



Free Trade Agreements and changing role of Customs Officers

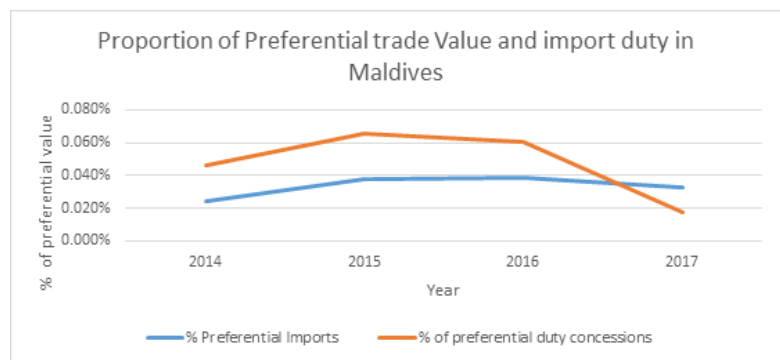


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Free trade Agreements or Free Trade Area (FTA) has been a popular topic in the domain of international trade globally. The signing of FTA between the Republic of Maldives and the People's Republic of China on 7th December 2017, has sparked special interest on FTAs to the Maldivians as well. It is expected that the Customs Officers need to be familiar with the FTAs and the demand it envisages on the role and the responsibility of customs officers because they are at the heart of international trade and Customs, as an institution, has a crucial role to play in the implementation of FTAs. To Customs, the proliferation of FTAs means that less goods will be cleared on Most Favoured Nation (MFN) basis but more goods are subject to complex preferential rules of origin that are administered by Customs. In short, FTAs have significant implication not only on economy and politics but also other socio-economic spheres of life. Thus, this article aims to shed some light on FTAs landscape and the impact on the customs officers.

FTAs are one of the popular form of Regional Trade Agreement (RTA). In the WTO, RTA is defined by the reciprocal trade agreements between two or more partners. Article 24 (8b) of the General Agreement on Tariff and Trade (GATT) 1947 defines Free Trade Areas as “a group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on

substantially all the trade between the constituent territories in products originating in such territories”. Thus, RTAs includes FTAs and Customs Unions. However, FTAs differ from non-reciprocal preferential arrangements such as GSP schemes in which one party grants the benefit unilaterally. Since, FTAs emerged against the background of multilateral trading system based on the fundamental principle of MFN principle, WTO members are bound to notify the FTAs in which they participate. According to WTO, nearly all of the WTO members have notified participation of one or more RTAs. Since its inception in 1995, over 400 additional arrangements have been notified to WTO and about 87 percent of the RTAs notified are FTAs. Annex 1 depicts the dramatic increase in RTAs in recent years.



In the current practices, FTAs cover many issues beyond the removal of tariff and barriers to trade in goods and services. It often covers investments, trade remedy, technical trade barriers as well as sanitary and phytosanitary measures, social policy environment and sometimes competition policy including Intellectual Property Rights (IPR) and labour law.



Annex 2 shows some of the regulatory provisions in the trade agreements in this region. Although FTAs are popularly known to be for liberalizing and opening market in goods (tariff concessions), service and investment, it further enhances bilateral and plurilateral cooperation and increase technical assistance including knowledge sharing and capacity building. Moreover, recent FTAs often contains separate chapter for Customs Procedures and Trade Facilitation to ensure that the Customs follow best practices and principles which are aligned with the principles of RKC and other WCO tools and instruments. In addition, FTAs layout institutional structures for smooth implementation of FTAs such as committees consisting members from different institutions from each party. Needless to say, Customs officers are expected to play a critical role in these committees during implementation.

Each FTA is accompanied by a set of preferential rules of origin that has a significant impact on the application and implementation of Rules of Origin (ROO) which is one of the key focus area of the Customs. Usually, the objectives of the preferential rules of origin is the determination of qualification of goods for preferential tariff treatment and promoting bilateral trade and investment. FTAs demand customs officers not only to understand determination of origin or rules of origin, but also the details of certification, verification and administrative procedures for preferential rules of origin which are often complex. Therefore, in addition to understanding the difference between country of

consignment and the country of origin, the customs officers particularly working in goods clearance need to have additional knowledge on the specific rules and administrative procedures outlined in each agreement.

Although Maldives has been a member of SAFTA and applying preferential rules of origin for more than twenty years, preferential trade under SAFTA is minimal accounting less than 0.05 percent of the import value over the years as shown in the below graph. Details of SAFTA imports and the duty concession granted by Maldives under SAFTA is shown in annex 3.

However, recently signed FTAs with China, one of the biggest economy, is expected to increase the preferential trade significantly. China-Maldives FTA is the first bilateral FTA for Maldives and 16th FTA China has signed so far. Currently, Maldives is negotiating an FTA with Hong Kong and the government of Maldives have invited other major economies including UK, USA and Japan for bilateral FTAs. Thus, FTA has become prominent strategic direction of the government towards the economic transformation of the country which consequently transforms the role of Customs officers.

Recent developments in FTAs have created new demands and perspectives on the role of Customs officers. As manifested in the WCO document on the Customs in the 21st Century “the benefits an adaptable, strategically focused customs administration are immense” and to face the changing strategic direction of the government and to meet the challenges the preferential trading environment pose, customs officers need to be familiar with the FTAs and the changing landscape of the supply chain ranging from production to consumption.

