

India-Nepal sign treaty of Trade & Agreement of Cooperation to Control Unauthorized Trade

BILATERAL TRADE UP FROM Rs. 28.1 BILION IN 1995-96 TO Rs. 204.8 BILLION IN 2008-09

Shri Anand Sharma, Union Minister of Commerce and Industry and Mr. Rajendra Mahto, Nepalese Minister of Commerce and Supplies today signed the 2009 India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade. The 2009 Trade Treaty revises the 1996 Trade Treaty between the two countries. The 1996 Treaty has been a turning point in the trade relations between the two countries and resulted in phenomenal growth of bilateral trade from Rs. 28.1 billion in 1995-96 to Rs. 204.8 billion in 2008-09. While the Nepalese exports to India increased from Rs. 3.7 billion to Rs. 40.9 billion, the Indian exports to Nepal increased from Rs. 24.4 billion to Rs. 163.9 billion during the period -1995- 2009.

After signing the agreement, Shri Sharma said, "There is need to shift the Indo-Nepal trade to the higher level and attain better qualitative dimensions. The opening of new lines of products and duty free access in India will provide further boost to the growing Indo-Nepal Trade", he added and hoped that the revised treaty would help facilitate Trade by opening new land routes for trade between the two countries. The current treaty is expected to provide further access to Nepalese products into India and to enhance and expand bilateral trade between the two countries, the Minister further added. The changes introduced in the Treaty are:

- The validity of the Treaty has been increased from five to seven years, along with the provision of automatic extension for further periods of seven years at a time. This will provide more stable framework for bilateral trade and promote investments in Nepal based on preferential access provided by the Treaty to Nepalese products.
- No discrimination will be made in respect of tax, including central excise, rebate and other benefits to exports merely on the basis of payment modality and currency of payment of trade. This will bring the bilateral trade conducted in Indian Rupees at par with trade in convertible currency and will end the existing mechanism of Duty Refund Procedure (DRP) which was procedurally cumbersome. It will provide Nepal a direct control on the customs duty revenues on import of manufactured goods from India. It will also allow Indian exports to avail benefit of export promotion schemes prevailing in India, making these products more competitive for further sale or value addition in Nepal. (This change would be made effective from the date to be mutually agreed to. Modalities will be developed for smooth transition from the existing to the new system.)

- The time limit for temporary import of machinery and equipment for repair and maintenance has been raised from 3 to 10 years.
- Several new items of export interest to Nepal have been added to the list of primary products giving these items duty free access to India without any quantitative restrictions. These include floriculture products, atta, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.
- Criterion for calculating value addition for gaining preferential access to India has been changed from ex-factory basis to FOB basis.
- India has agreed to consider waiver, on request from GON, of any additional duty that may be levied over and above CVD.
- Both sides have agreed to exempt exports of goods, which are already covered under forward contract, from imposition of restrictions on exports.
- Both sides will grant recognition to the sanitary and phyto-sanitary certificates issued by the competent authority of the exporting country based on assessment of their capabilities.
- Articles manufactured in Nepal, which do not fulfill the criteria for preferential access will be provided MFN access to the Indian market. The certificate of origin in case of such exports has been prescribed.
- The provisions regarding safeguard measures in case of serious injury to the domestic industry have been streamlined.
- A joint mechanism, comprising local authorities has been established to resolve problems arising in clearance of perishable goods.
- An Inter-Governmental Sub-Committee (IGSC) at the joint secretary-level has been established. Existing Inter-Governmental Committee (IGC) at the Secretary-level will meet once in six months and the IGSC will meet at the interval of the two IGC meetings.
- Four additional Land Customs Stations (LCSs) will be established to facilitate bilateral trade: Maheshpur/Thutibari (Nawalparasi); Sikta-Bhiswabazar; Laukha-Thadi; and Guleria/Murtia, bringing the total number of Stations to 26.
- Bilateral trade will be allowed by air through international airports connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai).

- The Indian side has agreed to review and simplify the existing administrative arrangements for operationalisation of fixed quota for acrylic yarn, copper products and zinc oxide.
- India has agreed to consider several additional products as wholly produced or manufactured in Nepal for the purpose of gaining preferential access to the Indian market. It includes articles collected in Nepal fit only for recovery of raw materials and waste and scrap resulting from manufacturing operations in Nepal.
- India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities.

The main features of the 1996 Trade Treaty were:

- Duty free access to each other's primary products as per agreed list.
- Nepalese manufactured products are allowed non-reciprocal access to the Indian market, free of basic customs duty, provided the goods are manufactured with Nepalese and/or Indian inputs. If third country inputs are used, at least 30% value addition is required to attract duty free access.
- Annual quotas for duty free access in respect of four items – vegetable fats (100,000 tons) acrylic yarn (10,000 tons), copper products (10,000 tons) and zinc oxide (2,500 tons);
- MFN access for three items – cigarettes, alcohol (excluding beer) and cosmetics with non-Nepalese and non-Indian brands;
- Goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption;
- Designates twenty two points on India-Nepal border for bilateral trade.

The 2009 Agreement of Cooperation to Control Unauthorized Trade will allow export of goods imported by Nepal from India to the third countries without necessity of carrying out any manufacturing activity in Nepal. This will enhance exports from Nepal to third countries where it has a better market access as compared to India. Similarly it will allow export of the goods imported by India from Nepal to third countries. This will help Nepalese exporters to take advantage of the third country market access developed by the Indian export houses.