

Report of the Consultation Meeting on

Non Tariff Barriers in South Asia and its Implications for Nepal

January 15, 2013

Biratnagar

1. The level of the intra-regional trade in South Asia is reeling under five percent of the total international trade of the SAARC member countries over the past two decades. Despite the possibility of generating substantive trade within the region, the countries of South Asia are not been able to harness and optimize the gain from initiatives of regional trade integration. South Asian Free Trade Area (SAFTA) agreement is not yet able to produce substantive results on trade integration, one of the reasons for this is the incidence of wide-spread non-tariff barriers imposed by the member countries in their respective territories. Because of this, and as a result of trade diversion, there is negative impact on employment and income opportunities for the common people and the customers in the region are forced to pay more for a particular good which could have been easily available in a much lesser price if they were traded within the South Asian region.
2. Against this background, a consultation meeting titled "Non Tariff Barriers in South Asia and its implications for Nepal" was held in Biratnagar on 15th January 2013. The program's objective was to identify the major barriers that exporters/ importers were facing while importing/ exporting goods as well as to get feedback on the policy level issues for reducing these barriers. The program was held with support from the Asia Foundation and CUTS International. The meeting was held in collaboration with Morang Merchant Association as the local partner.
3. Ms Neelu Thapa, Programme Coordinator, SAWTEE gave a brief background on the project and highlighted the objectives of the meeting.
4. Mr Avinash Bohra, Chairman, Morang Merchant Association(MMA) said that trade liberalization under SAFTA resulted in the reduction of tariff barriers in the region but export trade has not increased as expected due to the increasing prevalence of non-tariff barriers. He highlighted the urgency to tackle NTBs at the earliest. He further emphasized that the delay would make the customers incur a huge cost.

5. Similarly Mr Mahesh Jaju, Past President, MMA said that import/export of goods in the eastern region is mainly India centric as it is relatively easier to trade with India in comparison to other neighboring countries. If other South Asian countries also give similar facilities like India, it would be possible to undertake trading activities with these countries.
6. While chairing the meeting, Mr Purushottam Ojha, Senior Consultant, SAWTEE said that facilitating imports would undoubtedly increase consumer's welfare. But he pointed out some crucial non tariff barriers like quarantine, food test requirement, and incidence of state taxes, licenses and permits that are impeding intra-regional trade within South Asia. He further said that the nature of the non tariff barriers would decide whether one should take a bilateral or a regional approach to enhance the trade among member countries. He urged the participants to report all the barriers they have been facing during the meeting and also come up with suggestions to tackle these problems. He made it clear that since Biratnagar is considered the commercial capital of Nepal, it was important to consult the industrial establishments and traders in the area. He said that it was important to focus on removal of non-tariff barriers on exports for enhancing the welfare of producers and facilitate imports to promote the welfare of the consumers.
7. The discussion mainly focused on India-Nepal trade as it occupies around 60 percent share in the total international trade of Nepal and the incidence of non-tariff barriers are high corresponding to the volume of trade.
8. The participants came up with various non-tariff barriers that they have been facing while exporting/importing goods.
 - i) There are no incentives for the promotion of industries importing raw materials. Traders are encouraged to import finished goods rather than the raw material and intermediary goods due to faulty tariff structures of the Government of Nepal.
 - ii) Quarantine checks are not scientific and are issued in a haphazard manner without having proper checks and verifications.
 - iii) The Inland Clearance Depot (ICD) area should be remodeled to accommodate and facilitate the flow of traded goods. Provision of warehousing and safekeeping of the goods should be a priority.
 - iv) There is problem and complex procedure in importing the goods in Indian Currency from India. The procedures need to be simplified.

- v) The customs clearance procedures are long and cumbersome.
- vi) The cost of importing goods from third country other than India is very high (transit movement is associated with several hassles).
- vii) Indian customs authorities charge the countervailing duties on MRP basis. This has resulted in payment of excessive amount as the taxes by the exporters of Nepalese goods thereby loosing competitiveness in the market.
- viii) Customs Valuation is not realistic and not based on market value. Customs authorities in Nepal exercise arbitrary and discriminatory practice and abuse discretionary authority in customs valuation and the traders are bearing the brunt of this.
- ix) Copy document is not recognized by the customs as they ask for original (hard) copy that increases the clearance time at customs.

- x) The traders are harassed at various points as the goods once cleared at the customs are checked at multiple points by revenue intelligence unit, trade unions, police etc.
- xi) Exporters get 6% incentive in India while in Nepal even 2% incentive is not realized. There is big problem associated with the complexity of documents and procedures in realizing the benefits of export incentives.
- xii) Goods originating at various countries face discrimination at customs e.g Chinese and Indian goods. Basically the underinvoicing of Chinese goods has created a problem.
- xiii) While exporting noodles to Bangladesh, the exporters need to pay 60% effective duty. There are problems associated with test and certifications as well.
- xiv) Customs authorities are more enticed to divert the legal trade into illegal trade as there are incentives for them to treat and deal with the issues of illegal trade.

The suggestions from the participants have been put under different headings.

- **Trade facilitation**

- a. The export from Nepal to other SAARC countries can increase if they provide the facilities that India has been providing.
- b. Export trading houses need to be established. The parameters for the trading house need to be defined properly.

- c. The discriminatory behavior including valuation method adopted by Nepalese Customs to the goods from different countries should be corrected.
 - d. The port of Visakhapatnam should come into use at the earliest.
- **Procedural Reforms**
 - a. The customs valuation needs to follow the scientific and GATT valuation methods. Haphazard application of valuation method tends to discourage the exporters and importers.
 - b. There needs to be consistency in customs valuation in the Indian and Nepal customs.
 - c. The customs valuations should be done in consultation with the private sector and other valuation experts.
 - d. The customs procedure should be transparent and simple.
- **Institutional and Administrative Reforms**
 - a. Custom reforms through expansion of Information technology (IT) is crucial for a speedy process in customs clearance
 - b. Discussions between the customs officials, importers/exporters and other customs agents should take place on a regular basis with a view to facilitate the flow of traded goods.