



INDO-SRI LANKA FREE TRADE AGREEMENT (ISFTA)

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1. BACKGROUND

The Indo-Sri Lanka Free Trade Agreement (ISFTA), which was signed on 28th December 1998 and entered into force with effect from 1st March 2000, provides duty free concessions to a wide range of products traded between the two countries. Sri Lanka's final tariff liberalization commitment under ISFTA came into effect since November 2008 and with this completion of the commitment, the ISFTA which came into effect from March 2000 has been fully implemented. However, Sri Lanka has already got a fully duty free access to the vast Indian market under the ISFTA since the end of March 2003. Thus, the entrepreneurs based in Sri Lanka can now export more than 4000 product lines to the Indian market on duty free basis.

2. WHY INDIA IS IMPORTANT AS A TRADING PARTNER

India is Sri Lanka's third largest trading partner globally, while Sri Lanka is India's second largest trading partner in the SAARC. It is the number one source of supplies accounting for twenty percent of Sri Lanka's total imports and third largest export destination for Sri Lankan products absorbing six percent of total exports. Among tourists, Indian visitors make the largest single group having a share of twenty seven percent of total arrivals. In the investment field, India is among the top five foreign investors in Sri Lanka. Trade between Sri Lanka and India has grown rapidly after the entry into force of the Indo-Sri Lanka Free Trade Agreement in March 2000. The value of bilateral trade increased from US\$658 million in 2000 to US\$ 3.6 billion in 2013.

3. OBJECTIVES

The objectives of this Agreement are:

- (i) To promote through the expansion of trade the harmonious development of the economic relations between India and Sri Lanka.
- (ii) To provide fair conditions of competition for trade between India and Sri Lanka
- (iii) In the implementation of this Agreement the Contracting Parties shall pay due regard to the principle of reciprocity
- (iv) To contribute in this way, by the removal of barriers to trade, to the harmonious development and expansion of world trade

4. PRODUCT COVERAGE UNDER ISFTA

List	Negative list of India	Negative list of Sri Lanka
Negative List	429 (at HS 6 digit level)	1180 tariff lines

Duty Concessions granted by India for Sri Lankan Exports

All products other than those are in the Negative List of India are eligible to receive 100 tariff concessions (on basic customs duty) without any restriction except for the following products which are subjected to specific arrangements.

Specific concessions are available for the following Sri Lankan exports (per annum)

- Garments: 8 million pieces at Zero duty (despite garment items are being in the Negative List of India)
- Tea: 15,000 MT at 7.5 % fixed rate (despite tea items are being in the Negative List of India)
- Pepper: 2,500 Mt at Zero duty
- Desiccated Coconut : 500 Mt at 30% Margin Of Preferences
- Vanaspati, bakery shortening and margarine: 250,000 Mt at Zero duty
- Textile: 528 tariff lines (at HS 6-digit level) with no quantitative restrictions at Margin of Preferences of 25%

Duty Concessions granted by Sri Lanka for Indian Exports

All products other than those are in the Negative List of Sri Lanka including cement (HS Code 2523.21 and 2523.29 / despite it is being in the Negative List of Sri Lanka) are eligible to receive 100 tariff concessions on Basic Customs duty.

5. ISFTA RULES OF ORIGIN

In order to receive ISFTA benefits, the merchandise exported between India and Sri Lanka should comply with the following Rules of Origin criteria.

Wholly Obtained Products

All wholly obtained products such as tea, fish, spices etc. will be able to enjoy duty free benefits at each other's markets without difficulty, provided they are eligible for duty concessions.

Products not Wholly Produced or Obtained

These include the products manufactured using imported raw materials. In order to enjoy ISFTA benefits, the products should comply with the following criteria.

- The Domestic Value Addition (DVA) in the exporting country should not be less than 35% of the FOB value of the finished product and
- HS Codes of the imported raw materials and the finished products should be different at 4-digit level. (Change of Tariff Heading criteria)

Cumulative Rules of Origin

The Cumulative Rules of Origin encourage the contracting states (India and Sri Lanka) to source raw materials needed for their exports from each other. Accordingly, an exporter has to show only a minimum DVA of 25% of the FOB value of the finished product, provided the raw materials imported from the other contracting state accounts for not less than 10% of the FOB value of the particular product. (In other words, the aggregate value addition should not be less than 35% of the FOB value of the finished product, while the DVA in the exporting country should be minimum 25% of the FOB value)

Designated authority for the issue of certificates of origin

In Sri Lanka

Director General of Commerce,
Department of Commerce,
4th Floor, Rakshana Mandiraya,
Colombo 2. Sri Lanka.
Tel: 94 - 1 - 2329733
Fax: 94 - 1 - 2430233
Email: fortrade@doc.gov.lk

In India

Export Inspection Council of India (Corporate Office)

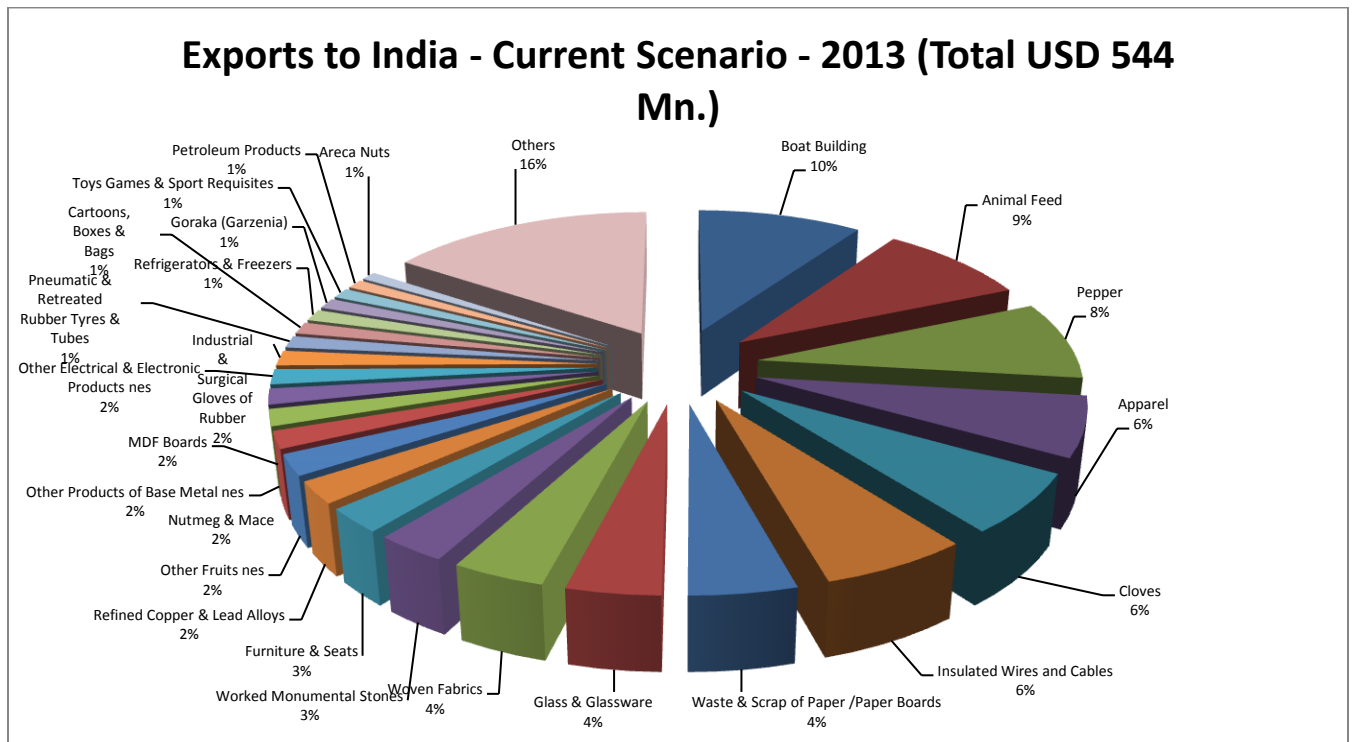
(Department of Commerce)
(Ministry of Commerce & Industry, Government of India)
3rd Floor - NDYMCA Cultural Centre Building,
1, Jaisingh Road, New Delhi - 110 001.
Tel: +91-11-23341263/ 23748189/ 23365540
Fax: +91-11-23748024
E -mail: eic@eicindia.gov.in
Website: www.eicindia.gov.in

6. TRADE BETWEEN INDIA AND SRI LANKA– 2000 – 2013

Year	Exports (US \$ Mn.)			Imports (US \$ Mn.)		
	Total Exports to India	ISFTA Exports	% under the ISFTA	Total Imports from India	ISFTA Imports	% under the ISFTA
2000 (March -Dec.)	55.6	8.6	16	600.0	53.9	9
2001	70.1	15.9	23	601.5	113.1	19
2002	168.8	114.2	68	834.7	81.7	10
2003	241.1	238.8	99	1076.2	150.4	14
2004	385.5	339.9	88	1358.0	394.7	29
2005	559.2	543.0	97	1440.4	246.2	18
2006	494.0	431.1	87	1822.07	459.3	25
2007	516.4	398.2	77	2749.6	385.3	14
2008	418.0	309.3	74	2848.4	541.4	18
2009	324.8	218.5	67	1709.9	371.7	22
2010	466.6	358.4	77	2546.2	573.7	23
2011	521.5	391.5	75	4349.4	579.6	13
2012	566.3	379.5	67	3517.2	156.4	4
2013	543.3	354.8	65	3092.6	393.4	13

Source: Department of Commerce

7. EXPORTS TO INDIA – CURRENT SCENARIO



8. SRI LANKAN EXPORTS VS IMPORTS FROM INDIA

Major Exports to India in 2013

Product	Value in US\$ Mn
Spices	89.11
Natural Rubber & Rubber products	22.07
Poultry Feed	38.38
Insulated wires, cables etc	33.87
Copper & Copper based products	7.54

Refrigerators, freezers and other refrigerating equipment & Machinery	6.65
Paper & Paper products	24.42
Ships, Boats and floating structures	51.83
Fiber board of wood	9.91
Furniture, bedding, mattress etc	15.92
Apparel	34.26

Source: Sri Lanka Customs

Major imports from India in 2013

Product	Value in US\$ Mn
Motor Vehicles	383.03
Mineral fuels & oils	403.02
Cotton	191.96
Pharmaceutical products	164.54
Knitted and crocheted fabric	93.87
Plastic articles	84.36
Iron & Steel	209.29
Chemicals	55.83
Cement	181.40
Sugar	77.74

Source: Sri Lanka Customs

9. TRADE OPPORTUNITIES FOR SRI LANKA

Sri Lanka's exports growth has largely been under the ISFTA, whereas India's exports have remained mostly outside the ISFTA. In average, over 70% of Sri Lanka's exports to India continue to be under the ISFTA, while India's exports to Sri Lanka under the ISFTA remains only around 25%. Sri Lanka could export more than 4000 product lines to the Indian market on duty free basis. The noteworthy aspect of the growth of exports under the agreement is the broader product diversification, which took place following the FTA.

Major exports from Sri Lanka under the ISFTA includes; apparel, furniture, MDF boards, glass bottles, processed meat products, poultry feed, insulated wires & cables, bottle coolers, pneumatic tires, tiles & ceramics products, rubber gloves, electrical panel boards & enclosures, machinery parts, food preparations and spices etc.

10. RECENT DEVELOPMENT FOR WAY FORWARD

- Removing Tariff Rate Quotas:
 - a) Garments 8 million pieces in total at Zero duty per annum
 - b) Pepper : 2,500 Mt at Zero duty (per annum)
 - c) Desiccated Coconut : 500 Mt at Zero duty (per annum)
 - d) Vanaspati, bakery shortening and margarine: 250,000Mt at Zero duty (per annum)
- Reviewing the Negative List of India: 429 (at HS 6-digit level)
- Obtaining 100% duty concession for products entitled to MOP at present
 - a) Tea: 15,000 MT per annum at 7.5 % fixed rate
 - b) Textile: 528 tariff lines (at HS 6-digit level) with no quantitative restrictions at MOP of 25%
- Strengthening Customs Cooperation and Dispute Settlements mechanism
- Entering into a Mutual Recognize Agreement (MRA)

Products that are currently negatively affected by lack of recognition of standards, testing and Inspection reports issued by Sri Lankan Authorities:

- Sauces mixed condiments & mixed seasonings (HS 2103),
- Cucumbers, gherkins and onions preserved by vinegar (HS 2001)
- Jams, Fruit jellies and marmalades (HS 2007)
- Fruit and Vegetable Juices (HS 2009)
- Gelatin and gelatin derives (HS 3503)
- malt extracts (HS 1901)
- sugars nes incl chem pure lactose etc. artif honey caramel (HS 1702)
- vinegar or substitute Vinegar (HS 2209)

- Coconuts excluding desiccated (HS 080119)
- preserved fruits nes (HS 2008)
- Biscuits (HS 1905.31)
- Chocolates (HS 1806.32.10)
- Cakes (HS 1905.90.30)
- Soft Drinks (HS 2202.10)
- Ice Cream (HS 2105.00)
- Processed meat (HS 1601.00,1602.41,1602.41)

Source: Department of Commerce

Handbook of India- Sri Lanka Free Trade Agreement, High Commission of India, Colombo

Sri Lanka Customs

Consulate General of Sri Lanka, Mumbai