

NEPAL: COMPANY PERSPECTIVES

AN ITC SERIES ON
NON-TARIFF MEASURES



Nepal: Company Perspectives

An ITC Series on Non-Tariff Measures

About the paper

Inadequate export quality infrastructure is seriously affecting Nepalese exporters.

Half of 577 surveyed companies in Nepal (exporters, producers, logistics providers) face difficulties in proving compliance for buyer requirements, due to inadequate testing and certification bodies.

The report recommends strengthening Nepal's quality and customs infrastructure, better engagement with India for transit and trade facilitation, and enhancing the export production capacity of small businesses.

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Foreword

For a landlocked least developed country like Nepal, trading costs are high. Accessing international markets is a challenge. Long transit times, insufficient supply capacity and inadequate domestic infrastructure hinder export development efforts. The rise of non-tariff measures (NTMs) in recent decades adds a new level of complexity. Small and medium-sized enterprises (SMEs), which make up the economic backbone of the country, often struggle the most to meet these market entry requirements.

The International Trade Centre (ITC) is committed to supporting SMEs in Nepal to improve their export competitiveness. The first step is to have a good understanding of their difficulties and concerns.

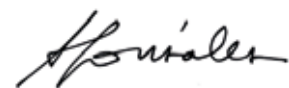
This study, *Nepal: Company Perspectives*, is based on a large-scale survey of Nepalese exporters, producers and logistics service providers. It highlights the major regulatory and procedural obstacles to trade encountered by the Nepalese business community.

The report gives special attention to the trade obstacles affecting export products prioritized by the Nepal Trade Integration Strategy. It puts forward a set of policy recommendations, prepared in close consultation with experts and local stakeholders, to alleviate difficulties faced by Nepalese SMEs. This study is part of ITC's NTM Programme which has conducted similar surveys in 66 other countries and, as a result, implemented projects to reduce the impact of non-tariff barriers on SMEs.

Market access begins at home. It is important to improve local capacities and facilities, streamline procedures, enhance quality management systems, and provide transparent and timely information. To this end, constructive public-private sector dialogue is a key ingredient in the recipe for a conducive business environment and export success.

I congratulate the Ministry of Commerce of Nepal, which has fully demonstrated its commitment to this approach. During the production of this study, joint efforts by the Ministry and ITC brought public and private sector representatives together to explore how best to overcome trade barriers that businesses face.

I hope that this study will serve as a roadmap to guide Nepal's trade policies and strategies. Nepal remains a priority country for ITC. We stand ready to accompany Nepal in implementing these recommendations to improve the competitiveness of Nepalese SMEs, and increase their contribution to Nepal's growth and development.



Arancha González
Executive Director
International Trade Centre

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This report was written by Samidh Shrestha (ITC), Binayak Malla (Kathmandu University School of Management – KUSOM), Rajan Sharma (Nepal Freight Forwarder's Association) and Hari Uprety (South Asia Watch on Trade, Economics and Environment – SAWTEE).

Samidh Shrestha managed the survey implementation in Nepal, and Ursula Hermelink (ITC) managed ITC's overall NTM Programme. Abdellatif Benzakri (ITC) and Youssef Dhabbah (ITC) contributed to data quality control and provided statistical support.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tonnes are to metric tonnes.

ASYCUDA	Automated System for Customs Data
CFL	Central Food Laboratory
CLC	Cargo and Logistics Company
CONCOR	Container Corporation of India Limited
DFTQC	Department of Food and Technology and Quality Control
DPR	Department of Plant Resources
EU	European Union
GDP	Gross domestic product
GSP	General System of Preferences
HS	Harmonized System
ICD	Inland Container Depot
ISO	International Organization for Standardization
ITC	International Trade Centre
LDC	Least developed country
MFN	Most-favoured nation
MoC	Ministry of Commerce
MRL	Maximum Residues Limits
NASAA	National Association for Sustainable Agriculture Australia
NBSM	Nepal Bureau of Standards and Metrology
NTIS	Nepal Trade Integration Strategy
NTM	Non-tariff measure
NTTFC	National Trade and Transport Facilitation Committee
PO	Procedural obstacle
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SARSO	South Asian Regional Standards Organization
SGS	Société Générale de Surveillance
SME	Small and medium-sized enterprise
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
TEPC	Trade and Export Promotion Centre
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Executive summary

One in two exporters face difficulties with NTMs

Half of Nepalese exporters face difficulties with various regulations applied either by Nepal or partner countries.

There are large variations in the affectedness rate across different products and sectors. While 42% of exporters from manufacturing sector are affected, the rate is over 77% among agricultural exporters. Exporters of fresh and processed food products are very affected. These products are the most regulated for reasons of public health, making this sector highly sensitive and protected by both tariffs and non-tariff measures (NTMs). In contrast, affected rate among garment and textile exporters is relatively low (35%) compared to exporters of other sectors.

Most burdensome NTMs are associated with foreign regulations

Partner countries apply the majority (78%) of NTM-related obstacles for exporters. Around one in five NTM cases related to exports are applied by Nepal.

More than one-third of difficulties relate to regulations of the EU-28 countries, most of which when exporting to Germany and France. Difficulties with EU regulations are well documented in ITC survey in other countries. Exporters from developing countries find EU regulations, in particular, the SPS and quality requirements, too difficult to comply with and the accompanying conformity assessment procedures too strict. Asian countries apply 23% of the burdensome NTM cases, followed by 19% by the South Asian Association for Regional Cooperation (SAARC) countries and 23% by rest of the world.

At the individual partner country level, the largest number of difficult NTM cases are Indian regulations or procedures that account for 18% of the burdensome NTM cases. This comprises most of the difficulties faced in the SAARC region (19%). Among other partners, 10% of the difficult NTM cases are United States and Japanese regulations each, while 6% relate to Chinese and Australian regulations, each.

Technical (SPS/TBT) regulations are burdensome

Two-thirds of burdensome NTM cases for Nepalese exporters are technical measures. Technical measures include technical requirements, which are product specifications for exported products including sanitary and phytosanitary (SPS) measures, as well as conformity assessment procedures such as certification that provide proof of compliance with underlying technical requirements. Exporters face more problems proving compliance with regulations than with the regulations itself.

Among technical requirements, regulations on maximum residues limits of contamination by certain substances, fumigation requirements, and prohibition or restriction on SPS/TBT grounds are main concerns.

On conformity assessment related NTMs, difficulties related to product certification and testing requirements make up the bulk of the difficulties, followed by quarantine requirements.

Other issues such as rules of origin, pre-shipment and border clearance procedures of partner countries, and quantitative restrictions are comparatively minor compared to the difficulties related to SPS/TBT technical requirements.

Majority of the export related measures, i.e. Nepalese regulation and procedures on export, is related to export inspection and border clearance procedures or formalities.

Procedural Obstacles are a major concern

The NTM survey methodology identifies both the measures that are burdensome to the exporters and the reasons they are burdensome. Often exporters face difficulties with a given regulation not only because it is too strict and complex but also (and at times solely) because of the related procedural obstacles (POs). While NTMs are official regulations implemented by competent authorities in the

exporting or importing country that traders must comply with, POs are hindrances from the manner the regulation is applied or implemented.

Only 13% of problems faced by Nepalese exporters are due to regulations being too strict or difficult to comply with. In contrast, 73% of NTMs are difficult due to various procedural obstacles, most of which occur in Nepal itself. In the remaining 14% of NTM cases, both the measure and the related procedural obstacles are problematic.

Almost two-thirds of the POs occur in Nepal. Procedural obstacles hindering exports in Nepal relate mostly to unavailability of testing and certification facilities and test results from Nepal not being accepted in partner countries.

POs related to high fees and charges to obtain required certification or testing occur in foreign countries. This issue is related to the lack of appropriate facilities for testing and certification in Nepal that leads to exporters having to send their products to other countries for testing. The fees for such services in foreign countries are expensive.

Informal payments and slow procedures to get the necessary paper work issued, clear shipment or expedite the process are other commonly reported POs.

Lack of accredited testing and certifying agencies is a major hurdle

More than half of reported burdensome NTMs are conformity assessment requirements. Factors such as lack of clearly defined responsibilities among public agencies, limited capacity to oversee responsibilities and delays in implementation have contributed to various problems of compliances.

Among conformity assessment-related concerns include Nepalese laboratories not being able to do the necessary testing and issue the required certificates. There are concerns that certificates issued by Nepalese public institutions are not recognized internationally. This has led exporters to use laboratories in other countries such as India, Australia, United States and China, which contribute to increased processing time and higher costs.

Burdensome Nepalese NTM regulations include inspections and advance payment requirement

Nepalese regulations on exports make up almost one-quarter of burdensome NTM cases. These include measures on export inspections, certification requirements, advance payment requirements, and import tax on return goods.

Exporters of paintings and *thankas*, processed wool, hand-carved wooden products, metal statues, *mane* stone carving, mandala, and hand-made carpets need certificate from the Archaeology Department to prove that their products are of any historical, religious or cultural significance. Companies find the process of obtaining these certifications difficult because of slow processing, officials asking for informal payment, frequent changes of officials and t arbitrary behaviour.

Exporters, especially of manufactured products, find Nepalese regulation requiring advance payment of goods prior to shipment a hindrance. Many foreign buyers are not willing to pay the full amount before the delivery of goods. As a result exporters are losing business. In addition, very strict implementation of this measure by Nepal customs affects exporters.

Exporters complain that they have to pay duties on re-import of their products, usually when they are not accepted by foreign buyers

Facilities at Nepal Customs is not sufficient but is improving

While many logistics companies are not satisfied with automation system at Nepal Customs most indicate that they have experienced improved conditions in customs clearance mechanism and electronic or computerized procedures in the last five years.

Around half of companies express dissatisfaction with risk management systems, warehousing facilities and safety of cargo at the customs point. Lack of proper warehouse and cold storage facilities at major border points is a problem. Though there has been significant increase in the volume of cargo over the

years, existing infrastructures at both Nepali and Indian customs are ill equipped to deal with the rising volume of both import and exports.

Proper equipment to handle cargos is in short supply at custom points. Essential equipment like forklifts, cranes, containers to unload and offload the goods usually have to be hired from private operators with high cost because customs offices and airports lack such facilities. There is a need to increase warehousing space and improve the management system together with necessary equipment such as forklifts and cranes for heavy lifting.

Traders say customs systems and practices are obsolete and major reforms are needed. The customs clearance process takes too long, due to reasons such as shortage of human resources, lack of automation and corruption.

Companies face difficulties on transit and cross-border trade with India

Exporters and logistics service providers face difficulties in India when exporting or transiting. Among exporters key concerns relate to Indian authorities not accepting product test results conducted in Nepal, requiring testing to be done in Kolkata, arbitrary decisions of customs officers, slow clearance processes and demand for bribes.

Many companies perceive risks associated with high cost in the port in India and feel that the port operation in Kolkata is not efficient. High cost of land transportation in India is perceived as risky. Road conditions between Kolkata and Nepal are poor.

There are restrictions on Nepalese trucks transporting goods in India. Consignments have to be off-loaded and re-loaded into Indian transport carriers at the border point. Due to obstruction in movement of vehicles, importers have been compelled to pay high detention charges to the port and shipping liners.

Many producers rely on middle-men for exports due to lack of information on market access

Nepalese producers of tea, ginger, cardamom, coffee and, handmade paper highlighted that lack of proper information on plant diseases, use of proper fertilizers and pesticides, and lack of appropriate equipment for further processing of products are hindering productions. Frequent power cuts are affecting irrigation during the dry season, while most producers face shortage of labours due to increase in labour migration to foreign countries.

Many producers are not able to export their products directly and have to rely on middlemen, either Nepalese or Indian, for exports. They do not have adequate information on the market conditions or prices and usually have to rely on what is offered by the middlemen. Lack of proper information on quality assurance and value addition, necessary processes and requirements to export are some reason Nepalese producers are not able to access export markets.

The way forward

Several interventions are necessary to alleviate the difficulties of exporters and for export development.

The Government of Nepal is aware of the challenges ahead and has taken many steps to facilitate trade. Nepal has recently ratified the WTO Trade Facilitation Agreement and the Revised Kyoto Convention. The government's customs reform and modernization plan is on-going. Automation at the Customs through the implementation of Automated System for Customs Data (ASYCUDA) and development of single window will benefit Nepalese traders. Completion of these works and the training of the private sector to best make use of these facilities must be ensured.

Facilities at Customs, including warehouse and equipment, which are currently insufficient should be upgraded.

Dialogues with India should be engaged to avoid arbitrary and inconsistent implementation of trade rules that have heavily affected Nepalese traders.

Diversifying the economy and broadening the export base towards high growth sectors is critical for future development and poverty alleviation.

Improving quality infrastructure and enforcing quality compliance are key to Nepal's export development. It is necessary to review the current SPS-related control systems and strengthen existing laboratories.

Trade transparency should be enhanced through the national trade information portal. Integrating new modules such as trade obstacle alert mechanism, the WTO notification system, and business guides on exports, regulations on foreign regulations will benefit the Nepalese business community.

Survey implementation

The results presented in this report are based on a business survey implemented by the International Trade Centre (ITC), in collaboration with the Ministry of Commerce (MoC) of Nepal. It assess the Nepalese business community's perspectives on non-tariff measures (NTMs), provides a better understanding of the trade obstacles experienced by Nepalese companies and identifies potential bottlenecks related to trade procedures and cross-border operations. The survey took place between March and September 2016.

ITC interviewed 577 Nepalese enterprises which include over 500 active exporters and importers. A further 34 non-exporting producers - either formally registered or informal farmers – of strategically important Nepali products – tea, coffee, large cardamom, ginger and handmade paper – were also interviewed to understand the production, supply and other constraints in addition to market access issues they are facing, and to understand why they are not export ready. These producers have not been able to export their products directly for a variety of reasons.

The survey also covered 42 freight forwarders – Cargo and Logistics Companies (CLCs). Close to half of all companies interviewed relied on the services of CLCs for their export/import processing. Given the important role CLCs play in Nepalese trade, interviews with these companies were important. The objective was to get CLCs' inputs on difficult border clearance procedures, transit issues, available customs and transportation infrastructure, and their views on the export preparedness of Nepalese exporters.

Stakeholder consultations

As part of the survey the study team visited nine customs points in various parts of the country and held discussions with customs officers to get latest information on the operation of the customs points, constraints they face and their perception of Nepalese traders. In addition, bilateral consultations were held with various public agencies, business associations and technical experts.

ITC and MoC jointly organized three stakeholder meeting in Kathmandu in March, July and September 2016 to update stakeholders on the progress of the survey project, present the survey results and initiate discussion on necessary actions to alleviate the problems due to NTMs. Recommendations presented in this report are based on consultations with relevant stakeholders and experts.

INTRODUCTION TO NON-TARIFF MEASURES

Defining non-tariff measures

Non-tariff measures (NTMs) are defined as ‘policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both’.¹ The concept of NTMs is neutral and does not imply a direction of impact.²

Being ‘defined by what they are not’,³ NTMs comprise a myriad of policies other than tariff duties. NTMs are complex legal texts specific to the product and applying country. They are more difficult to quantify or compare than tariffs.

Given that legitimate reasons, including the protection of human, animal and plant health may lead to NTMs, this report avoids making judgements on intentions and the term NTM is used. By design, the survey only captures NTMs that cause major difficulties for trading companies. NTMs analysed in this report refer to ‘burdensome NTMs’. Because obstacles to trade are complex, understanding their terminology and classification are important.

The diversity of NTMs requires a classification system. ITC’s NTM Surveys are based on the international classification developed by the Multi-Agency Support Team, incorporating minor adaptations to the ITC NTM Survey approach.⁴

Procedural obstacles and trade-related business environment

Procedural obstacles (POs) refer to practical challenges directly related to the implementation of NTMs. For instance, problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licences. Inefficiencies in the trade-related business environment may have similar effects, but occur unrelated to specific NTMs. Examples include delays and costs due to poor infrastructure or inconsistent behaviour of officials at customs or ports.

A business perspective is imperative

The ITC NTM Programme, launched in 2010, incorporates large-scale company surveys on NTMs, POs and trade-related business environment inefficiencies. The NTM Surveys evaluate all major export sectors and all major importing partners.

The NTM Surveys also allow companies to report their most burdensome NTMs and how they impact their businesses. Exporters and importers face NTMs and other obstacles every day. Because they know the challenges they face, a business perspective on NTMs is indispensable. At government level, understanding companies’ key concerns regarding NTMs, POs and trade-related business environments can help define national strategies to overcome obstacles to trade.

The full survey methodology is documented in ITC’s technical paper, *The Invisible Barriers to Trade – How Businesses Experience Non-Tariff Measures (2015)*.⁵

¹ Multi-Agency Support Team (2009).

² The term ‘non-tariff barrier’ implies a negative impact on trade. The Multi-Agency Support Team and the Group of Eminent Persons on Non-Tariff Barriers proposed that non-tariff barriers (NTBs) to trade be a subset of NTMs with a ‘protectionist or discriminatory intent’.

³ Deardorff and Stern (1998).

⁴ For further details on the Multi-Agency Support Team NTM classification, see Appendix II.

⁵ www.ntmsurvey.org/publications/itc-series-on-ntms/

CHAPTER 1 TRADE AND TRADE POLICY OVERVIEW



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Nepal: Country overview

Economic situation

Nepal is a landlocked country surrounded by India to the south, west and east and by China to the North. With a GDP per capita of \$743, Nepal is one of the poorest countries in South Asia and is categorized as a least-developed country (LDC). Roughly 25% of the population lives below the poverty line. Most of the country's 29 million people live in rural areas.

Nepal has a GDP of approximately \$21 billion (2015) with an annual growth rate of 4.2% (2011-2015). Economic standstill in 2015 due to the earthquake and disruption in trade routes with India resulted in Nepal's lowest GDP growth rate (2.7%) in more than a decade.

In the past fifty years, Nepal has witnessed a steady decline of the agriculture sector. From a peak of 75% of the GDP (1975), the share of agriculture sector in the GDP is now 33% (Figure 1). The agriculture sector provides employment to 74% of the labour force⁶ but suffers from low productivity. Production is mostly at subsistence level due to lack of modern technology and investment.

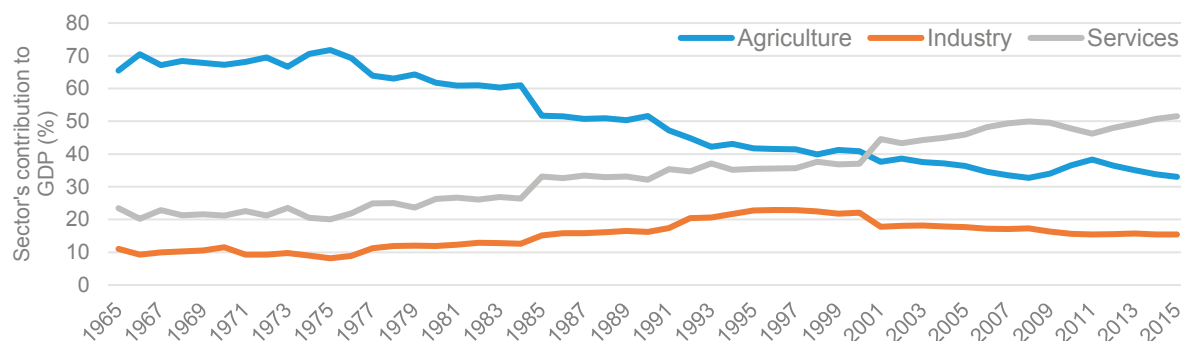
The industry sector is currently 15% of the GDP. Key factors hindering the growth of industry sector include electricity shortages, and disruptions due to strikes and labour disputes.⁷ The sector employs 6.6% of the workforce.

⁶ Central Bureau of Statistics (2009). Nepal Labour Force Survey 2008.

⁷ WTO (2012). Trade Policy Review: Nepal

The services sector has witnessed steady growth throughout and now accounts for more than half of the economy and employs 15% of the workforce. Nepal has seen growth in key service sectors such as retail, telecommunication, tourism and financial services.

Figure 1 Nepal's GDP composition, by sector (1965–2015)



Source: World Development Indicators, World Bank

Nepal has production and supply-side constraints that have led to an unsustainable trade deficit. While rise in imports of consumer goods make up for the inability of the domestic production sector to fulfil the growth in demand, it has hindered country's ability to industrialize and produce. Domestic consumption has increased and is supported by remittances from large number of expatriates. Remittance inflow is increasing rapidly and currently account for 29% of the GDP.⁸ High remittances have contributed to rising reserves despite the underperforming of export activities.⁹

Nepal has close trade and economic relations with India. The Nepalese rupee is pegged to the Indian rupee and, hence, prices in Nepal can be heavily influenced by inflation in India.¹⁰ Inflation rates are high in Nepal with an average of 9% per annum in the last decade.

Nepal relies heavily on foreign aid in the form of grants and loans. Almost one-fifth of government expenditures are supported by foreign aid. The volume of aid disbursement in fiscal year 2014-15 reached a total of \$1.13 billion of which Official Development Assistance (ODA) contribution was \$ 1,020.75 million (90%) and INGO contribution was \$116.89 million (10%).¹¹

Trends in Nepal's international trade

International trade amounts to roughly 40% of Nepal's GDP¹² and has grown by an average of 8.6% per annum between 2010 and 2015. However, Nepalese trade is skewed towards imports and growth in trade is heavily influenced by growing imports. During this period, imports grew by 11% per annum while exports decline by 4% annually.

Exports grew slightly until 2014 when it was valued at \$901 million (Figure 2). Exports went down drastically by 27% (to \$660 million) in 2015 due to disruption from the earthquake and blockade of its border posts with India.¹³

In contrast, Nepal's import figures are almost ten-times its exports. In 2015, Nepal imported \$6.6 billion worth of goods – down from \$7.6 billion in 2014.

Nepal's trade imbalance has grown significantly over the years and shows no sign of abetting. There have been no concrete policy measures to address the widening deficit. The burgeoning deficit is creating an

⁸ Ministry of Finance (2016). Economic Survey 2015/16.

⁹ WTO (2012). Trade Policy Review: Nepal

¹⁰ WTO (2012). Trade Policy Review: Nepal

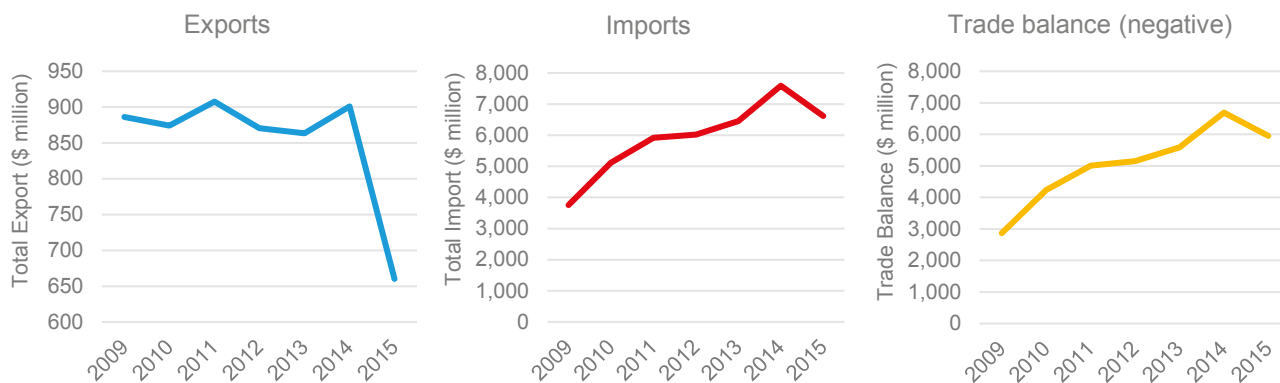
¹¹ Ministry of Finance (2016). Development Cooperation Report.

¹² Ministry of Finance (2016). Economic Survey 2015/16.

¹³ The Guardian (2015). <https://www.theguardian.com/global-development/2015/nov/06/nepal-government-humanitarian-crisis-india-border-blockade-deputy-prime-minister-kamal-thapa>

unsustainable pressure on foreign exchange reserve put together from remittances and foreign aid. The import of just one product, petroleum, is greater than Nepal’s total export earnings.

Figure 2 Overview of Nepal’s trade



Source: ITC Trade Map (2016).

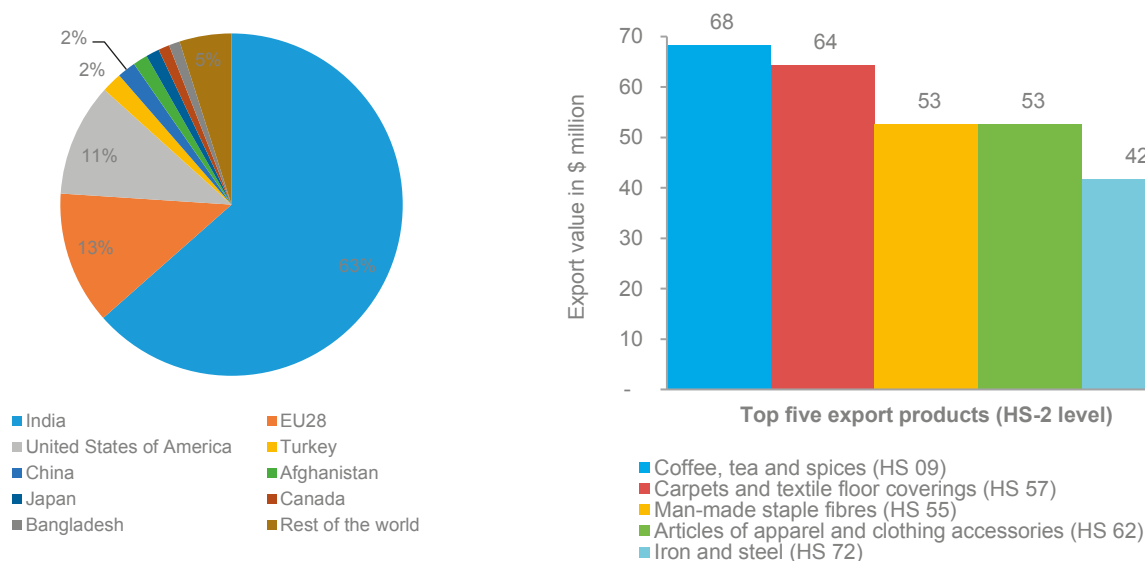
Nepal’s export basket is limited and markets concentrated

Nepal’s export basket is limited to agricultural and few niche manufactured and handicraft products. The top five export items (at HS-2 level) make up 42% of total exports trade. The country’s main export products such as hand-woven woollen carpets, fabric, shawls and scarves, tea and cardamom are labour intensive. Nepal’s exports have relied heavily on these products for a long time and have not diversified sufficiently.

‘Coffee, tea and spices’ together form the largest export category worth \$68 million (Figure 3). This export category includes cardamoms exports valued at \$43 million, and tea worth \$18 million. Likewise, carpet (\$64 million), staple fibres (\$53 million), articles of apparel and clothing accessories (\$53 million) and iron and steel (\$42 million) are other main Nepalese exports.

Nepal’s competitiveness in the international market is hampered by transit and transport costs due to its geography.

Figure 3 Markets for Nepal’s exports and top five export products, 2015



Source: ITC Trade Map, 2016.

Nepal's exports are destined for a narrow band of markets mainly India, the European Union and the United States of America. Exports to these three destinations are 87% of Nepal's total exports (Figure 3). India is Nepal's biggest export destination buying \$419 million worth of Nepalese products.

Cardamom is Nepal's largest export to India. Nepal also exports iron and steel products mostly to India. A free trade agreement with India and cheaper raw materials in Nepal have made India an interesting export market for these products. However, frequent regulatory changes in India often without prior notice have made conditions volatile for Nepalese exporters.

While India remains Nepal's largest trading partner official trade figures underrepresent the actual trade. Thanks to the long and open border between the two countries people of the two countries are engaged in informal trade that is not officially recorded. While it is difficult to get an official estimation, the scale of informal trade with India is significant.

The EU 28 (13% of exports) and the United States (11%) are the other two large markets for Nepalese exporters. The export basket to these countries is small dominated by products such as carpets, pashmina shawls and other handicraft items. Hand-woven carpets and pashmina products are exported to the EU and the United States under a preferential trading regime.

The United State preferential regime included readymade garments under the multi-fibre arrangement (MFA) before it was phased out in 2005. The Nepalese garment industry benefited immensely under this preference regime. The industry grew quickly to take advantage of the available MFA quota. However, the industry has declined significantly since the expiration of the MFA preferential regime.¹⁴

While Nepal share a land border with China, it has not been able to export there in large quantities. Nepal exported less than \$12 million (2% of total exports) of goods to China in 2015. Exports to China are restricted by limitations such as transport access, incompatibility of standards and the language barrier.

Preferential market access to Nepalese products

Most Nepalese exports enjoy preferential tariffs or duty-free access to most of its major markets. Nepalese agriculture export basket is relatively narrow. In its largest export market, 17 products at the HS 2-digit level and 40 at the HS 6-digit level make up 95% of exports (Table 1). While the average weighted MFN duty faced is high at 35.1%, most agriculture tariff lines (97.6%) are eligible for duty-free access in India. The average duty in other countries is lower (under 8%), but Nepal is still able to export almost duty-free. Agriculture exports to China are concentrated with two products at the HS 6-digit level making up 95% of the exports.

Exports of manufactured products are more diverse than agriculture products. In India, 95% of the exports are composed of 40 products at HS 6-digit level while in the EU and the United States it is 152 and 89 products respectively. Almost all Nepalese manufactured products are eligible for duty free access with the exception of the United States.

Nepal prohibits the export of certain products for reasons of cultural and historical importance, environmental safety, public health as well as to promote local industry and ensure adequate supply. These include archaeological items, narcotic substances, wildlife products, valuable metals in their raw form, industrial raw material like skins and hides and imported raw materials. All the petroleum products in Nepal are imported and the government prohibits their export to maintain regular supply and distribution. Additionally, imports from third countries are not to be exported to India.¹⁵

Quantitative restrictions exist for export of essential food items such as paddy, rice, wheat, sugar and grains. The list of products with export restriction depends upon the national supply. Exporters are required to obtain permit to export these products. A permit is also required to export timber and other forest resources.

Nepal applies export tax on 101 products mainly vegetables, maize, rice, wheat, oil cake, sand, stones and wood. They are levied to protect the environment, ensure food security and to discourage trade diversion.¹⁶

¹⁴ Trade and Export Promotion Centre (2016). Nepalese Readymade Garments.

¹⁵ <http://www.tepc.gov.np/pages/list-of-annexures>

¹⁶ WTO (2012). Trade Policy Review: Nepal

Table 1 Tariffs applied and preferences granted by major importing partners, agricultural and manufacturing goods

Nepal's major export markets (2014)	Diversification 95% trade in number of		Average MFN of traded tariff lines		Preference margin	Duty-free imports	
	HS-2 digit	HS-6 digit	Simple	Weighted	Weighted	Tariff lines (% of total)	Value (% of total)
Agricultural products							
India	17	40	31.1%	35.1%	35.0%	97.6%	99.6%
China	2	2	10.9%	6.5%	6.5%	96.6%	99.9%
United States	9	16	2.7%	0.6%	0.6%	100%	100%
European Union	13	25	11.4%	7.9%	7.9%	100%	100%
Singapore	2	2	0.0%	0.0%	0.0%	100%	100%
Non-agricultural products							
India	20	43	9.3%	8.7%	8.7%	99.7%	100%
European Union	28	152	6.0%	7.4%	7.4%	99.9%	100%
United States	20	89	7.8%	3.9%	0.3%	40.7%	70.0%
China	25	42	12.9%	9.5%	9.5%	98.8%	99.8%
Turkey	3	5	5.0%	4.2%	4.2%	100%	100%

Source: WTO (2016).

Nepal's imports are growing as a result of increasing domestic demands

Nepal's total imports, \$6.6 billion in 2015, is almost 10 times its exports. The widening trade gap is the result of booming imports of petroleum products, construction materials, consumer durables and everyday consumer items. Apart from agricultural production, very little of Nepal's consumer market demand is met by domestic manufacturing capability.

Imports trends show growth in consumer goods rather than intermediate goods and raw materials for industries. Mineral fuels are Nepal's largest import commodities that include petroleum oil (\$606 million), petroleum gas (\$148 million) and coal (\$90 million). Other major imports include iron and steel (\$581 million), electrical machinery (\$488 million), and vehicles (\$410 million). More than 60% of Nepal's imports, worth \$4 billion, come from India. China is the second biggest supplier with \$920 million (14% of the market), followed by the United Arab Emirates (4%) and the EU28 (4%).

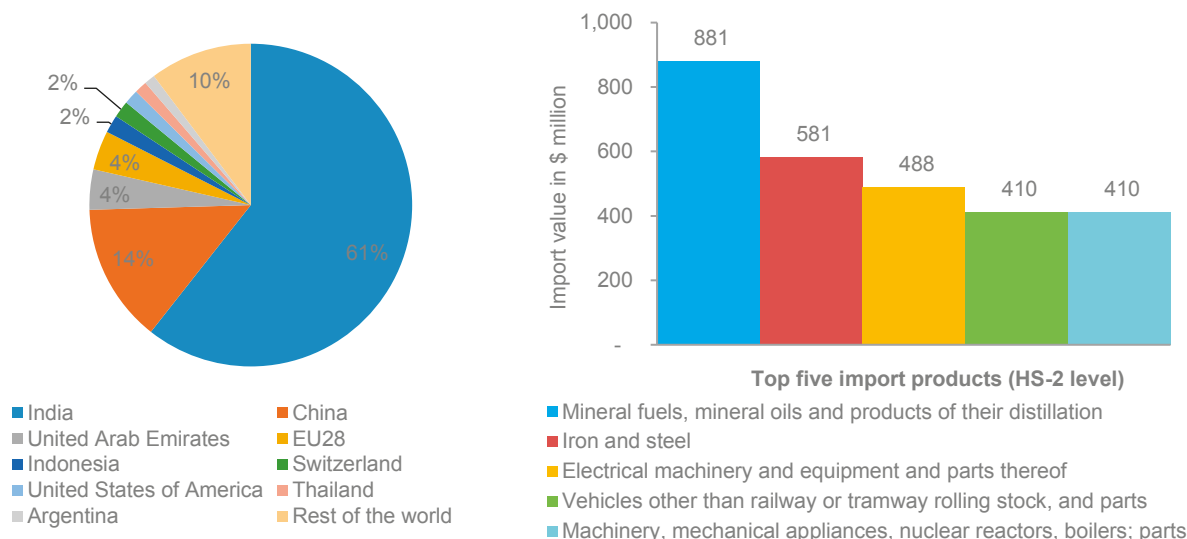
Nepalese tariff rates on imports range between 0 to 80% per cent on the ad valorem basis.¹⁷ The highest tariffs apply for tobacco products, vehicles and military hardware. For goods from SAARC nations, the rates have been revised downward to meet SAFTA tariff reduction criteria.

Goods prohibited for import include hazardous materials including narcotic and intoxicating substances. Narcotic and psychotropic substances, arms and ammunitions and radio equipment require a license for import or a special permit.

Quantitative restrictions on imports and licensing have been eliminated. There are some restrictions related to quality standards, SPS and quarantine requirements for some commodities.

¹⁷ Department of Customs (2015). Customs Tariff 2015/2016.

Figure 4 Markets for Nepal's imports and top five import products, 2015



Source: ITC Trade Map, 2016.

Nepal's trade agreements

The Ministry of Commerce (MoC) is the government agency responsible for trade policy formulation and implementation in coordination with other government agencies and trade-related bodies. Nepal recognizes the importance of trade for national development and is a signatory to various multilateral, regional and bilateral trade agreements.

Multilateral trade agreements

Nepal became a member of the WTO in 2004, the first among the LDCs. Nepal pledged to shape its agriculture, goods and services sectors in accordance with WTO requirements. Nepal grants most-favoured-nation (MFN) treatment to all WTO member countries. It has bound 99.4% of its tariff lines. Only 54 products (at HS 8-digit level) are not bound and mainly include arms, cement, automobile components, and petroleum oil. These products are not bound with the purposes of revenue collection and environmental protection.¹⁸

Its average MFN tariff was 12.3% in 2015 while its simple average final bound is 26%.¹⁹ It does not apply any tariff rate quotas or special safeguards.

Nepal looks to the WTO 'not only as a vehicle for promoting global trade but also as an institution that ensures fair, just and inclusive trading regime where the concerns and aspirations of all the countries, small and big, rich and poor, are well heard and listened'.²⁰ Nepal is participating in the Doha Development Agenda (DDA) negotiations. It is seeking substantive market-access opportunities for its products, and that all LDCs be provided with a binding commitment to duty-free and quota-free market access for all products, with simple and flexible rules of origin.²¹

¹⁸ WTO (2012). Trade Policy Review: Nepal

¹⁹ World Tariff Profiles 2016

²⁰ WTO (2012). Trade Policy Review: Nepal

²¹ WTO (2012). Trade Policy Review: Nepal

Bilateral trade agreements

Nepal has signed bilateral trade agreements with China, Bangladesh, Sri Lanka, Pakistan, the United Kingdom, the United States, DPR Korea, Republic of Korea, Egypt, India, and Mongolia between 1947 and 1992. Nepal also signed a trade cooperation agreement with the European Union in 1995.

Trade and transit agreements with India

Nepal's bilateral agreements with India include the Transit Treaty, the Treaty of Trade, and the Agreement on Cooperation to Control Unauthorized Trade. The Transit Treaty allows Nepal to trade with third-countries through India's ports located in Kolkata.

The latest Trade Treaty with India signed in 2009 dates back to the original Treaty of Trade of 1991. It has been amended and renewed in 1996, 2002 and 2007. The 1996 Treaty opened the Indian market extensively with new provisions of duty-free and quota-free market access. However, the 2002 amendment introduced restrictions in the forms of quotas for four sensitive products and defined the rules of origin criteria. A comprehensive review and revision of the Trade Treaty was carried out in 2009. The treaty was renewed in October 2016 for a period of seven years.²²

Under this Treaty, India and Nepal accord each other unconditional MFN treatment. Imports of certain primary products²³ are exempt from customs duties and quantitative restrictions on a reciprocal basis. India also grants non-reciprocal preferential treatment to industrial products manufactured in Nepal, with the exceptions of vegetable fats, acrylic yarn, zinc oxide, and copper products, in order to promote the industrial development of Nepal.

Regional trade agreements

Nepal is a member of the South Asian Free Trade Agreement (SAFTA) and the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) FTA.

The South Asian Free Trade Area (SAFTA):

The SAFTA agreement, signed in 2004, covers trade among nearly 1.6 billion people in 8 South-Asian countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The SAFTA agreement came into force in 2006 and aims to enhance regional economic integration through promotion of free trade. SAFTA was notified to the WTO in 2008.

SAFTA's basic principles are overall reciprocity and mutuality of advantages, step-by-step tariff reform, preferential measures for LDCs in recognition of their special needs, and inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms. Under the agreement, member countries agreed to reduce customs duties of all traded goods to zero by 2016.

Each member state maintains a sensitive list – a list of products exempted from the tariff reductions to protect their domestic industries and preserve tariff revenues. These lists include 13% to 25% of harmonized tariff lines across SAFTA countries. Nepal's list contains 1,295 tariff lines at the HS 8-digit level for non-LDCs, and 1,257 tariff lines for LDCs. Some of the agricultural products in Nepal's sensitive list contains that already enjoy basic customs duty-free access if originating from India and China²⁴.

SAFTA is expected to facilitate the establishment of a customs union with an ambitious target of becoming a full-fledged economic union by 2020.

²² The treaty is renewed every seven years unless one of the parties informs the other to the contrary.

²³ The following primary products are eligible, on a reciprocal basis, to be exempted from customs duties and quantitative restrictions: agriculture, horticulture and forest produce and minerals that have not undergone any processing; rice, pulses, and flour; timber; jaggery (Gur and Shakhar); animals, birds, and fish; bees, bees-wax and honey; raw wool, goat hair, and bones as used in the manufacture of bone-meal; milk, homemade products of milk, and eggs; ghani-produced oil and oil cakes; ayurvedic and herbal medicines; articles produced by village artisans as are mainly use in villages; akara; yak tail; and any other primary products that may be mutually agreed upon.

²⁴ Adhikari and Kharel (2011)

The Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC):

BIMSTEC was established in 1997 as a forum to facilitate and promote trade, investment, and technical cooperation among member countries. Its members consist of Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

Member countries agreed to establish the BIMSTEC Free Trade Area Framework Agreement in goods, services and investment in 2004. The Trade Negotiating Committee (TNC) negotiates trade in goods and services, investment, economic cooperation, trade facilitations and technical assistance for BIMSTEC's LDC members. The negotiations are still on going.

Non-reciprocal preferential trade agreements

With the objective of expanding and diversifying trade, in 1971 Nepal entered the Generalized System of Preferences (GSP) scheme. It has been enjoying unilateral preferences available under GSP and zero tariff preferences granted by developing and developed countries.

Nepalese products receive preferential treatment under the GSP schemes of Belarus, Canada, the EU (duty-free and quota-free access under the Everything But Arms initiative), Japan, New Zealand, Norway, Russian Federation, Switzerland, Turkey, and the United States.

The EU and Japan apply the process criteria while determining the rules of origin, where the largest amount of processing done is deemed to be the country of origin of the good.²⁵ The United States and others apply the percentage criteria whereby the largest amount of value added is recognised as the country of origin. Both China and India provide GSP facilities to Nepal and they use the value-added criteria.

In 2016, the United States also enforced the Trade Facilitation and Trade Enforcement Act (TFTEA) that provides for duty-free treatment for Nepalese garments and accessories products that meet specific eligibility criteria. It was designed to help Nepal's economic recovery from the 2015 earthquake and is valid for 10 years.

National trade policy and tariffs

Measures to boost exports by enhancing value addition and increasing employment in trade-related sectors are the strategic threads binding Nepal's export policies. Nepal does not have a separate export policy but exports make up the larger part of the overall trade policies and trade strategies.

The Government of Nepal has taken a sectoral approach in developing national strategies. The Agricultural Perspective Plan (APP) of 1995 has a long-term sectoral approach to the national planning process. The Agriculture Development Strategy (ADS), was envisioned to build on APP's successes. The Industrial Policy 2010 made provisions for duty incentives on imported raw materials and intermediate goods if they were inputs for exports.

Trade Policy of 2015

The Trade Policy of 2015 strives to incorporate wider economic objectives such as poverty alleviation and elevating the economy from its LDC status to a developing economy. The government recognized the need to coordinate trade policy with the Development Assistance Policy of 2013, the Foreign Investment Policy of 2013, the Agricultural Development Strategy of 2014, and other policies aimed to take account of those areas of the trade sector that had suffered major damages as a result of the devastating earthquake of 2015. It also envisaged attempting to raise the percentage of exports to 6% of the GDP and correcting the trade balance in the goods and services account to 20%.

Nepal Trade Integration Strategy (NTIS) 2016

NTIS²⁶ is a comprehensive and in-depth study aimed to offer insights into Nepal's trade environment, constraints and prospects. It seeks to foster sustainable and inclusive economic growth, poverty reduction

²⁵ Khanal, D. R. (2011)

²⁶ The first NTIS was developed in 2010 and replaced by a revised NTIS 2016.

and improvement of living standards. The objective of the strategy is to strengthen exports, build institutional capacity and improve trade infrastructure.

NTIS 2016 seeks to address outstanding trade and competitiveness challenges confronted by the country's export sector by identifying actions to address constraints in areas including:²⁷

- Institutional capacity building for trade and trade negotiations;
- Business environment for investment and trade;
- Trade and transport facilitation;
- Standards and technical regulations;
- Sanitary and phytosanitary measures;
- Intellectual property rights;
- Issues related to trade in services.

NTIS 2016 identifies key exports to be promoted in the next five years (Table 2). It focuses on specific issues and products to reverse the trends in the trade balance, trade dependency and, in general, the overall export figures. Some commodities have been chosen for their poverty alleviation impact, like agro-based products and services, while other goods have been selected for their employment generating capabilities and market prospects.

Among the strategic outcomes foreseen, a separate section is given to explaining the difficulties posed by non-tariff barriers. It acknowledges that despite Nepal's access to various preferential schemes, it has not been able to take full advantage of benefits of these schemes mainly due to difficulties in meeting the stringent NTM requirements of importing countries. Similarly, domestic constraints and challenges are hindering the Nepalese traders from accessing international markets.

Table 2 Exports prioritized by the Nepal Trade Integration Strategy

Priority export potential sectors		HS codes
Agro-based products	Cardamom	090830
	Ginger	091010
	Tea	0902
	Medicinal and aromatic plants	1211
Craft and manufacturing products	All fabrics, textiles, yarn and rope	5509, 5407, 6305
	Leather	4104, 4106
	Footwear	6404
	Pashmina	6214
	Carpets	5701
Services	Skilled and semi-skilled professionals at various categories (remittance generating services)	
	IT and BPO and IT engineering	
	Tourism	

Source: Nepal Trade Integration Strategy, 2016.

²⁷ Ministry of Commerce (2016). Nepal Trade Integration Strategy 2016.

CHAPTER 2 PROFILES OF TRADING COMPANIES



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Survey implementation and sampling

The International Trade Centre (ITC), in collaboration with the Ministry of Commerce (MoC) of Nepal, implemented the NTM business survey in Nepal between March and September 2016.²⁸ The aim of the survey is to provide a better understanding of the trade obstacles experienced by Nepalese companies and to identify potential bottlenecks related to trade procedures and cross-border operations. Insights from the survey will assist the private sector and government in creating an enabling environment for private sector development and improve export competitiveness for Nepal.

Prior to the survey, ITC compiled a list of over 1,000 active Nepalese exporters.²⁹ This registry was used to calculate the sample size and to contact the companies for interviews. A stratified random sampling method is used to calculate the sample size for the NTM Survey's telephone interview phase. This approach ensures that the samples required for each sector corresponds to the size of the sector.

The general survey methodology has been adjusted to the needs and requirements of Nepal. As per the request of MoC, the survey in Nepal covered more samples from four priority sectors – tea, coffee, large cardamom and handmade paper. In addition to the exporters, the survey in Nepal also covered producers of these products who are currently not export ready to understand the production, supply and other constraints in addition to market access issues they are facing.³⁰

Survey includes cargo and logistics companies, producers and customs officers

Given the important role that cargo and logistics companies (CLCs) play in Nepalese trade, the survey also covered interviews with these companies. The primary objective was to get CLCs' inputs on difficult border

²⁸ Kathmandu University School of Management (KUSOM) implemented the survey on behalf of and under the guidance of ITC.

²⁹ Trade and Export Promotion Centre (TEPC) provided information on over 700 companies. Additional contact details were obtained from Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and their regional bodies, Nepal Freight Forwarder's Association (NEFFA), Federation of Handicraft Association of Nepal (FHAN), and Federation of Women Entrepreneurs Associations of Nepal (FWEAN), among others.

³⁰ The Ministry of Commerce of Nepal has prioritized the export development of these four products and has requested ITC to develop Sector Export Strategies for each of these products.

clearance procedures, transit issues, available customs and transportation infrastructure, and their views on the export preparedness of Nepalese exporters.³¹

Following the completion of business sector interviews, ITC held consultations with officers in nine customs points, public agencies, experts and other relevant stakeholders. The interview process consists of two steps.

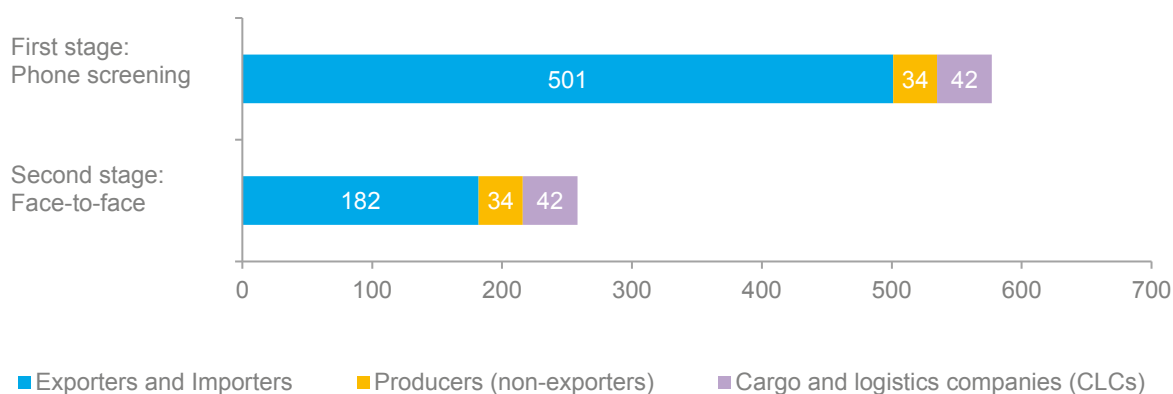
The two-stage survey process

First stage: telephone interviews (phone screening)

The first step involves screening of exporting and importing companies through a basic telephone interview.³² Company characteristics such as main sector of activity, the direction of trade, and whether the company experienced difficulties with NTMs are verified during this stage.

A total of 577 were interviewed for the telephone-screening phase. Most of these companies (501) are active exporters or importers (Figure 5). ITC also interviewed 34 non-exporting producers, either formally registered or informal farmers, of strategically important Nepalese products i.e., tea, coffee, large cardamom, ginger and handmade paper. These producers have not been able to export their products directly for a variety of reasons. In addition, the survey covered 42 cargo and logistics companies (CLCs).

Figure 5 Number of companies interviewed by telephone and face-to-face



Source: ITC NTM Survey in Nepal, 2016

Second stage: face-to-face (FTF) interviews

Companies that reported having experienced obstacles to trade were invited to participate in detailed FTF interviews. These interviews gathered detailed information on the causes and types of NTMs they find burdensome. In total, 258 companies participated in FTF interviews (Figure 5).

Typically, survey respondents are general managers or employee responsible for the export and import process. All responses from the companies are treated with utmost confidentiality.

³¹ Given the varying nature of exporting or importing companies, producers (non-exporters) and logistics service providers the type of questions asked were different. Hence, the results of these three surveys will be discussed separately.

³² Companies interviewed in the phone-screening phase are selected based on stratified random sampling.

Stakeholder consultations



National stakeholder meeting on non-tariff measures³³ jointly organized the ITC and the Ministry of Commerce, in Kathmandu on 14 September 2016

As part of the survey the study team visited nine customs points in various parts of the country and held discussions with customs officers to get latest information on the operation of the customs points, constraints they face and their perception of Nepalese traders. In addition, bilateral consultations were held with various public agencies, business associations and technical experts.

ITC and MoC jointly organized three stakeholder meeting in Kathmandu in March, July and September 2016 to update stakeholders on the progress of the study, present the survey results and initiate discussion on necessary actions to alleviate the problems due to NTMs. Recommendations presented in this report are based on consultations with relevant stakeholders and experts.

Profiles of interviewed exporters and importers

The NTM Business survey targeted to interview active exporters and the survey results are representative by export sector.³³ The following section details the characteristics of 501 active exporters and importers that were interviewed. Details of interviews with producers and CLCs will be discussed in the latter section.

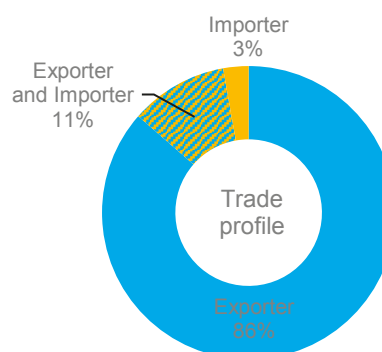
The survey focused on exporting companies

Among the 501 interviewed trading companies, most (86%) were involved only in the export business, while 11% of the exporters were also importing goods – either as inputs to production or to resell in the domestic market. Only 3% of the companies interviewed were involved solely in import business (Figure 6).

Most exporters are also producers

In terms of production, 82% of the exporters produce the goods they export or at least add some value. The other 18% of exporters are involved only in trading business, sourcing the goods from other Nepalese producers and subsequently export to foreign buyers without any further value addition (Figure 7).

Figure 6 Does the company export or import?



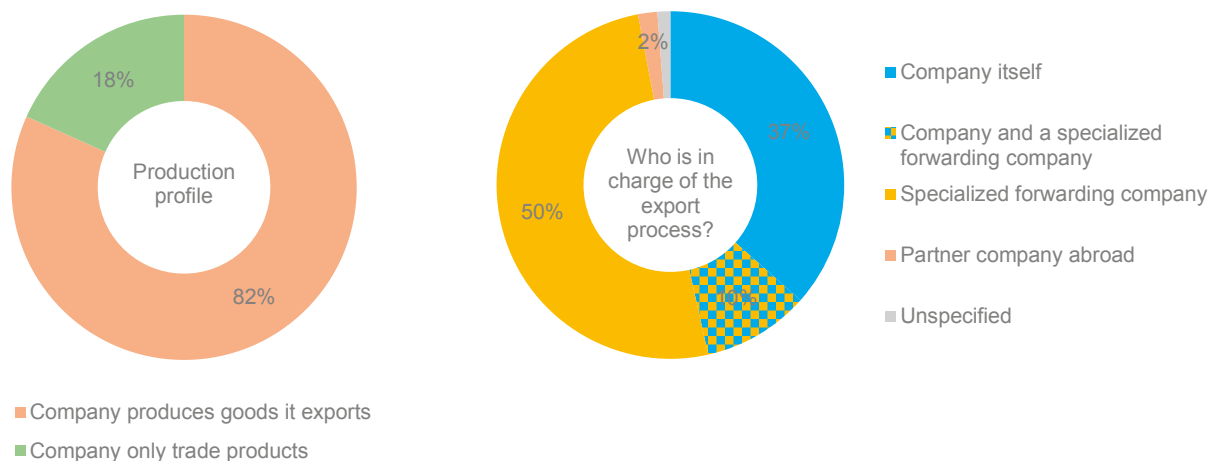
Source: ITC NTM Business Survey in Nepal, 2016.

³³ Companies were also asked about the import side of business (if any), but interviews with company that only import were restricted.

Many exporters rely on cargo and logistics companies for export processing

Cargo and logistics companies (CLCs) play an important role in the Nepalese export market. Close to 60% of the Nepalese exporters rely on the services of these specialized forwarding companies (Figure 7). Among all the exporters, at least 50% of them rely exclusively on the CLCs for the export process and related formalities of their products. Roughly 37% of the companies are able to take care of the export process by themselves, while for a small number of exporters (2%), the foreign buyers take responsibility for the process.

Figure 7 Production profile and export processing of exporting companies

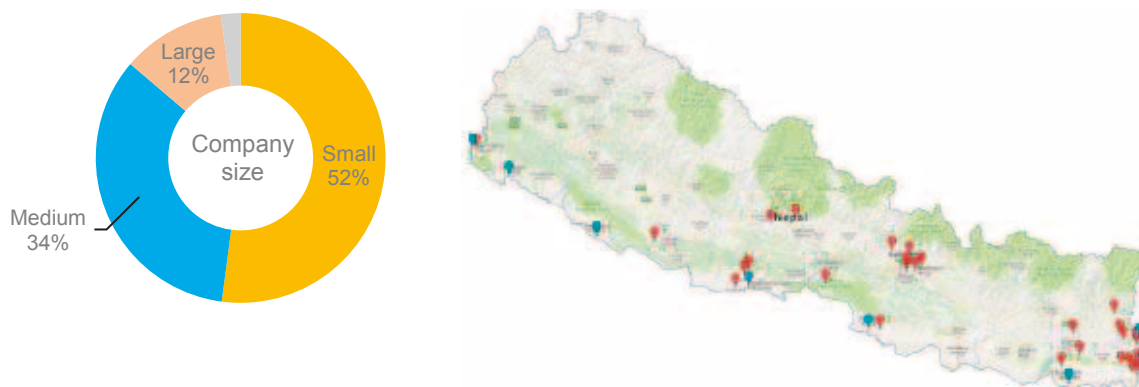


Source: ITC NTM Business Survey in Nepal, 2016.

Exporters are mostly SMEs

Small enterprises (52%) made up most of the respondents, followed by medium-sized companies (34%) and large companies (12%). The classification of companies according to size is based only on the number of employees in the company. Companies with less than 20 employees are classified as small, companies with 20 – 100 employees are classified as medium size, and companies with more than 100 employees are classified as large.

Figure 8 Size and location of interviewed companies



Source: ITC NTM Business Survey in Nepal, 2016.

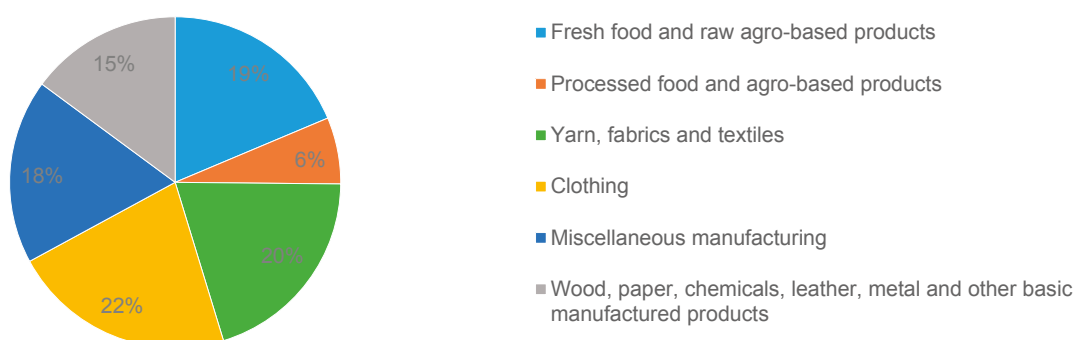
Survey covers companies located all over Nepal

The NTM Business Survey has a wide geographic coverage of over 22 cities or towns and the surrounding region. The majority (58%) of all surveyed companies were based in Kathmandu and the surrounding area. However, there were pockets of sectoral representation from key regional locations such as tea and cardamom in Ilam and Jhapa. The survey covered companies located in the following geographical regions: Bhairahawa, Bhaktapur, Biratnagar, Birgunj, Butwal, Chitwan, Dang, Dhankuta, Ilam, Jhapa, Kaski, Kathmandu, Lalitpur, Lumbini, Mahendranagar, Nepalgunj, Nuwakot, Pabot, Panchthar, Pokhara and Sunsari.

NTM survey results are representative by sector³⁴

Agriculture sectors comprise a quarter (25%) of all exporters interviewed. Fresh agricultural exports such as tea, coffee and cardamom make up the bulk of interviewed agricultural companies (19%). The other 6% consist of processed and packaged food exporters. Nepal exported agricultural products valued at \$192 million in 2015, which make up 29% of Nepal's total exports. Cardamoms, tea, lentils and ginger are some of Nepal's main agricultural export commodity.

Figure 9 Companies interviewed in Nepal, by main export sector



Source: ITC NTM Business Survey in Nepal, 2016.

Manufacturing sectors make up 75% of the surveyed companies. These include companies from sub-sectors yarn, fabrics & textiles (20%) and clothing (22%) that exports products such as pashmina, carpets and garments. Most Nepalese handicraft products are covered although they are classified into different sub-sectors.³⁵ Nepal exported manufactured products valued at \$463 million in 2015, representing 71% of total national exports. Carpets, pashmina, yarn, and ready-made garments are some of Nepal's main exports from the manufacturing sector.

SAARC and Europe are the main markets for most exporters³⁶

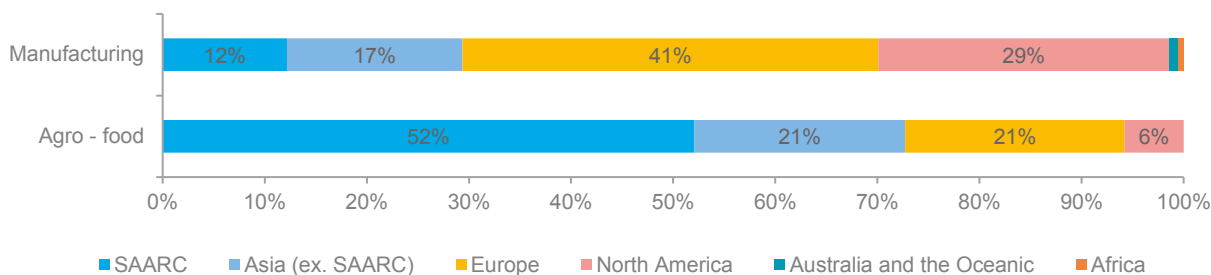
Main destination markets differs significantly for Nepalese exporters of agricultural and manufactured goods. For the majority of agricultural exporters (52%), countries in the SAARC region (mainly India) are the main destination markets, followed by Asia (21%) and Europe (21%). For exporters of manufactured products, the main destination is Europe (41% of the exporters), followed by North America (29%) and Asia (17%). Only 12% of the exporters of manufactured goods report the SAARC region to be their main market.

³⁴ ITC categorizes the surveyed companies into two sectors (agriculture and manufacturing) and a further 13 sub-sectors based on the main export product of each company.

³⁵ For example, handmade paper products fall under the sub-sector for wood, wood products and paper; pashmina in yarn, fabrics and textiles; and metal statues in metal and other basic manufacturing.

³⁶ During the phone interviews, companies are asked to identify their main market (region) based on the value of their sales. In the subsequent face-to-face interviews, companies are asked to identify destination markets (at the country level) for each of their export products (at HS-6 digit level). They are also asked to identify if they have faced any regulatory or procedural obstacles to trade when exporting each of their products to their corresponding markets.

Figure 10 Main destination markets of exporters, by sector



Source: ITC NTM Business Survey in Nepal, 2016.

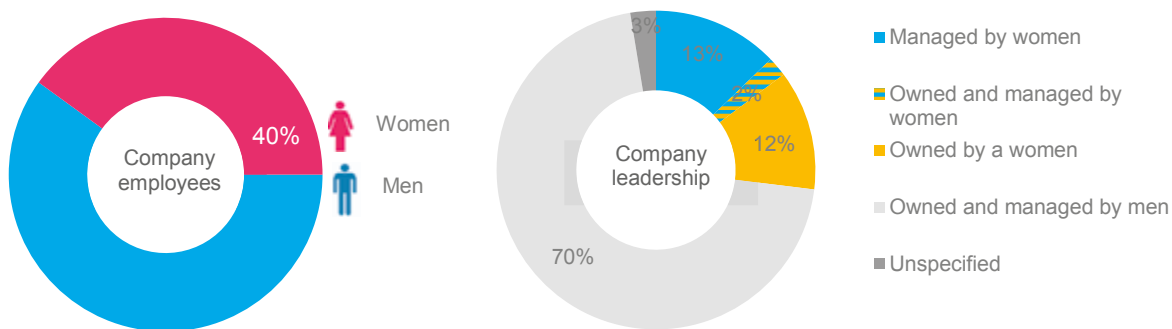
Share of female employees in small companies is low

On average, 40% of workers employed by exporting companies are female (Figure 11). Seventeen percent of companies employ no female workers, while 25% of companies had less than 10% female employees. Likewise, 39% of the companies employed more women than men with 20% of companies reporting more than 70% of their workforce being women.

Medium and large companies employed a higher share of women compared to smaller companies. The average share of female workers in small companies was 31%, compared to 53% and 47% in medium-sized and large companies.

Most exporters are managed or owned by men. Only 27% of the companies are woman led. They are managed by a woman (13%), owned by a woman (12%) or both (2%).

Figure 11 Share of female employees in exporting companies and companies managed or owned by women



Source: ITC NTM Business Survey in Nepal, 2016.

CHAPTER 3 THE COMPANY PERSPECTIVE



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Aggregate results and cross-cutting issues

Half of exporters affected by burdensome NTMs

Overall, 51% of the exporters report facing restrictive regulations or related obstacles to trade in Nepal or abroad when exporting (Table 3).³⁷ These difficulties relate to their current experiences or experiences in the past one year.³⁸

Exporters of agricultural products are highly affected by NTMs

There are some large variations in the affectedness rate across different products and sectors in Nepal. While 42% of exporters from manufacturing sector are affected, the rate is over 77% for agricultural exporters. Exporters of fresh and processed food products, in particular, have been hit hard. In general, these products are highly regulated for reasons of human health and safety, and environmental protection.

The affectedness rate for imports is lower.³⁹ Among the 67 companies engaged in imports, approximately 22% have experienced regulatory or procedural obstacles. Similar to the exporting companies, the affected rate among importing companies is higher in agricultural sector, with 40% affected rate compared to 19% in the manufacturing sector. Most of these companies import goods for further processing rather than direct sales.

³⁷ Among other countries ITC surveyed in the Asian region, Bangladesh reports the highest rate of exporters affected by burdensome regulations (91%). The share of exporters experiencing burdensome regulations in other Asian countries such as Sri Lanka, Thailand and Indonesia is lower, at around 34%, 38% and 30%, respectively. The affected rate in other LDCs such as Guinea (93%), Cambodia (82%), Malawi (80%), Rwanda (71%) and Madagascar (67%) is higher. For details visit: www.ntmsurvey.org

³⁸ According to the methodology, a company is considered to be affected by an NTM if at least one of its products is affected by a regulation applied by Nepal or one of its partner countries. See Appendix I for detailed survey methodology

³⁹ Note the small sample size of the importing companies when interpreting the results. The survey is more focused on the concerns of exporting companies.

Table 3 Share of companies affected by burdensome NTMs or other obstacles to trade

Company type	Sector	Total value in 2015 (\$ '000)	Sector's share in total exports	Number of surveyed companies*	Share of companies facing restrictive regulations or related obstacles to trade
Export	Agri-food	192,437	29%	120	77%
	Manufacturing	463,226	71%	354	42%
	Subtotal	655,663	100%	474	51%
Import	Agri-food	1,242,661	23%	10	40%
	Manufacturing	4,267,473	77%	57	19%
	Subtotal	5,510,134	100%	67	22%
Total				501	51%

Note: *In Nepal, 54 surveyed companies were involved in both exporting and importing. These companies were interviewed separately about each activity and are included in the count for exporting and importing companies separately. The total of exporting and importing companies (501) represents the number of unique companies interviewed instead of the subtotal sum in the table.

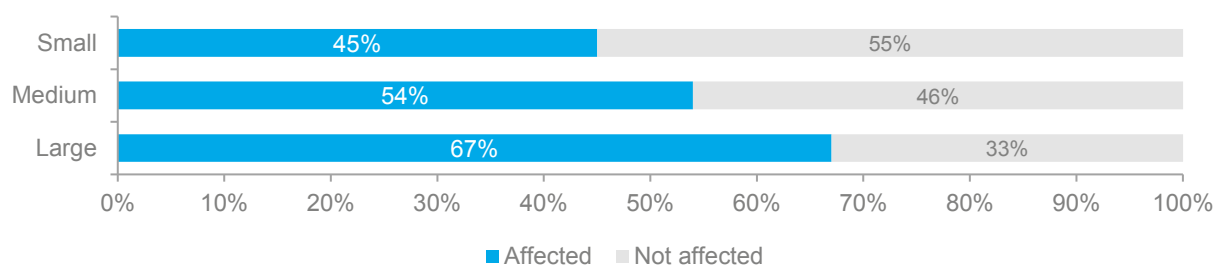
Source: ITC Trade Map, 2016; and ITC NTM Business Survey in Nepal, 2016.

Share of affected companies is bigger among large companies

Survey results show that larger enterprises are more affected by burdensome NTMs compared to the small and medium-sized enterprises (SMEs). Overall, 45% of small companies, 54% of medium-sized companies and 67% of large enterprises report difficulties with NTMs (Figure 12). Given that larger companies tend to have bigger portfolios of goods and a larger number of trading partners compared to smaller companies, they are more likely to face impediments in at least one of these transactions. Smaller companies tend to have their trade focused on few products and with fewer partners. This implies a lower likelihood to experience NTMs or POs.

The impact of being affected is likely to be much higher for smaller firms than for larger firms. Given their limited resources and small export portfolio, the burden of facing an NTM or PO in one or more of its few markets can be huge for small firms. In contrast, a more diversified large company can compensate for difficulties in some markets with other established business partners.

Figure 12 Share of Nepalese companies affected by NTMs, by size



Source: ITC NTM Business Survey in Nepal, 2016.

Burdensome NTMs and other obstacles faced by exporters

The telephone interviews with 482 exporters reveal 51% reported to facing regulatory obstacles to trade when exporting. Exporters from the agricultural sector are the most affected with 77% of surveyed companies reporting difficulties with NTMs.

Subsequently, out of the 257 exporters that reported facing burdensome NTMs 181 agreed to detailed face-to-face interviews. These companies reported 740 cases of burdensome NTMs and 940 cases of POs during exports.⁴⁰ More than 77% of these reported NTM cases concern regulations applied by partner countries, while 21% relate to NTMs applied by Nepal and a few by transit countries (Figure 13).

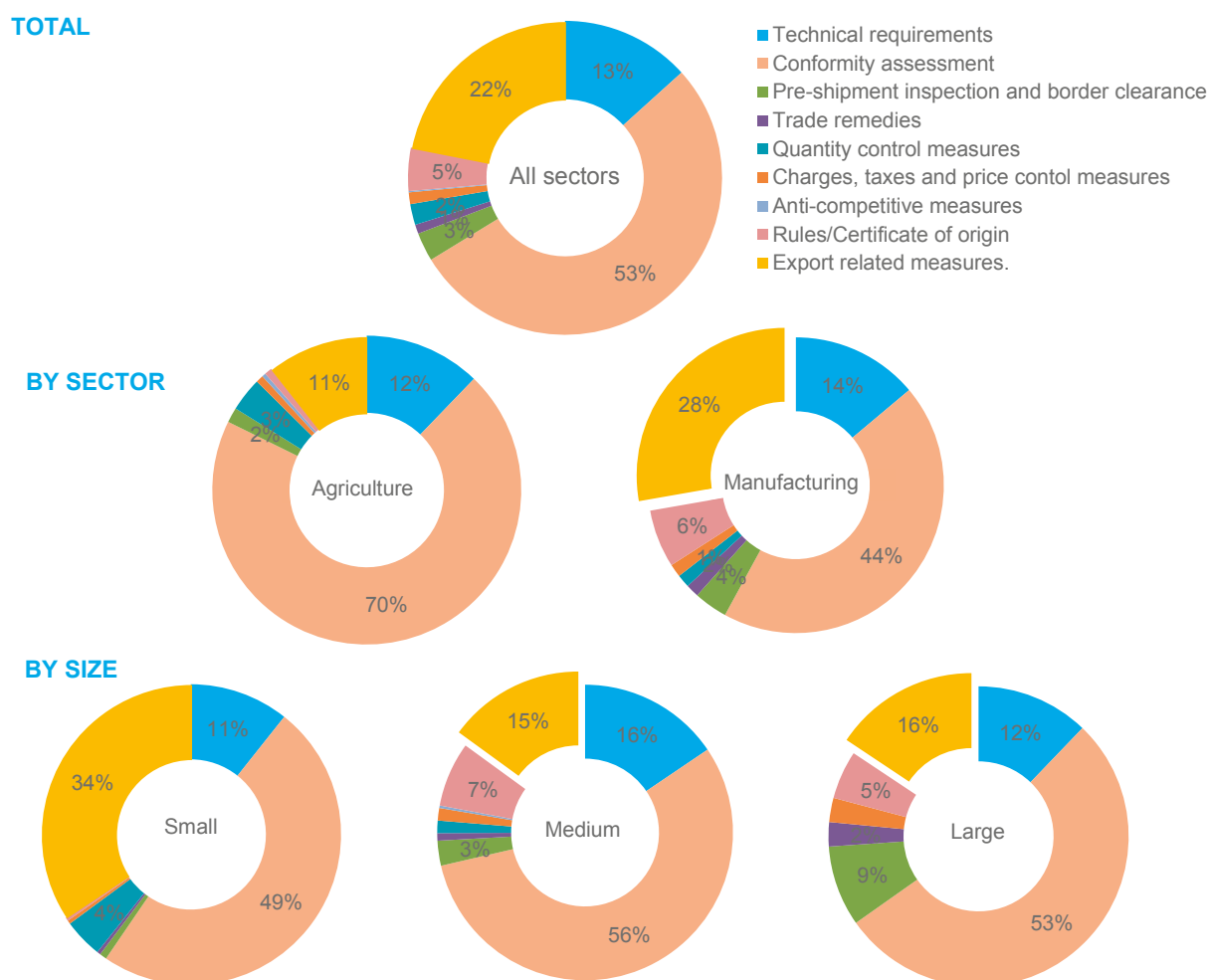
⁴⁰ See 'Captured data and evaluation approach' (Chapter 2) for the definition and calculation of NTM and PO cases.

Technical measures (SPS and TBT requirements) make up two-thirds of the difficult cases reported by Nepalese exporters, which includes:

- **Technical requirements:** product specifications related to quality standards, safety, production process and sanitary requirements. They are usually implemented to protect the consumer or animal health, environmental protection, or national security.
- **Conformity assessment:** procedures such as certification, which provide proof of compliance with underlying technical requirements.

Exporters also face difficulties complying with rules of origin (5%) and border clearance procedures (3%). Export-related measures or various Nepalese regulations applicable on export of goods make up 22% of reported cases.

Figure 13 Types of burdensome regulations experienced by Nepalese exporters



Source: ITC NTM Business Survey in Nepal, 2016.

Technical regulations are a key concern for companies across all sectors

There are clear differences on the various degrees of problems companies face across different sectors and company sizes. Both technical requirement and conformity assessment are major issues for companies from agriculture and manufacturing sectors.

Difficulties with conformity assessment when exporting agriculture products (70% of NTM cases) are more pronounced compared to export of manufactured products (44%). Difficulties with rules of origins or the

process of obtaining certificates of origins were reported more by exporters of manufactured goods (6%) compared to agricultural products (less than 1%).

Another striking difference is the share of 'export related measures', i.e. Nepalese regulations on exports, reported by companies of the two sectors. The manufacturing sector faced more difficulties with Nepalese regulations (28%) compared to the agriculture sector (11%).

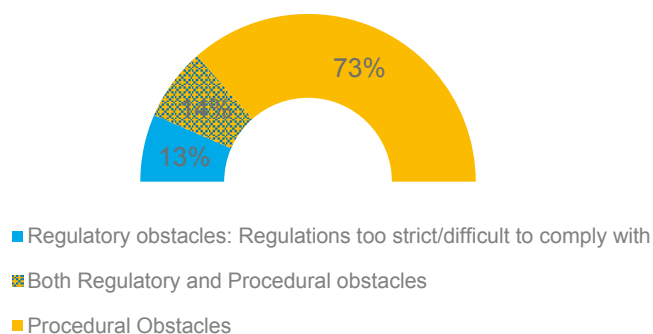
Domestic regulations are more problematic to small companies

When companies are categorized by size, technical requirements and conformity assessment are the main concerns of companies of all sizes. Difficulties with border clearance procedures are a bigger concern among large companies (9% of the NTM cases) compared to medium-sized (3%) and small companies (<1%). This is likely because larger companies, in general, take care of their export clearance procedures and hence experience these difficulties first hand. In contrast, Nepalese SMEs are known to assign export clearance duties to freight forwarders and logistics companies and hence may not be directly exposed to difficulties related to border clearance.

Smaller companies face more difficulties with domestic regulations (34%) compared to medium-sized (15%) and large companies (16%). Smaller firms find it harder to export than medium-sized or large companies. This is usually due to the costs associated with strict conformity assessment procedures many countries have in place when importing agricultural and food item. Larger firms can generally absorb these costs better than smaller firms. However, in the manufacturing sector, the proportion of large firms facing problems with regulations at home and abroad is higher than the share of SMEs affected.

Procedural obstacles make compliance to NTMs difficult

Figure 14 Why exporters find NTMs burdensome



Source: ITC NTM Business Survey in Nepal, 2016.

POs make it difficult for exporters to comply with NTMs. Of all NTMs reported by exporters, 73% are deemed burdensome due to related POs such as delays, insufficient facilities, and administrative hurdles, either in Nepal or destination markets. For exporters 13% of the reported NTM cases are difficult because they find the requirements too high or complex to meet. Another 14% are deemed burdensome due to both regulatory and procedural difficulties (Figure 11).

Difficulties with foreign regulations

Proving compliance to technical requirements is hard

Partner (importing) country regulations make up 77% of burdensome regulations reported by exporters. Overall, 66% of the reported cases are technical measures, which include technical requirements (13%) and conformity assessment (56%). This implies that Nepalese exporters face more problems in proving compliance of their products to certain requirements than satisfying the technical requirements themselves.

This is usually due to high costs and administrative hurdles involved with testing and certification or a lack of proper certifying facilities (Figure 13).

Among technical requirements, tolerance limits for residues or contamination by certain substances and fumigation requirements are the key concerns. In case of conformity assessment, testing and product certification make up a bulk of the difficulties followed by quarantine and inspection requirement (Table 4).

Other issues such as rules of origin (5%), pre-shipment and border clearance procedures of partner countries (3%), and quantitative restrictions (2%) are fairly minor compared to the difficulties related to SPS/TBT technical requirements.

European and Indian NTMs are most reported

Among partner countries, 35% of all the difficulties Nepalese companies face relate to regulations of the EU28 countries (Figure 15), and majority of them are experienced when exporting to Germany (11%) and France (5%)⁴¹. Asian countries, excluding SAARC countries, apply 24% of the burdensome NTM cases, followed by 19% by the SAARC countries and 22% by rest of the world.

At the individual partner country level (Figure 15), most difficult NTM cases reported by exporters are Indian regulations and procedures, which account for 18% of the burdensome NTM cases. Among the other partners, difficult NTM cases result from United States (11%), Japanese (10%) and Chinese (7%) regulations.

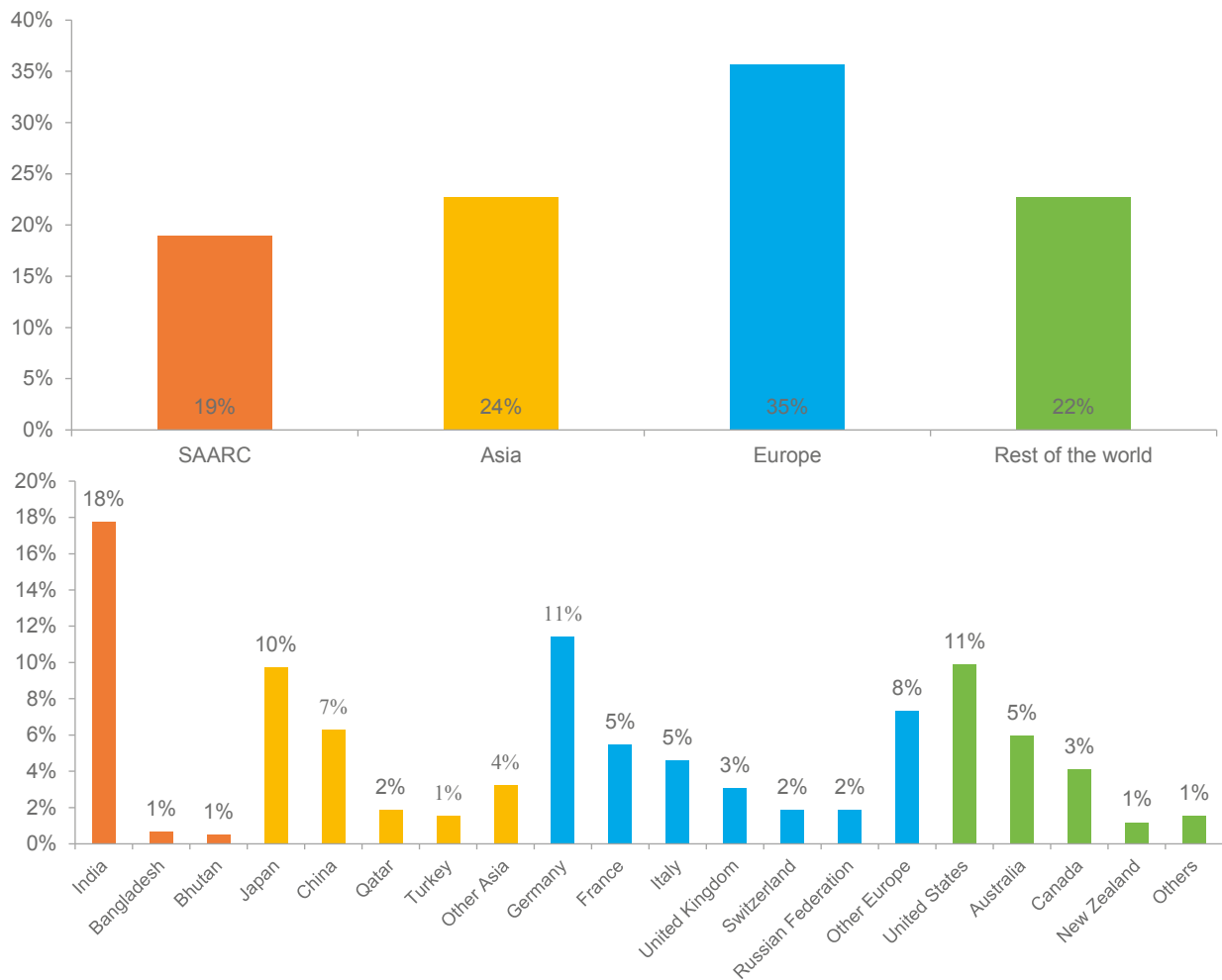
Table 4 Categories of NTM trade obstacles for exporters

NTM Chapter	NTM measure name	Share of NTMs
Technical requirements	Tolerance limits for residues of or contamination by certain substances	7%
	Fumigation	4%
	Prohibitions or restrictions of products or substances	2%
	Other (labelling, product characteristics, etc.)	1%
Conformity assessment	Testing	22%
	Product certification	22%
	Quarantine	4%
	Inspection requirement	2%
	Others	1%
Pre-shipment inspection and border clearance	Pre-shipment inspection and border clearance	3%
Trade remedies	Trade remedies	1%
Quantity control measures	Quantity control measures	2%
Charges, taxes and price control measures	Charges, taxes and price control measures	1%
Anti-competitive measures	Anti-competitive measures	1%
Rules/Certificate of origin	Rules of origin and related certificate of origin	4%
Export related measures	Export inspection	9%
	Certification required by the exporting country	3%
	Other	9%
	Grand Total	

Source: ITC NTM Survey in Nepal, 2016.

⁴¹ Difficulties with EU regulations are well documented in ITC survey in other countries. Exporters from developing countries find EU regulations, in particular, the SPS and quality requirements, too difficult to comply with and the accompanying conformity assessment procedures too strict

Figure 15 Share of burdensome regulations applied by partner countries, by region and country



Source: ITC NTM Business Survey in Nepal, 2016.

Table 5 Partner countries applying burdensome NTMs on Nepalese exports

	Partner country	Nepal export value in 2015, \$ '000	Share in total Nepal export value	Number of surveyed companies that export to this country	Share of affected companies among those exporting to this country	Number of NTM cases applied by this country	Share of total NTM cases
SAARC	India	418,734	63.9%	92	69.6%	96	17.7%
	Afghanistan	9,122	1.4%	1	0.0%	0	0.0%
	Bangladesh	6,807	1.0%	8	25.0%	3	0.6%
	Bhutan	1,468	0.2%	5	40.0%	3	0.6%
	Sri Lanka	371	0.1%	2	0.0%	0	0.0%
	Pakistan	160	0.0%	2	0.0%	0	0.0%
	SAARC Subtotal	436,662	66.6%	110	61.8%	102	18.8%
Asia (excl. SAARC)	China	11,441	1.7%	36	44.4%	31	5.7%
	Japan	8,368	1.3%	50	52.0%	52	9.6%
	Viet Nam	3,478	0.5%	1	0.0%	0	0.0%
	Malaysia	2,900	0.4%	2	50.0%	1	0.2%
	Thailand	1,713	0.3%	5	40.0%	2	0.4%
	United Arab Emirates	1,677	0.3%	6	33.3%	2	0.4%
	Hong Kong, China	1,360	0.2%	6	16.7%	1	0.2%
	Singapore	1,223	0.2%	5	40.0%	6	1.1%
	Republic of Korea	557	0.1%	11	36.4%	5	0.9%
	Turkey	12,642	1.9%	8	62.5%	8	1.5%
	Cambodia	84	0.0%	1	100.0%	2	0.4%
	Qatar	41	0.0%	6	83.3%	11	2.0%
	Asia Subtotal	33,067	5.0%	141	46.8%	122	22.5%
	Europe	Germany	26,697	4.1%	72	43.1%	63
United Kingdom		20,391	3.1%	35	28.6%	16	3.0%
Russian Federation		218	0.0%	9	55.6%	11	2.0%
France		10,046	1.5%	33	39.4%	27	5.0%
Italy		9,042	1.4%	22	45.5%	26	4.8%
Netherlands		3,559	0.5%	16	37.5%	7	1.3%
Spain		3,139	0.5%	13	38.5%	8	1.5%
Switzerland		2,816	0.4%	12	50.0%	10	1.8%
Belgium		1,879	0.3%	15	40.0%	9	1.7%
Sweden		983	0.2%	3	33.3%	3	0.6%
Finland		803	0.1%	1	0.0%	1	0.2%
Czech Republic		552	0.1%	3	66.7%	7	1.3%
Portugal		158	0.0%	3	33.3%	5	0.9%
Poland		145	0.0%	2	50.0%	2	0.4%
Europe Subtotal	100,675	15.3%	252	39.3%	197	36.3%	
Rest of the world	United States of America	67,555	10.3%	82	40.2%	58	10.7%
	Canada	6,952	1.1%	23	47.8%	19	3.5%
	Australia	4,974	0.8%	34	50.0%	32	5.9%
	Brazil	882	0.1%	5	20.0%	1	0.2%
	New Zealand	349	0.1%	5	40.0%	5	0.9%
RoW Subtotal	85,259	13.0%	155	43.2%	122	22.5%	

Source: ITC NTM Survey in Nepal, 2016, and ITC calculations based on Trade Map data

*Companies exporting to several destinations are counted once for every destination. Therefore, the total in this table is higher than the total number of companies interviewed.

**Excluding services, minerals and arms.

Conformity assessment

In Nepal, 56% of reported NTM cases relate to conformity assessment, which include difficulties with testing requirements (22%), product certification (22%) and quarantine requirements (4%) (Table 4). Factors such as lack of clearly defined responsibilities among public agencies, limited capacity to oversee responsibilities and delays in implementation have contributed to various problems of compliances in Nepal.

Exporters report 166 burdensome NTM cases related to testing requirements. European countries accounted for 38% of the cases followed by India (27%) and the United States (13%). Exporters of pashmina and tea products recorded most of those cases (40%). The testing requirements relate to quality or safety.

Likewise, 163 burdensome cases relate to product certification, among which 42% were certifications required by European countries, followed by Japan (20%), and the United States (10%). Difficulties in obtaining quality and safety certificates for products like tea, honey, and pashmina account for 29% of total cases, while organic certification for products like essential oil, herbal incense, herbal massage oil, raw herbs and coffee account for 10%. Other certifications exporter report difficulty obtaining include AZO-free certification (garments and felt items), health and veterinary certificates (food and animal products), and cadmium-free and lead-free certificates.

Among the conformity assessment-related concerns include Nepalese laboratories not being able to do the necessary testing and issue the required certificates. There are also concerns that the certificates issued by Nepalese public institutions are not recognized internationally. This has led exporters to use laboratories in other countries, contributing to longer processing time and higher costs.

Due to weak infrastructure and inadequate capacity, Nepalese laboratories provide testing services to few products on limited parameters. The Nepal Bureau of Standards and Metrology (NBSM) is the responsible government entity to adopt the internationally acceptable conformity assessment procedures.

There are only four public and one private accredited testing laboratories. Public laboratories are Nepal Bureau of Standards and Metrology (NBSM), Department of Food and Technology and Quality Control (DFTQC), Central Seed Testing Laboratory and Seed Quality Control Centre (SQCC).

What are conformity assessment requirements?

Conformity assessment is defined in the WTO agreement on TBT as 'any procedure used, directly and indirectly, to determine that relevant requirements in technical regulations or standards are fulfilled'. These requirements include procedures for sampling, testing and inspection; evaluation, verification and assurance of conformity; and registration, accreditation and approvals.¹

Exporters are required to present a certificate of conformity of their products, a mark on the product label or both. The certifications are usually issued by the national standards bodies, trade and industry associations or third-party certification bodies. Though the importing country requires the certification, it may be issued both in the exporting or the importing country.

In the context of the NTM Survey, the term "conformity assessment" is also used for procedures to prove compliance with SPS measures.

¹ITC (2005). An overview of conformity assessment in international trade.

Quality certificate must be obtained before exporting the product. Since there are no accredited laboratories in Nepal that can do the task, we get the certificate issued by SGS London. It is expensive and makes our product less competitive.

Pashmina Exporter, ITC NTM Survey

Technical requirements

Tolerance limits for residues of contamination by certain substances is the main concern of exporters relating to technical requirement (7%) (Table 4). This measure establishes a maximum level or tolerance limit of substances in a product (including food and feed), which are used during the production process but are not their intended ingredients.

Over 64% of difficulties with this measure are requirement of the EU followed by the United States (15%). Asymmetry in tolerance limits requirements set by the partner countries and lack of proper communication when the tolerance limit is changed cause major impediments to exports.

Other technical requirements exporters find burdensome include fumigation requirements (4%), and prohibition or restriction on SPS/TBT grounds (2%) (Table 4). Fumigation is a process of exposing insects, fungal spores or other organisms to lethal chemical fumes.

A third of fumigation-related NTMs are required by the European Union, followed by Australia (15%). These requirements mostly affect wooden products such as statutes, handicraft and handmade papers. They also impact export of other products with wooden packaging such as crates or pallets. As there is a lack of fumigation facilities in Nepal, exporters face huge constraints to trade. The only option is to get the fumigation done abroad.

Difficulties with Nepalese regulations

Export-related measures, i.e. Nepalese regulations on exports, make up 22% (156 cases) of the burdensome NTM cases.⁴² They include measures on export inspections (9%), certification requirements (3%) and others (7%) such as advance payment requirement and import tax on returned goods (Figure 16). Similar to the NTMs applied by destination markets, compliance with Nepalese regulations is deemed burdensome because of the associated POs. Exporters report 178 incidents of POs that made compliance to Nepalese regulations and procedures difficult.

Exporters report 72 NTM cases related to export inspection requirements and customs clearance. Most cases involved export of manufactured goods.

The most common problems during export include the need to hire agents to clear goods at customs, arbitrary behaviour of the custom officers, reckless handling of goods while inspection, unnecessary delay during inspection; demand for informal payments, and need to submit a large number of different documents.

What are technical requirements?

Technical requirements are product-specific properties. They are legally binding and set by the country to where the product is exported or imported. Technical requirements define product characteristics, technical specifications of a product or the production process and post-production treatment. They include mandatory administrative provisions.

Many of these measures protect consumers of the product, for example from health or safety risks, as well as plants, animals, the environment or the national security of a country. Technical requirements include sanitary and phytosanitary measures implemented to protect human, animal and plant life and health from pests and diseases.

We used to export coffee in wooden crate to Australia. However, Australian custom officials demand wooden crate to go through fumigation. Since there is no fumigation facility in Nepal, we stopped exporting coffee in wooden crates. Because of this problem, coffee export to Australia has decreased significantly.

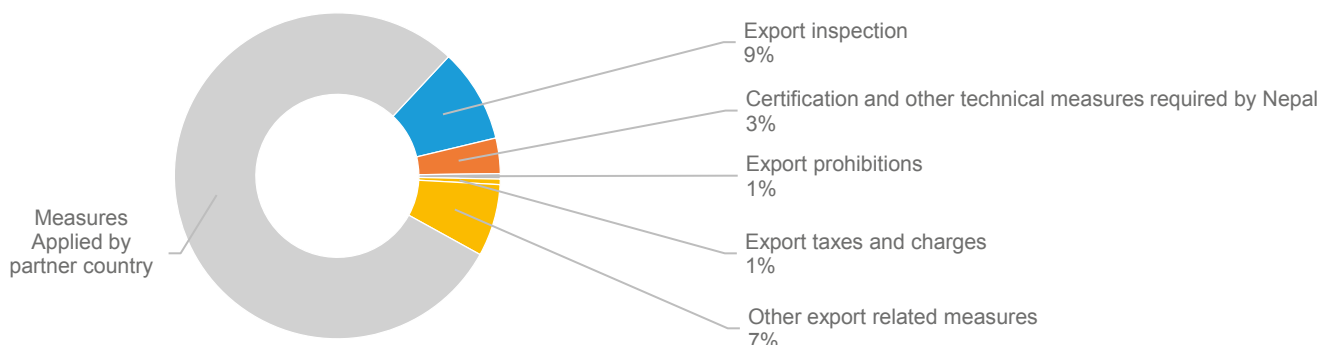
Coffee Exporters, ITC NTM Survey

During inspection at Nepal customs packaged goods are opened and are haphazardly repacked by the customs officials. This sometimes damages the goods and are hence returned back by the buyer. During inspection process bribe has to be given to smoothen the process.

Exporter of cotton products, ITC NTM Survey

⁴² The process by which an NTM case is defined and counted differs depending on whether the regulation is applied by Nepal or the partner country. For details, refer to 'NTM and PO frequency calculations: cases' in Chapter 2.

Figure 16 Burdensome NTMs applied by Nepalese authorities on exports



Source: ITC NTM Business Survey in Nepal, 2016.

Exporters of paintings and *thankas*, processed wool, hand-carved wooden products, metal statues, mane stone carving, mandala and hand-made carpets must get certificates from the Archaeology Department to prove that their products are not of historical, religious or cultural significance. Companies find the process of obtaining these certifications difficult because of slow processing, demands for informal payments, frequent personnel changes and the arbitrary official behaviour.

Manufacturing exporters find Nepalese regulation requiring advance payment of goods prior to shipment a big hindrance. Many foreign buyers are not willing to pay the full amount before the delivery of goods. As a result, exporters are losing some business.

Nepalese exporters are affected by strict implementation of this measure by Nepal customs, e.g. if the amounts do not match between the invoices and the confirmation from the bank on received amount (usually bank deduct some amount as fees), or if the name of the buyer is not exactly the same (occasionally the order comes from one company and the payment via its sister or subsidiary company).

Sometimes exported goods are returned by buyers if they are damaged or are not up to the standards. It is burdensome to get the products back as many documents have to be submitted. In addition, Nepal Customs charge import tax on the returned products.

Felt exporter, ITC NTM Survey

Exporters complain that they must pay duties on re-import of their products, usually when they are not accepted by foreign buyers.

Procedural obstacles and inefficiencies in the trade-related business environment

Often exporters face difficulties with a given regulation not only because they are too strict and complex, but also (and at times solely) because of the related procedural obstacles (POs).⁴³

Seventy-three percent the burdensome NTMs faced by exporters were deemed difficult only due to various POs (Figure 14). Another 14% were deemed difficult due to the measures themselves being too strict and related POs. The POs hindering compliance may occur either at home or in destination countries.

Exporters report 914 POs that make compliance to reported NTMs, either domestic or foreign, difficult. Most POs occur in Nepalese agencies (65%), followed by partner countries (32%) and in transiting country 3% (Figure 17).

Most POs relate to testing or certification facilities in Nepal. Limited or inappropriate facilities for testing in Nepal account for 19% of POs while another 9% relate to testing facilities in Nepal lacking internationally accreditation. Exports of pashmina, oil products (essential, vegetable, herbal) and tea, among others, are

⁴³ For definition of procedural obstacles, see Identifying NTMs, POs and TBEs, Chapter 2. For list of POs, see Appendix III

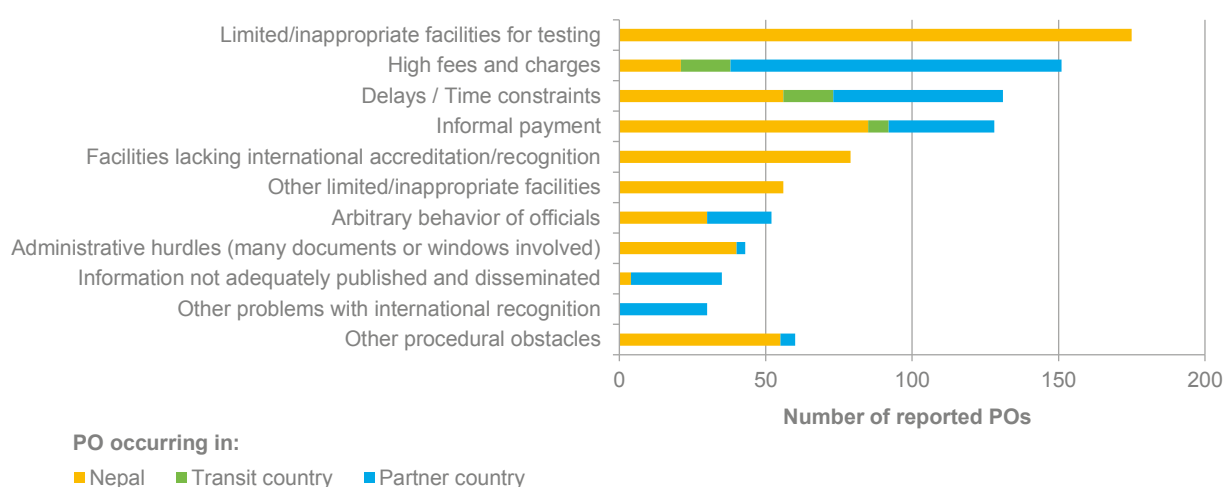
mainly affected by lack of appropriate testing facilities. Limited or inappropriate facilities in Nepal, such as fumigation services, make up 9% of the POs.

High fees and charges to obtain the required certification or testing (16%) is the second most common PO, the majority occurring in foreign countries. This issue is related to the lack of appropriate facilities in Nepal resulting in exporters having to send their products abroad for testing. The fees for such services in foreign countries are expensive for Nepalese companies.

Long waiting times to receive necessary test results, certifications, permits, inspection and customs clearance make up 14% of the POs, half of which occur in Nepalese agencies.

Informal payments demanded to get necessary paper work, clear shipments or expedite the process account for 14% of reported POs. Close to two-thirds of issues related to informal payment happen in Nepalese agencies while the other third occur in customs of destination markets or transit countries.

Figure 17 Types of procedural obstacles hindering Nepalese exports and locations where they occur



Source: ITC NTM Survey in Nepal, 2016

Exporters report 149 PO cases (16%) that occurred at various customs points in Nepal. Informal payments to custom officials to expedite the administrative procedure, inspection or clearance are the main POs at the DoC (36%). Delays and large number of different documents requirements that occurred in DoC account for 15% each.

Exporters complain about the need to hire agents at the Custom office to get the document processing done. Hiring such agents is very expensive, and adds cost to their products, Strict implementation of advance payment requirements has caused difficulties. Customs officers do not approve the paper works if the amounts in the payment receipts and invoices are not exactly the same.

Commercial banks in Nepal deduct some percentage of the remitted amount as bank fees and hence the amount in the bank statement is less than the one in the invoice. Some exporters have faced difficulty at the customs when the name of the payee does not exactly match the name of the buyer. They explain that that sometime payments are made by the buying companies' affiliates. DoC's strategies to address the issues related with NTMs and POs include: 1) improving the HS classification application, 2) building a laboratory section and modernize the present laboratory as a Central Customs Laboratory,⁴⁴ and 3) establishing a team of relevant stakeholders to evaluate the costs and benefits of a single window concept.

⁴⁴ According to the CRMSAP, DoC aims to make the Central Customs Laboratory functional. This is an effort to modernize the present laboratory. At present, office building for the laboratory is being constructed and the ambition is to deploy modern scientific equipment in the central laboratory. The plan is also to establish safety sampling corners in 10 Customs offices

DoC aims to implement these strategies in 2017. Implementation could help exporters ease their product classification problems at Customs. Medicinal herbs exporters complain about problems regarding classification of their products at Customs. Building a laboratory section and modernizing the present laboratory could help in product testing and certification. A single window policy is recommended for mitigating unnecessary problems at Customs.

Exporters reported that the agency lacks international accreditation and its certificate is not globally recognized. Limited or inappropriate facilities for product testing, especially for herbal products, have created obstacles for export.

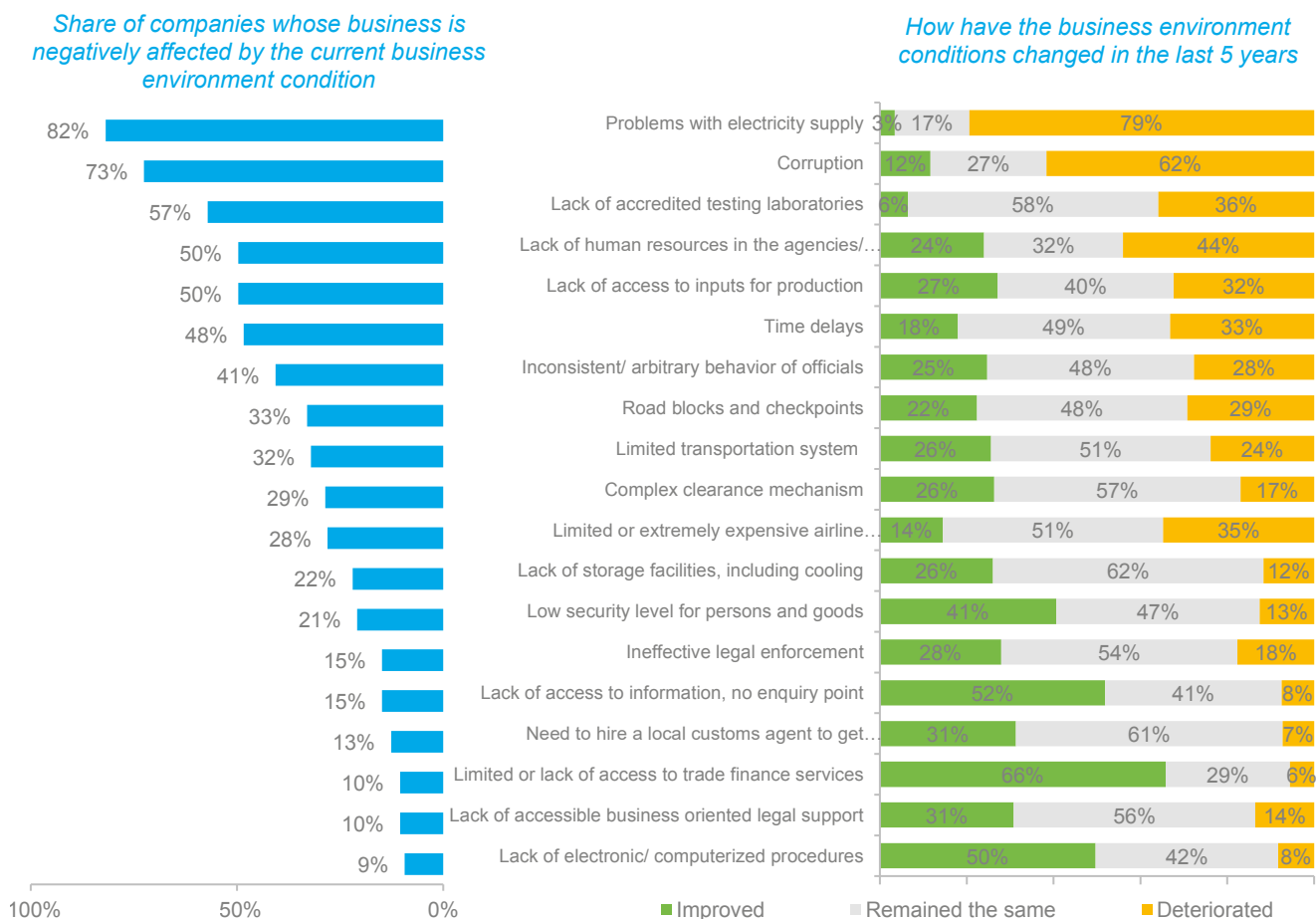
Company perspectives on the trade-related business environment

Surveyed companies identified challenges in the country’s trade-related business environment (TBE). Inefficiencies in the business environment are generic problems unrelated to specific regulations, but affect companies’ ability to export or import. Companies were asked to identify factors that hinder their ability to conduct business and how these conditions have changed in the last 5 years.

Inadequate electricity supply is the main business environment concern, identified by 82% of companies. Corruption (73%) and lack of adequate testing facilities (57%) are second and third most problematic TBEs. Most respondents think that problems with electricity supply and corruption have deteriorated in the past five years. Roughly half of the companies also find proper access to inputs for production to be a hindrance.

The survey shows some encouraging results. For example, 66% agree that trade-financing conditions have improved, 50% have found improvements in the computerized procedures and 52% in information sources.

Figure 18 Company perspectives on the trade-related business environment



Source: ITC NTM Survey in Nepal, 2016

Agricultural sector: Exporters' difficulties

A large share of agricultural exporters is affected by burdensome NTMs and related obstacles. The NTM Survey interviewed 120 exporters of agricultural products out of which 77% report to be facing difficulties.

The agriculture sector comprises of two sub-sectors: fresh food and raw agro-based products, and processed food and agro-based products. Most exporters in the two sub-sectors are affected by burdensome NTMs, 74% and 84%, respectively.

SMEs and large companies face difficulties with similar types of NTMs (Figure 19). Out of 245 reported cases of burdensome NTMs⁴⁵ faced when exporting agricultural products, 83% relate to technical regulations. Exporters find more difficulties with conformity assessment than the technical requirements. About 10% of the burdensome NTM cases relate to Nepalese regulations.

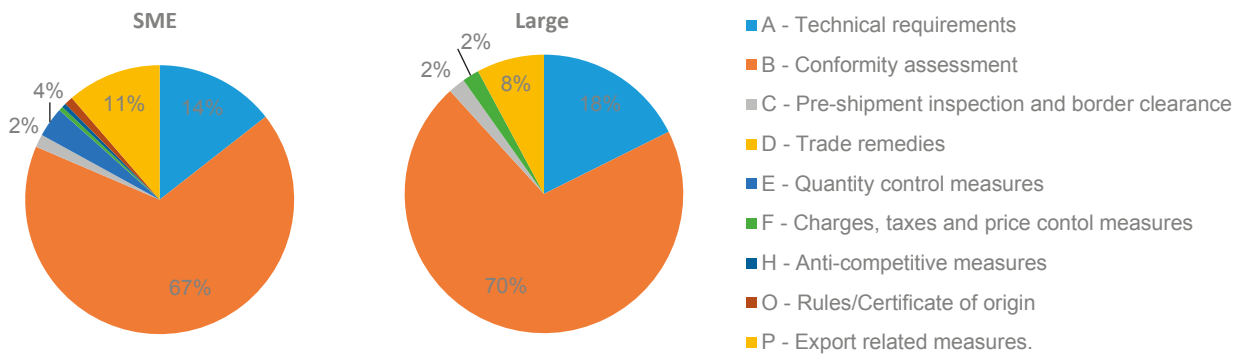
Table 6 Export of agricultural products – NTMs faced and the reason making them burdensome

Number of NTM cases reported for each type of measure and the reason making them burdensome				POs making the measure difficult and the location where it occurs			
NTM (Chapter)	Measure too strict or difficult	Due to related POs	Both	Type of PO	Nepal	Partner or Transit	Subtotal
Technical requirements	5	26	6	Information on selected regulation is not adequately published and disseminated		27	27
				Arbitrary behaviour of officials	3		3
				Limited/inappropriate facilities	3		3
				Problems with international recognition		2	2
Conformity assessment	4	109	53	High fees and charges	4	66	70
				Limited/inappropriate facilities	72	0	72
				Delay related to reported regulation	10	34	44
				Informal payments	13	24	37
				Problems with international recognition/ lack of recognition of national certificates		19	19
				Arbitrary behaviour of officials	10	4	14
				Facilities lacking international accreditation/ recognition	7	0	7
				Information on selected regulation is not adequately published and disseminated		2	2
Pre-shipment inspection and border clearance		4		Other procedural obstacles	4	1	5
				Informal payments		3	3
Quantity- control measures	2		5	Difficulties with translation of documents from or into other languages		1	1
				Delay related to reported regulation		4	4
Charges, taxes and price control measures		1	1	Other procedural obstacles	1	1	2
				Informal payments	1	1	2
				Numerous administrative windows, redundant documents	1	0	1
Anti-competitive measures	1			Arbitrary behaviour of officials		1	1
				Rules/Certificate of origin		0	
Export-related measures.	5	21		Delay related to reported regulation	2	0	2
				Informal payments	9	1	10
				Arbitrary behaviour of officials	6	0	6
				High fees and charges	5	1	6
				Numerous administrative windows, redundant documents	5	0	5
				Delay related to reported regulation	3	0	3
				Limited/inappropriate facilities for testing	1	0	1
				Large number of different documents	1	0	1
Grand Total	17	163	65		161	192	353

Source: ITC NTM Business Survey in Nepal, 2016

⁴⁵ See Captured data and evaluation approach in Chapter 2 for more on information on NTM and PO case (frequency) calculation.

Figure 19 Types of NTMs faced by agriculture exporters, by company size



Source: ITC NTM Business Survey in Nepal, 2016

POs are a big hindrance to Nepalese agriculture exporters. Two-thirds of the NTM cases are deemed burdensome due to POs, while only 7% of the NTMs are burdensome because of strict or difficult regulations. The remaining 27% of NTM cases are deemed burdensome due to regulatory obstacles and POs (Table 6).

Lack of adequate information on regulations is the main PO faced for technical requirements (Table 6). For conformity assessment cases, high fees and charges, limited or inappropriate facilities, long waiting times and informal payments are the most common POs.

Tea



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The NTM survey interviewed 30 tea exporters, 97% responded to have faced difficulties with NTMs (Figure 20). In addition, 15 tea producers were interviewed on their difficulties in production and market access.

SPS-related technical requirements (23%) and conformity assessment (68%) are the main types of burdensome NTM tea exporters face (Figure 20). Only a small fraction of their difficulties relate to Nepalese regulations.

High fees and charges for testing and certifications are the most reported procedural obstacles. Most of these high fees and charges are incurred in foreign agencies and certification or testing companies. The companies have to pay high fees due to lack of adequate testing or certifying facilities in Nepal. Lack of adequate information on requirements or procedures, time delays in waiting for test results or export clearance and informal payments demanded by customs officers in India are other main POs.

Anthraquinone in tea

One of the main obstacles Nepalese tea exporters face is the maximum residue level (MRL) of Anthraquinone (AQ), an organic compound, set by EU countries in tea. The European Food Safety Authorities have set the MRL threshold to 0.02 mg/kg. Most exporters to the EU have faced difficulties complying with this requirement and there have been several incidents of shipment being rejected.

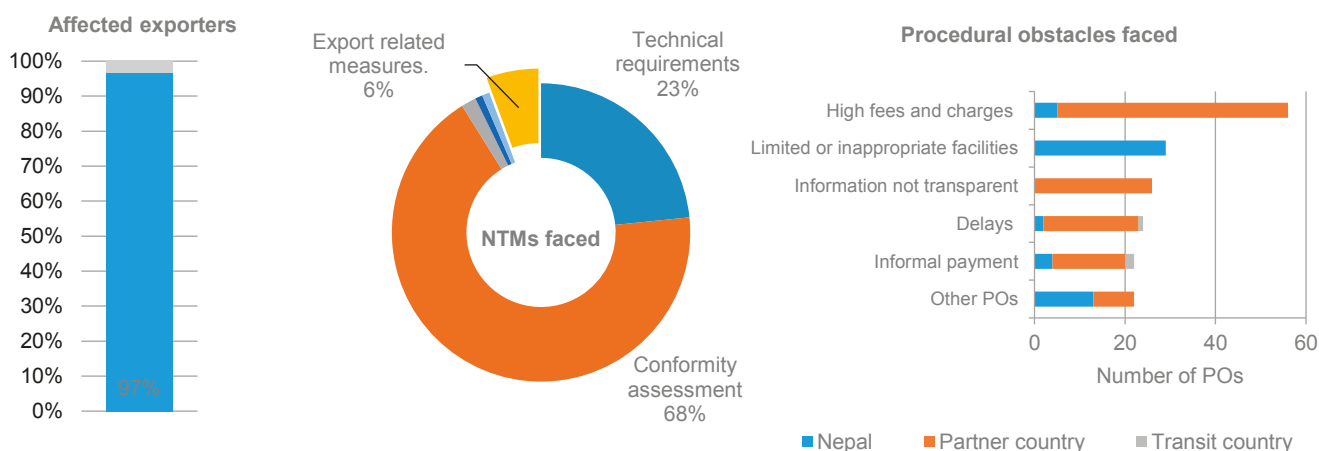
Green tea should be free of Anthraquinone (AQ). If this requirement is not met, importer will return the product. Test in Nepal's lab is not credible and may not be accepted by importing country.

Green tea exporter, ITC NTM Survey

There is a lack of reliable information on the presence Anthraquinone (AQ) in tea and what can be done to prevent it. Exporters have different views on how it appears in tea. Some believe it is naturally occurring, while other believe it appears due to smoke when drying, packaging materials or improper conditions in the warehouse.

There are no facilities in Nepal that can do the necessary testing on the AQ level or whose tests are recognized internationally. Exporters usually send samples to the EU for testing. However, positive test results of samples do not guarantee for customs clearance. Several exporters reported that their samples were tested in European labs and showed AQ within the allowed MRL level. However, when consignments were tested again the AQ levels were above the MRL resulting in the consignment being rejected. There is lack of information on the cause and solution of the problem.

Figure 20 Tea exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Business Survey in Nepal, 2016.

Testing and certification requirements

Various additional tests and certifications (both mandatory and private standards) are required for different countries to export. Exporters say most foreign buyers seek organic certification. Exporters face not only high costs of organic certification but also additional costs associated with bringing technical experts from India who can assess production methods.

Major tea buyers of Nepalese tea require different certifications. The United States requires USDA certification, Japan requires JAS certification, and Australia requires NASAA. European countries impose additional requirement such as, food safety traceability, general food safety, good manufacturing practices for food materials and organic labelling. The cost of acquiring such certifications can be between \$10,000 and \$ 20,000 per year, beyond the financial means of most tea producers and exporters.

MRL testing in India

Most problems faced by tea exporters are associated with India as a partner country and a transit country. Exporters say India requires maximum residue limit (MRL)⁴⁶ testing of tea to access its markets. Indian Customs does not accept results of tests done in Nepalese laboratories.

The tests have to be conducted in Central Food Laboratory (CFL) in Kolkata, which is located over 1,000 kilometres from the custom points.

CFL officers harasses us by saying that the documents we submit are not enough or appropriate. But we do meet every requirement and provide all the required documents. As a result, we make informal payments of NRs. 12–15 thousand to smoothen the process.

Tea exporter, ITC NTM Survey

The exporters have to take their goods to Kolkata and get the certification in order to pass their goods through Indian Customs. Exporters say that the two-four week period the CFL in India takes to give the test results is extremely lengthy and sometimes result in lost business opportunities. Large quantities of tea taken as 'sample' for necessary testing is also costly for exporters.

Hurdles at the border

Many exporters express their discontent with the Indian provision that requires them to undergo tests for each shipment (truck) and buyer even if they are part of the same consignment. This has led to increased cost and processing time. Exporters report paying significant bribes at the Indian Customs and CFL to hasten the process.

Production constraints

Tea producers expressed concern about lack of proper infrastructure. The quality of tea has been hampered due to lack of modern technology and irrigation facilities. Modern equipment is expensive. Farmers find it difficult to get loans from commercial banks. Frequent power cuts affect production as water has to be pumped using electric motors during the dry seasons.

Processing of tea leaves has to be done within six hours of plucking. This is not always feasible, especially for small farmers as there are not sufficient numbers of processing equipment and proper transport facilities are limited. As the road infrastructure is not good in several places, the leaves have to be carried by labourers, which takes a lot of time and money.

Migration has led to labour shortages during the harvest season, hindering production. Lack of expertise on plant diseases and pesticides is also a constraint. It has led to increases in damages to crops as farmers

⁴⁶ At the first meeting of the Working Group on maximum residue limit (MRL) in tea in Kolkata, a roadmap was prepared to work on 24 pesticides selected on the basis of global use pattern. The objective was to generate data for fixing Codex MRLs as well as to use the data for fixing national MRLs, which may lead to harmonization. Since then Codex MRLs in tea were fixed for 17 pesticides which were; Paraquat (0.2 mg/kg), Methidathion (0.5 mg/kg), Clothianidin (0.7 mg/kg), Fenpropathrin (2 mg/kg), Chlorpyrifos (2 mg/kg), Indoxacarb (5 mg/kg), Propargite (5 mg/kg), Deltamethrin (5 mg/kg), Endosulfan (10 mg/kg), Etoxazole (15 mg/kg), Cypermethrin (15 mg/kg), Hexythiazox (15 mg/kg), Thiamethoxam (20 mg/kg), Permethrin (20 mg/kg), Bifenthrin (30 mg/kg), Dicofol (40 mg/kg), Flubendiamide (15 mg/kg).

rely on pesticide sellers for recommendations. In addition, producers feel that there isn't sufficient number of pesticide suppliers to meet the demand. On average, there is only one pesticide seller in each village.

Many producers are also not able to connect directly to the buyers and have to rely upon collectors. Collectors set the prices for the producers and the prices are relatively low, as the collectors have monopoly over farmers.

Industry profile: Tea

The eastern region of Nepal is known for producing high quality tea. The five major districts in eastern Nepal for tea production are Jhapa, Illam, Panchthar, Dhankuta, and Terathum. Sidhupalchowk and Kaski district in the central and western regions are also major tea producers. Orthodox tea is produced and processed in the hilly regions of Nepal at an altitude from 3,000 – 7,000 feet above the sea level. CTC (Crush, Tear and Curl) tea is produced in lower altitudes in the Terai region, primarily in Jhapa.

Tea constituted about 2.7% of total exports from Nepal in 2015. Nepal's tea exports represent 0.3% of the global exports of tea. In 2015, Nepal exported 11,002 tons of tea worth \$17.7 million. While Indian and Sri Lankan tea command prices of \$2,883 and \$4,336 per ton respectively, the price of Nepalese tea is relatively very low at \$1,608. India is the biggest market for Nepalese tea, valued at \$16 million (90% of total tea exports in 2015), followed by Germany.

The Nepalese National Tea Policy (2000) aimed to promote the Nepalese tea industry, with goals of providing financial incentives for encouragement of investment and easing the availability of land required for plantation. The policy aspired to develop institutions to foster tea exports and establish training centres to enable small farmers participate in the value chain. The growth of tea sector in Nepal since then has been spurred by the participation of small holders and local communities.

Large cardamom



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While large cardamom is a major Nepalese export, the number of Nepalese exporters is small. All exporters face regulatory and procedural obstacles to trade. Lack of proper infrastructure thwarts Nepal from realizing its export potential.

Burdensome regulations faced by Nepalese large cardamom exporters are mostly related to conformity assessments. Exporters are required to test large cardamom against harmful contaminants. Companies find difficulties with terms and conditions of testing requirements and with related procedural obstacles.

Lack of laboratories is a concern

Exporters report several procedural obstacles hindering export of large cardamom. The major concern relates to testing facilities in Nepal. While there are a few private labs and a public lab (DFTQC) that are properly equipped and perform reliable MRL tests, they are not accredited. In the absence of proper accreditation, test results from these labs in Nepal are not accepted in the international market.

Cardamoms destined to the Indian markets have to undergo testing at the Central Food Laboratory (CFL) of India and obtain a CFL certificate. As per the Indian regulation, exporters have to get their products tested and certified every 6 months.

Since there are no appropriate testing laboratories in Nepal, we take samples to testing centres in India. Testing centres in India take up to 14 days to provide test results.

Large cardamom trader, ITC NTM Survey

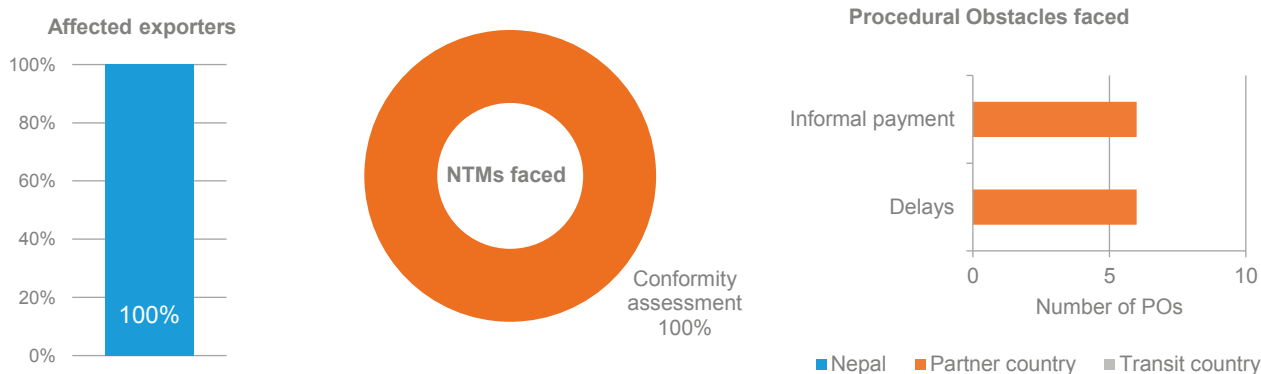
For each testing procedure, exporters have to submit 5 samples (packets) of cardamom, each weighing 500 grams. Normally, it takes more than 14 days to get the test results. A fee of INR 75,000 (\$1,160) is applied for the test. If approved the CFL certificate remains valid for 6 months. During this period cardamom can be exported to India with an additional fee of INR 15,000 (\$233) per consignment.

Difficulties at the border

Exporters stated that there are difficulties when exporting through the West Bengal border of India. West Bengal requires the product to be tested against harmful contaminations for each consignment. In other customs points (such as Jogmani in Bihar) a test is required only every 6 months.

Samples are sent to Kolkata for testing and it takes more than 14 days to get the report and clear the goods from customs. Exporters say it is difficult to pass the shipment without making unofficial payments to Indian officials, even when test results show no problems.

Figure 21 Large Cardamom exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Business Survey in Nepal, 2016.

Production constraints

Production of large cardamom in Nepal has decreased in the last few years. The drop in production is due to lack of proper diagnosis of diseases prevalent in cardamom plants. Without proper diagnosis of diseases, Nepalese farmers are unable to take appropriate action to stop the spread of the diseases. Other problems faced by Nepalese producers include: lack of quality soil testing, lack of quality saplings, distribution of saplings without considering geographical compatibility and soil testing results, inadequate irrigation facilities, and unskilled human resources. Declining production of large cardamom directly affects exports. In fiscal year 2013-14, Nepal exported 4,913 metric tonnes of large cardamom. In fiscal year 2014-15, the volume decreased to 2,930 metric tonnes.⁴⁷

Cardamom producers highlighted labour shortages, especially during harvesting and plantation, and limited equipment as major problems. Many farmers are involved in the drying process but have no standardized method. Variation in drying techniques results in varying quality of the cardamoms. Most farmers rely on tradition means of drying using wood fire furnace. Modern dryers are better in producing high quality cardamoms. However, access to these dryers is limited and producers fear their operation costs are high.

Producers complain of the scarcity of fertilizers and pesticides in local markets. Shortage of pesticides and lack of knowledge of diseases has led to lower production and more damaged crops. These problems have increased with lack of soil testing facilities because of unavailability of infrastructure and other expensive measures.

The topography adds to the problems as no proper transport and irrigation facilities are lacking. Frequent power cuts lead to problem in irrigation patterns. Monopolist syndicates in the market chain victimize producers. Producers also complained about high customs duty to import machineries, not being able to secure loans from banks, and lack of insurance schemes.

Industry profile: Large cardamom

Large cardamom (*Amomum subulatum*) is exclusive to Himalayan region of South Asia¹ and is regarded as the most important cash crop in eastern Nepal. It is a perennial, shade-loving crop found at the altitude of 600-2,400 meters above sea level. It requires a high level of humidity (>90%) and soil moisture (>70%), therefore, grows best in areas with annual rainfall of 2,000-4,000 mm, ambient air temperature of 10-22 degree Celsius and acidic soil.²

Nepal accounts for 68% of world large cardamom production. Ilam, Taplejung, Paachthar and Sankhuwasabha are the top cardamom producing districts in Nepal. They collectively produce more than 80% of total national output.³

Nepal exported around 3,000 tonnes of large cardamom valued at \$43 million in 2015, i.e. 6.5% of total national exports.⁴ NTIS 2016 has highly ranked large cardamom as export potential good.

South Asian and Middle Eastern countries are the main consumers of cardamom. While India is the biggest consumer market for cardamom in the world, Middle Eastern countries are the largest importers.

Most Nepal's cardamom exports are unprocessed. Processed cardamom constitutes only a small portion of the total cardamom export due to the lack of processing facilities. Large cardamoms are graded based on their size, colour, drying method and tail cut. Indian traders buy Nepalese large cardamoms and process them and re-export them to other South-Asian countries. Although there is huge demand for large cardamoms in the South-Asian and Middle-Eastern countries, almost all of Nepal's exports go only to India. Nepalese exporters have been unable to establish business contacts with foreign buyers.

To promote Nepalese large cardamom in the International market, the Nepal Government is registering a trademark so that Nepal can provide quality assurance to importing countries. The Trade and Export Promotion Centre (TEPC) is working to register a trademark 'Everest Big Cardamom' in India, Pakistan and the United Arab Emirates to identify Nepalese cardamoms.

Sources:

¹ The Spice Journal: <http://thespicejournal.com/about-spice-nepal/large-cardamom-is-only-grown-in-nepal-sikkim-darjeeling-and-bhutan/>

² Sharma 2013; Sharma et al. 2000

³ ICIMOD website: <http://www.icimod.org/?q=21571>

⁴ ITC Trade Map (2016)

⁴⁷ Nepal Trade and Export Centre Statistics

Coffee



The share of coffee exporters facing difficulties with NTMs is relatively low, in contrast to exporters of other major Nepalese agriculture commodities. Overall, 31% of the surveyed coffee exporters are affected. Their difficulties relate mostly to technical standards and private standards set by the buyer. High costs associated with these certifications are the key concern. Exporters face most of the problems when exporting to the countries in the Asia-Pacific region.

Organic certification is key

Organic certification is a major need for the Nepalese coffee sector. The Three District Coffee Cooperative Unions have obtained organic certification through foreign certifying bodies.

However, these certifications have limited acceptance in the international market. Certification is an expensive investment for the majority of small-scale coffee producers but it has potential to fetch better market prices.

Buyers in different countries demand different organic certification. For example, buyers in Japan ask for JAS quality certification while those in Australia seek NASAA certification. The cost associated with each of these is very high. Hence, we have been unable to diversify our export markets.

Coffee exporter, ITC NTM Survey

Several cases involved concerns regarding organic certifications for importing countries. NASAA Certified Organic (NCO) is the certification provided by National Association for Sustainable Agriculture Australia (NASAA). This certification ensures the maintenance of integrity throughout the production, manufacturing, handling, distribution and trade of the organic product.

To export coffee to Australia the product must be certified by Australian Quarantine Inspection Services (AQIS). The certifications obtained in Nepal are not accredited by the AQIS, but the NASAA certification is. Small-scale producers cannot afford the high cost of obtaining this certification to export their coffee to Australia.

Quarantine requirements

AQIS does not accept the quarantine certificates issued by the Nepalese Quarantine agency. Exporters have to obtain the certificates from foreign agencies that are recognized by AQIS.

Exporters are not able to export coffee in wooden crates. Australia has strict fumigation requirements and requires wooden crates to be fumigated. They also have to comply with the wood packing material regulation in the European Union.

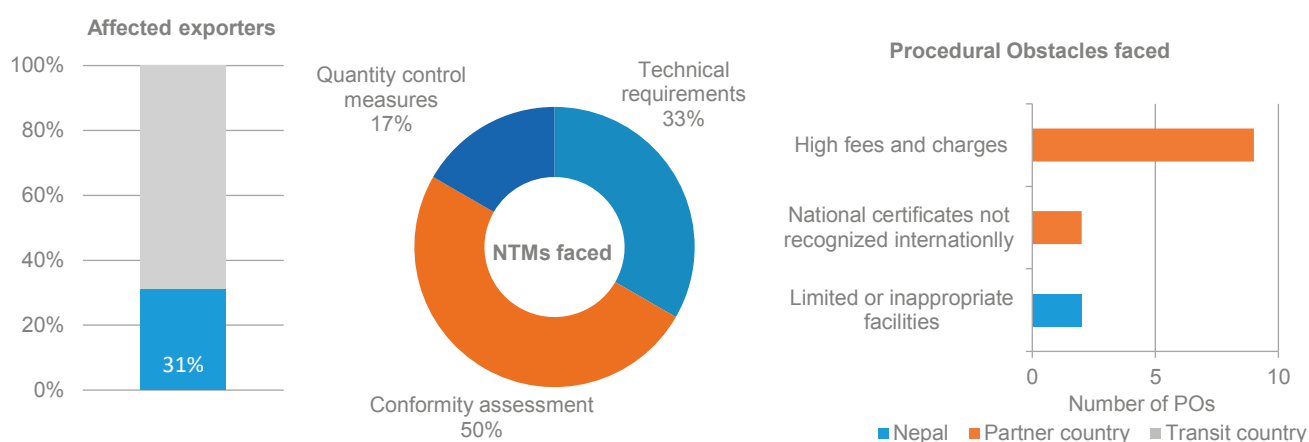
The international standard for phytosanitary measures (ISPM 15) compliant wood packaging is acceptable for import if it is bark free, heat treated at 56-degree Celsius for at least 30 minutes or fumigated with methyl bromide and market with the ISPM 15 stamp.

Due to lack of such certification and fumigation facilities in Nepal, exporters have not been able to expand the international markets of coffee. The additional cost associated with resorting to certificates and other facilities from overseas have increased the cost of Nepalese coffee in international market.

Standards and quality control

Producers and exporters voice the need for easing certification processes by developing standards, applying quality control measures and maintaining speciality of Nepalese coffee to reach larger segments of international market. The producers suggest quality-based pricing and traceability to motivate farmers and traders to comply with requirements for international standard coffee quality.

Figure 22 Coffee exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Business Survey in Nepal, 2016.

Production constraints

Based on the survey of coffee producers, the final products owe their high costs to low supply of coffee cherries. There is lack of proper equipment for grading, sorting and processing coffee beans. The coffee industry has not been able to advance because the traditional method of producing coffee is not as effective as the modern methods.

The quality of coffee is impacted because farmers sometimes do not dry the beans properly before bringing them for processing. Producers are not able to set proper export strategies due to volatility in coffee collection and production. They also feel that there is no proper information flow and exposure to international best practices in the sector.

Medicinal herbs and essential oils



A large share of medicinal herbs and essential oil exporters (79%) face difficulties with NTMs. A majority of the reported difficulties relate to conformity assessment requirements (77%) followed by various export requirements of Nepal (20%).

In most cases, procedural obstacles associated with these NTMs are the main hindering factors. Inadequate testing facilities in Nepal and Nepalese test certifications not being recognized internationally are the main procedural obstacles.

Certification requirements

Exporters indicated difficulties complying to Good Agriculture Practice (GAP),⁴⁸ Good Manufacturing Practice (GMP)⁴⁹ and organic standards.⁵⁰

These certificates are voluntary in majority of the regions, but buyers in Japan and the European Union require the supplier to be GAP compliant and their product Organic Certified. The main concern among exporters was the lack of agencies in Nepal that can issue such certification. Exporters reported loss of business opportunities due to inability to produce conformity certificate to the international buyers.

The Department of Plant Resources (DPR)⁵¹ issues quality certifications. However, DPR is not fully equipped and capable of certifying quality of products. Its role is limited to providing CITES⁵² certification, checking chemical composition to ascertain whether the product is adulterated, and certifying that containers have been sealed for export by air.

Some third-party organic certification bodies have established in Nepal recently,⁵³ but the certificates produced by these local bodies currently lack recognition internationally. Some of the exporters in need of certification reported to have taken their certifications from National Program for Organic Production (NPOP) in India.

Identification of medicinal plants

The export of herbs is affected by problems in product identification. The climatic conditions of Nepal favour growth of thousands of species of plants with medicinal value. However, Nepalese Customs has identified and listed only about 160 of them. This forces exporters to export their herbal goods under a different name or under “other herbs” category.

Exporters have experienced problems when the customs at destination countries find out that the product is being documented under a wrong name and reject the shipment.

⁴⁸ Good Agricultural Practice (GAP) is a pre-farm gate standard that covers all production process relating to farming of medicinal plants. It is designed to reassure consumers about how the product has been produced on the farm by minimizing environmental impacts, reducing the use of chemical inputs without compromising the worker health and safety.

⁴⁹ Good Manufacturing Practices (GMP) in food ensures that products meet food safety, quality and legal requirements. The GMP system ensures that products are consistently produced and controlled according to quality standards appropriate to their intended use and as required by the product specification

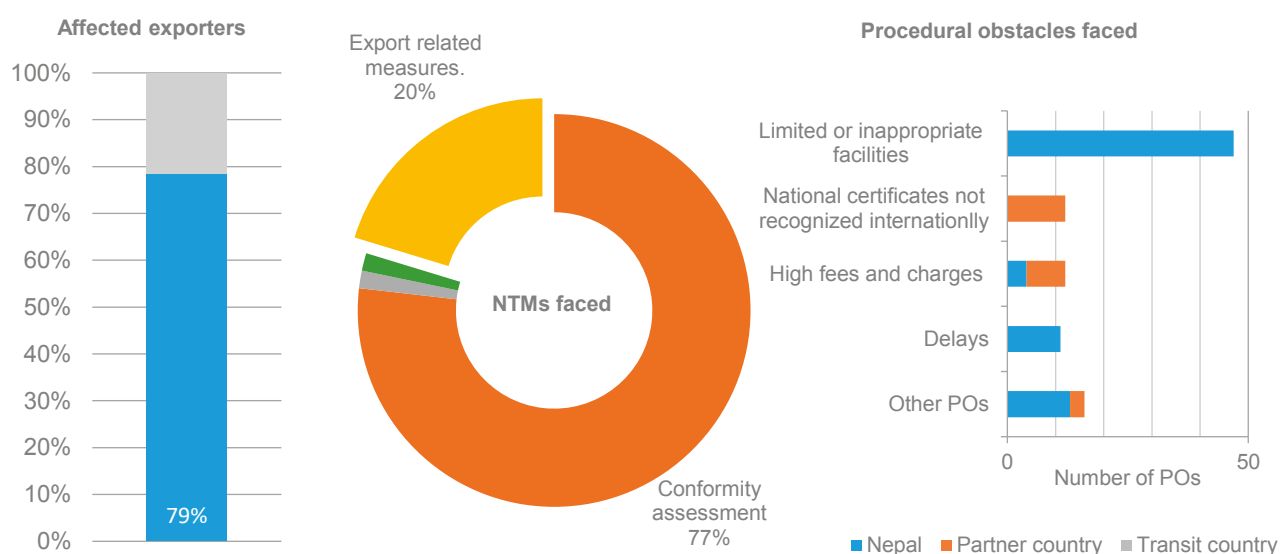
⁵⁰ Organic Certifications indicate that the product is free of synthetic additives like pesticides, chemical fertilizers and have not been processed using industrial solvents.

⁵¹ DPR is under the Ministry of Forest and Soil Conservation

⁵² The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), also known as the Washington Convention, is a multilateral treaty to protect endangered plants and animals.

⁵³ Such as Organic Certification Nepal Pvt. Ltd. and The Himalayan Bio-organic Agriculture Center.

Figure 23 Medicinal herbs and essential oils exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Business Survey in Nepal, 2016.

Collection and shipping of medical plants

Medicinal plants are often extracted from community or government-owned forests. In some areas the community forest user-groups are permitted to extract and sell the non-timber products. The companies surveyed reported facing difficulties due to the lack of resource inventory, which has prevented farmers, entrepreneurs and botanists from identifying the proper level of harvesting that can be done to economically benefit while ensuring the sustainability. They stressed the need to calculate the inventory of the medicinal plants, and find out the quantity of each variety of plants that can be harvested in a specific season.

Collectors must get permits from the Forest Department to collect the specified amount of medicinal plants from the specified area but the process is cumbersome. Companies complained that officials at the Forest Department and the Agriculture Department elongate the process for days, seeking bribe. They add that the collection centres are poorly equipped.

Lack of proper storage of some of the medicinal plants has led to their getting rejected by the processing unit owners. The surveyed companies emphasized the need of a proper storage facility (depending on the plant) for preservation of the medicinal value of the exportable medicinal plant.

Shipping of collected herbal plants from deep forests to major cities, where processing units are located, presents another procedural obstacle. The numerous random inspections, starting from the exit of forests to the entrance of each district, add burdens from unnecessary delays. Companies complain that they must pay bribes to avoid delays as security personnel occasionally disregard the permits that are already obtained.

DRG certification for transport

Exporters of essential oils are unable to use air cargo. Essential oils are required to have the Dangerous Goods Regulation Certification (DGR) to be transported by airplanes. It is difficult to get such certification in Nepal. According to exporters and logistics service providers couriers refuse to transport these products due to lack of necessary certification.

As per International Air Transport Association (IATA) regulations, airlines, ground handlers in the airport, courier companies and freight forwarders need to be DGR compliant. IATA requires compliance with packaging requirements to prevent danger associated with flammable liquids or dangers with other goods.

Industry profile: Medicinal herbs and essential oils

The Master Plan for Forestry Sector of 1988¹ initiated and guided the policies relating to timber and non-timber forest products, the latter including Medicinal and Aromatic Plants (MAPs). Starting in 1992, comprehensive efforts have been put forward to support the production, processing and export of MAPs.

The Forestry Sector Policy² aspires to contribute to the growth of national economy, improving the quality of life of people managing forest resources by creating opportunities for income generation. Over 300,000 families, mainly in the hilly regions of western Nepal, are engaged in medicinal herbs collection for their livelihood.³ Developments in the MAPs and essential oils sector can contribute immensely in uplifting the socio-economic status of the rural population.

Acknowledging the prospect of the MAPs sector to participate in international trade, the National Trade Integration Strategies (2010) recognized MAPs as one of the priority export potential sectors and identified some major international markets that allow Nepal to diversify its exports.

Sources:

¹ MoFSC (1988). Master Plan for the Forestry Sector in Nepal. Ministry of Forest and Soil Conservation, Nepal.

² MoFSC (2000), Forestry Sector Policy. Ministry of Forest and Soil Conservation, Nepal

³ GIZ (2011), Medicinal and Aromatic Plants: Poverty Impact Assessment (PIA) of proposed Trade Support Measures in Nepal's Medicinal and Aromatic Plants Sector

Ginger



Source: Flickr. © Delphine Ménard

The NTM business survey interviewed major ginger exporters. Overall, 86% of ginger exporters are affected by burdensome NTMs.

Difficulties with conformity assessments make up half of reported NTM cases followed by quantitate restrictions (40%) and rules of origin and related certificate of origin (10%). Time delays during processes in India and lack of adequate testing facilities in Nepal are the main procedural obstacles.

MRL testing

The businesses reported difficulties relating to residue test of ginger. The major concern was the lack of recognition of the residue tests done in Nepal. They reported that absence of recognized testing laboratories has hampered their capacity to export ginger. Exporters have to send their products to India for testing thereby increasing costs and time. It can take up to 75 days for testing ginger. Five random samples from each consignment are sent to CFL for testing. High MRL levels in even one sample can lead to the whole consignment being rejected.

In 2016, India banned imports of all Nepalese ginger claiming that they contain high pesticide residue of Aldicarb. The ban caused chaos and uncertainty among the Nepalese traders who deny the allegations of high pesticide residuals on their products. The ban was subsequently lifted after 25 days following additional tests that showed no traces of harmful pesticide residue in Nepalese ginger.

Administrative hurdles at the border

Companies exporting through Kakarvitta - Panitanki faced administrative hurdles at the Indian Customs. Shipments with value in excess of Rs one million must have the customs bill signed by the Indian Assistant Commissioner of Customs, based in Siliguri, 30 kilometres from the customs points. Exporters must travel to Siliguri for a signature of an unnecessary and tedious administrative procedure. Companies complain about having to pay informal payments to Indian customs officers for shipment clearance.

Indian Customs require signature of the Assistant Commissioner on custom bills when the export value of ginger exceeds ten lakhs rupees. The Commissioner is based very far from custom points and we have to travel long distance just to take a signature.

Ginger trader, ITC NTM Survey

Certificate of origin

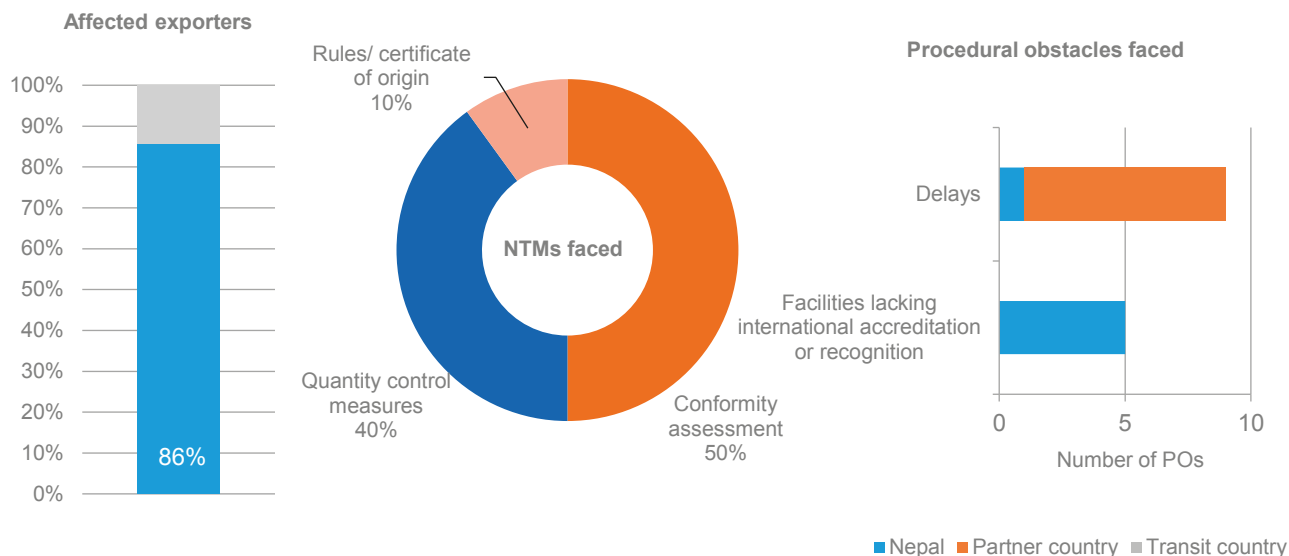
Some exporters find obtaining certificate of origin tedious. India imposes strict rules of origin requirements as Chinese gingers have been found to be exported with Nepalese certificate of origin in some instances. Subsequently, FNCCI and Nepal Ginger Producers and Traders Association, the two organisations responsible for issuing certificates of origin to ginger exporters, have been strictly monitoring the export ready gingers and have formulated a number of procedures to get the certificates.

Additional duties in India

In 2016, the Indian government imposed an 8% duty on ginger exports. Indian traders have to acquire permits from the Indian Customs office before placing an order for Nepali ginger by paying 8% percent of the market value as 'permit duty'. This decision has discouraged Indian importers from buying Nepali products.⁵⁴

⁵⁴ <http://www.myrepublica.com/news/10143/>

Figure 24 Ginger exports – share of companies affected by NTMs, and types of NTMs and POs faced



Source: ITC NTM Business Survey in Nepal, 2016

Indian restriction on import of unwashed ginger

From 2017 India will restrict import of unwashed ginger. Since India is the largest market for Nepalese ginger and most of Nepali ginger exported is unwashed, exporters are concerned about the impact of this measure.

Due to a variety of restrictions Indian buyers have stopped importing gingers in bulk from Nepal. Limited quantities of ginger, either washed or unwashed, is still exported but only through the Birtamod Customs.

Production constraints

Major problem faced by producers relate to diseases in the harvest that hindered production of ginger. Producers are heavily dependent on brokers and have no direct contact with buyers. Almost all of Nepalese exports go to India and buyers there are very price sensitive. Market information about the prices is not easily available.

One reason for mediocre yield of ginger is the lack of proper storage facilities. Farmers are forced to use seedlings from crops harvested in previous cycles. Since they do not have enough resources to build proper storage facilities, the quality of seedlings is poor. Inadequate irrigation system during the dry seasons have also contributed to lower yield.

Lack of proper storage facilities is a problem. Poor transportation infrastructure increases the cost of production and trade.

Another challenge ginger farmers face is that banks and government bodies do not adequately support farmers financially. Farmers are susceptible to huge losses because of crop diseases. When ginger is grown, the same piece of land cannot be used again for another three years for ginger production. Despite these financial risks, government bodies have not implemented insurance mechanisms to aid ginger farmers.

One factor hindering the quality of ginger exports is that some farmers sell muddy and damaged ginger. This short-term profit orientation of small group of farmers negatively affects overall ginger prices, hurting honest farmers.

Industry profile: Ginger

Nepal is the third largest producer of ginger. In 2013, Nepal produced 235,033 metric tonnes of ginger or 11% of global ginger production.¹ The eastern development region produces the highest volume of ginger.² Ilam, Palpa, Argakhachi, Nawalparasi, Tanahau, Syanga and Kaski are the major ginger producing districts in Nepal. Generally, it is planted in the mid-February to mid-April.³

Nepalese farmers produce two varieties of ginger: the fiber-rich Nase variety and the low-fiber Bose rhizome. The fiber contents in ginger depend upon soil and climatic conditions.

While Nepal is the third largest producer of ginger it is only the 12th largest ginger exporter. Nepal exported around \$ 4 million worth of ginger in 2015.⁵ In comparison, China exported more than \$416 million worth of ginger during the same period.

Nepal's ginger export has increased over the last few years both in quantity and value. Export volume increased to 28,351 metric tons in 2015/16 up from 20,415 metric tonnes in 2013/14. Export of ginger was valued at NRP 643 million in 2015/16 – an increase of 43% compared to 2013/14.⁶

NTIS 2016 ranked ginger as one of the top priority exports for the Nepalese economy.

Most Nepalese farmers have not been able to get good value for their ginger the production is not sorted and cleaned before sale. Around 57% of farmers do not sort before selling, while 43% practice basic sorting which included removing rotten and dried ginger from the harvest.⁷ The basic price difference between sorted and unsorted ginger is around NRs 2 to 5 per kg.

Sources:

¹ FAOSTAT, 2013.

² A Report on Value Chain Analysis of Ginger subsector in Nepal. Ministry of Agriculture Cooperatives High Value Agriculture Project in Hill and Mountain Areas (HVAP).

³ Micro Enterprise development for poverty alleviations: Micro-Enterprise Development Programme Ministry of Industry United Nations Development Programme June 2013.

⁴ Opportunities for Nepalese ginger and derivative products in Dubai: A report for SAMARTH-Nepal.

⁵ ITC Trade Map (2016).

⁶ TEPC.

⁷ Samarth-NMDP (2016).

Manufacturing sector: Exporters' difficulties

The affectedness rate for manufacturing exporters is lower than that for agricultural. The NTM Business Survey interviewed 354 exporters of manufactured products among whom 42% experienced difficulties with NTMs.

High rates of affectedness are observed among exporters of products such as paper and wood, chemicals and leather with more than two-thirds of the companies affected. Exporters of textile and garments, basic and miscellaneous manufactured products face fewer difficulties with around one-thirds of the companies being affected by NTMs. Overall, exporters report 479 burdensome NTM cases.⁵⁵

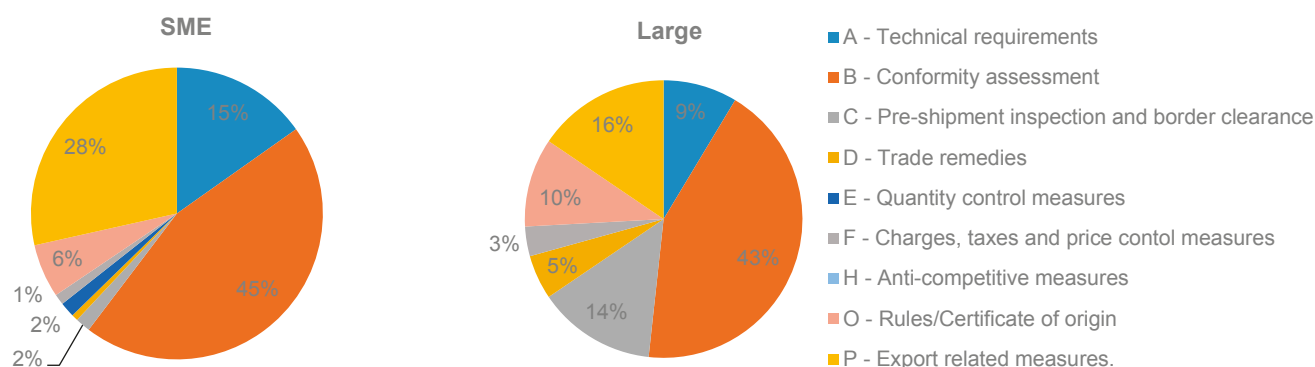
Table 7 Export of manufactured products – burdensome NTMs faced

Number of NTM cases reported for each type of measure and the reason making them burdensome				POs making the measure difficult and the location where it occurs			
NTM (Chapter)	Measure too strict or difficult	Due to related Pos	Both	Type of PO	Nepal	Partner or Transit	Subtotal
Technical requirements	17	50	2	Limited/inappropriate facilities	43		43
				Facilities lacking international accreditation/recognition	18		18
				Other procedural obstacles	2		2
Conformity assessment	8	200	7	Limited/inappropriate facilities	110		110
				High fees and charges	12	55	67
				Facilities lacking international accreditation/recognition	54		54
				Delay related to reported regulation	7	23	30
				Arbitrary behaviour of officials		12	12
				Problems with international recognition		9	9
				Informal payment	4	3	7
				Large number of different documents	3		3
				Information not adequately published and disseminated		2	2
Pre-shipment inspection and border clearance		9	6	Informal payment		7	7
				Delay related to reported regulation		7	7
				Other procedural obstacles		6	6
Trade remedies	6						
Quantity control measures	3		4	Information not adequately published and disseminated	4	1	5
Charges, taxes and price control measures	2	4	1	Arbitrary behaviour of officials		4	4
				High fees and charges		1	1
Rules/certificate of origin	5	26		Other procedural obstacles	26		26
Export-related measures.	32	84	13	Informal payment	55	1	56
				Delay related to reported regulation	30		30
				Large number of different documents	22		22
				Arbitrary behaviour of officials	10		10
				Other procedural obstacles	30		30
Grand Total	73	373	33		430	131	561

Source: ITC NTM Business Survey in Nepal, 2016

⁵⁵ See *Captured data and evaluation approach* in Chapter 2 for more on information on NTM and PO case (frequency) calculation.

Figure 25 Types of NTMs faced by manufacturing exporters, by company size



Source: ITC NTM Business Survey in Nepal, 2016

Technical regulations, consisting of technical requirements and related conformity assessment, are the most common NTM SMEs and large companies find burdensome (Figure 25). Technical requirements make up 15% of the burdensome NTMs for SMEs and 9% for large companies. Difficulties with conformity assessment requirements are more common for companies of all sizes. Difficulties with border clearance procedures and rules of origins are more commonly reported by exporters of manufactured products compared to agriculture products.

Difficulties with export-related measures, i.e. Nepalese regulations on exports, are more common among exporters from the manufacturing sector. SMEs and large companies make up 28% and 16% of the burdensome NTMs (Figure 25).

Fifteen percent of NTMs are deemed burdensome because the requirements are too difficult or complex to comply with. In contrast, 78% of NTMs are deemed burdensome due to various POs, while the remaining 7% of NTMs are difficult due to both strict regulatory requirements and POs. Inadequate or inappropriate facilities in Nepal and high fees and charges for various requirements are some of the most common POs (Figure 25).

Handmade paper



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Roughly 62% of the handmade paper exporters experienced difficulties with NTMs (Figure 26). Types of NTMs they find burdensome fall under three main categories: technical requirements (35%), conformity assessment (35%) and export related measures (26%). In most cases they found the requirements to be too strict or complex and were mostly encountered while exporting to countries in Europe and the Asia-Pacific region.

Quality certification

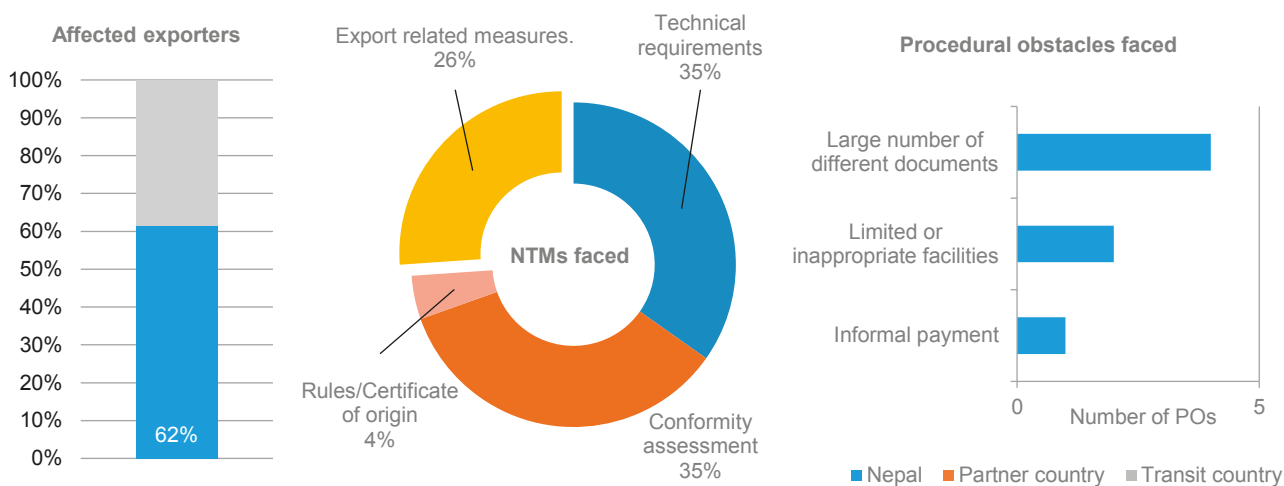
Quality certification is demanded by international buyers, especially to prove the products are pure *lokta* paper. But the lack of a proper certification body to show the contents in the final product has prevented exporters from fulfilling their buyers' demand. The exporters have to accept lower prices because of their inability to certify the content of the product.

SPS requirements of some countries, such as Australia, are perceived as burdens. Australia does not allow paper products with dried flowers without fumigation. It seeks additional certification for the paper products with leather contents. Exporters making handmade paper diary with leather covers voiced concern over the requirement and lack of adequate facilities in Nepal to fulfil them. The industry does not have a well-defined structure in place to grade *lokta* paper.

Australia does not allow paper products with dried flowers without fumigation. In addition it seeks additional certification for the paper products with leather contents. Nepal does not have adequate facilities to fulfil those requirements.

Handmade paper exporter, ITC NTM Survey

Figure 26 Handmade paper exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Survey Nepal, 2016

Transit issues in India

Nepalese exporters face difficulties with Indian authorities when transiting through India. Indian officials have asked Nepalese traders to present bank guarantees issued by Indian banks. However, banks in India do not issue such guarantees to Nepalese exporters.

Difficulties with Nepalese export requirements

Advance payment requirement of Nepalese authorities is a major constraint. This and other requirements of Nepalese authorities add up to one-quarter of the burdensome NTMs handmade paper exporters face. Most foreign buyers are reluctant to pay the full amount in advance. Nepalese exporters feel that this requirement is constraining business expansion abroad.

Production constraints

Quality and quantity of production of handmade papers in Nepal is hindered by lack of proper machinery, knowledge, reliable electricity and transportation infrastructures. These factors have a combined effect of increasing costs and impeding quality of Nepali handmade paper rendering it inferior at the international level.

Some producers are not able to export as they cannot produce high-grade and smooth papers that most buyers demand. It is difficult to produce high quality papers at uniform rate with the traditional production process. Producers do not have adequate knowledge on production of different grade of papers and are keen to learn and apply improved methods. Due to lack of resources producers are unable to purchase equipment to produce better products at a larger scale. They do not have access to calendaring machines that smoothens paper, giving uniform thickness, and makes it glossy.

Barks of lokta plant is the raw material for handmade paper and is collected from forests. Collectors find the process of obtaining permits from forest department to collect lokta cumbersome. Officials elongate the process for days, seeking bribe. Additionally, the security personnel in the forests create hassle even for those with permit.

Producers are allowed to collect lokta only from community forests, which is not enough to meet their needs. Further, lack of clarity in, and conflicts between, the Forest Act, community forest rules and other policies in Nepal have led to differences in interpretation of rules between stakeholders and opportunities for government officials to seek informal payments in *lokta* sourcing process.

Shortage of workers with good knowledge of lokta plants have led companies to rely on new collectors that do not have proper knowledge on the appropriate time and size at which to cut the plants. This has led to inconsistencies in the quality of raw materials.

The companies interviewed stressed the need to conduct resource inventory of the lokta plants. Information on quantity and types lokta plants available in the forests in Nepal helps develop sustainable cultivation and usage practice.

Industry profile: Handmade paper

Nepalese handmade paper is made from lokta and other natural fibers. Lokta is the fibrous inner bark of the high elevation forest shrub called *Daphne bholua* and *Daphne papyracea*. The handmade paper sector of Nepal, despite having low export performance and overall export potential, has high potential to make socio-economic impact.¹ The handmade paper sector of Nepal is sustainable from social responsibility as well as natural resource perspectives.²

Handmade paper products are the fifth largest export products in the handicraft category.³ The top five export destinations for handmade paper are the United States, the United Kingdom, France, Japan and Switzerland.⁴ These five countries have accounted for about 76% of the total sectorial exports. Europe is the largest market for Nepalese handmade papers.

Sources:

¹ NTIS, 2010

² Biggs, and Messerschmidt. (2005). Social Responsibility in the Growing Handmade Paper Industry of Nepal. *World Development*, 33(11), 1821-1843.

³ Federation of Handicraft Association of Nepal (FHAN),

⁴ ITC Trade Map, 2016

Pashmina



Roughly one-third of exports of pashmina face difficulties with NTMs (Figure 27). Most difficulties relate to conformity assessment requirements of partner countries (72%) followed by export requirements or procedures in Nepal (21%). Limited or inappropriate testing facilities in Nepal and high fees to get products tested and certified abroad are the main POs hindering exports of pashmina.

Quality testing facilities

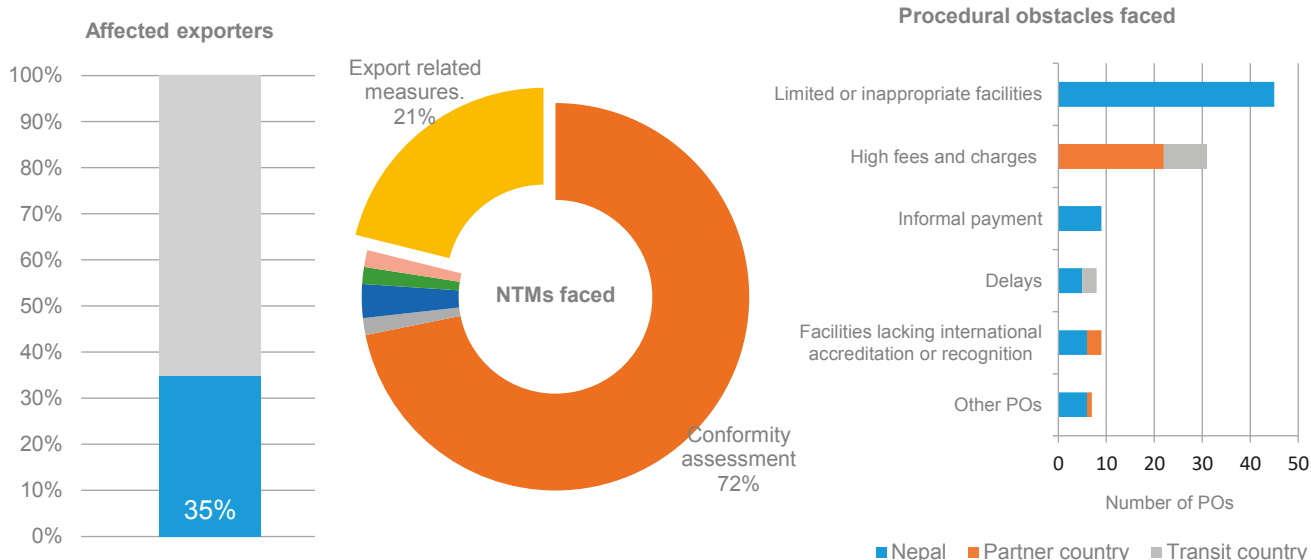
Many exporters expressed their concern with lack of proper testing mechanism to certify the quality of pashmina materials. Foreign buyers demand the quality of pashminas be certified by an accredited testing laboratory. The main concern among exporters is the lack of agencies in Nepal that can conduct such testing. Though there are some testing mechanisms available within the country, they are not up to required standards and not recognized by foreign buyers.

The European Union requires the Azo-free certificate for Pashmina shawls. As there is no agency with international accreditation in Nepal, we send samples to India for certification.

Pashmina Exporter, ITC NTM Survey

As a result, exporters send samples to accredited testing facilities abroad to ensure the quality of the materials before exporting. SGS London and SGS India are among the most used laboratories by Nepalese exporters.⁵⁶ The concern for the exporters, however, is the high price associated with this testing operation plus various shipping charges that are involved while sending the sample of related materials. Some exporters send samples directly to the buyers who then certify the quality by themselves and order the product if they deem the product quality to be good. Limited or inappropriate testing facilities are the main POs pashmina exporters face (Figure 27).

Figure 27 Pashmina exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Survey Nepal, 2016

⁵⁶ SGS, which is one of the world's leading inspection, verification, testing and certification companies with more than 1800 offices and laboratories, is preferred by many Nepalese exporters.

Product handling at customs

The quality of pashmina products can degrade over time due to moisture absorption. Thus, it is important for exporters that moisture is kept away from the products and proper packaging is ensured. According to exporter's testimony, during custom inspection, the custom officials mishandle the products disrupting the product packaging. Because of this the product's quality often gets affected as moisture gets inside the packaged product.

Nepalese regulations on exports

The export process is affected by problems in Nepal's export policy. Excessive administrative windows, not limited to Handicraft Association of Nepal, Nepal Chamber of Commerce and Nepal Customs, are troublesome for exporters due to delays. Another cause of delay is product inspection.

The Pashmina sector, is affected by cases of informal payment. Many exporters pay informal payment to speed up the export process in administrative windows and minimize harassment by custom authorities.

Exporters propose decreasing the number of administrative windows and increasing the number of officers at Nepalese Customs to reduce inspection delays.

Industry profile: Pashmina

Nepalese pashmina products include shawls, stoles, scarves, mufflers, blankets and pullovers. Some of these items are embroidered, shaded, beaded, printed, and painted to enhance sheen, shine, value and fashion.

Nepal has minimal production of raw pashmina (cashmere) yarn, but has long manufactured pashmina products. Major Nepalese manufacturers import pashmina yarn from China to produce pashmina products.

Private sector entrepreneurs have invested heavily in modernization of weaving and introduction of knitting mechanisms. There have been significant improvements in production processes. Labour quality and logistic systems have improved.

In 2015, Nepal exported 2,556,947 units of Pashmina products worth \$26.7 million, about 3.6% of Nepalese exports.² After a significant fall in export value in 2012, pashmina exports have increased. Pashmina exports have been helped by the Generalized System of Preferences, the zero duty/tariff facility provided by the European Union and the United States.³ Nepalese exporters of pashmina products have been able to capitalize on the facility as their major importers include European countries and the United States.

Sources:

¹ Nepal-Chyangra cashmere and silk product paper, ITC (2007)

² Export Import Data Bank. Government of Nepal (2016) and ITC Trade Map (2016)

³ TEPC (2016).

Readymade garments

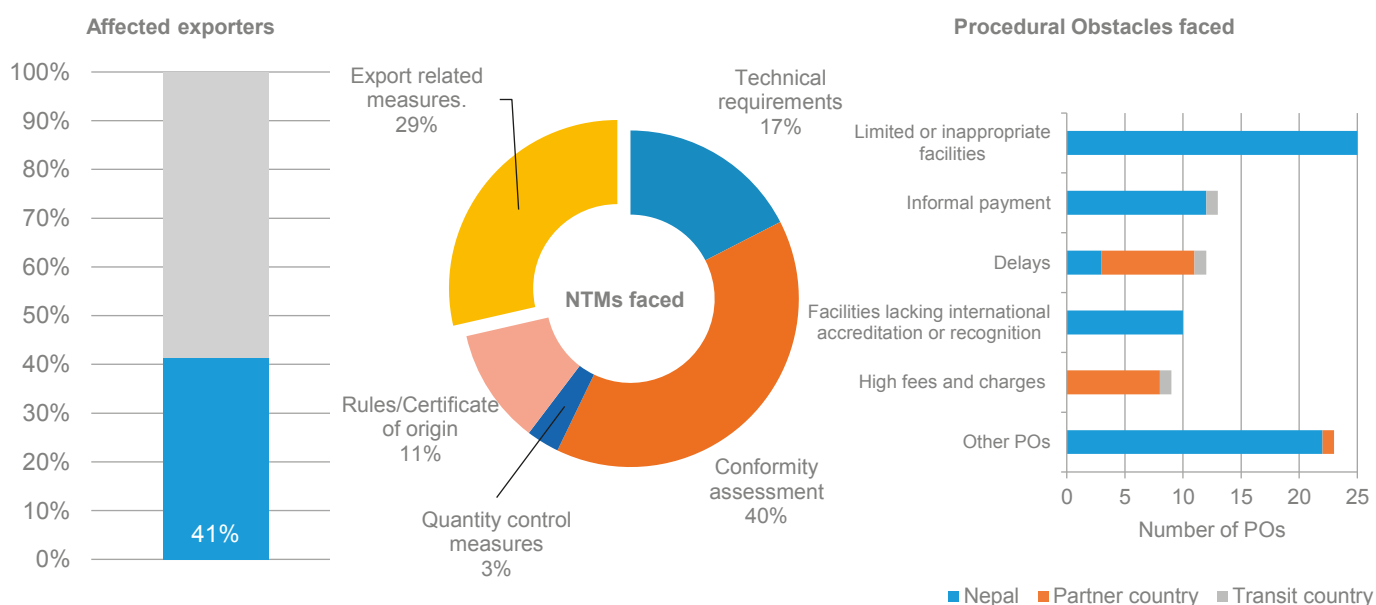


© Shutterstock

About 40% of readymade garment exporters face difficulties with NTMs. Most difficulties relate to various conformity assessments of partner countries (40%) followed by export requirements or procedures in Nepal (29%). Limited or inappropriate testing facilities and high fees to get products tested and certified abroad are the main POs hindering Nepalese exports of readymade garments.

Exporters of readymade garments indicate various difficulties relating to conformity assessment. Importing countries require the clothes must be free from harmful chemicals. Nepal has no machines or laboratories to test whether the products are free from such chemicals.

Figure 28 Garment exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Survey Nepal, 2016.

Azo dyes are carcinogens and banned in many countries. Nepal lacks testing facilities for azo. Exporters must send samples of readymade garments to foreign agencies for testing.

Zippers in cotton bags and garments must be tested for lead and nickel content. While there are testing facilities in Nepal exporters view them unreliable. Exporters say that export processes are affected due to strict implementation of advance payment requirements by Nepal Customs.

While advance payment certificates are not burdensome, related procedural obstacles are. Nepalese Customs officials require that advance payments come from the same companies purchasing the products.

In some instances, the company making the payment is not the same as the purchasing company. For instance it could be a subsidiary company making the payments. In such instances, exporters have had a

To export to Japan garments must be free of harmful chemicals. There is no facility in Nepal to test the products and ensure they are free from harmful chemicals. We have our products tested in Hong Kong or India, which leads to higher cost.

Garment Exporter, ITC NTM Survey

difficult time convincing the officers. Small discrepancies between the purchase order and payment receipt are usually due to banks deducting some transaction fee, which have led to difficulties at Customs.

There are other administrative problems for readymade garment exports. Occasionally, exported goods are returned due to damages or not meeting standards. Nepal Customs charge an import tax to exporters on returned products. It is very burdensome to get products back. Many documents must be submitted and the customs officials demand bribes.

Industry profile: Readymade garments

The readymade garments sector is one of the largest export sectors in terms of foreign exchange earnings and also provides substantial employment opportunities. Coats, jackets, jumpers, jump suits, shirts and blouses, skirts and trousers, slacks and shorts, quilted jackets and waistcoats made from cotton or rayon are the main products exported from Nepal. The major export markets for Nepalese garments are the United States, Canada, Germany, France, Netherlands, the United Kingdom, Switzerland, Spain, Italy, Australia and India.

Nepal's export of garments has decreased over the years. In 2015, readymade garments' share in Nepal's total export was around 1.8%.² In 2000-01, Nepal's garment exports reached an all-time high of Rs13.12 billion, with exports to the United States accounting for 86%, Nepal's garment industry witnessed a prolonged slump after the United States scrapped the quota system in 2005 pursuant to the agreement on Textiles and Clothing (ATC) of the WTO.

The garment exports slumped to Rs 5.28 billion in 2014-15 and number of garment industries came down to around 50 from over 400 in 2000-01.³ In between 2014-2015 alone, Nepalese garment industry witnessed a fall of 12% over the previous year's export value.⁴

Several efforts have been made to uplift the readymade garment industry in Nepal, in such one move, the United States agreed to special trade preferences allowing duty free facility to Nepalese readymade garments. Nepalese readymade garments were not eligible under General System of Preferences (GSP).

The United States had been imposing an average of 16% - 17% duty on Nepalese garments.⁵ The number of Nepalese garment exporting firms and exports to United States is expected to increase.

Sources:

¹ TEPC (2016).

² Export Import Data Bank, Government of Nepal.

³ Garments Association of Nepal (2016).

⁴ ITC Trade Map (2015).

⁵ Garments Association of Nepal (2016).

Carpets



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About 25% of carpet exporters face NTM difficulties. Burdensome NTMs fall under three main categories: export-related measures (50%), conformity assessment (18%) and technical requirements (11%). Limited or inappropriate testing facilities and informal payments to various persons are the main POs hindering Nepalese exports of carpets.

Foot and Mouth Disease free certification

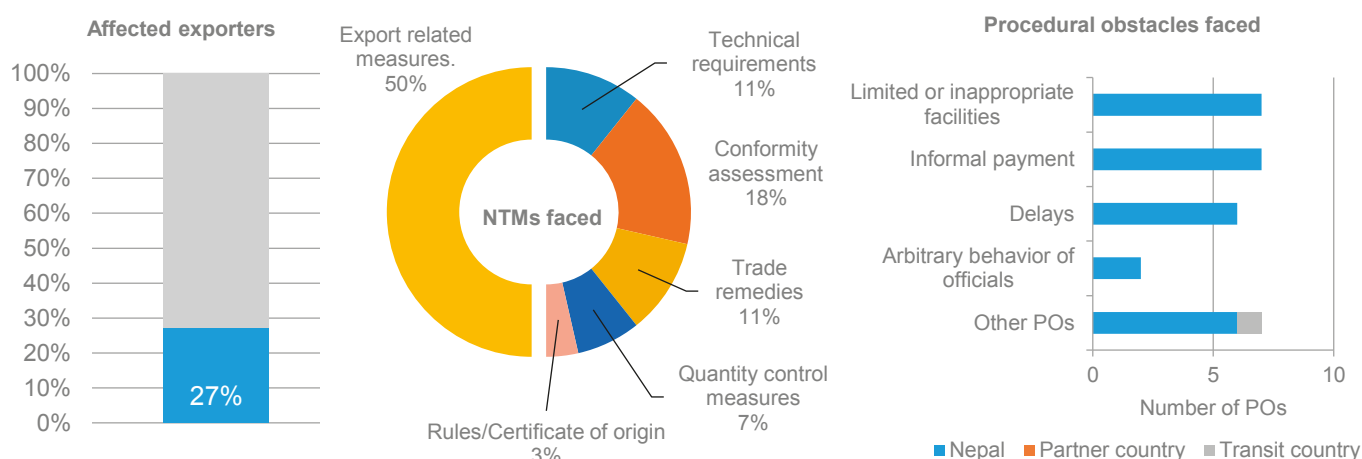
Exporters of hand-knotted carpets stated issues relating to certifications. Australia and New Zealand Customs require exporters to present Foot and Mouth Disease (FMD) free certification. FMD is a severe contagious animal disease. To manage the risk, these do not allow imports of susceptible animals and their products without conformity of FMD-free requirements,

Nepal has a certifying agency that validates Nepali product's do not have a FMD risk. However, the process to obtain the certification is cumbersome. The certification is done through a meeting chaired by the head of health department that takes place only once every six months.

Safety and quality requirements

Big buyers in importing countries demand azo and acrylic-free felt products. In addition to those, chemical bleaching during the manufacturing of carpets could use chlorine or sulphur compounds, which can form hazardous pollutants. The volatile organic compounds associated with carpet manufacturing may contribute to poor air quality, triggering allergies, asthma and headaches. To make carpets safe for human health adequate measures should be implemented, including not using chemicals for bleaching, but using biodegradable treatment methods; not using halogenated organic substances and phthalates during manufacturing; and complying with the 1,3- butadiene and azo-dye restrictions.

Figure 29 Carpet exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Survey Nepal, 2016.

Carpet producers and exporters say they follow environment and health safety requirements. However, due to lack of laboratories to test the chemical contents they are forced to take samples to India and Hong Kong. Exporters voiced their concerns regarding the cost associated with testing in the foreign countries and emphasized the need to have an accredited facility in Nepal.

Difficulties in Nepal

Hand-knotted carpets exporters complain of difficulties relating to export-related measures. Custom officials create unnecessary delay and often ask for various forms of informal payments to speed up the export process.

The advance payment certificate rule is a problem. It is almost impossible to go through legal channels while taking goods to trade fairs as the exporters cannot produce advance payment certificate since the goods have yet not been bought.

We cannot export without the advance payment certificate. This is a problem, particularly when exporting goods for trade fairs abroad, as payments cannot be received in advance during such events.

Carpet exporter, ITC NTM Survey

Other issues

Some exporters are affected by antidumping duties on Nepalese hand-knotted carpets imposed by Turkey. Some exporters lack capacity to obtain social compliance certificates, demanded by some big buyers. Some exporters' complain about the paper work burdens in order to export to India. Exporters are required to prove at least 30% value addition has taken place in Nepal.

Industry profile: Carpets

The carpet industry's contribution is significant in the Nepalese economy in terms of export, employment, and foreign exchange earnings.

Nepalese carpets are mostly hand-knotted. The art of carpet weaving is an old tradition in Nepal, especially in the mountainous region. Radi, Pakhi, Bakkhu, Darhi are well-known for carpets. Currently, hand-knotted carpets rank second in terms of overseas exports.

Nepalese carpets are made of fleece wool imported from Tibet, New Zealand and the United Kingdom. The types of hand-knotted carpets Nepal produces and exports are woollen, hemp, silk carpets and jute carpets. These carpets are available both in natural dyes and synthetic dyes with 60, 80 and 100 knots per square inch density. Specialized manufacturers may make 120 knots per square inch density and more.

Nepalese hand-knotted woollen carpets are major export products of unique qualities of texture, colour combination, resiliency, strength and durability. Designs are large and bold on a single dominant background. These carpets can be used on the floor or hung on the walls. The production process of Nepalese carpet includes wool sorting and washing, carding, spinning, dyeing, knotting, trimming, washing and drying, finishing and packing. Around 95% of carpet production carpet is in the Kathmandu valley.

Germany, the United States, Belgium, the United Kingdom, Turkey, Switzerland, Japan, Spain, Canada and Italy are the leading export markets. Germany absorbs more than 45% of total carpet exports.

Sources:

¹ Export Import Data Bank, Government of Nepal

² Nepal Kangri, online information available at: http://www.kangrigroup.com/index.php?nav=about_us

³ TEPC (2016)

Handicrafts and jewellery products



Thirty-nine percent of handmade-paper exporters experienced difficulties with NTMs. Types of NTMs they find burdensome fall under three categories: export related measures (32%), technical requirements (28%), and conformity assessment (22%). Testing facilities lacking international accreditation and limited or inappropriate testing facilities are the main POs hindering Nepalese exports of handicrafts products.

Archaeology Certificates

Most exporters experience problem in Nepal. One major obstacle relates to Archaeology Certificates. To export statues and other sculptures, exporters must acquire a certificate from Department of Archaeology stating that the handicraft is not an antique piece and is qualified to export. This is required to restrict smuggling of crafts with historical and archaeological importance.

The problem for exporters, however, is that they have to undergo a cumbersome and time-consuming process at the Archaeology Department. Companies complain of slow services and demand for informal payments to expedite the process.

Similarly, to export stone carvings exporters also need a certificate from the Department of Archaeology but stone carving product is not listed in the Export list of Archaeology Department. Hence, they are not being able to export through formal channels.

Similarly, to export stone carvings exporters need a certificate from the Department of Archaeology but stone carving product is not listed in the Export list of Archaeology Department. Hence, they are not being able to export through formal channels.

'Before exporting products, we must obtain clearance from the Archaeological Department, stating that the products being exported are not antiques or stolen. Officials ask for 'tea expenses', to speed up the process.

Handicraft exporters, ITC NTM Survey

Moisture level in wooden products, quarantine and testing requirements

Moisture level in wood products of Nepal is higher than the standard accepted by Australia. Exporters cannot do anything about the moisture level as it is naturally occurring. Products cannot pass through the Australian Customs.

Exporting wooden statues to the United States, China, France, Italy, Canada and New Zealand, these countries demand quarantine certificates. The Nepal Quarantine Office provides quarantine certificates but they are costly, Rs 40,000 (\$400).

While exporting wooden statues to the United States, China, France, Italy, Canada and New Zealand, non-toxic tests are required. The buyers demand such tests to ensure that the products are not harmful. As there are no such testing services in Nepal, exporter must send the goods to Hong Kong for testing.

Cadmium level in silver products

Silver jewelry items for export should not have cadmium content higher than 0.01%. The European Union requires a nickel and cadmium free test in all copper items and a lead free test on ceramic products. Since there is no proper accredited testing lab for such testing in Nepal, samples are sent to India and Hong Kong.

Advance payment requirement

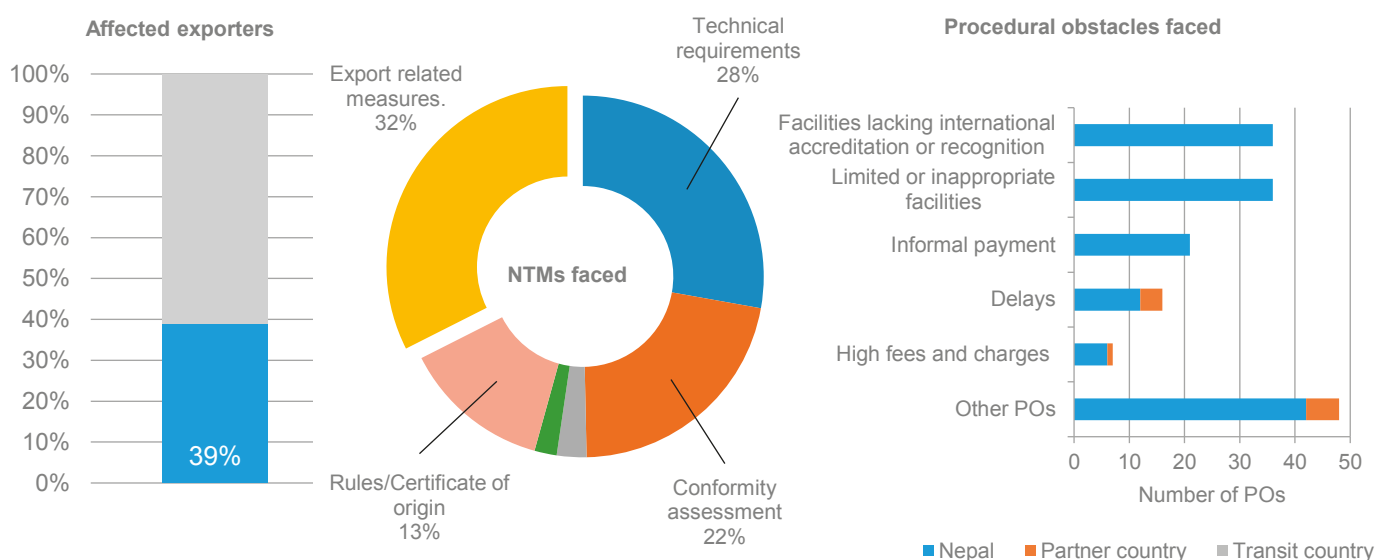
Very strict implementation of the advance payment requirement is also a concern for exporters. In many cases buyers are unwilling to make full payment before receiving the goods. Exporters feel their business expansion is being hampered by this requirement. New customers are usually very reluctant to pay in advance.

When shipment of goods are denied entry at foreign customs, the goods are brought back to Nepal. Re-import of the goods involves tedious documentation and payment of import tariffs. Exporters find these requirements of Nepal Government burdensome.

'If exported goods are rejected by buyers - usually due to damage - they are brought back to Nepal. Nepalese Customs imposes import tax on the reimport of these goods. Due to this measure, we are sometimes forced to dispose the rejected goods incurring huge losses.'

Handicraft exporters, ITC NTM Survey

Figure 30 Handicrafts and jewellery exports – share of companies affected by NTMs, and types of NTMs and procedural obstacles faced



Source: ITC NTM Business Survey in Nepal, 2016.

Challenges for Nepalese cargo and logistic companies

Logistic service providers manage the movement of goods, flow of information and take care of necessary documentations, fees, and payment during export or import. Most Nepalese exporters or foreign buyers of Nepalese goods nominate Nepalese freight forwarders to ensure a safe and reliable shipment of goods. Services provided by the logistics companies are important, in particular to the Nepalese SMEs that trade in small quantities, by consolidating shipments of multiple companies in order to make freight cost economical and have an easy distribution system.

Logistics companies play an important role in the Nepalese export market. Close to 60% of Nepalese exporters rely on the services of freight forwarding companies with 50% relying exclusively on them for the export process and related formalities of their products (Figure 7).

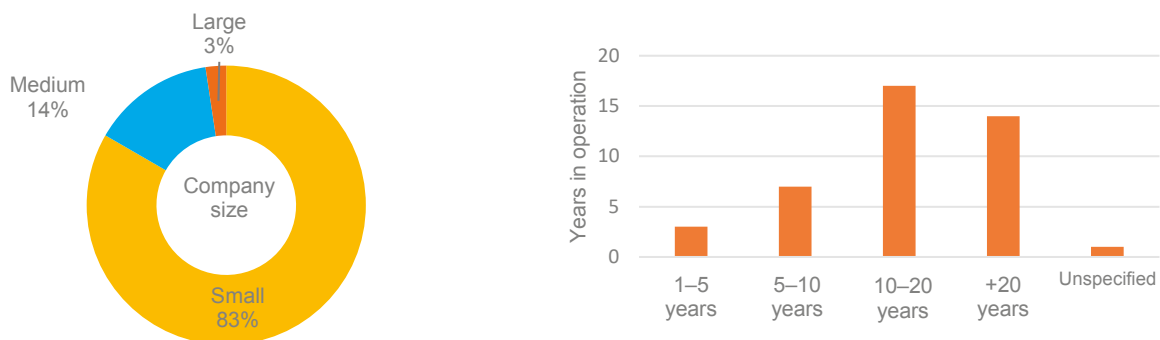
Given the important role of logistic service providers in Nepalese cross-border trade, ITC interviewed 42 logistics services providers to better understand the regulatory and procedural obstacles they face, identify the main transport modes and routes used, estimate the processing time for each process and segment,

and to get an overview of the types of services they offer. Their responses complemented the opinions of 500 active exporters and importers.

Logistics companies in Nepal

There are more than 900 logistics and freight forwarding companies registered in Nepal. These companies play a major role in facilitating trade, both import and export.

Figure 31 Nepalese logistics companies size by size and years in operation



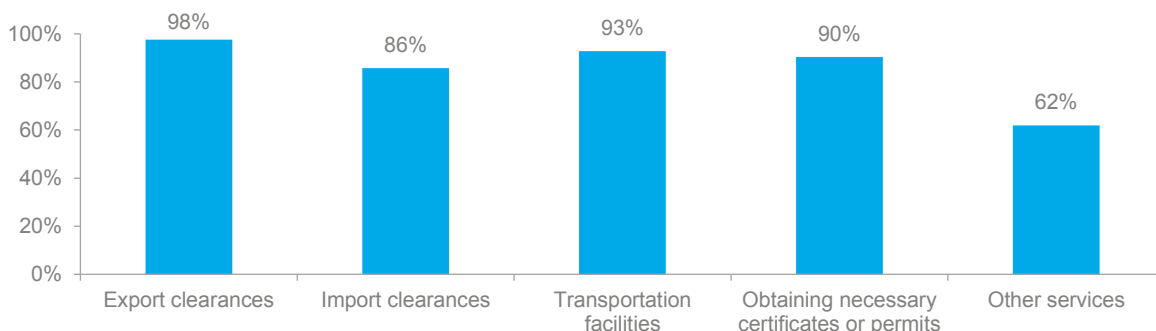
Source: ITC NTM Business Survey in Nepal, 2016.

Most of logistics companies in Nepal are small-sized companies. Of the 42 companies surveyed 83% are small companies employing less than 20 employees. Medium-sized companies, employing 20 to 100 employees, accounted for 14% of the sample, while large-sized logistics companies account for 3%. Majority of these companies (75%) have been in operation for over 10 years (Figure 31).

Freight forwarders handle preparation of documents, arrange loading on trucks, facilitate customs procedure, arrange onward movement to transshipment point, arrange compliance with customs, port and other agencies regulation, issuing of bills of lading, and provide the right documents or tracing and tracking of cargo to the destination port and beyond.

The Nepal Freight Forwarders Association (NEFFA), the business association of logistics service providers takes responsibilities as the principal agent for international cargo. The association collaborates with the Nepalese Government to carry out awareness and orientation programmes for traders on issues such as Incoterms, transfer of risk and ownership between the buyers and sellers, liability of freight service providers and transporters and multimodal transport. It is also engaged in facilitating the development of physical infrastructures mostly storage facilities for dangerous and perishable goods at the air cargo complex at the Tribhuvan International airport.

Figure 32 Share of logistics companies offering various services



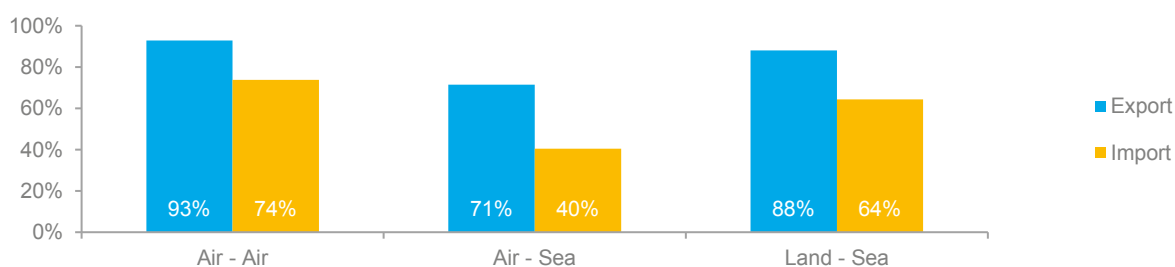
Source: ITC NTM Business Survey in Nepal, 2016.

Most surveyed logistic service providers offer all basic services to Nepalese companies for export and import processing. Almost all (98%) logistics companies offer services on export clearance and 86% offer import clearance services (Figure 32). Transportation of goods is provided or arranged by 93% of the survey companies. Ninety percent of logistics companies obtain necessary certifications and permits to their clients. Another 62% of the companies offered additional services such as packaging, insurance, consulting and warehousing.

Nepalese freight forwarders rely on three modes of transportation:

- **Air–Air:** Among the 42 surveyed logistics companies, 93% used air transportation for the direct shipment of goods for exports and 74% for imports (Figure 33). This mode of transport is more frequently used to ship carpets and pashmina to Germany and the United States; herbal products to Europe; handicrafts to Europe and the United States; and tea and coffee to South Korea, Germany and Japan.
- **Air–Sea:** Nepalese companies use this mode of transport to send consignments via air cargo to major sea hubs such as Bangkok, Colombo, Singapore or Hong Kong. The consignments are then forwarded to final destinations by sea freight. The air-sea mode of transport is at least 10 to 15 days faster compared to land-sea mode of transport and freight rates are cheaper compared to shipment to the final destination directly by air cargo. Around 71% of companies surveyed are using air-sea mode of transport for exports and 40% for imports (Figure 33).
- **Land-Sea:** This is the most economical mode of transport but the transit time is the longest. In case of exports, consignments are transported on trucks to the Nepal-India border. The consignments are then loaded onto containers and transported by Indian trucks or train to transshipment point in Kolkata for onward journey by sea to the final destination. In case of import, the shipment arrives by sea at Kolkata and then is move on to Nepal by truck or train. Among the surveyed freight forwarders, 88% use this mode of transport for exports and 64% use them for imports (Figure 33).

Figure 33 Modes of transportation used by Nepalese logistics companies during export and import



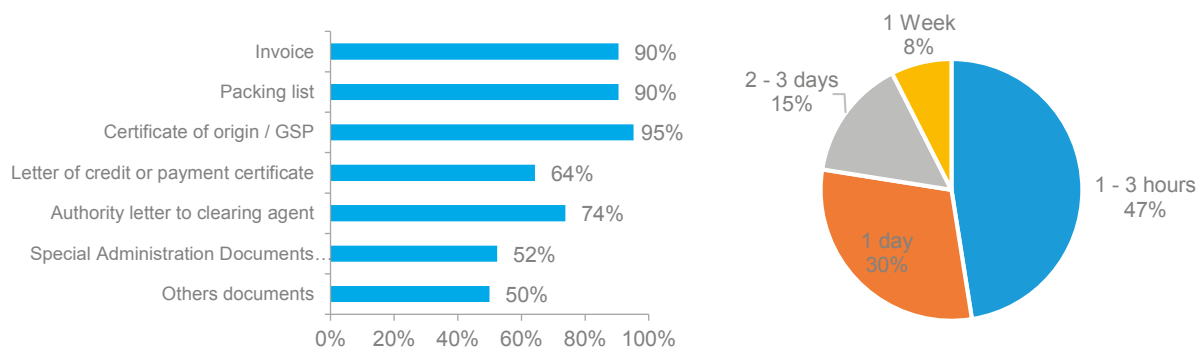
Source: ITC NTM Business Survey in Nepal, 2016.

The export process

Most logistics service providers help exporters in preparing necessary documents for export. The types of documents logistics service providers help prepare vary. Almost all (over 90%) of the logistics service providers help prepare three basic documents needed for the export of goods such as invoices, packing lists and certificates of origin (Figure 34).

A smaller share of companies provide services in preparing the letters of credit or payment certifications, authority letters to clearing agent and Special Administrative Documents. Half of the surveyed companies provide services in preparing other documents such as plant quarantine and fumigation certificates, handicraft and lab certificates, shipping documents, CTD, PAN, advance payment certificates and archaeological certificates.

Figure 34 Types of documentation prepared by logistics service providers and time required



Source: ITC NTM Business Survey in Nepal, 2016.

For roughly half (47%) of the companies only a few hours are required to prepare necessary export documents for their clients (Figure 34). For 30% of the companies it takes around 1 day to prepare while for another 15% it takes between 2 to 3 days. A few (8%) require up to one week.

Birgunj is the main customs point used by exporters

Kathmandu is the main starting point for exports for most of the surveyed logistics service providers. Tribhuvan International Airport (TIA) is the most frequently used customs exit point for 26% of logistics companies. These companies rely mainly on air-air or air-sea modes of transport. Given the close proximity of the airport to the capital city, it usually takes only a couple of hours for the companies to transport goods to the airport.

Land border crossing to India is the most frequently used route for most companies (74%). Around 67% of the companies use Birgunj Customs and 7% use Biratnagar Customs for exports. It takes between one to two days on average for most companies to transport goods from their source to the customs points in Birgunj and Biratnagar.

Export clearance at Nepalese customs can take from a few hours to a few days

The time required for export clearance in Nepalese Customs varies across the three main custom points. In Kathmandu (TIA) clearance takes a couple of hours in average with a few companies reporting that it can take up to one day. In Birgunj, however, the time required for export clearance is much longer requiring on average one to three days.

The clearance time in Indian Customs is one to two days on average with some companies reporting having to wait up to four 4 days.

Ports of Kolkata are mostly used for onward journey

For Nepalese exports, the Kolkata port of India is the main transit point. The port is a significant distance (1,047 km) away and takes 4 to 10 days, on average, for goods transported from Nepal.

After arrival at the port it takes 4 to 7 days to board ships at Kolkata. The journey from Kolkata to Singapore or Colombo takes between 6 to 10 days. Another 3 to 4 days is normally needed to move from the transshipment port in Singapore or Colombo for the onward journey. The journey to Europe takes between 19 to 22 days and 27 to 34 days to the United States.

Air shipments normally take 4 to 7 days to reach destination depending on the type of flight, transshipment point and space availability after customs clearance at Kathmandu.

The dwell time for the clearance of goods at the Kolkata port is normally around 2-3 days whereas some traders reported the dwell time to be as long as 12 days. Around two days is required for clearance of goods at Indian customs points.

The import process

Around 86% of logistics service providers are engaged in the import of goods to Nepal (Figure 32). The Asian region is the main market where most logistics companies import from. At the country level, over three-quarters of companies identify China as the main import market. Imports from China usually are shipped from Shanghai, Shenzhen and Guangzhou. Similar to the export process, Kolkata is the port used by Nepal for imports. Following the arrival of the goods, it can take between 1 to 2 weeks for goods to be unloaded, clear customs and forwarded to Nepal via truck or train.

In addition to the Kolkata port, Nepal and India have also reached an agreement to allow Nepalese traders to import goods from third-countries from the Visakhapatnam port. However, this route is not yet operational.

For shipment of goods via road transport, Birgunj and Biratnagar are the main entry points. Over 60% of the logistics service providers identify Birgunj as the most frequently used customs point for import of goods. Most companies report that it takes between a week to 10 days to transport the shipment from Kolkata port to Nepalese customs entry points.

TIA airport in Kathmandu is the sole entry point for shipments via air transport. Around one-quarter of the logistics service providers use TIA as the main entry point for their shipments.

Import clearance in Nepalese customs at the Kathmandu airport is relatively quick taking on average a couple of hours to up to a day. The same process in Birgunj and Biratnagar take much longer with most logistics service providers indicating that it take at least a day and up to 4 days. These delays aid to the high increase in cost of imports and exports.

Constraints faced by logistics service providers

Perception on transport infrastructure

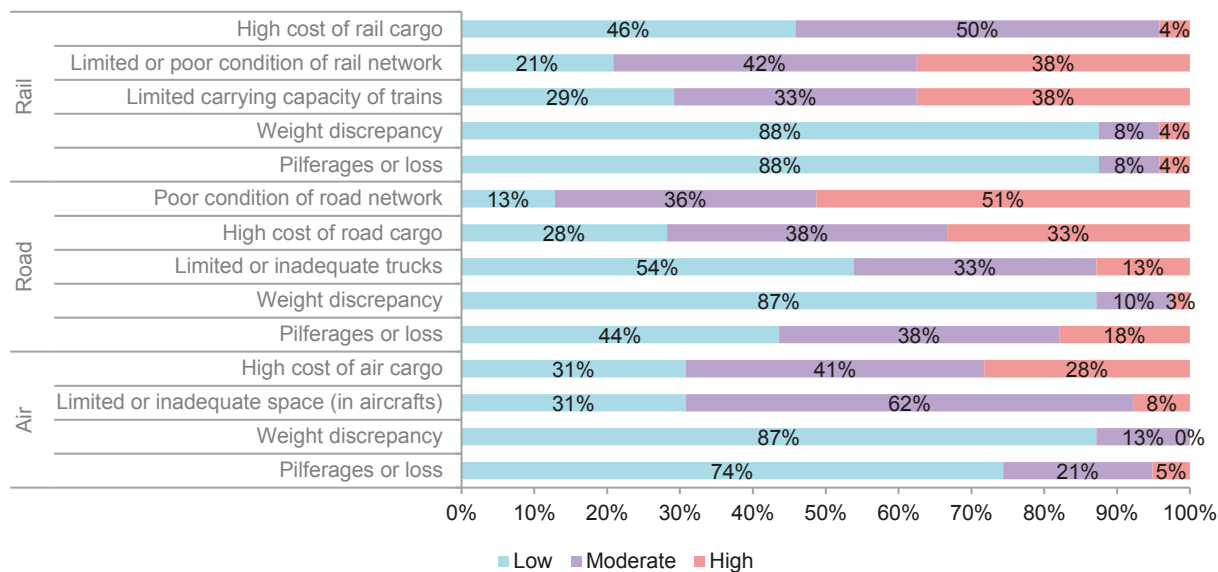
Cost of transportation in Nepal – rail, road and air - is a cause of concern for logistics service providers. Around 54%, 71% and 69% of the companies perceive at least moderate level of risk associated with the high cost of rail, road and air transport respectively (Figure 35). The current state of rail and road transportation is also a cause of concern to the logistics companies.

Road transport

Over half of the companies perceive risk due to poor road conditions (Figure 35). During the rainy season, floods and landslides cause roads to be blocked. Nepalese trucks can operate in India only with a special permit. As there are only a limited number of Nepalese trucks with the permit, consignments have to be off-loaded and re-loaded into Indian transport carriers at the border point.

Due to obstruction in movement of vehicles, importers have been compelled to pay high detention charges to the port and shipping liners. Factors like congestion, poor quality roads, inflexible travel times and narrow roads have contributed to increasing costs. More than half of the companies also see some risk of pilferages and loss in road transport.

Figure 35 Logistics companies' perception of risk with transportation in Nepal



Source: ITC NTM Business Survey in Nepal, 2016.

Rail transport

Eighty percent of companies perceive moderate risk due to the limited or poor conditions of the rail network and 71% indicate concerns due to the limited capacity of trains (Figure 35). Exporters can use rail transportation for cargo only through Birgunj ICD. The Container Corporation of India Limited (CONCOR) is the Indian government agency managing the operation of container trains between Birgunj and Kolkata, while Indian Railways manages the train movement and supplies the locomotives, rake and wagons. Nepalese traders find the allocation of rake for Nepalese cargo to be insufficient.

Companies are concerned about the conditions of the rail from Kolkata Port to Birgunj ICD. Due to old and poorly maintained tracks it is not uncommon for the trains to derail, delaying shipments. India has upgraded the train tracks to Jogmani and Biratnagar customs points from meter gauge to broad gauge. However, they have not yet permitted train-cargo movements to these custom points.

Several other factors lead to delays in train movement. There are no fixed schedules for train movement. CONCOR waits for a few days for the completing a rake with 92 wagons before the train can depart. On average, four trains per week depart from Kolkata to Birgunj ICD. CONCOR charges Nepalese traders for empty containers that are stored in the yards waiting to be sent back to Kolkata.

Air transport

Seventy percent of companies feel constrains due to limited air transport capacity. Lack of online booking systems in airlines operating in Nepal causes uncertainty among traders about cargo carrying capacity.

Perception on available services at Nepal customs points.

Most logistics companies (62%) are not satisfied with the current automation system at Nepal Customs (Figure 36). However, 80% indicate that they have experienced improved conditions in customs clearance mechanisms and electronic or computerized procedures in the last five years.

Around half of the companies express dissatisfaction with risk management systems, warehousing facilities and safety of cargo at customs points. Lack of proper warehouse and cold storage facilities at the major border points in Nepal is a problem. Companies say that they must store their goods in open spaces outside the warehouse. During the rainy season, goods are vulnerable to damages due to water leaks in warehouses. Exporting or importing sensitive items like vaccines, medicines and processed foods is a

challenge due to difficulties in maintaining the temperatures at the warehouses. It is also difficult to export perishable products due to lack of refrigerators.

Seventy percent of companies are satisfied with the document handling process. Most of the companies (67%) are also satisfied with the valuation process at the Customs with most having witnessed improvements in the past five years.

Though there has been significant increase in the volume of cargo over the years, existing infrastructures at both Nepali and Indian Customs are ill equipped to deal with the rising volume of both import and exports.

Opinion about availability of handling equipment at dry ports and customs points is divided among companies with 45% expressing their dissatisfaction and 52% generally satisfied with the available facility. Proper equipment to handle cargos is in short supply at Nepalese custom points. Essential equipment like forklift, cranes, containers to unload and offload the goods usually have to be hired from private operators with high cost because customs offices and airports in Nepal lack such facilities.

According to the logistics companies, only two forklifts are available at the borders that are mostly used for import handling. There is lack of forklifts for heavy products during exports. In addition, equipment to handle special and fragile products are absent at the custom points.

Companies feel there is a need to increase warehousing space and improve the management system together with necessary equipment such as forklifts and cranes.

Figure 36 Logistics companies' perception of services at Nepal customs points



Source: ITC NTM Business Survey in Nepal, 2016.

Traders find the customs system and practices of Nepal obsolete and that major reforms are needed to address the situation. The customs clearance process takes longer time than expected, due to reasons such as shortage of human resources, lack of automation and corruption.

Infrastructure at Kathmandu airports need upgrading. There are reported instances of traders having to wait for a long time complete necessary procedures when the x-ray machine was not functioning. Incoherent readings from different weighing machine are a problem. Companies also expressed concerns due to insufficient number of pallets available for loading in aircraft, and unavailability of back-up power system during load shedding.

Difficulties transiting through India

Transshipment and port operation in India

Most Nepalese export or import shipments pass through road or rail transport transit in India to or from ports in Kolkata. A large number of companies perceive risk associated with high cost in the port in India, 85% of whom report at least moderate risk to business and 41% see this as high risk (Figure 37). Companies say the port operation in Kolkata is not efficient. There is no provision of allotment of railway wagons on priority basis for loading and transportation of Nepal's transit cargo at Kolkata and Haldia ports.

Importers are facing problems due to the insufficient and delayed supply of wagons. Warehouse space available for Nepal at the two ports is not sufficient and there is no separate yard for containers. The inventory of empty containers in Birgunj is a cause of wagon and rack shortage.

Due to these constraints, importers have to transport consignments part by part particularly in cases of large and bulk cargo. In such cases, Nepalese importers have to pay penalty charges not only for delaying a portion of cargo but on the whole cargo. In addition, companies have to pay demurrage charge at the port for transit goods that have not been cleared due to conditions beyond the control of the traders, such as labour strikes and delays in transport by rail operators (CONCOR).

According to a study by Nepal government, Nepalese traders are paying almost \$69 million in demurrage charges per year in Kolkata port. Shipping lines start charging for demurrage if Nepal bound cargo containers are not returned to the port within 14 days. Delays in clearing leads to high storage and warehouses charges and increases the risk of goods being damaged, especially if they are seasonal or perishable products. Administrative hurdles at the port and multiple checking agencies at the border affect the total transit time.

These high export and import costs make it difficult for Nepali traders to remain competitive. Minor discrepancies in documentation (tonnages, pieces, value and date) that do not tally with the letters of credit also leads to delays in clearance and demurrage charges at the port. There are no shipping line offices in Nepal. Traders have to rely on Kolkata port agents and booking cargo containers for exports that become very troublesome.

Road transport in India

There is a lack of high-speed railways and roadways for transit transportation. High cost of land transportation in India is perceived as risky by 82% of companies. Road conditions between Kolkata and the Nepal borders are poor. This causes significant delays. Transit transport operators note that while it should not take more than two to three days to cover the distance between Nepal and Kolkata, bad road conditions mean that the journey takes at least seven days.

In the transit route between Kolkata and Raxual there are two road corridors. In the first corridor, Kolkata-Jasidih-Kiul-Barouni-Raxul, the road at Kiul is very narrow making the journey slow and difficult. The road conditions in Biharis are bad making the transit slow. Another route, Kodama Ghati that, passes through hilly terrain is difficult for long-truck trailers. Congestion and lack of adequate parking spots at border points in Rauxal and Panitanki have caused difficulties.

Cargo from the Kolkata port needs to travel mainly through three Indian states, Bihar, Uttar Pradesh and Bengal. Nepalese traders complain about the additional cost and problems associated with imposed state taxes.

Nepalese trucks are not allowed to transport goods in India without a special permit. Usually, consignments are off-loaded and re-loaded into Indian transport carriers at border points. Indian provisions such as requirements of driver's insurance, permission of Indian authority, fixed time of entry and exit, financial guarantee among others have barred the Nepalese transport to operate in India. In contrast, Indian consignments can be freely delivered throughout Nepal after receiving a single permit.

Insurance requirement for sensitive goods

The transit treaty between Nepal and India allows India to maintain a list of sensitive good, which have lower import duties in Nepal than in India. India requires Nepalese importers to obtain insurance or a bank

guarantee that duties shall be payable if the imported goods intended for the Nepalese market do not reach Nepal, i.e. consumed in India.

Products on the sensitive list include synthetic yarns and fabrics, car accessories, household electronics, and pharmaceutical products, whose import duties in Nepal are higher or the same as in India.⁵⁷ Hence, the risk that these products destined to Nepal will be smuggled to India is low. Nepalese importers are required to purchase additional insurance for products on the sensitive list.

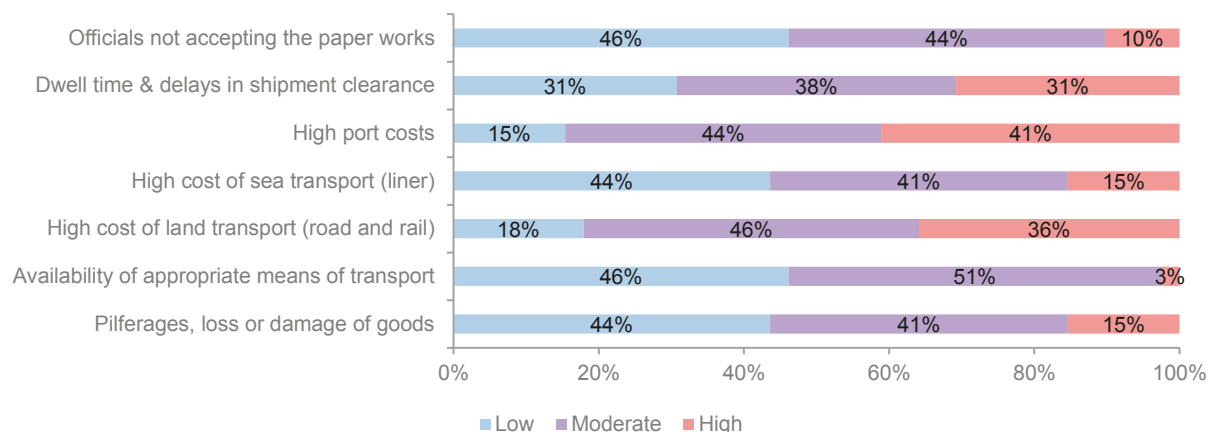
Only two insurance companies in India have the authority to issue these guarantees. Due to low competition among insurance companies, traders feel that the premium rates are high.

Administrative hurdles at Indian Customs

At Indian Customs, agents charge heavy amounts under various headings for instance, shipping line charges, haulage charges, port handling charges and container cleaning charges, to Nepalese consignments. Nepalese bond cargoes need to pay taxes on services received from Indian companies. Extra payments at transit entry and exit points are additional burdens.

Over 70% of companies report difficulties due to corruption in India. Bribes exceed 10% of the total transport cost along Kolkata-Raxual-Birgunj-Kathmandu corridor.⁵⁸

Figure 37 Logistics companies' risk perception in India



Source: ITC NTM Business Survey in Nepal, 2016.

A minor error by exporters causes administrative problems Nepalese companies find it unfair that they cannot obtain a custom clearance licences at transshipment and border points to facilitate imports to Nepal. India does not provide the licenses to Nepalese citizens even if they are willing to take the necessary exams.

Products originated from third countries cannot be imported via India. The Kolkata port, though a transshipment point, acts as the custom point thus requires full set of bank certified documents and creates problems for traders. Nepalese traders have a very little choice regarding high transportation costs, poor warehousing facilities; bureaucratic issues theft and mishandling of goods, delays of train and, additional duties, at Indian custom points.

Difficulties due to Nepalese restriction on foreign currency remittance

Traders face difficulties with international money transfer as Nepal has a strict foreign currency regulatory mechanism. There are restrictions on remitting money to clearing Agents at Kolkata port to pay for port, liner, clearing fees, transport charges, etc. Nepalese companies can remit the required amount only once under a SAD document. However, as companies may have to pay for unforeseen charges later it has to rely on

⁵⁷ Taneja, et. al. (2016)

⁵⁸ ADB (2005)

other means to transfer the money to the agents in Kolkata. As a result companies have to rely on *Hundi*, an informal method to remit money that has no legal status or protection.⁵⁹

Coordination in information sharing

Nepal Customs and Indian Customs do not have a proper system for electronic transmission of customs data, resulting in delays in release of goods. Nepal Customs started the automation program in the late nineties and is pursuing an Electronic Data Interchange (EDI) system. In contrast Indian Customs at Kolkata is still in the process of automation. Hence data exchange through papers is still the general practice.

Policy and Institutional constraints on transit

International treaties and conventions promise landlocked countries access to the seas and unhindered transit rights. Responsibility of implementing these rights lies on the agreement between the landlocked country and the transit country, in Nepal's case with India.

Nepalese companies indicate several issues not adequately addressed in Nepal's transit agreement with India. The treaty does not address the possibility of returning Nepalese export shipments back to Nepal after entering the port in India nor the possibility of replacing goods. Exporters who have suffered from theft of goods in India en-route to the Kolkata port have felt this constraint. The affected exporters are in the mercy of the importers as they are not able to get a clean bill of lading due to theft. Delays in resolving these issues may result in cancelled orders.

According to the treaty, Nepalese exporters and importers must pay necessary taxes and duties for goods lost during transit to the Indian government. Goods lost or stolen are assumed to be consumed in India. Nepalese traders can claim back the taxes and duties paid only after filing a First Information Report (FIR) at the police station nearest to the location of the theft and wait for their decision. There is a risk of L/C expiring or orders being cancelled while the case is being reviewed.

Traders have to request a special permission from the Nepalese authorities if they decide to bring back the goods to Nepal. Furthermore, Nepal charges duties and VAT on re-import of such goods.

Provisions for transit transport and loading standard are not mentioned in the Customs Acts of the concerning countries. Although the Article V of WTO/GATT agreement has stated the provision of freedom of transit, the member countries have not incorporated the provisions in their national legislation. Article VIII of the same agreement has made the provisions of charges and fees not on the basis of ad valorem but such charges are levied on the basis of services provided at the port. The transit providing and receiving countries have not improved the legal provisions so far in this regard.

Another legal constraint is unilateral notification of Government of India on transit and customs matter that effect transit transport of Nepal. The dispute settlement mechanism between Nepal and India is very lengthy. There is also no mechanism to involve private sector of two countries in trade facilitation.

Nepalese companies feel that there is a need for improvements in transit procedures, reductions in the number of documents and signatures. An efficient monitoring can help to reduce illicit payments here and there. Similarly, the clarity and transparency in procedures may help reduce complexity and inconsistency that leads to corruption practices.

⁵⁹ Reserve Bank of India. https://rbi.org.in/scripts/ms_hundies.aspx

CHAPTER 4 THE PUBLIC SECTOR PERSPECTIVE



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General conditions at Nepalese customs points

Nepalese customs officers were questioned on their problem with Nepalese traders, infrastructure and other key issues. Officers in nine customs offices – Pashupatinagar, Kakarbhitta, Biratnagar, Birgunj, Bhairawa, Nepalgunj, Dhangadi, Mahendranagar and Kathmandu (TIA) - were interviewed.

Most customs points, particularly busy ones, are preparing for major infrastructural upgrades. These customs points will soon be provided with much needed equipment such as weighing machines and scanners.

In Biratnagar and Birgunj, the two busiest customs checkpoints, available facilities are over utilized. Both are struggling with most basic of facilities like workspace for the staff, and inadequate warehousing facilities. In the near future, both will be supplemented by large dry ports. This should ease the capacity burden.

Customs will soon be replaced by Integrated Customs Points (ICP). Nepal and India have decided to complete the ICPs in Birgunj and Biratnagar in March 2017 and December 2018, respectively.⁶⁰ The ICPs are expected to ease the clearance process by integrating clearance processes at one spot.

These include customs and immigration facilities, weigh bridges, security and scanning equipment, currency exchange booths, Internet facilities, cargo process building, cargo inspection sheds, warehouse and cold storage, health and quarantine facilities, clearing agents, banks, scanners, closed circuit televisions, public address systems, isolation bay, parking, cafeteria, and other public utilities.

The Bhairahawa and Nepalgunj points, further west, are dealing with the flow of traffic more easily than Biratnagar and Birgunj. Bhairahawa is projected to come on par with Birgunj or even surpass it in the near future and is bracing for the eventuality with added space and equipment. Most of the cargo passing through Birgunj today is destined for the Central Region. Bhairawa can take in some of the traffic to offset Birgunj's burdens due to capacity overutilization. Traffic diverted from Birgunj to Bhairawa would not add noticeable costs for traders.

The Pashupatinagar checkpoint, on the eastern border with India, and Mahendranagar, the westernmost point on the southern border, share several commonalities. Both are small in terms of customs traffic and are used by the locals for daily necessities. Both are constructing new buildings for warehousing and

⁶⁰ <https://thehimalayantimes.com/nepal/nepal-india-complete-icp-birgunj-march/>

Table 8 General conditions and facilities in nine Nepalese customs points

	<i>Pashupatin agar</i>	<i>Kakarbhitta</i>	<i>Biratnagar</i>	<i>Birgunj</i>	<i>Bhairahawa</i>	<i>Nepalgunj</i>	<i>Kailali</i>	<i>Mahendranaga r</i>	<i>Tribhuvan International Airport</i>
No. of customs officers	1 (customs chief)	5	10	15	10	4	3	2	25
No. of sub- customs offices	4	12 (5 in operation)	9	11	12 (7 in operation)	7	7	4 (one in operation)	-
Customs management system used	Manual record keeping	ASYCUDA World	ASYCUDA ++	ASYCUDA ++	ASYCUDA ++	ASYCUDA ++	ASYCUDA ++	ASYCUDA ++	ASYCUDA ++
Time required for export clearance	Normally one hour	1-2 hours	1 hour	1-2 hours	Maximum 2 hours	1 hour	1-2 hours	2 hours	2-3 hours
Time required for import clearance	One to one and half hour	2 hours	1-2 hours	1-2 hours	2-3 hours	2-3 hours	1-2 hours	2 hours	5-6 hours. Green and red channels available.
Valuation method	Transaction approach	Transaction approach	Transaction approach	Transaction approach	Transaction approach	Transaction approach	Transaction approach	Transaction approach	Transaction approach
Export preparedness of exporters	Very low	Fair	Good	Fair	Low	Low	Low	Very low	Fair
Major facilities	Official residential facility	Weighing machine, labs, and residential buildings.	Client information centre, weighing machine.	Warehouse, residences, lab for food products, weighing machine	CCTV, residences, weighing machine, Warehouse, food lab, help desk	Improvement of infrastructure (building and equipment)	Residential facility, warehouse.	Residential facility, meeting hall, CCTV Camera	Residential facility, deposit section for imported goods, modern warehouses, scanners, labs, weighing machines, help desk, CCTV
Expected future developments at the customs points	Installation of weighing machine, software	X-ray machine	ICP, upgrade to ASYCUDA World.	Construction of ICP in progress	Help desk improvement, X- ray machine to be installed	Improvement of infrastructure (building and equipment)	Installation of Weighing machine, strengthening help desk. Customs point to be moved closer to the border.	Installation of weighing machine, upgrade to ASYCUDA World, purchase of baggage scanner machine	Upgrade to ASYCUDA World, make baggage clearance more effective by developing skilled manpower to handle scanners, human resource development
Major problems		Absence of cold storage	Inadequate space, no cold storage, absence of scanner	Warehouse facility to be improved, Absence of X- ray machine	Absence of X- ray machine	No residential facility, no ICP, no warehouse, power cuts.	Customs point is 800 meters away from the Indian border	Inadequate office space, no cold storage facility	Passenger clearance space congested, inadequate manpower to utilise the equipment.

Source: ITC NTM Business Survey in Nepal (2016)

administrative purposes, acquiring weighing machines, and have high prospects for greater flow of customs traffic. Pashupatinagar holds promise to become a major post for both trade and tourism.

The Gadda Chowki Post in Mahendranagar suffers from lack of infrastructure to support existing demand. The bridge, on the Mahakali, constricts trade by prohibiting loaded vehicles. The dilapidated condition of the bridge is a major bottleneck. A four lane bridge is planned to replace the old structure.

The Kakarbhitta checkpoint in the southeast has under-utilized capacity. New infrastructure and space have been recently added to the checkpoint. Kakarbhitta has the potential to become a major trading hub in the east if Nepal is able to utilize trading routes transiting Bangladesh.

Most customs points use ASYCUDA++ customs management system while Kakarbhitta has already upgraded to ASYCUDA World. Other customs points are also expected to upgrade to ASYCUDA World. Pashupatinagar checkpoint still relies on manual record keeping.

According to officers posted in the three major customs points; Biratnagar, Birgunj and Kathmandu; the export preparedness of exporters is good or fair in general. In other checkpoints officers find the export preparedness of exporters to be low.

Similarly, according to customs officers export and import shipments are cleared within a few hours in all customs points.

New public sector undertakings

Customs modernization and infrastructure development

The four-year Customs Reform and Modernization Strategies and Action Plan (CRMSAP) (2013-2017) established ten strategies and envisaged four outcomes.⁶¹ Another four-year plan will replace the current one. The CRMDAP is a comprehensive government action plan on customs development.

Automation

CRMDAP plans to upgrade the ASYCUDA++ system currently existing at most border points to ASYCUDA World. Kakarbhitta Customs has already upgraded to the latest version of ASYCUDA in 2016. Once the ASYCUDA World is implemented traders can fill out the forms from their homes and upload the documents as attachments. This automation process reduces the number of mandatory contact points between the trader and the government offices, and saves time.

The Customs Department has established a comprehensive central database for all the customs points to access. This is expected to both widen and deepen the automation of procedures.

Work is ongoing to develop a national single window.

Road Infrastructure

The only feasible cargo route between Kathmandu and the customs checkpoints in the southern plains is currently undergoing widening to accommodate the rising traffic. The widening of the Mugling-Narayanghat route and the Narayanghat-Butwal route are being undertaken with loans from international organisations.

There is a plan to build a new bridge over the Mahakali to facilitate traffic from western Nepal to India. The current road through Sharada Barrage is old, narrow and does not support truck moment.

Facilities at the customs

Additional resources and equipment is required to speed up clearance at the border. However, procuring and utilisation of modern equipment like scanners and drive-through weighing machines has been slow.

⁶¹ *Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2013-2017*, Government of Nepal, Ministry of Finance, Department of Customs

Trade facilitation: A work in progress

National bodies for trade facilitation

The Trade Facilitation Committee (TFC) overlooks projects from infrastructure development to legislative changes. The objective of these projects is to harmonize Nepalese customs and procedural provisions to meet international standards. The TFC is chaired by the head of the Customs Department and it holds consultations with stakeholders to expedite clearance and facilitation at the customs.

The National Trade and Transport Facilitation Committee (NTTFC) plays an advisory role in bringing about policy reforms and monitors trade initiatives. It plays the coordinator's role between public and private institutions and trade and transport-related agencies. NTTFC reviews trade and transport facilitation laws and procedures, provides feedback and suggests ways to simplify and harmonize them to meet regional and international criteria. Issues regarding intermodal transport, general transport and transit procedures, SPS and TBT cases and national single window are all areas of NTTFC concern. The body oversees the harmonization and standardization of documents on trade and transit and upgrading of human resources in the related sectors mobilize foreign aid.

Ratification of the Trade Facilitation Agreement (TFA)

Nepal ratified the WTO's Trade Facilitation Agreement (TFA) in January 2017. It has notified the WTO on 2 measures, Preshipment Inspection (Article 10.5) and Use of Customs Brokers (Article 10.6), under Category A for immediate implementation.⁶²

Ratification of the Revised Kyoto Convention

Nepal acceded to the Revised Kyoto Convention (RKC) in February 2017. The Convention has 121 customs standards that, if implemented in full, will harmonize the Nepalese customs with that of other customs points in the international arena. These standards are related with automation, tax, procedures, documentation, etc. According to the Department of Customs, Nepal still need to address many legislative measures, which are in the Convention but not covered by the current Nepalese legislation. The Customs Department is in the process of drafting the necessary legislations as demanded by the Convention.

Other updates

Enquiry Points have been set up for traders at the Ministry of Commerce and Supplies, the Department of Customs, the Department of Food Technology and Quality Control and the Nepal Bureau of Standards and Metrology. Trade and transit-related information is available in hard copy and electronic format. The websites of the concerned agencies contain updated information on these issues.

All the border agencies have begun cooperating with each other in risk analysis and documentation. Common procedures, including standards, fees and charges, specifications, terminologies etc. are applied without discrimination. Regular consultations are held with cross-border agencies for coordination and cooperation in the clearance process.

DoC has also established a help desk providing support to traders on export and import formalities.

Customs opening timings have been harmonized with India and China.

Quality and safety standards

Institutions charged with establishing standards include the Nepal Bureau of Standards and Metrology (NBSM) and the Department of Drug Administration. The Food Act and Nepal Standard Act govern food standards. The Department of Drug Administration regulates drugs for human use.

⁶² <https://www.tfadatabase.org/members/nepal>

NBSM develops technical standards for different products. NBSM is currently developing standards and labelling programmes for electrical appliances. The SPS enquiry point is at the Department of Food Technology and Quality Control, Ministry of Agricultural, Development, while NBSM looks after technical barriers to trade.

Agency profile: Nepal Bureau of Standards and Metrology (NBSM)

NBSM works as a secretariat to the Nepal Council for Standards (NCS) and has the responsibility of developing and promoting use of Nepal Standards. It is responsible for providing certification, testing facilities, calibration and laboratory accreditation services. The NBSM is a member of International Organization for Standardization (ISO) and affiliated member of International Elector-technical Commission (IEC).

One responsibility of the NBSM is to carry out inspection and supervision activities on industrial production and processes to demonstration of compliance with technical regulations (mandatory products) and for lot certification, as a part of contractual agreement for verification requirements.

The NBSM provides consignment inspection and the attestation services to government agencies as technical support to regulatory work like market monitoring, and addressing consumer complaints. NBSM inspects those products, which are mandatory to comply with Nepal Standards when the products come to the entry point. It also conducts post surveillance of NS certified products.

Technical standards bodies and laboratories

NBSM is the national standards body of Nepal. Nepal Council for Standards (NCS) is the governing body for Quality, Standards, Testing and Metrology (QSTM). NCS is responsible for developing national standards; adopting or to recognizing standards established by other national and international bodies; and determining license fees for using the NS Mark.

NBSM is responsible for assisting NCS by formulating draft standards; awarding NS mark licenses to industrial products on approval by NCS; inspection and supervision of industrial production and processes; surveillance of the market; testing facilities, calibration and laboratory accreditation services; appointing inspectors; and information dissemination and liaising with related international bodies.

NBSM also acts as a regulatory body, one of its functions being to carry out inspection and supervision activities on industrial production and processes for the purpose of demonstration of compliance with technical regulations for 11 controlled products where standards are made mandatory. This regulatory role may be perceived as conflicting as NBSM is responsible for development of these standards and also is involved in the testing.

NBSM laboratories

NBSM provides testing services through its 15 laboratories including testing laboratories for chemicals, textiles, building materials, food, leather, paper, pipes, electrical materials, mechanical equipment and petroleum. These laboratories test goods for product quality and at request of industry and other institutions. NBSM testing services have been accredited for a limited scope by the National Accreditation Board for Testing and Calibration Laboratories (NABL) of India.

Accreditation

A national accreditation body is yet to be established in Nepal. A draft bill on the Nepal Accreditation Council Act, 2014 to establish Nepal Accreditation Council for accreditation of conformity assessment (testing, certification and inspection) bodies has been submitted to the Parliament for approval.

While there is no accreditation body in Nepal, NBSM has implemented the Nepal Laboratory Accreditation Scheme (NEPLAS). Criteria for recognition is ISO/IEC 17025:2005. Under this scheme, 12 laboratories have been recognized/accredited by NEPLAS Board.

Currently, Nepal relies on cross-border accreditation bodies for international accreditation of conformity assessment services. The Management System Certification Services of NBSM is accredited by the

National Accreditation Board for Certification Bodies (NABCB) of India. The NABCB has also accredited NBSM for granting Product Certification to 13 products.

SPS bodies and laboratories

The Department of Food Technology and Quality Control (DFTQC) enforces the Food Act and Regulations the Feed Act and Regulations. Apart from working to enhance the quality and safety of food and feed products, the department works to enhance food processing and post-harvest techniques. It is responsible for implementing food and nutrition activities to reduce malnutrition. DFTQC has been the CODEX Contact point for over three decades. It became the National SPS Enquiry Point in 2004.

DFTQC has five regional offices at Biratnagar, Hetauda, Bhairahawa, Nepalgunj and Dhangadhi and 4 food quarantine laboratories at Kakarvitta, Birgunj and Mahendranagar on the Nepal-India border customs and at Tatopani on the Nepal-China border. There are 20 district inspection units including one inspection unit at Tribhuvan International Airport, Kathmandu. The Apple Processing Centre in Jumla looks after food quality in the Karnali Zone.

SPS and TBT enquiry points

NBSM is the national enquiry point under the WTO TBT Agreement. It provides information on technical regulations, conformity assessment procedures and standards developed by NBSM and other agencies.

DFTQC is the designated national SPS enquiry point. The National Notification Authority (NNA) under the Ministry of Agricultural Development (MoAD) is focal point for WTO on SPS notifications Measures and Agreement on Agriculture (AoA). It is also the agricultural trade focal section for SAFTA and BIMSTEC. The government has formed a WTO Reference Centre to disseminate information on progress made on WTO commitments and information on new opportunities.

According to MoCS the national focal points have been designated and procedural aspects are arranged. However, awareness among stakeholders is lacking about the role of the enquiry points. Traders are known to contact the relevant ministry instead, whenever they face SPS and TBT related problems. These issues are expected to be addressed through awareness measures, reforming procedures and capacity building of human resources.

They expect the ePing notification system to expedite these measures. The ePing system allows stakeholders in accessing WTO SPS and TBT notifications on products and markets. It sends alerts on new notifications and updates through email. The portal acts as a forum information sharing. These activities assist national enquiry points in expediting their work.

Lack of coordination among focal points and agencies as well as shifting of responsibilities among the ministries is a concern among officers and stakeholders.⁶³ They highlight weak institutional capacity of the enquiry points; weak conformity assessment infrastructure; non-recognition of testing certification; inadequate testing and calibration facilities; high cost and lengthy process of conformity assessment for exporters; insufficient legal and institutional mechanism for the protection of public health and safety; lack of risk-based inspection; and inadequate technical, infrastructural and human resources as constraints for Nepalese enterprises.⁶⁴

The focal points have been requested to regularly update the websites of the ministries as well as proper and timely notifications to the WTO in order to comply with Nepal's WTO commitments. It has also been recommended that the focal points have regular meetings to improve coordination among agencies.

A draft National Quality Policy has been developed defining roles and responsibilities of the different technical institutions to support quality of products and services. This policy needs to be reviewed, validated, finalised, communicated and implemented.

⁶³ http://www.sawtee.org/Featured_Events/FINAL_REPORT_4_5.pdf

⁶⁴ <http://sasec.asia/index.php?page=event&eid=204&url=sps-tbt-national-consultation>

Regional standards and mutual recognition

The South Asian Regional Standards Organization (SARSO) is tasked with development of SAARC Regional Standards. The standards must be ratified by each SAARC member country before they are adopted as SAARC Regional Standards (SARS).

According to the SAARC Agreement on Implementation of Regional Standards, member countries must ensure that modifications are not made in any national standards such that they become more stringent than the corresponding SAARC standards and thus create technical barriers to trade. Member countries also have to ensure that the national standards that differ from the SAARC standards are not more restrictive than necessary to fulfil legitimate objectives.⁶⁵

Products identified by SARSO for harmonization of standards together with the technical committee responsible are listed below:

SARSO Sectoral Technical Committees (STCs)	Products on which standards are being harmonised
STC on food and agricultural products	<ol style="list-style-type: none"> 1. Refined sugar 2. Biscuits 3. Sugar-free biscuits 4. Diet biscuits 5. Microbiological requirements for cream portion of filled biscuits 6. Instant noodles 7. Black tea 8. Vanaspati/Banaspati (veg. ghee) 9. Skimmed milk powder 10. National/CODEX standard for hygienic condition
STC on jute, textile and leather	<ol style="list-style-type: none"> 1. Identified Hessian products 2. Jute tarpaulin fabric 3. Jute twine 4. Jute carpet backing Fabric 5. Jute yarn 6. Cotton drill fabric 7. Cotton twill fabric 8. Towels and toweling fabric
STC on building materials	<ol style="list-style-type: none"> 1. Steel tube for structural purposes 2. Ordinary Portland Cement 3. Steel bars for concrete reinforcement 4. Structural steel 5. High strength deformed steel bars and wires for concrete reinforcement 6. Steel wires used in pre-stressed concrete 7. Method of testing of steel and steel tubes (such as tensile testing, flattening, bend test, etc.) 8. Ceramic tiles
STC on chemicals and chemical Products	<ol style="list-style-type: none"> 1. Towels and toweling fabric 2. Shampoo 3. Toilet soap

SARSO is developing a mutual recognition agreement (MRA) on quality assessment. This will allow South Asian countries to utilize each other's certification bodies. The SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment (MARCA) has been ratified by all SAARC Member States, except Nepal. The agreement is expected to ease acceptance of conformity assessment results within the region by SAARC member states.

⁶⁵[http://sarso.portal.gov.bd/sites/default/files/files/sarso.portal.gov.bd/page/ec31e589_6891_44ad_92ea_cbde961195d/SAARC%20Agreement%20on%20Regional%20Standards_20120306111558%20\(1\).pdf](http://sarso.portal.gov.bd/sites/default/files/files/sarso.portal.gov.bd/page/ec31e589_6891_44ad_92ea_cbde961195d/SAARC%20Agreement%20on%20Regional%20Standards_20120306111558%20(1).pdf)

Other developments

New transit routes

Nepal currently relies on Kolkata and Haldia ports in India for its exports and imports. Nepalese traders find these ports very congested. Trucks are not available when needed to load the cargo and insufficient storage space is forcing importers to undergo significant demurrage charges. Other difficulties are workers' strikes and closure of the ports for repairs.

Recently Nepal has sought alternatives to these two ports. It has signed a transit treaty with China, which has expressed willingness help with of Nepal's transit needs. Bangladesh has express willingness to allow Nepal to use its port in Chittagong. India has recently opened its Vishakhapatnam Port as an alternative to Kolkata and Haldia. There is talk of opening up a second transit route to Bangladesh's Khulna Port via India to be linked with railway.

The, Banglabandha Port of Bangladesh is the shortest route for Nepalese inbound cargo taking two days to reach Nepal. Currently, it takes 4 – 7 days to cover the distance to Kolkata. Visakhapatnam is twice the distance between Nepal and Kolkata. The Tianjin Port in China four times further away from Nepal as it is to Kolkata. On the other hand, the use of the port for Chinese goods bound for Nepal reduces the travel time to just a week as against the 35-40 days via Kolkata.

NTM Desk and the Trade Promotion Network

Nepal's NTM desk, set up by Confederation of Nepalese Industries (CNI), aims to monitor, and reduce non-tariff measures in intra-SAARC trade. The desk liaises with NTM desks in other SAARC countries and lobbies governments to facilitate trade. The desk is part of the SAARC Trade Promotion Network (TPN).⁶⁶

The SAARC TPN formed a Working Group for Regional Trade Facilitation (WG RTF) represented by the business chamber federations and trade bodies from across South Asia. It supported the launching of pilot NTM desks in Bangladesh, Nepal and Pakistan. By 2016, nearly all SAARC countries had set up national NTM desks.

Partners and members of WG-RTF aim to reduce hindrances due to NTMs. The desks will conduct studies of NTMs. The recommendations will be forwarded to the respective governments for action.

⁶⁶ SAARC TPN is set up with the assistance from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

CHAPTER 5 RECOMMENDATIONS



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The NTM business survey in Nepal aims to provide a better understanding of the trade obstacles experienced by Nepalese companies and to identify potential bottlenecks related to trade procedures and cross-border operations. Results of the survey show various issues, especially in relation to export quality management and infrastructure in the country, which needs to be addressed to alleviate Nepalese traders' difficulties with NTMs.

Difficulties experienced by the exporters have been discussed with relevant stakeholders in various bilateral and stakeholder meetings. Final results of the survey were presented during the National Stakeholder Meeting on 14 September 2016 in Kathmandu, Nepal. The purpose of the meeting was to present and validate the results of the NTM Survey, discuss the public sector's perspective and identify policy recommendations. Representatives from various government agencies, the business sector, research institutes and international organizations attended the meeting (see Appendix IV).

The following set of policy recommendations are put forward following consultations with stakeholders from the public and private sectors, business association representatives and experts. It is hoped that the survey results and the recommendations will assist the government and the private sector in creating an enabling environment for the private sector development and improve export competitiveness for Nepal.

Expedite customs modernization, facilitate transit and cross-border trade

Enhance customs infrastructure

- Single window operations should be quickly implemented. They will facilitate documentation and custom clearance procedures. Establishing joint custom points with India should be completed.
- Proper warehouse and storage facilities, quality-testing labs of international standards should be constructed at border points. Effective warehouse management, equipment such as forklifts, x-ray machines and containers should be in place.

- Separate counters and departure points should be set up for cargo goods at airports. Establishment of Warehouse Act and policies would ease the management of warehouses.
- Automation and reduction of paper work at government offices and customs would reduce the administrative burdens, time and costs.
- Construction of modern warehouses in at least three strategic points like the eastern, central and western regions of Nepal is necessary to distribute goods to different locations without bringing it to Kathmandu. This will save cost and time. It will also reduce the movement of heavy truck in Kathmandu. Warehouses will also help facilitate linkage of goods to domestic markets as goods (general or perishable) stored in such warehouse can be easily distributed.

Upgrade transport infrastructure

- Infrastructure bottlenecks such as electricity, road transport and standard-related facilities need upgrading for smoother trade servicing the domestic market. Several border access roads from Kathmandu are being upgraded to meet the growing requirements of freight trucks.
- Improvement of the overall transportation network is necessary. Syndicates and monopolies in transportation system at entry and exit points should be eliminated. Fair competition in transport prices along with proper monitoring should be ensured. Roads conditions should be improved.

Improve inter-agency communication and collaboration with private sector

- Frequent interactions among custom officials, exporters, importers and cargo companies would assist in improving their relationship and resolving trade-related problems.
- Trainings and information to exporters, importers, logistics companies and custom officials on the rules, regulations, bilateral and multilateral treaties, INCO terms, transfer of risks and ownership, and overall aspect of international trade should be regularly provided.

Engage with India for trade facilitation and dispute settlement

- There is arbitrariness in policy formulation and implementation causing difficulties for traders transiting through or trading with India. Dialogues with the Indian government is necessary to avoid arbitrary and inconsistent implementation of trade rules that have heavily affected Nepalese traders. Traders complain of Indian customs restricting Nepalese shipments even when policy does not warrant restrictions. Discretionary powers of Indian customs officers cause corruption. Nepalese traders report having to pay informal payments to unblock shipments or expedite the clearance process are procedural obstacles. Corruption and arbitrary decisions at the customs leads to additional costs and problems. This is a huge issue for agricultural producers of perishable items who face huge losses even with slight delays.
- It is necessary to be proactively engaged in implementing the bilateral trade treaty with India. Elimination of unnecessary charges like shipping line charges, haulage charges, container cleaning charges and other unnecessary charges under various headings levied by the Indian authorities contrary to the Nepal-India trade treaty terms should be negotiated. The treaty needs to be amended to reduce procedural delays and ease documentation processes
- Institutional arrangement under Consulate General's office at Kolkata should be made to address, problems which arise in Customs, Port or in Dry Port.
- Electronic data exchange between CONCOR, Kolkata and Birgunj ICD should be implemented.
- CONCOR, the only rail-mode service provider for Nepal needs to be made more reliable and monitored. It should have a scheduled cargo-train schedules that will allow traders to better plan.

Enhance enterprise competitiveness and sector development

Diversify export portfolio and trading partners, and encourage value addition

Diversifying the economy and broadening the export base towards high-growth sectors are critical for future development and poverty alleviation. Nepal should diversify its export portfolio and export markets to better integrate with international markets and global value chains. This can reduce its vulnerability to external shocks. This will require addressing supply-side constraints including access to finance, weak physical infrastructure, inefficient ports and high transport costs, shortage of skilled workers, technological bottlenecks, lack of entrepreneurship and management skills, information gap, and other factors contributing to high costs of doing business.

Develop export strategies through e-commerce

It is necessary to review the public sector and legal environment for improved structures and policy to support the development of e-commerce in Nepal.

Development of strategies for creation of e-commerce-related businesses to offer entrepreneurial opportunities to youth, women and underprivileged communities by building partnerships with local institutions and private sector partners is necessary. Training and support to entrepreneurs on marketing promotions and developing business through e-commerce should be provided.

Enhance quality infrastructure and enforce quality compliance

The NTM Survey highlighted a significant lack of testing and certification services in Nepal related to SPS and TBT requirements as well as in other areas. Such services are essential for SMEs wishing to export and having to comply with a number of requirements that require testing and certification.

Furthermore, complying with international quality-related market access requirements, standards and customer requirements were also key constraints to successful exports for Nepalese enterprises. The related challenges include (1) insufficient or unclear understanding as to what quality requirements and standards are required to access specific markets, (2) knowledge and skills related to how to comply with such requirements, (3) the lack of internal quality assurance and control.

Strengthen the capacity of testing and certification bodies

- Review control systems for food safety, plant health and pesticides use and undertaking similar reviews for other export sectors.
- Strengthen laboratories (DFTQC and NBSM) with necessary equipment, staff and develop expertise to development of additional testing and certification facilities. Attention should be given to food safety, including testing of Anthraquinone for the tea sector, testing for AZO dyes in textiles and testing required for other priority export sectors such as coffee, large cardamom and handmade paper.
- Testing and certification for specific export market requirements (e.g. the European Union's regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals - REACH) should be considered.
- Allocate additional funding to laboratories for proper maintenance and accreditation of priority testing.
- Support NBSM on standards development and promotion, increase the scope of accreditation, and develop a voluntary export certification scheme.
- Establish multifunctional labs accompanied with technical underpinning for the calibration, testing and inspection as well as accreditation of conformity assessment. Financial and technical support from

development partners may be required to establish labs, procure machines and train staff especially in relation to MRA at the border level.

- Strengthen certification bodies and facilitate international accreditation and/or development of mutual recognition agreements for relevant tests and other conformity assessment procedures with neighbouring partners
- Establish a traceability system for priority products (e.g. ginger).
- Strengthen the Plant Protection Directorate in relation to the pest-surveillance system in synergy with the Nepal India Regional Trade & Transit Project.
- Strengthen the national technical regulatory framework, including establishing a coordination mechanism among regulatory bodies and other institutions like DFTQC, NBSM and others to be agreed with the local stakeholders;
- Strengthen the National Productivity and Economic Development Centre (NPEDC) and other relevant institutions to improve their support services to selected sectors.
- Develop national quality and grading standards for handmade paper.

Retain human capital

High staff turnover in quality and standards bodies such as NBSM and DFTQC is one of the factors affecting the services offered by these agencies. These agencies have invested considerable resources, with the support of development partners, to train their staff on specialized skills. In many occasions, highly trained personnel are transferred to other post or move to the private sector leaving agencies without employees with the required skill sets. In addition to providing necessary trainings to staff to develop their skills and expertise, it is necessary to ensure the retention of highly skilled and specialized staffs.

Develop a business model

NBSM and DFTQC are not adequately funded to maintain laboratories and make infrastructural upgrades. Fees charged for testing and certification are minimal and is based on cost-recovery basis. It is necessary for both NBSM and DFTQC to develop a better business model that will allow them to provide quality services.

Capacity building of SMEs and agencies on quality assurance

- Provide training and support SMEs and producers of priority sectors along the value chains to comply with international market and buyer requirements.
- Develop national training and advisory support services to address the needs of SMEs focusing focus on:
 - Developing a quality culture among SMEs.
 - Interpreting and addressing market access (TBT and SPS) and buyer requirements.
 - Use of quality-related tools and techniques for process improvement, quality assurance and quality control.
 - Create sector-specific courses, tools, coaching and support focusing on key quality issues.
 - Providing specialized tools and support in areas such food safety (GAP, GHP, GMP, HACCP and ISO 22000), social responsibility and sustainability, health and safety, environmental management, energy management, organic production and certification, and quality management systems (ISO 9001).
 - Building a pool of national trainers and consultants attached to relevant institutions.
 - Developing a curriculum in quality management to be offered at university level.

- Develop online quality platform that includes:
 - Quality-related self-assessments, helpdesks and access to talent
 - Showcasing best practices, success stories and lessons learned
 - Connecting local quality and food safety experts
 - Connecting local service providers
 - Make beneficiaries aware of available services initiatives and events
 - Linked to similar networks in other countries for experience sharing, access to innovative solutions and potential institutional mentoring arrangements.
- Provide training and support for SMEs on packing and packaging materials to be used for storage, internal transport and exports to guarantee freshness, safety and compliance with other relevant requirements.
- Develop a national packaging centre to handle services such as grouped purchasing of packaging materials and equipment, design and printing of labels.

Building the “Made in Nepal” brand

Nepal faces challenges of achieving awareness in international markets. Most Nepalese enterprises do not have sufficient understanding and capacity to promote their produce and interact with international companies. Investments in improving quality and compliance with standards, and packaging are only worthwhile if they are accompanied by a strategy of improved communication toward international customers.

It is necessary to develop marketing communications and branding strategies by sector, which can have a great impact. Lessons can be learned from the pashmina sector and the “Chyangra Pashmina” brand, which has been registered in nearly 50 countries. This branding strategy is now beginning to raise awareness among potential buyers in the key markets benefiting all the enterprises in the sector. Other sectors in Nepal could develop similar strategies, building a stronger reputation collectively, with the benefits flowing to individual enterprises.

Improve transparency in trade and trade facilitation

Access to trade and market intelligence is critical to export success. But SMEs in Nepal often lack the resources and skills to acquire and process trade-related information that place them at a disadvantage compared with competitors in other economies. Policymakers rarely obtain the information they need to make their decisions, including in relevant WTO processes, notably the SPS and TBT Committees. Nepal needs reliable data for economic operators, institutions and policymakers to make better informed trade decisions.

Enhance trade information portal

TEPC recently launched a trade information portal to provide export and import related information.⁶⁷ The portal stores information related to current trade regulations and procedures including laws, administrative procedures and guidance notes. Information about relevant government agencies, private sectors, port authorities, standards institutions and customs will also be available in the portal.

The portal should integrate information about destination countries, such as tariff rates, rules of origin, NTMs and trade statistics. This should help Nepalese entrepreneurs identify potential markets for their products and ensure they meet the necessary requirements.

Train entrepreneurs on SPS/TBT notification alert mechanism

Nepal should implement an alert mechanism whereby SMEs can subscribe to receive alerts (e.g. by email or SMS) with information updates for markets and products of their interest, including WTO notifications on

⁶⁷ www.nepaltradeportal.gov.np/

future changes in SPS and TBT measures. This involves building a customized local interface to a new global notifications alert system. In addition to notifying entrepreneurs on new SPS/TBT regulations, this mechanism allows them to send their feedback on the proposed regulations back to the WTO via the national focal point. Workshop should be organized to train SMEs, business associations and national institutions on how to best use this tool.

Establish online reporting mechanism and NTM monitoring committee

Nepalese SMEs find market regulations and trade procedures challenging when they export or import products. Yet there is no simple channel to collect and monitor their concerns to coordinate actions of relevant institutions to overcome these obstacles.

An online platform should be developed to monitor and address difficulties faced by exporters and importers. SMEs should be able to share their concerns and directly question relevant agencies regarding obstacles they face, for example when trying to prove conformity with product quality and food safety requirements. In addition to the online portal, it is necessary to establish an institutional mechanism to ensure the continuity of the communication between the public and private sector, and to facilitate the improvement of the business environment. The mechanism can be linked with the national Trade Facilitation Committee to ensure cooperation of the different actors (policymakers and TSIs) to address NTM-related obstacles to trade and interact with companies.

Develop business process guide for the trade information portal

Document administrative procedures related to compliance with NTMs (e.g. certification of origin, export and import registration) for different products together with other necessary details such as cost, waiting time, etc. Based on this information, develop an online business process guide integrated with the trade information portal. This tool should give necessary guidance to exporters that are not familiar with the process involved, especially newer companies.

Build capacity of enterprises to facilitate and expand trade

Nepalese enterprises must be made aware of trade regulations and procedures. Workshops should include training sessions, such as identifying new markets, understanding market-access conditions, marketing strategies, supply chain management and advocacy. Equally important is the need for capacity building government staff to ensure effective and efficient services, eliminate corruption and reduce high staff turnover.

Streamline export regulations

- Advance payment requirement for export of goods should be reviewed. This regulation is being implemented to regulate flow of foreign currency. This has hindered SME's ability to find new buyers as they are reluctant to make full payments before receiving the goods. The strict implementation of this regulation by Nepal Customs creates problems for exporters.
- Import duties on Nepalese products that have been returned by buyers or during transit for a variety of reasons should be considered for removal. Additional duties on shipments that have been sent back impose a heavy financial burden on the Nepalese SMEs.

Issues and recommended actions

Activity	Burdensome NTMs & Related Procedural Obstacles (POs)	Affected Products and Sectors	Recommendations	Agencies Involved
Conformity assessment (testing and certification requirements)	Nepalese exporters are not fully aware of all the required conformity assessment procedures.	Ginger, coffee, pashmina, hand knotted carpet, etc.	<ul style="list-style-type: none"> Development and dissemination of appropriate guidelines Strengthen national enquiry points (TBT & SPS) with appropriate facilities and trained personnel. Involve media in information dissemination Organize public – private dialogue in matters regarding standards, technical regulations and conformity assessment procedures 	NBSM, all regulatory bodies and development partners
	Institutional collaboration among trade support institutions (NBSM, DFTQC and other regulatory bodies) is not sufficient.	All products	<ul style="list-style-type: none"> Review and implement national quality policy with clear roles and responsibility of each stakeholder Review national policies to better involve private conformity assessment bodies to support enterprises 	MoA, MoC, MoI and MoF
	Nepal's certificates of conformity in key international markets are not recognized	Tea, honey, pashmina essential oils, coffee etc.	<ul style="list-style-type: none"> Build capacity of conformity assessment bodies (testing laboratories, inspection and certification bodies) to increase the scope of accreditation. Encourage private sector's conformity assessment and create an enabling business environment. 	Government with support from development partners.
Technical requirements/ SPS measures	Product certification and quality testing is expensive and time consuming	Pashmina, herbal product, hand knotted carpet, honey, etc.	Establish mutual recognition agreements with trading partners	Government of Nepal with main trading partners
	Each consignment has to undergo sample testing creating delays and adding cost	Tea, pashmina, coffee, silver jewellery etc.	Strengthen capacity of national laboratories and certification bodies to minimize the cost and time	MOI, MoC, MoA, MoF
	Standards of various export products have not been defined well	Tea, coffee, cardamom, ginger, hand-made paper, MAPs etc.	Negotiate with the importing countries to avoid the sample checking of each batch of the consignment	Government of Nepal with main trading partners
	Weak coordination among SPS focal points and ineffective WTO SPS enquiry points	All products	Develop and promote standards for NTIS prioritized products	NBSM with support of sector associations
	Low level of knowledge among Nepalese exporters on products and process standards		Institutional arrangements to be made for better coordination among SPS related agencies	MoC, MoAD, MoI, MoF
	Weak implementation of standards	Tea, coffee, honey, ginger, silver jewellery, MAPs etc.	Product specific export guide portal should be in place	TEPC
Inadequate quarantine and associated facilities		Build capacity of producers to implement and comply with market relevant standards.	Product specific organization and standard related organization	
		Quarantine facilities at border points should be increased to reduce the cost and time for export	MoA, MoI, MoC, MoF	
		GoN should talk to Indian Government to accept third party certification and allow the same to operate in Nepal	GoN , GoI	

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	<p>Low awareness among Nepalese exporters about changes of tolerance limits for residues of, or contamination by, harmful substances</p> <p>Lack of national institutions to deal with fumigation requirements</p>	All agricultural products	<p>Regular interaction through a consultation mechanism between public and private sector on TBT and SPS issues with exporters about changes of quality parameters. Using online e-Ping Alert to get notifications on new SPS/TBT regulations being notified by partner countries to the WTO. National quality related institutions to be strengthened to deal with fumigation tests</p>	Product specific organization, TEPC, and quality related organisations
Customs Related	<p>Inadequate physical facilities at the Customs points such as warehousing, cold storage, residential facilities for the staff, weighing machine, power supply, crane, folk lift etc.</p> <p>Elimination of fees and duties imposed by Indian states on Nepalese exports in contravention of WTO rules and commitments</p>	All products	<p>Develop a Master Plan regarding physical facilities for the customs sector. Build capacity for procurement and handling of specialized equipment</p> <p>Bilateral talks with Indian government</p>	MoF
	<p>Too many documents required for export and import</p>	All products	<p>Periodic review of the rationality of export/import documents</p>	DoC
	<p>Inadequate client service desk</p>	All products	<p>Client service desk should be made effective at all customs points</p>	DoC
	<p>Pre inspection of consignment and reckless handling of precious goods at customs points</p>	All products	<p>Train customs officials to carefully handle goods</p>	DoC
	<p>Automation of clearance process at all customs points</p>	All products	<p>Speedily introduce ASYCUDA World at all customs points</p>	DoC
	<p>Incompatibility of H.S Code</p>	MAPs, agricultural products	<p>Expand HS Code (Create national H.S. Code at 8 digit level)</p>	DoC
	<p>Ineffective Trade Facilitation Committee</p>	All products	<p>TFC at local level should be made effective</p>	DoC
	<p>No separate provisions within the customs office for the speedy clearance of perishable goods like fresh vegetables/fresh gingers</p>	Perishable goods	<p>Sensitise customs officers to coordinate with Ministry of Finance to set up a separate clearance desk for fresh produces especially for SPS treatment</p>	DoC
	<p>Transit fees</p>	Medicinal herbs	<p>Take initiatives to enforce provisions in the bilateral treaty with India for exemption of any transit fees while exporting medicinal herbs to Uttar Pradesh of India</p>	GoN
	Other Barriers	<p>Multiple fees that exporters have to pay while passing through each districts</p>	All agriculture & forest products	<p>Single window taxation system and security seal should be enforced to eliminate multiple check points</p>
<p>Advance payment provision has a negative impact on export as many buyers are reluctant to make payment before delivery of goods.</p>		All products	<p>This provision should be withdrawn.</p>	MoF
<p>Import tax on goods returned by foreign buyers. Lengthy process to get the goods back is a burden to exporters.</p>		All products	<p>Such tax on re-import should be eliminated and the process be made simpler.</p>	MoF
<p>Monopoly of Indian trucks while carrying products from Calcutta. Nepalese trucks are not allowed to carry goods in India even when Indian trucks are unavailable at Kolkata. On the other hand, Indian transporters are allowed to spend 72 hours in Nepal.</p>		All products	<p>Provision of reciprocal treatment to Nepalese transporters should be made. This would help also to avoid congestion at Calcutta port.</p>	GoN

	No parameters of organic farming has been developed	MAPs/Agriculture products	Develop parameters of organic farming and collection	MoA
Supply of low volume of silver only by the central bank. Small manufacturers cannot get raw silver in small quantities from other sources	Supply of low volume of silver only by the central bank. Small manufacturers cannot get raw silver in small quantities from other sources	Silver Jewellery	Nepal Rastra Bank should issue a directive to commercial banks to allow them to sell low volume of silver	MoC to coordinate with the Central Bank & Banker's Association
No Standardized honey quality standards	No Standardized honey quality standards	Honey	Coordinate between DFTQC & NBSM and develop action plan to standardize honey quality standards	MoI, NBSM, DFTQC and MoC
Advance payment requirement even for goods exported for promotion at trade fairs where some could also be sold.	Advance payment requirement even for goods exported for promotion at trade fairs where some could also be sold.	Wooden statues, silver jewellery, hand-knotted carpets, etc.	Relax the requirement	MoF, MoC, DoC
Lack of national laboratories covering azo and acrylic test facilities	Lack of national laboratories covering azo and acrylic test facilities	Hand-knotted carpet	Enhance capacity of national laboratories to do the Azo and acrylic testing	MoC, MoI, MoF
Animal quarantine test issued by Nepal is not accepted by importing countries	Animal quarantine test issued by Nepal is not accepted by importing countries	Leather and leather product	Enhance the scope of animal quarantine facilities	MoLD
Informal payments.	Informal payments.	All products	Employees' Code of Conduct should be strictly maintained	GoN, anti-corruption authority

APPENDICES

Appendix I Non-tariff measures surveys: global methodology

Non-tariff measure surveys

Since 2010,⁶⁸ ITC has completed large-scale company-level surveys on burdensome non-tariff measures and related trade obstacles (NTM Surveys hereafter) in over 35 developing and least-developed countries on all continents.⁶⁹ The main objective of the NTM Surveys is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM Survey methodology described in this appendix is identical in all survey countries, which enables cross-country analyses and comparison. The country-specific part of the survey allows flexibility in addressing the requirements and needs of each participating country. The country-specific aspects and the particularities of the survey implementation in Nepal are covered in Chapter 2 of this report.

The growing role of non-tariff measures in trade

Over several decades, trade liberalization has been used as a development tool based on evidence that benefits accrue to countries actively engaged in world trade. Multilateral, regional and bilateral trade negotiations as well as non-reciprocal concessions have led to a remarkable reduction in global, average tariff protection. With favourable market access conditions, international trade has soared to previously unseen levels, raising overall welfare and standards of living.

The misuse of NTMs may undermine the impact of falling tariffs. The sound use of NTMs to ensure consumer health, protect the environment and safeguard national security is legitimate. However, evidence suggests that countries are resorting to NTMs as alternative mechanisms to protect domestic industries. NTMs have been negotiated within the General Agreement on Tariffs and Trade and at the World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly dealt with in regional and bilateral trade agreements. Many practitioners consider they have surpassed tariffs in their trade-impeding effect.

NTMs particularly impact exporters and importers in developing and least developed countries (LDCs) that struggle with complex requirements. Firms in these countries often have inadequate domestic trade-related infrastructure and face administrative obstacles. NTMs that would not normally be considered very restrictive can represent major

burdens in LDCs. In addition, the lack of export support services and insufficient access to information on NTMs impede the international competitiveness of firms. As a result, both NTMs applied by partner countries as well as domestic burdens have an impact on market access and keep firms from seizing the trade opportunities created by globalization.

An overview of previous research and evaluation

In the literature, different methods have been used to evaluate the effects of NTMs. An early approach employed a concept of incidence with NTM coverage ratios. Such studies rely on extensive databases mapping NTMs per product and applying country. The largest database of official government-reported NTMs used to be the Trade Analysis and Information System published by the United Nations Conference on Trade and Development (UNCTAD), but data has been incomplete and updates irregularly.

In a multi-agency effort, ITC, UNCTAD and the World Bank are collecting data for a global NTM database with a focus on technical barriers to trade and sanitary and phytosanitary standards. The ITC Market Access Map features information on NTMs. However, as complete as the database may be, it reveals little about the impact of NTMs on the business sector nor does it provide information about related POs.

Scope and coverage of the non-tariff measure (NTM) surveys

The objective of the NTM surveys require a representative sample allowing for the extrapolation of the survey result to the country level. To achieve this objective, the NTM survey covers at least 90% of the total export value of each participating country (excluding minerals and arms). The economy is divided into 13 sectors, and all sectors with more than a 2% share in total exports are included in the survey.

The NTM Survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery

catalogue official regulations on NTMs applied by importing markets (developed and developing). This provides a complete picture of NTMs as official regulations serve as a baseline for the analysis, and the surveys identify the impact of the measures on enterprises and consequently on international trade.

⁶⁹Pilot NTM Surveys were carried out in cooperation with UNCTAD in 2008–2009 in Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda. The pilot surveys provided a wealth of materials allowing for the significant improvement to both the NTMs classification and the NTM survey methodology. Since then, ITC has implemented NTM Surveys based on the new methodology in 25 developing and least developed countries.

⁶⁸The work started in 2006, when the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) established the Group of Eminent Persons on Non-Tariff Barriers. The main purpose of the group was to discuss the definition, classification, collection and quantification of non-tariff barriers – to identify data requirements, and consequently advance understanding of NTMs and their impact on trade. To carry out the technical work of the group, a Multi-Agency Support Team (MAST) was set up. Since then, ITC is advancing the work on NTMs in three directions. First, ITC has contributed to the international classification of non-tariff measures (NTM classification) that was finalized in November 2009 and updated in 2012. Second, ITC undertakes NTM Surveys in developing countries using the NTM classification. Third, ITC, UNCTAD and the World Bank jointly collect and

9. Computers, telecommunications and consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand and the specificities of trade undertaken by large multinational companies. The export of arms is outside of the scope of ITC activities.

The NTM Surveys cover companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. The NTM Survey includes companies specialized in the export-import process and services, such as agents, brokers, and forwarding companies (referred to collectively as 'trading agents'). These companies can be viewed as service companies because they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM Surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one to four geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year that represent a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of telephone interviews with all companies in the sample (Step 1) and face-to-face interviews undertaken with the companies that reported difficulties with NTMs during the telephone interviews (Step 2).

Step 1: Telephone interviews

The first step includes short telephone interviews. Interviewers asked respondents to identify the main sector of activity of their companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the interview is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview.

Step 2: Face-to-face interviews

The second-step interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers helps to ensure that respondents from companies correctly understand the purpose and the coverage of the survey, and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure face-to-face interviews consists of three main parts. The first part covers the characteristics of the companies: number of employees,

turnover and share of exports in total sales, whether the company exports its own products or represents a trading agent providing export services to domestic producers.

The second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During the third part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products, the partner country exporting or importing these products, and the country applying the regulation (partner, transit or home country).

Each burdensome measure (regulation) is classified according to the NTM classification, an international taxonomy of NTMs, consisting of over 200 specific measures grouped into 16 categories (see Appendix II). The NTM classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with idiosyncratic trade policies and approaches to NTMs.

The face-to-face questionnaire captures the type of burdensome NTMs and the nature of the problem (so-called POs explaining why the measures represent an impediment), the place where each obstacle takes place, and the agencies involved, if any. For example, an importing country can require the fumigation of containers (NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (POs located in the home country). The companies can also report generic problems unrelated to any regulation, but affecting their exports or imports, such as corruption and lack of or inadequate export infrastructure. These issues are referred to as problems related to business environment (see Appendix III).

Partnering with a local survey company

A local partner selected through a competitive bidding procedure carries out the telephone interviews and face-to-face interviews. The partner is usually a company specializing in surveys. Generally, the NTM Surveys are undertaken in local languages. The telephone interviews are recorded either by a Computer Assisted Telephone Interview system, computer spread sheets or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spread sheet-based system developed by ITC.

Open-ended discussions

During the surveys of companies and preparation of the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality checks and validation of the NTM Survey results. The participants review the main findings of the NTM Survey and help to explain the reasons for the prevalence of the issues and propose possible solutions.

Confidentiality

The NTM Survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data is transmitted to ITC at the end of the survey.

Sampling technique

The selection of companies for the phone screen interviews of the NTM Survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to predefined characteristics, chosen to be related to the major variables being studied. In the NTM Surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM Surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this objective, a sample size for the telephone interviews with exporting companies is determined independently for each *export sector*.⁷⁰

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often import intermediaries and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by their home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partners are mentioned more often during the survey because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the telephone interviews.

Average sample size

The number of successfully completed telephone interviews can range from 150 to 1,000, with subsequent 150 to 300 face-to-face interviews with exporting and importing companies. The number of telephone interviews is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate.

Survey data analysis

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (for example, technical measures, quantity control measures), and various characteristics of the surveyed companies (for example, size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the NTM Survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related POs and problems with the trade-related business environment.

Each case of each company consists of one NTM (a government-mandated regulation, for example a sanitary and phytosanitary certificate), one product affected by this NTM, and partner country applying the reported NTM. For example, if there are three products affected by the same NTM applied by the same partner country and reported by one company, the results would include three cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary, as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. When an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis twice – once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the Table below.

⁷⁰The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size will be based on the equation below (developed by Cochran, 1963) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

n_o : Sample size for large populations

t : t-value for selected margin of error (d). In the case of the NTM Survey 95% confidence interval is accepted, so t-value is 1.96.

p : The estimated proportion of an attribute that is present in the population. In the case of the NTM Survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is $p=0.5$.

d : Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM Survey $d=0.1$.

Source: Cochran, W. G. 1963. *Sampling Techniques*, 2nd Ed., New York: John Wiley and Sons, Inc.

Dimensions of an NTM case

Dimensions	Country applying	
	Home country (where survey is conducted)	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line)	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

Cases of POs and problems with the business environment are counted in the same way as NTM cases. The statistics are provided separately from NTMs, even though in certain instances they are closely related. For example, delays can be caused by the pre-shipment inspection requirements. As many of the POs and problems with the business environment are not product specific, the statistics are constructed along two dimensions: type of obstacles and country where they occur, as well as agencies involved.

Enhancing local capacities

The NTM Surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the NTM Surveys, but guides and supports the local survey company and experts.

Before the start of the NTM Survey, the local partner company, including project managers and interviewers are fully trained on the different aspects of the NTMs, the international NTM classification and the ITC NTM Survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews, and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company and provide regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, which helps the local partner to overcome any possible problems.

ITC also helps to construct a business register (list of exporting and importing companies with contact details), which remains at the disposal of the survey company and national stakeholders. The business register is a critical part of any company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries.

ITC invests much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (for example, sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies, and in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies.

Upon completion of the NTM Survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys as it is equipped with the business register and trained on the survey methodology as well as trade and NTM-related issues.

Caveats

The utmost effort is made to ensure the representativeness and the high quality of the NTM Survey results, yet several caveats must be kept in mind.

First, the NTM Surveys generate perception data, as the respondents are asked to report burdensome regulations representing a serious impediment to their exports or imports. The respondents may have different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Some inconsistency may be possible among interviewers. For example, these are related to matching reported measures against the codes of the NTM classification due to the complex and idiosyncratic nature of NTMs.

Second, in many countries a systematic business register covering all sectors is not available or incomplete. As a result, it may be difficult to ensure random sampling within each sector and a sufficient rate of participation in smaller sectors. Whenever this is the case, the NTM Survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders. An example is 'buy domestic' campaigns. The scope of the NTM Survey is limited to legally operating companies and does not include unrecorded trade, for example shuttle traders.

Following up on the ITC Non-Tariff Measure Survey

The findings of each ITC NTM Survey are presented and discussed at a stakeholder workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

The NTM Survey results serve as a diagnostic tool for identifying and solving predominant problems. These problems can be addressed at the national or international level. The NTM Survey findings can also serve as a basis for designing projects to address the challenges identified and for supporting fundraising activities.

Appendix II Non-tariff measures classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures (NTMs). This called for an international taxonomy of NTMs, which was prepared by the Multi-Agency Support Team (MAST), a group of technical experts from eight international organizations, including the Food and Agricultural Organization of the United Nations, the International Monetary Fund, ITC, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the World Bank and WTO. It was finalized in November 2009 and updated in 2012. It is used to collect, classify, analyse and disseminate information on NTMs received from official sources such as government regulations. For the purpose of the large-scale company surveys on NTMs, ITC uses a simplified version of this international classification.

The NTM classification for surveys differentiates measures according to 16 chapters (denoted by alphabetical letters, see below), each comprising sub-chapters (denoted by two letters) and the individual measures (denoted by two letters and a number). The following sketches the content of each of the 16 chapters.

Chapter A, on technical regulations, refers to product-related requirements. They are legally binding and set by the importing country. They define the product characteristics, technical specifications of a product or the production process and post-production treatment and comprise the applicable administrative provisions, with which compliance is mandatory. Technical requirements include sanitary and phytosanitary measures, which are generally implemented to protect human, animal and plant life, and health.

Chapter B, on conformity assessment, refers to measures determining whether a product or a process complies with the technical requirements specified under Chapter A. Conformity assessments include control, inspection and approval procedures – such as testing, inspection, certification and traceability – which confirm and control that a product fulfils the technical requirements and mandatory standards imposed by the importing country, for example to safeguard the health and safety of consumers.

Chapter C, on pre-shipment inspection and other formalities, refers to the practice of checking, consigning, monitoring and controlling the shipment of goods before or at entry into the destination country.

Chapter D, on charges, taxes and other para-tariff measures, refers to measures other than tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount. They are also known as para-tariff measures. Customs surcharges and general sales taxes are examples.

Chapter E, on licences, quotas, prohibitions and other quantity control measures, includes measures that restrain the quantity of goods that can be imported, regardless of whether they come from different sources or from one specific supplier. These measures can take the form of restrictive licensing, fixing of a predetermined quota or through prohibitions.

Chapter F, on finance measures, refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.

Chapter G, on price control measures, includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

Chapter H, on anti-competitive measures, refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

Chapter I, on trade-related investment measures, refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

Chapter J, on distribution restrictions, refers to restrictive measures related to the internal distribution of imported products.

Chapter K, on restrictions on post-sales services, refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

Chapter L, on subsidies, includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

Chapter M, on government procurement restrictions, refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

Chapter N, on intellectual property, refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents, trademarks, industrial designs, layout designs of integrated circuits, copyright, geographical indications and trade secrets.

Chapter O, on rules of origin, covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

Chapter P, on export-related measures, encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

The structure of the NTM classification for ITC surveys

A to O. Import related measures

Measures imposed by the country importing the goods. From the perspective of an exporter, these are the measures applied by the destination country of your product. From the perspective of an importer, these are the measures applied by your own country on the goods that you import.

Technical measures	A. Technical requirements	
	B. Conformity assessment	
Non-technical measures	C. Pre-shipment inspection and other entry formalities	
	D. Charges, taxes and other para-tariff measures	
	E. Quantity control measures (e.g. licences, quotas, prohibitions)	
	F. Finance measures	
	G. Price control measures	
	H. Anti-competitive measures	L. Subsidies
	I. Trade-related investment measures	M. Government procurement restrictions
	J. Distribution restrictions	N. Intellectual property
	K. Restriction on post-sales services	O. Rules of origin and related certificate of origin

P. Export related measures

Measures imposed by the country exporting the goods. From the perspective of an exporter, these are the measures imposed by your own country on the goods you export from your country. From the perspective of an importer, these measures are imposed by the country of origin on the goods you import from this country.

Source: International Trade Centre, NTM classification adapted for ITC surveys, January 2012 (unpublished document).

Appendix III Procedural obstacles

Following is a list of POs related to compliance with non-tariff measures and to an inefficient trade-related business environment and infrastructure.

A	Administrative burdens related to regulations	A1. Large number of different documents A2. Documentation is difficult to fill out A3. Difficulties with translation of documents from or into other languages A4. Numerous administrative windows/organizations involved, redundant documents
B	Information/transparency issues	B1. Information on selected regulation is not adequately published and disseminated B2. No due notice for changes in selected regulation and related procedures B3. Selected regulation changes frequently B4. Requirements and processes differ from information published
C	Discriminating behaviour of officials	C1. Arbitrary behaviour of officials regarding classification and valuation of the reported product C2. Arbitrary behaviour of officials with regards to the reported regulation
D	Time constraints	D1. Delay related to reported regulation D2. Deadlines set for completion of requirements are too short
E	Informal or unusually high payment	E1. Unusually high fees and charges for reported certificate/regulation E2. Informal payment, e.g. bribes for reported certificate/regulation
F	Lack of sector-specific facilities	F1. Limited/inappropriate facilities for testing F2. Limited/inappropriate facilities for sector-specific transport and storage, e.g. cold storage, refrigerated trucks F3. Other limited/inappropriate facilities, related to reported certificate/regulation
G	Lack of recognition/ accreditations	G1. Facilities lacking international accreditation/recognition G2. Other problems with international recognition, e.g. lack of recognition of national certificates
H	Other	H1. Other procedural obstacles, please specify

Appendix IV Stakeholder meeting agenda

KATHMANDU, 14 SEPTEMBER 2016

NATIONAL STAKEHOLDERS MEETING / ROUNDTABLE ON NON-TARIFF MEASURES

08:30	Registration
09:30	Opening remarks <ul style="list-style-type: none"> - Mr Naindra P Upadhaya, Secretary, Ministry of Commerce (MoC) - Mr Khemraj Ramful, Senior Adviser, International Trade Centre (ITC)
Session 1	Background and overview of results Session chairman: Dr. Badri Bastakoti, TPSD Project, MoC
09:45	Overview on ITC project on non-tariff measures (NTMs) and implementation of survey in Nepal <ul style="list-style-type: none"> - Mr. Samidh Shrestha, Analyst, Market Analysis and Research, ITC
10:15	General results of the survey: companies' perception of NTMs <ul style="list-style-type: none"> - Mr. Samidh Shrestha, Analyst, Market Analysis and Research, ITC
11:00	Main trade barriers affecting agricultural sector and manufacturing sector <ul style="list-style-type: none"> - Mr. Samidh Shrestha, Analyst, Market Analysis and Research, ITC Discussants <ul style="list-style-type: none"> - Challenges of Nepalese cargo and logistic companies: insights from ITC survey. <ul style="list-style-type: none"> • Mr Rajan Sharma, Former President – NEFFA - Custom's role in Trade Facilitation, <ul style="list-style-type: none"> • Mukti P Pandey, Director, Department of Customs - Condition and challenges of quality infrastructure in Nepal. <ul style="list-style-type: none"> • Mr Sanjeev Kumar Thakur, Director, Nepal Bureau of Standards & Metrology (NBSM) - Difficulties of Nepalese women traders with NTMs, <ul style="list-style-type: none"> • Ms Mahalaxmi Shrestha, Federation of Woman Entrepreneurs Associations of Nepal (FWEAN)
Session 2	Thematic round tables Participants will be invited to share their views and experiences on NTM-related barriers and policy options to address them in the three selected themes. Each focus group will establish a roadmap with priority actions to overcome the identified obstacles.
13:30	Round table 1: Technical requirements, standards and conformity assessment How to improve the conformity of exported products? How to overcome the lack of recognition of Nepal's certificates in international markets? How to make local conformity assessment procedures more efficient and less expensive? How to ensure businesses have better access to product standards and conformity assessment procedures? Round table 2: Rules of origin, customs clearance and other trade rules How to improve the transparency of border inspection procedures? How to streamline border clearance and control procedures? What are the roles and responsibilities of each institution involved in issuing of trade documents (licenses, permits, certificates of origin)? How to simplify the procedures for granting these documents? How to improve transparency on regulations governing such procedures including the eligibility criteria for companies, costs and time?
Session 3	Recommendations and conclusion
15:15	Summary of round table discussions
15:45	Overcoming challenges related to NTMs in Nepal and final recommendations Speakers: <ul style="list-style-type: none"> - Mr. Khemraj Ramful / Samidh Shrestha, ITC - Dr. Posh Raj Pandey, Chairman, South Asia Watch on Trade, Economics & Environment (SAWTEE) - Mr. Toya Narayan Gyawali, Joint Secretary, Ministry of Commerce.
16:30	Concluding remarks and closing

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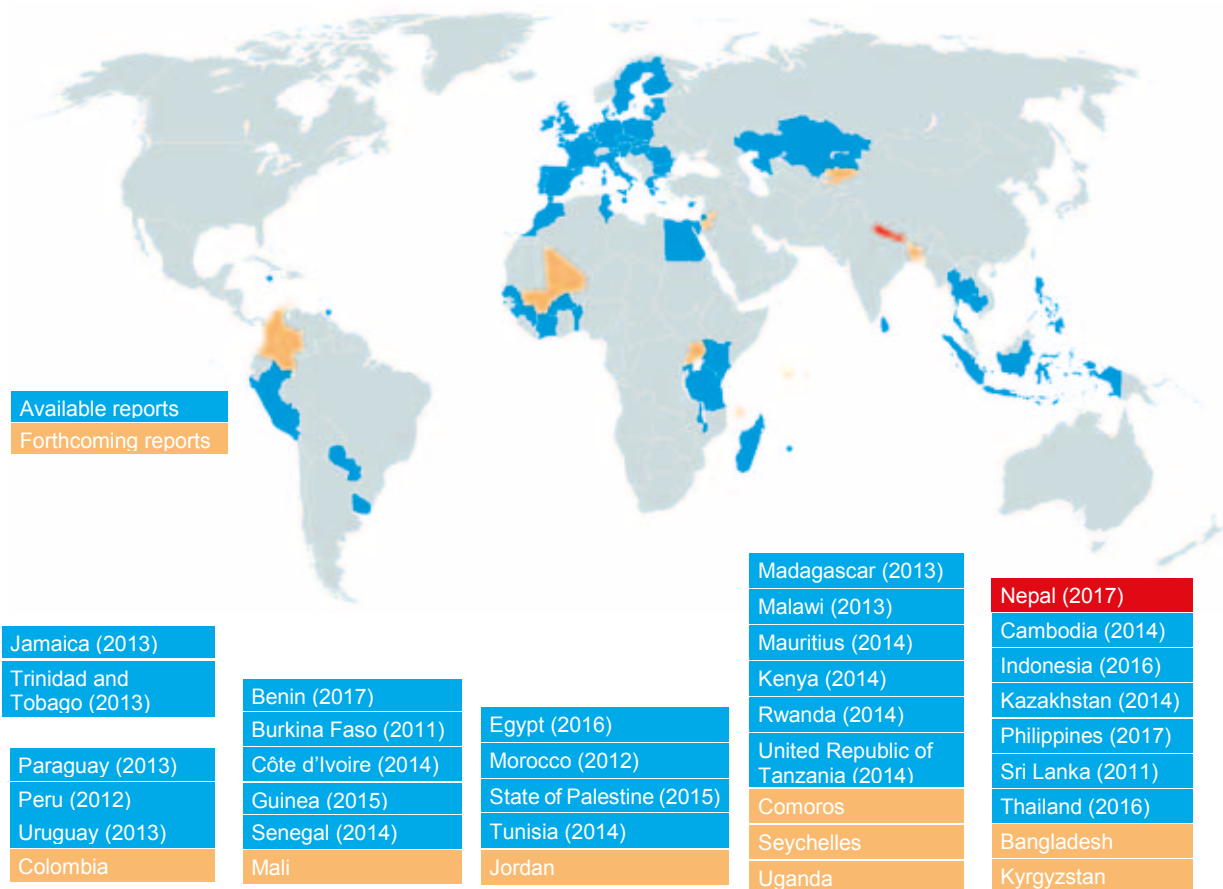
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