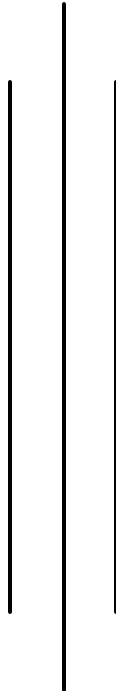


TRADE POLICY, 2009



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FOREWORD

Trade is regarded as an ‘engine of economic growth’ as it has the potential to spur sustainable, long-term economic development. Considering this fact, many developing countries are adopting the liberal economic and trade policies under the auspices of multilateral, regional and bilateral free trade agreements. Nepal has also pursued the open economic policies since mid 1980s which was accelerated in 1990s with the enactment of various pieces of legislations including Privatization Act, Industrial Enterprise Act, Foreign Investment and Technology Transfer Act, Industrial Policy and Trade Policy, among others. It has acceded to the World Trade Organization (WTO) and also became the member of two regional trading blocs in 2004. Substantial works were taken up in the area of trade facilitation as the development of Inland Clearances Depots (ICDs), simplification of documents and procedures including customs reform and modernization and streamlining of transit movement of Nepalese trade.

Nepal possesses vast potentials of promoting goods and services trade. Given the country’s diversified climate, topography and abundant natural resources there are ample opportunities to harness benefits by utilizing the available human capital and natural resources that could positively impact on living standards of the people. Trade development, thus, would be an instrument to create opportunities for marginalized and vulnerable groups of the society to participate and benefit from trade. Realizing the importance of trade and its multiplier effects in the economic development process, the Government of Nepal, introduced ‘Trade Policy’ in 1992 with a view to optimize the benefits from trade liberalization. The policy provided overall direction towards further liberalization and diversification of the trading regimes and at the same time ushered Nepal’s trade to integrate at international level. In addition, it provided impetus to private sector for their active participation in the areas of trade and investment. Although the

Trade Policy, 1992 embodied several noble provisions, it was found insufficient to address the challenges and utilize opportunities created from integration of Nepalese trade and economy at multilateral, regional and bilateral level. Besides, the issues of promoting trade in services, protection of intellectual property rights, and implementation of facilitation measures were some of the crucial elements which were not foreseen by the policy. In addition, trade being a dynamic sector, its policy and strategies need necessary adjustment and revision to accommodate the changes taking place at the national and international level.

Against this backdrop, Government of Nepal brought out the new Trade Policy in April, 2009 with a strategic vision of supporting the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy. The policy aims at; creating a conducive environment for promotion of trade and business in order to make it competitive at international level, minimizing trade deficit by increasing exports of value added products, increasing income and employment opportunities by enhancing competitiveness of the products and strengthening interrelationship between internal and foreign trade as complimentary and supplementary to each other. The policy further aims at ensuring economic development and eradicating poverty through increasing trade sector’s contribution to national economy. However, there remain several challenges, particularly in its implementation. We hope that the challenges could be overcome through the collective and collaborative effort of the government, private sectors, professionals, civil society and development partners which will ultimately help achieve the objective of building a new, prosperous and just Nepal.

July, 2010

Purushottam Ojha
Secretary
Ministry of Commerce and Supplies

TRADE POLICY, 2009

Background

Nepal has been adopting an open and market oriented trade policy for the last two decades with expectations that such policy generates positive impacts on the resource mobilization, economic development and poverty alleviation. However, the poor and backward countries are not able to realize the benefits of trade liberalization due to difficulties in accessing capital, technology and market, and the unequal economic levels existing among the various countries. In spite of extension of market access due to the entry into the World Trade Organization and regional trading arrangements of SAFTA and BIMSTEC, Nepalese exports could not be enhanced mainly due to the deficiencies in creating synergies and positive interplay in the production emanating from the topographical, climatic and vegetation diversities with application of appropriate technologies, skilled human resources and investments. It is, therefore, necessary to harness benefits of market access through identification and development of exportable goods of comparative and competitive advantages. This requires harmonization of trade and industrial policies with other sectoral policies and developing forward and backward linkages in agriculture sector, non-timber forest sector, tourism sector, service industries and trade. In addition, Nepalese export trade requires increasing competitiveness by mobilizing the physical and human resources, social capital, structural changes and technical capacity development, and promotion of the development friendly culture.

The Trade Policy, 1992 primarily covered export policy/strategy, import policy/strategy, internal export policy, and foreign exchange regulation, and internal trade policy, constitution of trade council, foreign trade policy and research institution, and establishment of Nepal Trade Promotion

Organization. The Trade Policy, 1992 however, largely remained unable to address issues of international trade dynamism, affiliation with regional and multilateral trading system, expansion of bilateral free trade area, simplification of trade procedures and development of new transit system. Enforcement of sanitary and Phyto-sanitary (SPS) measures and technical barrier to trade (TBT) seem important for sustaining export trade. In the backdrop of the need of harnessing benefits stemming from the expansion in the market access opportunity, a comprehensive review of the trade policy is needed.

Thus, it is necessary to reverse the declining export capacity caused by the supply side constraints of the goods and services and technical barriers in market access. There is a need of improving production technology, processes and product quality of export oriented industries, and optimizing utilization of special privileges and benefits accorded by developed and developing countries as well as by multilateral and regional trade agreements to the least developed countries.

Nepal's growing trade deficit is clearly eminent as its exports occupy a negligible share in the world market. Export comprises of 8 percentages in the national gross domestic production compared to 26 percentages of imports. The making of an independent economy has been a challenging task in view of rising share of loans in the foreign aid over the past years. Since Nepal has adopted the policy of achieving two digit economic growth in coming years, it is necessary to pursue the path of export led growth and enable exports to cover substantial portion of imports, and make exports inclusive linking it with poverty alleviation programme.

A new and comprehensive Trade Policy with a wider vision is necessitated in order to expand the international trade by addressing the challenges of utilizing the market opportunities in goods and services trade and protection of intellectual property rights. Accordingly, this Trade Policy has been formulated by giving impetus to the promotion of the export sector as the main

policy thrust and achieving sustained trade development taking into consideration the changed paradigm of internal and international business environment.

1. Main Objective:

To support the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy.

2. Objectives:

- 2.1 To create a conducive environment for the promotion of trade and business in order to make it competitive at international level.
- 2.2 To minimize trade deficit by increasing exports of value added products through linkages between imports and exports trade.
- 2.3 To increase income and employment opportunities by increasing competitiveness of trade in goods and services and using it as a means of poverty alleviation .
- 2.4 To clearly establish interrelationship between internal and foreign trade, and develop them as complimentary and supplementary to each other.

3. Main Strategies:

3.1 Creating a conducive atmosphere for making trade competitive at international level.

- (a) The private sector will be facilitated to actively engage in the conduct of trade and the government will play the role of a guide, guardian, regulator and motivator.
- (b) Transaction costs will be reduced by facilitating exports and imports through procedural simplification, facilitation and institutional strengthening

- (c) Reform measures will be introduced with the development of policy, institutional and physical infrastructures relating to trade in goods and services.
- (d) Market access of Nepalese products will be enhanced through protection of intellectual property rights.
- (e) Goods that are of comparative advantage, and based on skills, means and resources available in the country will be identified and selected, and promotion of trade in such goods will be supported

3.2 Reducing trade deficit through export promotion.

- (a) Procedures of import will be simplified and incentives will be provided for the import of raw materials and industrial machinery required by the export oriented industries.
- (b) Market access opportunities will be expanded for Nepalese products through utilization of windows available under the bilateral, regional and multilateral trade agreements.
- (c) Special economic zones will be established and expanded for export promotion with a view to attracting domestic and foreign investments.

3.3 Increasing income and employment opportunities.

- (a) The trade development will be made inclusive, and employment opportunities to marginalized groups and deprived communities will be enhanced by developing the employment oriented skills and entrepreneurship in the commerce sector.
- (b) Emphasis will be given on the development and promotion of special thrust areas and industrial clusters with a view to expanding market access

to exportable products based on traditional skills, art and craftsmanship.

- (c) Emphasis will be given to increase income and employment opportunities through promotion of trade in services.

3.4 Establishing interrelationship between domestic and foreign trade.

- (a) Conducive environment will be created for allowing partial consumption within the country of goods or services produced by export oriented industries.
- (b) The goods or services produced for domestic consumption within the country will be encouraged for exports.

4. Policy and Working Policies:

4.1 Enhancing the role and professional capacity of government and private sector entities.

4.1.1 Policy:

1. The government will play the role of a guardian, regulator and facilitator to make export trade competitive through commodity and regional diversification by bringing the private sector in the forefront.
2. The fiscal and monetary policies, foreign investment, industrial estate, tourism, agriculture, forest, and physical infrastructures policies will be reviewed with a view to harmonizing them with the trade policy.
3. The export base will be widened by maintaining forward, backward and parallel linkages among the above mentioned sectoral policies.
4. Efforts will be made for concluding bilateral and regional agreements for the recognition of Nepalese quality standards with a view to

enhancing the supply of goods in the quantity and quality in line with the demand of international markets.

5. Laws relating to Anti-Dumping, Countervailing and Safeguard will be formulated in order to protect domestic industries, in consistent with the multilateral trading arrangement.
6. Foreign investors and non-resident Nepalese nationals will be encouraged to establish international production network through the means of out-sourcing and contract of services and production with a view to harnessing benefits from the cost effective and qualitative production opportunities which are available in the country and to be developed in future.
7. Exporters will be encouraged to open liaison office or sales counter abroad. Similarly foreign importer companies will be encouraged to establish liaison office for promotion of Nepalese service and goods.
8. The implementation of the Competition Act will be made effective, and timely amendments will be made in the Consumers Protection Act in order to protect rights and interests of consumers, and to develop a fair competitive regime in national and international markets. Moreover, laws relating to domestic trade will be framed and enforced.
9. Capacity of private, non-governmental and research oriented organizations will be enhanced for the export promotion of goods and services.

4.1.2 Working Policies:

1. Main exporters of Nepalese products abroad will be rewarded by honor and award for their role on expansion and promotion of export trade.

2. The existing network of the government and private sectors organizations as well as industrial and trade associations related directly or indirectly with exports will be further strengthened to make export trade more competitive and effective.
3. Procedures will be framed and made transparent and systematic regarding the body issuing of certificate of origin, body making recommendation the related service charge and its utilization, and monitoring body .
4. Policy, legal and procedural arrangements relating to trade cooperation will be reviewed and further strengthened for making them compatible with the international trading system.
5. Ministry of Foreign Affairs and Nepalese Missions abroad will be mobilized effectively in various aspects of economic diplomacy, investment potentiality and export promotion.
6. Arrangements will be made to depute Commercial Counsellors to the Nepalese Missions in the countries that are major importers of Nepalese goods, and bear potentialities of enhancing trade with Nepal.
7. Separate units for food, quality standard, agriculture, forest, archeology and other related infrastructures will be established at Customs for providing services from those major Customs posts.
8. Integrated services shall be provided on administrative and technical matters to the private sector agencies under the coordination of Trade Promotion Institute for the facilitation of exports.
9. Programmes will be launched for the capacity enhancement of the representative organizations

- of commodity associations, bilateral Chambers and industrial entrepreneurs.
10. Privates sector, non-governmental organizations, experts and research oriented institutions will be involved in the process of trade policy formulation.

4.2 Reducing transaction costs through procedural simplification and institutional strengthening

4.2.1 Policy:

1. The duty draw back system will be made simple, easy and speedy for the refund of tax and duty paid on the raw materials used in the production of exportable goods.
2. Collection, processing and dissemination of information required for trade promotion will be made effective through the introduction of modern information system.
3. Uniformity shall be brought in the procedures, standards, policies, and regulations relating to customs, transit transportation and standards certification to harmonize with the SAARC member States and Nepal's trade partner countries.
4. Services provided by the dry ports will be made effective to enhance the competitive capacity of trade.
5. Treaties/agreements will be concluded for using appropriate transit routes after undertaking studies on physical infrastructures, multimodal transport system, transport facility and costs of alternative transit routes and seaports in transit through neighboring countries for minimizing the costs in Nepal's international trade.
6. Programmes will be implemented to adopt cost effective measures at the production level, and to address the supply side constraints.

4.2.2 Working Policy:

1. Integrated customs system will be expanded in coordination with the customs of neighboring countries for making customs clearance procedures simplified and efficient.
2. Customs procedures will be simplified and made effective by following the customs valuation system based on the international trading system.
3. System will be introduced for determining quality standards in accordance with the prevailing internal and international practices for maintaining quality standards of exportable goods. Necessary ground works will be done for the development of quality inspection, certifications and monitoring, flow of information and human resources development in order to make them at par with international standards.
4. Warehousing facilities, flow of customs related information, and transportation and clearing and forwarding services will be expanded at border customs areas for making transit services effective.
5. Weighing machines, x-ray machines, laboratory, cold storage and computerized system of data management will be provided at major land customs in border and international airport custom offices.
6. Renewal of exporting firms, procedures relating to refund of customs duty on raw materials imported by the export oriented industries, customs duty draw back on the goods exported, value added tax, provisions relating to extracting of samples for export order will be made simple, export friendly, prompt, efficient and cost effective .

7. Additional financial, human and other resources will be made available to the Trade Promotion Institute in order for facilitating the collection, processing and distribution of market information for export promotion.
8. All other goods except the goods of archaeological and religious importance, explosives, goods relating to environment and wildlife conservation, and goods prohibited by treaties and conventions to which Nepal is a party, will be opened for export.

4.3 Developing policy, institutional and physical infrastructures relating to foreign trade

4.3.1 Policy:

1. A new law will be enacted to replace the existing Export Import Control Act in order to develop exports as a foundation of economic growth.
2. Capacity of governmental agencies directly involved in the international trade will be enhanced
3. Up-grading of the existing infrastructures as well as the construction of new infrastructures like dry ports, cold storage, container freight station and roads will be done to make them compatible with the international standards.
4. Initiatives will be taken for the development and improvement of physical infrastructures for realizing benefits from the overland trade with the neighboring countries.
5. Initiatives will be taken to include international trade, regional trade treaties and agreements and their main provisions, export promotion and related subjects in the curriculum of commerce and economics faculties in Universities.

6. Assistance will be given for the organization and participation in national and international trade fairs by ensuring the contribution of the private sector.

4.3.2 Working Policy:

1. Capacity building of human resources both in the government and private sectors will be taken up on WTO matters and the international trading regimes, particularly in the areas of Trade Related Aspects of Intellectual Property Rights (TRIPs), Sanitary and Phytosanitary (SPS) and international standards of goods and certification of quality standards, and customs procedures.
2. Studies will be carried out to link customs points of the North and South by railways and highways, and the existing north-south roads will be improved and upgraded.
3. Initiatives will be taken to advance the concept of growth quadrangle for creating transport network of international standards linking India, Nepal, Bangladesh and Bhutan in consultation with the stakeholders.
4. Physical infrastructures will be constructed at major Custom border posts with the objective of developing Nepal as a transit point in the conduct of overland bilateral trade between India and China.
5. Initiatives will be taken to improve management of cargo complex at the Kathmandu International Airport, and increase frequency of flights of cargo planes.
6. Dry ports will be constructed at Nepalgunj, Rasuwa, Tatopani and other feasible areas.
7. An exhibition centre of international standards will be constructed in Kathmandu with

participation of the private sector with a view to promoting industries and foreign trade.

4.4 Developing policy and institutional networks for the protection of intellectual property rights and promotion of export of services.

4.4.1 Policy:

1. Action plan will be prepared and implemented for the protection of intellectual property rights and expansion of trade in services.
2. Legal provisions will be made for the protection of Nepali products in the international markets in consonance with bilateral, regional and multilateral trading agreements.

4.4.2 Working Policy:

1. Diplomatic missions abroad will be activated to serve as trade intelligence in order to increase the access of goods and services in international markets.
2. Assistance will be given to the protection of intellectual property rights of major exportable goods in international markets. Initiatives will be taken to establish rights relating to geographical indication of exportable goods such as handicrafts, tea, coffee, carpets, pashmina and honey under TRIPs.
3. Detailed working policies on various aspect of TRIPs will be formulated by a committee created under the Ministry of Commerce and Supplies and with participation of the Ministry of Industry, Ministry of Agriculture and Cooperatives, Ministry of Forests and Soil Conservation, Ministry of Science and Technology and Federation of Nepalese Chambers of Commerce and Industries and their commodity associations.

4. Priority will be accorded to develop competent human resources in order to expand export of services and particularly trade in services under Mode 4 in accordance with provisions of the World Trade Organization and Regional Trading Agreements.
5. An autonomous body named as Trade Promotion Institute will be established along with its requisite organizational structure in order to play an effective role in the development of exportable goods and market promotion. The existing Trade and Export Promotion Centre will be merged within the Institute.
6. Intellectual property rights of Nepalese traditional skills, craftsmanship, goods production processes and goods produced thereof will be protected

4.5 Providing additional incentives to export oriented industries.

4.5.1 Policies:

1. Simple procedures will be adopted in the imports of raw materials, industrial machineries and others required by the export oriented industries.
2. Programmes will be launched for enhancing the production of raw materials within the country.
3. Initiatives will be taken to harmonize the policies on agriculture, forest and other sectors for the effective implementation of trade policy.
4. The primary goods being exported without processing will be encouraged for exports with value addition.
5. The customs duty, excise duty and value added tax, except the export service fees, will not be levied in exports.
6. Private and cooperative sectors will be encouraged to establish export promotion houses.

7. The export credit guarantee scheme will be implemented in order to increase the flow of financial resources in exports.
8. Special measures will be adopted in consultation with stakeholders, for stopping the activities like lockouts and strikes in view of the sensitivity of export-oriented industries.
9. Lands will be made available on leasehold basis for commercial farming of forest products, which take longer gestation period of production. The products, among others, include; tea, coffee, fruits, herbs, eucalyptus (spice-tree), soap-nut (Sapindus Mukorossi), and pricklyash (Zanthoxylum armatum).

4.5.2 Working Policy:

1. Product Development Fund will be established with the participation of the private sector and cooperatives in order to provide support for transportation and storage of handicrafts, herbs, honey, tea, milk, fish, meat, vegetables and other semi-processed products.
2. Integrated Technical Centers will be established in collaboration with the private sector for improving quality standards, product development and diversification of major exportable products.
3. Bonded warehouse facility will be made available against a bank guarantee on the import of raw materials, auxiliary raw materials, packaging materials and intermediary goods used in the production of export products.
4. Taxes and duty levied on raw materials or auxiliary raw materials imported or purchased locally by the export oriented industries will be refunded to the exporters on the basis of the quantity of export.

5. Establishment and operation of export trading houses in the form of a cooperative association or private company will be encouraged. While establishing such export trading houses special consideration will be given to maintain regional balance.
6. The value added tax and excise duty will be refunded to the company producing goods, which are purchased under a contract by export oriented industries from local industries, on the basis of exported quantity after exporting the goods.
7. Product Development Programmes will be launched to increase exports of major export commodities like readymade garments, carpets and handicrafts. Similarly, programs will be launched to increase exports of tea, coffee, vegetable seeds, herbs, agriculture and dairy and non-timber forest products. In addition, special programmes will be launched to identify and promote additional new exportable products.
8. No fees of any type will be levied on the transportation within the country of exportable goods and raw materials used in their production.

4.6 Market expansion through utilization of opportunities available under bilateral, regional and multilateral trade promotions

4.6.1 Policy:

1. Initiatives will be taken to enter into agreement on Free Trade Area with countries including United States of America and European Union that possess comparatively more trade prospects, and other regional trade organizations for expanding access to international markets for Nepal's exports.

2. Joint collaboration will be made with other countries having the similar trade interest for utilizing opportunities offered by bilateral, regional and multilateral trade treaties / agreements.
3. Initiatives will be taken for the optimum utilization of the facilities provided by the bilateral, regional and multilateral trade treaties/ agreements to the least developed specially land locked country.

4.6.2 Working Policies:

1. A permanent 'Trade Policy Analytical Wing' will be established with the involvement of private and government sector representatives and experts with the objective to refine policy measures to be adopted by Nepal in the context of direction of international trade, current situation and future direction.
2. Trade Promotion Institute will be developed as a resource centre of international trade to generate flow of information relating to challenges and opportunities created by bilateral, regional and multilateral trade treaties/agreements and to their provisions.

4.7 Establishing Special Economic Zones for export promotion

4.7.1 Policies:

1. Export processing and special economic zones, along with requisite physical infrastructures, will be established to promote exports.
2. Laws along with flexible labor policy will be formulated for providing additional facilities and privileges to the industries established in special economic zones.

4.7.2 Working Policies:

1. Special Economic Zones will be established close to the existing dry ports to increase productivity and competitive capacity of exportable goods.
2. Private sector will be encouraged to establish ancillary industries capable of making available raw and semi-processed goods to the export oriented industries located in the vicinity of the export processing zone at Bhairahawa and the proposed special economic zone at Birgunj.
3. Initiatives will be taken to use the under-utilized industrial zones of Rajbiraj, Butwal and Nepalgunj in the form of product-specific special economic zones.
4. Studies will be undertaken for establishing special economic zones in the potential places of Northern and Southern parts of the country in the context of developing Nepal as a transit point.
5. An integrated directive will be implemented in special economic zones with regard to the provisions and requirement of import, processing, value addition, export, domestic sales, tax and duties.
6. Assistance will be extended to enhance trading capacity of the agencies which are incorporated as Board and Committee for the commodity development programmes.

4.8 Developing employment oriented skills and entrepreneurship in trade sector

4.8.1 Policies:

1. Emphasis will be given on entrepreneurship development, employment oriented skills and managerial capacity enhancement for improving the living standards of the people through

creation of income and employment opportunities in trade sector.

2. Programmes will be launched to increase export and employment opportunities through enhanced competitive capacity of major exportable products.

4.8.2 Working Policies:

1. Export Promotion Fund will be utilized in adopting new technologies and improving production processes in industries producing exportable goods based on domestic raw materials.
2. Assistance will be provided to the packaging, storing and certification of agricultural products for making their production and processing compatible to international demand by utilizing opportunities for diversification in agricultural production.
3. Contract farming and cooperative farming system will be encouraged by attracting investments in exportable agricultural product to promote large scale production and market through commercial farming.
4. Entrepreneurship and skill development training programmes will be conducted with participation of private sector for promotion of exports.
5. Joint collaboration will be made with academic institutions for preparing skilled and competent human resources in foreign trade sector.

4.9 Increasing income and employment opportunities through promotion of trade in services

4.9.1 Policies:

1. Promotional programmes will be launched after identifying thrust areas of trade in services.

2. Procedural simplification will be made through creation of institutional mechanism for making trade in services easy, simple and effective.
3. Private sector will be encouraged to play a lead role in trade in services.

4.9.2 Working Policies:

1. Service sectors such as tourism, education and health and information technology will be developed and promoted as the special thrust area.
2. Coordination will be maintained with the sectoral agencies for promoting special service thrust areas.
3. Special thrust areas will be reviewed in order to capacitate for providing services according to the market demand.
4. A separate 'Service Trade Promotion Council' will be constituted with the participation of private sector and under Ministry of Commerce and Supplies for promoting trade in services. The Council will play the role of a facilitator and motivator for promotion of trade in services.
5. The existing laws will be reviewed and new laws will be made, as required through the concerned Ministries for promotion of trade in services.
6. Domestic and external resources will be mobilized as may be necessary to encourage the private sector in the promotion of trade in services sector.

4.10 Developing special thrust areas

4.10.1 Policies:

1. Special thrust areas will be identified and developed, particularly in the handicraft sector that will be based on local skills, craftsmanship and with the involvement of Local Bodies.

Support will be provided for improving the quality of such handicrafts.

2. Formation of cooperative organizations or export trading houses in collaboration with the Local Bodies will be encouraged.

4.10.2 Working Policies:

1. Assistance will be provided for capacity enhancement, product development, quality improvement and marketing of established industrial clusters.
2. Emphasis will be given on the promotion of agricultural and non-timber forest based special thrust areas for creating employment and income opportunities in rural areas. No local tax and fees will be levied on the transportation of the goods produced in such areas.
3. Export trading houses will be encouraged to increase the sales of handicrafts to tourists, and permanent exhibition cum sales counters will be established through Tourism Development Board in major cities of tourists' destination.
4. Local bodies, cooperative organizations and export trading houses will be involved in the management and operation of industrial clusters.
5. Cooperative organizations will be encouraged in the exports of agricultural and forest based products, cottage industry products, industrial goods and herbal products.

4.11 Promoting identification, selection, production and trading of new exportable goods of comparative advantage

4.11.1 Policies:

1. Integrated program will be implemented for identification, selection, and production as well

- as for access to international markets of the goods of comparative advantage.
- Expansion in the production capacity and quality improvement of the export oriented goods will be encouraged

4.11.2 Working Policies:

- Assistance will be extended to make available skills, capital and technology necessary for increasing production capacity and improving quality of exportable goods.
- Export Promotion Fund will be used with the participation of private sector in assisting the transportation of exportable agricultural products, forest based products, handicrafts and goods based on domestic raw materials to international market from the place of production.
- Emphasis will be given on the commercial farming, livestock and promotion of non-timber forest products through the supplies of irrigation, machinery, fertilizer, seeds and highbred animals and poultry birds.
- Value chain, cost effectiveness and quality control of exportable products will be improved.
- The capacity of the existing institutions will be enhanced for identifying and promoting new exportable products to meet the demands of international markets.

4.12 Linking export oriented industries with domestic markets

4.12.1 Policies and working Policies:

- Export oriented industries will be developed on sustainable basis through creation of an environment in which parts of their products and services produced for exports are consumed domestically.

- Industries established in the export processing zone will be allowed to sell specified quantity of their products in the domestic market
- Government agencies will be encouraged to increase utilization of the domestic goods.

4.13 Encouraging exports of goods or services produced for domestic consumption by expanding their production

4.13.1 Policies and working Policies:

- Improvement in production, productivity and quality of the goods or services produced in the country will be encouraged.
- Potential markets will be identified for encouraging exports of good or services.
- Emphasis will be given on the development of transportation and related infrastructures for facilitating the making market access.

5. Institutional Arrangement

5.1 Board of Trade

- 5.1.1 A Board of Trade will be constituted at the central level with participation of the private sector to provide necessary assistance in the policy formulation for trade promotion, trade facilitation, policy monitoring and inter-agency coordination as follows:

Minister/Minister of State for Commerce	Chairperson
Assistant Minister for Commerce	Member
Member, National Planning Commission (Trade)	Member
Governor, Nepal Rastra Bank	Member
Secretary, Ministry of Commerce and Supplies	Member

Secretary, Ministry of Industry	Member
Secretary, Ministry of Finance	Member
Secretary, Ministry of Tourism and Civil Aviation	Member
Secretary, Ministry of Education	Member
Secretary, Ministry of Health and Population	Member
Chairperson, Federation of Nepalese Chambers of Commerce and Industries	Member
Chairperson, Nepal Chamber of Commerce	Member
Chairperson, Confederation of Nepalese Industries	Member
Chairperson, National Industries Trade Association	Member
Chairperson of bilateral chamber of commerce of the concerned country having highest volume of imports from Nepal	Member
Executive Director, Trade Promotion Institute	Member
Two experts nominated from amongst the professors or readers having expertise in trade or balance of payment and engaged at the level of Central Department of a University	Member
Four experts or personalities nominated by the Minister for Commerce from amongst the persons involved in industrial and trade sectors	Member
Director General, Department of Commerce	Member-Secretary

- 5.1.2 The Board may invite any person or an expert to attend its meeting. The Government of Nepal may alter the composition of members of the Board by a notification in the Nepal Gazette. The Board will meet at least once bi-monthly, and other procedures relating to its meetings will be as determined by the Board itself.
- 5.1.3 Main functions of the Board will be to coordinate implementation of the Trade Policy, and recommend to the government on policy reforms and removal of problems and difficulties with the implementation of the open and liberal trade policy.
- 5.1.4 The Board will take decision to solve problems and difficulties in the conduct of export import trade.
- 5.1.5 The Board will carry out other functions as may be necessary for trade facilitation.
- 5.2 Trade Promotion Institute**
- 5.2.1 The existing Trade and Export Promotion Centre will be converted into Trade Promotion Institute to function as an autonomous organization capable of providing services as per demands of the market.
- 5.2.2 The Institute will carry out functions relating to study and research, export promotion, product development and human resource development in trade.
- 5.2.3 The Institute will work as a focal point in the collection, processing, analysis and dissemination of trade data, and internal and external information for trade promotion.
- 5.2.4 Business and professional associations of the private sector will be involved in the management and operation of the Institute. Resources will be mobilized from the government and private sector for sustainable operation of the Institute.
- 5.2.5 The Institute will also organize, and coordinate participation in trade fairs and exhibitions.

5.3 Special Economic Zone and Export Processing Zone:

- 5.3.1 Special economic zones and export processing zones, along with their requisite infrastructures, will be established for the promotion of export trade.
- 5.3.2 A separate law will be formulated and enacted for the establishment and operation of the Zones.
- 5.3.3 Private sector will be encouraged in the development, establishment and operation of special economic zone and export processing zone.

6. Foreign Trade Promotion Programmes

6.1 Transit and logistics programmes:

The following programmes will be launched in order to make export trade more competitive through minimization of transaction costs:

- 6.1.1 Laws relating to multimodal transport system will be brought into immediate implementation for effective operation of the established dry ports.
- 6.1.2 The existing Nepal-India Rail Service Agreement will be reviewed and revised, and brought into effective implementation. Moreover, initiatives will be taken to expand the rail service to other feasible places.
- 6.1.3 Additional modules will be brought into use after expanding the information and communication technology adopted for strengthening the custom operation, and necessary trainings will be imparted to the customs staff for its effective implementation.
- 6.1.4 Access of exportable goods in international markets will be increased by developing physical infrastructures and competent human resources necessary for the quality standards, inspection and certification and conformity assessment in accordance with provisions of bilateral, regional and multilateral trading arrangements.

- 6.1.5 An Inter-modal Transport Authority will be established for regulating the operation and management of dry ports, container freight stations and integrated custom points (ICP) which have been, and will be established in Nepal.

6.2 Export processing and special economic zone promotion programmes

Feasibility study will be carried out with the involvement of private sector for establishing export processing zones close to the currently constructed dry ports in order to make the export trade competitive. The following provisions will be made for the establishment of such zones :

- 6.2.1 Industries desiring to export the specified proportion of their products will be permitted to establish at the export processing zone.
- 6.2.2 Priority will be accorded to establish carpet village, handicrafts village and garment processing zone (GPZ) at the export processing zone/ special economic zone.
- 6.2.3 Labor Act will be made flexible to promote industries established in the export processing zones.
- 6.2.4 An integrated directive will be formulated and implemented relating to import, processing, value addition and exports at the export processing zone.

6.3 Publicity and promotion programmes

- 6.3.1 The existing National Inquiry Points relating to information dissemination and inquiry on SPS, Technical Barriers to Trade (TBT) and Trade in Services according to the provision of the World Trade Organization will be strengthened. The Ministry of Commerce and Supplies will coordinate such inquiry points.
- 6.3.2 Initiatives will be taken to acquire membership of ATA-CARNET with an objective to support the hassle free

transportation of goods while participating in foreign trade fairs for export promotion.

6.4 Human resource development programme

- 6.4.1 Emphasis will be given to human resources development for negotiating on product and market development, quality improvement and trade treaty/agreement in view of the need of effective participation in the bilateral, regional and multilateral trade treaties/ agreements.
- 6.4.2 Trainings will be imparted to persons of the government sector and private sector agencies on international trade specially relating to TRIPS, SPS, TBT, customs valuation and procedures.

7. Simplification of Procedures.

7.1 Procedures relating to licensing

- 7.1.1 No license will be required for importing through banking channels except the goods that are prohibited for import and are under quantitative restrictions.
- 7.1.2 Export of all goods other than those prohibited will be open.
- 7.1.3 The Department of Commerce will issue licenses in case of need of an export or import license.

7.2 Provisions relating to tax, customs duty and charges

- 7.2.1 No local tax will be levied on transportation within the country of export products, and raw materials and auxiliary raw materials used for their production.
- 7.2.2 No customs duty will be levied on the samples sent by foreign buyers to Nepalese exporters for export order.
- 7.2.3 Provisions will be made not to levy customs duty and VAT on export goods returned back due to non acceptance by a foreign buyer on the basis of documentary evidences establishing that the goods were exported.

- 7.2.4 The import customs duty will be refunded if the goods produced from the imported raw materials and auxiliary raw materials are exported. If the import is against a bank guarantee, the concerned customs office will be authorized to release the guarantee.

7.3 Provisions relating to Generalized System of Preference (GSP)

- 7.3.1 Trade Promotion Institute will provide information to entrepreneurs about GSP facilities in a regular manner.
- 7.3.2 Ministry of Commerce and Supplies will nominate the agency for certifying GSP, procedures and service fees relating to export under GSP.
- 7.3.3 The amount received as GSP certification service fees will be utilized for the development of export products, quality improvement and export promotion.
- 7.3.4 Trade Promotion Institute will maintain records and implement GSP schemes.

7.4 Provisions relating to certificate of origin

- 7.4.1 Ministry of Commerce and Supplies will designate the agency to issue the certificate of origin and the service fees to be collected by the agency.
- 7.4.2 The procedures for obtaining the certificates of origin will be published by the Ministry of Commerce and Supplies.
- 7.4.3 The agency issuing the certificate of origin will utilize the amount collected for development and promotion of exportable products.
- 7.4.4 The agency as designated by the Ministry of Commerce and Supplies will carry out monitoring relating to certificate of origin.
- 7.4.5 The agency issuing the certificate of origin will have to keep all relevant records, at least up to three years. The nominated agency shall require submitting the trimester

statement of such records to an agency designated by Ministry of Commerce and Supplies.

8. Commodity development programme

Commodity development programmes will be implemented into two separate groups. In the first priority group, labor-intensive goods, which are already established in export markets, will be developed as special focus area. Especially the readymade garments, woolen carpets and handicrafts will come under this priority group. In the second group, priority will be accorded to highly potential export items like agricultural, forest based and handicraft products as the thrust area development. In this group, emphasis will be given on the export promotion of tea, vegetable seeds, herbs, ginger large cardamom etc.

8.1 Special Focus Area:

8.1.1 Readymade garments:

- Programmes will be implemented in a phase-wise manner for the sustainable development of Nepali fabrics, readymade garments and cotton towels in view of the situation emerged after the termination of quota system under Multi Fiber Arrangement, and promoting the competitiveness of Nepalese products.
- National guidelines will be formulated and implemented on the basis of recommendations made from a study for adopting a long-term strategy for increasing exports of readymade garments and cotton towels.
- Such policies and infrastructures as may be necessary will be made available for establishing spinning and textile industries in the form of backward linkages for sustainable development of readymade garments and cotton towels by taking into account also the GSP rules of origin. Emphasis

will be laid on the product development through coordination with cottage and large domestic fabric industries that are in current operation.

- Additional steps as may be necessary will be taken to establish Garment Processing Zone (GPZ) after conducting feasibility study in order to increase competitive capacity of readymade garment industries.
- Promotional activities will be carried out in partnership with the private sector to harness maximum benefits from trade opportunities created by the open policy in international markets through market diversification of readymade garments.
- Steps being taken to obtain duty free access to such major international markets where Nepalese exports have declined due to open trade regime after the removal of quota system in 2005 will be further enhanced.
- The private sector will be encouraged to establish Fashion Technology Institute for creating competent human resources base necessary for the production of value added readymade garments.

8.1.2 Carpets and woolen goods

- Activities on branding and labeling of Nepalese carpets will be carried forward for checking downfall of export and maintaining the identification of Nepalese carpets in international market.
- Bureau of Standard and Metrology will arrange the examination and certification scheme for labeling of Nepalese carpets. Moreover, initiatives will be taken to ensure continuity to the duty free market access currently available in major markets.
- Study on the cost-benefit analysis will be carried out taking into consideration the price and demand

competitiveness of carpets in international markets in order to adopt a concrete policy on the use of machine made yarns.

- The mandatory requirement of the documentary evidence of quality test of imported wools to be produced by the importer at the Customs will be continued for maintaining the quality of Nepalese carpets.
- Pre-inspection of production and exports will be made effective in order to make the quality of Nepalese carpets reliable.
- Any type of transshipment will be completely discouraged by controlling imports of woollen carpets in order to maintain the images of Nepalese carpets in the international markets which is being affected currently due to exports of foreign carpets in the name of Nepal origin.
- Feasibility study will be carried out to implement an integrated programme for producing wools within the country for the production of carpets and other woollen products with emphasis on production of Tibetan type wools.
- The quality labeling of carpets, child labor free certification and eco-labeling will be made effective for giving continuity to the export of qualitative carpets and its access to foreign markets.
- Promotional programmes will be carried out in European, American and other potential markets for diversifying exports.
- Assistance will be accorded to the development of competent human resources through establishment of a carpet school with participation of the private sector for strengthening the institutional arrangements on carpet production process.

8.1.3 Pashmina and silk products

- The production of raw materials will be encouraged to ensure permanent and long term supply of primary raw materials required to produce pashmina and silk goods.
- Local entrepreneurs will be encouraged through the support in capital and technology as may be necessary for the rearing of Himalayan goats (Chyangra) for producing raw materials.
- Activities ranging from mulberry farming (Kimbu), the raw material of silk, to the production of fabrics will be encouraged with special emphasis on silk production through support to capital and technology as may be necessary.
- Priority will be given to the quality testing and registration of trade marks in major exporting countries to maintain quality standards of the goods produced from pashmina and silk.
- Pilot projects based on cooperatives and improved technology will be implemented in potential rural areas under the supervision and surveillance of technicians for the development of farming of Himalayan goats (Chyangra).
- Exports will be encouraged by facilitating market access through conduct of promotional programmes and development of competitive capacity.
- Assistance will be given to develop human resources as may be necessary for production and exports of silk and pashmina.
- Backward and forward linkages of pashmina and silk based products will be developed
- The design center will be optimally utilized for the diversification of pashmina and silk based production.

8.1.4 Handicraft goods

- Assistance will be given to develop, pashmina, woollen products, silver products, metal products and handmade papers that are being exported in large quantities.
- Programmes will be conducted under the aegis of Federation of Handicraft Association of Nepal and with the support of Government of Nepal for research activities and trainings on product diversification, designing, quality development and market access of handicrafts. Moreover, Handicrafts Design and Development Centre will be developed as an institute in providing services on designing.
- The payment system in handicrafts export will be made simple by reviewing exports against the advance payment and letter of credit (L/C). Special provisions will be made to allow imports of samples, and purchases under buy back L/C and exports under buy-back arrangement.
- Exports of handicrafts other than those exported under the letter of credit will be allowed on the basis of the documents against payment.
- Provisions will be made to refund duty based on a flat rate specified in proportion to the export value for making the duty draw back practical and effective.
- All agencies issuing certification and recommendations required for exporting handicrafts will be brought at one place to simplify the procedures.
- All government agencies like customs house, Department of Archeology, security police and others will be pooled at one place to facilitate one-time customs inspection and sealing.

- Archeological examination of handicraft products will be made hassle free and simple in coordination with the concerned agencies.
- Comprehensive programmes will be launched in coordination with the Ministry of Forest and Soil Conservation and the Forest Product Development Committee in consideration of the economic activities stemming from the production and collection of Lokta used in the production of Nepali paper products in rural areas.

8.2 Thrust Area Development:

Coordination will be established among the concerned agencies of the government and private sectors for improving the competitive capacity by increasing the production of highly export potential agricultural products as emphasized under the thrust area development. As stated in the specific objective of the Trade Policy, the target will be the development of agricultural products under the thrust area through improvement in the value addition with the utilization of local resources for transmitting the benefits of exports to the reach of farmers. As the Agricultural Perspective Plan and Periodic Plan implemented by the government have accepted agriculture as a priority sector of the economy and given its role in poverty alleviation, the trade policy accordingly aims at promoting exports of agricultural products in an integrated fashion. In particular, programs will be implemented for the commercialization of the farming of tea, vegetable seeds, large cardamom, ginger and herbs that possess comparative advantage. Efforts will also be made to widen market access facilities for the other products the export of which has continuously increased.

8.2.1 Tea

- Nepalese tea will be established as a major exportable product in the prospective of the

geographical diversity, climatic suitability and comparative advantage.

- Intergraded programme will be formulated in coordination with Ministry of Agriculture and Cooperatives, Tea Development Board and other agencies concerned for developing Eastern region of Nepal as tea area in order to increase the production capacity and quality of tea.
- Contract farming and establishment of tea estates will be encouraged for the enhancement of economies of scale and bringing continuity and reliability in the production in consideration of the international demand.
- Incentives will be given to the production and promotion of Orthodox tea and C.T.C. tea considering their different market demands.
- Promotional programs will be launched, particularly in Japan, France and Germany for orthodox tea and, on the other, steps will be taken for expanding markets for C.T.C. tea in Pakistan, India and markets in the Middle East countries.
- The existing tea development fund will be made more effective for promoting investments that will benefit from the economies of scale in raising tea production. Steps will be taken to divert the fund in the international marketing of tea.
- Steps will be taken to implement promotional programs suitable to international markets in partnership with private and donor agencies by motivating small tea farmers and producers.
- Quality control testing and certification of tea will be streamlined by taking consideration of the demand of international consumers and prevailing laws.

- Transportation costs will be reduced by constructing feeder/rural roads between tea gardens and production centers.

8.2.2 Vegetable seeds

- Opportunities of producing and exporting vegetable seeds arising out of the geographical and environmental diversity will be utilized with participation of the private sector.
- Seeds production will be expanded to neighboring districts after the marketing and commercialization of the foundation seeds producing areas like Rukum, Salyan, Jumla, Kalikot and Nuwakot.
- The private sector will be given assistance to regularly participate in agricultural fairs organized in Bangladesh which has emerged as a major market for Nepali vegetable seeds, and in other potential markets of the Middle East Asia, Japan and India.
- Initiatives will be taken in cooperation with the concerned agencies for maintaining coordination between production and exports with due regard to the seeds quality, improved variety and varieties purity of Radish (Minorli Mula), or Cress leaves (Lepidium sativum), broad leaf mustard, and beans that are being exported from Nepal
- Incentives will be provided in the agricultural inputs including packaging materials required for seeds production and exports. Moreover, imports of qualitative seeds will be encouraged.

8.2.3 Large Cardamom

- Assistance will be given in availing capital and technology for extending cardamom production on the basis of feasibility study.

- Exports will be promoted through product-wise and country-wise diversification by maintaining the quality standards through improvements in the production and processing on the basis of national standards of quality and grading.
- Assistance will be given in cooperation with Nepalese diplomatic missions abroad to publicize about the Nepalese cardamom in the potential markets.
- Value addition opportunities will be identified and encouraged.

8.2.4 Pulses:

- Special programmes for the development of pulses crops will be launched through Ministry of Agriculture and Cooperatives to increase production and productivity by providing support for improved seeds and developed production technology.
- Technical services, trainings, seeds and other inputs as may be necessary will be made available in cooperation with the concerned service oriented organizations for the development of pulses crops to meet the production and export targets.
- Efforts will be made to strengthen the SPS laboratories and get international recognition and accreditation.
- SPS certification will be made effective in order to develop competitive capacity of the products.

8.2.5 Floriculture

- Floriculture business will be developed through provisions of seedlings, capital, technology and trainings as may be necessary to produce exportable flowers and also by maintaining coordination between production and market demand.

- Production will be encouraged for the development floriculture business through identification of appropriate variety of flowers.
- Assistance will be provided for the market study, promotion, packaging and transportation for facilitating access to international markets.
- Certification system of quality standards will be adopted in accordance with the international practice for the purpose of enhancing reliability on the quality of flowers.
- Facilities of air conditioned transportation system and cold storage at the airport will be made available to facilitate the exports.

8.2.6 Precious/semi-precious gems and stones, and gold and silver ornaments

- Imports of raw materials required for producing ornaments will be made simple and duty free by adopting a separate special policy for the production, development and export promotion of precious and semi-precious gems and stones, and gold and silver ornaments.
- The production, import-export and re-export of ornaments made of precious metal, gems and stones will be facilitated by encouraging mining extractions of precious and semi-precious gems and stones.
- Tax and customs duty will be waived on the import of machinery and tools necessary for industries producing and exporting precious and semi precious stones and ornaments.
- Production of ornaments will be encouraged by targeting particular markets.
- Additional promotional activities will be carried out for availing export opportunities through provisions

of capital necessary for producing and maintaining sufficient stock of various types of gems and stones, and gold and silver ornaments.

- Trainings will be given to craftsmen of gold and silver ornaments to enhance their skill.

8.2.7 Processed leather

- Capital and technical assistance will be made available for the commercial farming of livestock to ensure supply of qualitative raw hides and skins.
- Export of processed leather and leather goods will be encouraged.
- Assistance will be given on the import of machinery and technology for manufacturing the fully processed leather.
- Effective market promotion programmes will be conducted for access to international markets.
- Foreign investments will be encouraged in leather processing.
- Loans on concessional interest rates will be made available to import machinery and equipment.
- Common Facility Centre will be established for the full processing of semi-processed leather.

8.2.8 Gingers/dried gingers

- Capital, technology and seeds will be made available in cooperation with the concerned agency by identifying pocket area for the production of appropriate species of ginger for enhancing the quality of dry ginger.
- Markets shall be ensured for gingers.
- Certification system and promotional programs will be launched for access to international markets by diversifying production.

- Trainings will be provided in various aspects ranging from production to sales promotion for the commercial and improved farming.
- Assistance will be given to the processing and transportation of the ginger based exportable products.

8.2.9 Herbs and essential oils

- Testing and certification services will be made available by developing fully equipped testing laboratories in herbs production and processing, and efforts will be made to acquire international recognition in testing technology.
- Capital, technology and trainings will be made available for production, grading, storage and collection of high value herbs and essential oils required for the development of their commercial farming.
- Value addition in the production of herbs based processed and semi-processed exportable products will be encouraged.
- Market research and promotional programs will be conducted to encourage exports of herbs and herbal products.
- Production will be encouraged through the cooperatives by according priority to the identified pocket areas for herbs production.

8.2.10 Handmade paper and paper products

- Supply of raw materials will be expanded through conservation and organized production of Lokta, a wood pulp, for developing quality standards and increasing supply capacity of handmade paper and paper products.

- Capital, technology and trainings necessary to produce Lokta and Nepalese papers will be made available.
- Assistance will be given for the improvement of production technology of Lokta paper.
- Promotional programs will be carried out to diversify products based on handmade paper, and maximize utilization of the design centre and market opportunities.

8.2.11 Wooden craft products

- Assistance will be given to facilitate wood seasoning and ensure regular supply of wood for the production of qualitative wooden craft products as per the international demand.
- Promotional programs will be conducted through research, training, product development and export capacity expansion for producing wooden craft products.
- Tax and customs duty will be exempted on the import of machinery and equipment necessary to produce exportable wooden craft products, and regular supply of electricity will be ensured and necessary infrastructures will be developed for facilitation of production.
- Incentives and concessions will be provided in the export of the wooden craft products.
- Programs will be conducted to improve the quality of wooden craft products through trainings to the entrepreneurs.
- Handicraft Design Centre will be encouraged in developing new products based on wooden crafts.
- Fumigation treatment facility will be established to facilitate exports of wooden crafts.

8.2.12 Coffee

- Exports will be promoted through the adoption of new technologies in the production, processing, grading and quality standards of highland and organic coffee, and additional areas will be identified for increasing coffee production.
- Production will be encouraged in the community through cooperatives.
- Supply of high quality seedlings and other necessary inputs will be ensured to attract farmers in the production of qualitative coffee.

8.2.13 Honey

- Quality standards will be ensured by developing laboratories of international recognition to maintain reliability of honey.
- Effective inspection and monitoring of bee farming and honey production will be carried out to maintain the quality.
- Honey production will be diversified by encouraging production of Nepalese special honey particularly based on mustard and rapeseed flowers.
- Packaging system will be improved, and imports of machinery and equipment required for processing exportable honey will be exempted from tax and customs duty.
- Honey producers will be assisted through support of capital and technology and appropriate infrastructures to promote production of exportable organic honey.
- Promotional measures will be pursued at the identified honey importing nations.

8.2.14 Oranges (Junar)

- Trainings will be imparted to farmers for skill development, and provisions will be made for developing infrastructures on quality standards, packaging and storage for exportable orange products.
- Technology will be improved in packaging of exportable oranges, and subsidy will be given on transportation costs.
- National standardization and grading system will be introduced for giving commercial identity to Nepalese oranges.
- Efforts will be made for ensuring market access through identification of niche markets.
- Infrastructures will be developed in oranges growing area, and information will be disseminated to farmers on marketing and sales promotion.
- Seeds, inputs and technology required for the production of improved variety of oranges will be made available.

8.2.15 Vegetables

- Production of organic, fresh and dried vegetables will be encouraged.
- Cold storage will be constructed at major customs stations for the export promotion of vegetables
- Arrangements will be made for the movement of reefer containers at the Birgunj dry port to maintain cold chain.
- A mechanism will be developed to issue inspection certificates for the vegetables, and the areas for production of organic vegetables will be identified and promoted.

- Foreign importers will be encouraged to produce vegetables in Nepal for exports through the means of supply chain.

9. Repeal

The Trade Policy 1992 is hereby repealed.

