

Indo - Sri Lanka Free Trade Agreement (ISFTA)

The commercial relations between Sri Lanka and India has marked a historical milestone when it was signed the India-Sri Lanka Free Trade Agreement (ISFTA) on 28th December 1998, as the 01st bilateral free trade agreement of Sri Lanka. The ISFTA entered into force with effect from 01st March 2000. The ISFTA is now in full implementation as both sides have completed their phasing out commitments under the respective Tariff Liberalization Programme (TLP), as explained below.

TLP of ISTFA (at HS-1998 version 6-digit level)

Commitments	By India	By Sri Lanka
Negative Lists (NL) No concessions by both countries	No of 429 Tariff Lines (TLs) are under NL	No of 1,180 TLs are under NL
Zero Duty List 100% immediate duty reduction was effected 1.3.2000	No of 1,351 TLs are under this category	No of 342 TLs are under this category
Residual List 50% margin of preference(MOP) with effect from 1.3.2000	No of 2,799 TLs are under this and the MOP in these items increased to 100% in two stages within three years from 1.3.2000	No of 880 TLs are under this and the MOP in these items increased to, - 70% at the end of the 1 st year - 90% at the end of the 2 nd year - 100% at the end of the 3 rd year
Phasing out List	Not applicable for India	Tariffs of no of 2,802 TLs brought down by Sri lanka as follows - not less than 35% before the end of the 03 rd year - not less than 70% before the end of the 06 th year - not less than 100% before the end of the 08 th year The tariff of two items of HS Codes 2523.21 and 2523.29 were reduced at end of 8 th years from 1.3.2000, despite these items are in the NL of Sri Lanka
Tariff Tate Quota (TRQs)	- For Garments: 8 million pieces at Zero duty (per annum), being in the NL - Tea: 15,000 MT at 7.5% import duty - Pepper: 2,500 MT at Zero duty (per annum) - Desiccated Coconut: 500MT at 30% MOP (per annum), being in the NL - Vanaspati, bakery shortening and margarine: 250,000 MT at zero duty (per annum) - Textile: 528 TLs with no quantitative restrictions at MOP of 25%.	No TRQs by Sri Lanka

The Products of Sri Lankan origin exported to India ISFTA are duty free at present, except the following categories

- I. Products of the NL of India - No of 429 Tls.
- II. Products of India's TRQ Lists as follows.
 - For Garments : 8 million pieces at zero duty
 - Tea: 15,000 MT at 7.5% import duty.
 - Pepper: 2,500 MT at zero duty
 - Desiccated Coconut: 500 MT at 30%MoP
 - Vanaspati, bakery shortening and margarine: 250,000 MT at zero duty
 - Textile: 528 Tls at 25% MoP.

NB: MoP-Margin of Preference

Pl. visit the following website of India for the ISFTA duty concessions and the other tariff information of India: <http://www.indiantradeportal.in/index.jsp>

The products of Indian origin exported to Sri Lanka under ISFTA are duty free at present, except the products of 1,180 Tls included in the NL of Sri Lanka under ISFTA.

Pl. visit the following website of Sri Lanka for the ISFTA duty concessions and other tariff information of Sri Lanka: <http://www.customs.gov.lk/classification/tariff>

Rules of Origin (ROOs) Criteria for export products which are not wholly obtained or products in Sri Lanka (with imported inputs)

- I. Minimum Domestic Value Addition (DVA)- 35% of FOB price
- II. With inputs from India -Minimum DVA in Sri Lanka is 25% of FOB price and the Aggregate Value Addition (Sri Lanka+ India) should be at least 35% of FOB price.
- III. Change of Tariff Heading (CTH) at HS 4-Digit Level
- IV. Sufficient Working or Processing in Sri Lanka
- V. The final manufacturing process should take place in Sri Lanka
- VI. Direct Consignment

Framework Agreement

Free Trade Agreement Between the Democratic Socialist Republic of Sri Lanka and the Republic of India

Introduction

The Government of the Republic of India and the Government of the Democratic Socialist Republic of Sri Lanka, (hereinafter referred to as the "Contracting Parties"). CONSIDERING that the expansion of their domestic markets, through economic integration, is a vital prerequisite for accelerating their processes of economic development bearing in mind the desire to promote mutually beneficial bilateral trade. CONVINCED of the need to establish and promote free trade arrangements for strengthening intra-regional economic cooperation and the development of national economies. FURTHER

RECOGNIZING that progressive reductions and elimination of obstacles to bilateral trade through a bilateral free trade agreement (hereinafter referred to as "The Agreement") would contribute to the expansion of world trade. HAVE agreed as follows:

Article I

Objectives

The Contracting Parties shall establish a Free Trade Area in accordance with the provisions of this Agreement and in conformity with relevant provisions of the General Agreement on Tariff and Trade, 1994.

The objectives of this Agreement are:

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

Article II

Definitions

For the purpose of this agreement:

- "**Tariffs**" means basic customs duties included in the national schedules of the Contracting Parties.
- "**Products**" means all products including manufactures and commodities in their raw, semi-processed and processed forms.
- "**Preferential Treatment**" means any concession or privilege granted under this Agreement by a Contracting Party through the elimination of tariffs on the movement of goods.
- "**The Committee**" means the Joint Committee referred to in Article XI.
- "**Serious Injury**" means significant damage to domestic producers, of like or similar products resulting from a substantial increase of preferential imports in situations which cause substantial losses in terms of earnings, production or employment unsustainable in the short term. The examination of the impact on the domestic industry concerned shall also include an evaluation of other relevant economic factors and indices having a bearing on the state of the domestic industry of that product.

- **"Threat of serious injury"** means a situation in which a substantial increase of preferential imports is of a nature so as to cause "Serious injury" to domestic producers, and that such injury, although not yet existing is clearly imminent. A determination of threat of serious injury shall be based on facts and not on mere allegation, conjecture, or remote or hypothetical possibility.
- **"Critical circumstances"** means the emergence of an exceptional situation where massive preferential imports are causing or threatening to cause "serious injury" difficult to repair and which calls for immediate action.

Article III

Elimination of Tariffs

The Contracting Parties hereby agree to establish a Free Trade Area for the purpose of free movement of goods between their countries through elimination of tariffs on the movement of goods in accordance with the provisions of Annexures A & B which shall form an integral part of this Agreement.

Article IV

General Exceptions

Nothing in this Agreement shall prevent any Contracting Party from taking action and adopting measures, which it considers necessary for the protection of its national security, the protection of public morals, the protection of human, animal or plant life and health, and the protection of articles of artistic, historic and archaeological value, as is provided for in Articles XX and XXI of the General Agreement on Tariff and Trade, 1994.

Article V

National Treatment

The Contracting Parties affirm their commitment to the principles enshrined in Article III of GATT 1994.

Article VI

State Trading Enterprises

- Nothing in this Agreement shall be construed to prevent a Contracting Party from maintaining or establishing a state trading enterprise as understood in Article XVII of General Agreement on Tariff and Trade, 1994.
- Each Contracting Party shall ensure that any state enterprise that it maintains or establishes acts in a manner that is not inconsistent with the obligations of the Contracting Parties, under this Agreement and accords non-discriminatory treatment in the import from and export to the other Contracting Party.

Article VII

Rules of Origin

- Products covered by the provisions of this Agreement shall be eligible for preferential treatment provided they satisfy the Rules of Origin as set out in Annexure C to this Agreement which shall form an integral part of this Agreement.
- For the development of specific sectors of the industry of either Contracting Party, lower value addition norms for the products manufactured or produced by those sectors may be considered through mutual negotiations.

Article VIII

Safeguard Measures

- If any product, which is the subject of preferential treatment under this Agreement, is imported into the territory of a Contracting Party in such a manner or in such quantities as to cause or threaten to cause, serious injury in the importing Contracting Party, the importing Contracting Party may, with prior consultations except in critical circumstances, suspend provisionally without discrimination the preferential treatment accorded under the Agreement.
- When action has been taken by either Contracting Party in terms of paragraph 1 of this Article, it shall simultaneously notify the other Contracting Party and the Joint Committee established in terms of Article XI. The Committee shall enter into consultations with the concerned Contracting Party and endeavor to reach mutually acceptable agreement to remedy the situation. Should the consultations in the Committee fail to resolve the issue within sixty days, the party affected by such action shall have the right to withdraw the preferential treatment.

Article IX

Domestic Legislation

The Contracting Parties shall be free to apply their domestic legislation to restrict imports, in cases where prices are influenced by unfair trade practices like subsidies or dumping. Subsidies and dumping shall be understood to have the same meaning as in the General Agreement on Tariff and Trade, 1994 and the relevant WTO Agreements.

Article X

Balance of Payment Measures

- Notwithstanding the provisions of this Agreement, any Contracting Party facing balance of payments difficulties may suspend provisionally the preferential treatment as to the quantity and value of merchandise permitted to be imported under the Agreement. When such action has taken place, the Contracting Party, which initiates such action shall simultaneously notify the other Contracting Party.

- Any Contracting Party, which takes action according to paragraph 1 of this Article, shall afford, upon request from the other Contracting Party, adequate opportunities for consultations with a view to preserving the stability of the preferential treatment provided under this Agreement.

Article XI

Joint Committee

- A Joint Committee shall be established at Ministerial level. The Committee shall meet at least once a year to review the progress made in the implementation of this Agreement and to ensure that benefits of trade expansion emanating from this Agreement accrue to both Contracting Parties equitably. The Committee may set up Sub-Committees and/or Working Groups as considered necessary.
- In order to facilitate cooperation in customs matters, the Contracting Parties agree to establish a Working Group on customs related issues including harmonization of tariff headings. The Working Group shall meet as often as required and shall report to the Committee on its deliberations.
- The Committee shall accord adequate opportunities for consultation on representations made by any Contracting Party with respect to any matter affecting the implementation of the Agreement. The Committee shall adopt appropriate measures for settling any matter arising from such representations within 6 months of the representation being made. Each Contracting Party shall implement such measures immediately.
- The Committee shall nominate one apex chamber of trade and industry in each country as the nodal chamber to represent the views of the trade and industry on matters relating to this Agreement.

Article XII

Consultations

- Each Contracting Party shall accord sympathetic consideration to and shall afford adequate opportunity for, consultations regarding such representations as may be made by the other Contracting Party with respect to any matter affecting the operation of this Agreement.
- The Committee may meet at the request of a Contracting Party to consider any matter for which it has not been possible to find a satisfactory solution through consultations under paragraph 1 above.

Article XIII

Settlement of Disputes

- Any dispute that may arise between commercial entities of the Contracting Parties shall be referred for amicable settlement to the nodal apex chambers. Such references shall, as far as possible, be settled through mutual consultations by the Chambers. In the event of an amicable solution not being found, the matter shall be referred to an Arbitral Tribunal for a binding decision. The Tribunal shall be constituted by the Joint Committee in consultation with the relevant Arbitration Bodies in the two countries.
- Any dispute between the Contracting Parties regarding the interpretation and application of the provisions of this Agreement or any instrument adopted within its framework shall be amicably settled through negotiations failing which a notification may be made to the Committee by any one of the Contracting Parties. Article

Article XIV

Duration and Termination of Agreement

This Agreement shall remain in force until either Contracting Party terminates this Agreement by giving six months written notice to the other of its intention to terminate the Agreement.

Article XV

Amendments

The Agreement may be modified or amended through mutual agreement of the Contracting Parties. Proposals for such modifications or amendments shall be submitted to the Joint Committee and upon acceptance by the Joint Committee, shall be approved in accordance with the applicable legal procedures of each Contracting Party. Such modifications or amendments shall become effective when confirmed through an exchange of diplomatic notes and shall constitute an integral part of the Agreement. Provided however that in emergency situations, proposals for modifications may be considered by the Contracting Parties and if agreed, given effect to through an exchange of diplomatic notes.

Article XVI

Annexures to be finalized

Annexure D(i) and D(ii) (Negative Lists of India and Sri Lanka respectively), E (Items on which India has undertaken to give 100% tariff concession on coming into force of the Agreement) and F (Items on which Sri Lanka has undertaken to give 100% tariff concession on the coming into force of the Agreement) shall be finalised within a period of 60 days of the signing of this Agreement. All the Annexures shall form an integral part of the Agreement

Article XVII

Entry into Force

The Agreement shall enter into force on the thirtieth day after the Contracting Parties hereto have notified each other that their respective constitutional requirements and procedures have been completed.

In witness where of the undersigned, duly authorised thereto by their respective Governments, have signed this Agreement done in duplicate at New Delhi this 28th day of December 1998 in two originals in the English language.

Duty Concession/ Product Coverage

- Duty Concessions Granted by India under ISFTA for Sri Lankan Exports

Pls visit: <http://www.indiantradeportal.in/index.jsp>

- Duty Concessions Granted by Sri Lanka under ISFTA for Indian Imports

Pls visit: <http://www.customs.gov.lk/classification/tarrif>