



Comprehensive Draft on

# **Pakistan- Afghanistan Bilateral and Transit Trade Issues & Proposed Resolutions**

*Prepared after Stakeholders' Feedback across the border*

**April 2018**





# PREFACE

Pakistan Afghanistan Joint Chamber of Commerce & Industry (PAJCCI), is duly recognized and licensed entity by both the Islamic Republic of Afghanistan and Islamic Republic of Pakistan. During a short span of time, PAJCCI has strived to facilitate peace prospects and strengthen economic and trade ties between the two neighboring nations, Pakistan and Afghanistan, along with extending the ties with CIS countries to attain regional integration.

Under the aegis of PAJCCI's manifesto of "Segregating Economic Aspirations from Political and Security Imperatives", it conducted several activities during the first quarter of 2018. The main emphasis was to nurture the environment of trust and facilitate initiation of table talks between the two countries for peace and economic prosperity across the border. Those efforts successfully materialized into breaking of the ice across the border, evident from the visit of H.E. Prime Minister of Pakistan to Afghanistan followed by subsequent meetings between the relevant ministries. It is also expected that a hi-ranking Government delegation would visit Pakistan soon to further the initiative and delayed table-talks would see the ray of light, specifically in terms of congenial resolutions.

During several stakeholders' meetings in first quarter of 2018, PAJCCI across the border compiled the vast dimension of bilateral and transit issues along with proposed resolutions and developed a comprehensive policy advocacy document leading towards enhancement in confidence, rejuvenation of business ties and eradication of common issues hampering growth and connectivity. This policy document is shared with all the relevant ministries, across the border, for deliberations and readily available for all stakeholders online for further feedback.

Hope this document serves as a fundamental support for policy advocacy and would aid in incorporating strategic insight to facilitate the solution of major issues hampering the historical ties between the two brotherly nations.



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## **Bilateral Trade between Pakistan and Afghanistan**

### **Af-Pak Bilateral Connectivity – Dire need of time for regional integration, peace, economic development and prosperity**

During couple of years few elements have severely affected the confidence building measures initiated by both the Governments for enhancing the cordial relationship between the two neighboring countries. These mainly includes weak border management system promoting informal trade, rise in unofficial payments across the border, political and legal insecurity, lack of tariff parity or rationalization, coordinated investments by India and Iran in Afghanistan in contrast to Pakistan, enhancing role of Iran as a transit route to Afghanistan, penetration of India, Turkey and China as significant trade and development partners in Afghanistan and lack of facilitation in the context of transit and trade matters from Pakistan.

Unregulated traffic across a rugged but porous border has been a sticking point and a major security concern throughout. In addition to an estimated 6,000 illegal border crossings per day, this unmanageable border facilitates a vast black economy that flourishes on the illicit drug trade and smuggling.

The pending bilateral talks between the two countries have significantly affected trade and social ties in recent past. Not only it has led to decline in trade and transit, but has also shifted Afghanistan's focus to other regional neighbors. India in the recent past has contributed both in terms of donations and subsidies to Afghanistan and also by offering competitive tariffs. Iran has also improved its infrastructure and offering better facilities and tariffs to Afghanistan that resulted in an intensive shift in both transit and bilateral trade from Pakistan.

The decline in aggregate demand and purchasing power in Afghanistan, as a result of the withdrawal of NATO Forces from Afghanistan and declining International donor funding for development projects, is also causing overall reduction in Afghanistan's imports. However, as much as this corridor is important for Afghanistan, it is needed to be understood that this is the major partner with which Pakistan has a positive trade balance and losing this opportunity



reflects in economic devastation in Pakistan also mainly in border areas, where dependence on their economic activities is greatly on Afghanistan. The congenial relationship between both the countries will not only ensure economic stability, but also peace and prosperity. This would also strengthen regional connectivity in totality.

Recently all Central Asian Republic countries have shown their interest in joining CPEC, whereby Afghanistan and Iran has also shared same sentiments previously. The productive relationship between these two countries will help pave ways for economic development across the belt. Recent visits to Afghanistan by Honorable COAS and H.E. Prime Minister of Pakistan and subsequent meetings of Finance ministers of both the countries in Washington has shown the ray of light and have reinstated the hopes of the private sector across the border.

The commitments pertaining to segregating economics from political and security issues, avoiding border closures and improving both transit and bilateral trade procedures are crucial confidence building measures. The announcement to rejuvenate table-talks, especially holding JEC meeting after June 2018 is an initiative in the right direction. However, materializing the commitments on due deadlines is of greater importance.

Despite all odds, long-standing trade and social relations, religious and geographical proximity, business stakeholders' preference of common trade routes and products make the continuation of trade and transit between Pakistan and Afghanistan essential. Owing to cultural and language similarities, the potential also exists for trade in the service sector in education, healthcare, and information technology.

Peaceful economic cooperation between Afghanistan and Pakistan and improved trade and transit facilities would help connect South Asia with the Central Asia. As disturbances across the border also greatly affects social ties between the two countries mainly in border areas. This economic growth would increase domestic employment in both countries and also provide foreign exchange.



## Statistics on Import / Exports – Ministry of Commerce (MoC, Pak)

Keeping trade balances in view, the highest was attained in 2010-11, since then exports of Pakistan have declined by approximately 45% as reported in fiscal year 2016-17. From a slight increase in 2014-15, again the decline has mainly been attributed to the frequent closure of Pak-Afghan border due to security concerns, favorable conditions for India and Iran due to the increasing trust deficit, decreasing aggregate demand due to withdrawal of NATO forces and declining international donor funded projects in Afghanistan.

The imports from Afghanistan have grown steadily since 2009-10 and reported an all-time high in 2015-16, from then showed decline in 2016-17. This increasing trend was discouraged by the Ministry through trade in dollars and the imposition of regulatory duties specifically on complementary items.

<b>Bilateral Trade of Pakistan with Afghanistan (US Million \$)</b>				
<b>Fiscal Year</b>	<b>Exports to Afg.</b>	<b>Imports from Afg.</b>	<b>Total</b>	<b>Balance (+)</b>
2009-10	1571.5	139.3	1710.8	1433
2010-11	2336.7	172.0	2508.7	2164.7
2011-12	2249.6	199.4	2449.0	2050.2
2012-13	2066.0	287.8	2353.8	1778.2
2013-14	1870.5	359.6	2030.1	1510.4
2014-15	1961.4	322.6	2284.0	1638.8
2015-16	1437.3	409.9	1847.2	1027.4
2016-17	1285.94	337.20	1637.14	962.73



In order to understand the trend of bilateral trade for the fiscal year 2017-18, a semi-annual comparison was made that showed an increasing trend both in exports and imports during the 6 month period. If the movement will persist in same ratio then overall effect would be better than last two fiscal years.

<b>Semi-annual Bilateral Trade comparison (US Million \$)</b>				
<b>Fiscal Year</b>	<b>Exports to Afg.</b>	<b>Imports from Afg.</b>	<b>Total</b>	<b>Balance (+)</b>
2016-17 (July-Dec)	654.70	227.84	882.54	426.86
2017-18 (July-Dec)	726.37	280.45	1006.82	445.91

Export of services to Afghanistan has shown a disappointing trend in 2015, although the quantum increased during 2009 till 2012 but has declined since then. However, in 2016 the trend has shown positivity. The growing sectors included telecommunication / computer and information services, construction, transportation and insurance, whereas consumption of financial services and traveling has reduced significantly.

<b>Export of Services to Afghanistan (Value in Thousand US \$)</b>								
	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
	18,264	25,705	30,362	38,833	26,550	19,455	11,750	12,307

**Source: State Bank of Pakistan**

As per stakeholders' feedback, the following issues were raised that have affected / are affecting the bilateral trade along with possible economic alternatives for rejuvenating confidence building across the border:





## **MUTUAL ISSUES AND PROPOSED RESOLUTIONS**

### **1. DECLINING TRUST MAINLY DUE TO TRANSIT ISSUES, ABRUPT BORDER CLOSURES, PENDING TABLE TALKS AND PENETRATION OF OTHER REGIONAL PLAYERS**

#### **Afghanistan Side:**

- All issues related to transit are also applicable here like lack of infrastructure and custom support, undue requirements, the arrogance of port and shipping lines, extensive demurrages and most importantly border closures.
- Traders have great concern due to uncertainty pertinent to Pak/Afghan border closure, it is the most important factor which hits the business community of both the countries and creates a lack of trust between each other. The shipments are stuck leading to psychological and financial losses, especially in cases of perishable items and items of immediate consumption. The sudden closure without any prior notice, especially in the season of Afghan exports of fruits and vegetables creates devastating effect.

#### **Pakistan Side:**

- As Pakistan's bilateral ties with India are unfavorable hence Afghanistan's demand of including India is uncalled for. Additionally, India is a competing economy of Pakistan, which does affect the businesses within Pakistan.
- Despite several invitations to Afghanistan, table talks are halted and preferential trade agreement (PTA) is also pending. These delays further worsen the relationship between the two countries.
- Other regional players are trying to capture the share in Afghanistan due to widening gap between the two countries. These regional players are providing competitive tariffs to Afghanistan and also Afghanistan in reciprocity is ensuring the same.

- The crucial issue is not only declining trade quantum between the most important partners, but also is the shift of the same to other neighbors that may get a competitive edge.

<b>Exports of Afghanistan (Value in US Million \$)</b>				
	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Exports to India	230	189	160	103
Exports to Pakistan	283	227	188	198
Exports to Iran	19	29	33	43
Exports to China	4.7	10	15	20

**Source: Central Statistics Organization – Afghanistan & ITC / Trade Map**

Exports of Afghanistan have grown in totality, but more is attributed to Pakistan, however interestingly, it has been reduced to Iran and China significantly from 2013-14.

<b>Imports of Afghanistan (Value in US Million \$)</b>				
	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Imports from India	153	131	108	147
Imports from Pakistan	1199	1346	1328	1742
Imports from Iran	1265	1808	1506	1511
Imports from China	1093	1043	1038	136

**Source: Central Statistics Organization – Afghanistan & ITC / Trade Map**

Whereas, Pakistan's and Iran's exports to Afghanistan have declined, but the increase is witnessed in case of India, especially in the last fiscal year, mainly due to frequent Af-Pak border closures. Another thing to note is that even though exports of Iran are more than Pakistan, but



has significantly declined as compared to the last year (2015-16). The China is also growing as a potential trade partner whereby its exports to China is showing tremendous growth since 2014.

### **Observations:**

The recent visits of the Honorable Prime Minister of Pakistan and Honorable COAS to Afghanistan have rekindled the momentum and broken the ice. It is expected that soon Government to Government meetings will be held between both the countries for resolution of pending items. During both visits assurance of segregating economics from politics and security tensions has been extended across the border and it was agreed that border closures would be avoided.

The Ministry of Commerce established that Pakistan gives immense importance to the economic relationship with Afghanistan and has been inviting the Afghan Minister of Commerce for meeting in Islamabad since January 2018 to discuss all outstanding issues in bilateral and transit trade and have been working vigorously to resolve the impediments from the Pakistan side.

Ministry of Commerce, Pakistan also stated that the draft text of the proposed Preferential Trade Agreement (PTA) has been shared with Afghanistan through diplomatic channels in 2014. During the 10th Session of Pak-Afghan Joint Economic Commission (JEC) meeting held in Islamabad, the Afghan side assured to convey their response on the draft text of the PTA by January, 2016, which is still awaited.

Afghanistan Chamber of Commerce and Industries (ACCI) states that Iran was Afghanistan's biggest trade partner during March 2017 to 21 March 2018 – and exported goods to the value of over \$1.98 billion USD.

### **Recommendations & Resolutions:**

The PAJCCI's manifesto is to seek segregation of business and trade ties from political and security tensions, though, establish strong security measures that are vital for stabilization and sustainability of both the countries without compromising upon the sentiments of the business



community across the border as happens during abrupt closure of the border for an indefinite period resulting in massive monetary losses and trust deficit.

It is vital to initiate pending table-talks and with reference to the bilateral trade, JEC meeting should be held on immediate basis.

Afghanistan should finalize pending Preferential Trade Agreement to resolve pending issues which will enhance confidence amongst private stakeholders.

## **2. REGULATORY DUTIES AND TARIFF RATIONALIZATION**

### **Afghanistan Side:**

- As Afghanistan is in a war zone, therefore major trade partners offer lots of subsidies in trade and transit sector, but recent imposition of the regulatory duties (RD) on all import items to Pakistan disturbed the export of Afghanistan significantly. In the past, Afghanistan was exempted from the RD duties; but now more than 22 items of Afghanistan come under the RD policy which are the key export items.
- The export of raw materials from Pakistan to other countries except Afghanistan are tax free that discourages the investment and internal production in Afghanistan.

### **Pakistan Side:**

- Afghanistan has imposed high tariffs on Pakistan dominant products like juices, cement, pharmaceuticals, PVC pipes and have raised duties / taxes on plastic & plastic made materials, medicinal drugs, safety matches etc. which has affected Pakistan's exports. However, this change has not been implemented on imports from Iran, India and Turkey.
- Though Afghanistan was exempted from the ambit of regulatory duties previously, yet not a single cement container was exported to Afghanistan via the Chaman border last year because of cheaper Iranian cement available in Afghanistan.



- There is a great potential for pharmaceutical exports to Afghanistan, but ad hoc rules controlling drug prices are an impediment.

### **Observation:**

During his recent visit to Afghanistan, H.E. Prime Minister of Pakistan announced waiver of regulatory duties imposed on Afghanistan recently. However, the same has not been applied yet. As communicated by officials of the Ministry of Commerce, Pakistan that working is under process and soon the commitment would be realized.

### **Recommendations & Resolutions:**

PAJCCI urges Government of Pakistan to abolish RDs from Afghanistan facilitating the bilateral trade between the two countries.

PAJCCI urges Government of Afghanistan to work out competitive tariff rates for Pakistan as offered to other regional partners.

For better coordination and resolution of mutual issues, it is proposed to formulate a joint committee for rationalization of duties between the two countries having members of customs also. Tariff disparity in Afghanistan and Pakistan should be minimized leading to discussions for Free Trade Agreement (FTA).

If the prices of the same products being imported directly or via transit trade in Afghanistan are equalized and similarly duty structure is rationalized in both the countries then chances of leakage would reduce and the existence of the parallel regime can be discouraged. This would improve the trust and the platform of smuggling can be curbed significantly. Also by ensuring this, our exports to Afghanistan will enhance, as they would become equally competitive with imports via transit trade.

Competitive tariff or subsidies may be inculcated to facilitate Pakistani businessmen and traders for effectively countering challenges faced by them from Iran and India.



### **3. FACILITATING CROSS BORDER INVESTMENTS AND JOINT VENTURES**

#### **Afghanistan Side:**

- If Afghan investor wants to invest or open sister branch of its business in Pakistan, so for approval the case is being transferred to Intelligence agency and these agencies are authorized to approve or disapprove, this increases complexities and discourage investors.

#### **Pakistan Side:**

- If a Pakistani investor wants to invest in Afghanistan, so he can transfer his capital/ money after the approval of the State Bank of Pakistan, which is generally disapproved that discourages investors.
- The Government is unwilling to remove the restriction for exporters who want to avail schemes like DTRE and manufacturing bonds for exports to Afghanistan.
- Pakistani businesses are facing a lot of issues relevant to Trademark registration and Intellectual Property Rights issues.

#### **Observation:**

The Pakistan Embassy in Afghanistan states that the Afghanistan economy may remain uncertain. According to the IMF, the future path of the Afghan economy is highly dependent on the authorities' delivering on their economic reform commitments, continued donors support and improvements in security. This realization has been prevailing in various well-off Afghans, especially from the Pashtoon ethnic community who want to invest in Pakistan to have a secure future, however, this needs, all encompassing 'Special Package' for Afghan small to medium type investors who each can invest US\$ 5-20 million with the partnership of Pakistani investors or alone. During various meetings with Afghan traders and small entrepreneurs, they want to invest in Pakistan, however, desires, at least, mid to long-term (3-5 years) business visa, and in long- run Pakistani nationality. Ministry of Commerce, in consultation with the Minister of



Interior, Finance and Foreign Affairs may formulate special Investment Policy for Afghan investors because of its peculiar geopolitical and economic situation. Pakistan has a developed industrial base, in comparison to Afghanistan, offers opportunities for collaboration between traders of the two countries. Such types of potential investors may be numerous. In the short term, the category of Afghan visa for businessmen and investors can be changed and Afghanistan may be included in the list of Business Friendly Countries (BVL).

### **Recommendations & Resolutions:**

Afghanistan is a potential land as far as Coal is concerned and its Coal is of far better quality almost comparable to Indonesian Coal. If it is also processed in Afghanistan, then its demand would further increase. The prices are even comparable, but due to high rate of duties and taxes it becomes expensive for interested traders. If this can be made appealing by Afghanistan Government then the demand would significantly increase in Pakistan.

Afghanistan has an upper edge when it comes to TALC (minerals), if facilitation is provided to Pakistani investors / traders preferably in terms of the partnership then business links in this field can greatly benefit leading to win-win situation for both countries.

The concept of “New Silk Route” that includes CAREC region with the specific focus on Pakistan and Afghanistan is the need of this time. This region should be included in the focal point of trade and facilitation may be extended to businesses interested in joint ventures, investments and trading across the region.

Trademark and Intellectual Property Rights must also be developed in Afghanistan to avoid distortion of the brand image of foreign products.

Distribution rules in Afghanistan may also be revisited, in case any party wants to change their distributor in Afghanistan for the purpose of safeguarding their brand image and business loss, it becomes very challenging and cause them business loss in Afghanistan.

#### **4. FACILITATING TRAVEL AND VISA REGIME**

##### **Afghanistan Side:**

- This is one of the major deterrent for the Afghan business community as Pakistani Authorities do not treat them properly, they always face problems from local police, further even if they have the business visa to Pakistan but hotels in Lahore do not provide them stay facility.

##### **Pakistan Side:**

- One of the thorniest issues is an Afghan strict visa regime for Pakistanis including its businessmen. Moreover, Pakistan business personnel, working as representatives of Pakistani companies established in Afghanistan are being harassed by their intelligence agencies.

##### **Observation:**

Pakistan embassy in Afghanistan states that Afghan genuine businessmen are issued one year business visa with multiple allowed entries, however, Afghanistan is not reciprocating in the same way.

##### **Recommendations & Resolutions:**

People-to-people contact is a necessary condition for sustainable trade relations; therefore, business visa policy needs to be relaxed further. Various options, such as visa-on-arrival, long-term, multiple-entry visas, and investment-friendly visas for businessmen and skilled workers, could be explored and implemented in letter and spirit.

The Business friendly visa regime may be instated.



## **5. PROCEDURAL HINDRANCES HAMPERING BILATERAL TRADE**

### **Afghanistan Side:**

- It has been the decision of the Government of Pakistan, that Afghan trucks, which are exporting goods from Afghanistan to Pakistan would be allowed to go to Peshawar, but in some cases, it is not permitted and the trucks are vacated in Torkham causing financial losses.
- Pakistan Government does not allow Export shipments in Afghani Vehicle/Container to directly proceed to Pakistani Port and it has to cross stuff the whole consignment from one container to another on Torkham / Chaman border.
- At present Afghanistan exports are once examined by the Pakistan Customs at Torkham and then the custom's sealed containers are moved under customs escort to Pakistani Ports but they are re-examined by the customs at the causing time delays and also damage of cargo.

### **Pakistan Side:**

- Pakistani exports to Central Asian countries is hampered by Afghanistan, whereas it is reported that either Afghan partner is included in the transaction or it will be re-exported to Central Asia by Afghanistan's trader.
- Pakistani trucks are not allowed to move beyond the border causing the extra amount in transshipment from Pakistani trucks to Afghani Trucks.
- Unnecessary checking and the halting of export cargo trucks at the border, especially of perishable items, creates immense financial losses and product damages.

### **Recommendations & Resolutions:**

It is suggested to minimize the Exports examination process for smooth Exports of both the countries across the port and border.



It is urged by the Afghan side that Government of Pakistan shall allow Afghani Vehicles/Containers till the assigned Port of Pakistan, including Wagha border, in order to facilitate a healthy volume of Export from Afghanistan.

The trilateral agreement between Pakistan, Afghanistan and Tajikistan is necessary for smooth transit and trade of Pakistani products from Afghanistan.

Policy Advocacy should be done for Perishable vs. Non-Perishable items' trade, as perishable items suffered significantly during border closures and unnecessary delay times. Farmers and small traders took a hard hit when an entire year's worth of hard work rotted away on loaded trucks stranded on the border for days and weeks.

Lack of refrigerated containers / warehousing facilities is also causing significant losses in trading of perishable goods such as fruits, herbs, vegetables and frozen food etc.

## **6. QUARANTINE CERTIFICATE ISSUANCE PROBLEM**

### **Afghanistan side:**

- The recent SRO issued by the Food and Security department to present health standard certificates for Pest Risk Analysis and assessing potential phyto-sanitary risks (Quarantine Certificate, Aflatoxine test, Form A, Import permit, etc.) on the Agri products (820 types of items) being imported to Pakistan has significantly affected the Afghan exporters by causing heavy losses because thousands of tons of cotton, fresh fruits and vegetables are stranded at the border.
- The concerned tests and certificates are not applicable in the region and also getting the import permit for Afghan businessmen would be challenging due to Quarantine office being located in Karachi only.

### **Pakistan side:**

- Chaman and Gawadar Chamber insisted that it is not possible to apply requirement of all these certificates on Afghan imports as the infrastructure support is critically limited for



such issuance and such imposition in this season of Afghan exports (especially of fruits) would have a demoralizing effect on the traders.

- Due to a lack of plant protection support, especially at Gwadar, the exports of fish to the other side and the imports from Iran are also affected significantly.
- The Plant protection department (DPP) is not only slow but also increases the requirements unnecessarily. They also require certificates for commodity which are also not in the list and upon complaint states that it is done on the instructions of the Ministry of Commerce.
- The samples are drawn after grounding the container which requires original delivery order/release of documents. At that stage, the 100% payment is already made to the exporters. In case the consignment is rejected, it is not possible for the importer to get the payment back from the exporter and the consignment cannot be returned.

### **Observation:**

The quarantine certificates are not applied only to Afghan goods, but also applied on Pakistanis. However, Afghan side persists that they do not hamper entry of Pakistani commodities due to missing certificate.

As per Afghanistan Chamber of Commerce and Industries (ACCI), Pakistan has opened the crossing for Afghan traders to export goods to India through Pakistan, but Pakistan does not allow Afghanistan's fresh fruits and vegetables to be sold on its markets due to the lack of quarantine certificates.

Pakistan Mission in Kabul states that keeping in view the truncated capacity of our DPP, the Pest Risk Analysis (PRA) is not an easy and quick job to be in place and if the issue is not resolved by the forthcoming Afghan fruit export season, it would have a negative impact on Pakistan's exports to Afghanistan, and would add fuel to the profound anti-Pakistani sentiments and give a cogent reason to Afghanistan to also impose such regulations on our food exports to Afghanistan which constitute almost 70% of our total exports to Afghanistan.



## Recommendations & Resolutions:

Ministry of Commerce at both the sides should take up this matter urgently and develop policy for facilitation without causing any procedural violence at our end, or may consider the routine quarantine certificate issued by Ministry of Agriculture of Afghanistan to save the Afghan exporters from distress at this time of their exports. Additionally, Secretary Commerce is urged to facilitate sharing of list for which such certificates are required and those not mentioned in the list should not be forced to fulfill the requirement, as these things enhances trust deficit.

The right infrastructure and testing laboratories may be constructed at relevant borders, in case such certification is to be made compulsory.

It is observed that Afghan Government has certificate issuing department at borders so same practice may be adopted by Pakistan to facilitate and expedite the process.

The department should work out examination criteria prior to grounding the consignments/containers so that the rejected consignments could be returned and foreign exchange saved since at this stage the payment is yet to be released to the foreign exporter.

## 7. AUTHORIZED / UNAUTHORIZED PAYMENTS CHARGED ON AFGHAN CARGO

### Afghanistan Side:

- The Afghan stakeholders have shared following chart elaborating the charges:

S#	Service	Place and Department of Extortion	Amount in Pkr.
1	Political representative	Political representatives authorized in the tribal area	4200
2	Municipality fee for Export goods from Pakistan	PDA Hayatabad	2000

S#	Service	Place and Department of Extortion	Amount in Pkr.
3	From Afghan border to Whaga border and other cities of Pakistan	Pkr 500 charged at each check post	8000-30000
4	NLC		2500
5	Gate pass fee for Afghan Exports	Border police	5000
6	Mechanai check post	Local Malesha/police	2200
7	Illegal charges by the bodyguard of Zahir Shah on Afghan export and import	Hayatabad Peshawar	1750
8	As road fee on cargo arriving from Lahore to Kabul	Municipality of Lahore	3000
9	The actual fee to find out the weight is 700 but they charge much for Afghan Export cargo	Torkam	2500

#### **Pakistan Side:**

- Delay and levy of illegal dues of/on the trucks/containers, on both sides of the border crossing points, is another chronic issue which needs permanent resolution.

#### **Observation:**

In Inter-ministerial meeting of Jan 2018, Secretary Commerce urged all relevant stakeholders to rationalize and neutralize the costs of doing business. However, nothing concrete has been materialized till date.

#### **Recommendation & Resolution:**

The charges should be avoided for restoring trust in the traders.



## **8. OTHER ISSUES**

### **a. PENDING PREFERENTIAL TRADE AGREEMENT (PTA) BETWEEN THE TWO COUNTRIES**

#### **Pakistan side:**

In 2015, the two sides agreed to enter into a Preferential Trade Agreement (PTA). Same year, Pakistan shared draft PTA with Afghanistan, but so far there is no response from the Afghan side in this regard. Last year, Pakistan has also offered a Mini PTA of 10 items to Afghanistan and requested them to identify their side of 10 items on which both countries could give maximum reciprocal duty concessions, however, it is still pending at the Afghanistan end. .

This agreement would not only facilitate tariff rationalization, but would also remove the problem of double taxation to facilitate investments in both the countries.

### **b. TREATMENT OF PERISHABLE VS. NON-PERISHABLE TRANSIT CARGO**

Policy Advocacy should be done for Perishable vs. Non-Perishable items' trade, as perishable items suffered significantly during border closures and unnecessary delay times. Farmers and small traders took a hard hit when an entire year's worth of hard work rotted away on loaded trucks stranded on the border for days and weeks.

Lack of refrigerated containers / warehousing facilities is also causing significant losses in trading of perishable goods such as fruits, herbs, vegetables and frozen food etc.

### **c. CUSTOM VALUATION OF AFGHAN EXPORTS**

#### **Afghanistan Side:**

The invoice of Afghanistan for its export of fresh fruit is not acceptable to Pakistan customs authority as Afghanistan value its fresh fruit for around 50-90 USD per metric ton, whereas Pakistan customs values the same ton of fresh fruits at 600-700 USD, which automatically raises the bar for custom duties. On the contrary, the valuation of Pakistan is accepted as it is in Afghanistan, where they value one ton of fresh fruits at 80-90 USD.



### **Observation:**

If such valuation practices persist, Afghan side believes that reciprocity would be extended. This tug-of-war would have a devastating effect on bilateral ties and more importantly, Pakistan would face a major hit as its exports are more to Afghanistan.

#### **d. CUSTOM DUTIES CHARGED IN DOLLARS**

##### **Afghanistan Side:**

The traders who export fresh fruits and fresh vegetables from Afghanistan to Pakistan, in return also buys Pakistani fresh fruits and vegetables. The currency utilized in this case is Pakistan Rupee but Pakistan customs charges custom duties in US Dollars.

##### **Recommendations & Resolutions:**

In order to facilitate the bilateral trade, especially where Pakistan rupee is getting the benefit, the custom duties may also be charged in terms of Pak Rupee.

## **PROPOSED INITIATIVES**

#### **a. DEVELOPMENT OF EXPORT HOUSES**

PAJCCI has proposed the establishment of Export House or Trading Warehouse for the business and trading community across the border under PAJCCI's umbrella with due support from the Governments on both the sides. This concept would eliminate issues related to quality specifications, trust deficit, insurance and payment matters and will build the confidence amongst each other. This would also establish Rupee to Afghani transaction over any other international monetary unit. The system is based on Japanese management and PAJCCI has already worked out its initial modalities.

#### **b. CAPACITY BUILDING INITIATIVES**

- Capacity building of human resources deputed at ports, borders, custom stations at both the sides is critically important.



- Extensive training related to EDI and WEBOC may be done to ensure appropriate usage.
- Trade Delegation Exchanges, Single Country Exhibitions and relevant workshops may be supported by government to help bring the business community of both the countries closer. PAJCCI is playing its role fundamentally in ensuring the same and in short span of time, trade delegations, conferences, trade surveys and categorical exhibitions have been organized.
- Training and orientation sessions may be organized throughout Afghanistan for creating awareness in them regarding the benefits pertaining to documented economy.
- Exposure trips may be arranged related to youth (females predominantly) and SMEs to help develop businesses in Afghanistan.
- Development of Trade Portal facilitating B2B digital connectivity and enhancement of knowledge network. PAJCCI is already pursuing the development of this facility, but support from Governments across the border will help in disseminating its benefits to the right stakeholders.

**c. INFRASTRUCTURE DEVELOPMENT TO BE EXPEDITED**

- At both sides of the border, appropriate space and parking lots for the containers/ trucks are not sufficient that creates congestion leading to time delays. The vehicles remain stuck in queue whether loaded or unloaded due to unavailability of space and improper management.
- On the Pakistani side, the requisite infrastructure to handle Afghan cargo has also been deteriorating. Iran has constructed 1,800 km of new rail tracks and upgraded its existing road and rail links to cater to the trade traffic with Afghanistan and Central Asian countries.





- The condition of the Peshawar-Torkham road and Quetta-Chaman road remains dilapidated, the Government of Pakistan should undertake to restore these critical infrastructure links on an urgent basis by preparing development projects on war footing.
- The importance of modern infrastructure, including roads and the railway network, to trade relations cannot be overemphasized. Both countries should prioritize infrastructure projects to reduce the cost of transportation. It is important to mention here that the China-Pakistan Economic Corridor will be instrumental in the development of trade from Central Asia to South Asian countries.
- As an appropriate alternative, Pakistan Railway should be reinstated at a first priority basis. The movement through Railways will decrease the cost of transportation for transit goods as well as Railways covered wagons should be allowed to transport offloaded goods from Karachi port to the Afghan Customs station inside Afghanistan.
- Gwadar port will be fully activated soon to create a competitive environment for KPT and shipping lines in Karachi. However, it should be pre-equipped with necessary elements so as to avoid the existing issues of delays, negligence and misuse of Monopoly.
- KPT needs to restore its image and offerings before Gwadar port becomes fully operational, else both port and private terminals will face issues of retention in case of both transit and domestic trade.
- Asian Development Bank-funded project to build modern land ports at Torkham, Chaman and Waga border points has been initiated, the pace of work on these projects is slow which should be expedited.



#### **d. FINANCIAL MECHANISM SHOULD BE APPROPRIATELY DEVELOPED**

- The banking system should be critically strengthened and easy, legal way for Money transfer may be ensured to avoid divergent ways. The provision of a financial mechanism for trade is mandatory. Instituting an EXIM bank for trade settlements in multiple currencies is recommended, as is an institutional arrangement for freight insurance and similar cost.
- According to SRO issued during General Musharaf Era, Afghan importer should pay in advance, then the shipment would be transferred, letter of credit is not a viable mode in case of Afghanistan, but for others countries all standard mode of payment is allowed depending upon the understanding of supplier and customer, therefore this is requested to allow all standard modes of payments for Afghanistan.

#### **e. FACILITATIONS TOWARDS SIGNIFICANT ITEMS TO ENHANCE CONFIDENCE ACROSS THE BORDER**

- PAJCCI members from across the border be made part of economic working group across the border, as unanimous body representing the concerns of private stakeholders.
- There are eleven notified trade routes between the two countries, however the trade is allowed only through three. For sustainability and ease of passage, more borders should be opened and routes to be nourished. Recently opening of Ghulam Khan crossing has been a great initiative.
- Afghan authorities need to complete the formal requirements of the WeBoc system to reap its benefits.
- The WeBoc system remains un-operational due to internet and load-shedding issues, which should be resolved on urgent basis.



- The Central Asia-South Asia power transmission line is one, as is the Turkmenistan-Afghanistan-Pakistan-India gas pipeline. CASA is a bit more advanced, while TAPI still has a long way to go, but both projects help tie the region together in mutually beneficial cooperation that it would be foolish to forego on the basis of geopolitical grievances.
- Non-tariff measures also need to be improved, mainly at the customs checkpoints on both sides of the border. The operational and policy-level reforms should be implemented to facilitate trade by reducing overhead in checking and testing consignments and improving security conditions.
- All relevant transit trade issues should be resolved as the same is also affecting bilateral trade like the cost of doing business, infrastructure based issues etc.
- Double taxation by Afghanistan should be avoided.



## Transit Trade between Pakistan and Afghanistan

### **What Went Wrong? Has Pakistan lost its position as Afghanistan Transit Corridor for good?**

The private sector stakeholders from both the countries have always been the main beneficiaries of APTTA over the years as they have found lucrative market alternatives for their trade. Resultantly it provided an opportunity to the households, especially border based inhabitants, for accessing diverse basket of imported goods and services at competitive rates. Despite the immense connectivity and positive people to people engagement, the affairs have seen devastatingly declining trend in recent past, mainly attributed to heightened security concerned abrupt border closures on the Pakistani side.

The talks on transit trade have been held up for a couple of years now. A few preliminary meetings have been held, but each time a dialogue is initiated at the ministerial level, a missive arrives from Afghanistan asking for a postponement till a decision is reached on Indian participation. As per Pakistan's high commission, Afghan side is not interested in meeting unless India was made part of the talks, but it needs to be understood that since transit trade accords are usually bilateral affairs, third countries do not join the talks. Further, it is important to keep in mind that the transit trade accord benefits Afghanistan far more than it does Pakistan. However, subsidized interventions of India in Afghanistan have had significant influence over Afghan policymakers and the positions they are taking in their interactions with their counterparts in various bilateral and multilateral forums.

Secondly, a growing part of Afghanistan's transit trade is being routed through the Iranian port of Chabahar, reported approximately 2.9 billion US\$ which is 200 million US\$ more than Pakistan in 2016-17 (Source: MoC, Pakistan). This has mainly been accredited to facilitation and transit friendly tariffs and policies of Iran specifically for Afghanistan. Multiplicity of charges, cargo/terminal charges, insurance guarantees for custom duties, insurance for the goods, container guarantees and port clearance charges are also making the Pakistani route more expensive for Afghan traders, despite having a locational advantage.



Despite all odds, long-standing trade and social relations, religious and geographical proximity, business stakeholders' preference of common trade routes and products make the continuation of trade and transit between Pakistan and Afghanistan essential. Recent visits to Afghanistan by Honorable Chief of Army Staff and Honorable Prime Minister of Pakistan depicts the intention for connectivity and indulgence.

### **Transit Statistics (Commercial & Non-Commercial) – Ministry of Commerce (MoC, Pak)**

Overall transit trade has improved since 2012-13 but shown decline in 2016-17 as compared to the previous fiscal year. Despite of decline and irregularity in non-commercial transit trade, the curve of commercial transit trade remained positive throughout the defined tenure, except the last year. The figures clearly show that the best year was FY 2015-16 for the transit trade in last 5 years and the decline in the subsequent year has mainly been attributed to frequent border closures in that fiscal year that led to the movement towards Iran.

<b>Transit Trade of Afghanistan through Pakistan</b>			
<b>Fiscal Year</b>	<b>Category</b>	<b>Assessed Value (Million US\$)</b>	<b>TEUs (20'ft equivalent unit)</b>
FY 2010-11	ALL	3,128.01	108,203
FY 2011-12	ALL	1,702.27	49,495
FY 2012-13	Commercial	1,327.40	39,001
	Non-Commercial	139.06	2,866
FY 2013-14	Commercial	2,022.42	54,909
	Non-Commercial	161.73	2,897
FY 2014-15	Commercial	2,918.10	73,443



	Non-Commercial	134.86	2,710
FY 2015-16	Commercial	3224.73	84,533
	Non-Commercial	235.31	3,466
FY 2016-17	Commercial	2,752.89	70,311
	Non-Commercial	127.08	2,510
July to Dec 2017-18	ALL	1467.02	39,698

**Source: Ministry of Commerce, Pakistan**

It is vital to note that early 6 months' of current fiscal year (Jul-Dec, 2017-18) has shown steady performance and expectations are to outperform in contrast to the previous fiscal year. However, this performance cannot be termed as exceptional rather it would be more of a recovery.

As per stakeholders' feedback, several causes hampering the transit trade are given below along with possible course of action so that the transit trade can be revived for the economic and social benefits across the border.

## **MUTUAL ISSUES AND PROPOSED RESOLUTIONS**

### **1. APTTA 2010 AGREEMENT SHOULD BE REJUVENATED KEEPING BUSINESS CONCERNS IN VIEW:**

#### **Pakistan Side:**

- APTTCA is a very vital forum that collectively brings officials and private sectors, from both the countries together for discussion and necessary resolution of the stakeholders' concern. Since last two years, all the table-talks mainly APTTCA meetings have been kept on halt due to the deteriorating relationship between the two countries. Hence, it is sought from both the Governments to initiate the process of discussion and deliberations



pertinent to economic affairs as a priority. Pakistan side has vigorously followed up, however, Afghanistan side has postponed 7<sup>th</sup> APTTCA meeting indefinitely. This is creating non-congenial environment and is further negatively affecting the relationship.

- A study may also be commissioned on comparing APTTA 2010 with other transit regimes to draw lessons for improvement and further development. Pakistan and Afghanistan need to learn from another transit agreement in the region – i.e. between Nepal & India and Iran & Afghanistan. Furthermore the applicable duty regime and facilitation provided under these two treaties should be considered while devising the strategy for Pak-Afghan Transit trade.

## **2. COST OF DOING TRANSIT VIA PAKISTAN:**

The major concern raised by stakeholders was the increasing cost of doing transit business through Pakistan in contrast to other alternatives like Iran. Tehran offers many facilities from handling of consignments to onward transportation at competitive rates, whereas in Pakistan these costs have increased substantially over the years.

The several elements mentioned as reasons behind increasing costs that are diverting them to other options are:

### **a. SHIPPING COMPANIES' SECURITY DEPOSITS AND DETENTION CHARGES**

#### **Afghanistan Side:**

- Afghan importers are required to pay security deposit of Pkr. 200,000-400,000 for 20'ft container, whereas Pkr. 500,000-800,000 for 40'ft container.
- The established cost of brand new 40'ft container is around Pkr. 200,000.
- Shipping lines are supposed to refund security deposits upon return of empty containers, however, they refund it very late (reported to be at least a month) once the empty

container is returned back to them. Stakeholders raised objections as to why security deposits are utilized by Shipping lines during the time tenure that causes delays at the time of refund and stresses the traders.

- In case of imports by Pakistani traders, the shipping company demands security deposit of Pkr. 50,000 for return of their empty container.
- If a container is booked for Afghanistan, the container fee is much higher than any other container destined somewhere else; similarly, detention tariff rates are different for the container bound for Afghanistan.

### Pakistan Side:

- As per statistics received from Ministry of Commerce, Pakistan variances in security deposits at Bandar Abbas vs. Karachi illustrate immense discrimination:

<b>SECURITY DEPOSITS : BANDAR ABBAS VS. KARACHI</b>		
<b>CONTAINER SIZE</b>	<b>USD</b>	<b>USD</b>
<b>40 FT</b>	<b>300</b>	<b>5000</b>
<b>20 FT</b>	<b>150</b>	<b>3000</b>

**Source: Ministry of Commerce, Pakistan**

- Every shipping line offers different tariff and that too changes them infrequently. As per one of the traders:

1x40 Ft Container's Security Deposit = 250,000/- to 600,000/- PKR

1x20 Ft Container's Security Deposit = 150,000/- to 300,000/- PKR

- The demurrage and detention charges are also very high on Afghan Transit consignment, and even if delays are due to other reasons (port infrastructure / custom delays / border closures) the Afghan importers have to face the hit.





- The detention charges per day starts from US\$ 45 to US\$ 120 for 20'ft and from US\$ 80 to US\$ 240 per day per 40'ft container, whereas Iran charges US\$ 8 per 20'ft container and US\$ 15 per 40'ft container.
- Shipping lines on average allow for 21 detention charges free days, but immediately impose the highest penalty as soon as the detention charge free days are surpassed.
- It was also specified that same shipping lines are charging significantly less in other regional ports such as at Bandar Abbas in Iran, even few claimed that they do not charge security deposits on containers moving from Bandar Abbas to Afghanistan.

### **Observations:**

In Inter-ministerial meeting of Jan 2018, DG Ports and Shipping established that Merchant Shipping Ordinance 2018 has been submitted for approval by Cabinet and will then be presented to Parliament, but before this there cannot be any regulation for shipping lines. During the same meeting it was sought from the Ministry of Maritime Affairs to bring shipping line security deposits for Karachi port at par with Chabahar and Bandar Abbas. However, the same remained as it is and PAJCCI again sought facilitation from Ministry of Commerce in this context in February 2018.

During the meeting at KPT, it was inferred that Shipping lines and Terminals are not under the particular regulatory body, hence prefer their independence in determining the rates and are not much concerned about the stakeholders' satisfaction leading to declining trust and shifting trade volume.

In first week of April 2018, a meeting is expected to be held between DG Transit Trade and DG Ports and Shipping to discuss all related issues.

### **Recommendations & Resolutions:**

The regulatory body may be clearly identified that regulates the matters of Shipping lines, Freight Forwarders and Ports / Terminals.



The policy by the regulatory body should be established for the shipping companies to avoid discriminatory behavior and consistent charges as it is deterring Afghan traders from using the Karachi port.

If shipping lines are charging security deposits more than the cost of the container then it is unjustified, it should consider the rates in international market. The security deposit of containers should be made equivalent to price of second hand containers in international market. Additionally, Detention rate should have a limit and also be not more than the value of the container, in case of delay in return, especially when demurrage exceeds the price of a container, then they should confiscate the price of the container and leave the container conversely.

The government should at least fix upper ceilings for the charges of shipping lines, to avoid creation of cartels and rate fixation.

Stakeholders suggested that shipping lines should utilize ascending, tiered rates for detention charges.

Previously Karachi Port Trust (KPT) used to accept “Delayed Detention Certificate” so that consignment delayed due to customs should be exempted from demurrage and other related charges. This relief memo should be adopted as it was in the past to facilitate the traders.

The delay in refund is attributed to usage of security deposits by the shipping companies, hence it is suggested to utilize ESCROW account, a financial arrangement where a third party holds and regulates payment of the funds required for the two parties involved in a given transaction and is only released when all of the terms of an agreement are met.

Gwadar port should be activated soon to create a competitive environment for KPT and shipping lines. However, it should be pre-equipped with necessary elements so as to avoid the existing issues of delays, negligence and misuse pertinent to Monopoly.



## **b. BONDED CARRIERS RELATED ISSUES AND CHOICE OF MODE OF TRANSPORTATION**

### **Afghanistan Side:**

- Since the monopoly of bonded carrier is vested in few parties in Karachi, therefore they are charging phenomenal inland freight charges on the Afghan Transit cargo as compared to Pakistani importers' cargo.
- Responsibilities like safe dispatch of consignments at destination, installation of trackers, etc. should be of Bonded Carriers. Their accountability should be on the same basis as it happens in case of Pakistani imports.

### **Pakistan Side:**

- If goods / trucks are lost or damaged during transit, then customs officials put this burden on clearing agents rather than the bonded carriers.
- Bonded carriers are misusing their powers and charge discriminatory rates that are highly fluctuating. Every bonded carrier has varying charges that greatly impact the cost calculation. For e.g, in a month's time it fluctuated from Pkr. 220,000 to 430,000.
- Since the trucking fleet is predominantly outsourced, the additional cost of brokers who provide a truck can be up to 30% of the total cost of transportation.
- Due to non-availability of sufficient bonded trucks, the shipments get stuck at the Port and traders have to pay huge bills in shape of container rent and port demurrages etc.
- The Bonded carriers / Transport operators are required to follow designated routes; however, route deviation cases have been reported significantly.
- During custom meeting of January 2018, transport operators provided a destination wise comparison of charges for carrying 55/60 ton (load of 2\*20' containers) and 25/30 ton (load of 1\*40' container) from Karachi as:

Destination (TP)	55/60 ton (load of 2*20' containers)			Destination (TP)	25/30 ton (load of 1*40' container)		
	Charges (in Pkr.)	Destination (Transit)	Charges (in Pkr.)		Charges (in Pkr.)	Destination (Transit)	Charges (in Pkr.)
<b>Lahore</b>	180,000			<b>Lahore</b>	135,000		
<b>Faisalabad</b>	180,000			<b>Faisalabad</b>	135,000		
<b>Sialkot</b>	205,000			<b>Sialkot</b>	140,000		
<b>Peshawar</b>	210,000	Jalalabad	340,000	<b>Peshawar</b>	160,000	Jalalabad	250,000
<b>Quetta</b>	155,000	Chaman	175,000	<b>Quetta</b>	120,000	Chaman	155,000

They established that the charges for Transit cargo vis-à-vis TP cargo are higher as they include charges of tracking device, extra mileage, truck union etc.

#### **Observation:**

In Inter-ministerial meeting of Jan 2018, DG Transit Trade was advised that bonded carrier service charges must be rationalized and notified. Till date, a meeting has been held but no concrete course of action has been put in place.

#### **Recommendations & Resolutions:**

Bonded carriers should be disciplined not to change their rates unexpectedly without prior information or without any solid reasons ascribed. It is vital to establish the role and accountability of the bonded carriers in much concrete manner to avoid misconceptions and related hurdles.

The government should at least fix upper ceilings for the charges of bonded carriers, to avoid creation of cartels and the rate fixation.

Since the monopoly of Transit cargo is granted only to the bonded carriers, who are charging exorbitantly, they shall stand as guarantor for the cargo and the requirement of trackers and



insurance guarantee shall be terminated. Else this monopoly shall be terminated enabling Afghan traders to hire trucks from the open pool / market for open competition and less manipulation by the bonded carriers.

The transport operator shall be responsible and bound to carry the goods to its destination without any delay. The transport operator shall also be bound to deliver the bonded transit goods to their destination within the prescribed time-limit, using the transport route as notified by the Federal Board of Revenue. In case of any pilferage en-route Point of Entry to the Point of Exit within Pakistan, the bonded carrier shall have the primary responsibility to pay the leviable duty/taxes on transit goods.

In case of loss or damage during transit bonded carrier should be made responsible as it was always in the case of Railway / NLC.

As an appropriate alternative, Pakistan Railway should be reinstated at a first priority basis. The movement through Railways will decrease the cost of transportation for transit goods as well as Railways covered wagons should be allowed to transport offloaded goods from Karachi port to the Afghan Customs station inside Afghanistan.

It was raised that disparity between Transit and TP cargo be eliminated to facilitate Afghan transit trade, as it enhances trust deficit.

NLC may again be engaged in transit trade logistics, but with full caution so that previous mistakes and negligence are not repeated. The trust deficit of the past should be reduced first and proper communication may be done with the stakeholders.

Bonded carriers may follow past example of NLC which used to fix rates for the month and there used to be no changes. The carriers were also accountable to pick containers within 48 hours; otherwise they were liable for paying accrued demurrage and detention charges.

Bonded carrier itself is an insured transportation, hence any mishap or loss occurred during the transit should be made the responsibility of the carrier itself.



For cost reduction, bonded carriers may be exceeded even companies with a narrow fleet of 5 may also be allowed to register as bonded carriers.

### **c. PROBLEMS CAUSED DUE TO SCAN AND PHYSICAL EXAMINATION OF AFGHAN TRANSIT CARGO AT KARACHI**

#### **Afghanistan side:**

- Afghan transit consignments are subject to extra-ordinary physical and scanning examination and that Pakistan is not adhering to the 5% of container limit as per APTTA. In APPTA only up to 5% examination of consignment is allowed based on Risk management profiling, but unfortunately 80% of Transit cargo is examined without taking into consideration nature of the cargo. Such behavior / treatment of Pakistani customs authorities is considered a violation of APTTA.
- Due to an unnecessary stretch of examination, the following costs are caused:
  - ✓ Pkr. 5,000 as stuffing and Pkr. 8,000 as de-stuffing charges for each container
  - ✓ Pkr. 8,000 as under the table money to expedite the consignment processing
  - ✓ It takes 5-6 days to complete the procedure to clear the cargo, hence 6 days detention charges amounting to Pkr. 50,000/ per container is applied.
- There is discriminatory behavior of customs authorities towards Afghan transit cargo versus domestic trade cargo, when it comes to time and charges pertinent to the examination, scanning, stuffing / de-stuffing.
- There are hundreds of consignments arriving in Karachi on daily basis, but the capacity of Scanner Machine is not enough to scan such huge numbers of consignments; therefore Afghan transit cargo is delayed for 5-12 days at Karachi ports exposed to heavy detention and demurrage charges. Besides the scanner machines are out of order for 3-4 days each week due to which all the Afghan Transit cargo is stranded.



- Although Afghan importers are charged Pkr. 7,000 / container as scan charges, but unfortunately the scan report from the relevant authorities is not received in time leading to payment of unofficial charges, a practice most importers have adopted in order to expedite their consignments. It is also important to note that scanning is not applied on cargo imported by local Pakistani importers / traders in Karachi.
- The container(s) examination process is not only time consuming but is also damaging, especially in cases of Perishable commodities, because sometimes authorities unbox the completely container without precaution or left it open for the whole day.
- It is also heartening to note that after such lengthy examination process even, containers are again re-examined at the border stations leading to further time delays and application of undue charges.
- The goods which does not meant for Pakistan and will not be consumed in Pakistan, does not involve foreign exchange of State Bank of Pakistan, does not involve duty and taxes of Pakistan customs and has status of in-transit to Afghanistan only, they should not be detained if there are no banned / negative items. These consignments should be released without Adjudication/fine/penalties on Afghan importer and Customs Agent as already so many checks and balances are in place that would not allow pilferage of the same in Pakistan. As the Importers are Afghan nationals they will be treated in Afghanistan as per their national laws in this case.

**Pakistan side:**

- Normally the process takes approximately 3 days since the discharging from the vessel for the containers to be examined. However, due to frequent breakdown of scanners at KICT and congestion at the terminal it is currently taking 4 – 8 days for the Afghan transit containers to be released.
- Afghan cargo is sometimes sent for lab test which is not in the agreement as it's not for our consumption.



## **Observations:**

As per the Pakistan Customs Rules 2015-2016, the examination for Afghan transit cargo destined for Afghanistan require that at the port terminals 100% of the Afghan transit cargo are to be weighed; then Pakistan Customs Risk Management System selects 20% of the importers (based on their profile) for subsequent scanning.

An official from FBR clarified the following:

- As per WeBoc reporting, average time taken by custom examination is 1-2 days, whereas selection of a bonded carrier consumes more days. If the selection of bonded carrier is expedited, automatically days taken will decrease.
- Demurrage / detention charges are same for both transit or local trade. Pakistani consignments chosen are almost 20-25% rather more however transit cargo is not selected more than 5%. Only once the containers are selected, they are supposed to pay charges for stuffing / de-stuffing.
- There are precursor chemicals or any banned items that Afghanistan cannot import so the process has to be followed accordingly. The examination still remains 5% and lab test from within only accounts to 1%.
- In case particular caution or serious information is received by the customs authorities then further examination or scanning is conducted.

In Inter-ministerial meeting of Jan 2018, Secretary Commerce urged all relevant stakeholders to rationalize and neutralize the costs of doing business. However, nothing concrete has been materialized till date.

## **Recommendations & Resolutions:**

Afghan Transit should be treated under international rules and regulation whereby the examination and scanning of Afghan transit cargos should be same as is the case with Pakistani internal cargo.





The examination must be done through green channel/efficient advanced scanner systems instead of Manual process.

The number of scanners be increased at the terminal or the terminal should make arrangements to use alternative terminals in case of congestion or problems with the scanner.

The costs and procedures being followed by Iran to expedite the consignments should be assessed for the formulation of better policies at our end.

#### **d. TRACKING SYSTEM FOR TRANSIT CARGO**

##### **Afghanistan Side:**

- As per APPTA 2010 contracting parties shall allow those vehicles only which carry tracking system. In this context, the traders were being charged both for the tracking device installed on trucks and containers, whereas the cost of the device installed on prime-movers should be borne by the transport operator.
- Pakistan Customs has licensed only one Tracker Company to provide tracking service for Afghan transit trade, hence Afghan traders are forced to pay around Pkr. 7,000 / container.
- This condition is not applicable in case of Pakistani local traders / importers hence it is a discriminatory behavior.

##### **Observations:**

In Inter-ministerial meeting of Jan 2018, DG Transit Trade informed that two tracker operators have been allowed. However, all stakeholders fear the risk of cartelization amongst the few operators.

##### **Recommendations & Resolutions:**

Since the monopoly of Transit cargo is granted only to the bonded carriers, hence tracker device installed on prime-movers should be their responsibility rather than that of a consignee, who is

bearing all the exorbitant charges of bonded carrier and still tracking company is not accountable to report to them in case of any incident. Else this monopoly shall be terminated enabling Afghan traders to hire trucks from the open pool / market for open competition and less manipulation by the bonded carriers and then the cost of tracker and insurance guarantee can be borne by the traders.

F.B.R should at least fix upper ceilings for the charges of trackers and increase the number of service providers, to avoid creation of cartels and undue charges.

#### **e. REQUIREMENT & RELEASE OF INSURANCE GUARANTEE**

##### **Afghanistan Side:**

- The condition of furnishing an insurance guarantee equal to the amount of leviable duty/taxes, raises the cost of business as insurance companies are charging a premium of 0.2-0.5% of the amount. There are no such conditions in the Iran-Afghan transit trade agreement.
- The customs authorities in Karachi are fixing the value of transit cargo on the GD as per their choice rather than accepting the declared value that raises the level for the insurance guarantees, hence increases the costs unnecessarily.
- The long delays in release of insurance guarantees significantly increase the transaction costs.

##### **Observations:**

As per Customs Directorate of Transit Trade, the reasons behind the delayed release of insurance guarantees are:

- Delay from Afghan Customs on uploading / sharing the T1 Document with Pakistan Customs.



- Importers are not applying for the release of the insurance guarantees to the insurance company when all customs documentation is complete.

The system of revolving guarantee has also been introduced whereby importer of Afghan Transit Trade does not need to deposit insurance amount on every consignment, although, he needs to deposit a sum of amount as Revolving Guarantee for an entire year. In this way, the importer can save premium charged by the insurance companies on every consignment and also can easily continue his import with any impediment.

### **Recommendations & Resolutions:**

Since the monopoly of Transit cargo is granted only to the bonded carriers, who are charging exorbitantly, they shall stand as guarantor for the cargo and the requirement of trackers and insurance guarantee shall be terminated. Else this monopoly shall be terminated enabling Afghan traders to hire trucks from the open pool / market for open competition and less manipulation by the bonded carriers.

Bonded carrier itself is an insured transportation, hence any mishap or loss occurred during the transit should be made the responsibility of the carrier itself.

The rates of insurance / bank guarantees should be made competitive.

TIR Carnet can also be an alternative mechanism (as utilized by Iran) to ensure the security of transportation, whereby replacing the need of insurance guarantees.

### **f. ESTIMATED AUTHORIZED / UNAUTHORIZED PAYMENTS PER TRUCK**

Not only official charges apply to transit trade that raises the cost of doing business, but also unauthorized charges at both sides of the border makes the overall transit trade unprofitable. It is safely assumed that approximately Pkr. 90,000 is the additional cost to reach the border of Afghanistan, whereas approximately 20 to 30 thousand are paid for clearances at different check posts. The time delays, ineffective infrastructure and both authorized & unauthorized charges are the causes behind damaging the Af-Pak transit trade.

### Afghanistan Side:

- The Afghan stakeholders have shared following chart elaborating the costs of doing business, whereby Iran, in contrast, has fastest mechanism at port and border, providing duty-free transit goods and the re-exporting of transit goods to third countries via the Bandar Abbas port. The insurance premium is substituted by TIR carnet, in most cases security deposits do not prevail and undue unofficial payments are non-existent.

S#	Service	Place and Department of Extortion	Amount in Pkr.
1	<b>Terminal fee</b>	Karachi Custom	Total 23000
2	<b>Port charges</b>	Karachi Port	As applicable
3	<b>Scanning Fee</b>	Karachi Port	As applicable
4	<b>Delivery Order Charges</b>	Karachi Custom	20 ft: 15000-25000 40 Ft: 30000-40000
5	<b>Tracking Device</b>	Tracking Service Provider endorsed by custom	7000
6	<b>Insurance Premium</b>	Insurance Company	0.25% of total value
7	<b>Torkham charges while crossing border</b>	Custom Torkham Pakistan	Per Container 7000
8	<b>Illegal money by Local police: Average amount per truck From Karachi to Torkham</b>	Each Police check post charging at least 500	6000-20000

- The Afghan consignee / their clearing agent are forced to pay Pkr. 15,000-20,000 for each container as under the table money to D.C or Appraiser Afghan Transit group at customs in Karachi otherwise they order / mark the file for seal verification purpose. Once the file is marked for seal verification, then the Afghan importer will have to spend Pkr. 25,000-35,000 for grounding the container and it will at least take 9-12 days to carry out /complete the documents procedure.



**Pakistan Side:**

- **Karachi- En route charges:** 20 ft container = Rs. 78,712, 40 ft container = Rs. 109,882
- **Total to Torkham:** 20 ft container = Rs. 296,634, 40 ft container = Rs. 341,374
- **Total to Chaman:** 20 ft container = Rs. 262,224, 40 ft container = Rs. 297,082,  
Unauthorized charges = Rs. 25 to 35 thousand

Transit Stage		Unauthorized Cost (PKR)	Authorized Cost (PKR)			
			20 Ft	% of total authorized transit cost	40 Ft	% of total authorized transit cost
Karachi	Terminal Operator Charges charged by the Shipping Line		12,000	6%	33,000	11%
	Port Handling Charges charged by the Port		14,312	7%	16,182	5%
	Excess payment to transporter - Costs incurred due to scanning / examination of containers	10,000		0%		0%
	Clearing Agent Fee		10,000	5%	10,000	3%
	Demurrage (average based on past experience when borders are open)			0%		0%
	Insurance Cost (Average)		7,000	4%	7,000	2%
	Tracker on Container Cost		5,600	3%	5,600	2%
	Other	2,700		0%		0%
	EN ROUTE	Toll Tax	1,000	8,000	4%	8,000

Torkham	Bonded Carrier Freight (Khi to Torkham/Jalalabad)		125,000	65%	210,000	70%
	Customs	1,200		0%		0%
	Clearing Charges		8,000	4%	8,000	3%
	Khassadars (Local Police)	1,900		0%		0%
	NHA		610	0%	610	0%
	NLC		2,500	1%	2,500	1%
	Peshawar Development Authority		500	0%	500	0%
	Other	4,900		0%		0%
Total Cost in PKR - Authorized and Unauthorized Disaggregated		21,700	193,522		301,392	
Total Cost in PKR - Authorized and Unauthorized Cumulative			215,222		323,092	
Unauthorized Cost as % of total authorized cost				11%		7%

**Source: Ministry of Commerce, Pakistan**

### **Observation:**

In Inter-ministerial meeting of Jan 2018, Secretary Commerce urged all relevant stakeholders to rationalize and neutralize the costs of doing business. However, nothing concrete has been materialized till date.

### **Recommendation & Resolution:**

APPTA does not support any article or clause for seal verification, therefore FBR authorities shall immediately issue formal instructions in this context.



The comparative analysis may be conducted with charges and facilitation offered by Iran to Afghanistan in order to understand the underlying cost imperatives for Afghan traders.

### **3. PROCEDURAL HINDRANCES HAMPERING TRANSIT TRADE THROUGH PAKISTAN:**

#### **a. ABRUPT BORDER CLOSURES AND RESULTING MONETARY IMPACT**

##### **Afghanistan Side:**

- Pakistan unilaterally closed both Torkham and Chaman border with Afghanistan several times in 2017 and as the result all Afghan transit cargo remained under very severe demurrage / container detention & transportation detention charges for months and it caused immense losses to Afghan traders.
- As per APPTA it is must to issue notification before closure of the border, otherwise it would be considered a violation.

##### **Observation:**

Keeping intermittent border closures in view, especially during February – March 2017, delays caused heavy losses, hence upon re-opening of the borders, PAJCCI, on behalf of the business community, sought waiver of any applicable port and shipping charges (detention / demurrage) applied to Afghan consignments / containers accruing from the closure of the border to limit the monetary losses of the business community.

However, the response of private terminals suggested that they had spent additional resources in accommodating Afghan Transit Containers during the border closure period, which resulted in additional costs. Hence, they cannot further facilitate by waiving the accumulated demurrage / detention charges.



In Inter-ministerial meeting of Jan 2018, Secretary Commerce urged DG Transit Trade and DG Ports & Shipping to arrange a meeting with private terminals for discussing waiver of requested charges by PAJCCI, yet till date the decision is pending.

### **Recommendations & Resolutions:**

The PAJCCI's manifesto is to seek segregation of business and trade ties from political and security tensions, though, establish strong security measures that are vital for stabilization and sustainability of both the countries without compromising upon the sentiments of the business community across the border as happens during abrupt closure of the border for an indefinite period resulting in massive monetary losses and trust deficit.

Keeping increasing trust deficit in view and acknowledging the reservation of Afghan importers, PAJCCI strongly urges the Government to facilitate waiver of any applicable port and shipping charges (detention / demurrage) applied to Afghan consignments / containers accruing from the closure of the border

#### **b. UNNECESSARY DELAYS AT THE PORT AND BORDER**

##### **Afghanistan Side:**

- Afghan importers encounter delays up to 5-12 days for cargo clearance at Karachi Port, whereas the cargo imported by local Pakistani traders is cleared within 1-3 days. The delay causes considerable losses for Afghan traders because shipping company generally provides only 21 days free detention, including clearance time, but it takes at least 30-35 days to complete the cycle of returning the empty container back to the shipping company owing partly to transit and customs delays. Since the process of returning trucks exceeds the detention period, the traders are liable to pay US\$ 60-90 per day for each container as the detention charges to the shipping company.
- The trucks that bring the empty container from Jalalabad back to Karachi are delayed for hours by Pakistan security forces while crossing the border to Pakistan that causes heavy





traffic Jam at Afghan side of the border and as the result the trucks remain stranded for weeks and leads to heavy detention charges.

#### **Pakistan Side:**

- Due to delay in the clearance process by Afghan authorities, especially at the Torkham side of the border, return of an empty container takes abnormal time (approx.. 15 to 20 days) that causes shortage of vehicles in the market and creates an incline in general freights up to \$800. It also results in penalties ranging between 10-15 thousand on the bonded carriers by shipping lines. As per reliable sources, approximately, 1780 empty containers are currently stuck in Afghanistan near Torkham Station.

#### **Recommendations & Resolutions:**

It is urged from Ministry of Commerce across the border to intervene for long-run policy in this context and for expediting the release of containers at this instance.

De-stuffing and cross-stuffing may be allowed after custom clearance, especially at the borders, so that bonded carriers are not compelled to go to far flung areas in Afghanistan saving them from the hassle in return to their territory and incurring unnecessary costs of delays.

#### **c. FREEDOM TO CHOOSE TRANSIT OPTIONS PERTINENT TO DE-STUFFING AND RE-ROUTING**

#### **Afghanistan Side:**

- APPTA allows freedom of transit through the territory of each contracting party, via the routes most convenient for international transit for traffic in transit to or from the territory of other contracting party. Hence, route assertion should be locked at the time of Gate out with the declaration of cargo manifest instead as per the VIR, which is filed by the shipping lines before the arrival of goods. Even though it is allowed by law, but Customs does not permit the facilitation.



- The Afghan importers shall have the option either to carry their goods to final destination with the container from the country of origin or shall De-stuff / Cross stuff the cargo at Karachi ports in containerized trucks to carry the goods from Karachi to final destination. There are containerized trucks available in Karachi with the transport companies. It is important to avoid security deposits of shipping lines and also the extensive demurrage / detention caused due to unforeseen delays.

### **Pakistan Side:**

- Containerized cargo has been made compulsory, but there are still those items which can come in loose cargo and is transacted in bulk like sugar / fertilizers, which if not allowed in open trucks then increases overall freight cost.
- Due to the security situation in Afghanistan and undue delays caused by Afghan authorities to release empty containers, there is a shortage of fleet in the local market and delays lead to increasing detention / demurrage charges.

### **Recommendations & Resolutions:**

Route fixation or re-routing may be allowed, the Afghan importers should be given freedom to transit and routes should be decided once GD is processed at the Karachi customs i.e. after custom clearance and not when the vessel arrives at the port or prior by the shipping lines.

There are eleven notified trade routes between the two countries, however the trade is allowed only through three. For sustainability and ease of passage, more borders should be opened and routes to be nourished.

Option for offloading of goods at the customs border station outside Afghanistan instead of within Afghanistan, will reduce charges of truck freight in Pakistan as well as this will cover the shortage of vehicle in the local market. Afghan Truckers will get good business for



transportation up to Jalalabad, Kabul and Kandahar, this will be same practice as Iran Government is doing for transit cargo at the Islam Qila border.

SRO 121 should be abolished as until loose cargo won't be permitted in an open container, till then trade through Pakistan Railways cannot be fully functional. Additionally, it hampers the movement of certain items that are transited in bulk and have extensive demand in Afghanistan, so cannot be pilfered within Pakistan.

If the supplier of goods from Pakistan intends to empty their stuff after passing through the customs, they should be allowed to do so, they should not be compelled to go to the far flung areas in Afghanistan. Due to delays caused by the Afghan authorities and security situation, carriers do not intend to enter Afghan territory and seek option of de-stuffing / cross-stuffing at the border station. This will save both supplier and importer from all the hassles of security deposit, detention and demurrage charges.

#### **d. ENTRY AND MOVEMENT OF TRANSPORT UNITS CARRYING TRANSIT CARGO**

##### **Afghanistan Side:**

- Afghan President took the tripling of tariff rates on Afghanistan's exports as a justification to ban the entry of Pakistani trucks via the Torkham and Spin Boldak crossings in Afghanistan. Instead, he decreed that Pakistani trucks should unload at the border and their goods be carried to their destinations only by Afghan trucks.
- Afghan trucks are not allowed to access Wagah beyond Torkham and that is affecting not only the incurred costs of transportation but also the trading potential with India.

##### **Pakistan Side:**

- Custom bonded carriers and logistic companies confirmed that Pakistani trucks carrying commercial transit goods in Afghanistan via Torkhum cannot go beyond Jalalabad.



Pakistani trucks carrying Pakistani commercial exports or non-commercial transit cargo to Afghanistan through Torkham could go to the port of destination in Afghanistan including Kabul.

**Observation:**

Director Transit Trade affirmed that all Afghan transit cargo are transported from and to Pakistani sea ports through the Customs Bonded Carriers registered in Pakistan as per APTTA. Pakistan has waived the requirement for bank guarantees for Afghan trucks carrying Afghan exports destined for India via Wagah and has agreed to accept a letter of guarantee issued by the Afghan Ministry of Transport and Aviation. However, Pakistan has not received a single case where Afghan trucks have utilized this facility.

**e. CLEARANCE OF PARTIAL SHIPMENT IS STILL AN ISSUE**

**Afghanistan Side:**

- As per the Pakistan Customs law, shipments cannot be unloaded/released back until & unless whole lot as declared in GD is completed and arrived altogether at the destination points like Torkham or Chaman Border. Due to uncertainties, the delays are unavoidable hence several times it was requested that Partial shipments should be allowed.

**Pakistan Side:**

- Clearance of partial shipment is being allowed on the basis of the discretion of the Assistant / Deputy Collector for Torkham or Chaman. The trader / transporter needs to submit an application to the relevant collectorates for the clearance of partial shipment.



## **Observation:**

On several instances, the Pakistani Government has affirmed that Partial shipments will be allowed, however, stakeholders have communicated that it is done on the case-to-case basis illustrating that the same is still not part of the official procedure, that leads to discrimination.

### **f. DEMURRAGE FREE DAYS AT PORTS & TERMINALS**

#### **Afghanistan Side:**

- The private sector confirmed that Pakistan International Container Terminal (PICT) and Qasim International Container Terminal (QICT) allow 15 demurrage free days after discharge of the vessel, whereas Karachi International Container Terminal (KICT) and South Asia Pakistan Terminal (SAPT) allow only 5 demurrage free days. Keeping this in view, it becomes cumbersome to have the terminals waive off demurrage charges incurred due to force majeure.
- Most of the Afghan Transit cargo uses KICT, hence faces immense difficulty to clear cargo within 5 days because of slow and complicated procedures, ineffective port infrastructure and other unforeseen reasons.

#### **Observations:**

Before 2005, Karachi Port Trust used to give 10 days' free time, now it is also 5 days. KICT firmly states that they are over congested so they won't pursue strategies followed by other terminals.

Gwadar port administration, seeing this opportunity, has already announced 3 months' demurrage free days followed by cheapest rates by shipping lines especially for Afghan Transit Traders.

In the first week of April 2018, a meeting is expected to be held between DG Transit Trade and DG Ports and Shipping to discuss all related issues.



## **Recommendations & Resolutions:**

Previously Karachi Port Trust (KPT) used to accept “Delayed Detention Certificate” so that consignment delayed due to customs should be exempted from demurrage and other related charges. This relief memo should be adopted as it was in the past to facilitate the traders.

Traders seek at least 30 demurrage free days keeping in view all procedural and unforeseen barriers.

PAJCCI urge to allow at least 15 demurrage free days at all the terminals and Port to facilitate the traders. Additionally KPT needs to restore its image and offerings before Gwadar port becomes fully operational, else both port and private terminals will face issues of retention in case of both transit and domestic trade.

## **4. TRANSIT OF PAKISTANI EXPORTS TO CENTRAL ASIA VIA AFGHANISTAN:**

### **Afghanistan Side:**

- As Pakistan is blocking Afghanistan’s right to trade with South Asia, specifically India he as reciprocity Pakistan also cannot utilize Afghanistan land for its trade with Central Asian States.

### **Pakistan Side:**

- Pakistani trucks are banned to enter Afghanistan via Torkham and Spin Boldak for transit to CIS countries. Instead, they are required to unload at the border and their goods be carried to their destinations only by Afghan trucks.
- Despite the commitment from the Afghan side about abolishment of this practice, Tazmeem (security deposits) against transit shipments to CIS countries via Afghanistan is still being collected @110% of the duty which is an extra burden on traders and stakeholders from both the sides. The refund approximately takes 2-3 months’ time.



- The ownership of the Pakistani exports to Central Asia has to be transferred to an Afghan party / trader who then re-exports Pakistani cargo destined for Central Asian countries. Pakistani businessmen are supposed to make Third party agreements with Afghani Traders and have to pay an extra amount to cross via Afghanistan to Central Asia.
- Afghan authorities are demanding unofficial amounts at many checkpoints till the border of the Central Asian countries. The trader has to pay \$50 to \$100/per truck else the consignments are delayed, which is severely affecting perishable goods mainly.
- Pakistani Trucks are also not allowed to move beyond the border as per past practice, causing additional charges for Transshipment from Pakistani trucks to Afghani Trucks.
- Unnecessary checking and the halting of Exports Cargo trucks at border specially in case of perishable items, causes immense monetary losses to the traders.
- Afghan charges their applicable duties on our exports to Tajikistan. As per SAFTA treaty Pakistan is not getting the due treatment, and CIS exports go to Afghan importers and they re-export it as Afghan origin goods.
- For transit to CIS, traders have to seek Afghan Government permission (endorsements from their Commerce and Finance Ministries). This lengthy procedure is highly discouraging practice of transit, whereas there are no specific permissions to be sought by Afghan importers for their transit trade via Pakistan.

### **Observations:**

As per the APTTA 2010 agreement, Afghanistan should fulfill its commitment of allowing Pakistan transit exports, through Afghanistan, to Central Asia. Pakistan, though cannot support Afghan trucks to carry exports from Wagha, however, it very much allows Aghan perishable

exports to India via Wagha border, which is evident from the following figures as shared by the Pakistan Embassy in Kabul:

<b>AFGHAN GOODS IN TRANSIT TO INDIA FROM WAGHA</b>		
<b>Financial Year</b>	<b>No. of Trucks</b>	<b>Value: Pak Rs in Million</b>
<b>2012-13</b>	2,277	13,166
<b>2013-14</b>	2,711	13,4558
<b>2014-15</b>	2,406	14,677
<b>2015-16</b>	3,865	21,497
<b>2016-17</b>	2,504	18,087

Whereas, Afghanistan is creating all sorts of hurdles in the way of Pakistan transit trade to Central Asian states, evident from the following meager export figures.

<b>PAK GOODS IN TRANSIT TO CENTRAL ASIA VIA AFGHANISTAN</b>	
<b>Financial year</b>	<b>Value: Pak Rs in Million</b>
<b>2012-13</b>	552
<b>2013-14</b>	888
<b>2014-15</b>	615
<b>2015-16</b>	469
<b>2016-17</b>	294





## **Recommendations & Resolutions:**

Afghanistan should fulfill its commitment of abolishing the practice of charging cash guarantees of 110% of duty value of Pakistan's exports transiting via Afghanistan.

Tajikistan is another landlocked country and its inclusion in APTTA comes under the fold of transit, whereas India is a competing economy to Pakistan and also they both do not enjoy pleasant bilateral ties, hence engagement of India in Trilateral agreement would be an uncalled for demand.

The Nepal-India treaty may also be studied to understand the treatments otherwise, so as to learn from the wider spectrum.

## **5. OTHER ISSUES:**

### **a. VALUATION OF AFGHAN TRANSIT CARGO BY KARACHI CUSTOMS AUTHORITIES**

#### **Afghanistan side:**

The customs authorities in Karachi are fixing the value of transit cargo on the GD as per their choice rather than accepting the declared value that enhances cost of doing business. Once the valuation is done on the higher side, it raises the level for the insurance guarantees as well hence increases the costs unnecessarily.

#### **Observation:**

This practice is equally reciprocated by Afghan authorities of Pakistan transit to Central Asian countries and also on Pakistan exports to Afghanistan.



### **Recommendation & Resolution:**

The customs authorities shall accept the declared value of Afghan traders and shall avoid to fix the value of transit cargo which in reciprocity has negative effects on Pakistani exports via Afghan corridor.

In case of undervaluation, an appropriate reasoning should be provided to the Afghan trader for eradicating trust deficit.

#### **b. TREATMENT OF PERISHABLE VS. NON-PERISHABLE TRANSIT CARGO**

Policy Advocacy should be done for Perishable vs. Non-Perishable items' trade, as perishable items suffered significantly during border closures and unnecessary delay times. Farmers and small traders took a hard hit when an entire year's worth of hard work rotted away on loaded trucks stranded on the border for days and weeks.

Lack of refrigerated containers / warehousing facilities is also causing significant losses in trading of perishable goods such as fruits, herbs, vegetables and frozen food etc.

#### **c. TRANSIT MARKS & NUMBERS**

In light of APTTA 2010 and as per SRO 601/2011 and SRO 121/2014 all consignments of Transit Trade are transported and examined in international containers and even cross the borders in these sealed containers. When there are so many checks and balances are in place like tracking, scanning, seal on the container, insurance, usage of bonded carriers, then the requirement of Marks and Numbers on each package should be avoided especially in containerized cargo. In case of open / loose consignment this requirement may be applied as it is possible to do so in case the container is grounded, else this practice takes around 5-6 more days.

#### **d. BLACK LIST / NEGATIVE LIST FOR AFGHAN TRANSIT GOODS**

##### **Afghanistan side:**

- In APTTA there is no justification to ban import of any lawful commercial products / items via Karachi in Transit to Afghanistan, but the customs authorities in Karachi do not allow certain products such as electronic products / used or new auto spare parts/ automotive batteries/ tobacco / bearings / batteries used for Solar system etc. If this practice is continued then it would be considered a serious violation of APTTA rules.
- Items on SRO 151/2004 are still banned for Afghan transit; however, this SRO should be rescinded since the implementation of various checks against smuggling has already been established under APTTA.

#### **e. LACK OF RIGHT INFRASTRUCTURE AND SERVICES**

- There are eleven notified trade routes between the two countries, however the trade is allowed only through three. For sustainability and ease of passage, more borders should be opened and routes to be nourished. Ending a four-year closure, Ghulam Khan pass has been opened formally which is a third major trade route to Afghanistan, it did face certain teething operational issues in April during trial session, however, now it is functioning smoothly. Hence, on the same lines further facilitation may be done.
- At both sides of the border, appropriate space and parking lots for the containers/ trucks are not sufficient that creates congestion leading to time delays. The vehicles remain stuck in queue whether loaded or unloaded due to unavailability of space and improper management.
- There is extreme congestion at the terminal, especially at KICT that leads to delays in scanning and examinations.



- Capacity building of human resources deputed at ports, borders, custom stations at both the sides is critically important.
- Transshipment sheds are highly required, especially near Peshawar.
- Railway module is already incorporated in WeBoc system, however railways are not fully functional yet.
- Afghan authorities need to complete the formal requirements of the WeBoc system to reap its benefits.
- Currently there is no work going on to conclude the EDI pilot project being implemented in 2012 – 2014 for transit trade through Torkham. The main reason is that the Afghan Customs have not been responding to Pakistan Customs request for EDI message testing. Pakistan Customs would like EDI to be operational and would like to pursue EDI if Afghanistan responds.
- On the Pakistani side, the requisite infrastructure to handle Afghan cargo has also been deteriorating. Iran has constructed 1,800 km of new rail tracks and upgraded its existing road and rail links to cater to the transit trade traffic with Afghanistan and Central Asian countries.
- The condition of the Peshawar-Torkham road and Quetta-Chaman road remains dilapidated, Government should undertake to restore these critical infrastructure links on an urgent basis by preparing development projects on war footing.
- Transport Internationaux Routiers (TIR) or International Road Transport is yet to be operationalized to reap the overall benefits, as is in the case of Afghan-Iran Transit Trade. The consensus was that the revised APTTA there should be an option to use either TIR



carnet or an insurance guarantee for transit trade but due to pending APTTA meeting, nothing has been done in this context.

- Port Qasim does not have a warehouse for Afghan transit cargo.

**f. MULTIPLE CONSIGNMENTS ON ONE CARRIER IS NOT YET FACILITATED:**

**Afghanistan side:**

Since the transportation cost for Afghan Transit cargo is already much higher as compared to domestic trade and bonded carriers / transporters have trucks available which can carry two consignments on one carrier from Karachi to Afghanistan, but unfortunately, despite Pakistan's commitment (minutes of 5th APTTCA meeting) to allow two consignments on one carrier the custom does not permit the same, hence, the problem is still persisting.

**g. AMENDMENT OF SHIPPING DOCUMENTS MUST BE ALLOWED**

If there is any mistake in the shipping documents beyond the control of Afghan importer then the customs authorities are not allowing / accepting any amendment unless they pay a huge amount of money. Afghan importer will have to pay Pkr. 150,000-200,000 as under the table money to the authorities in order to accept / make the necessary amendments on the shipping documents. The F.B.R authorities are supposed to send a notification / letter to the Karachi customs house to allow / accept the necessary amendments of the shipping documents if any.

**h. REQUIREMENT OF JAWAZNAMA**

Afghanistan persists that the requirement for Jawaznama is not per APTTA, whereas Pakistan Customs Directorate of Transit Trade and the Private Sector Stakeholders confirms that Jawaznama is a document required for commercial Afghan transit goods to cross through Pakistan. Despite this, Pakistan asked Afghanistan Customs to convey the official position on the



requirement of Jawaznama in Afghanistan so that FBR may update the rules accordingly. Afghanistan committed that the Ministry of Commerce and Industries of Afghanistan will send the required letter through diplomatic channels, however, the same has not been received yet.

#### **i. REINSTATING PAKISTAN RAILWAYS AS AN ALTERNATIVE**

As an appropriate alternative, Pakistan Railway should be reinstated at a first priority basis. The movement through Railways will decrease the cost of transportation for transit goods as well as Railways covered wagons should be allowed to transport offloaded goods from Karachi port to the Afghan Customs station inside Afghanistan.

##### ***Issues:***

- Pakistan Customs has rolled out a Railway Module in WeBOC to automate and manage Afghan transit trade via Railway, however, railways are not fully functional yet.
- There are two railway stations in Peshawar City Railway Station and Peshawar Cantonment. The former has no infrastructure, and the latter caters to all imports and exports of Peshawar and is extremely congested.

##### ***Updates and Proposals:***

- Pakistan Customs has successfully dispatched the first lot of Afghan transit trade consignments to Peshawar through the bonded train, recently. Director Transit Trade confirmed the sealing of the containers and functionality of trackers fixed in the train and containers at Pakistan International Container Terminal (PICT). DHL was the shipping agent and Pakistan Railways was the bonded carrier of this pilot run. 16 containers stuffed with assorted meters were dispatched via Pakistan Railways to Peshawar, followed by onward transportation through trailers to Afghanistan.



- Extensive railway route options be materialized as a priority as transportation of transshipment and Afghan transit cargo through railways will be much safer than the transportation through the bonded carriers who have created a monopoly.

#### **j. GWADAR AS AN EMERGING ALTERNATE TO KARACHI PORT**

Gwadar port will be fully activated soon to create a competitive environment for KPT and shipping lines in Karachi. However, it should be pre-equipped with necessary elements so as to avoid the existing issues of delays, negligence and misuse of Monopoly.

##### ***Issues:***

- Gwadar infrastructure needs to be in place first. Currently WeBoc is not operative, transportation connectivity and associated costs from Gwadar to Chaman is not explicitly determined, safety and security concerns still need answers.
- Though the management of Gwadar is offering lucrative facilitation, however, it is still to be defined as to what would be the detention practice when container would leave for Afghanistan and delayed by authorities within Afghan territories.

##### ***Updates and Proposals:***

- Gwadar management is offering 3 months (90 days) demurrage charges in contrast to maximum 15 days offered by few terminals in Karachi.
- Management is assuring cheapest rates to be offered by shipping lines, however, it is important to communicate their tariffs officially, in black and white.
- KPT needs to restore its image and offerings before Gwadar port becomes fully operational, else both port and private terminals will face issues of retention in case of both transit and domestic trade.