Agreement on South Asia Free Trade Area (SAFTA)

The Agreement on South Asian Free Trade Area (SAFTA) came into force from 1st January, 2006. India, Pakistan and Sri Lanka are categorized as Non-Least Developed Contracting States (NLDCS) and Bangladesh, Bhutan, Maldives and Nepal are categorized as Least Developed Contracting States (LDCS).

Afghanistan which became the eighth member of SAARC during the 14th SAARC Summit held on 3-4 April 2007 in New Delhi is due to become a party to the SAFTA Agreement as an LDC member.

Article 7 of the SAFTA Agreement provides for a phased tariff liberalization programme (TLP) under which, in two years, NLDCS would bring down tariffs to 20%, while LDCS will bring them down to 30%. Non-LDCS will then bring down tariffs from 20% to 0-5% in 5 years (Sri Lanka 6 years), while LDCS will do so in 8 years. NLDCs will reduce their tariffs for L.D.C. products to 0-5% in 3 years. This TLP would cover all tariff lines except those kept in the sensitive list (negative list) by the member states.

The salient features of the four Annexes of SAFTA Agreement are as under:

i. Rules of Origin:

a. For giving preferential access to the Member Countries under SAFTA, the goods shall have undergone substantial manufacturing process in the exporting countries. The substantial manufacturing process are defined in terms of twin criteria of Change of Tariff Heading (CTH) at four-digit Harmonized Coding System (HS) and value content of 40% (30% for LDCSs).
b. Apart from the general rules, to provide for Products-Specific Rules (PSR) for 191 tariff lines to accommodate the interest of LDCSs given their limited base for natural resources and undiversified industrial structure. The Products Specific Rules have been provided clearly on technical grounds i.e. where both inputs and outputs are at the same four-digit HS level.

ii. Sensitive List:

The summary of the Sensitive Lists are as under:

Sl. No.	Name of the Contracting States	No of tariff lines for LDCS	No of tariff lines for Non-LDCS	Consolidated list
1	Bangladesh	1249	1254	-------
2	Bhutan	-----	-----	137
3	India	744	865	------
4	Maldives	-----	-----	671
5	Nepal	-----	-----	1335
6	Pakistan	-----	-----	1183
7	Sri Lanka	----	------	1065

India would provide zero duty market access for 8 million pieces of garments from Bangladesh which are in the Sensitive list of India without any sourcing condition and a Memorandum of Understanding signed by both sides would be notified soon.

iii. Mechanism for Compensation of Revenue Loss (MCRL) for the Least Developed Contracting States:

a. The compensation to LDCSs, except to Maldives, would be available for four years; to Maldives it would be for six years. The MCRL to Afghanistan, which is due to become a party to the SAFTA, will also be at par with Maldives.
b. The compensation would be in the form of grant in US dollar.
c. The compensation shall be subject to a cap of 1%, 1%, 5% and 3% of customs revenue collected on non sensitive items under bilateral trade in the base year, i.e., average of 2004 and 2005.

The compensation shall be administered by the SAFTA Committee of Experts as per the Administrative Arrangements defined in this Annex.

iv. Technical Assistance to Least Developed Contracting States in agreed areas.

The main areas covered are - capacity building in standards, product certification, training of human resources, data management, institutional upgradations, improvement of legal systems and administration, customs procedures and trade facilitation, market development and promotion.

Implementation of SAFTA Agreement:

Tariff Concessions granted under the SAARC Preferential Trading Arrangement (SAPTA) would cease for the LDC Member States once the Non-LDCSs complete the Trade Liberalization Programme (TLP) for LDCSs within three years. If any items, on which SAPTA concessions are available to LDCSs, appear in the Sensitive List of Non-LDCSs, they shall maintain the same level of concessions through derogation under Article 7(3)(a) and indicate the same in their respective Sensitive Lists, and if the items under TLP enjoy tariff preferences under SAPTA, the Non-LDCS shall reduce their tariff on those items to a rate not higher than the rate applicable for LDCS under SAPTA on the date agreed for base rate for TLP.

The base rate for the purpose of tariff reduction would be MFN applied rate existing as on 1st January 2006.

Commencement of SAFTA Trade Liberalization Programme (TLP):

The TLP became operational from 1st July 2006 with the condition that the TLP for the first two years would be completed by 31st December, 2007, i.e. within two years of SAFTA coming into force.

India, with a view to providing greater market access to its neighbouring least developed countries, unilaterally reduced tariffs to zero per cent for LDCS countries of SAFTA with effect from 1.1.2008 thereby completing the SAFTA tariff liberalization for these countries one year ahead of 31.12.2008 stipulated in the SAFTA Agreement. The notifications regarding tariff concessions granted by India under SAFTA can be accessed in the website http://cbec.gov.in.

The notifications issued by Pakistan for SAFTA tariff concessions have an India specific-rider that Indian imports into Pakistan would continue to be as per their Positive List of importable items from India which at present consists of 1938 item.

For more details of this Agreement Visit SAARC website http://www.saarc-sec.org.