KARACHI: The Pakistan Business Council (PBC), pan-industry advocacy group, has urged the government to renegotiate a trade agreement with Afghanistan, saying it has been exploited by traders who smuggle goods back into Pakistan, evading taxes and hurting local industries.

The PBC said in a letter to the commerce ministry that the Afghanistan Transit Trade Agreement should be revised to curb the abuse of the facility and protect Pakistan's tax revenues and formal sector.

The transit trade agreement allows goods to be transported across Pakistan to landlocked Afghanistan, but the council said many traders import large quantities and varieties of consumer and industrial goods into Afghanistan and then divert them back to Pakistan, undercutting local producers and avoiding taxes.

The council recommended limiting the quantity of consumer goods through ATTA in proportion to Afghanistan's population and imposing qualitative checks in line with established and verified consumption preferences and patterns.

For instance, it said, if Afghanistan's population is 37 million and the per capita consumption of tea is 0.6 kilogram, it may be allowed to import 22,000 tons of tea. Further, if the tea drinking habit is green tea, then don't allow import of black tea which is diverted to and consumed in Pakistan, it added.

The same principle should apply to electronic gadgets and domestic appliances. The PBC also suggested denying transit access to industrial inputs for which no industrial capacity exists in Afghanistan and for those that capacity exists, allowing quantity in proportion to verified track record of manufacturing.

The council said the agreement should require all traders availing transit facilities to be registered for income and sales tax in Afghanistan and that Pakistan should assist the Afghan government to achieve a high level of tax documentation and accountability.

It also proposed that all transit goods deposit Pakistan import duties and sales taxes upon entry into Pakistan and that the duty and taxes collected be refunded only to the Afghan government, thereby forcing traders to register there for tax.

The PBC said parity duties and taxes between Afghanistan and Pakistan would reduce the incentive to evade Pakistan taxes and that transit goods should be imported under letters of credit drawn on banks operating in Afghanistan or through remittance from Afghanistan through banking channels.

The council said Pakistan should continue to resist the inclusion of auto-parts and cigarettes in the list of items admissible for transit and prevent the flow of Indian goods overland from Wagah to Afghanistan, especially on Indian trucks, due to security risks and the likelihood of diversion.

It also urged the government to continue satellite tracking of containers up to the Afghan border, strengthen deviation monitoring en route, share actions taken to provide deterrent and heighten checks on returning containers to ensure that goods do not re-enter Pakistan.

"Whilst it may not be possible to secure all the aforementioned, Pakistan's negotiating position is stronger due to current geo-political environment," the council said in its letter.