Afghanistan – Pakistan transit trade agreement

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Background

The Afghanistan – Pakistan Transit Trade Agreement (APTTA) was signed in 1965 with the objective of granting and guarantee to both parties the freedom of transit to and from their territories[2]. The routes that were identified included: a) Karachi – Peshawar – Torkhum, b) Karachi – Chaman – Spin Boldak, and c) Port Qasim was included subsequently in 1998. The provision to include additional routes was also incorporated in the agreement. Custom protocol attached with the agreement outlined the procedures for transit through Wahga land route - presumably in anticipation that if and when Wahga route is included the procedures may already be in place. It was also envisaged that no customs duties, taxes, dues, or charges of any kind whether national, provincial or municipal to be levied on traffic in transit except charges for transportation or those commensurate with the administrative expenses entailed by traffic in transit or with the cost of services rendered. The railway freight, port and other dues would not be less favorable than those imposed by either Party on goods owned by its own nationals. Parties have the right to adopt any measures necessary to protect public morals, human, animal or plant life or health and for the security of its own territory.

In terms of transportation, Pakistan Railways only authorized carrier. Later on due to non availability of railway wagons the transportation was allowed through National Logistics Cell (NLC) trucks. However currently 80% of goods are transported by private trucks authorized by NLC. From maximum of 24 items at present only two items are in the negative list (cigarettes and auto parts). Pakistan is committed to UN Millennium Development Goals which require member countries to facilitate Transit of land locked countries like Afghanistan.

Trade Between Afghanistan and Pakistan

Pakistan's trade balance with Afghanistan has been on a perpetual rise since the start of this decade. Figure 1 indicates that Pakistan's Exports destined for Afghanistan totaled almost $ 1.4 billion in 2009 which is a substantial increase from the level of $140 million in 2001. Similarly Afghanistan has had a

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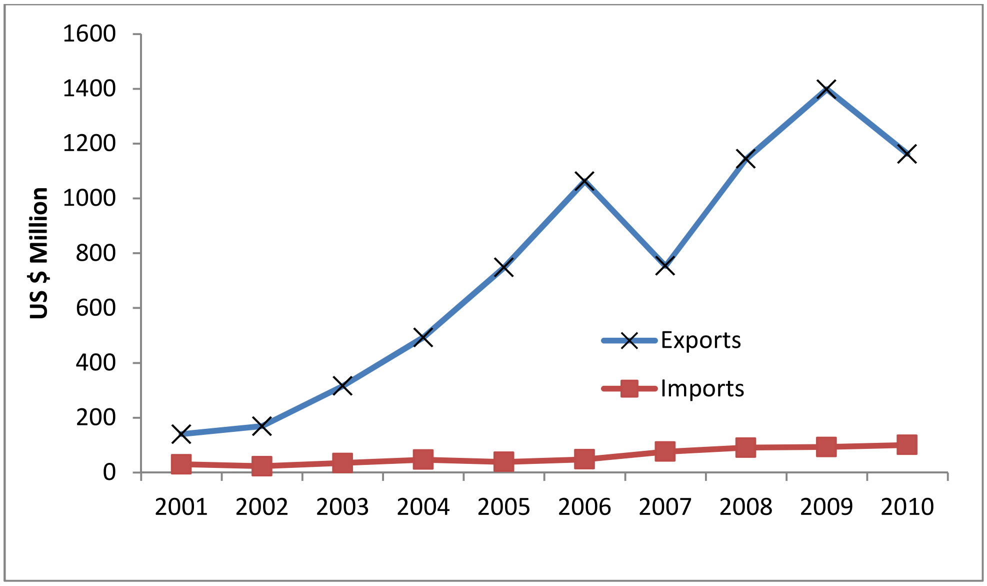
[2] This briefing paper also draws from Ministry of Commerce – Pakistan presentation on APTTA to the Parliamentarians.

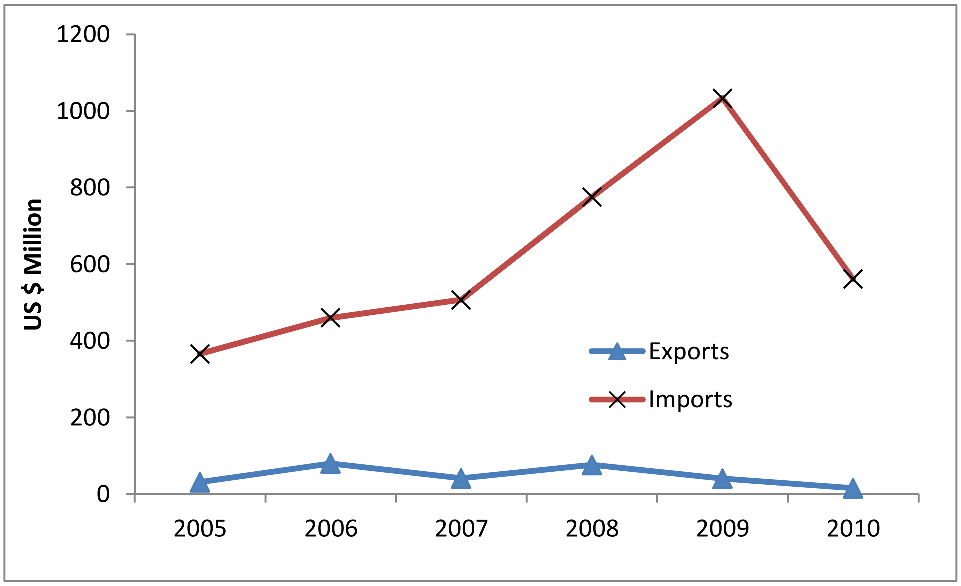
chance to increase its exports to Pakistan during the same time period. In 2001 Pakistan's imports from Afghanistan were $30 million which rose to $101million in 2010 (July-March data). Pakistan being the 6th largest population in the world provides Afghanistan with a ready market for harnessing its comparative advantage. For Pakistan, the reconstruction opportunities in Afghanistan provide immense potential for industrial and construction activities. Pakistan's export of services to Afghanistan has also been on the increase.

Figure 1: Pakistan's Trade with Afghanistan 2001-10



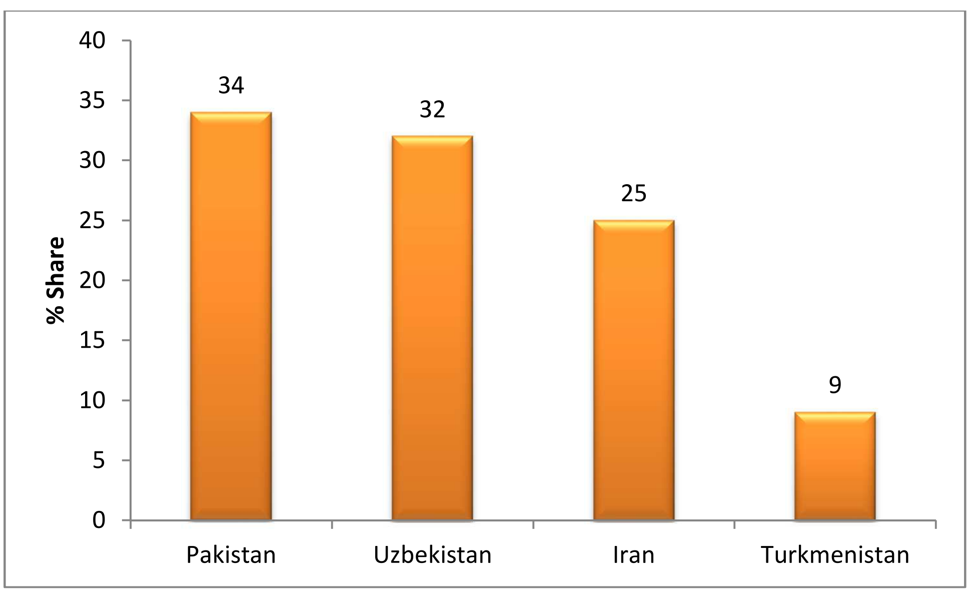
The Afghan transit trade through Pakistan has been on the increase. Exports from Afghanistan are through Wahga, Karachi Port and Port Qasim. The Wahga land route for Afghanistan exports to India was included in 1980 and is operational since then. Afghanistan's Imports only come through Karachi - Port Qasim. Figure 2 exhibits that by 2009 Afghan transit exports through Pakistan stood at $40 million. The highest levels in the recent past was in 2006 at $80 million. The transit imports through Pakistan increased from $366 million in 2005 to $ 1 billion in 2009. This increase is largely attributable to the rising rebuilding costs in Afghanistan.

Figure 2 Afghan Transit Trade through Pakistan



Pakistan is not the only country through which imports and exports of Afghanistan are Transiting. Afghanistan also has transit agreements with Iran, Tajikistan, Turkmenistan and Uzbekistan. The share of these countries in terms of the transit load provided to Afghanistan is given in Figure 3. Pakistan leads the list with 34 percent followed by Uzbekistan and Iran.

Figure 3 Share of Countries Allowing Transit to Afghanistan



The Need to go beyond 1965 Agreement

The justification of APTTA arose as the 1965 agreement did not facilitate containerized cargo and did not address pilferage and smuggling of goods. The original agreement did not foresee the impact that advanced technology might have on transit trade and as a result new routes on Pakistan – Afghanistan boarder could be opened up. The agreement also needed revision after the emergence of Central Asian republics so that Pakistan could secure its rights to use Afghanistan transit facilities for exports to Central Asia.

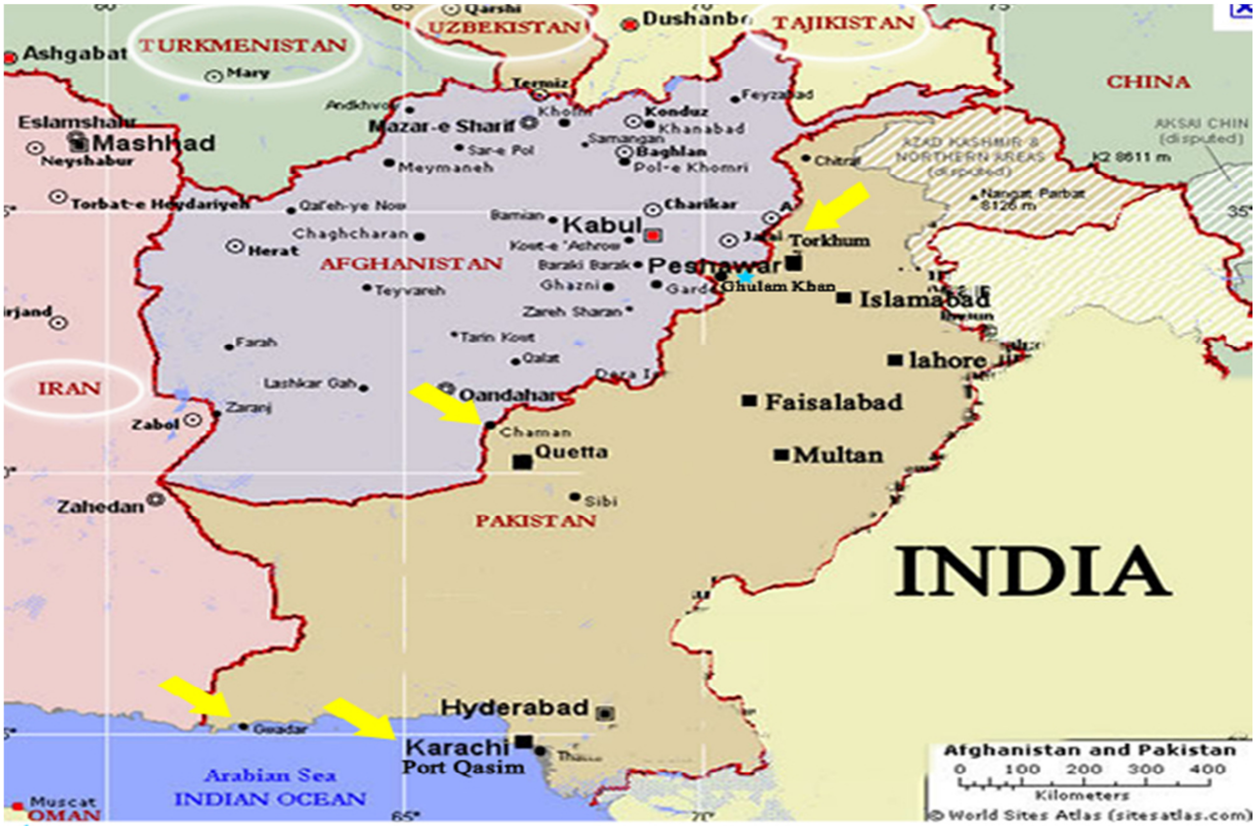
Both sides also wanted to take into account the updated customs procedures, improve the dispute resolution mechanism, address movement of psychotropic substances and precursor chemicals mis-used in the manufacture of narcotics and identify specific routes for the movement of transit goods through road transportation. At present 80% of the transit goods are through road traffic. In February 2006 the then Prime Minister of Pakistan approved the process of renegotiations for a new Transit Trade Agreement in the fourth meeting of the National Trade Corridor Improvement Program (NTCIP). The Draft Agreement was submitted by Afghanistan in November, 2008.

Salient Features and Basis for APTTA

The salient features of APTTA includes: freedom of Transit to both countries, allowing Pakistan access to Central Asian Republics, allowing Afghanistan access to Pakistan's sea ports and allowing Afghanistan access to Wagah for its exports to India. The agreement does not allow Indian Exports to Afghanistan through Wagah Land Border.

The 1965 Agreement does not specify entry, exit and designated routes for Pakistan's exports to Central Asia through Afghanistan. In 1965 Central Asian Republics were part of USSR which did not allow entry of Pakistani origin goods through Afghanistan. Bulk of the present exports of Pakistan to Central Asia through Afghanistan are being declared as Afghan origin. The official exports of Pakistan to Central Asian States are US $ 20 million in the total imports market of US $ 70 billion in 2009. This low volume amongst other things is the result of low accessibility of Pakistani exporters to Central Asian countries (Figure 4).

Figure 4 Connectivity through Afghanistan



Ghulam Khan Exit Point will be Operationalized in Future when infrastucture is developed

In the absence of any legal cover in the 1965 Agreement, Pakistani exporters are currently paying 110% of the value of the goods as security to Afghan Government for transit to Central Asia irrespective of the ownership of transporting vehicles. It takes more than a year to get the security released from the Afghan authorities through a non transparent mechanism. The exporters from Pakistan have to file registration with multiple Ministries and Agencies of Afghanistan.

In view of the above, an Afghanistan – Pakistan Transit Trade Coordination Authourity will be co-chaired by Secretary Commerce and Deputy Minister for Commerce of Afghanistan and include representatives from relevant government Ministries and Chambers of Commerce. This Authority will monitor effective implementation of the agreement, formulate and monitor measures to curb smuggling and resolve disputes regarding the interpretation or the implementation of the Agreement.

Under the new agreement the rights have been secured on permanent basis with legal cover for the following entry and exit points for Pakistan's exports:

- Torkham to Hairatan (with Uzbekistan)
- Torkham to Torghundi (with Uzbekistan)
- Torkham to Ai Khanum (with Tajikistan)

- Torkham to Sher Khan Bandar (with Tajikistan)
- Torkham to Aqina (with Turkmenistan)
- Torkham to Torghundi (with Turkmenistan)
- Chaman to Islam Qala (with Iran)
- Chaman to Zaranji (with Iran)

Afghan trucks will be allowed access to sea ports carrying Afghan cargo for exports. Only those trucks which are carrying Afghan cargo or exports beyond Pakistan would be allowed to lift Afghanistan imports which Transit through sea ports. Only Afghan trucks having valid permits duly cleared by biometric security systems will be allowed entry. Afghanistan is allowed to use Pakistani trucks for transit of their Imports from Pakistani ports to Afghanistan. Empty Afghan trucks would not be allowed entry to lift afghan Imports from sea ports. Afghan trucks will be allowed to travel upto sea ports and Wahga land border station on designated routes only. The law enforcement agencies to ensure their monitoring and security through modern tracking methods. If Pakistan had not allowed this concession to Afghanistan, Pakistani trucks would not have been allowed a similar concession to carry exports to Central Asia through Afghanistan.

The Need to Evaluate the Socio-Economic Implications of APTTA

In our knowledge there is no quantitative study until now that evaluates the socio-economic costs and benefits of APTTA at the government, firm and households level. While the government is expected to gain tax-related revenues and transit-related fees, the firms on both sides are expected find new markets for their goods and services across Asia. Similarly household sector will benefit on two accounts. The Pakistani workers in sectors having export potential for Central Asian countries are expected to see their wages increase in the long run (similarly for Afghanistan). Second, if specific less expensive imports from Central Asian countries find their way in to Pakistan this can increase the consumer surplus in the form of cheaper prices (similarly for Afghanistan).