Improving Trade with India

Mutual Recognition in Conformity Assessment

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Contents

List of Tables

List of Figures

Abbreviations

AFAS	Australian Fumigation Accreditation Scheme
APEC	Asia Pacific Economic Co-operation
APLAC	Asia Pacific Laboratory Accreditation Council
AQCS	Animal Quarantine and Certification Services
AQIS	Australian Quarantine and Inspection Service
AQSIQ	General Administration of Quality Supervision, Inspection and Quarantine of People's Republic of China
ASEAN	Association of Southeast Asian Nations
BAFRA	Bhutan Agriculture and Food Regulatory Authority
BIS	Bureau of Indian Standards
CAB	Conformity Assessment Body
CAP	Conformity Assessment Procedure
CECA	Comprehensive Economic Cooperation Agreement
CEPA	Comprehensive Economic Partnership Agreement
DAH	Department of Animal Husbandry, Dairying and Fisheries, Government of India
DAPH	Department of Animal Production and Health – Sri Lanka
DPQS	The Directorate of Plant Protection, Quarantine and Storage, Government of India
EIA	Export Inspection Agency
EDB	Export Development Board of Sri Lanka
EIC	Export Inspection Council of India
EMC	Electromagnetic Compatibility
EU	European Union
FSSAI	Food Safety Standards Authority Institute
FTA	Free Trade Agreement
IIS	Import Inspection Scheme
ILAC	International Laboratory Accreditation Cooperation
ISFTA	India – Sri Lanka Free Trade Agreement
INR	Indian Rupees
ITI	Industrial Technology Institute
JAS	Japanese Agricultural Standards
LFVPPEA	Lanka Fruit and Vegetables Producers, Processors and Exporters Association

MAFF	Ministry of Agriculture, Forestry and Fisheries of the Government of Japan
MAPA	Ministry of Agriculture, Livestock and Food Supply of the Federative Republic of Brazil
MFN	Most Favoured Nation
MoU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAB	National Accreditation Board
NABL	National Accreditation Board for Testing and Calibration Laboratories of the Department of Science and Technology, Government of India
NOP	National Organic Program
NCE	National Chamber of Exporters
NPQS	National Plant Quarantine Services Sri Lanka
NTB	Non- Tariff Barrier
OECD	Organisation for Economic Co-operation and Development
RCA	Revealed Comparative Advantage
QI	Quality infrastructure
RITP	Relative Indicative Trade Potential
SLAB	Sri Lanka Accreditation Board
SLSI	Sri Lanka Standards Institution
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TI	Tariff Impact
USA	United States of America
USDA	United States Department of Agriculture
USFDA	United States Food and Drug Administration
WTO	World Trade Agreement

Executive Summary

All countries maintain product standards and regulations in order to achieve legitimate public policy objectives such as protecting consumers, the environment, plant and animal life. Conformity assessment procedures (CAPs) are applied on products to confirm compliance with relevant standards and regulations. These standards, regulations and related CAPs can however become an unnecessary barrier to trade if, for instance, the time and costs incurred to prove compliance is unreasonable. Therefore, it is important to take measures to address such non-tariff barriers (NTBs) in order to enhance trade.

NTBs have been highlighted as a key factor that undermine trade between India and Sri Lanka. This is despite the two countries having a free trade agreement (FTA) in operation since 2000. NTBs are all other types of barriers to trade other than tariff barriers, such as quota restrictions, cumbersome and inefficient border procedures, inconsistent application of rules and regulations and the lack of transparency and accountability. NTBs of this nature increase the cost of trading and make imported products uncompetitive vis-à-vis domestic products. The India Sri Lanka FTA (ISFTA) removed tariff barriers for most traded products, but does not have provisions to address NTBs. As a result, despite having duty free access, trade between the two countries remains far below potential.

This report focuses on understanding the compliance-related barriers that hamper food trade between India and Sri Lanka and on identifying workable solutions to address the identified problems.

Problem

A significant NTB that has been highlighted by Sri Lankan exporters as hampering trade is compliance-related problems faced at the port of entry in India. The problem arises because India does not accept certification from conformity assessment bodies (CABs) located outside India for certain products. The Indian authorities check each and every consignment to assess compliance with Indian product standards and regulations at the point of entry. The resulting delays, uncertainty and additional costs such as storage and demurrage costs act as a barrier to trade with India.

Trade in processed food exports into India is a useful case study to understand the ramifications of compliance-related NTBs. The average tariffs imposed by India on food imports are well over 30%. Tariffs for some products can be as high as 100-150%. Thus, Sri Lanka's duty free access for exports to India under HS Chapters 16-21 have a significant competitive advantage in the Indian market over imports from other countries.

Despite these advantages, sustaining the initial surge in growth of exports to India has been challenging. For example, processed food exports to India surged from US$ 1 million to US$ 28 million during 2005-2011. However, since then food exports declined to US$ 7 million by 2014. In comparison, processed food exports to the world grew steadily from US$ 22.5 million in 2001 to US$ 178 million in 2011, and then fell slightly to US$ 175 million in 2014. Processed food exporters find the methods of sampling each and every consignment, storage costs and the unpredictable and sometimes lengthy time to clear testing procedures to be a barrier to entry in India. Further, it is difficult to find and retain buyers because of the resulting unpredictability in timing and costing.

Two agreements currently in place between India and Sri Lanka to address NTBs resulting from CAPs have failed to address the problem. The first agreement in 2002 between the Export Inspection Council of India (EIC) and the Sri Lanka Standards Institution (SLSI) permitted specified products (including 50 food products) to enter the Sri Lankan market without having to undergo further consignment-wise checks in addition to random checks. The exemption is granted for Indian imports that have been tested and certified to the relevant SLSI standards by EIC labs. The same benefit is not reciprocated for Sri Lankan products entering the Indian market. Hence, the agreement only benefits exporters from India to Sri Lanka.

In 2006, an Agreement between the SLSI and the Bureau of Indian Standards (BIS) recognised the other's ability to carry out testing and certification of samples according to the standards of both institutions. The Agreement also provides that where standards have been harmonised, the States will accept each other's inspection and test reports. However, there has been no movement towards implementing the provisions of this Agreement. Further, harmonising standards is a cumbersome and a lengthy process.

Another limitation is that both these agreements focus on addressing compliance-related issues that arise with respect to product standards falling under SLSI and BIS. The experience of exporters highlights that in addition to SLSI and BIS, other government organizations are also responsible for checking product compliance with various other regulatory standards. Therefore, it is important for an agreement to cover all relevant standards and regulations.

Compliance-related costs and delays that result at the point of import is not a unique problem faced by Sri Lanka. This is a common standards-related barrier to trade faced by many countries. To overcome these barriers, different countries have entered into various types of agreements such as agreements to harmonise standards, Equivalency Agreements (also referred to as Mutual Recognition of Standards) and Mutual Recognition Agreements (MRA) on conformity assessment procedures (CAPs).

The average tariffs imposed by India on food imports are well over 30%. Tariffs for some products can be as high as 100-150%. Thus, Sri Lanka's duty free access for exports to India under HS Chapters 16-21 have a significant competitive advantage in the Indian market over imports from other countries.

Recommendations

The analysis finds that the most useful, workable solution to address compliance-related barriers, which hamper trade between India and Sri Lanka is to enter into a MRA on CAPs. Since both countries that sign a MRA maintain their own standards, it can be implemented within a short time period. The only requirement for each country is to agree to accept certificates of conformity issued by recognised, competent and accredited conforming assessment bodies (CABs) in the exporting country. The certificate will confirm that the product meets with the importing country standards and regulations. Since conformity is assessed and confirmed at the point of export, the exporter will not have to go through the hassle of having to prove compliance at the point of import.

Since both countries that sign a MRA maintain their own standards, it can be implemented within a short time period. The certificate will confirm that the product meets with the importing country standards and regulations.

An additional advantage of the agreement is that it can be unbundled from the proposed CEPA and adopted in a phased out manner, first covering priority products for both trading partners and gradually expanding to other products based on the time needed to build the capacity and credibility to facilitate mutual recognition. Implementing the MRA separately is preferable since it is a relatively straightforward agreement that can be implemented without much delay unlike CEPA. Moreover, many Sri Lankan exporters remain unconvinced about the further liberalisation in trade and investment between the two countries that a CEPA would produce. A MRA on CAPs taken to address NTBs can help build confidence in terms of the benefits of the ISFTA and help create a more conducive environment for furthering bilateral trade relations between India and Sri Lanka. Therefore, separating the MRA from CEPA will help fast-track implementation and will be mutually beneficial to traders in both countries. Finally, this paper recommends the establishment of an Export Inspection Scheme/ Body to facilitate the proper functioning of a MRA in CAPs.

Methodology & Limitations

Methodology

The methodology adopted in this report consists of a combination of desk-based research, key person interviews and brainstorming sessions with key stakeholders in the policy space. The main objective of the desk-based study was to obtain a general understanding of the NTBs existing between India and Sri Lanka and more specifically of the CAPs applied in the two countries. The literature reviewed includes: reports, newspaper articles, and speeches made at trade events. In addition to this, Sri Lankan and Indian legislation on exports and imports and the relevant WTO Agreements (i.e. the SPS Agreement and the TBT Agreement) were also reviewed. The researchers also studied the existing trade agreements between India and Sri Lanka, as well as other trade agreements maintained by the two countries, and agreements relevant to CAPs and MRAs.

In order to verify the findings of the literature review with respect to compliance issues faced by exporters, as a case study, this research focuses on identifying specific problems faced by food exporters from Sri Lanka. This sector was selected because the literature review indicated that this problem, in particular, adversely impacted the food sector. This was further verified by analysing the trade statistics between the two countries. The key person interviews to triangulate the findings of the desk-based research were conducted with exporters, government authorities and officials at testing facilities.

The interim findings of the research were presented at a brainstorming session to experts with backgrounds in the legal, economic and political disciplines. This session was used to address gaps identified in the existing research and to discuss the feasibility of the proposed solutions. Thereafter, the research was further refined and presented at two forums (organized by the LF & VPPEA and the NCE).

Limitations

1) Focus of the study

Given the limited time and resources to conduct the study, a constraint of the study is its exclusive focus on standards compliance issues faced by Sri Lankan exporters to India. The study uses food exporters as a case study, as standards requirements tend to be higher for food products than for other products. However, as explained in Section 3.3.2, the solution proposed is not country or product-specific. The proposed agreement can be used to facilitate trade between Sri Lanka and any other trading partner, for any other product, where similar problems hinder trade.

2) Number of interviews conducted

The number of interviews conducted with exporters and officials of testing facilities was limited. The researchers could only conduct a limited number of interviews in the time available because of difficulties in coordinating with the exporters. Furthermore, the purpose of the interviews was to clarify and obtain a better understand of issues raised during the desk research phase, not to conduct a comprehensive survey of the exporters subject to this particular NTB when exporting to India.

In order to verify the findings of the literature review with respect to compliance issues faced by exporters, as a case study, this research focuses on identifying specific problems faced by food exporters from Sri Lanka.

Introduction

All countries maintain product standards and regulations in order to achieve legitimate public policy objectives such as protecting consumers, the environment, plant and animal life. Exporters also have a responsibility to ensure that products exported comply with the importing country standards and regulations. While the right of a country to have such standards and regulations is recognised in international trade agreements,[1] countries are also expected to ensure that they do not unnecessarily restrict international trade i.e. act as Non-Tariff Barriers (NTBs).[2] Therefore, it is important to implement measures that ensure that compliance with standards and regulations of the importing country will not be a barrier to trade.

With growing consumer consciousness of health, safety and environmental risk, the demand for products that are healthy, safe and environment-friendly have increased. In response, the standards and regulations imposed by countries are also becoming increasingly stringent. Therefore, it is important to promote exports by enhancing the capacity to ensure that they meet the required standards, and by reducing the cost and time taken to confirm compliance.

Sri Lanka, like most other countries, has recognised this need. The current policy focuses almost entirely on creating awareness on importing country standards among exporters and building local capacity to meet these standards. While this is undoubtedly important, it may be less effective in addressing problems faced by exporters at the point of import due to various factors beyond their control – for example, if the importing country insists on checking compliance at the point of entry and if the laboratories in the importing country take an unreasonably long time to issue test certificates. To address problems of this nature, countries have entered into different types of bilateral/regional agreements. Sri Lanka, however, has not installed such measures. Bilateral/multilateral agreements of this nature, can be useful and can help reduce cost and time taken to trade with other countries especially in instances where:

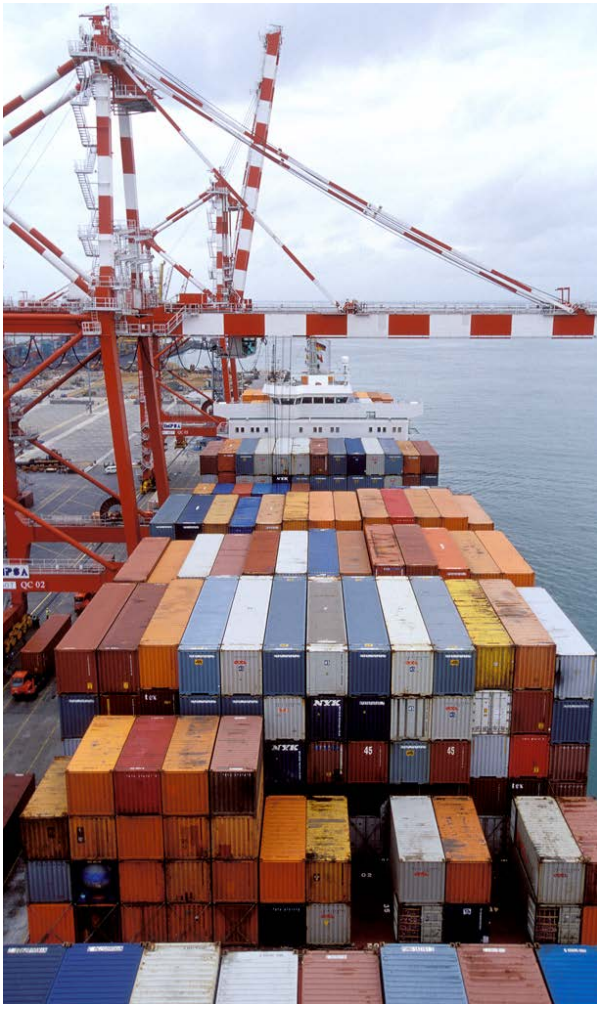
- Countries have entered into a free trade agreement to facilitate trade which provides duty free access to each other's markets and the benefit is negated by the cost and time taken to ensure compliance with the partner country's standards and regulations;
- The importing country does not voluntarily accept conformity assessment reports issued by competent and accredited CABs, located outside their country; and
- CAPs are unreasonable in terms of cost and time taken and are unduly trade restrictive.

1998

India and Sri Lanka sign the India-Sri Lanka Free Trade Agreement (ISFTA)

2000

The ISFTA comes into effect



The focus of this research paper is facilitating trade for Sri Lanka by entering into a Mutual Recognition Agreement (MRA) in CAPs with India. The objective of the agreement will be to reduce the cost and time taken to comply with importing country standards and regulations, which in practice act as NTBs. As a case study, the paper demonstrates the benefits of such an agreement in facilitating processed food trade between India and Sri Lanka.

In 1998, India and Sri Lanka entered into the India-Sri Lanka Free Trade Agreement (ISFTA) in order to strengthen trade relations, by removing trade barriers between the two countries. The ISFTA came into effect in 2000. While the Agreement sought to remove tariff barriers over a period of time, there were no clear provisions to address NTBs. All other measures that act as barriers to trade other than tariff barriers are referred to as NTBs. These barriers include rules, regulations, standards, import procedures, documentation, etc. Sri Lankan exporters have identified a number of NTBs that prevent reaping the benefits of the duty concessions offered. One significant NTB identified is the time consuming and costly CAPs.

This report demonstrates how CAPs can amount to an NTB hindering food trade between India and Sri Lanka, from the perspective of Sri Lankan exporters. However, the proposed recommendations are not country or product –specific. They are also applicable to Indian exporters who face similar problems in Sri Lanka and will help facilitate trade in other products confronting similar problems between Sri Lanka and any other country. Since Sri Lanka is about to enter into FTAs with other trading partners such as China, the findings and recommendations of this research will be useful to ensure that the traders can truly benefit from these agreements and that standards and regulations do not act as barriers to trade.

The report is divided into three sections. Section I of the report analyses trade between India and Sri Lanka, and discusses the impact NTBs can have on trade between the two countries. This section investigates the manner in which compliance with standards and regulations can become an NTB and thereby negatively impact trade. Further, Section I discusses the existing agreements between the two countries and analyses the extent to which these agreements address compliance-related NTBs. Section II presents four measures which can be utilised to address compliance-related NTBs, and discusses the feasibility of each of these measures. Section III focuses on the adoption of a MRA on CAPs as the most feasible solution to addressing the constraints to trade as a result of compliance-related NTBs. This section presents the way forward for the two countries, and in this regard, discusses the specific steps that need to be taken to facilitate a MRA on CAPs.

Impact of NTBs on Food Trade between India & Sri Lanka

Section I focuses on the impact of compliance-related NTBs on food trade between India and Sri Lanka. This section uses the case of processed food trade between the two countries to demonstrate how CAPs work as an NTB to trade between India and Sri Lanka. A general overview of how standards and regulations can unduly restrict trade is discussed, followed by a comprehensive analysis of specific problems pertaining to standards and regulations faced by processed food exporters from Sri Lanka to India. The section further highlights how the existing agreements focusing on standards related barriers to trade between India and Sri Lanka fail to address the grievances of Sri Lankan food exporters. The key areas covered in this section are:

The key areas covered in this section are:

- India- Sri Lanka Free Trade Agreement: impact on trade
- Are standards necessary and how do they impede trade?
- Case study: impact of CAPs on food exports from Sri Lanka to India
  - Trade in food export with India: a review
  - CAPs: a NTB for food exports
- Existing agreements between India and Sri Lanka to facilitate compliance

India - Sri Lanka Free Trade Agreement: Impact on Trade

India and Sri Lanka entered into a bilateral free trade agreement (ISFTA) in 1998 and it became operational in 2000. As demonstrated in Figure 1, exports from Sri Lanka to India increased rapidly during the first five years into the FTA. However, since 2005, export growth has slowed down significantly.

The desk-based research and initial discussions held with the exporters' associations revealed that NTBs continue to exist and are a significant constraint when exporting to India.

NTBs which have been identified through desk-based research and the key person interviews conducted with exporters to India include, among others, lack of clarity on labelling requirements; restrictive rules of origin requirements; tariff rate quotas; inconsistent and cumbersome import procedures; import permit requirements; and costly and time consuming CAPs adopted to assess compliance with Indian standards and regulations.

Are Standards Necessary and Do They Impede Trade?

Standards represent a quasi-regulatory means of pursuing important public policy objectives. For example, every country takes measures to ensure that the products produced in and imported into the country do not have an adverse impact on the environment or on the safety and health of consumers.

The right of a country to have standards and regulations is recognized within the multilateral rules on international trade. The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), recognizes the right for countries to apply sanitary and phytosanitary measures necessary for the protection of human, animal or plant life or health.[3] Along with the WTO Agreement on Technical Barriers to Trade (TBT agreement), it strives to protect the country's right to impose standards and regulations and at the same time ensure that such standards, regulations and conformity assessment procedures are non-discriminatory and do not create unnecessary obstacles to trade.[4]

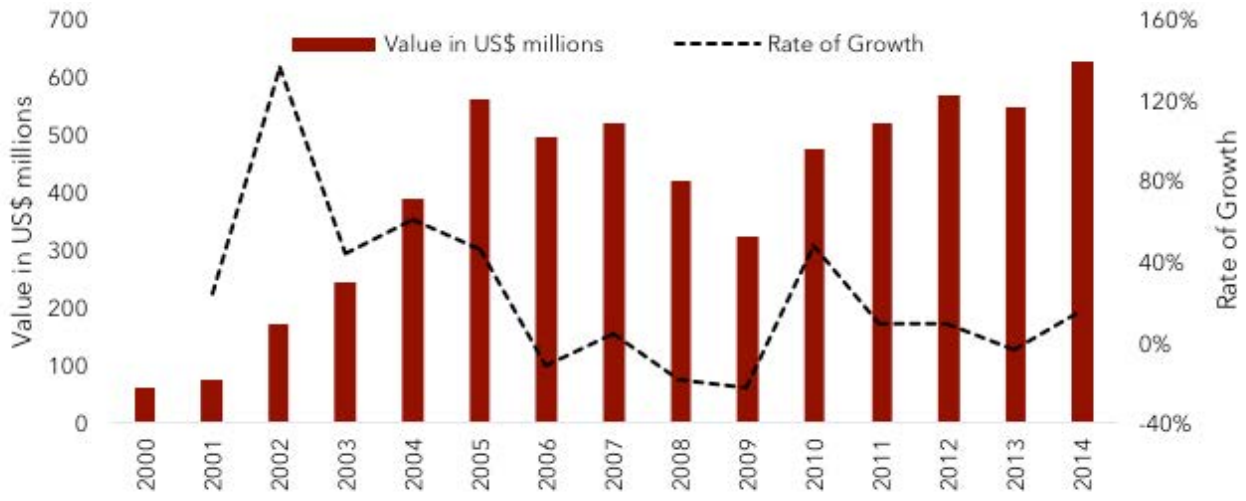
Despite the existence of international rules, it is common to find instances where standards and regulations imposed by countries are discriminatory and act as a disguised restriction on trade. Standards and regulations can become an NTB in the following instances:

If these measures are only applied on imports

If the objective of a particular standard on a particular product is to protect the health of the consumer, the standard should be applied to both domestically produced products as well as to imported products. Article 2.3 of the SPS Agreement states that members are to ensure that SPS measures do not 'arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail, including between their own territory and that of other Members'. Additionally, Article 5.1.1 of the TBT Agreement provides that the CAPs applied to test for compliance for products originating from other Members states need to be 'no less favourable than those accorded to suppliers of like products of national origin…'.

If the measures applied are only on the imported product and not on the domestically produced product, then it is likely that the objective of the standard is to discourage imports under the pretext of protecting the health of the consumer.

Figure 1: Exports from Sri Lanka to India (2000 - 2014)



Source: Central Bank of Sri Lanka Annual Reports, various years

If updated and reliable information with respect to standards, certification and testing requirements are not easily accessible

If the objective is to protect the health of the consumer, in order to ensure compliance, it is important to make information on standards freely accessible to both domestic producers and importers of the relevant product.

Article 2.9 of the TBT Agreement calls on Member States to provide adequate notice to other Members in the case of implementation of any technical regulation, where there is no relevant international standard or the regulation is not in accordance with international standards, if it can have a significant impact on the trade of other Members.

If updated and reliable information is not available, this increases the likelihood of products being rejected by the importing country and hence effectively acts as a barrier to trade.

If the conformity assessment procedure is unreasonably time-consuming and costly

If the procedure that has to be followed to check compliance is cumbersome and not clear, it can become an NTB. Some countries for instance refuse to accept certificates of conformity and test reports issued by laboratories located outside their country and insist on checking compliance of each and every shipment at the point of import.

Article 5.2.1 of the TBT Agreement calls upon States to ensure that CAPs are 'undertaken and completed as expeditiously as possible and in a no less favourable order for products originating in the territories of other Members than for like domestic products'. Article 5.2.2 further provides that the processing period of the CAPs should be published or communicated to the applicant upon request, and the applicant should be informed of all deficiencies.[5]

Additionally, if the time taken to produce the test reports is long and if the cost is unnecessarily high, this can act as a barrier to trade. The lengthy and costly CAPs coupled with the lack of information provided by authorities as to the reason for the delays can amount to an NTB.

Despite the existence of international rules, it is common to find instances where standards and regulations imposed by countries are discriminatory and act as a disguised restriction on trade.

Case Study: Food Exports from Sri Lanka to India

This study uses the case of food exports from Sri Lanka to India to explain the impact of compliance-related NTBs.

Trade in food exports with India: a review[6]

India is a fast growing and a large market located in close geographical proximity to Sri Lanka. The FTA between the two countries provides duty free access to products exported from Sri Lanka to India and vice versa.

The duty free access given to Sri Lankan exporters provides an advantage over other countries' exporters into India, particularly in the case of agricultural and food products. The Most Favoured Nation (MFN) tariffs imposed by India on processed food imports tend to be prohibitively high. The average tariffs are well over 30% and tariffs for some products can be as high as 100-150%. The FTA resulted in the removal of tariff barriers on most of the fresh and processed food exported from Sri Lanka to India, creating an opportunity for Sri Lankan food exporters targeting the Indian market.

Over the past ten years, India has entered into a number of new FTAs, in which food and agricultural products are either in the duty phase-out list (i.e. items for which duties will be reduced over a longer period of time) or in the negative list (i.e. sensitive items for which duties will not be reduced). Sri Lanka therefore has a comparative advantage over imports from other countries into India.

Despite these advantages, overall exports to India have performed poorly during the last decade as illustrated in Figure 2. A major weakness in the current FTA is the lack of provisions to address NTBs. The existence of these barriers undermine the ability of Sri Lankan exporters to fully benefit from the duty-free access under the FTA.

Most of the agricultural and food products exported from Sri Lanka to India were in the duty phase-out list of India under the ISFTA. As a result, tariff barriers on these products were only completely removed in 2003. The impact of this is clearly indicated by the growth in processed food exports to India (refer Figure 2). Sri Lanka now has duty free access to all food products falling under HS chapter 16-21: meat products, sugar confectionary, cocoa preparations, cereal preparations, vegetable and fruit preparations and other edible preparations. With duty free access, there was an initial surge in exports of these products. However, sustaining this growth

has been challenging with the fall in exports to India from US$ 28 million in 2011 to US$ 7 million in 2014 For example, one of the exporters interviewed ceased exporting fruit juices and cereal bars to India due to NTBs, especially the time and cost taken to clear goods from the ports on the ground of testing for compliance.

CAPs: a NTB for food exports[7]

One of the NTBs identified by food exporters to India in this study is the cost and time taken to comply with Indian standards and regulations at the point of entry. Food exports from Sri Lanka to India provide a good example on how standards and regulations can unduly restrict trade. The experience of processed food exporters from Sri Lanka show how exclusively focusing on removing tariff barriers is not sufficient and removing this NTB is equally or more important to facilitate trade.

Indian authorities do not accept compliance certificates issued by CABs located outside their country for most food products. As a result, even if Sri Lankan exporters obtain certification stating compliance with Indian regulations and standards prior to export, the products are tested again by Indian authorities, upon arrival at the Indian port.

While it is important to confirm that products are compliant with importing country standards and regulations, ensuring that the manner in which CAPs are carried out are reasonable and will not become an unnecessary obstacle to trade is equally important.

CAPs at the point of import in India act as an obstacle to trade due to the following reasons:

(a) Cost of compliance:

The literature review revealed that the cost of testing ranges from $4.50 -$70, for each sample tested.[8] In certain instances, authorities also insist on drawing separate samples and carry out separate tests on the same product packed in different sized bottles/ packets.[9] This further increases the cost of testing for exporters. The cost can become a significant issue for small and medium exporters whose consignments are small and the costs of compliance tend to be high as a percentage of consignment value. The excessive quantity of samples taken can become an additional cost especially if the goods are of high value (e.g. speciality high value teas).

Furthermore, in case of all the exporters to India interviewed (both fresh and processed foods), the shipments are held at the port due to delays in issuing the test reports by the authorities. In addition, exporters incur demurrage and storage costs.

These additional costs can have an impact on price, especially when the volume of exports is small. Increased costs result in increased prices of goods, which has a negative impact on the price competitiveness of an exported product. This, in turn, affects sales of the product since India is an extremely price-competitive market as acknowledged by the exporters interviewed. For instance, in the case of mango pulp, thread bare analysis needs to be conducted, which costs around INR 5,000 – 6,000/- per consignment.[10] These costs are added to the cost of the product resulting in the product being more expensive when it enters the Indian market. This was the case reported by Sri Lankan both processed and fresh food exporters to India who were interviewed.

(b) Delays in releasing products:

Depending on the port, the time taken to issue test reports vary. The literature reviewed indicates that it can take around 20-30 days to obtain laboratory reports and an overall 30-40 days to release goods from customs.[11] From the interviews conducted, goods were held up for up to 5 days for fresh fruit such as strawberries and 14 days to 3 months for processed foods like cordials, sauces and jams. For products which have limited shelf life, this can at times lead to products being unfit for consumption at the time to release from the port and at other instances puts pressure to sell within a shorter period of time. This particularly problem was revealed to be greater for fresh food exporters, as food products generally have to be consumed within a limited time period.

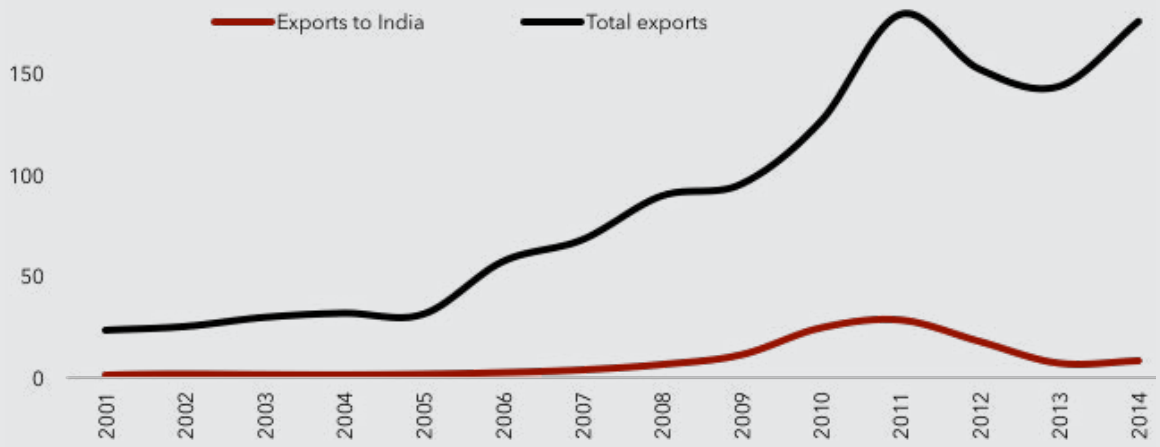
Further, for some products, if at the time of clearance the shelf life of the products is less than six months, the goods will not be permitted by the Directorate General of Foreign Trade (DGFT) of India to enter the market.[12] The longer the products are held at the port due to delays in test reports or issues related to compliance, the exporters run the risk of not being able to sell the products in the Indian market.

(c) Uncertainty

Time taken to produce test reports and clear the cargo can vary by shipment and by port. As pointed out by one of the exporters interviewed, this causes difficulties in coordinating the marketing and distribution plans with the buyers. Since the date of release is unknown, obtaining necessary retail shelf space, warehouse storage, etc. is made more complicated for both Indian importers and exporters who have to adopt a 'wait and see' approach.

If the delay and costs are known and consistent, the exporter can take these into account when exporting and plan accordingly. However, if the delays and costs keep on changing, it is far more challenging to retain buyers and continue to export. This was the case for a Sri Lankan exporter of fruit juices and fruit bars who lost customers as the exporter's consignment was not cleared for three months, and as a result was not able to deliver goods in time for peak sales periods such as festivals and holidays.

Figure 2: Processed Food Exports from Sri Lanka to India vs. the world



Source: Trade Statistics (HS Chapters 16 -21) – International Trade Centre

Existing Agreements between India and Sri Lanka to Facilitate Compliance

As discussed in previously in this study, Sri Lanka has a system of voluntarily accepting standards compliance certificates issued by competent and accredited CABs located outside of the country. In addition to this, there are further measures that have been agreed upon to ease conformance with compliance, which are discussed in further detail below:

(a) Agreement for Recognition of Export Inspection & Certification System of Export Inspection Council of India for Import Inspection Scheme of Sri Lanka Standards Institution (2002)

The Agreement between the EIC of India and SLSI provides for the SLSI to recognise the export inspection and certification of compliance of specific products by the EIC.[13] These products, if tested in competent labs and certified by EIC of India as complying with Sri Lankan standards, need not be tested upon arrival into Sri Lanka. (The SLSI can conduct random checks on the products, but will not check each and every consignment for compliance).[14]

Products covered by the agreement are the products specified under the Imports (Quality Control and Standardisation) Regulations 2013.[15] There are 50 food products covered under these Regulations, of which 34 of these food products have been imported from India as of 2014.[16]

While this Agreement facilitates imports from India into Sri Lanka, the same benefit is not extended to Sri Lankan products entering the Indian market. Therefore, it is not 'mutual', but instead is a 'unilateral' agreement.

(b) Bilateral Cooperation Agreement between Sri Lanka Standards Institution and Bureau of Indian Standards (2006)

This Agreement provides for the SLSI (national standards body of Sri Lanka) and BIS (the national standards body of India) to recognise each other as being authorized to carry out testing and certification of samples. Further, it provides for acceptance of inspection and test reports issued by the other institution, in cases where standards are harmonized.

While this Agreement has been in place since 2006, there has been almost no movement towards implementing the provisions of the agreement. Further, since acceptance of certifications and reports is conditional on harmonisation of standards, this will not help address the current compliance issues faced by Sri Lankan exporters. As discussed in Section II, harmonisation of standards is a complex and a time consuming process.

Proposed Solutions to Address Compliance-Related NTBs

Section II sets out and discusses measures that can be taken to address the obstacles faced by exporters that result from the importing country assessing the conformity of products imported at the point of import, such as undue delays and costs. Such delays can result from either:

- Adopting a complex, costly and lengthy process with the intention of discouraging imports, which amounts to a disguised restriction on trade; or
- Genuine problems faced by the importing country such as lack of competent CABs close to the port or a lack of resources within CABs which lead to delays in issuing reports.

Compliance-related costs and delays that result at the point of import are not problems faced only by food exporters, nor are they unique only to trade between India and Sri Lanka. This is a common CAPs-related barrier to trade faced by many countries and many exporters of various types of products. Therefore, there is a vast body of literature on measures that can be taken to overcome this barrier.[17] This section will briefly assess the measures that aim to address the issue of compliance-related NTBs based on their practicability in implementation, in general, and their relevance to trade between India and Sri Lanka, in particular:

- Harmonisation of Standards;
- Equivalency Agreements or Mutual Recognition of Standards;
- Accreditation of Foreign Manufacturer; and
- Mutual Recognition of Conformity Assessment Procedures (CAPs).

This section will conclude by identifying a Mutual Recognition Agreement in Conformity Assessment Procedures as the most feasible solution for addressing the NTB of costs and delays faced by Sri Lankan exporters due to compliance with Indian standards and regulations.

Harmonisation of Standards

Harmonisation may be regarded as the drawing up of common or identical standards and regulations by a group of countries.[18]

Objective: The objective of harmonisation is that all countries have the same mandatory standards and regulations for a product or service.[19] Harmonisation of standards is an effective way to reduce the duplication of compliance costs, which arise from having to comply with varying sets of standards in different export markets. In principle, uniform standards could make international markets more efficient and competitive by reducing transaction costs and improving transparency.[20]

Implementation: Harmonisation of standards may be done through the trading partners agreeing to adopt a common relevant international standard or by setting their own common standard. The concept of 'international standardization' has been propounded in the WTO, SPS Agreement.[21] This Agreement calls for states to base SPS measures on international standards, guidelines or recommendations, unless scientific justification exists to prove the adoption of differing standards.[22] Further, the TBT Agreement also calls for States to apply technical regulations in accordance with relevant international standards, unless the international standards are ineffective or inappropriate to meet legitimate objectives pursued in the country.[23]

Harmonisation allows for coherence of regulations and of standards. Through this mechanism, it is clear that the rules are the same, and a supplier placing a product on the market can therefore be confident that the same rules are applicable regardless of the jurisdiction and there is no duplication of testing and certification between different regions.[24] The European Union and ASEAN are two regional blocs that have harmonised standards to facilitate trade amongst countries in the region.[25]

Limitations: Although the WTO encourages harmonisation of standards and the SPS Agreement proposes it as the most effective solution[26] it has in practice proven to be a difficult and time consuming goal to achieve due to the following reasons:

- *Lengthy negotiations:* If the standards adopted by the two countries are very different, a significant amount of discussion and negotiation between the two parties will be required, to decide on an appropriate level of standard for different categories of exports. For example, it may require one country to agree to lower their standard or the other country to increase their standard. This is an especially daunting task in cases where the product basket is large. In the early 1980s in Europe, an attempt was made to establish common standards through a process that required negotiations and consensus among all members of the European Community.[27] However, progress was extremely slow, as member countries had different interests.[28]
- *Costly adjustments:* Harmonisation of rules requires regulatory adaptation, either through bringing one party's rules into alignment with another's (as is the case with applicant countries) or through the development of entirely new rules. Such procedures are costly, both in administrative terms and for the suppliers of products that must conform to the new standard.

  It will also require costly adjustments where the government will have to invest in equipment and training of personnel to be able to test for new standards. This will involve the alignment of the national quality infrastructure (QI) with international practices.[29] Furthermore, it will also be a costly adjustment for domestic manufacturers who may be compelled to conform to a higher standard as a result of harmonisation.[30]
- *Restricts choice of domestic governments:* Harmonisation prevents a government's ability to set national standards at the appropriate level which better fit the specific economic, social and environmental needs of the country, the consumers and the capacity of local industries.[31]
- *Does not imply mutual recognition of certificates:* While harmonisation will ensure that the rules applied are identical between the trading partners, or at least technically compatible, it does not guarantee that the trading partner will accept certification confirming compliance with agreed standards and regulations. Even when the rules of two countries are the same, the acceptance of certificates of conformity issued by one country is based on the importing country's trust in the CAPs and capacity of the CABs of the other. Therefore, to achieve the full benefits, harmonisation standards will need to be complemented with mutual recognition of certificates of conformity.[32]

Harmonisation allows for coherence of regulations and of standards. Through this mechanism, it is clear that the rules are the same, and a supplier placing a product on the market can therefore be confident that the same rules are applicable regardless of the jurisdiction and there is no duplication of testing and certification between different regions.

Harmonisation of standards between India and Sri Lanka is a long term goal and will not solve the immediate problems faced by exporters. This is evident by the fact that even after entering into an agreement of this nature in 2006,[33] both countries have not made progress towards implementation of its provisions. This solution also does not necessarily guarantee that India will accept the certification from institutions located outside Sri Lanka. The current issues highlighted by both literature exporter interviews in previous sections are mainly related to CAPs for checking that standards are met – and not the standards itself.

Equivalency Agreements

Equivalency agreements allow countries to maintain two differing standards or regulatory procedures for a product parameter, but treat them as equal since both standards are implemented to achieve the same objective.

Objective: In effect, equivalence allows two different standards to serve as alternatives to each other. The SPS Agreement encourages states to treat the sanitary and phytosanitary measures of other member states as equivalent, even if the measures differ from their own. The measures are treated as equivalent, even if they differ, if the countries can demonstrate that the objectives for the measures are the same.[34] Similar provisions are found in regard to technical regulations.[35]

Implementation: First, the objectives of a regulation have to be set out. Then these objectives have to be agreed as being equivalent, and finally an agreement has to be reached on their mutual acceptability. This is a complex process as it needs to be done in detail, sector by sector. Examples of equivalency agreements entered into by other countries include the US – Korea Organic Equivalency Agreement (2014) and the US – Japan Organic Equivalency Agreement (2013).[36]

Limitations: While potentially a powerful tool, and one recommended by the WTO TBT Agreement, this mechanism can be technically complex in practice. In addition, any substantial revision or update to technical measures (for example, to take account of technical progress) is likely to make a new determination and recognition of equivalence necessary. For these reasons, this relatively simple principle cannot be considered for general applicability.[37]

An equivalency agreement is a valuable instrument as it facilitates trade, while fully respecting the regulatory autonomy of the parties.[38] However, this system is likely to be more feasible where regulatory differences among jurisdictions are minimal and do not implicate highly sensitive issues, and where levels of development and income are comparable.[39]

Accreditation of Foreign Manufacturer

Accreditation of the foreign manufacturer involves the foreign manufacturer directly obtaining accreditation from the national standards body of the country to which goods are exported to.

Objective: Through this system, it will be possible for the foreign manufacturer to place the relevant national standards mark on products exported to that particular country which facilitates speedier release of the goods from ports.

Implementation: In this regard, the BIS of India maintains a product certification scheme. Through this scheme, a foreign manufacturer can apply the BIS standards mark on the product after ascertaining its conformity to Indian standards.[40] In order to facilitate this process:

- The BIS inspectors will travel to the manufacturer's country at the expense of the foreign manufacturer, to inspect the production facility.
- If satisfied, the BIS inspectors will pre-certify the company and its production system and then authorize subsequent monitoring and compliance by an independent inspector to ensure that the company maintains the specified standards.
- The exporter/ manufacturer will need to maintain a presence in India or at least nominate an authorized representative in India. This representative will be responsible for product compliance with the provisions of the BIS on behalf of the foreign manufacturer as per an agreement signed between the manufacturer and the BIS.

Limitations: This system of certification, however, will only assist a few large scale businesses in a country that can afford this certification. The individual exporter will have to bear the cost of facilitating checks by the national standards body of the exporting country. In addition, the exporter will need to invest in facilities to be able to test for the standards set by the exporting country. Further, a large scale exporter interviewed indicated that the process is lengthy, cumbersome and time consuming with audits conducted by the BIS on an annual basis.

Mutual Recognition of Conformity Assessment Procedures (CAPs)

A Mutual Recognition Agreement (MRA) on CAPs is an arrangement where the partner countries mutually agree to recognise the competency and capacity of each other's Conformity Assessment Bodies (CABs) to assess conformity of products with the importing country's national standards and regulations.

Objective: MRAs in CAPs allow two trading partners to maintain their own standards and regulations. By allowing certificates of conformity issued in the exporting country to be accepted in the country of import, it shifts the time and costs associated with CAPs to the exporting country before the goods are shipped.

Implementation: A MRA on CAPs allows the exporting party to test and certify products from recognised accredited institutions located in their own country, in conformity with the regulatory requirements of the importing country. Each importing party agrees to recognise the test reports, certificates and approvals issued by agreed CABs of the exporting party. Hence, products can be exported and placed on the importing country's market without undergoing additional conformity assessment procedures at the point of import.[41]

MRAs of this nature, lower barriers to entry into the domestic market for foreign producers without outright harmonisation of standards and regulations.

A MRA will be a beneficial arrangement for trading partners if the current procedure adopted by the importing country to assess conformity at the point of import is inconsistent, unreasonable, cumbersome, and costly and time consuming. Some examples of such procedures are as follows: samples are sent to laboratories which are not close to the point of import, and/or the laboratories take a considerable amount of time to produce the test report; the product is a perishable item, but the port does not have cold storage facilities; or the cost of storage is very high and the fees levied by the importing country for the test is unreasonably high, etc.

The benefits of a MRA include:[42]

- Reduced time and costs associated with exporting goods as the products will not need to be retested at the point of entry if accompanied with the proper certification;
- Improved predictability and precision in moving goods from one's own territory to the territory of the trading partner;
- Increased transparency since the Agreement will have to clearly lay down the procedures the trading partner must comply with in order for the certification to be accepted at the point of entry;
- The CABs in the partner countries will need to work with each other in order to assess capacity and ensure compliance. This cooperation could lead to improved communication and coordination of activities between CABs in partner countries, which in turn would facilitate speedy resolution of compliance-related issues.

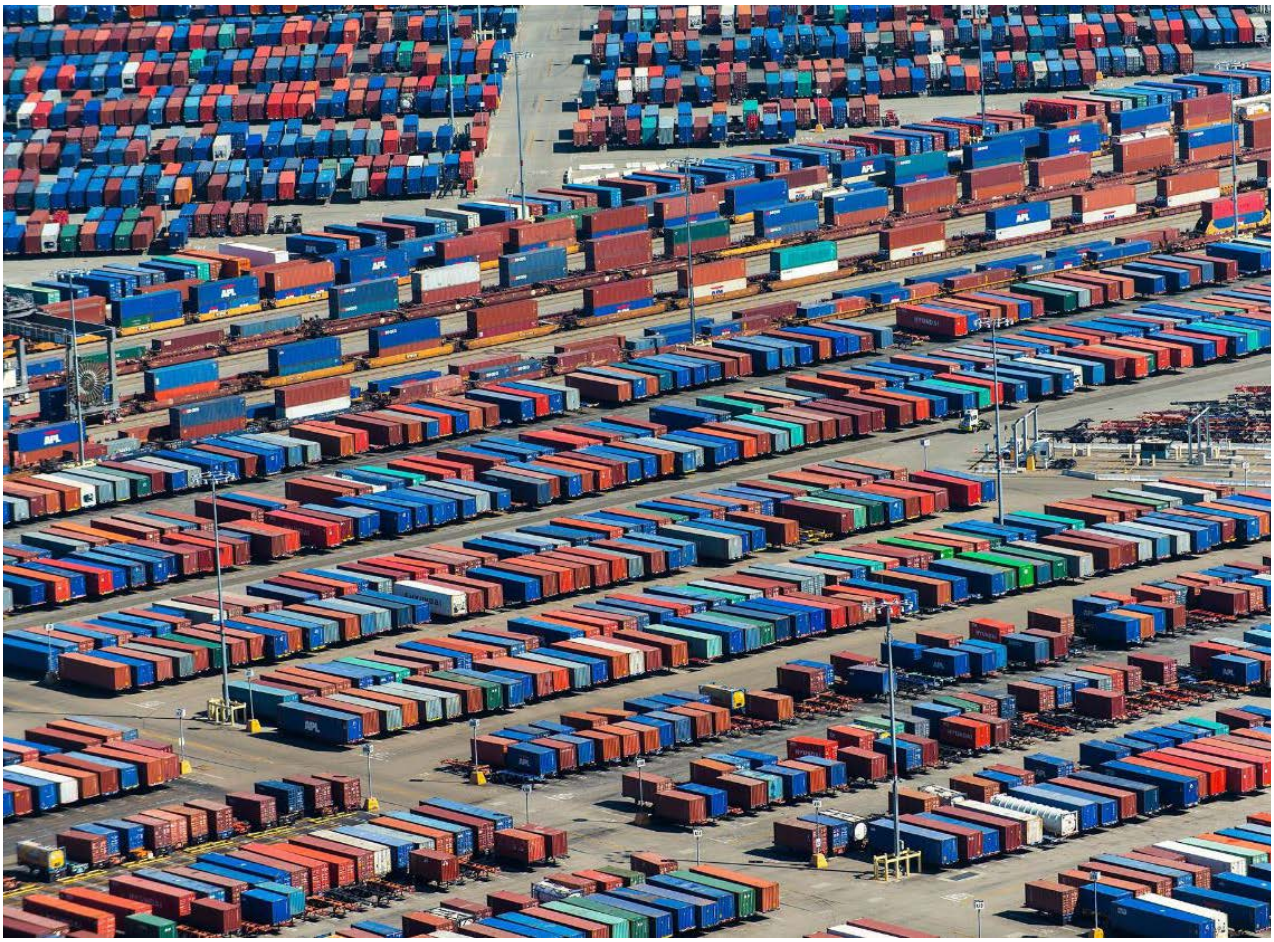
The concept of MRAs on CAPs is not a new phenomenon and has been facilitated for various sectors between various countries as indicated in the literature.[43] Entering into a MRA is more feasible in instances where the difference in standards is high and income levels of the two countries are not comparable. Since this solution does not require a harmonisation of standards, this Agreement can be implemented within a relatively shorter period of time.

Evidence has also demonstrated that MRAs are a useful tool in promoting trade between countries. Chen and Mattoo (2008) conducted a study on the effects of European MRAs covering conformity assessments with other (non-EU) countries.[44] This study found that conformity assessment MRAs uniformly promote trade between the parties. This result was also confirmed by Baller (2007) for a wider range of countries.[45] Similar evidence was used by An and Maskus (2009) and according to the study, there would be a stronger beneficial effect on developing country exporters from MRAs than from international harmonisation of standards.[46] Asia Pacific Economic Co-operation (APEC) countries have in place a MRA on Conformity Assessment of Food and Food Products to facilitate trade in food products between the eight member countries of APEC. The MRAs on CAPs are a useful tool where importing country CAPs cause delays and add to costs of the exporter.

Limitations: MRAs only focus on shifting the responsibility from the importing country to the exporting

Figure 3: Strengths and weaknesses of the proposed solutions for overcoming

Solution	Advantages	Challenges
Harmonisation	Consistency in standards across countries Encouraged by WTO SPS Agreement Avoids duplicative testing	Lengthy negotiations Costly adjustments for regulators and manufacturers Restricts country specific standards
Equivalency Agreements	Retains regulatory autonomy of trading partners Avoids duplicative testing	Technically complex to implement
Foreign Manufacturer Accreditation	Products certified by the standards body of the importing country	Costly and not an industry wide solution
MRA in CAPs	Reduced time and costs Increased transparency Improved communication and coordination	Does not prevent duplicate testing CABs capacity and credibility to test for standards



country of assessing conformity with standards and regulations imposed by the importing country. It does not challenge the validity of the importing country's standards or regulations. Hence a MRA will only benefit exporters if the CABs of the exporting country have the capacity and credibility to perform CAPs to the satisfaction of the importing country. This means CABs should have the necessary equipment and technical competence, and are accredited by a third party as being competent to assess conformity with importing country standards and regulations.

Further, the MRA is limited to instances where the exporting country's CABs are efficient, consistent, transparent and reasonable and the time taken and cost incurred will be comparatively lower than that of the importing countries. This will be the case where the laboratories in the exporting country is closer to the port, the test reports are produced within a day (or a few hours); if there are delays, exporters are given the reasons for the delay and/or the cost is lower than the cost taken by the importing country.

This study concludes that of the proposed solutions, a MRA in CAPs is the most feasible for implementation. Figure 3 provides an overview of the discussed measures and their strengths and weaknesses. Further, the next section will discuss why a MRA in CAPs is the most applicable in the context of trade between India and Sri Lanka.

ENTERING INTO A MRA IS MORE FEASIBLE in instances where the difference in standards is high and income levels of the two countries are not comparable. Since this solution does not require a harmonisation of standards, this Agreement can be implemented within a relatively shorter period of time.

The Way Forward

The previous section outlined the available solutions to address the problem of lengthy and costly CAPs which are effectively an NTB for Sri Lankan exporters to India. This section will outline why a MRA on CAPs is the most feasible solution and how such an agreement would need to be facilitated in order for it to be successful. It will also provide some recommendations for the successful implementation of the MRA in CAPs. The key areas covered in this section are:

- Why a MRA in CAPs with India is the 'best' solution
- How will a MRA in CAPs work?
- Recommendations for implementation
  - Unbundling MRA from the Proposed CEPA
  - Adopt a phased out approach to implementation

  - Selection of priority products
  - Identifying relevant CAPs and CABs
  - Assess capacity and credibility of CABs to conduct required CAPs and implement MRA
  - Establish an Export Inspection Scheme/Body

Why a MRA in CAPs with India is the 'Best' Solution

Previous sections in this report clearly indicate that the most practical solution to the compliance issues faced by Sri Lankan exporters to the Indian market is to enter into a MRA on CAPs with India. A MRA on CAPs is easier to implement compared to an agreement that requires harmonisation of standards. This is because it allows each country to keep their own standards. The only requirement is for each country to agree to accept certificates of conformity issued by recognised, competent and accredited conforming assessment bodies (CABs) in the exporting country. The certificate will confirm that the product meets with the importing country standards and regulations. Since conformity is assessed and confirmed at the point of export, the exporter does not have to go through the hassle of having to prove compliance at the point of import (Figure 4).

In addition, the feasibility of a MRA between India and Sri Lanka is evident for the reasons given below:

(a) India's new trade agreements already have provisions to enter into MRAs

India has entered into a number of free trade agreements subsequent to signing of the FTA with Sri Lanka.[47] In these agreements, clear provisions are made to enter into MRAs on selected products. For example, Article 55 of India – Japan agreement,[48] Article 5.1 of India – Singapore agreement,[49] Article 7.2 of India – Malaysia agreement[50] and Article 2.28 of India – Korea agreement[51] refer to mutual recognition agreements.[52]

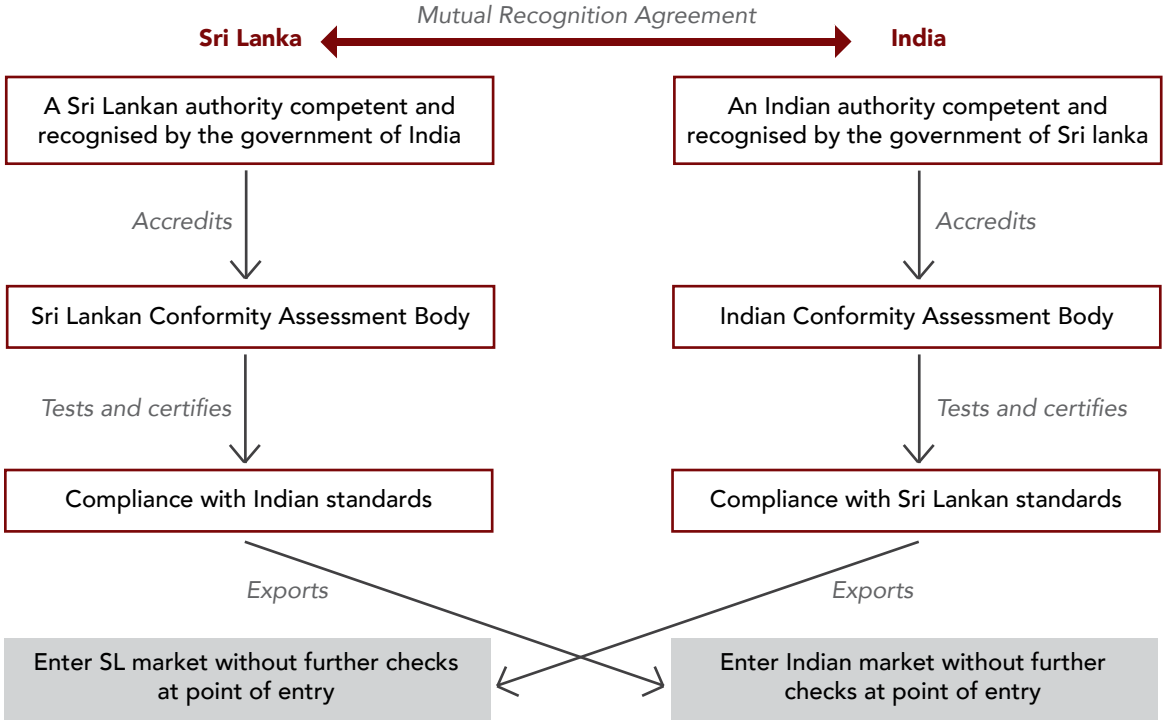
(b) India has entered into MRAs with trading partners even without an FTA

India and China have entered into an agreement to facilitate compliance with standards and regulations of each country. The Agreement titled 'Export Inspection Council of India (EIC) and the General Administration of Quality Supervision, Inspection and Quarantine of People's Republic of China (AQSIQ)' was entered into in May 2013. This Agreement provides a framework for the EIC and the AQSIQ to recognize each other as a competent authority to issue certificates of export and conduct verification as per the legal requirements of both parties.[53]

(c) Proposed Comprehensive Economic Partnership Agreement (CEPA) between India and Sri Lanka also has provisions to enter into a MRA

The India – Sri Lanka CEPA was first proposed in 2002. A joint study group report on the agreement was released in 2003 and technical negotiations commenced in 2005. However, the agreement is

Figure 4: Proposed Structure for MRA in CAPs between India and Sri Lanka



still in the pipeline after having missed a number of deadlines, the last being in 2008. The agreement was to have a MRA as an annex. This inclusion shows that both governments have already recognised that a MRA between the two countries is a way forward to addressing compliance-related barriers to trade.

How Will a MRA in CAPs Work?

India and Sri Lanka will sign a MRA which will specify the products covered under the Agreement. The Agreement will identify the authorities responsible in each country to accredit CABs to test for the products identified in the Agreement. The CABs will be accredited to test for the trading partner's standards and regulations.

The manner in which a MRA on CAPs will work between India and Sri Lanka is described in Figure 4.

If an exporter from Sri Lanka intends to export products covered under the Agreement, the exporter will need to get the product tested from an accredited CAB (i.e. accredited in accordance with the MRA), to confirm compliance with the Indian standards and regulations applied for that specific product. The products will be sent to India with the relevant certification. At the point of entry, the products can be directly released into the Indian market, without each and every consignment having to undergo checks to ensure compliance. The same process will be adopted for Indian exports entering the Sri Lankan market. The Agreement can specify the frequency of the random checks which can be conducted by each trading partner at the point of entry.

A MRA in CAPs between India and Sri Lanka is a feasible solution for the reasons given below:

- The agreement is 'mutual' and will benefit exporters from both countries, whereas the current agreement between SLSI and EIC only benefits Indian exporters;
- Difficult, lengthy and time consuming negotiations are avoided unlike agreements calling for harmonisation of standards between the two countries;
- Individual companies' costs of having to obtain BIS foreign manufacturer accreditation are reduced, and could benefit small and medium exporters that cannot afford BIS accreditation benefit;
- In addition to the BIS and SLSI standards, exporters need to comply with other regulations imposed by different authorities in both countries.[54] The current mechanisms in place only focus on BIS and SLSI standards certification. A MRA on CAPs has a wider scope covering all relevant standards and regulations where CAPs act as an unnecessary obstacle.

Recommendations for Implementation

In order for the proposed MRA in CAPs to be successfully implemented and not merely a paper agreement, this study recommends the following to be done:

Unbundling MRA from the proposed CEPA

There are several reasons that make a strong case for unbundling the MRA from the proposed CEPA between India and Sri Lanka.

First, it is a "trade in goods" related problem and the two countries already have a free trade agreement in goods. It is not necessary to have a CEPA agreement to sign a MRA. With its new FTA partners, India has agreed to enter into MRAs under the ambit of comprehensive agreements because, because the agreements signed covered trade in goods, services and investment simultaneously. In contrast, with Sri Lanka, India has already entered into a Free Trade Agreement. Unlike in the case of India's other agreements, the proposed India – Sri Lanka CEPA aims to expand the current FTA to cover services and investments as well.

Second, the two countries entered into an FTA and extended duty concessions with the objective of expanding trade between the two countries. Therefore, taking steps such as implementing a MRA in CAPs to remove additional costs and delays resulting from standards and regulatory requirements will help achieve the stated objectives of the agreement.

Third, a comprehensive agreement which covers services and investment can take a long time to negotiate due to socio-economic and political sensitivities that have already surfaced with respect to further liberalisation of these sectors. It has been nearly 12 years since CEPA was first proposed and the agreement is still on the backburner. In contrast, MRA on CAPs is a relatively straightforward agreement that can be implemented without much delay. Therefore, unbundling MRA from CEPA will help fast track the implementation and will benefit traders in both countries.

Finally, the negative impact that NTBs have on exports and weaknesses in the initiatives taken by the two governments to address the problem have made Sri Lankan exporters sceptical about the benefits of further liberalisation in trade and investments between the two countries that would result by entering into a CEPA. Therefore, initiatives like MRA on CAPs taken to address NTBs will help build confidence in the benefits of the FTA and help create a more conducive environment to have a constructive discussion on CEPA.

Adopt a phased out approach to implementation

In order to fast track implementation of the MRA it is best to adopt a phased out approach as shown in Figure 5. The agreement would first cover priority products for which CABs in each country has the capacity and credibility to assess conformity for importing country standards. The agreement should have provisions/flexibility to enable countries to add products over time.

This section briefly outlines a simple five step process for implementing the first phase of the MRA on CAPs as shown in Figure 6.

Figure 5: Phase-by-phase approach to a MRA in CAPs between India and Sri Lanka

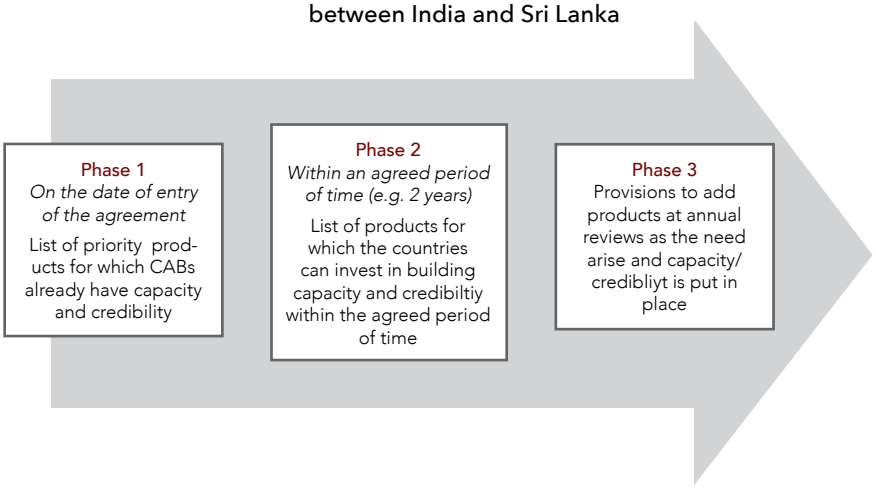


Figure 6: Step-by-step process of implementing a MRA between India and Sri Lanka

Step 1: Selection of priority products

Both countries trade a large number of products with each other. However, not all products are equally adversely affected by CAPs. In order to make the agreement effective in facilitating trade and to fast track implementation, identification of priority products is vital. Three criteria can be used to identify priority products: (a) impact of CAPs, (b) impact of tariffs and (c) export potential.

(a) Impact of CAPs

A MRA should cover products that find CAPs to be a significant bottleneck to export. This could be measured in a number of ways. Survey data/information from exporters/importers on the following can be used to identify which products suffer the most in terms of cost and time as a result of CAPs.

(b) Tariff impact

This refers to the extent tariff acts as a barrier to trade. Higher the tariff the exporters have to pay, higher the impact. For example if FTA (for products in the positive list) or MFN tariff (for products in the negative list) is below 5%, then tariffs do not act as a significant barrier to trade. Therefore, an initial assessment of tariff impact based on tariff figures alone needs to be fine-tuned with an assessment of the import market domestic demand and supply conditions.

(c) Export potential

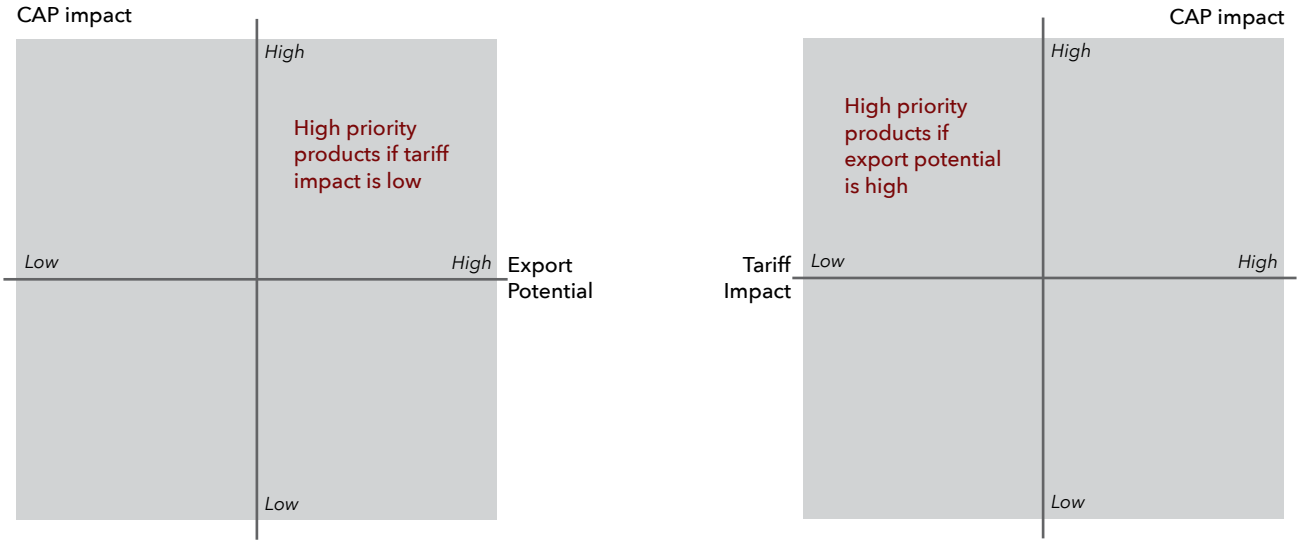
Once the products are prioritised based on CAP impact and tariff impact, it is important to assess their export potential. In order to assess compliance with importing country standards, exporting country governments/CABs may need to invest in equipment and training. The cost of such investments needs to be assessed against benefits to the country in terms of higher exports. For example, if a product has a very low export potential, it may not be advisable to make heavy investments in upgrading the current infrastructure to facilitate that particular product. Two indicators that can be used to assess export potential (the Balassa Index of Revealed Comparative Advantage and the Relative Indicative Trade Potential) are elaborated in Annex E.

Figure 7 explains how the above criteria can be collectively used to assess priority products to be covered under a MRA in CAPs.

Step 2 and 3: Identifying relevant CAPs and CABs

Given the differences in standards and regulations, the conformity assessment requirements/methods of each country will be different. Therefore once the priority list of products are identified, the relevant standards and regulations as well as CAPs and the authorities in each country that is responsible for assessing conformity need to be identified.[55]

Figure 7: Criteria for the selection of priority products for trade



Given below is an overview of the types of conformity measures and institutions responsible for various food products:

(a) In Sri Lanka

Table 1: Standards and Regulations applied on food products in Sri Lanka

	Standards and Regulations	Institution
All Food products	Regulations passed under the Food Act and Standards set by the SLSI	Food Authority – Ministry of Health and the SLSI
Plant and plant materials	Regulations passed under the Plant Protection Act and the Specifics in import permit	National Plant Quarantine Service – Ministry of Agriculture
Livestock Products	Specifics in import permit for livestock products	Department of Animal Production and Health
Other Products	Industry specific regulations	Relevant Industry

(b) In India

Table 2: Standards and Regulations applied on food products in India

	Standards and Regulations	Institution
All Food products	Standards and regulations passed by the FSSAI and the BIS	Bureau of Indian Standards (BIS) and the Food Safety Standards Authority Institute (FSSAI)
Plant and plant materials	Import permits issued for import of seeds, plant and plant material	Directorate of Plant Protection, Quarantine and Storage – Ministry of Agriculture
Livestock Products	Sanitary Import permits	Department of Animal Husbandry of Government of India

Step 4 and 5: Assess capacity and credibility of CABs to conduct required CAPs and implement MRA for priority products

Capacity refers to equipment and technical competence of the CABs in India and Sri Lanka to carry out the conformity assessment procedure required. Credibility refers to whether the respective CAB's competence to perform the required tests/procedures has been accredited by a third party.

The phased-out approach towards a MRA enables countries to immediately begin accepting certification issued with respect to priority products for which the CABs already have the capacity and credibility and hence can be implemented without delay.

Establish an 'Export Inspection Scheme/Body'

Although each country has a national standards body, the rules and regulations related to standards of products and testing for compliance is conducted by a large number of institutions.[56] As a result, depending on the product and the regulation, the agencies responsible to assess conformity will differ. This creates a problem in terms of entering into an agreement, because all relevant authorities need to be party to that agreement. An export inspection body (EIB) that liaises with all relevant CABs in the country and acts as the certifying body for test reports/conformity reports issued by these agencies can help fast track implementation and enhance effectiveness of the agreement (refer Figure 8).

India already has in place an EIB. Among many other tasks, the Export Inspection Council (EIC) of India acts as an organisation that liaises with other relevant CABs in the country and certifies that the products meet with importing country standards. The EIC maintains Export Inspection Agencies (EIAs) in ports of exit (Chennai, Delhi, Kochi, Kolkata and Mumbai) which are responsible for the certification of quality of export commodities with importing country standards. This is achieved through quality assurance systems and food safety management systems at the exporting units and well as through consignment-wise inspections.

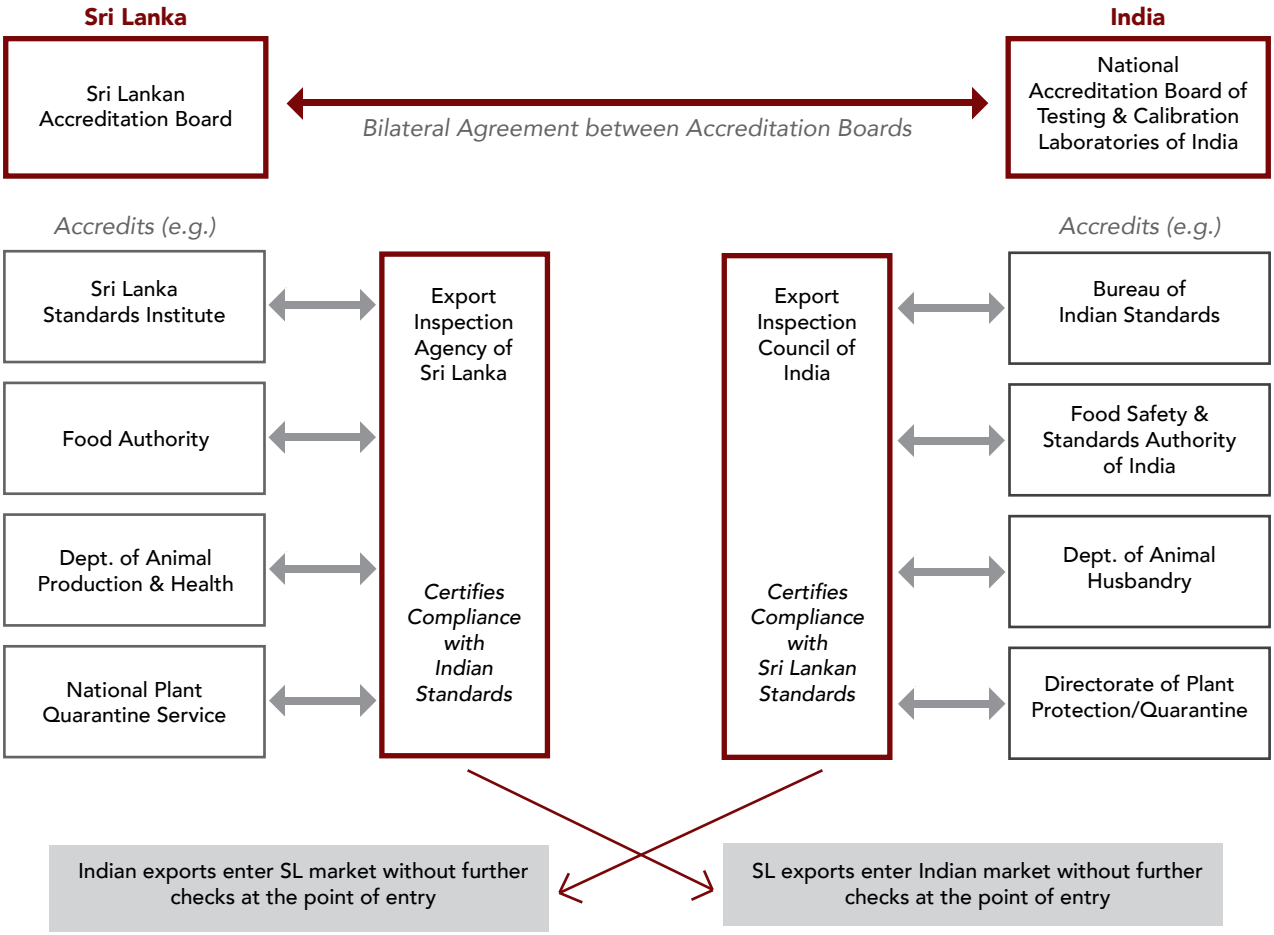
Setting up an EIB in Sri Lanka will not only facilitate effective implementation of MRA between India and Sri Lanka, it will have several other benefits as well:

- EIB can facilitate MRAs with other countries as well as Sri Lanka plans to enter more FTAs in future
- Having a single contact point will help fast track resolution of disputes between countries with respect to standards and regulatory compliance
- An EIB can also help build confidence in importers/buyers of the quality of Sri Lankan exports. If a buyer doubts the quality of the product, they can request EIB to issue a certificate assuring that the product meets with buyer requirements
- It will prevent genuine exporters being negatively affected by fraudulent exporters e.g. EIB can prevent exports of papaya seeds as pepper
- Sri Lanka already has product specific export inspection schemes as was revealed in focus group discussions held at the LFVPPEA e.g. Ceylon tea with Sri Lanka Tea Board and Ceylon cinnamon with Export Development Board. The existing schemes are aimed at helping develop the Sri Lankan brand of these products. Similarly having an EIB for other products will help build the brand image for these products as well.

However, it is important that such an inspection scheme be voluntary and demand-driven. Exporters will only use such a scheme if it provides value and does not another bureaucratic barrier to exports Increased buyer confidence in goods exported, enhanced their ability to secure export orders and reduced costs and delays due to compliance checks at the port of entry are all factors that will determine the willingness of exporters to undergo inspection before shipping. This service can also be extended to importers/buyers who can directly request a certificate from the agency to ensure that the consignment meets with their expectations.

As a country that no longer can compete in terms of cost in the global market, the quality and brand image of Sri Lankan products is vital for sustaining exports and finding buyers. In this regard, and EIB can play a vital role. It is time for Sri Lanka to re-think the role of export promotion agencies such as the Export Development Board (EDB). Assigning EDB with new responsibilities of this nature to revive exports and upgrade their skills and systems will enhance their credibility and effectiveness.

Figure 8: Working of a MRA on CAPs between two Export Inspection Agencies

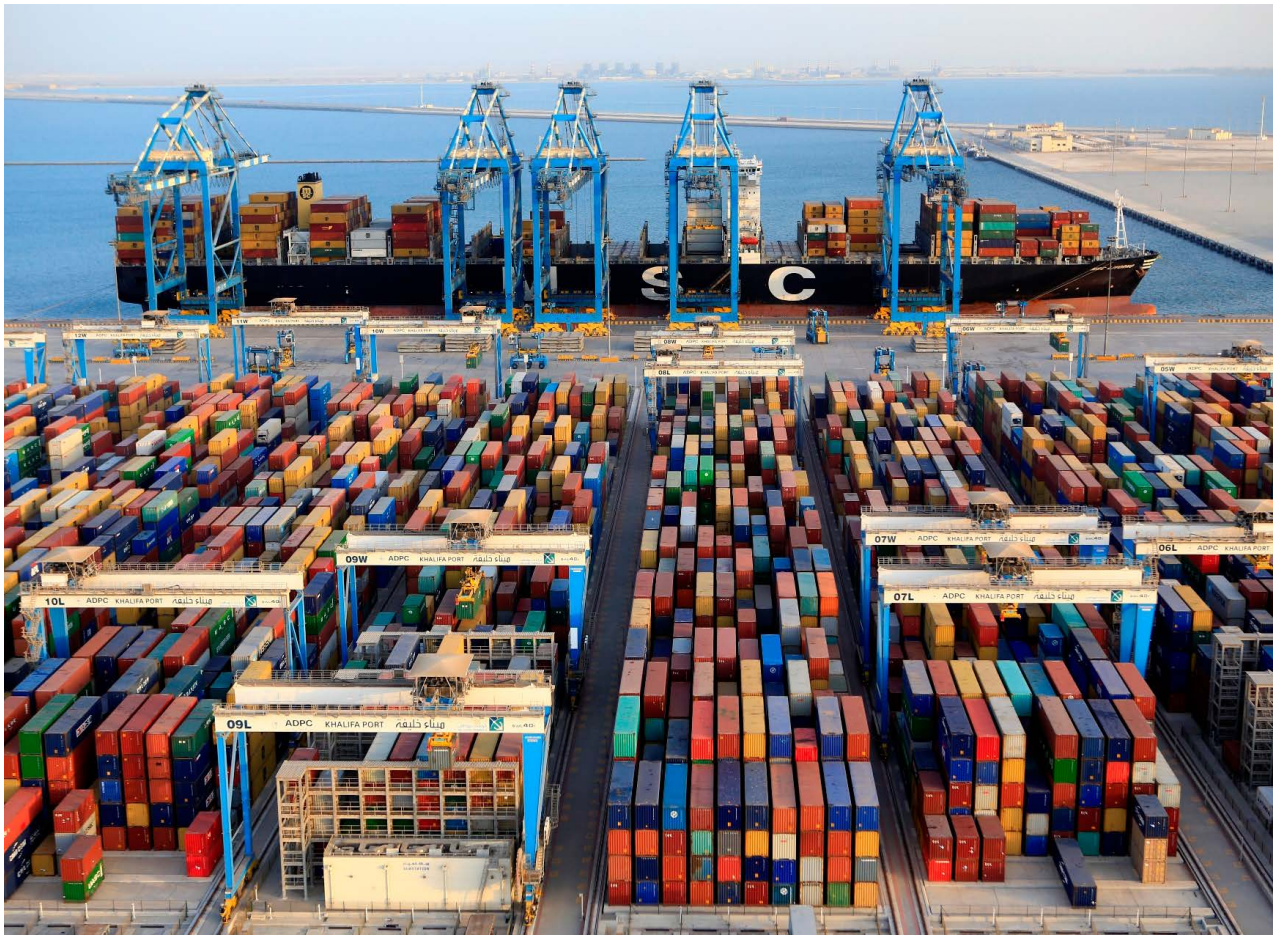


Conclusion

NTBs ARE A SIGNIFICANT CONSTRAINT ON TRADE, and it is important for Sri Lanka to take appropriate steps where possible, in order to address these concerns. This report focuses on compliance-related NTBs, which arise due to lengthy and costly CAPs. CAPs are used by countries in order to ensure that products entering the country comply with the relevant standards and regulations applied in that country. While standards and regulations are an important means of achieving public policy objectives such as protecting consumers, the environment and plant and animal life, if the costs and times associated with the procedures used to assess compliance with these measures are unreasonable, it becomes a barrier to trade.

This report uses the case of food exports to India to demonstrate how despite the existence of a competitive advantage in exporting to India under the India - Sri Lanka Free Trade Agreement, compliance-related NTBs can hinder exports. Furthermore, although the two countries have passed subsequent agreements in 2002 and 2006, these agreements fail to properly address the constraints faced by Sri Lankan exporters.

Compliance-related NTBs are not a constraint unique to food trade, nor is it unique to trade between India and Sri Lanka. There have been various measures adopted by other countries and proposed by the WTO Agreements to overcome this barrier. This research analyses these measures and proposes a Mutual Recognition Agreement (MRA) in Conformity Assessment Procedures (CAPs) as a solution to these NTBs. A MRA is an Agreement whereby the partners agree to accept certificates of conformity to the importing country's standards issued by recognised, competent and accredited laboratories and testing facilities. Through this Agreement, States can get products checked from testing facilities in the home country for compliance with the trading partner's standards and regulations. Thereafter, the State can send the products with the relevant certification, and the goods will be cleared without each and every consignment having to undergo further checks at the point of exit.



A MRA in CAPs is the most feasible solution to the problem of NTBs due to CAPs, for which the groundwork has already been laid. The concept of a MRA in CAPs is not a new solution for India, and India already has provisions for MRAs in its more recent trade agreements. Further, the proposed CEPA between India and Sri Lanka also has provision for a MRA. Its application by many other countries to overcome compliance-related NTBs bolsters the argument in its favour. Sri Lanka must take advantage of this low-hanging fruit.

However, it is important to note that signing the MRA alone will not be sufficient. It is important for the countries to be able to build up confidence in the capacity and credibility of the testing facilities in the partner country to carry out the required checks. In this respect, there are certain steps the Government can take into consideration in order to build up this confidence:

- Unbundling the MRA in CAPs from the proposed CEPA;
- Implementation of the MRA on a phase-by-phase basis;
- Building the capacity of Sri Lankan laboratories and testing facilities and;
- Establishing and Export Inspection Scheme/Body

A MRA presents an opportunity, especially in the light of Sri Lanka's current political and economic context, to build confidence on both sides of the Palk Strait. Facilitating the release of Sri Lankan products from Indian ports will convince the domestic private sector to view India as a potential major export destination and garner support for further integration as envisaged in the proposed CEPA. It will also encourage further cooperation from Indian policymakers and regulatory authorities in future bilateral trade initiatives.

End Notes

[1] Article 2.1 of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement).

[2] Article 2.2 and 2.3 of the SPS Agreement and Article 5.1 and 5.2 of the WTO Agreement on Technical Barriers to Trade (TBT Agreement).

[3] Article 2.1 of the Agreement on the Application of Sanitary and Phytosanitary Measures. 1995.

[4] Article 2.3 of the Agreement on the Application of Sanitary and Phytosanitary Measure and Article 5.1 and 5.2 of the Agreement on Technical Barriers to Trade.

[5] The Agreement on Technical Barriers to Trade. 1995.

[6] Sri Lanka has not extended duty free benefits to food imports from India. Most of the food and agricultural products from India fall within the 'negative list' of Sri Lanka, under the ISFTA.

[7] Ibid.

[8] Deb Pal, B. 'Non-Tariff Barriers between India and Sri Lanka.' Institute for Social and Economic Change. 2015.

[9] Ibid

[9] Ibid

[10] Ibid

[11] Manual on Food Import Clearance System (FICS), Food Safety and Standards Authority of India. 2013.

[12] The Sri Lanka Standards Institution (SLSI) is the National Standards Body or Sri Lanka. It was established under the Bureau of Ceylon Standards Act No. 38 of 1964, and initially functioned under the name of Bureau of Ceylon Standards. In 1984, the 1964 Act was repealed and replaced by the Sri Lanka Standards Institution Act No. 6 of 1984. The SLSI functions under the purview of the Ministry of Industry and Commerce. Further, Sri Lankan authorities voluntarily accept compliance reports issued by an accredited or recognised national and international CABs such as Bureau of India Standards (BIS). Authorities do conduct random checks on imports, but if the certification is in order, do not check each and every consignment. Further as will be discussed in detail in Section 1.4, the Sri Lanka Standards Institution (SLSI).

[13] Further, Sri Lankan authorities voluntarily accept compliance reports issued by an accredited or recognised national and international CABs such as Bureau of India Standards (BIS). Authorities do conduct random checks on imports, but if the certification is in order, do not check each and every consignment.

[14] Gazette No. 1844/9 of January 2014.

[15] Imports (Standardization and Quality Control) Regulations (2013). Available at http://www.slsi.lk/web/images/PDF_upload/ii-123%20items.pdf

[16] Such as, 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001;
Chaffour, J. P. and Maur, J. C., 'Preferential Trade Agreements for Development: A Handbook.' World Bank, 2011;
Elvestad, C. and Veggeland, F., 'International Trade and Guidelines on Equivalence and Mutual Recognition'. Norwegian Agricultural Research Institute. 2005.

[17] Divergences in standards and regulations between jurisdictions represent legitimate policy objectives for each country. However these differences can cause a problem for exporters. Many of the exporters interviewed reported how standards varied greatly from market to market. As a result, countries have been entering into bilateral and regional arrangements to reduce the cost to traders that result from having to comply with multiple standards. Harmonisation of standards is one such arrangement.

[18] 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001.

[19] Devereaux, C., Lawrence, R. and Watkins, M. D., 'Case Studies in US Trade Negotiations: Making the Rules.' Institute of International Economics. 2006.

[20] The WTO Agreement on the Application of Sanitary and Phytosanitary Measures

[21] Article 3.1 of the SPS Agreement.

[22] Article 2.4 of the TBT Agreement.

[23] 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001, 11.

[24] 'TACD Briefing Paper on Mutual Recognition Agreements'. Trans Atlantic Consumer Dialogue. 2001.

[25] Giang, L.E., 'ASEAN Regional Approaches to Standardization and Conformity Assessment Procedures And Their Impact On Trade'. 2006.

[26] Article 3.1 of the WTO SPS Agreement.

[27] Ibid

[28] Ibid

[29] Maur, J. C and Shepherd, B. 'Preferential agreements, regional cooperation and standards.' World Trade Organisation. 2011.

[30] 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001, 11.

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[32] 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001, 11.

[33] Bilateral Cooperation Agreement between the Sri Lanka Standards Institution and Bureau of Indian Standards. 2006.

[34] Article 4.1 of the SPS Agreement.

[35] Article 2.7 of the TBT Agreement.

[36] 'U.S.-Korea Equivalency Agreement'. *Organic Trade Association.* https://ota.com/resources/global-market-opportunities/trade-access-barriers/trade-agreements/us-korea-equivalency;
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[37] Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001, 12.

[38] Ibid

[39] Osbourne, K. 'Improving the Business Environment.' 2002, 6.

[40] 'Procedure for grant and operation of BIS License under foreign manufacturers certification scheme (FMCS)', Bureau of Indian Standards.

[41] 'Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments.' Commission of the European Communities. 2001.

[42] 'Guidelines for developing a mutual recognition arrangement/agreement.' World Customs Organisation. 2011.

[43] Refer Annex C for examples of MRAs between other countries.

[44] Chaffour, J. P. and Maur, J. C., 'Preferential Trade Agreements for Development: A Handbook.' World Bank, 2011.

[45] Ibid

[46] Ibid

[47] 'Trade Agreements'. *Department of Commerce of the Government of India.* http://commerce.nic.in/MOC/international_trade_agreements.asp

[48] Comprehensive Economic Partnership Agreement between the Republic of India and Japan. 2011.

[49] Annex 5B of the Comprehensive Economic Cooperation Agreement between the Republic of India and the Republic of Singapore. 2005.

[50] Agreement towards Implementing Comprehensive Economic Cooperation Agreement between the Government of the Republic of India and the Government of Malaysia.2011.

[51] India – Korea Comprehensive Economic Partnership Agreement.2009.

[52] Refer Annex D for details on the provisions in India – Singapore and India Malaysia agreements

[53] Article 2 of Agreement on Trade and Safety of Feed and Feed Ingredients between the Export Inspection Council of India, Ministry of Commerce and Industry, Government of India and The General Administration of Quality Supervision, Inspection and Quarantine of People's Republic of China. The Agreement sought to strengthen mutual cooperation in trade and safety of feed and feed ingredients and meet the regulatory requirements with respect to safety & hygiene and plant quarantine requirements with respect to feed and feed ingredients.

[54] Refer Annex A and B for a list institutions responsible for implementing regulations in India and Sri Lanka.

[55] A detailed list of the institutions involved in conformity measures for food products in India and Sri Lanka, is provided in Annex A and B.

[56] Refer Annex Aand B for details of the institutions responsible for implementing standards and regulations for food products.

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ANNEX A

Main institutions responsible for assessing compliance of products with standards and regulations – in Sri Lanka

Authority	Products	Function
Ministry of Health – Food Authority	All food products	The Food Act No. 26 of 1980 provides that no person can manufacture, import, sell or distribute any food which does not comply with regulations passed under this Act. (Section 2 of Food Act) The Minister is entitled to make regulations in: Ingredients of food Labelling and packaging requirements Standards, purity, quality or other property of food; and Importation of food. Health authorities check food products entering the country in order to ensure compliance with the regulations passed under the Food Act.
National Plant Quarantine Service (NPQS)	Living insects, bird or other animals in any stage of development, or any virus, bacteria of fungus cultures (Except for animals generally covered by animal quarantine)	The NPQS is responsible for inspecting and examining whether a pest or pests exist in plant or plant products imported into Sri Lanka. Implements the principles of the Plant Protection Act No. 35 of 1999 and regulations passed under this Act. All plant materials are subject to quarantine examination at the port of entry – even if the importer has obtain an import permit and a phyto-sanitary certificate, there is still the possibility of contamination by pests during transit.
Department Of Animal Production and Health (DAPH)	Livestock and livestock products.	Animal Diseases Act No. 59 of 1992 Responsible for: i. Issuing import permits for the import/export of live animal products. ii. At time of import, Animal Quarantine and Inspection officer and officials from health authorities will conduct a joint inspection of consignments of animal products.
Sri Lanka Standards Institution (SLSI)	Products covered under the Import Inspection Scheme maintained by SLSI	The SLSI is the national standards body in Sri Lanka. It is responsible for determining standards for products. In addition to this, it maintains the import inspection scheme, and products covered under this scheme, will be checked by the SLSI for compliance. The SLSI also maintains other import schemes– and is responsible for ensuring compliance of products from importers covered under this scheme.

ANNEX B

Main institutions responsible for assessing compliance of products with standards and regulations – in India

Authority	Products	Function
Food Safety and Standards Authority of India (FSSAI)	All food products	The FSSAI is the statutory body for laying down standards for articles of food and regulating manufacturing, processing, distribution, sale and import of food. It is under the Ministry of Health and Family Welfare and each state has an appointed Commissioner of Food Safety for the implementation of food safety and standards under the FSSAI rules and regulations. It has the following main functions: o Framing Regulations regarding standards and guidelines for food articles and systems for their enforcement o Setting mechanisms and guidelines for accreditation of certification bodies certifying the Food Safety Management Systems (FSMS) of businesses o Setting procedure and guidelines for laboratory accreditation o Provide information to the public about food safety and issue of concern The FSSAI is also responsible for product approvals for products which do not conform to the prescribed standards under the act and regulations. Further it is mandated to monitor the import process of food items.
Bureau of Indian Standards (BIS)	Products under the Bureau Of Indian Standards Act,1986	BIS is the National Standards Body of India, functioning under the Ministry of Consumer Affairs and promotes the Indian Standards. The BIS enforces mandatory standards on 90 products, which include 13 food products, under the Import Policy of India. The main activities of the BIS are: o Formulating standards o Certification: products, hallmarking & systems o Foreign manufacturers schemes o Testing and calibration services
The Directorate of Plant Protection, Quarantine and Storage, Department of Agriculture and Cooperation	Products under Plant Quarantine(Regulation of Import into India) Order, 2003 Such as plant and plant materials for consumption	The Directorate is responsible for the inspection of imported agricultural commodities for preventing the introduction of exotic pests and diseases inimical to Indian fauna and flora through implementation of DIP Act, 1914 and the Plant Quarantine (Regulation of Import into India) Order, 2003 issued thereafter. It is also responsible for the inspection of plants and plant material meant for export as per the requirements under International Plant Protection Convention (IPPC) 1951 of FAO to facilitate pest free trade. The Directorate follows the National Standards for Phytosanitary Measures which are in line with the International

		Standards for Phytosanitary Measures. The main activities of the Plant Quarantine are: o To issue import permits with additional declarations and special conditions to facilitate safe imports of agricultural products. o Undertaking Post Entry Quarantine Inspection of identified plant materials o To undertake phytosanitary certification (for issuance of Phytosanitary Certificates o To undertake fumigation/disinfestations/disinfections of commodities to control infestation/infection.
Animal Quarantine and Certification Services(AQCS), Department of Animal Husbandry, Dairying and Fisheries	Products covered under Livestock Importation Act, 1898 and The Livestock Importation (Amendment) Act,2001 such as Meat and meat products, dairy products including egg, milk and other products	The AQCS's main objective is to prevent the ingress of livestock and poultry diseases exotic to India as per the Livestock Importation Act and regulation orders and SPS standards issued under it. The AQCS issues the No Objection Certificate for the import of animal products, and the Certificate of Health and Sanitary Fitness for both import and export consignments for livestock products.

ANNEX C

Mutual recognition agreements implemented by other countries

- *Agreement on Mutual Recognition Between the European Community and the United States of America (1998)*
  The US and EU entered into several mutual recognition agreements in 1998 for recognition of the inspection, testing and certification requirements for a range of traded products. MRAs were signed for six sections: medical devices, pharmaceuticals, recreational craft, telecommunications, electromagnetic compatibility (EMC) testing services and electrical equipment.

  While, the US and European countries would maintain their own set of domestic standards, the agreement allows for producers to test products in the US for European standards, and test in Europe for US standards. Separate talks were held for each industry sector. The impetus to negotiate a mutual recognition of conformity assessment procedures, came after a failed attempt to pursue regulatory harmonization.

- *Mutual Recognition Agreement On Conformity Assessment Between The Government Of Australia And The Government Of The Republic Of Singapore (2001)*
  The Australia- Singapore MRA, entered into force in 2001, provided for conformity assessment (testing, inspection and certification) of products and of manufacturers of products intended for export to the other Party's territory to be undertaken in the country of export, in order to reduce non-tariff (technical and regulatory) barriers to trade between countries. This agreement provided that regulatory authorities in both countries were to recognise test reports and certificates issued by conformity assessment bodies (CABs).

  This Agreement covered products in two sectors, namely, 1) the electrical and electronic equipment sector; and 2) the telecommunications equipment sector. Additionally, it also covered manufacturing process for products in the medicinal products sector, rather than the products themselves.

- *Agreement on Mutual Recognition between Canada and the European Community (1998)*
  The Canada – EU MRA was signed in 1998, and provides for the Government of Canada to accept the results of conformity assessment procedures, including certifications of compliance, as required by the Canadian legislation and regulations identified produced by designated Conformity Assessment Bodies or Authorities in the European Community in accordance with this Agreement, an vice versa. Sectoral Annexes were signed for six areas: telecommunications terminal equipment, electromagnetic compatibility (EMC), electrical safety, recreational craft, good manufacturing practices and medical devices.

ANNEX D

Provisions for mutual recognition in conformity assessment procedures in India's trade agreements with Singapore and Malaysia

- *India – Singapore Comprehensive Economic Cooperation Agreement (2005)*
  Chapter 5 provides for the implementation of the principles of mutual recognition in respect of trade in goods specified in the Sectoral Annexes to the Chapter. According to Article 5.1. 'mutual recognition' means that each party, on the basis that it is accorded reciprocal treatment by the other party, accepts test reports and certification of results of conformity assessment activities of the other party to demonstrate conformity of products with the mandatory requirements designated by the party. Article 5.12 provides that the sectoral annexes, Annex 5A (telecommunications equipment), Annex 5B (food products) and Annex 5C (electronics and electronic equipment) to the Agreement provide the detailed implementing arrangements in respect of the product sectors specified. The Parties can subsequently conclude sector annexes on other product sectors whilst implementing arrangements for these sectors.

- *India and Malaysia Comprehensive Economic Cooperation Agreement (2011)*
  Article 7 discusses the need to 'increase efficiency, avoid duplication and ensure cost effectiveness through an appropriate range of mechanisms in order to facilitate acceptance of results of conformity assessment procedures'. This involved the adoption of accreditation procedures[57], recognition and acceptance of results of conformity assessment procedures[58] and facilitation of acceptance of results of each other's assessment procedures through agreements between conformity assessment bodies in their territories.[59] Article 7.9 of the CECA specifically provides for the countries to conclude a MRA on sectors decided upon by the two states.

[57] Article 7.8, 1(a) of the Comprehensive Economic Cooperation Agreement between India and Malaysia
[58] Article 7.8, 1 (b) and (c) of the Comprehensive Economic Cooperation Agreement between India and Malaysia
[59] Article 7.8, (1) (e) of the Comprehensive Economic Cooperation Agreement between India and Malaysia

ANNEX E

Export potential indicators

Once the products are prioritised based on CAP impact and tariff impact, it is important to assess their export potential. In order to assess compliance with importing country standards, exporting country governments/CABs may need to invest in equipment and training. The cost of such investments needs to be assessed against benefits to the country in terms of higher exports. For example, if a product has a very low export potential, it may not be advisable to make heavy investments in upgrading the current infrastructure to facilitate that particular product. Given below are two indicators that can be used to assess export potential.

I. Balassa Index of Revealed Comparative Advantage (RCA)

RCA measures the degree to which a country is specialised in exports of a product. Consider a Country P exporting a Product X.

$$RCA = \frac{Country\ P's\ exports\ of\ Product\ X}{World's\ exports\ of\ Product\ X} \Big/ \frac{Country\ P's\ total\ exports}{World's\ total\ exports}$$

Example: RCA of Country "P" for Product "X"

Country P	US$ Million	World	US$ Million
Exports of Product X	2	Exports of product X	4000
Total Exports	1000	Total exports	15,000,000

The revealed comparative advantage for Country P's specialisation in Product X is calculated as follows:

$$RCA = \frac{2}{4000} \Big/ \frac{1000}{15000000} = 7.5$$

This indicates that Country P is 7.5 time more specialised in exporting Product X than the world. If $RCA > 1$, this indicates the country has a comparative advantage (i.e. more specialised) in exports of the product than the world; the greater the index, the stronger the advantage. If$RCA < 1$, then the country has a comparative disadvantage (i.e. less specialised) in exports of the product than the world; the smaller the index, the greater the disadvantage.
However, this index is limited to instances where the producing country is also an exporting country. In the case where the country is producing for domestic consumption and not for exports, then the RCA will underestimate the country's comparative advantage in a product.

II. Relative Indicative Trade Potential (RITP)

RITP can be used to identify products for which there is the highest potential for further trade between trading partners.[60]

$$RITP = \frac{min(Country\ P's\ exports\ of\ Product\ X, Country\ Q's\ imports\ of\ Product\ X\ ) - Country\ P's\ exports\ of\ Product\ X\ to\ Country\ Q}{Country\ P's\ exports\ of\ Product\ X\ to\ the\ world}$$

Example: Trade potential of country "P" to export product "X" to country "Q"

Country P	US$ Million	Country Q	US$ Million
Export of product X to world	2	Import of product X	5
Export of product X to Country Q	1		

$$RITP = \frac{min(US\$\ 2\ mn, US\$\ 5\ mn\ ) - US\$\ 1\ mn}{US\$\ 2\ mn} = \frac{US\$\ 2\ mn - US\$\ 1\ mn}{US\$\ 2\ mn} = 0.5$$

This indicates that Country Q has the potential to absorb an extra 50% of Country P's total exports of Product X. The closer the RITP is to 0, the less the potential for Country Q to absorb Country P's exports of Product X, and the more Country P's dependence on Country Q as an export destination for Product X. The closer RITP is to 1, the more the potential exists for further trade in Product X. This measure is useful to ascertain the potential for product expansion in both new and existing markets.

The weakness of the indicator lies in the strong assumption that the importing country could, in principle, be a perfect substitute for the exporting country's excess exports and vice-versa, where applicable. Further, as in the case of the RCA index, a low RITP is not necessarily an indication that there is no trade potential between two countries, since the commodity might be produced but not exported. Therefore, the results are only a guide to indicate the rank of the export potential of products.

[60] Helmers, C. and Pasteels, J M. 'Assessing Bilateral Trade Potential at the Commodity Level: An Operational Approach.' International rade entre. 006.

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