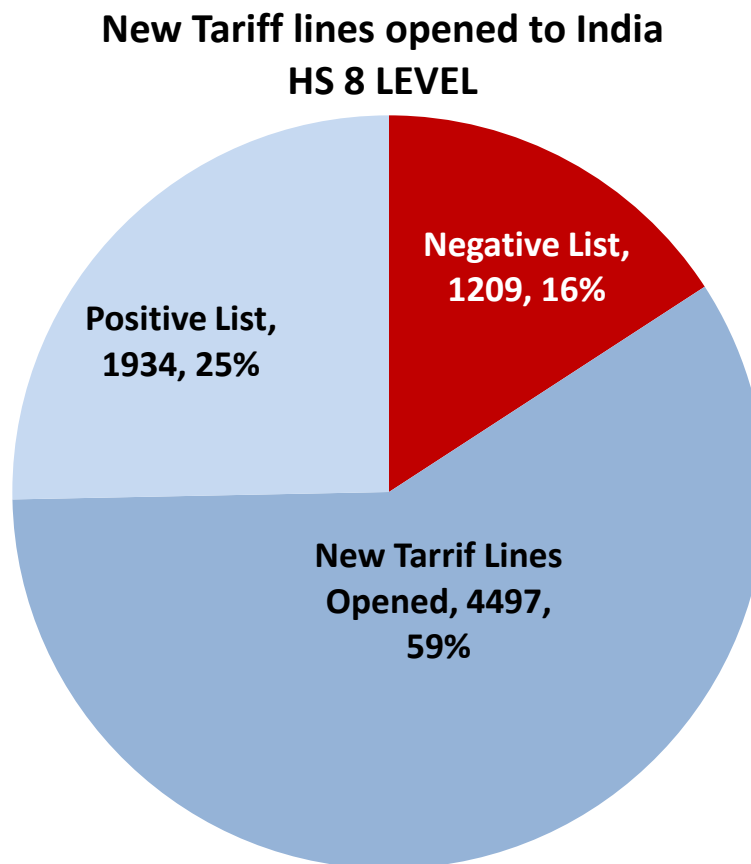
# Bilateral Trade 2001-2011

*Addressing NTBs has increased bilateral trade ten-fold in the past decade*



# Trade Liberalization with Pakistan's Transition from Positive to Negative List

*Pakistan has now opened over 80% of imports from India to Pakistan.  
Of the new tariff lines opened 20% are in Agriculture and 36% are in Textiles*



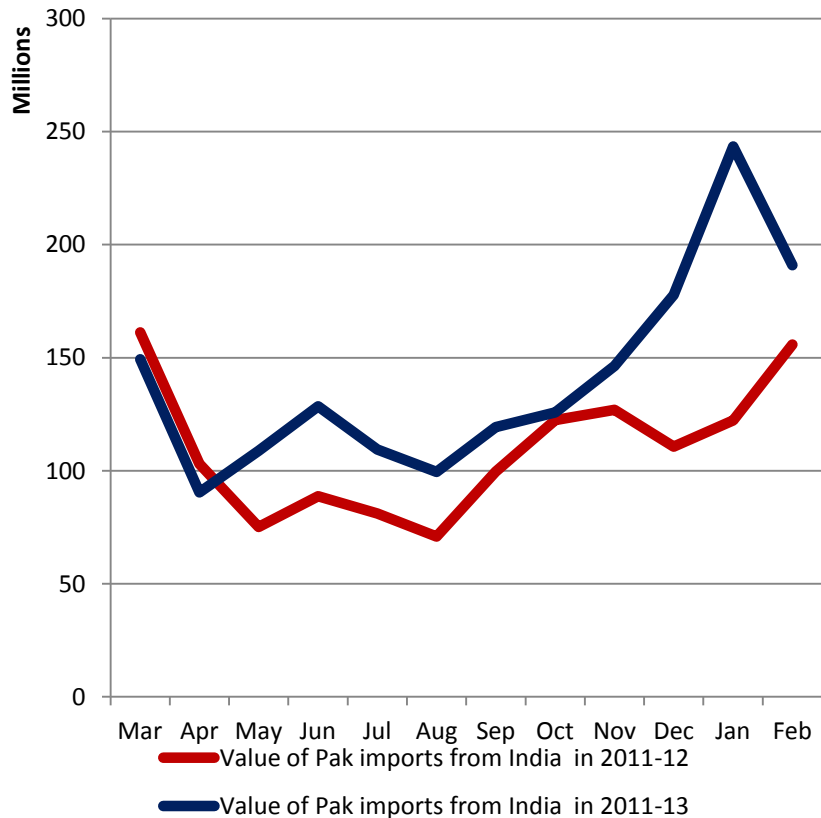
# Bilateral Trade Post Positive List

March 1, 2012 – Feb 28, 2013

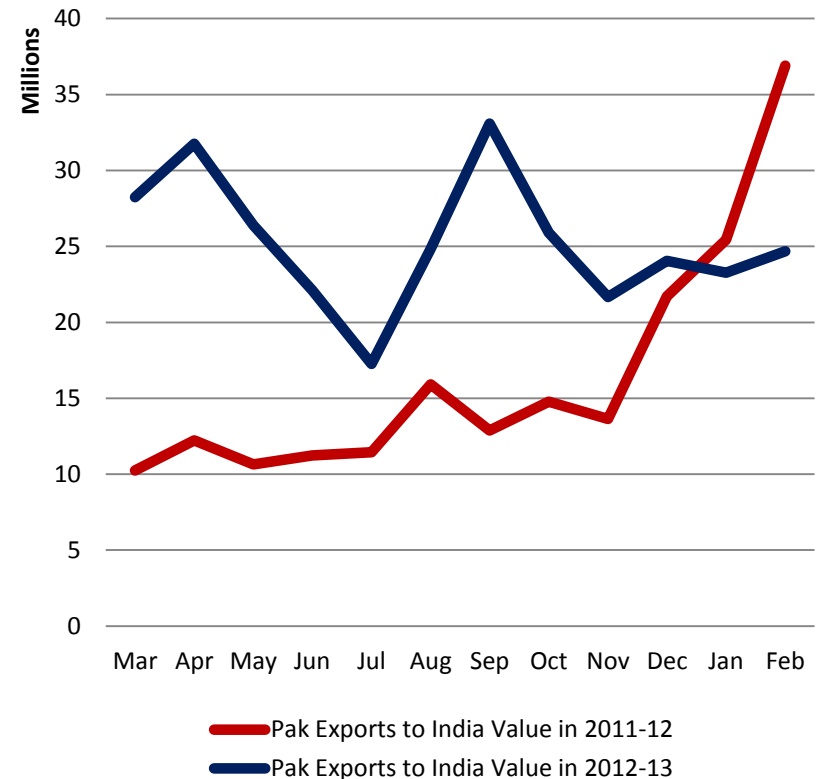


*Strong upward trend in India's Exports to Pakistan over the past year*

## India's Exports to Pakistan

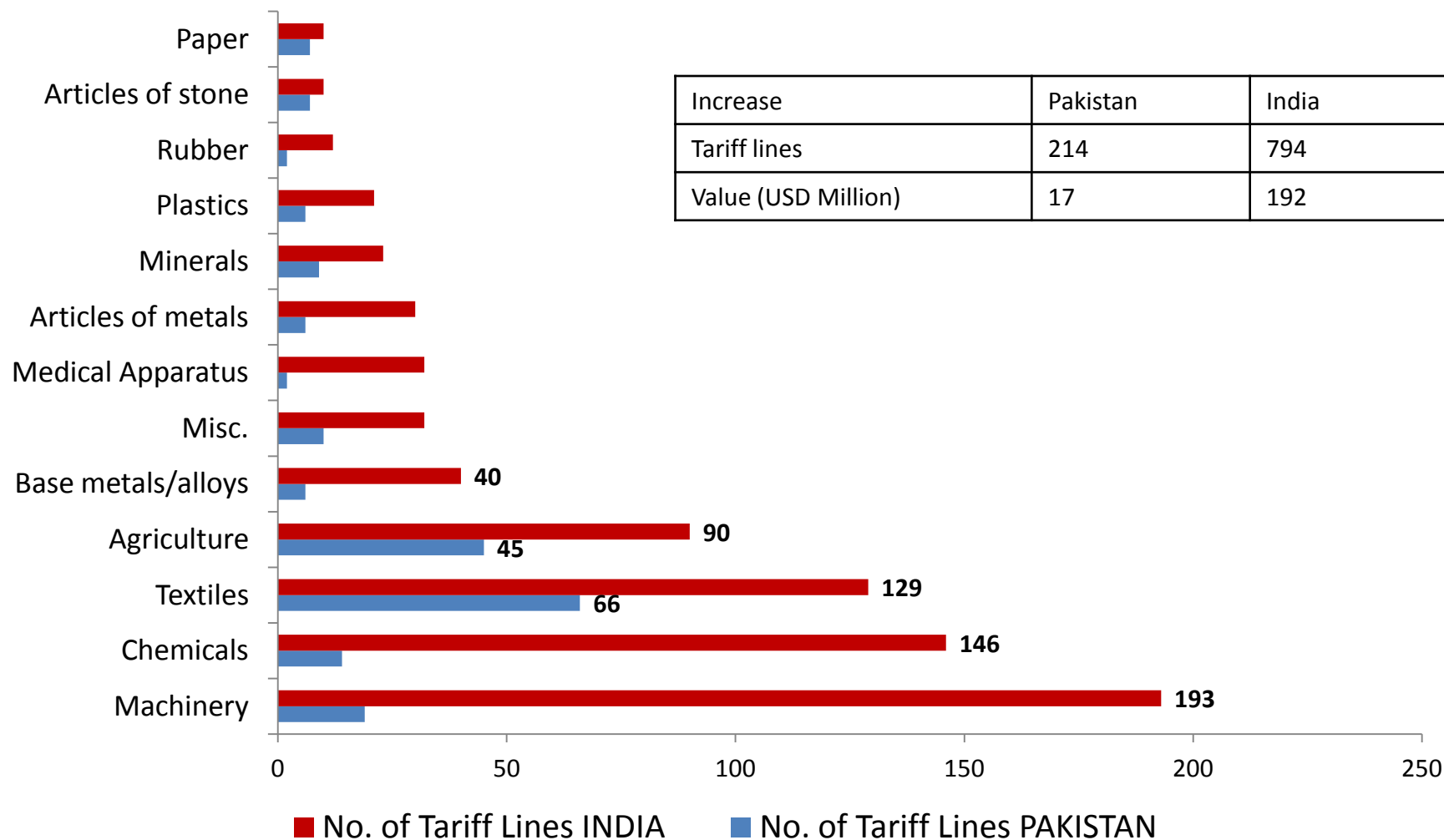


## Pakistan's Exports to India



# Export Diversification Post Positive List

*India's exports to Pakistan increased by 794 tariff lines after positive list removal*

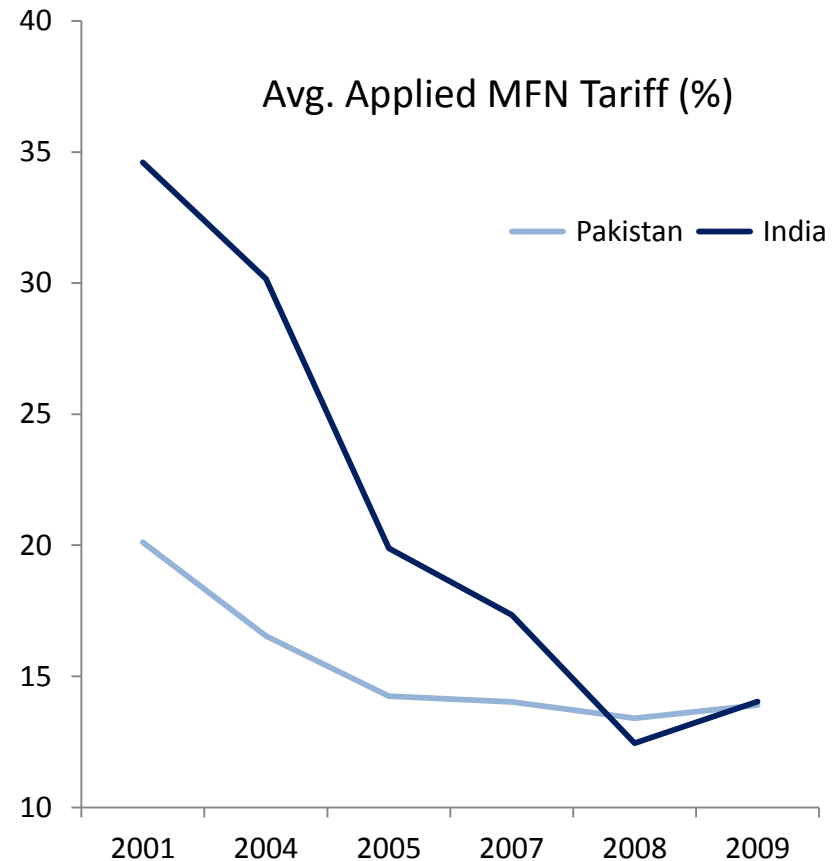


Increase	Pakistan	India
Tariff lines	214	794
Value (USD Million)	17	192

# Tariff Barriers

*Despite reductions, India's Tariff's remain high on items Pakistan can export*

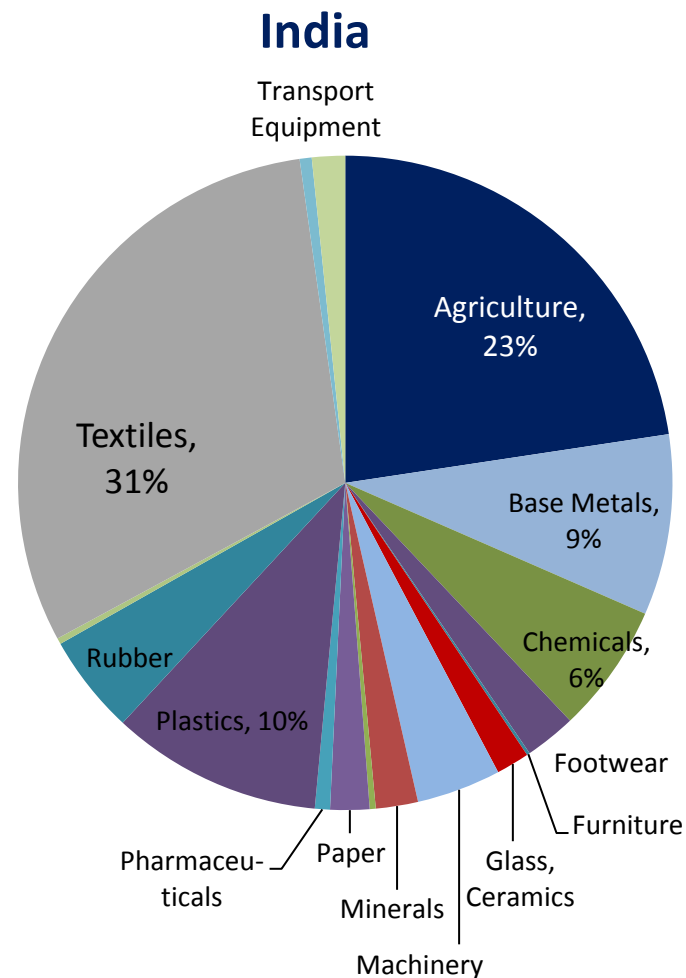
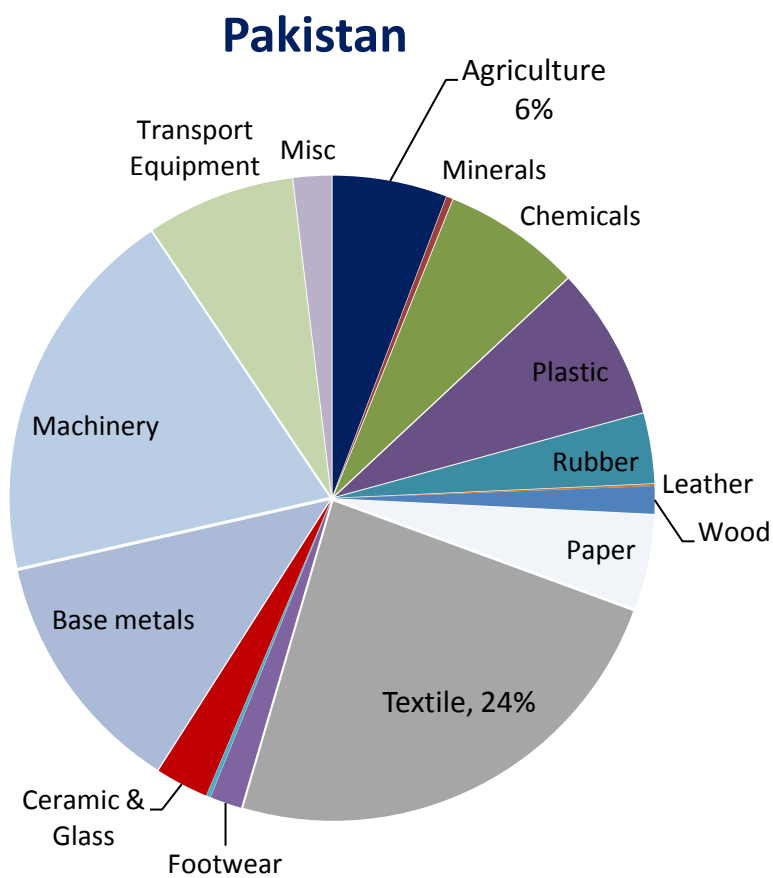
- India's tariff regime protects agriculture
- Composite taxes are levied on textiles and clothing
- India has relatively more protective tariff regime for Pakistan in the SAARC region
  - Sensitive list for LDCs to only 24 items for Bangladesh
  - FTA with Nepal, Bhutan and Sri Lanka and a PTA with Afghanistan
- India reduced the Sensitive List for Pakistan in September, 2012 by 30 percent (262 items)





# Comparison of Sensitive Lists of Pakistan and India (30% Reduction)

*Agriculture comprises 23% of India's revised sensitive list, while the corresponding number for Pakistan is only 6%*



# NTBs

- An open-ended survey was conducted to interview 86 exporters of products identified as high potential exports
- Company profile was extracted from Customs PRAL database
- The following stakeholders interviewed in person and/or by telephone
  - ✓ Major exporters and new entrants in the Indian market
  - ✓ Companies exhibiting in India
  - ✓ Companies exporting from four routes (sea, road, railway interchange and *Samjhota* Express)
  - ✓ Government Bodies
    - ✓ Pakistan Standards and Quality Control Authority (PSQCA)
    - ✓ Ministries of Commerce, Textile and Industries in Pakistan
- Qualitative input received at 10 seminars conducted at key Chambers of Commerce & Trade Associations attended by over 1,000 businessmen

# NTBS BY INSTRUMENT

# Major NTBs Reported



## Restricted Visa Regime

- Most cited issue

## Customs Entry Procedures

- Customs valuation
- Customs classification (AHTN)
- Import permits
- Import licenses: 442 tariff live animals, vegetable products and mineral products

## Sanitary and Phyto Sanitary Measures

- Applied on almost all plant & animal material imports. 71 notifications including measures on food items including processed food, meat and meat products

## Financial Measures

- No direct banking channels, large L/C's not honored by Indian banks

## Technical Barriers to Trade

- Standards 18,623 Indian BIS standards but only 76 are mandatory
- Labeling requirements negatively impact the export of textiles
- Packaging requirements discourage the export of processed food

## Price control measures

- Minimum Import Price
- Anti dumping & Countervailing duties
- Para tariff measures which increase the average applied MFN rates from 12 to 25.6 %.

## Pre-Shipment Inspection

- Mandatory for textiles & metal scrap

# Major NTBs Reported: Para Tariffs

*Para tariffs increase the effective applied rate three-fold for chemicals and over two-fold for textiles and clothing*

Product/Tariff Line	Effective applied rates	Rate with additional charges
	Average (%)	Average (%)
Total	12	25.6
HS 01-24	35.1	42.6
HS 25-97	8.6	23.1
Cotton	5.5	7.3
Minerals and metals	7.1	21
Chemicals	8.1	<b>23.6</b>
Wood, pulp, paper, and furniture	9.2	21.1
Textiles	9.6	<b>23.5</b>
Clothing	10	<b>22</b>
Leather, rubber, footwear	10.2	25.2

# NTBs BY SECTOR



# NTBs by Sector: Agriculture



Barrier	Issues Cited
Tariff	Average is 33%. Tariffs peaks on sensitive products e.g. sugar, milk, fruits, vegetables, poultry Fresh and frozen chicken cuts are subject to a 100% applied tariff rate.. Rice is 80% and wheat is 50%
Tariff Rate Quotas	19 tariff lines (HS 8) e.g. milk , maize, sugar Allowed only through eligible or designated agencies
Para Tariff Measures	Higher on value added e.g. CVD for orange juice, ethanol 16 %
Subsidies	In India are 3 times as high as subsidies in Pakistan

# NTBs by Sector: Agriculture

<b>Barrier</b>	<b>Issues Cited</b>
SPS	Mandatory for animal and plants imports Phyto-sanitary certificate for 980 items as per PQ Order 2003  Administrative Issues
Import Licensing	Import of live animals and vegetables
Packaging and labeling standards	Regulated by a dozen acts
Quarantine Requirements	Mandatory for animal, plants. Only at designated ports
Lack of handling infrastructure	ISO containers not allowed
Customs Procedures	100 % sampling of consignments of vegetables, fruit and meat

# Comparison of Agricultural Subsidies in India and Pakistan



*Agriculture subsidies per hectare are three times higher in India*

<b>Subsidies</b>	<b>India</b>	<b>Pakistan</b>
	(Million \$)	(Million \$)
	2008-09	2010-2011
Fertilizer	35000.0	1014
Electricity	6000.0	944
Irrigation	5000.2	711
Other <sup>a</sup>	7000.2	7
<b>TOTAL SUBSIDIES</b>	<b>53000.4</b>	<b>2676</b>
Subsidies as % of value Added in Agriculture	23%	6.2%
Subsidies as % of GNP	5.2%	1.2%
Subsidy per hectare (\$)	\$ 297	\$ 118
Subsidy as % of Value Of Production	15.3 %	4.9%
Source: WTO Trade Policy Review		

# NTBs by Sector: Cement



<b>Barriers</b>	<b>Issues Cited</b>
BIS Certification License	<p>Marking fee is US \$ 2000. Processing fee of 300 dollars has been eliminated for SAARC</p> <p>Periodic License renewal is required. It takes over 6 mths</p> <p>Onsite inspection and surveillance at the cost of manufacturers</p> <p>Visa Issues arise as BIS officials may travel after receiving NOC from the Home Ministry</p> <p>Requirement to setup a branch/liason office in India.</p>
Limited shipping routes	For key ports in south India (e.g. Cochin, Chennai and Calcutta) mostly routed through Colombo.
Arbitrary Transport Protocol Constraints	India allowed cement exports via truck through Wagah in April, 2012. Allowed container for 3 months only.

# NTBs by Sector: Cement

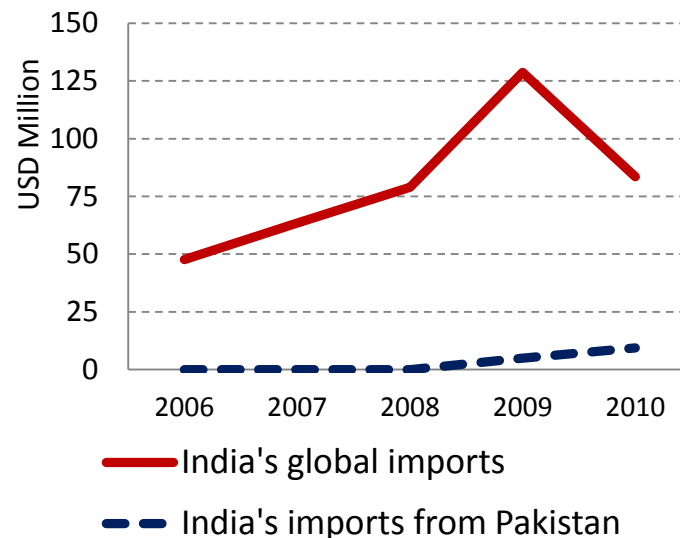
<b>Barriers</b>	<b>Issues Cited</b>
Sand Quarrying Legislation, 2012	Lowered the demand for cement
Mutual Recognition Agreement between BIS, PSQCA	In the first phase, BIS and PSQCA shall harmonize testing and inspection protocols. BIS will verify if PSQCA processes are compliant with ISO IEC standards for: <ul data-bbox="614 806 1758 911" style="list-style-type: none"><li>• Competence of testing and calibration laboratories</li><li>• Third-party operating a product certification system.</li></ul>

# NTBs by Sector: Chemicals

Barrier	Issue Cited
Sensitive List	Key chemicals e.g soda ash
Para Tariff Measure	Increase effective applied tariff rate by 3 times
Lack of handling, storage infrastructure	For liquids and hazardous materials
Lack of fast track protocols for semi perishables & hazardous materials	Chemical lose potency. H <sub>2</sub> O <sub>2</sub> may explode due to heat

# NTBs by Sector: Chemicals

Barrier	Issue Cited
<p><b>Anti - Dumping</b></p>	<p>Pakistan has a freight cost advantage over producers in South of India .</p> <p>Anti dumping duties of US \$ 5.6 per tonne were imposed in 2012</p> <p>Pakistan's exports of Soda Ash to India amounted less than US \$ 10 Million in 2010 (11% of total imports of India).</p> <p>Pakistan's export price was the highest amongst all dumpers.</p> <p>Protectionist Measure: Imposed on 96% of all exporters to India including China, EU, Kenya, Iran &amp; USA.</p> <p><b>Serious socio-political</b> implications as this industry provides employment in remote areas</p>



# NTBs by Sector: Marble

Barrier	Issues Cited
Sensitive List	Yes
Tariff escalation	Pakistan mainly exports marble blocks as the duty is much higher for marble slab
Import quotas and Licenses	Criteria are revised via notifications annually  Companies rather lend licenses at Indian Rupees 10,000 per tonne than experiment with newer varieties from Pakistan
Sensitive Item	Marble is currently on the list of 415 sensitive items whose import is monitored
Minimum import	US\$ 50/kg
Negative Perception	Concerns regarding Pakistan visa stamp discourage new importers who wish to conduct a site inspection before signing a contract.



# NTBs by Sector: Automotive Components

Barrier	Issues Cited
Extensive sample testing	<p>If the sample is not per stated specifications, the landed cost of the sample is claimed from the exporter.</p> <p>The ISO certification has to be submitted to the company just once and the product specification reports have to be included with every shipment.</p>
Obstruction by Indian Customs	Wagah authorities do not allow shipment of tractor parts (e.g. counter shafts and pinions) as they resemble weapons.
Negative Perception	Apprehension regarding the demand for Pakistani products in the Indian after market of automotive parts.



# NTBs by Sector: Automobiles



<b>Barrier</b>	<b>Issues Cited</b>
Homologation	India has a strict homologation policy for import of vehicles. Obtaining the homologation certificate is time consuming and involves excessive red tape.
Emission standards:	These standards are stringent for two wheelers even as compared to EU and Japan
Road Worthiness Test	US \$ 200,000 fee. Applied to cars less than US \$ 40,000

- Businessmen expressed concerns that India should control the practice of imposing frequent bans on cotton exports as that caused significant shocks to the textile industry.
- Due to image issues, bed linen is exported from Pakistan and sold under local Indian or European labels.
- Excessive valuation issues were reported for textiles items.
- Pre-shipment Inspection for Azo dyes
- Sourcing only because nominated (elastics)
- PRGMEA showed concerns about the sensitive list and tariff escalation for value added textiles.
- Composite tariffs

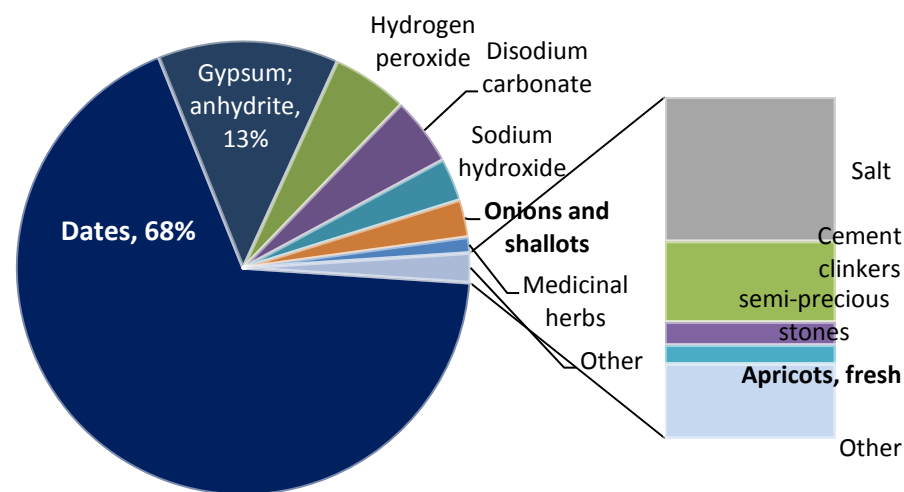


# NTBS BY PORTS & TRANSPORT PROTOCOLS

# NTBs by Port: Wagah Road

- Interfacing with multiple agencies
- Arbitrary SOPs
- Bottlenecks due to only one scanner and weigh bridge
- Lack of automated handling facilities
- Limited covered storage. No cold storage
- Telecommunication issues

## Profile of Exports at Wagah




# NTBs by Port: Wagah Rail

- Less than 1 interchange (no labourers, no diesel, no space etc.)
- 8 wheelers are not allowed
- Broken scanner – 5 crore worth of heroine

Average number of Interchanges between India and Pakistan per month.



# Perceived NTBs

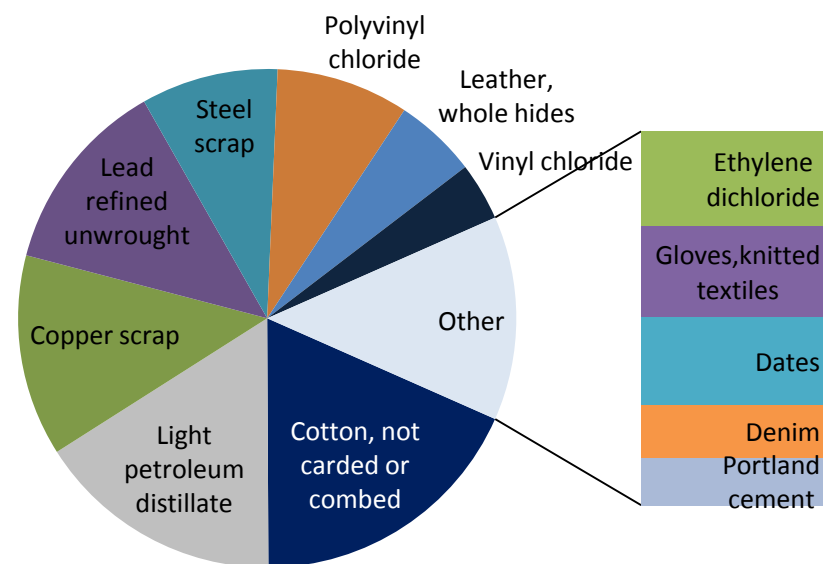
- Trucks not allowed to cross border until 2010 although the gates were opened in 2007.
  - Imports subject to high para-tariffs
  - Stringent requirements of import licenses, standards certificates
  - Misperception that only national flag vessels can carry cargo despite liberalisation of the shipping protocol in 2006
- 
- Due to image issues, bed linen is exported from Pakistan and sold under local Indian or European labels.



# NTBs by Port: Karachi Sea port

- Limited sea routes to South and East India. Indirect routes via Colombo. If a vessel is missed cargo is stranded for up to a week in Colombo
- Misperception that only national flag vessels can carry cargo despite liberalisation of the shipping protocol in 2006

## Profile of Exports through Karachi





# RECOMMENDATIONS

# Recommendations



Issue	Recommendations
SAFTA	Increase market access
Transport Protocol	<p>Open all routes that were in operation before 1965</p> <p>Provide direct shipping routes to East and South India</p> <p>Allow direct transportation from all existing dry ports without the requirement of rechecking at the port of exit</p> <p>Allow warehouse to warehouse shipment</p> <p>Allow containers &amp; full container loads at land ports</p> <p>Allow 8 wheeler train wagons and more than one interchange a day</p>
Port Infrastructure	<p>Upgrade infrastructure (including covered sheds, automated handling, cold storage) at all ports. Also develop an ICP at the railway port.</p> <p>Provide electronically generated reports for scanners</p> <p>Provide auxiliary services</p> <p>Establish bank branches.</p> <p>Build with public private partnership</p>

# Recommendations



Issue	Recommendation
Standards	<p>Establish a single point of enquiry for TBT and SPS regulations</p> <p>Establish certification, inspection and textile laboratories at ports</p> <p>PSQCA may be allowed to issue certificates on behalf of BIS</p> <p>Training may be offered for packaging and labeling requirements</p> <p>Certificates of 3<sup>rd</sup> party international labs may be accepted for food products</p>
Clearance procedures	<p>Allow electronic issuance of SPS, Rules of Origin and SAFTA certificates</p> <p>Enforce best practices identified in electronic risk management system (RMS), including opening a “green channel” for reliable importers at land ports</p> <p>Develop inter-Customs SOPs to address classification and valuation issues</p> <p>Create a mapping of HS codes at level 8 to address classification issues</p> <p>Accept copies of the SPS certificate for fast clearance of perishables</p>
Other	<p>Open direct courier services</p> <p>Enable telecommunication channels to operate i.e. cell phone roaming</p> <p>Allow opening of bank branches of the other country</p>

# Recommendations



Issue	Recommendation
Visa Facilitation	There should be no restrictions of cities and visas should be for multiple visits Additional visa processing offices should be opened Single day permits may be issued for meetings in designated zones
Prompt harmonization of NTBs	SPS requirements for agricultural products (vegetables, fruit, halal foods) Customs SOPs for import of agricultural products Labeling and packaging requirements for all packaged commodities Labeling requirements for textiles Standards requirements for automobiles including two wheelers

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**THANK YOU**