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# Trade and Tariff Policy Framework for Afghanistan

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# Outline

- Introduction & broader economic reform program
- Importance of Trade policy
- Present trade and tariff structure
- Trade agreements
- Multilateral trade negotiations
- Role of MoCI and other institutions
- Conclusions and recommendations



# Introduction and broader economic reform program

- Economic issues: informal; illicit; poor; LDC; high on aid; landlocked; porous borders
- Industry challenges: low output, little industry
- Investor challenges: low investment; poor infrastructure and low education; security; corruption; property rights
- Goal: increase growth in incomes and employment, reduce poverty, low inflation; sound exchange rate policy; liberal trade regime; and other services such as financial, telecom, transport, and infrastructure; greater regional (in the country) distribution of economic activity

# Trade policy process

## Goals:

- lower prices on consumption goods (especially benefits the poor), no need for price controls
- lower prices for inputs for production, greater competition, opportunities for specialization

## Policy Requirements: Trade Liberalization

- Increase growth of exports
- Higher revenue & less corruption
- regional & multilateral (WTO) integration process



## Trade policy process - Example

Say government increases import duty on milk at the request of a new industry and reduces duty on bottles for the milk industry

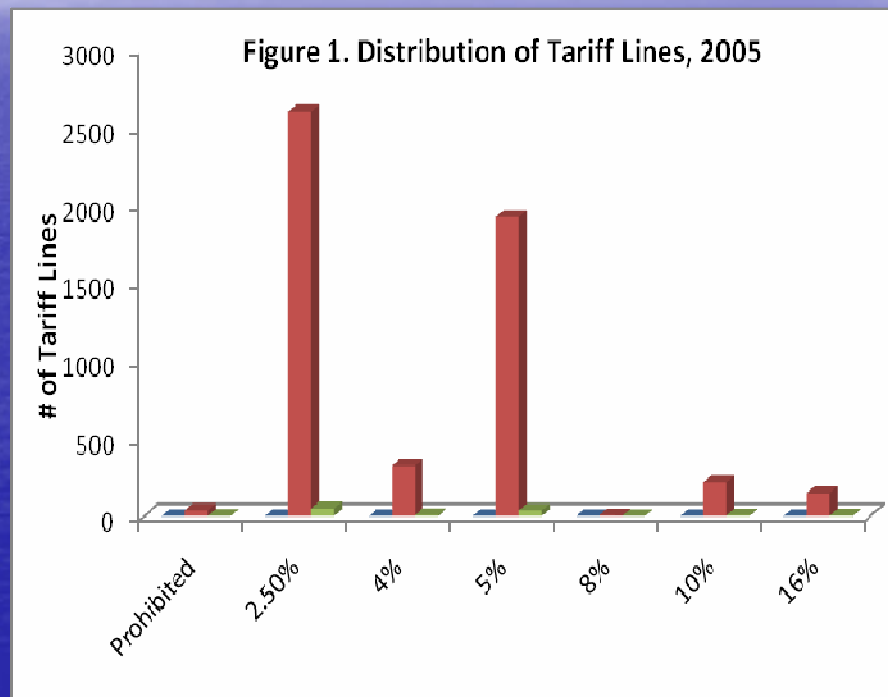
- Price of milk increase, affects mainly poor
- People requests price control; price control will hurt the new industry as they cannot make profits
- Employment created (few) by the milk industry at the cost of the rest of the economy
- Government loses revenue as duty on bottles is reduced, and others import bottles through this mechanism; leads to corruption
- Workers in other industries move in to the milk industry as they can get higher pay due to protection by government; Overall benefit/loss???

# Analysis of the tariff structure - 2005

## *Afghanistan Tariff Schedule - 2005*

<i>Tariff rate</i>	<i># of lines</i>	<i>% of lines</i>
Prohibited	37	0.70
2.5%	2599	49.45
4%	324	6.16
5%	1924	36.16
8%	4	0.08
10%	219	4.17
16%	149	2.83
<b>Total lines</b>	<b>5,256</b>	<b>100.00</b>

Source: SAFTA, Chapter on Afghanistan by Kathleen Trask





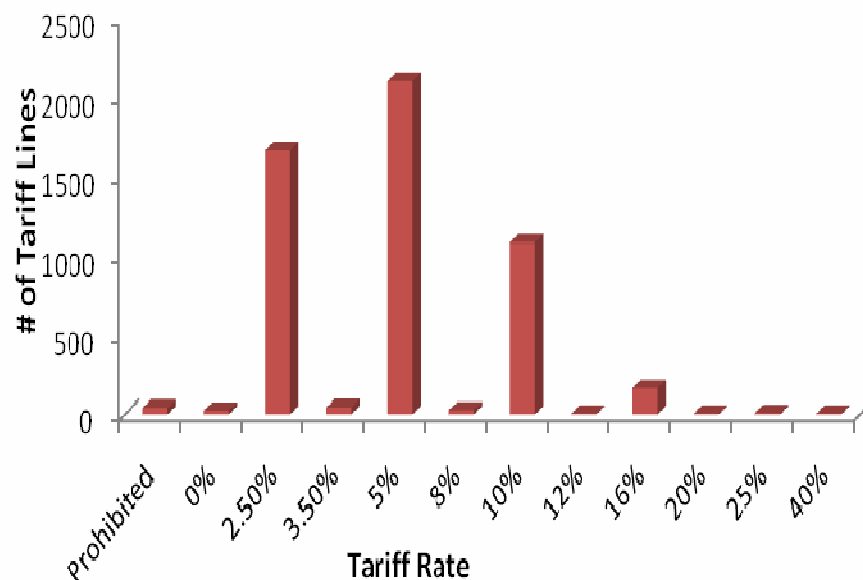
# Analysis of the present tariff structure, 2007

## *Afghanistan Tariff Schedule - 2007*

<i>Tariff rate</i>	<i># of lines</i>	<i>% of lines</i>
Prohibited	43	0.83
0%	25	0.48
2.5%	1,671	32.14
3.5%	46	0.88
5%	2,104	40.47
8%	27	0.52
10%	1,087	20.91
12%	5	0.10
16%	170	3.27
20%	6	0.12
25%	10	0.19
40%	5	0.10
<b>Total lines</b>	<b>5,199</b>	<b>100.00</b>

Source: Afghanistan Customs & author's calc.

Figure 2. Distribution of Tariff Lines



Note: In addition to the above 11 bands, there is another discretionary band created at 1%.

# Tariffs, Non-tariffs Measures and Para-Tariffs

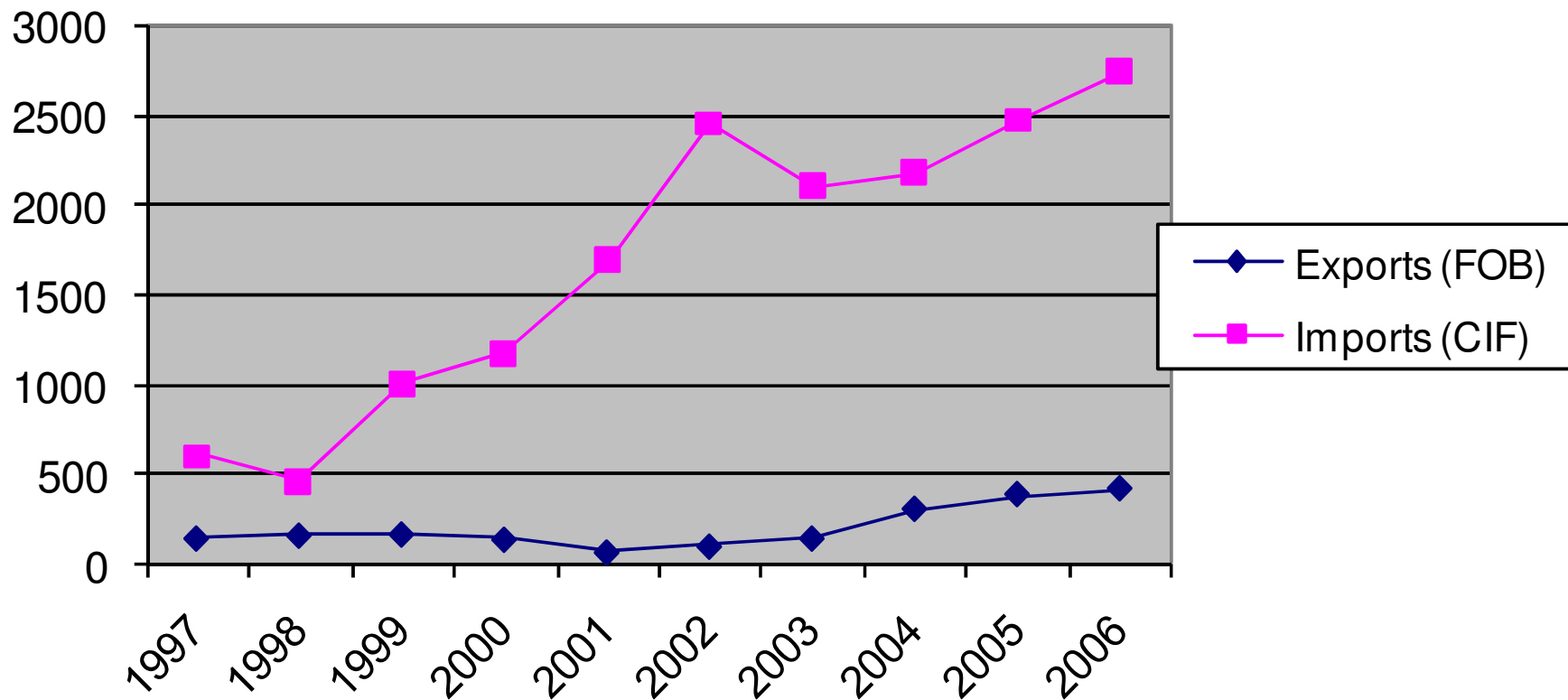
- Exemptions- producers can apply for a 1% tariff rate on imports of selected raw materials and intermediate goods through AISA: ad-hoc, less transparent, loss of revenue, different treatment for different industries, leads to corruption
- NTMs – most of it for religious purposes; there are a few such as salt, carpets, marble banned for protection purposes; cumbersome license procedure
- Para tariffs - Red Crescent Fee; Commercial Benefit Tax; other miscellaneous charges



# Data Issues

- Major differences in import and export values reported by CSO (official source of data) and Customs
- Key export data such as goods sent under preferential agreements not available
- In order to make policy recommendations one has to look at the entire situation
- To look at the entire situation, availability of correct and timely data is vital
- Incorrect and incomplete data leads to incorrect policy decisions resulting in huge costs to the economy

## External Trade 1997-2006, US \$ Million (Example: Required Analysis)





# Trade Structure – Imports by Value

(Example: Required Analysis)

## Major Imports by Value, 2006-2007 and 2005-2006

	2006/2007		2005/2006	
	Percentage	Value (AFS Million)	Percentage	Value (AFS Million)
Total	100.0	2744.2	100.0	2470.7
Spare parts, Mach. & Vehicles	19.4	532.1	21.7	537.2
Metal production	10.0	274.3	10.8	267.2
Petroleum oil etc.	9.3	254.2	9.9	244.6
Fabrics	5.7	155.6	3.9	96.1
Tires & Tubes	4.3	118.3	3.3	80.4
Clothes	1.6	45.1	1.1	26.1
Cement	1.5	40.0	2.3	55.6
Flour and wheat flour	1.5	41.3	3.6	89.1
Veg. oil	1.5	40.3	4.1	100.9
Sugar	1.3	35.6	1.9	46.5
Tea	1.0	28.2	2.5	62.2
Other	4.5	128	8	27.39
Unsepcified	38.3	1051.2	27.0	666.7

# Trade Structure – Imports by Country

## (Example: Required Analysis)

Total Imports by Country (includes re-exports) 1997-2006, US \$ Million (CSO)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
People's Rep. of China	36	27	18	22	35	20	382	355	317	473
Pakistan	21	42	90	135	157	207	181	326	394	419
Japan	97	67	292	491	594	999	299	353	414	418
Russia	7	7	6	5	103	137	182	134	227	310
Iran	2	2	3	5	37	116	108	123	194	189
India	25	16	31	31	25	37	122	83	68	125
Uzbekistan	0	0	0	0	2	88	25	95	204	114
Rep. of Korea	46	44	33	93	105	113	22	79	64	113
U.A.E.	0	0	0	0	44	18	17	46	61	98
Kazakhstan	9	8	13	64	20	22	7	13	49	85
Germany	17	16	14	16	16	49	84	152	61	48
U.S.A.	16	8	3	4	1	1	10	24	58	47
Turkemenistan	23	22	45	42	46	50	14	26	30	30
France	11	25	2	1	18	21	7	7	41	22
Kenya	38	39	41	47	52	57	55	22	34	4
Singapore	101	14	14	7	3	1	1	1	2	4
Unclassified	155	126	408	214	439	517	565	276	253	245
Total	604	462	1012	1176	1696	2452	2101	2177	2471	2744

Source: CSO



# Trade Structure – Exports by Value

(Example: Required Analysis)

## Major Exports by Value, 2006-2007 and 2005-2006

	Percentage	2006/2007 Value (AFS Million)	Percentage	2005/2006 Value (AFS Million)
<i>Total</i>	100.0	416.5	100.0	363.7
Carpets	44.6	186.5	53.9	206.9
Dry fruits	30.3	126.1	22.6	86.6
Fresh fruits	9.4	39.0	4.5	17.2
Skin fur exc. Karakul	3.4	14.1	6.4	24.5
Medical seeds	2.5	10.3	1.2	4.7
Karakul skins	2.2	9.3	1.5	6.2
Oil seeds	1.9	8.1	1.3	4.9
Wool & Animal Hair	1.1	4.5	1.3	5.0
Cotton	0.6	2.6	0.2	0.6
Cassage sausage	0.1	0.4	0.0	0.2
Unspecified	3.7	15.4	6.9	26.6

# Trade Structure – Exports by Country

(Example: Required Analysis)

Total Exports by Country 1997-2006, US \$ Million (CSO)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Pakistan	30	25	71	52	26	26	99	258	298	265
India	3	22	13	8	10	27	11	20	23	79
Russia	7	7	6	5	3	3	8	4	13	28
Finland	4	5	24	1	6	9	1		5	8
Iran	0	0	0	0	0	1	2	4	3	5
Germany	9	7	6	5	7	6	2	1	7	4
U.A.E.	3	4	4	4	8	13	9	1	13	4
U.S.A.	10	16	8	3	1	4	0	1	2	2
France	11	25	1	0	0	0	0	0	0	0
U.K.	4	4	3	12	1	0	5	1	0	0
Belgium	13	8	8	17	4	3	0	0	0	0
Uzbekistan	2	1	5	5	4	1	0	0	0	0
Unclassified	50	27	24	30	1	4	4	10	19	19
Total	144	159	166	137	68	100	144	305	384	416

Source: CSO



# Afghanistan's Revenue Collection 2003/04 to 2006/07

Type of Revenue	2003/04	2004/05	2005/06	2006/07	
Total Revenue	10168	12800	20652	28711	100.0
Domestic Taxes	686	2299	2847	9912	34.5
Customs Duties	5576	7247	11092	11980	41.7
Administrative Fees	1993	1002	4082	3683	12.8
Sales of Goods & Services	1811	1925	1759	2075	7.2
Other Non-tax Revenues	29	13	672	785	2.7
Social Contributions	72	314	200	276	1.0

# Trade Facilitation & Transit Issues

Growth of the economy also depends on the level of trade facilitation (for both consumers and producers as costs become high)

## Critical Needs:

- Computerized systems – wider applications of ASYCUDA++
- Simplification/Harmonization of customs procedures
- Customs modernization and data exchange
- Risk-management, post-entry audit, customs intelligence
- Transparency of laws, regulations and procedures
- Transit development with neighboring countries



# Trade & Economic Co-operation Agreements (selected)

## Regional Cooperation

- SAARC –South Asia Free Trade Area (SAFTA)
- Preferential Trade Agreement between Afghanistan and India
- Economic Cooperation Organization (ECOTA)

## Wider Co-operation

- The U.S. Generalized System of Preferences (GSP) Program
- Preferential Access to the European Union (EU) through the Everything-but Arms (EBA) initiative
- Trade and Investment Framework Agreement (TIFA) between Afghanistan and USA

# Multilateral trade negotiations - WTO

- Afghanistan is in WTO as an observer
- Memorandum of Foreign Trade Regime (MoFTR) has been drafted, submitted and approved by the Economic Committee of Ministers Council
- MoCI “should take necessary action for preparing Afghanistan for the WTO accession process”
- WTO Section operating in the Foreign Trade Directorate
- Inter-Ministerial Trade/WTO task force initiated by the Hon Minister of Commerce and Industry is in operation



# Trade and Tariff Policy - Moving Forward

## Private Sector Support

- Expose requests for changes in duties from individual firms to rigorous, transparent and comprehensive tests, that consider consumers and all producers
- Establish capacity for awareness of the effects of different policies the MoCI could consider establishing a unit in the Foreign Trade Directorate
- Develop public (including within public service) appreciation of the value of open trade and the dependence of tariff

# Trade and Tariff Policy - Moving Forward

## Trade Agreements Platform

- Make use of concessions from importing countries through outreach programs about the agreements, how to benefit from them (quality, standards, on-time delivery)
- Make regional and bi-lateral agreements building blocks for trade reform with smaller sensitive lists, simple rules-of-origin, lower MFN tariffs
- Move ahead with the WTO Accession process
- MoCI handling trade policy issues including trade agreements and WTO; Customs responsible for border issues; Transit issues to be addressed at policy level by MoCI and implemented by Customs<sup>20</sup>



# Trade and Tariff Policy - Moving Forward

## Investor Facilitation

- Address infrastructure issues for industries (Example: Industrial parks)
- Address trade facilitation and transit issues
- Create a conducive environment for investors with a low tax regime, skilled labor, and infrastructure
- Liberalization of the Services Sector

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Thank You