BIMSTEC

Study of
Trade and Transport Facilitation
India-Nepal

Asian Institute of Transport Development

Trade and Transport Facilitation
India-Nepal

Executive Summary

1. During the last decade and a half there has been a manifold increase in international trading volumes globally. India and Nepal are no exceptions to this trend. Between 1991-92 and 2004-05, India's exports to Nepal have registered a nine-fold increase. During the same period, imports from Nepal have increased twelve-fold.

2. In addition to this formal trade, there is considerable informal trade as well. Informal trade from India to Nepal is mostly complementary to the formal trade – it comprises goods procured from the border states of India. However, informal trade from Nepal to India differs significantly from the formal trade and comprises largely goods procured from third countries.

3. Over the years, India's share in Nepal's imports has increased from 35 per cent in 1991-92 to 65 per cent in 2004-05. In the last five years, Nepal's imports from third countries have shown a decline of nearly 7 per cent per annum, while imports from India have increased by 18 per cent per annum.

4. The manufactured goods now account for 82 per cent of India's total exports to Nepal, an increase of 22 percentage points during the last decade. Nepal has also increased its share of manufactured goods, which earlier varied between 15-20 per cent, increased to 45 per cent in 2004-05.

5. Four distinct inferences can be gleaned from the well-established trends witnessed during the last few years. One, India will continue to be Nepal's preferred source for import of manufactured goods. Two, Nepal's imports from third countries will decline for some period and then get stabilised. Three, the bilateral trade between India and Nepal will continue to grow at the rates witnessed in the recent past. Four, Nepal's informal trade with India in goods procured from third countries will decline substantially.

6. India and Nepal have signed treaties of trade and transit to facilitate bilateral and third country trade. They have also entered into a rail services agreement for movement of goods (container traffic and break-bulk cargo) in transit between Kolkata/Haldia and Birgunj (Nepal). This agreement has recently been extended to bilateral trade and containerised services are expected to commence shortly. With regard to break-bulk cargo, some customs related issues still remain to be resolved.

7. The Treaty of Trade, symbolizing the special relationship that exists between India and Nepal is a non-reciprocal Treaty. It was last renewed in 1996 with a provision for automatic renewal every five years. Under the Treaty, India provides duty free access,

without quantitative restrictions, to the Indian market for all Nepalese-manufactured articles barring a short negative list. Imports of such items are also permitted but require a certificate, which can be issued by the Federation of Nepalese Chambers of Commerce and Industry.

8. The imports from India are normally paid for in Indian Rupees, since the currency is fully convertible in Nepal. There are some specified products laid down by His Majesty's Government of Nepal, the imports of which is permitted on payment in hard currency. The excise duty levied on goods imported from India and paid for in Indian currency is refunded to His Majesty's Government of Nepal.

9. Indian manufacturers while exporting goods to Nepal can avail of several export promotion schemes. These schemes essentially provide for some recompense to the exporter from excise duties on inputs and finished product. The whole or that part of duty as is granted, as rebate to the exporter is not refunded to His Majesty's Government of Nepal.

10. Nepal can access trade through India with third countries without any quantitative restrictions. There is, however, a provision for classifying a few goods transiting through India as sensitive. These comprise products that are imported both by India and Nepal, and for which Nepalese import duties are lower than the corresponding Indian import duties. This classification has been made taking note of the apprehensions that such goods may be lost in transit.

11. Nepal has been given the right of access to and from the sea for its third-country trade and for this purpose ports of Kolkata and Haldia on the east coast of India have been specified. Nepal has also been offered access to the ports of Mumbai, Nhava Sheva and Kandla located on the west coast of India. These are deep seaports and can accommodate larger ships.

12. An adequate number of land routes have been specified for Nepal's bilateral and third-country trade. Twenty-two routes have been specified for bilateral trade, of which fifteen have also been specified for third-country trade. The bulk of interchange, however, takes place only through five routes, (i) Raxaul (Birgunj), (ii) Jogbani (Biratnagar), (iii) Naxalbari (Kakarbhitta), (iv) Nautanwa (Bhairahawa), and (v) Nepalgunj Road (Nepalgunj).

13. Land customs stations have limited working hours. For example, the Indian customs at Raxaul work from 08.00 - 16.00 hours from Monday to Saturday, barring the second Saturday of the month and gazetted holidays. On the Nepalese side, the customs timings are from 10.00 - 17.00 hrs, with Saturday as a holiday. The customs officials of the two countries undertake appraisements on payment of overtime beyond working

hours and even on holidays. There is every case for extending the working hours and also ensuring same official timings instead of different timings as at present.

14. Indian vehicles are permitted access to any part of Nepal and allowed a free period of three days to complete their return journey. Beyond this period, charges depending upon the period of extended stay are payable. Nepalese road vehicles are allowed free entry into India upto the nearest railhead, but need permission to travel further. This permission is given free of charge, if the vehicles are used for government service. In other cases, there is an elaborate procedure involving payment of charges. This system is a strong disincentive for the Nepalese truck operators to ply their vehicles in India.

15. Raxaul (India) – Birgunj (Nepal) is the most important route for interchange of bilateral and third country trade. Birgunj has also been developed as a rail linked dry port (Sirsiya Dry Port) with an inland clearance (container) depot to handle both containerised and break-bulk cargo. A detailed study of this route has, therefore, been made both with regard to bilateral and third country trade.

16. Export and import cargo is generally cleared on the basis of accompanying documents, visual checks and excise seal examination, as applicable. If there is some suspicion, a physical check of 5 per cent of the consignment is carried out. The goods are, however, seldom off-loaded from the vehicle. Extra vigilance is exercised in the case of goods categorised under the negative list.

17. Despite attempts at simplification, customs procedures are still elaborate and involve extensive documentation. For example, at the Raxaul/Birgunj interchange point as many as 26 documents and a total of 96 copies of the same are to be submitted and authenticated by 338 signatures of various functionaries. Lack of common documentation and layouts between India and Nepal is another issue that needs to be addressed.

18. The time taken at the border for customs clearance is nevertheless within reasonable limits, because in most cases the importer/his agent gets the documents processed prior to the arrival of the goods, as is normally the case in two-way trade.

19. There are three principal reasons for the longer journey time of the goods vehicles engaged in bilateral and third-country trade: poor quality of some roads, interstate checkpoint detentions and security considerations. Another related reason is overloading of vehicles beyond permissible limits.

20. The poor quality of some road sections in Bihar impacts heavily on the transit time of road vehicles. For example, the trucks carrying third-country cargo from Kolkata/Haldia ports take four days to reach ICD Birgunj in Nepal. In normal circumstances, the journey covering a distance of 668 km can be completed in not more than 2-2.5 days.

21. Each checkpoint means a waiting period of 3-4 hours, which can go upto 8 hours in case of Bihar. Besides, there exists a widespread practice of *facilitation payments*. This has been a long-standing problem with no solution in sight so far.

22. Overloading of vehicles beyond the permissible limits is a common practice. It is a calculated business risk, often mitigated by 'speed payments' to the enforcement officials. It is also not uncommon for truckers to undertake detours to avoid checkpoints, which adds to the transit time.

23. In some areas in Bihar, the drivers avoid travelling at night due to poor security. To get over the problem, they often travel in a convoy and that too in not so sensitive areas.

24. At present, the containers received at Kolkata/Haldia ports require fresh booking for their onward dispatch to a destination in Nepal. This involves extensive customs checking, obtaining clearances from multiple agencies, and fresh insurance of goods. All these requirements increase the dwell time at the port, besides adding to the transaction costs.

25. It takes 12.6 days, on an average, for a container to reach ICD Birgunj in Nepal by rail after its arrival at the port. Of this, the pre-dispatch dwell time at the port is as high as 9.9 days. Efforts have, therefore, to be made to minimise the excessive dwell time. Measures in this regard include simplifying the procedure of booking and facilitating frequent evacuation from the port.

26. The use of through-bill-of-lading or combined-transport-bill-of-lading would simplify the procedure. The customs examination at the transit seaports in that case would be limited to a routine examination of the container to verify that the one-time-lock put on by the shipping agent or the carrier authorized by the shipping company is intact. This would bring about a reduction in the documents required by customs control, speed/facilitation payments, cost of insurance, and the dwell time at the port.

27. For this to happen, the Government of Nepal need to legislate a multimodal transport Act, the provisions of which should be compatible with international practices. The Protocol to the Treaty of Transit between India and Nepal and the customs rules would also require amendment.

28. Ultimately, the objective should be to create an enabling environment where by using through-bill-of-lading in a manner acceptable to the international trading community, and by involving large international freight forwarders, the multiple stages in transit are minimised. This will also have the beneficial externality of injecting the required degree of professionalism into the transportation of transit cargoes.

29. The importance of the latter cannot be over-emphasised in the present context, which is characterised by corruption arising from the practice of 'speed payments'. Several procedures currently in force have been devised with a view to reducing the scope for corruption or speed money. In fact, however, by creating multiple checks, the system has had just the opposite effect because of collusion between different officials, on the one hand, and officials and traders on the other.

30. The cargo that is categorised as *sensitive*, involves careful checking leading to delays. Perhaps the method of acting only on specific information received could be employed in this case. Some countries, notably Britain, have followed this practice with no serious adverse effects. Hopefully, it is expected that the list of sensitive goods would sharply decrease in the future.

31 Hitherto, the rail network on the Indian side of the border comprised of metre gauge routes. This necessarily involved transhipment of goods at the interchange points enroute. This was a serious problem as it led to both delays and pilferage at interchange points. However, most metre-gauge tracks are now being converted to broad-gauge. Early completion of such projects would benefit trade between the two countries and would also facilitate third-country trade of Nepal.

32. The conversion of the Gorakhpur-Gonda Loop line with extension to Nautanwa from metre gauge to broad gauge would provide a direct rail link from Kolkata/Haldia ports to the land customs station at Nautanwa. The gauge conversion would also offer a direct rail access to Nautanwa from the Western and Southern India including the ports of Kandla and Mumbai.

33. The development of multimodal infrastructure at the land customs stations in Nepal – Birgunj, Biratnagar, Bhairahawa – has significantly improved the transport logistics of trade. Of these three, Birgunj has already been developed as a rail-linked ICD and a dry port. In the next phase, Biratnagar and Bhairahawa should be expanded as rail-linked dry ports with facilities for handling container traffic and break-bulk cargo. Surveys of the rail-links connecting Indian railways network have established their feasibility.

34. With the establishment of rail-linked container depots at Birgunj, Bhairahawa and Biratnagar, the requirements of trade of central, western and eastern regions of Nepal will be largely taken care of. The road-linked ICD at Kakarbhitta being developed with ADB assistance will also help in this regard. The multimodal infrastructure at all the container freight stations should be available for use, both for bilateral and third-country trade.

35. Rail transport of containers has advantage over road transport both in terms of transit time as well as cost. The transit time between Kolkata and Birgunj by rail, on an

average, is less than 3 days with no hassles enroute as compared to 4 days in case of road with attendant problems at the checkpoints. There is also a saving of more than $450 in transportation charges. It is understood that, as the traffic picks up, Container Corporation of India plans to increase the frequency of rail services between the ports and the ICD Birgunj.

36. The road network in India is being improved through the multi-laning of national highways connecting the four metropolises and North-South and East-West corridors. Simultaneously, state highways are also being upgraded. This will help both in reducing the journey time and the operating costs of the vehicles. Unfortunately, these improvements have not progressed at the desired pace in Bihar, which is a border state with Nepal.

37. It is recommended that the state highways serving important land customs routes should be declared as national highways. Further all national highways serving these routes should be upgraded to four lanes and declared as international corridors.

38. In sum, the bottleneck problems on the physical side in the case of transport corridors are gradually being tackled. However, there is still the need to address the problems at interchange points. Presently, speed money plays an important role in facilitating transactions. This means that the major problem is not with the transport columns but is at the either ends of the corridors.

39. Easy availability of short-term export finance in the form of working capital loans to exporters at the pre- and post-shipment stages plays a crucial role in trade facilitation. Although timely export credit used to be a problem, until a few years ago, it is no longer so for a large segment of the trade. The Reserve Bank of India (RBI) has initiated several measures in recent years to ensure a timely and hassle-free flow of credit to the export sector.

40. These measures include liberalization of interest rates, flexibility in disbursement of pre-shipment credit, special financial package for large value exporters, export finance for agricultural exports, etc. Banks have also been granted freedom to source funds from abroad without any limit exclusively for granting export credit in foreign currency. The banks are also free to charge interest rates lower than the ceiling fixed by the RBI, thereby creating a competitive setting for flow of export credit.

41. The existing export credit delivery systems adequately meet the needs of the large exporters. However, small and medium exporters have still to contend with the conservative attitude of the banks in assessing their risk profile leading to delay in grant of credit. The problem is more pronounced for exporters from small towns. The position

can decidedly be improved through closer monitoring by the RBI. At the same time, banks also must find out alternatives to collateral security.

42. The importance of India-Nepal trade has not received the attention it deserves for the purposes of computerization of customs related transactions. Out of the twenty-two land customs stations, EDI facility has been provided only at one station – Raxaul. Here again, it is being used only for one type of transactions – export of goods from India to Nepal. All other transactions, including those relating to third-country trade, are performed manually, a situation far from satisfactory.

43. Discussions with the Indian customs authorities revealed that they have ambitious plans for extending the EDI infrastructure in the country, which would include the major land customs stations on Indo-Nepal border. The next logical step should be to share information between the two countries linking different customs-related IT systems – Indian Customs Electronic Data Interchange Systems and UNCTAD developed advanced cargo information system (ASYCUDA++), a scaled down version of which is in use in Nepal. An agreement in this regard between India and Nepal would be most helpful for trade facilitation.

Trade and Transport Facilitation
India-Nepal

1. Landlocked Countries

1.1 It is generally recognised that increased trade is essential for economic growth. But it is also a fact that presently the participation of landlocked and transit-dependent countries in international trade is not as significant as it can be. A major reason for this is that transport costs are a key determinant of competitiveness. Landlocked countries spend as much as 14 per cent[*] of their export earnings on transit and transaction costs. So, their products become that much more expensive in the market than the exports of countries that have access to the sea.

1.2 About one-fifth of the countries in the world are landlocked having no seacoast whatsoever. In order to gain access to the sea, they must pass through one or more countries called 'transit states'. Nepal is one such country. And as is the case with other landlocked developing countries, it is also among the poorest of them. All but 4 of the 20 landlocked developing countries have been identified by the United Nations as the least developed.

1.3 It is to tackle this inequality that there are international agreements and treaties enjoining upon countries not to place landlocked countries at a disadvantage. The sea has been determined *res communis*, the common property of all, giving all states, whether coastal or not, the right to transit freely to and from it and navigate freely upon it. The right of access of landlocked countries to and from the sea and their freedom of transit through the territory of transit countries by all means of transport has to be guaranteed.

1.4 Part X, Article 125 of the United Nations Convention on Law of the Sea states that, "landlocked states shall enjoy freedom of transit through the territory of transit states by all means of transport." Article 127 states that, "traffic in transit shall not be subject to any customs duties, taxes or other charges except charges levied for specific services rendered in connection with such traffic."

1.5 These Articles are aimed at ensuring that landlocked states are not further hindered economically because of their geographical disadvantage. The primary responsibility for establishing effective transit systems, however, rests with the landlocked and transit providing countries themselves. It is they who have to implement measures to address transit transport issues by improving physical infrastructure and non-physical aspects of transit transport systems.

[*] UNCTAD.

1.6 These issues and a remedial action plan were discussed extensively in the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation held at Almaty, Kazakhstan, from 28 to 29 August 2003. The Conference adopted the Almaty Programme of Action.

1.7 The core ingredients of the Programme for a smooth transit include:

- An adequate guarantee system
- An effective customs control and enforcement
- An efficient documentation flow
- Enabling bilateral and international agreements
- Infrastructure and corridor institutions
- Agreement on import licensing procedures
- Article IX on marks of origin
- Agreement on preshipment inspection
- Agreement on rules of origin

2. Trade and Transit Treaties

2.1 Nepal trades extensively with India, but also trades with the rest of the world. As is the case with other countries, different types of agreements at the bilateral, sub-regional and international levels govern its international trade. Nepal has a Treaty of Trade with India (1991). There is also a Protocol to this Treaty. The Treaty of Trade is a symbol of the very special relationship that exists between India and Nepal. It is, moreover, a non-reciprocal Treaty, last renewed in 1996 with the provision for automatic renewal every five years.

2.2 Apart from the Treaty of Trade[*], Nepal also has a Treaty of Transit (1999) with India for facilitating its third-country trade. There is also a Protocol to the Treaty of Transit. In addition, the two countries have signed a separate Agreement for the transit route between Nepal (Kakarbhitta) and Bangladesh (Banglabandha) passing through Phulbari in India. India has also provided Nepal a rail route through Radhikapur for its trade with Bangladesh and for its overseas trade via Bangladesh.

2.3 The Ministry of Industry, Commerce and Supplies, Government of Nepal and the Ministry of Railways, Government of India have also entered into a Rail Services Agreement (2004) for movement of goods (containers and break-bulk cargo) in transit between Kolkata/Haldia and Birgunj in Nepal. This agreement has recently been extended to bilateral trade and containerised services are expected to commence shortly. With regard to break-bulk cargo, some customs related issues still remain to be resolved.

[*] Copies of the Treaties of Trade and Transit and related Protocols may be seen as Annexure 1.

3. Pattern and Composition of Bilateral Trade

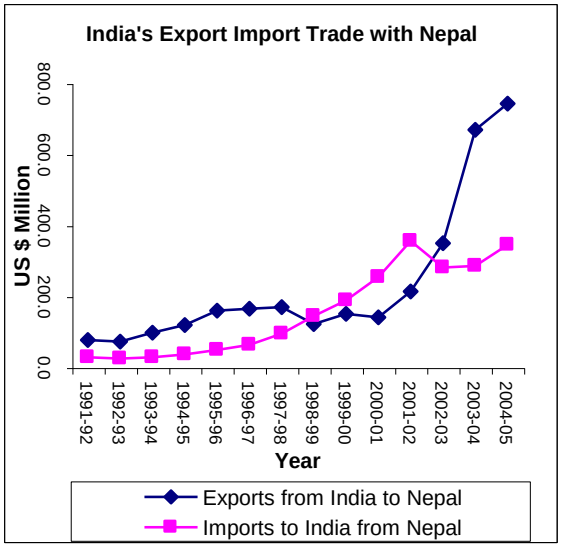
3.1 In keeping with the close neighbourly relations between India and Nepal and their cultural, linguistic and ethnic unity, India has traditionally been a major trading partner of Nepal. In 2004-05, India's share in Nepalese imports was 65 per cent. Between 1991-92 and 2004-05, India's exports to Nepal have registered a nine-fold increase. During the same period, imports from Nepal have increased twelve-fold. In value terms, however, imports to India account for nearly 50 per cent of the exports to Nepal.

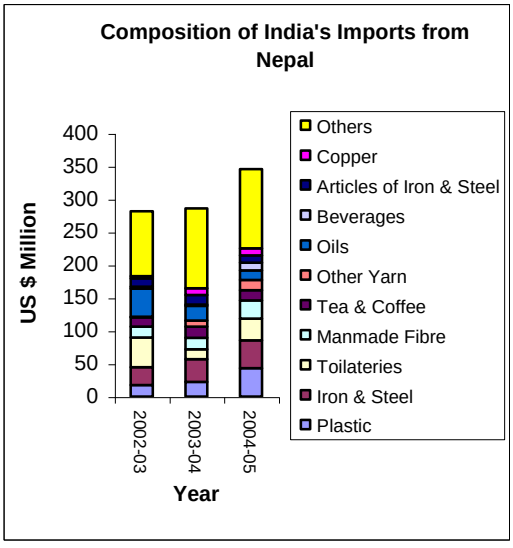
3.2 Table 1 shows the pattern of India's export-import trade with Nepal since 1991-92.

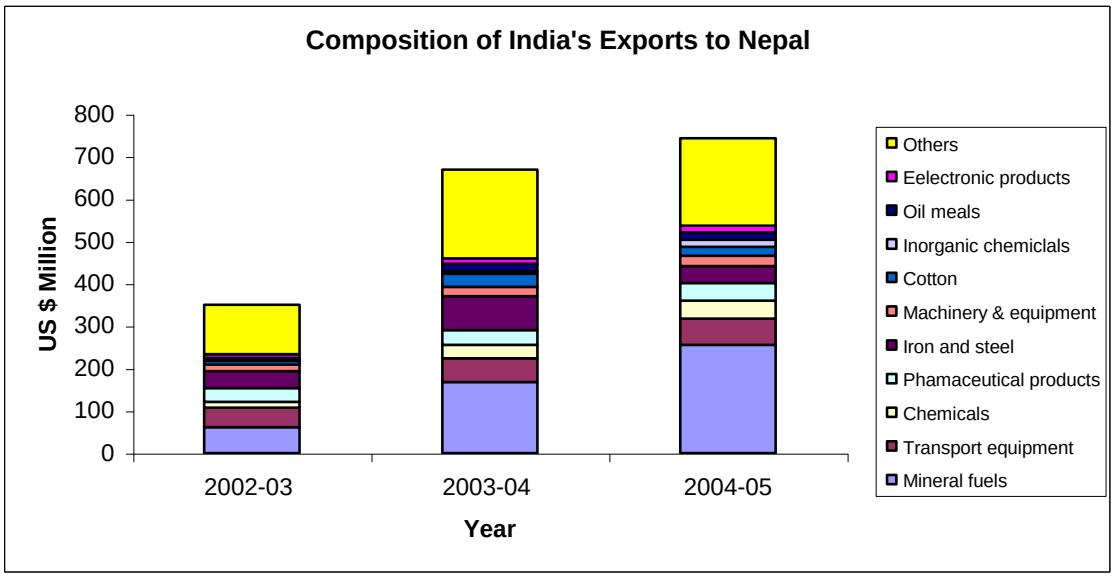
Table 1: Indo-Nepal Trade

(Values shown in millions of US $)

Year	Exports from India to Nepal	Index	Imports to India from Nepal	Index	India's Trade with Nepal	Index
1991-92	77.1	100	28.5	100	105.6	100
1992-93	72.5	94	24.8	87	97.3	92
1993-94	98.1	127	28.9	101	127.0	120
1994-95	120.1	156	36.6	128	156.7	148
1995-96	160.0	208	49.1	172	209.1	198
1996-97	165.7	215	64.1	225	229.8	218
1997-98	170.1	221	95.2	334	265.2	251
1998-99	122.4	159	144.9	508	267.3	253
1999-00	151.2	196	188.6	662	339.9	322
2000-01	140.8	183	255.1	895	395.9	375
2001-02	214.5	278	355.9	1249	570.4	540
2002-03	350.4	454	281.8	989	632.1	599
2003-04	669.4	868	286.0	1004	955.4	905
2004-05	743.0	964	345.8	1213	1088.8	1031
Compound Annual Growth Rate (CAGR)						
1991-92/2004-05	16.16		26.70		20.10	
1994-95/2004-05	17.44		26.58		20.74	
1999-00/2004-05	45.51		9.39		27.73	







3.3 The manufactured goods account for 80-82 per cent of India's total exports to Nepal. These include: mineral oils, transport equipment, pharmaceutical products, iron and steel, machinery and mechanical appliances, chemicals and products, etc. In the import basket, the share of manufactured goods, which earlier varied between 15-20 per cent, increased to 45 per cent in 2004-05. The items include: plastic and articles thereof, products of iron & steel, animal/vegetable fats/oil, synthetic yarn, copper and articles thereof, etc. Tables 2 and 3 show the top ten export and import commodity groups at HS 2 digit level[*], respectively.

Table 2: India's Top 10 Export Commodities to Nepal in 2004-05

Commodity	Value (US$ million)	Share** (%)
Mineral fuels, mineral oils, etc.	255.26	34.35
Transport equipment	62.45	8.40
Salt, sulphur, lime, cement etc.	41.96	5.65
Pharmaceutical products	41.62	5.60
Iron and steel	40.16	5.40
Boilers, machinery and mechanical appliances; parts thereof	24.02	3.23
Cotton , cotton yarn, fabric etc.	21.22	2.86
Chemicals and products	17.19	2.31
Edible vegetables and certain roots ad tubers	16.76	2.26
Electrical and electronic products	16.03	2.16

** Share in total Indian exports to Nepal.

[*] International Trade Classification Harmonization System Code (ITC HS code)

Table 3: India's Top 10 Import Commodities from Nepal in 2004-05

Commodity	Value (US$ million)	Share** (%)
Plastic and articles thereof.	43.21	12.50
Iron and steel	42.30	12.23
Essential oils and resinoids; perfumery, cosmetic or toilet preparations.	33.04	9.55
Man-made staple fibres.	27.38	7.92
Coffee, tea, mate and spices.	15.86	4.59
Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.	15.17	4.39
Animal or vegetable fats and oils and their cleavage products; pre. Edible fats; animal or vegetable waxes.	14.87	4.30
Beverages, spirits and vinegar.	11.78	3.41
Articles of iron or steel	10.93	3.16
Copper and articles thereof.	10.88	3.15

** Share in total Indian imports from Nepal.
Source: Ministry of Commerce and Industry, Government of India

3.4 There is considerable informal trade between the two countries, despite an agreement of cooperation between His Majesty's Government of Nepal and Government of India to control unauthorised trade (1991). Some estimates show that the informal trade is far in excess of the formal trade.[#] The informal trade from India to Nepal is mostly complementary to formal trade. It generally comprises goods that are procured from the neighbouring states of Bihar, Uttar Pradesh and West Bengal. The informal trade from Nepal to India, however, differs significantly from the formal trade. A large share of this trade comprises goods procured by Nepal from third countries. This phenomenon is the result of tariff differential in the two countries in respect of imported goods.

3.5 The emergence of a modern industrial base in India, combined with general lowering of tariffs, has had its impact on Nepal's imports from third countries. In the last five years, these imports have shown a decline of nearly 7 per cent per annum (Table 4), while imports from India have increased by 18 per cent per annum. It is, therefore, reasonable to conclude that over time Nepal's informal trade in goods procured from third countries will decline substantially if not get eliminated altogether.

Table 4: Nepal's Imports from Third-countries

(in million Nepalese Rs.)

Year	Other countries
2000-01	70476.2
2001-02	50766.9
2002-03	53427.9
2003-04	57537.6
2004-05	46350.6
CAGR* 2000-01/2004-05(%)	-6.99

** Compound Annual Growth Rate*
Source: Federation of Nepalese Chambers of Commerce and Industry

[#] According to Muni (1992) India's informal trade with Nepal was $626 million in 1989. In the same year, official trade was $62.6 million.

4. Interchange Points

4.1 Twenty-two land border points have been specified as agreed routes for India-Nepal bilateral trade and for Nepal-Nepal transit. Fifteen of these have also been specified for Nepal's third-country imports/exports (Table 5).

Table 5: Agreed Routes and Transit Points

	Agreed Routes for Mutual Trade		Transit points to Kolkata Port	Mode
1.	Sukhia Pokhari (Pashupatinagar)	1.	Sukhia Pokhari	Road
2.	Naxalbari (Kakarbhitta)	2.	Naxalbari (Panitanki)	Road
3.	Galgalia (Bhadrapur)	3.	Galgalia	Road
4.	Jogbani (Biratnagar)	4.	Jogbani	Road
5.	Bhimnagar (Setobandha)	5.	Bhimnagar	Road
6.	Kunauli (Rajbiraj)			Road
7.	Jayanagar (Siraha, Janakpur)	6.	Jayanagar	Road, Rail (NG)
8.	Bhitamore(Sursand)	7.	Bhitamore	Road
9.	Sonabarsa (Malangawa)			Road
10.	Bairgania (Gaur)			Road
11.	Raxaul (Birgunj)	8.	Raxaul	Road, Rail (BG)
12.	Nautanwa (Bhairahawa)	9.	Nautanwa (Sonuali)	Road
13.	Khunwa (Taulihawe)			Road
14.	Barhni (Krishnanagar)	10.	Barhni	Road
15.	Jarwa (Koilabas)	11.	Jarwa	Road
16.	Nepalgunj Road (Nepalgunj)	12.	Nepalgunj Road	Road
17.	Katerniyaghat (Rajapur)			Road
18.	Tikonia (Prithivipur)	13.	Tikonia	Road
19.	Gauriphanta (Dhangadhi)	14.	Gauriphanta	Road
20.	Banbasa (Mahendranagar)	15.	Banbasa	Road
21.	Jhulaghat (Mahakali)			Road
22.	Dharchula (Darchula)			Road

(Names within brackets relate to places inside the Nepal border)

4.2 Out of the 22 specified routes, the bulk of interchange takes place through five routes, namely (1) Raxaul (Birgunj), (2) Jogbani (Biratnagar), (3) Nautanwa (Bhairahawa), (4) Naxalbari (Kakarbhitta)[*], and (5) Nepalgunj Road (Nepalgunj). Container freight stations have been provided at Birgunj, Biratnagar and Bhairahawa in Nepal. While Birgunj is rail-linked and the other two are served by road transport.

4.3 Nepal has been given the right of access to and from the sea for its third-country trade and for this purpose ports of Kolkata and Haldia on the east coast of India have been specified. These are riverine ports situated at a distance of 128 km and 232 km from the sea, respectively. Kolkata port has a draft limitation of 7.2 metres depending upon the tide. A deeper draft of upto 10 metres is available at Haldia port. Nepal has also been offered access to the ports of Mumbai, Nhava Sheva and Kandla located on the west coast of India. These are deep seaports and can accommodate larger ships.

[*] A road-linked container freight station is being developed at Kakarbhitta with assistance from ADB.

4.4 Raxaul (India) – Birgunj (Nepal) is the most important route for bilateral trade between India and Nepal and its trade with other countries (third country trade). Further, Birgunj is the only rail-linked dry port (Sirsiya Dry Port) in Nepal with an inland clearance (container) depot equipped to handle both break-bulk and containerised cargo. A detailed study of this route has, therefore, been made both for bilateral and third country trade.

4.5 The Indian side of the border at Raxaul is officially open from 08.00 - 20.00 hours every day for vehicular and other traffic and customs processing. The land customs station is, however, officially open from 08.00-16.00 hours from Monday to Saturday, barring the second Saturday of the month and gazetted holidays. On the Nepalese side, the border is officially open from 04.00-20.00 hours while the customs working hours are from 10.00-17.00 hrs, with Saturday as a holiday. The customs officials of both countries, however, undertake appraisements on payment of overtime beyond working hours and even on holidays. There is every case for extending the working hours and also ensuring same official timings instead of different timings as at present.

4.6 Indian vehicles are permitted access to any part of Nepal and allowed a free period of three days to complete their return journey. Beyond this period, charges depending upon the period of extended stay are payable. Nepalese road vehicles are allowed free entry into India upto the nearest railhead, but need permission to travel further. This permission is given free of charge, if the vehicles are used for government service. In other cases, there is an elaborate procedure involving payment of charges. This system is a strong disincentive for the Nepalese truck operators to ply their vehicles in India.

5. Trade Logistics

5.1 Under the Treaty of Trade, India provides, on a non-reciprocal basis, duty free access, without quantitative restrictions, to the Indian market for all Nepalese-manufactured articles barring a short negative list. Imports of such items are also permitted but require a certificate of origin issued by the Federation of Nepalese Chambers of Commerce and Industry. So far as the imports from India are concerned, the same are normally paid for in Indian rupees since the currency is fully convertible in Nepal. There are some specified products laid down by His Majesty's Government of Nepal, the imports of which from India are permitted on payment in hard currency.

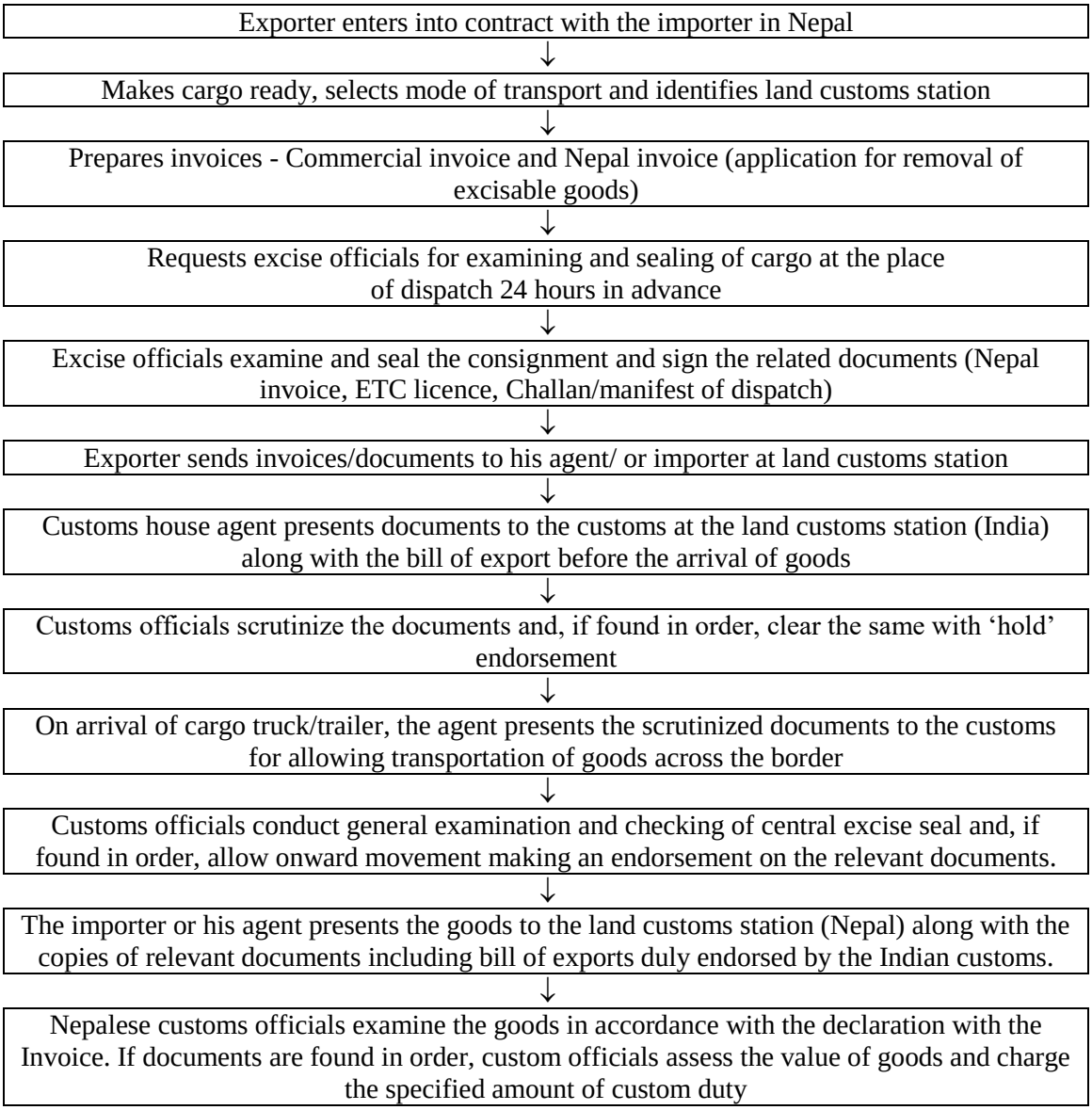
5.2 The excise duty levied on goods imported from India and paid for in Indian currency is refunded to His Majesty's Government of Nepal. Indian manufacturers while exporting goods to Nepal can avail of several export promotion schemes. These schemes essentially provide for some recompense to the exporter from excise duties on inputs and finished products. The whole or that part of duty as is granted as rebate to the exporter is not allowed as rebate to His Majesty's Government of Nepal.

5.3 The multiplicity of the export promotion schemes and the special procedure in place for exports to Nepal necessarily involve extra documentation and scrutiny at land customs stations. The documentation requirements increase since the excise duty levied on goods imported from India and paid for in Indian currency is refunded to Government of Nepal.

5.4 Nepal can access trade through India with third countries without any quantitative restrictions. There is, however, a provision for classifying a few goods transiting through India as sensitive. These comprise products that are imported both by India and Nepal, and for which Nepalese import duties are lower than the corresponding Indian import duties.

5.5 The flowchart below depicts the typical sequence of export of a consignment to Nepal.

Procedure for Exports to Nepal



5.6 Table 6 below gives a snapshot of the documents required for a typical export/import transaction.

Table 6: Documents Required for Bilateral Trade

Document	Export from India	Import from Nepal
1. Bill of export	√	
2. Bill of entry		√
3. Commercial invoice	√	√
4. Nepal Invoice (Invoice of goods liable to central exercise duty in India)	√	
5. Sales contract/purchase order	√	√
6. Export trade control (ETC) licence (copy of the licence mentioning therein export/import code)	√	√
7. Authority letter given by exporter/ importer to customs house agent for clearing the goods	√	√
8. Declaration by exporter/importer	√	√
9. Application or certificate as required for different export promotion schemes	√	
10. Letter of credit (L/C) or any other proof of payment	√	√
11. Packing list	√	√
12. Certificate of insurance	√	√
13. Challan/manifest of dispatch	√	√
14. Concurrent certificate (as applicable)	√	√
15. Certificate of origin		√

Note: (1) In case of imports from Nepal, in addition to the above documents, Bhansar Pragyapan Patra (equivalent of bill-of-exports in India) duly endorsed by Nepal customs is also required.

(2) Exports/imports under general trading category (other than manufactured goods) require fewer documents – bill-of-exports/bill-of-entry, commercial invoice, authority letter of customs house agents by exporter/importer, declaration by exporter/importer.

(3) Packing list and certificate of insurance are treated as optional documents for exports from India.

5.7 Despite attempts at simplification, customs procedures are still elaborate. For example, at the Raxaul/Birgunj interchange point as many as 26 documents and a total of 96 copies of the same are to be submitted and authenticated by 338 signatures of various

functionaries. Table 7 gives a snapshot. Lack of common documentation and layouts between India and Nepal is another issue that needs to be addressed.

Table 7: Documentation at Interchange Point for Exports from India

Location	Type of documents	Number of copies	Number of signatures
Land Customs Station (India)	12	46	138
Land Customs Station (Nepal)	14	50	200

5.8 The goods brought by road (both imports and exports), are subjected to customs examination in the customs examination yard – a facility located adjacent to the border. The goods received by rail are transferred to Nepalese trucks on the Indian side of the border. These trucks are subjected to customs examination before being allowed to cross the border. The customs examination, however, is usually carried out at the railway station itself.

5.9 Export and import cargo is generally cleared on the basis of accompanying documents, visual checks and excise seal examination, as applicable. If there is some suspicion, a physical check of 5 per cent of the consignment is carried out. The goods are, however, seldom off-loaded from the vehicle. Extra vigilance is exercised for goods categorised under the negative list.

5.10 Table 8 shows the indicative cost and transit time of export of goods in respect of selected points based on field surveys.

Table 8: Indicative Transit Time/Costs for India's Exports to Nepal

Corridor name	Mode	Distance (km)	Transit time (hours)	Border delays (hours)	Total time (hours)	Transit costs (Rs/ tonne)	Agent costs (Rs/ tonne)	Informal costs (Rs/tonne)	Total costs (Rs/ tonne)
Delhi to Birgunj	All road	1015	120	4	124	1800	275	225	2300
Ludhiana to Birgunj	All road	1320	144	4	148	2000	275	225	2500
Nagpur to Birgunj	All road	1155	132	4	136	1900	275	275	2450
Ahmedabad to Birgunj	All road	1676	156	4	160	2800	275	325	3400

5.11 It would be seen from the above that the informal costs (speed money) are almost the same as the formal costs. The journey time is influenced by the condition of the roads, delays at the interstate checkpoints and security considerations. Another related reason is overloading of vehicles beyond permissible limits. Each checkpoint means a waiting period of 3-4 hours which goes up to 8 hours in case of Bihar (Bihar phenomenon).

Besides, there exists a widespread practice of *facilitation payments*. This has been a long-standing problem with no solution in sight so far.

5.12 During the course of the checks, the documents relating to registration and fitness of the vehicle are verified. The validity of interstate/national permits is scrutinised and the sales tax documents of the goods carried are examined. It is also confirmed that no contraband goods are being transported and the gross vehicle load is within the prescribed limits.

5.13 Overloading of vehicles beyond the permissible limits is a common practice. It is a calculated business risk, often mitigated by speed payments to the enforcement officials. It is also not uncommon for truckers to undertake detours to avoid checkpoints, which adds to the transit time. The Supreme Court of India has recently directed for strict enforcement of the permissible loadings.

5.14 Security considerations weigh heavily with the truck drivers while passing through the state of Bihar. In some areas, the drivers avoid travelling at night due to poor security. In other sensitive areas, they often travel in a convoy. These precautionary measures add to the travel time.

5.15 The border delay time, shown in the Table 8, relates to the time taken for customs checking and waiting time of the vehicle to cross the border. The time taken is nevertheless well within reasonable limits as, in most cases, the importer/his agent gets the documents processed for customs appraisal prior to the arrival of the goods. This is normally the case in two-way trade between countries.

5.16 Indian vehicles are permitted access to any part of Nepal and allowed a free period of three days to complete their journey. Beyond this period, there is a scale of charges depending upon the period of stay. Nepalese road vehicles are allowed free entry into India upto the nearest railhead, but need permission to travel further. This permission is given without any fee, if trucks are commissioned by the Nepalese government to transport goods from India to a destination in Nepal. In other cases, the truck operators in Nepal have to pay prescribed charges in addition to payment of road tax as applicable in India for a period of three months. An insurance cover and bank guarantee is also required. These stipulations are a strong disincentive for the Nepalese truck operators to ply their vehicles in India.

6. Third-Country Trade

6.1 The detailed procedure for Nepal's third-country trade transiting through India has been laid down in the Protocol to the Treaty of Transit. The imported goods are broadly categorised as sensitive and non-sensitive. The sensitive cargo generally comprises those goods which are imported both by India and Nepal and for which the Nepalese import

duties are lower than the corresponding Indian import duties. The categorisation recognises the possibility of wilful loss of goods during transit in India. These goods are specified by the Government of India from time to time, with prior intimation to His Majesty's Government of Nepal.

Under the Treaty of Transit and attached Protocols, there are three types of *"Duty Insurance"* depending on the means and ownership of transport:

Mode of transport	**Amount insured**	**Type of security**
1. Rail – sensitive goods	Customs duty (including any antidumping duty) currently in force)	Insurance Policy or Bank Guarantee assigned to Commissioner of Customs Kolkata
2. Road – sensitive goods	Difference between the Market Value and CIF Value (Market Value is taken to be 1.75 x Cost Insurance Freight Value) plus any anti-dumping duty or safeguarding duty currently in force	Insurance Policy or Bank Guarantee assigned to Commissioner of Customs Kolkata
3. Road or rail – non sensitive goods	Undertaking for an amount equal to the difference between the Market Value and the Cost Insurance Freight Value (Market Value taken to be 1.75 x CIF Value)	Legally binding undertaking

Note: (1) Currently the cost of *"Duty Insurance"* is 0.30 percent of insured value as a premium, plus eight percent of the premium amount as service tax plus IRs 1 as stamp duty.

(2) The requirement of *"Duty Insurance"* is waived on goods imported by public sector agencies in Nepal, provided an undertaking is given by the *"Nepal Transit and Warehousing Company Ltd."*. Their charge for issuing the letter of undertaking to the Indian Customs is 0.07% of cif value, for cement and fertiliser, and 0.15% for other products. There is also a provision for making Indian Railways, where liable as carriers under the Indian Railways Act, liable to pay the CIF price to the importer in the event of loss.

6.2 The development of multimodal infrastructure in Nepal has brought about a sea change in the logistics of its third-country trade. The Rail Services Agreement signed in 2004 between the two countries has enabled transportation of containers by rail from the ports of Kolkata/Haldia to ICD Birgunj. This is in addition to the transportation of containers by road to the container freight stations. In this report, we have, therefore, studied in detail the quality of container services and identified the measures required for their improvement.

6.3 At this point, it would be useful to understand the various stages involved in import of goods from third-countries. The flowchart below depicts the sequence. It may be mentioned that some goods require import license (I/L), while others are exempted from the same. The latter, however, require authorisation by the Consul General of Nepal at Kolkata.

Procedure for Imports from Third Countries

I/L issued to importer by Nepalese Govt.

↓

Importer's purchase agreement with exporter

↓

Exporter sends Pro Forma Invoice to Importer

↓

Importer opens letter of credit (L/C) favouring exporter

↓

Loading effected

↓

Shipping line issues Bill of Lading (B/L) (five copies)

↓

Non-negotiable copy sent to importer

↓

Importer (or his representative) files ICCD (Import Containerised Cargo Declaration) (6 copies) with I/L + B/L+ Invoice + Packing List + Insurance + Bonds with customs Kolkata/Haldia port

↓

Importer files bond for (a) value of commodity, and (b) custom duty in India. Importer also files insurance covers for (a) value of goods; and (b) value of container

↓

Ship arrives at Kolkata/Haldia Port

↓

Importer files Import General Manifest (IGM)

↓

Permission granted by customs at Kolkata/Haldia for unloading goods

↓

Importer pays dues to the shipping line

↓

Shipping line issues Delivery Orders (D/O) to importer

↓

Shipping line files undertaking with customs for re-export of container

↓

Importer again approaches customs with relevant copies of IGM and D/O; also indicates mode of carriage to Nepal (Rail/Road)

↓

Applies for issue of transhipment permit (T/P)

↓

Customs compare I/L submitted with I/L received from Nepal govt. and check other documents

↓

Customs check if the name of the agent appears in the negative list maintained by customs

↓

Customs issue T/P if documents are in order and agent's name does not appear in negative list

↓

Consignment put in the charge of port authority (Kolkata/Haldia)

↓

T/P issued

↓

One copy issued for RCS Raxaul and two copies handed over in a sealed cover to the carrier

↓

If not loaded in railway wagon or road vehicle, within free time, goods shifted to custom-bounded shed

↓

Forwarding Note and T/P handed over by agent to CONCOR

↓

CONCOR General Indemnity Bond is filed with customs operative and can be invoked in case of loss enroute

↓

Before loading, customs check seal of consignment and in case of containers, the 'one-time-lock' (OTL).

↓

In case of transit by road, road haulier files bonds for value of consignment, value of goods and value of containers

↓

Road vehicles have to move only by pre-specified routes

↓

At LCS Raxaul documents are checked and vehicles allowed to proceed to Nepal

6.4 Kolkata and Haldia ports are the gateway ports on the east coast for third-country trade of Nepal. Kolkata port handles nearly 80 per cent of the Nepal-bound container traffic, with Haldia port dealing with the rest. The onward dispatches from Kolkata to destinations in Nepal can either be by road or by rail. In case of Haldia, these are presently exclusively by road. During the six months period from June to November 2005, 11004 containers were dispatched from Kolkata port with the following break-up (Table 9).

Table 9: Dispatch of Containers from Kolkata Port (June-November, 2005)

Month	Number of TEUs				
	By Road			By Rail	Total
	Bhairahawa and other destinations	Biratnagar	Birgunj	Birgunj	
June–2005	132	356	569	558	1615
July–2005	85	337	545	486	1453
August–2005	140	493	622	728	1983
September–2005	190	458	572	938	2158
October–2005	128	452	465	742	1787
November–2005	106	528	588	786	2008
Total (Jun.05 to Nov.05)	781	2624	3361	4238	11004

6.5 Following conclusions can be drawn from the data presented above.

(i) Birgunj is the major destination, accounting for nearly 70 per cent of the total container traffic.

(ii) Biratnagar is emerging as another important destination for container traffic.

(iii) Rail transportation is the preferred mode for container dispatches to Birgunj.

(iv) Rail dispatches to Birgunj are showing a steady growth, while road dispatches have remained almost at the same level.

6.6 While recognising that the sample period is short, the trajectory of traffic growth indicates that it may be worthwhile to set up an ICD facility at Biratnagar and connect the same with a broad-gauge network of Indian Railways. Such a rail connection is feasible and would also be financially viable, if the related delays in the present method of handling the traffic are duly monetised.

6.7 The time taken for the movement of a container by rail from Kolkata port to ICD Birgunj has been analysed for 695 containers dispatched during the month of November 2005. For the purposes of analysis, three distinct stages have been identified. The first two stages relate to pre-dispatch activities which include port-side operations (unloading, stacking), filing of documents, customs clearance, permission for onward dispatch, loading operations, etc. Table 10 shows the data separately for ten different rake movements during the month of November 2005.

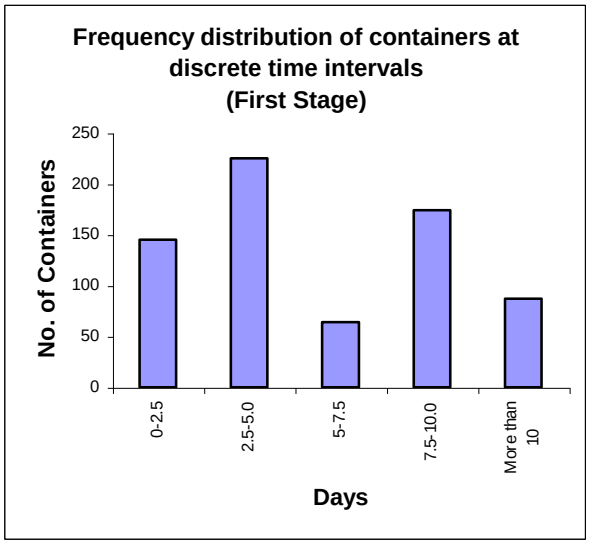
Table 10: Throughput Time for Containers

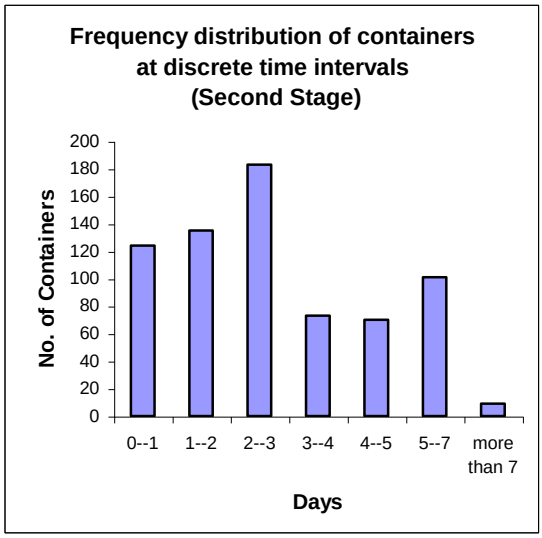
	No. of Days			
	First stage	**Second stage**	**Third stage**	**Total throughput time**
	Berthing of ship at Port to customs clearance	**Customs clearance to loading on a container flat**	**Loading to arrival at Birgunj**	
1st Rake	9.00	6.20	2.00	17.20
2nd Rake	4.03	5.23	3.00	12.30
3rd Rake	3.46	4.37	3.00	10.80
4th Rake	7.70	2.90	2.00	12.70
5th Rake	5.70	2.60	3.00	11.20
6th Rake	6.99	2.50	3.00	12.50
7th Rake	5.56	1.63	2.00	9.19
8th Rake	6.10	2.20	3.00	11.30
9th Rake	7.30	2.60	2.00	11.90
10th Rake	10.30	2.50	4.00	16.80
Average	**6.61**	**3.27**	**2.70**	**12.59**

6.8 It will be seen from the above that, on an average, it takes 12.59 days for a container to reach ICD Birgunj after its arrival at the Kolkata port. It will also be noted that the activities included in the first stage require an average of 6.61 days to complete

the formalities. The first stage, therefore, alone accounts for more than 50 per cent of the total time. The time taken from customs clearance to loading a container on a rail wagon works out to 3.27 days accounting for 25 per cent of the total time. Thus, the two stages combined account for nearly 75 per cent of the total throughput time.

6.9 The following graphical presentations give a snapshot of the detentions suffered at the first and second stages.





6.10 These graphs reinforce the conclusion that it is possible to reduce the detention time at different stages. For example, in the first stage, as many as 145 containers accounting for more than 20 per cent of the total were cleared for dispatch within 2.5 days. Similarly, in the second stage, 259 containers were dispatched within a time interval of 0-2 days accounting for 37 per cent of the total dispatches.

6.11 The frequency distribution of total throughput time at discrete time intervals has also been worked out for the total sample (695 containers). Table 11 summarizes the position with graphical depiction alongside.

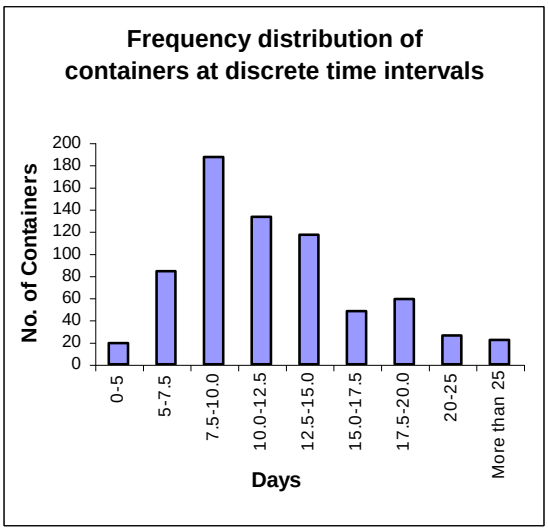


Table 11: Frequency Distribution of Containers at Discrete Time Intervals

Throughput time (days)	No. of containers	Percentage of the sample	Cumulative percentage
0.0–5.0	19	2.73	2.73
5.0–7.5	84	12.09	14.82
7.5–10.0	187	26.91	41.73
10.0–12.5	133	19.14	60.86
12.5–15.0	117	16.83	77.70
15.0–17.5	48	6.91	84.60
17.5–20.0	59	8.49	93.09
20.0–25.0	26	3.74	96.83
More than 25.0	22	3.17	100.00
Total	695	100.00	

6.12 It would be observed that nearly 42 per cent of the containers reach the destination within ten days of which nearly 15 per cent reach within 7.5 days and some even within five days. The position is vitiated by excessive delays suffered in the remaining cases. The broad conclusion is that it is possible to substantially compress the throughput time, if these delays can be taken care of.

6.13 The average line haul time from the port to ICD Birgunj works out to less than three days. This period includes the time taken by the customs check at Raxaul. It has been revealed that, on average, it takes around four hours for this check to be completed. During the time when the customs check is being carried out, the railways also complete their operational requirements involving reversal of motive power for onward movement of train to ICD Birgunj. There are, however, occasions when the container train gets detained at Raxaul, since the services of the customs department are available only between 08.00 and 20.00 hours.

6.14 At present, the containers received at Kolkata/Haldia require fresh booking for their onward dispatch to a destination in Nepal. This involves extensive customs checking, obtaining clearances from multiple agencies, and fresh insurance of goods. All these requirements increase the dwell time at the port, besides adding to the transaction costs.

6.15 The use of through-bill-of-lading or combined-transport-bill-of-lading would simplify the procedure. The customs examination at the transit seaports in that case would be limited to a routine examination of the container to verify that the one-time-lock fitted by the shipping agent or the carrier authorized by the shipping company is intact. This would, *inter alia*, bring about a reduction in facilitation payments, cost of insurance, documentation and the dwell time at the port.

6.16 The through-bill-of-lading covers not only ocean shipment but also inland transport by other modes. With a through-bill-of-lading, the ocean carrier takes responsibility for the entire transport chain. In case of combined-transport-bill-of-lading, it is the responsibility of an issuing agent (not the ocean-carrier) to arrange all parts of the journey, both ocean and inland transport and he assumes responsibility for carriage by all the modes. This type of document is frequently used by freight forwarders operating as *non-vessel operating common carriers*.

6.17 For this to happen, the Government of Nepal needs to legislate a multimodal transport Act to create the required legal conditions for seamless movement of containers from origin to destination. Apart from this, necessary changes in the Protocol to the

Treaty of Trade between His Majesty's Government of Nepal and the Government of India should also be carried out.

6.18 The legislative changes in Nepal need to be made in such a way that they are acceptable to the international chamber of commerce. It may be mentioned that for a through-bill-of-lading to be issued, a greater involvement of shipping companies and local freight forwarders with logistics companies is necessary.

6.19 As we will see in the analysis that follows, rail transport has a distinct price advantage over road dispatches at all levels of loadability of a container. This price differential will have a beneficial effect on the growth of rail traffic. As the rail traffic increases, the rate of evacuation by rail will also improve as a result of quicker formation of trainloads. This, in turn, will help to cut down the dwell time at the port.

6.20 Ultimately, the objective should be to create an enabling environment where by preparing through-bill-of-lading in a manner acceptable to the international trading community, and by involving large international freight forwarders, the multiple stages in transit are minimised. This will also have the beneficial externality of injecting the required degree of professionalism into the transportation of transit cargoes. The importance of the latter cannot be over-emphasised in the current context which is characterised by corruption arising from the practice of 'speed payments'.

6.21 That would, however, still leave the issue of *sensitive* cargo unaddressed. Perhaps the method of acting only on specific information received could be employed in this regard. Some countries, notably Britain, have followed this practice with no great adverse effects. It may also be pointed out that several procedures currently in force have been devised with a view to reducing the scope for corruption or speed money. In fact, however, with the creation of multiple steps, these procedures have had just the opposite effect because of collusion between different officials, on the one hand, and officials and traders, on the other.

7. Transaction Costs

7.1 Rail transport of containers has advantage over road both in terms of transit time as well as price. Table 12 gives the comparative costs for transportation of containers from Kolkata to ICD Birgunj by the two modes.

Table 12: Comparative Costs

Activity	Rail	Road	
	Unit Cost (Rs/TEU)	Unit Cost (Rs/TEU)	Unit Cost (Rs/TEU)
At Kolkata Port	**(loadability upto 24 mt)**	**(loadability upto 18 mt)**	**(loadability upto 24 mt)**
Port landing charges	2,965	2,965	2,965
Wharfage	2,138	7,128	7,128
"Facilitation/speed" money	1,000	1,000	1,000
Custom house agents	2,500	2,500	2,500
Line haul cost			
Line-haul costs: Kolkata-Birgunj	17,700	21,600	28,800
Empty handling charges	343	4,400	4,400
Cargo Insurance	Not applicable	-	-
Container insurance	Not applicable	250	250
At Raxaul			
"Facilitation/speed" money	Not applicable	1,200	1,200
Total	**26,646**	**41,043**	**48,243**

7.2 It would be seen from the above that the line haul cost from Kolkata to Birgunj by rail is about Rs. 17,700/- per TEU with loadability upto 24 metric tonnes. An additional charge of Rs. 343 is levied for handling of an empty container, including its delivery to the shipping line at Kolkata.

7.3 The comparative line haul cost by road for a TEU with loadability upto 18 metric tonnes works out to Rs. 21,600. This cost increases to Rs. 28,800, if the loadability increases to 24 metric tonnes. An additional charge of Rs.4,400 is levied for return of empty container to the shipping line.

7.4 The carriage by road also attracts higher wharfage charges at the port and insurance charges both for the cargo as well as for the container. Typically, for sensitive items the insurance charges are about 0.3% x 75% of the c.i.f value of the cargo; for other items they add 0.25 to 0.6% to the c.i.f value of cargo. For rail transport, insurance for the cargo is not applicable. Besides, the additional charge of Rs.1200 per TEU levied for customs clearance at the border is not applicable in the case of rail transport.

7.5 The road transportation is undertaken mainly to save on the dwell time at the port after obtaining customs clearance. An additional factor is the loadability of the container. As would be seen later, the dwell time in case of road dispatches is much less since a road trailer can be made readily available for onward journey, while in case of rail, the container has to wait for the arrival of the container train and also for full train load to materialise. It is understood that the Container Corporation of India plans to increase the frequency of rail services between the port and the ICD in Birgunj.

7.6 The time taken in the movement of containers by road from Kolkata port to container freight stations in Nepal has been analysed for 200 containers dispatched during November 2005. The summarised position is shown in Table 13.

Table 13: Time taken for Transportation of Containers by Road

(Days)

	Stage	Raxaul (Birgunj)	Jogbani (Biratnagar)	Naxalbari (Kakarbhitta)
(1)	Berthing of ship at Kolkata Port to issue of forwarding note permitting dispatch of container	6.0	6.0	6.0
(2)	Issue of forwarding note to loading of container on a truck	0.5	0.5	0.5
(3)	Loading of container on a truck to its arrival at the container freight station	4.0	3.5	3.5
	Total	**10.5**	**10.0**	**10.0**

7.7 It would be seen from the above that, on an average, it takes 10.5 days for a container to reach ICD Birgunj by road as compared to 12.59 days by rail, which means a saving of two days. The average transit time to reach Birgunj is typically four days covering a distance of 668 km. Under normal conditions, this distance could be covered in not more than 2-2.5 days.

7.8 There are three principal reasons for the longer journey time: poor quality of some roads, interstate checkpoint detentions and security considerations. Another related reason is overloading of vehicles beyond permissible limits. These have been discussed in the earlier paragraphs. In Bihar, the riding quality of some of the roads is notoriously bad. This has been acknowledged by the Bihar government, which is now initiating steps to bring about significant improvements in riding quality. But it may be some time before the network is brought to an acceptable standard.

7.9 In case of road transportation, the customs check at Raxaul takes longer time as compared to rail transport. This is because of the requirement of scrutinising the related documents besides verifying the one-time-lock on the container. The trucks carrying *sensitive cargoes* are also subjected to intensive checking. In case of rail transport, however, the procedure is much simpler.

7.10 The throughput time of containers carrying export cargo from ICD Birgunj to Kolkata port by road has been analysed for 50 containers during November 2005. At present, most of the containers carrying export goods are dispatched by road, the main reason being limited frequency of rail services and the need of the exporters to meet the deadlines. The summarised position in this regard is shown in Table 14.

Table 14: Throughput Time of Containers by Road from Birgunj to Kolkata

	Stage	Time (days)
(1)	Transit of a loaded truck from Birgunj to Raxaul and customs check at Raxaul	0.5
(2)	Transit time from Raxaul to Kolkata port	4.0
(3)	Dwell time at the port	2.0
	Total	**6.5**

8. Transport Corridors

8.1 Hitherto, the rail network on the Indian side of the border comprised of metre gauge routes. This necessarily involved transhipment of goods at the interchange points enroute. This was a serious problem as it led to both delays and pilferage at interchange points. However, most metre-gauge tracks are now being converted to broad-gauge. Early completion of such projects would benefit trade between the two countries and would also facilitate third-country trade of Nepal.

8.2 Table 15 shows the status of the rail links serving important Indian land customs stations on Indo-Nepal border.

Table 15: Status of Rail Links
Serving Important Land Customs Stations on Indo-Nepal Border

Indian Customs Station	Route	Transhipment Enroute	Remarks
Raxaul *(Birgunj)*	Kolkata-Raxaul (BG)	No transhipment required enroute	With the conversion of Muzzafarpur-Sagauli-Raxaul line from metre gauge to broad gauge, transhipment enroute has been eliminated.
Jogbani *(Biratnagar)*	Kolkata-Katihar (BG) Katihar-Jogbani (MG)	Katihar	Conversion of Katihar-Jogbani line from metre gauge to broad gauge is an approved project of the Indian Railways. On completion of the project, transhipment enroute will be eliminated.
Nautanwa *(Bhairahawa)*	Kolkata-Gorakhpur (BG) Gorakhpur-Nautanwa (MG)	No transhipment facilities enroute. Goods are transported by truck from Gorakhpur	Conversion of Gorakhpur-Gonda Loop line and Anandnagar-Nautanwa line from meter gauge to broad gauge are approved projects of the Indian Railways. On completion of the project, need for enroute transhipment at Gonda or road movement will be eliminated.
Naxalbari *(Kakarbhitta)*	Kolkata-New Jalpaiguri (BG)	Goods are transported by truck from Jalpaiguri to Naxalbari.	___
Nepalgunj Road *(Nepalgunj)*	Kolkata-Gonda (BG) Gonda-Nepalgunj Road (MG)	Gonda	A portion of Gonda-Nepalgunj metre gauge line upto Bhairaich is an approved project of gauge conversion of the Indian Railways.

Note: Land customs stations in Nepal shown in italics ().

8.3 The conversion of the Gorakhpur-Gonda Loop line and its extension to Nautanwa from metre gauge to broad gauge would provide a direct rail link from Kolkata/Haldia ports to the land customs station at Nautanwa. The gauge conversion would also offer a direct rail access to Nautanwa from the Western and Southern India including the ports of Kandla and Mumbai.

8.4 The development of multimodal infrastructure at the land customs stations in Nepal – Birgunj, Biratnagar, Bhairahawa – has significantly improved the transport logistics of trade. Of these three, Birgunj has already been developed as a rail-linked ICD and a dry port. In the next phase, Biratnagar and Bhairahawa should be expanded as rail-linked dry ports with facilities for handling container traffic and break-bulk cargo. Surveys of the rail-links connecting Indian railways network have established their feasibility.

8.5 With the establishment of rail-linked container depots at Birgunj, Bhairahawa and Biratnagar, the requirements of trade of central, western and eastern regions of Nepal will be fully taken care of. The multimodal infrastructure at all the container freight stations should be available for use, both for bilateral and third-country trade. Meanwhile, all efforts should be made to promote containerisation of bilateral trade to the extent feasible.

8.6 The road network in India is being improved. The government has taken important steps towards capacity augmentation of the major national highways. These include four/six-laning of national highways connecting the country's four metropolises; and converting the two-lane highways to four-lane highways connecting North-South and East-West corridors. These works will reduce travel time as also vehicle operating costs. Table 16 gives a snapshot of the scheduled improvements on major transit routes to Raxaul/Birgunj from the hinterland of India.

Table 16: Transit Routes to Raxaul/Birgunj

	Route	Distance (km)	Type of Road	No. of Lanes
Delhi – Raxaul	Delhi - Hapur	45	NH24	Four lane
	Hapur - Lucknow	452	NH24	Two lane
	Lucknow - Gorakhpur	266	NH28	Four lane (Work under progress)
	Gorakhpur - Motihari	202	NH28, NH28A	Four lane (Work under progress)
	Motihari - Raxaul	50	NH28A	Two lane
	Total	**1015**		
Ludhiana – Raxaul	Ludhiana - Delhi	305	NH1	Four lane
	Delhi - Hapur	45	NH24	Four lane
	Hapur - Lucknow	452	NH24	Two lane
	Lucknow - Gorakhpur	266	NH28	Four lane (Work under progress)

	Gorakhpur - Motihari	202	NH28, NH28A	Four lane (Work under progress)
	Motihari - Raxaul	50	NH28A	Two lane
	Total	**1320**		
Nagpur - Raxaul	Nagpur - Jhansi	340	NH7	Four lane (Work under progress)
	Jhansi-Lucknow	297	NH25	Four lane (Work under progress)
	Lucknow-Gorakhpur	266	NH28	Four lane (Work under progress)
	Gorakhpur - Motihari	202	NH28, NH28A	Four lane (Work under progress)
	Motihari - Raxaul	50	NH28A	Two lane
	Total	**1155**		
Ahmedabad – Raxaul	Ahmedabad-Udaipur	252	NH8A	Four lane (Work under progress)
	Udaipur-Chittorgarh	45	NH76	Four lane (Work under progress)
	Chittorgarh - Jhansi	564	NH76	Four lane (Work under progress)
	Jhansi-Lucknow	297	NH25	Four lane (Work under progress)
	Lucknow-Gorakhpur	266	NH28	Four lane (Work under progress)
	Gorakhpur - Motihari	202	NH28, NH28A	Four lane (Work under progress)
	Motihari - Raxaul	50	NH28A	Two lane
	Total	**1676**		
Kolkata - Raxaul (via Patna)	Kolkata - Barakar	212	NH2	Four lane (Work under progress)
	Barakar - Barhi	160	NH2	Four lane (Work under progress)
	Barhi - Bakhtiyarpur	155	NH31	Two lane
	Bakhtiyarpur - Patna	45	NH30	Two lane
	Patna - Muzaffarpur	62	NH77	Two lane
	Muzaffarpur - Sagauli	108	NH28	Two lane
	Sagauli - Raxaual	26	NH28A	Two lane
	Total	**768**		
Kolkata - Raxaul (via Barauni)	Kolkata - Barakar	212	NH2	Four lane (Work under progress)
	Barakar - Barauni	220	State Road	Two lane
	Barauni - Muzaffarpur	102	NH28	Two lane
	Muzaffarpur - Sagauli	108	NH28	Two lane
	Sagauli - Raxaual	26	NH28A	Two lane
	Total	**668**		

8.7 Besides national highways, the state highways are also being improved throughout the country. Unfortunately, Bihar, a border state with Nepal, is an exception. Hopefully things may change.

8.8 It is recommended that the state highways serving important land customs routes should be declared as national highways. Further all national highways serving these routes should be upgraded to four lanes and declared as international corridors. The national highway sections are Gorakhpur-Nautanwa (90 km), Muzaffarpur-Sonbarsa (85 km), Forbesganj-Jogbani (12 km), Barauni-Muzaffarpur (102 km), Barhi-Bakhtiyarpur (155 km), Bakhtiyarpur-Patna (45 km), Patna-Muzaffarpur (62 km), Muzaffarpur-Sagauli

(108 km) and Sagauli-Raxaul (26 km). The state highway section is Barakar-Barauni (220 km). This section falls on the shorter route from Kolkata to Raxaul, hence preferred by the truckers.

8.9 Another significant development is the setting up of container freight stations in Nepal. Three such stations have already come up, including one at Birgunj which is also connected with a broad-gauge railway line. As mentioned in the preceding paragraphs, the full benefit of multimodal operations would be derived with the creation of an enabling environment which would permit issue of through-bill-of-lading.

8.10 Another welcome development is the induction of a new generation of trucks which can carry more within the permissible axle loads without damaging the roads. The road hauliers would gradually start making use of these vehicles with the consequential benefit of improved transit time.

8.11 In sum, the bottleneck problems on the physical side in the case of transport corridors are gradually being tackled. However, there is still the need to address the problems at interchange points. Presently, speed money plays an important role in facilitating transactions. This means that the major problem is not with the transport columns but is at the either ends of the corridors.

9. Export Credit

9.1 The easy availability of short-term export finance plays a crucial role in trade facilitation. This takes the form of working capital loans to exporters at the pre- and post-shipment stages. The credit limit sanctioned by banks to exporters is based on the exporter's creditworthiness and past performance. Export finance is granted in rupees as well as in foreign currency. Although timely export credit used to be a problem until a few years ago, it is no longer so for a large segment of trade.

9.2 The Reserve Bank of India (RBI) has initiated several measures in recent years to ensure a timely and hassle-free flow of credit to the export sector. These measures include liberalization of export credit interest rates, flexibility in pre-shipment credit, special financial packages for large value exporters, export finance for agricultural exports, etc. Banks have also been granted freedom by the RBI to source funds from abroad without any limit exclusively for granting export credit in foreign currency. This has enabled banks to increase export credit in foreign currency substantially. For both types of pre-shipment financing, there is a ceiling on the interest rate chargeable to borrowers. Since the RBI fixes only the ceiling rate for export credit, banks are free to charge lower rates after taking into account the track record and the risk perception of the borrower/exporter. This has helped to create a competitive environment for availability of export credit.

9.3 An interaction with exporters at Kolkata, Ludhiana and Ahmedabad brought out a high level of satisfaction relating to export credit delivery systems. The small and medium exporters, however, complained that the system favours large export houses while their cases suffer delays. Their main grievance is that the banks do not adhere to the timeframe prescribed by the RBI for dealing with applications for export credit. They also complain that the banks raise piecemeal queries, resulting in delays or rejection of loan applications. Another problem is that while large corporate exporters get the benefit of lower interest rates, small and medium exporters don't. Since it is very difficult for small and medium exporters to shop for lower rates amongst banks, they are unable to take advantage of the competition among banks. Thus, it is mainly the small and medium exporters who continue to face problems.

9.4 In May 2004, the RBI had announced the Gold Card Scheme, which puts exporters on the fast track for export credit sanction. Only some of the banks have made progress in issuing these cards and only large corporate exporters have been issued such cards. The position regarding issue of Gold Cards to eligible exporters as on 25 April 2005 was as under (Table 17):

Table 17: Issue of Gold Cards to Exporters (as on 25 April 2005)

Name of Bank	No. of Cards Issued
State Bank of India	1004
Bank of India	667
Punjab National Bank	396
Canara Bank	390
Bank of Baroda	187
Indian Overseas Bank	112
Central Bank of India	79
Syndicate Bank	65
Vijaya Bank	25
ICICI Bank	19

9.5 The reasons for this slow progress in the implementation of the scheme can be attributed to delay in assessing the credit risk, cumbersome procedures laid down by some banks and failure of the banks to implement the Scheme in the case of small and medium borrowers.

9.6 To remedy the situation, banks should change the attitude of officials to exporters' credit requirements, especially the small and medium exporters. They need to evolve control and reporting mechanisms to ensure that the applications for export credit especially from small and medium exporters are disposed of within the prescribed

timeframe and queries are raised in one go. The banks must also find out alternatives to collateral security.

10. Problems with Electronic Data Interchange

10.1 Indian customs department has taken major initiatives to use information technology to facilitate trade-related transactions and to reduce dwell time, which has been defined as the time taken from the arrival of goods to their clearance. The facility of online assessment, online duty payment and clearance based on Electronic Data Interchange (EDI) connectivity has been introduced. Connectivity has also been provided with other agencies involved with the customs clearance – banks, airlines/shipping lines, custom house agents, etc. The system is now operational at thirty-five customs locations.

10.2 On the Indo-Nepal trade and transit points, EDI facility has been provided only at one location – Raxaul. Here again, it is being used only for one type of transactions – export of goods to Nepal. All other transactions, including those relating to third-country trade are performed manually. The full benefit of the facility is, therefore, not being realized. When the through-bills-of-lading for third-country cargo are introduced, Raxaul will become the last outpost of customs for goods traffic booked to ICD Birgunj. It is, therefore, essential that EDI facilities are made fully operational at this location.

10.3 Discussions with the customs authorities revealed that they have ambitious plans for extending the EDI infrastructure in the country, which would include the major land customs stations on Indo-Nepal border. The next logical step should be to share information between the two countries linking different customs-related IT systems – Indian Customs Electronic Data Interchange Systems and UNCTAD developed advanced cargo information system (ASYCUDA++), a scaled down version of which is in use in Nepal. An agreement in this regard between India and Nepal would be most helpful for trade facilitation.

10.4 It may, however, be pointed out that despite significant benefits, the existing EDI system suffers from shortcomings, which add to transaction costs. For example, though the filing of the declarations can be done online, a hardcopy of the declaration is generated by the system and signed for a variety of legal and other requirements, both for the importer and the customs. Other supporting documents are also submitted for verification. Thus, many of the shortcomings associated with documentation continue to exist under the present EDI system.

10.5 There are many areas where the full and effective use of EDI is not being made – the two most important areas being advance filing of manifest and transactions from the gateway ports to ICDs. The transhipment module for the latter is still to stabilize.

11. Cargo Dwell Time: India vis-à-vis International Norms

11.1 Despite the use of EDI facilities and simplification of procedures, the cargo dwell time is still on the higher side. The average time taken for clearance is 4 to 8 days, which is considerably higher than the international norms. One of the reasons for this is the delay in filing of the manifest by the airlines/shipping lines. Another reason is the delay by the importers in retirement of commercial documents from the banks with consequential delay in filing the same with the customs.

11.2 A recent study carried out by the working group on trade facilitation set up by the Central Board of Excise and Customs, Ministry of Finance, Government of India and the field surveys carried out during the present study revealed the following (Table 18).

Table 18: Cargo Dwell Time: India vis-à-vis International Norms

Transaction	**Location in India**	**International Norm**
Air freight	*Delhi airport*	
Export	1.22 days	Less than 12 hours
Import	8 days	Less than 12 hours
Containerized cargo	*Mumbai*	
Export dwell time	3-5 days	Less than 18 hours
Import dwell time	7-14 days	Less than 24 hours
Third-country trade (Nepal) containerized cargo	*Kolkata port*	
Export dwell time	2-2.5 days	Less than 18 hours
Import dwell time	6.6 days	Less than 24 hours