सत्यमेव जयते

Task Force on Transaction Cost in Exports A Report

Department of Commerce
Ministry of Commerce and Industry
Government of India
New Delhi.

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A Report

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Ministry of Commerce and Industry
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New Delhi

प्रणब मुखर्जी
PRANAB MUKHERJEE

सत्यमेव जयते

वित्त मंत्री, भारत
FINANCE MINISTER
INDIA

FOREWORD

I am indeed happy to learn that the Task Force on Transaction Cost set up by the Department of Commerce in October, 2009 has finalized the report suggestion measures to reduce Transaction cost and time impacting the country's Foreign Trade transactions. Many discussions were held by Shri Jyotiraditya M. Scindia, Minister of State, (C&I) with me on implementation of various suggestions made by the Task Force pertaining to the Ministry of Finance. Ministry of Finance has proactively supported many suggestions made by the Task Force. Needless to say that reducing transaction cost and time in foreign trade requires support of all concerned Ministries/Departments as the value chain of the Foreign Trade transaction cuts across various inter connected processes. I heartily congratulate all Stake holders engaged in making this exercise a success. I am confident that implementation of recommendations in this report will immensely benefit trade and industry.

(Pranab Mukherjee)

आनन्द शर्मा, सांसद
ANAND SHARMA, M.P.

वाणिज्य एवं उद्योग मंत्री
भारत
MINISTER OF COMMERCE & INDUSTRY
INDIA

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FOREWORD

In the last two decades, India has gradually integrated itself with the globalised world and this has been manifested in buoyant export growth. In the last two years, global economy has passed through a grim recessionary phase and we saw contraction in global demand, especially in the developed world, which had an adverse impact on India's exports. In August 2009, we set for ourselves a policy target of doubling India's exports by 2014 and doubling India's share of global exports by 2020.

One of the key elements of the policy strategy, apart from providing fiscal incentives to exporters, was to address the issue of high transaction cost in India. This was part of overall competitiveness paradigm of India's export sector to enable cost effective production, storage, transportation and distribution mechanisms. We recognized the centrality of low transaction of as a crucial link for making India an attractive destination for investments which enourages export-led growth.

It was with this objective that a Task Force was established under the guidance of Minister of State, Shri Jyotiraditya Scindia to identify the key bottlenecks and suggest measures for improving efficiency of the processes in the entire export value chain. Obviously, this entailed a huge amount of inter-ministerial consultation and intense dialogue with key stakeholders.

I am happy that the Report of the Task Force has now been finalized which gives a clear blueprint with monetized values for reducing transaction costs. Over the next few months, we will see the recommendations of this Task Force reaching a logical conclusion.

ANAND SHARMA

ज्योतिरादित्य मा. सिंधिया
JYOTIRADITYA M. SCINDIA

राज्य मंत्री
वाणिज्य एवं उद्योग
भारत सरकार

Minister of State for
Commerce & Industry
Government of India

सत्यमेव जयते

FOREWORD

January 21, 2011

1. Trade Facilitation is a key determinant of a country's competitiveness in the international market. Over the years, Government of India has taken various initiatives to simplify and rationalize the procedural complexities in exports in order to put in place an efficient and effective trade facilitation mechanism and reduce the implicit transaction costs associated with the enforcement of legislation, regulation, and administration of trade policies involving several agencies such as customs, airport and port authorities, banks, trade ministry etc.

2. At the global level, ease of doing business is one of the important parameters on which the status of trade facilitation in a country can be benchmarked. The World Bank brings out a Doing Business Report every year. As per the Report of 2010, India ranks 94 among various nations, in terms of ease of trading across borders. We notice that we are far behind comparable economies like China, Indonesia and Mexico in this regard. There are time and cost issues associated with the transport, documentation and clearances of export and import cargo. Clearly, such costs have adverse impact on competitiveness of exports.

3. In view of the growing exports of our country and the need to sustain this rapid growth in the longer run, the pace and the cost associated with the transport, documentation and clearances need to be alleviated. While the Government gives various incentives and stimulus to exports by way of various export promotion and incentive schemes, it is noted at the global level that transaction cost can be about 8 to 10% of the value of exports. Any mitigation in these transaction costs will be a permanent benefit accruing to the exporters.

4. With this end in view, a Task Force on Transaction Cost was constituted by Ministry of Commerce & Industry in October 2009. The mandate of the Task Force was to look into various issues affecting the competitiveness of Indian exports, provide recommendations to the Government and initiate a set of "executable" remedial measures towards reducing latencies and costs associated with trading across borders.

5. The Task Force was headed by DGFT and supported by a seven-member Project Management Group that included senior officials from DGFT and Department of Commerce and representatives from FICCI, FIEO and CII. The Task Force also had a group of experts from six different product sectors and six different functional areas in terms of documentation and clearances. Inputs from these stakeholders were instrumental in order to define transaction cost issues and the required initiatives.

Cont......

6. During the implementation of the Task Force's work, we came across a wide gamut of issues which form a part of transaction costs. The Task Force also undertook a global benchmarking effort to understand and compare the export procedures in Singapore and Denmark and recommendations based on these benchmarking visits are also a part of this report. These issues identified by the Task Force cut across various Ministries/Departments such as the Departments of Revenue and Banking under the Ministry of Finance, infrastructure issues related to Ministry of Shipping, Railways and Civil Aviation, Ministry of Environment and Forests and the Department of Commerce. I am pleased to state that with our efforts many of these issues have been favourably considered by the concerned Departments and I am thankful to all who have helped us in our endeavours.

7. I would specially like to thank Shri Pranab Mukherjee, Hon'ble Union Minister of Finance who helped us in making our project a success.

8. This project has 2 clear outcomes. First, to clearly identify the complete gamut of issues involved and the relevant cost associated with each issue. Secondly, from the list of issues so identified, execute and deliver to the trade the maximum benefit possible across departments on the issues that can be resolved. Thus from this exercise it gives me a sense of accomplishment that of the 44 issues identified, we have achieved closure on 23 issues resulting in a benefit of approximately Rs.2100 Cr in perpetuity to the stakeholder community.

9. I strongly believe that the challenge posed by Transaction Cost is formidable. All the efforts made by the Government towards export promotion schemes and stimulus packages will not be able to yield desired results, unless we are able to substantially cut down these "transaction costs" impeding our export efforts. I am hopeful that the initiatives taken currently and the findings and recommendations for the future would go a long way in initiating appropriate measures towards making doing business in India much easier.

Jyotiraditya M. Scindia

Executive Summary
Task Force on Transaction Cost

Constitution and mandate

On the initiative of Shri Jyotiraditya M. Scindia, Minister of State for Commerce and Industry (MoS-C & I), the Task Force on Transaction Cost was constituted by the Department of Commerce under the orders of Hon'ble Commerce & Industry Minister Shri Anand Sharma in October 2009, with a mandate to identify and suggest ways to achieve significant improvement in efficiency of our export processes in order to reduce money and time spent in exports by the exporters and to improve the ease of business and ultimately the competitiveness of Indian exports.

MoS(C&I) Shri Jyotiraditya M. Scindia, headed and continuously guided and reviewed the work of the task force. The task force was led by Shri R. S. Gujral, Director General of Foreign Trade (DGFT) and later by Dr. Anup K. Pujari, DGFT.

The task force was organized by MoS (C & I) in a structured way, with clear division of responsibilities, with a Project Management Group (PMG) as the focal point of coordination between the large number of stakeholders involved. The PMG comprised of government officials, as well as one representative each from FIEO, FICCI, and CII to ensure close coordination between the government and the private sector in the working of the task force.

The task force also included a large 'Group of Experts' that included industry experts from six sectors (viz. Agriculture, Chemical, Ready made garments, Textiles, Engineering and Leather) that are major contributors to exports, and functional experts from six different export functions (viz. Custom house agents, CA/tax experts, Exim consultants, Export Managers, Logistics managers and Overall experts).

Scope of work and Transaction Cost Estimates

The scope of work of the task force covered all parts of the export process, from procurement of raw materials to physical exports and post-export procedures, across all ministries. The task force based its work on a quantitative approach so that the important issues and initiatives can be prioritized and their implementation tracked.

The current estimates of Transaction costs are primarily drawn from the World Bank Doing business report. Accordingly, the magnitude of transaction cost in exports has been estimated to be approximately US$ 13 billion. This comprises of a roughly equal fraction of structural cost and addressable transaction cost, i.e. US $ 6 to 7 billion.

Methodology

To extensively analyze the export process and the associated inefficiencies, the task force held detailed structured discussions with industry experts from six major industry groups and six major export functions. It identified stakeholders from various agencies and ministries involved in the export process, to discuss and fine-tune the findings and take forward their implementation. Finally, the task force undertook a number of field visits to understand the realities on the ground, and also undertook a global benchmarking visit (Singapore and Denmark) to understand the best practices in export procedures from other countries and examine their applicability to the Indian context.

Issues Identified and Recommendations

Based on the expert interactions, stakeholder discussions, and global benchmarking visits, over a hundred issues were identified and the associated solutions suggested. These were then analyzed and prioritized according to their importance and ease of implementation. The Task Force identified 44 issues across 7 line Ministries for action. The issues were then taken up with the relevant Ministries and extensive consultations were held. After consultations, Ministries agreed to implement 32 issues.

Out of the 32 agreed issues, 21 issues have been implemented and 11 issues are under process of implementation. It is expected that with the implementation of above 21 issues and further 2 issues pertaining to filing of a single running bond for all Custom locations and refund of service tax in the form of All Industry Service Tax rate which are likely to be implemented in near future, the transaction cost will be mitigated by approx. Rs.2100 crores. Permanent reduction of transaction cost through these initiatives will have a long term positive impact on the competitiveness of India's exports. The PMG is pursuing implementation of the remaining agreed issues as well, so that competitiveness of India's exports can be continuously improved.

CONTENTS

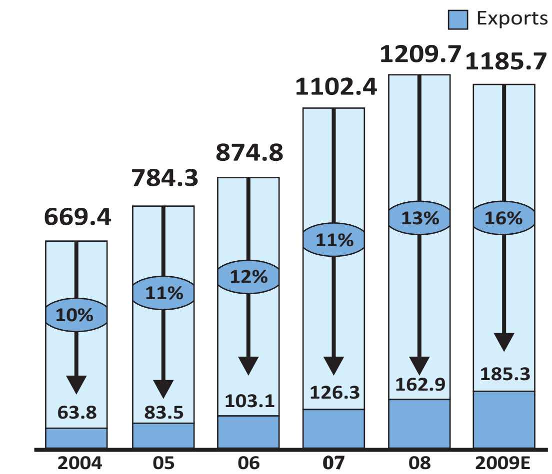
INTRODUCTION

Our economy is at a critical juncture in its efforts to accelerate export growth. While we have been maintaining higher GDP growth rates as compared to other countries over the last few years, we still need to set and achieve ambitious export targets to increase our export to GDP ratio, which is presently about 16%. As given in the Exhibit 1 below, developing countries like Thailand (66%), China (35%), South Africa (27%) and Mexico (26%) are far ahead of us on this account.

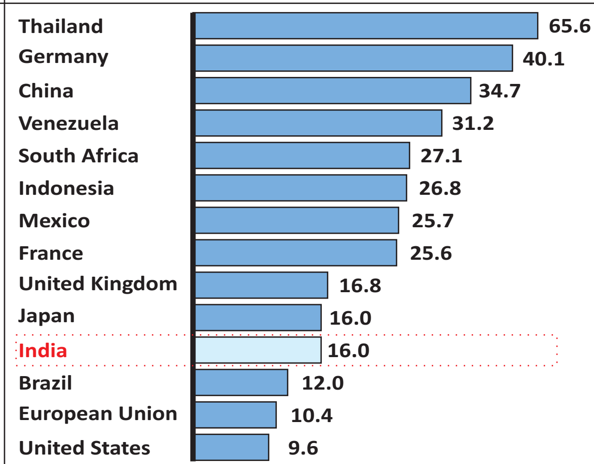
EXHIBIT 1

Exports are a major contributor to the Indian economy, and need to grow further to compete with other developing economies

Exports are becoming increasingly important to India's economy...	...and India is still much behind most developing economies in terms of contribution of exports to GDP
India's nominal GDP[1] and exports US$ billion	Total exports as a % of GDP



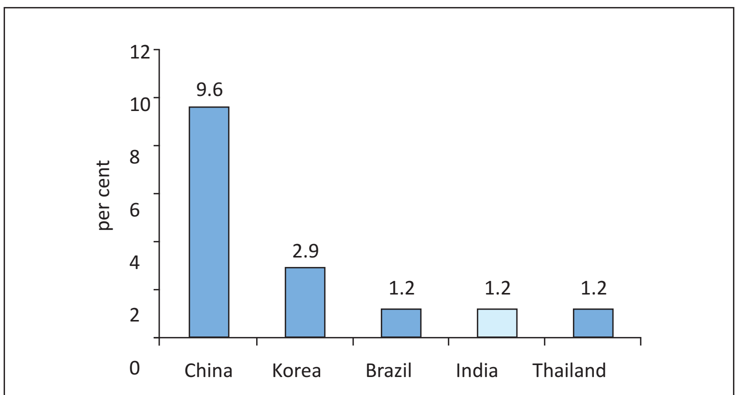
1 At current prices



Source: Ministry of Commerce & Industry

India's share of global merchandise exports is also modest and not commensurate with its economic size and potential. Emerging countries like China (9.6%) and Korea (2.9) have a far higher share of global exports as is evident from Exhibit 2 below.

EXHIBIT 2



Source: World Trade Organisation Report, 2009

Our exporters have shown remarkable resilience and dynamism, which has contributed to a healthy trend of export growth. India's exports have grown substantially over the past decade from a meager US$ 63 billion in 2003-04 to US$ 178.7 billion in 2009-10. India's share of global merchandise trade was 0.83% in 2003, which rose to 1.59 % in the year 2009 as per WTO estimates. Our share of global commercial services export also rose from 1.4 % in 2003 to 2.6 % in 2009. Moreover, India's total share in goods and services rose from 0.92 % in 2003 to 1.77 % in 2009. This notable increase in India's foreign trade can be attributed to the Government's measures and incentives that it provides to the exporter and importers and to the dynamism of the Indian industry.

Foreign Trade Policy 2009-14 aims to achieve an annual export growth of 15% with an annual export target of US$ 200 billion by March 2011 and in the remaining three years of this Foreign Trade Policy i.e. upto 2014 a higher export growth path of around 25% per annum. By 2014, we expect to double India's exports of goods and services. The long term policy objective for the Government is to double India's share in global trade by 2020.

In order to meet these objectives, the Government has been providing a policy environment through a mix of measures including fiscal incentives, institutional changes, procedural rationalization, and efforts for enhanced market access across the world and diversification of export markets. The three pillars which would support us to achieve our targets are improvement in export related infrastructure, lowering of transaction costs and providing full refund of all indirect taxes and levies.

To boost exports and FDI, the government has given renewed emphasis on trade facilitation by providing appropriate changes in trade policies and procedures from time to time so that exporters can compete in a competitive global environment. A shift from a rigidly administered export administration to a trust based administration backed by a more liberal policy environment in line with international standards has become a necessity for enhancing trade.

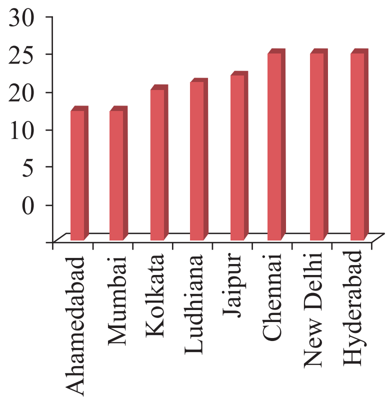
Trade facilitation revolves around the reduction of all the transaction costs associated with the enforcement of legislation, regulation, and administration of trade policies and involves several agencies such as customs, airport authority, port authority, banks, trade ministry etc. Trade-related transaction costs refer to a large number regulatory requirements, compliance measures, procedures, and infrastructure related costs, including, communication costs with clients, domestic transport costs to bring goods from the production site to the border, time and money spent in ports on border procedures or to make products ready for shipment, international transport costs and inspection and certification costs. Many of these costs are higher, often significantly higher, in developing countries than in industrialized countries. India's clearance time at ports/airports is still far from the best international practices. Delays increase not only the cost of compliance but leads to impediments to efficient trading across borders like congestion at the ports, Elaborate assessment procedures relating to import and export, onerous documentary requirements and unstable EDI environment further add to the inefficiencies and complicates the compliance environment. Higher Transaction Costs in the Indian context are both a concern and a challenge today. Reducing transaction costs and costs of doing business is important not only for boosting exports and FDI but also for creating an appropriate framework for vibrant domestic business.

The importance of trade facilitation is central to India's agenda of greater integration with the global economy and benefiting from the opportunities arising out of ambitious trade policy agenda of the government that has seen the country negotiate (or is in the process of negotiating) several bilateral trade agreements. Obtaining relief from tariff and non-tariff barriers through such trade agreements is just the first part of the process. The actualization of benefits from such trade agreements can only come about if the Indian exporter is able to reach these markets as cost effectively and quickly as possible. The importance of cost and time efficiency has only increased in the global trading system with the development of cross-border inter-dependent production networks.

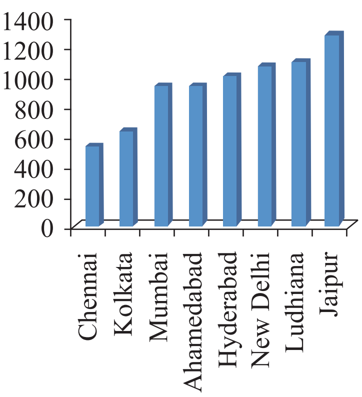
Another important dimension of transaction costs in a large country like India is that there is significant variation in trade facilitation efficiency in different parts of the country. Part of the difference is explained by differences in access to trade related infrastructure and distance from port facilities. But differences also arise due to variation in quality of regulatory implementation and procedures. Such regional differences can lead to sustained economical disadvantage over a period of time and as such present a developmental challenge. Exhibit 3 tabulates some of the regional variation in export related transaction costs. It is imperative that trade facilitation reforms do not remain confined to some centers of excellence but becomes an agenda for the whole country.

EXHIBIT 3

No. of Days to Export



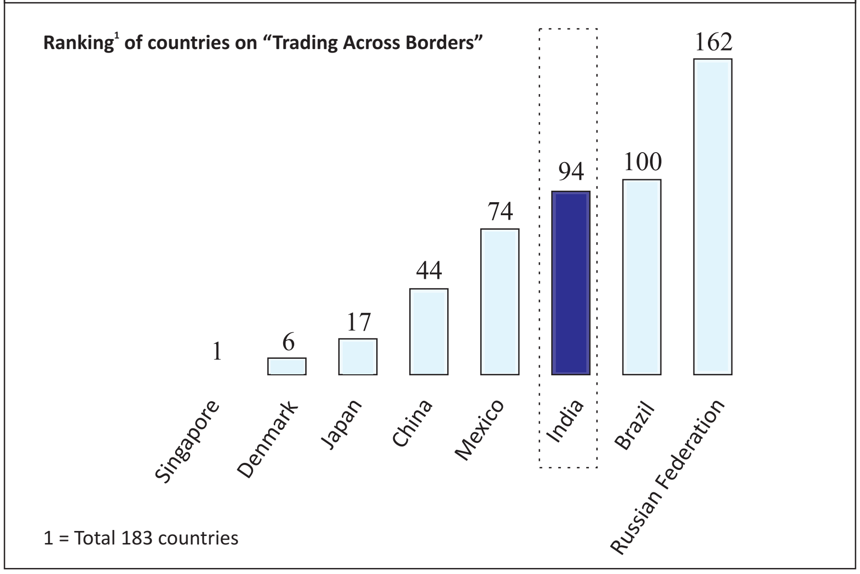
Cost of Exporting a 20 feet Container (US$)



Doing Business 2010 Report of the World Bank has documented various regulations across 183 countries that enhance business activity and those that constrain it, including 'Trading Across Borders'. The Doing Business Report provides a yardstick to compare the regulatory environment and indicates potential areas which need reform. The World Bank Report indicates that it is easiest to carry on international trade in Singapore followed by Hong Kong, Denmark, Finland etc. India has higher cost and time indicators when benchmarked with other comparable countries, i.e. large emerging economies. As per the Doing Business Report, it takes 17 days to export a container from India and costs US$ 945 per container. This includes time and cost elements for document preparation, customs clearance, ports and terminal handling and inland transportation and handling. Comparing it with other economies, it costs US$ 450 and US$ 500 to export a container in Malaysia and China respectively. Denmark, Brazil, Mexico and China take 5 days, 12 days, 14 days and 21 days respectively to export a container from their countries. Exhibit 4 below indicates that India is at present ranked 94th on the 'Trading Across Borders' indicator in the Doing Business Report 2010.

EXHIBIT 4

India ranks 94 out of 183 countries in terms of ease of trading across borders



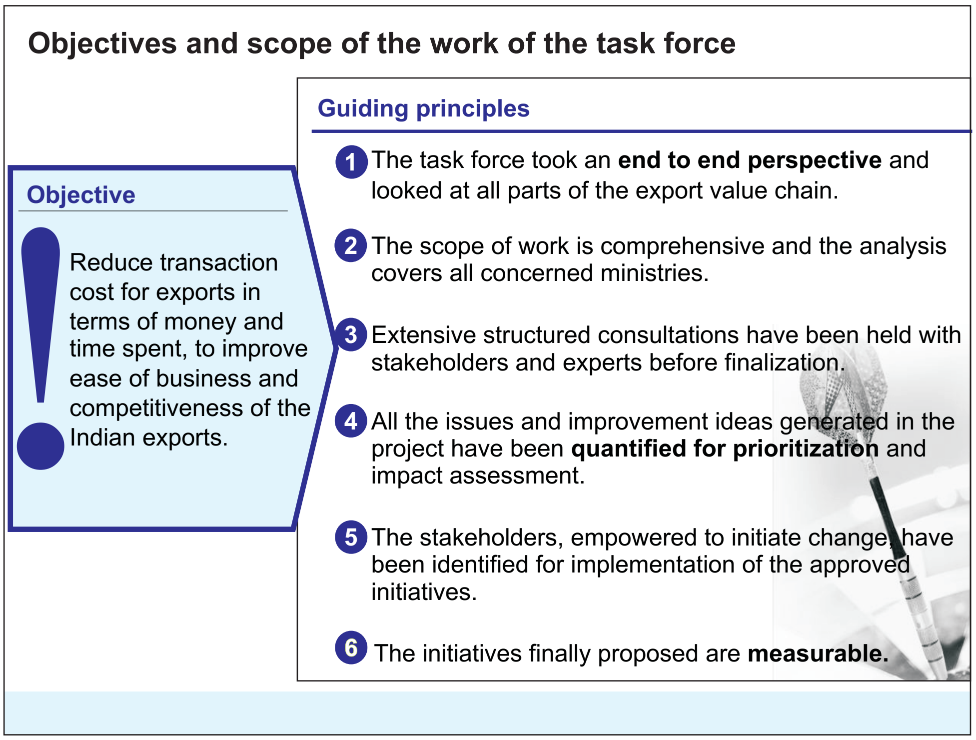
Another key concern for export related transaction costs is that compliance and trade facilitation issues often impact different sectors with different degrees. For example, the exports of fruits, vegetables and organic products face a far greater challenge in meeting health and safety issues than say, iron-ore. Many of India's important export products and exportable items of future interest are likely to be in sectors that face a significant incidence of export related transaction costs. These include processed foods, organic products, or articles of industrial machinery which are extremely time sensitive considering their nature and demand in global production networks. As a result, it has become imperative to bring in place an effective trade facilitation mechanism to boost our exports and make them competitive in the world markets.

CONSTITUTION AND WORKING OF THE TASK FORCE

Both to overcome the recent global financial and economic crisis and help exporters become more competitive and have enhanced market access, the Government apart from the fiscal and monetary stimulus is also paying attention to other areas like procedural reforms, automation etc. At times, the potential gains from trade facilitation may be greater than those arising from only tariff reductions.

With this in mind, Department of Commerce had constituted a 'Task Force on Transaction Costs' in October 2009 to assess the procedural bottlenecks affecting India's exports and imports. The mandate given to the Task Force was to look into various issues affecting the competitiveness of Indian exports and provide recommendations to the Government to help initiate a set of “do-able” remedial measures towards facilitating trade and doing business (Exhibit 5). In order to achieve this, the Task Force identified and suggested ways to achieve significant improvement in the efficiency of our export process in order to reduce money and time spent by the exporters and achieve greater competitiveness. Task Force is spearheaded by the Director General of Foreign Trade and comprises of a seven-member Project Management Group (PMG).

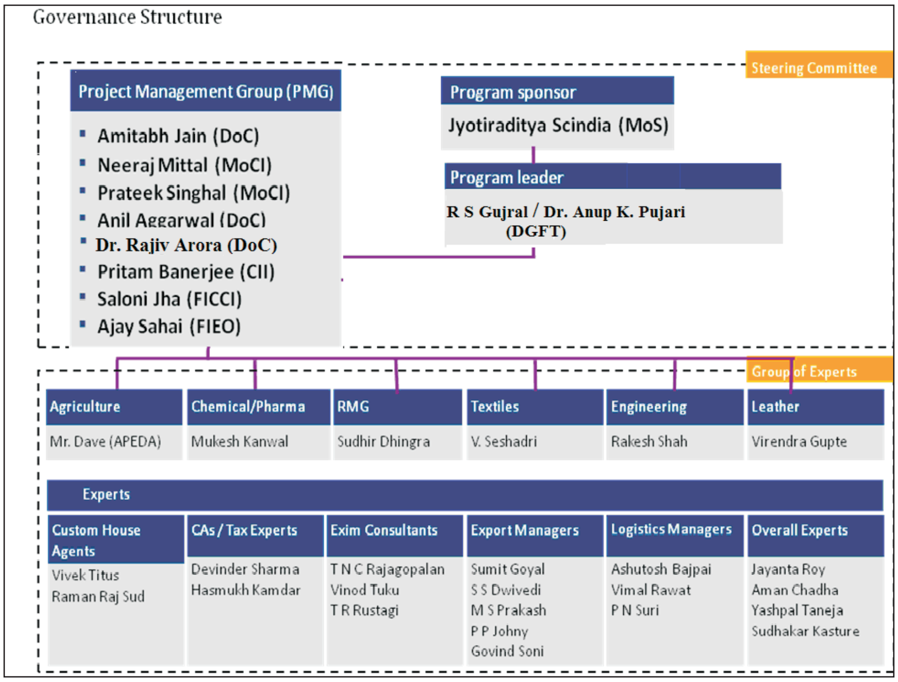
EXHIBIT 5



About 25 trade/industry experts from six export sectors i.e.Agriculture,Chemicals / Pharmaceuticals, Ready Made Garments, Textiles, Engineering, and Leather and six different functions across the export value chain i.e. Custom House Agents, Tax Experts, Exim Consultants, Export Managers, Logistics Managers, and Overall Experts are associated with the Task Force to give inputs. Representatives from FICCI, CII, and FIEO are also a part of the Task Force. Task Force in its methodology examined all parts of the export value chain across key industries from an end-to-end perspective. (Refer Exhibit 6).

Task Force held extensive structured discussions with identified industry experts from six major industry groups and six major export functions to arrive at transaction issues relating to different stakeholders.

EXHIBIT 6



Task Force approached the project in four phases (Exhibit 7) i.e.

- Program Scoping
- Transaction Cost issue Detailing
- Development of Interventions and, Finalization;

EXHIBIT 7

Work plan

	Phase 1: Program scoping	Phase 2: Issue detailing	Phase 3: Development of interventions	Phase 4: Finalization
Activities	■ Concretization and training of project teams ■ Methodology for structuring and analysis ■ Identification of key differentiator and focus areas (products, regions etc.) ■ Rough quantification of impact of transaction costs	■ Interaction with Group of Experts to identify issues ■ Quantification and prioritization of issues ■ Synthesis of issues to identify list of major issues to be targetted ■ Short-listing of issues to be focused on and presentation to steering committee	■ Identification of potential interventions for solving short-listed issues ■ Quantification of interventions and understanding ease of implementation ■ Prioritizing identified interventions based on impact and ease ■ Short-listing of interventions to be implemented	■ Identification of relevant ministry for each issue and discussion with concerned officials ■ Benchmarking trip to selected countries ■ Refinement of issues and solutions based on discussions ■ Development of final recommendations
End products	■ Refined scope of the project ■ Tools and methodologies	■ Quantification of issues ■ Root causes ■ Prioritized list of issues	■ Prioritized list of solutions ■ Estimated potential impact	■ Implementation plan ■ KPIs ■ Responsibilities
Timeline	■ 2 weeks ■ ~20 December	■ 8 weeks ■ ~28 February	■ 4 weeks ■ ~30 March	■ 12 weeks ■ ~30 June

Task Force began with a kick-off meeting with the Steering Committee and the Group of Experts. In the first phase, a rough quantification of the magnitude of transaction cost was done and various tools and questionnaires for interaction with experts and consolidation of data and information were developed. The second phase involved mapping the entire process that an exporter needs to follow to undertake export from India. This was important in light of the large number of agencies involved in the export process in India (see Exhibits 8 and 9). Extensive structured interactions and brainstorming sessions were then conducted with the experts to identify and prioritize issues across the entire export process. The issues were then reviewed and consolidated by the Project Management Group, and presented to the steering committee. In the third phase, potential interventions to address the identified issues were developed in consultation with the experts. International Benchmarking trips were then undertaken to study the export procedures in Singapore and Denmark. (see Annexure 3 for details).

EXHIBIT 8

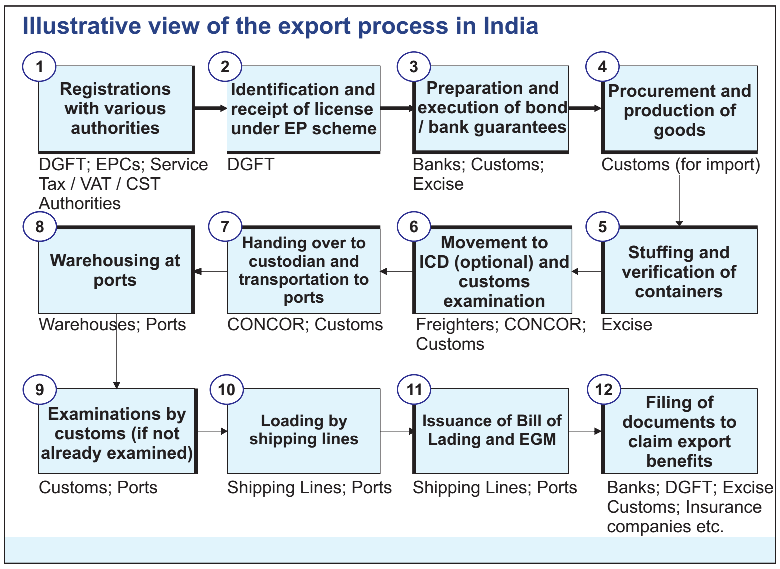
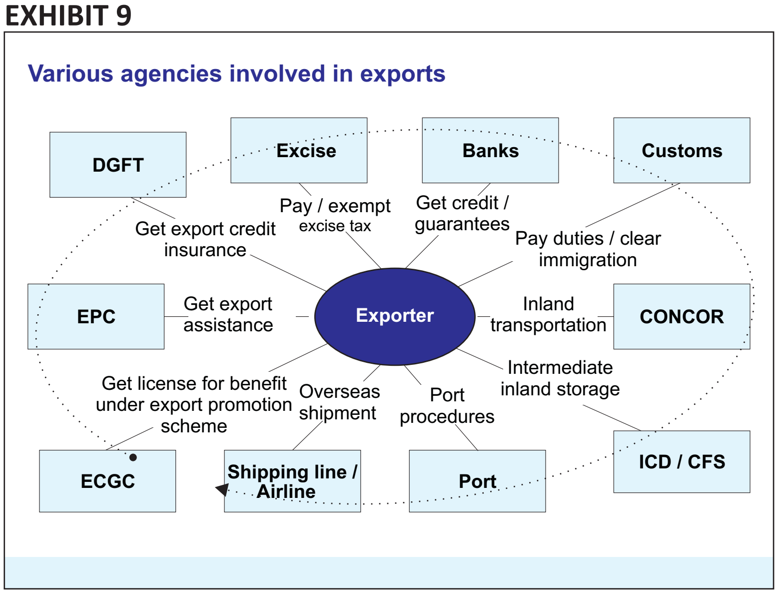


EXHIBIT 9

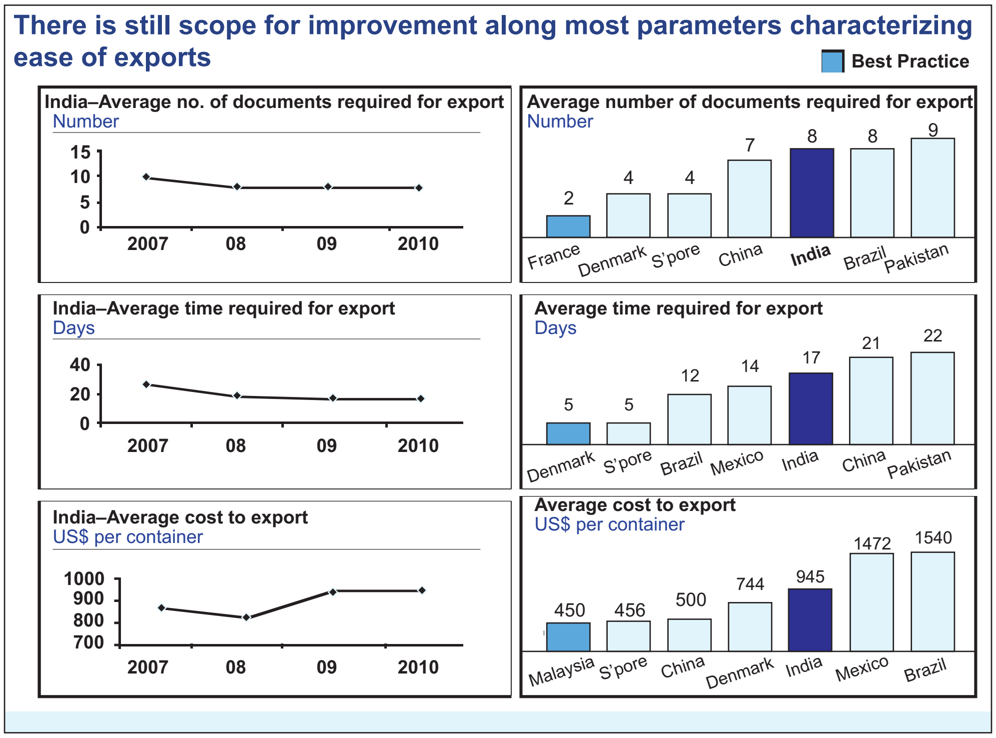


Thereafter, the leadership of the Task Force took up the proposed solutions with the concerned officials of the other ministries. The issues and proposed solutions were then discussed by Hon'ble Minister of State for Commerce & Industry and DGFT with other concerned Administrative Ministries. Feedback received from other ministries was incorporated to arrive at the final set of recommendations.

ESTIMATES OF TRANSACTION COST

While India has improved on some parameters characterizing ease of exports, it is still far behind several developed and developing countries. As mentioned in the World Bank report, (see Exhibit 10 below), the average cost of export in India is US$ 945 per container. It can be clearly seen that the biggest driver of cost and time is the preparation of documents required for export.

EXHIBIT 10



Source: Doing Business 2010 Report, The World Bank

Certain portion of this cost is the structural component, i.e., the costs that cannot be completely eliminated (e.g., inland transportation and handling; and ports and terminal handling), and the other is the addressable transaction cost. Based on the World Bank report, the Task Force estimated the total magnitude of transaction cost to be approximately US$ 17 billion (details in Annexure 2), which is about 10% of our total export value. Another bottom-up triangulation of transaction cost involved in exports, done by the Task Force experts estimates the transaction cost to be approximately 7-10% of the export value, or approximately US$ 13-18 billion. Task Force estimates that approximately 50% of the total cost is structural cost and the remaining is addressable cost. Taking the conservative estimate of total transaction cost as US$ 13 billion, the addressable cost is approximately US$ 6-7 billion.

BENCHMARKING OF EXPORT PROCEDURES

Task Force also undertook a global benchmarking effort to understand and compare the export procedures in India and other best in class countries. For this, the Task Force undertook a three-step approach:

1. Identify representative export locations in -India and undertake field visits to these locations
2. Analyze various countries and identify most- suited countries to visit and observe best practices
3. Analyze the observations from the visit to these countries and benchmark against the prevalent practices in India to understand the applicability of the best practices in the Indian context

Benchmarking Visits: Activities and Stakeholder Meetings

- In India, members of the Task Force visited the Air Cargo Complex in Delhi and the Nhava Sheva port in Mumbai.
- For the global benchmarking visit, Task Force visited Singapore and Denmark in May 2010.

Interactions were held with the following agencies in Singapore and Denmark

- Government /Ministry officials responsible for Custom controls
- Officials responsible for development of IT systems for exporters
- Port authorities
- Private sector representatives, including an industry association and a large logistics player

The benchmarking visits provided strong learning for the Taskforce members and made the familiar with the procedures and system currently missing in India and the implementation of which could reduce transaction costs substantially. Exhibit 11 provides a summary of the learnings from the benchmarking visits:

EXHIBIT 11

Parameter	India	Singapore	Denmark
Automation	? Some processes automated; remaining being automated under eTrade	? 100% Customs declarations are processed and approved via Trade Net; 90% declarations processed within 10 minutes of submission	? 99.3% declarations are filed electronically through eCustoms module
Single Window	? No single-window facility exists	? Single-window facility 'Trade Net' for exporters ? 34 agencies are maintaining connectivity with this web based online system ? Single UEN registration number required	? Single-window service provided through e-Customs ? Single CRN registration number required
Duty regime	? Mostly no export duty, but varying import duties on several goods; Also excise duty on production for domestic consumption	? Basic Customs duty zero on most items; No excise duty element	? Similar structure to India; average Customs duty of 5%; VAT ranges from 17 - 25%; excise duty levied on oil, waste processing, tobacco, liquor and cars
Examination	? Risk Management System operational for imports, but about 50% goods are still examined	? Singapore Customs does not have any check, including examination at the time of exports (except for controlled goods); System is mainly based on post-audit controls ? Level of physical examination is also minimal and is largely non-intrusive and is technology driven	? Only 2-5% goods are physically examined ? Flexible three-tier Risk Management System operational
Duty Exemption	? Various duty exemption / refund schemes exist for export promotion making the	? GST not paid on inputs for export production at the time of imports; returns need to be filed after exports	? Goods imported for re-export can be stored in a separate warehouse at exporter premises

Parameter	India	Singapore	Denmark
	examination process complicated	with Inland Revenue department for export reconciliation	? Import duty refund can be claimed on raw materials used for manufacturing finished goods for re export
Helpdesk	? No single help desk exists	? Outsourced 'Call Centre' is being run by the Singapore Customs on a 24X7 basis	? Outsourced 'Call Centre' is being run on a 24X7 basis
Other		? 90% of the declarations processed within 10 minutes of submission of Customs declaration on the Trade Net	

Based on the benchmarking visit, following best practices have been suggested for consideration

- Explore the possibility of a single online interface for exporters/importers to obtain Government clearances from different agencies (at present Customs, DGFT etc. have developed independent web based platforms for providing statutory clearances);

- In interactions with officials from Denmark, it came to fore that the entire initial export-related IT system was developed within 2 years, and was and is continued to be strongly managed by the government through an organization of over 200. Based on this example, the eTrade project should be expedited and institutional mechanism strengthened for handling inter-ministerial trade-related automation issues; Preferably an integrated team from all stakeholder departments that is dedicated to the eTrade project on a full time basis should be considered.

- Examine the possibility of revaluating the norms and conditions of the existing RMS facilitation process so as to increase the number of non-intervention clearances in percentage terms

- Examine the feasibility of identifying a set of eligibility criteria for different Export Promotion schemes which will be used by DGFT for grant of authorizations without the need for a detailed examination Consequent to this, a system of post audit control may also be built into DGFT functioning for ensuring compliance with various rules/regulations laid under Foreign Trade Policy;

- Explore the possibility of doing away with the requirement of submission of invoice, packing list before Customs for export/import clearances in the EDI environment and only cases which are identified for detailed examination (as identified by RMS or specific intelligence) may be asked to submit manual documentation on a need basis;

- Explore the possibility of developing a mechanism for Large Taxpayers and Status Holders, similar to that available in Excise and Service Tax, for payment of Customs duty on a monthly basis instead of the present system of consignment-wise payment of customs duty;

- Operating Call Centre(s) on a 24 X 7 basis for e-Trade project, through outsourcing.

Kindly refer to Annexure 3 for further details on the Singapore and Denmark Export-Import Procedures.

SUMMARY OF TRANSACTION COST ISSUES

Based on interactions with experts, stakeholder discussions and the global benchmarking visit about a hundred issues were identified and associated solutions suggested. These transaction cost issues were then analyzed and prioritized according to their importance and ease of implementation. Task Force has identified a set of 44 issues relating to transaction cost spanning across seven ministries, out of these 44, 32 issues have been agreed to, and 21 of those also implemented by the concerned Ministries. A summary of which is shown below:

S.No	Ministry	Number of issues	No. of Issues Agreed	No of issues implemented	Financial implications of Issues Agreed (Rs. Crores)
1.	Ministry of Commerce and Industry	11	11	8	864
2.	Ministry of Finance ? Revenue ? Banking	25 ? 14 ? 11	15 ? 10 ? 5	9 ? 5 ? 4	2025
3.	Ministry of Agriculture	4	4	3	155
4.	Ministry of Civil Aviation	1	1	1	20
5.	Ministry of Railways	1	0		0
6.	Ministry of Shipping	1	0		0
7.	Ministry of Environment and Forests	1	1		150
	Total	**44**	**32**	**21**	**3214**

A list of 21 implemented issues and 2 issues to be implemented shortly, estimated to mitigate transaction cost of close to Rs. 2100 crores is tabulated below:

List of Issues Implemented

Sl No.	Ministry	Issue
1	Agriculture	Need to upgrade plant quarantine laboratory testing facilities at Delhi, Mumbai, Chennai and Bangalore Air Cargo complex to enable faster export clearance of perishable goods.

Sl No.	Ministry	Issue
2	Agriculture	Second shift to be made operational at Mumbai, Chennai and Trivandrum airports to expedite issuance of phyto-sanitary certificates. In addition, online facility for issuance of phyto-sanitary certificate to be made operational.
3	Agriculture	Import of raw materials for leather industry should be allowed at Kanpur and Jalandhar in addition to existing locations at Mumbai, Kolkata, Chennai, Delhi, Bangalore and Hyderabad. For this purpose necessary facilities may be set up by Animal Quarantine Certification Services (Department of Animal Husbandry) at Kanpur and Jalandhar.
4	Civil Aviation	Charges being levied by the airport operator for x-ray screening of courier export cargo are very high and need to be rationalized in line with the general cargo rates.
5	Commerce and Industry	Advance authorization under Ad-hoc norms to be issued without the present requirement of submission of Chartered Engineer Certificate.
6	Commerce and Industry	Ad-hoc norms ratified by Norms Committee should be made applicable to all earlier cases for the same export product for other advance authorizations issued within one year of date of ratification.
7	Commerce and Industry	For issue of Import License for Restricted items, the requirement of submission of Proforma Invoice should be removed.
8	Commerce and Industry	For issue of Export License for Restricted items (except for SCOMET items), the requirement of submission of Proforma Invoice should be removed.
9	Commerce and Industry	In the present EDI environment where DEPB EDI shipping bills are transmitted by Customs to DGFT through online message exchange, submission of hard copies of DEPB EDI shipping bills for issuance of DEPB scrip should not be insisted, except in exceptional cases.
10	Commerce and Industry	Grant of MDA assistance for participation in international fairs / exhibitions should be made company-specific and not individual specific.
11	Commerce and Industry	Clubbing of Annual Advance Authorisation with Advance Authorisation should be allowed.
12	Commerce and Industry	Better EDI facilitation to be provided by DGFT i.e. - offline software for filing advance authorization and EPCG applications on DGFT server, - online status holder application facility;

Sl No.	Ministry	Issue
13	Finance - Revenue	Since factory and transportation operations are usually round-the-clock, a shift-wise working system should be developed for customs and excise officials especially to cater to import /export workload on weekends. This can be done initially, on a trial basis, for some identified locations.
14	Finance - Revenue	For faster import/export clearances and decongestion at Ports, more firms should be enlisted under Accredited Client Programme (ACP) of Customs. For this, eligibility criteria for ACP should be relaxed e.g. issue of Show Cause Notice for procedural irregularities should not be a criteria for ineligibility under ACP. In addition, Risk Management System (RMS) of Customs should include, export status of the firm i.e Export House/ Trading House etc. as one of the risk parameters in the RMS module.
15	Finance - Revenue	Scheduling of factory stuffing inspection should be provided online by Excise and a single factory stuffing permission should be provided by Customs which will be valid for all Custom Houses.
16	Finance - Revenue	A large number of cases exist where unutilized CENVAT credit has not been refunded to the exporter by the Excise. Clear procedures and guidelines need to be prescribed by CBEC for grant of refund of credit balance lying in CENVAT Credit (beyond a period of 3 months); and a system of monitoring where refunds are not granted on time may be institutionalized.
17	Finance - Revenue	Requirement of Mate receipt by Central Excise for establishing actual date of export should be dispensed with.
18	Finance - Banking	Banks charge a high penal interest for export payments \ received beyond due date. Moreover, the penal rate is charged for the entire period from the date of shipment whereas it should be charged for only the delayed period asper the terms of payment.
19	Finance - Banking	Processing charges levied by banks for annual renewal of limits are very high and need to be reduced.
20	Finance - Banking	Banks need to lower charges being levied as booking and cancellation charges against every booking of FOREX with them.
21	Finance - Banking	Contrary to instructions being issued by RBI, additional charges are being levied by banks while releasing pre-shipment credit in foreign currency. In addition, pre-shipment credit in foreign currency to MSME export sector may be made available on a priority basis.

Two issues to be implemented shortly

Sl No	Ministry	Issue
1	Finance - Revenue	Till the time, EDI connectivity between Customs and Excise is put in place, a system as prevalent in Excise may be introduced for EP schemes to enable filing of a single running bond for all Custom locations.
2	Finance - Revenue	A suitable mechanism to provide refund of service tax in the form of All Industry Service Tax Rate like All Industry rate of Duty Drawback needs to be developed. Exporters who are not satisfied with the All Industry Services Tax rate may opt for brand rate fixation.

Following is a list of 21 issues, which are under consultation with the concerned Ministries for agreement / implementation

S No	Ministry	Issue
1	Agriculture	In cases where import consignment of semi-finished /finished leather is accompanied by sanitary certificate from the foreign supplier, present requirement of obtaining NOC from Animal Quarantine Certification Services (Department of Animal Husbandry) to be removed.
2	Commerce and Industry	Up-gradation of AZO dye testing facilities at CLRI-Kolkata under ASIDE scheme.
3	Commerce and Industry	Adherence to present time period stipulated in FTP for redemption of Advance authorization and EPCG needs to be closely monitored by all RAs. For this purpose, a tracking software may be devised for monitoring the time period taken by Ras in redeeming Advance authorization and EPCG authorizations.
4	Commerce and Industry	Application fee levied by DGFT for issuance of authorizations under various export promotion schemes should be abolished.
5	Finance - Revenue	Drawbacks should be processed without the requirement of EGM filing by shipping /Air lines and should be processed based on 'Let Export Order' given by Customs.
6	Finance - Revenue	Till EDI is implemented between SEZs and Customs, clearances by gateway ports should be permitted based on electronic transmission (email/fax) of export documents received from SEZ.
7	Finance - Revenue	Till EDI is implemented between SEZs and Customs, short shipment of consignment received from SEZ should be permitted at gateway port and, exporter may be asked to file rectified shipping documents to the SEZ port for short-shipped quantity within a stipulated period of time.

S No	Ministry	Issue
8	Finance - Revenue	In line with the provisions of Foreign Trade Policy, payments received through ECGC/General Insurance Companies and specific write-off from RBI on account of default by buyer (for not remitting export proceeds) should be counted for providing Duty Drawback benefits also and exporter not to be penalized by asking for refund of export incentives.
9	Finance - Revenue	Timelines to establish EDI connectivity between Central Excise and other agencies like Customs and DGFT should be decided on a priority basis so as to enable electronic flow of trade documents like ARE, Shipping Bill, Bond information etc. to various user departments.
10	Finance- Revenue	Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010 need to be amended so as to allow duty free commercial shipments brought through courier (as listed in Ch IB of Foreign Trade Policy) to be processed/cleared in EDI mode.
11	Finance - Revenue	Customs Circular 5/2010-Cus should be amended which provides for detailed verification of export obligation fulfillment of EPCG Licences in the 1st block and, instead of a detailed verification, a statement of exports made against EPCG license should suffice.
12	Finance - Banking	Banks should charge lesser mark up on the margins between the spot and forward rate, in case of cross currency transactions, on a transparent basis.
13	Finance - Banking	Banks need to reduce negotiation charges presently being levied for negotiating export documents.
14	Finance - Banking	As per Basel II norms, firms need to obtain a credit rating through accredited credit rating agencies like CRISIL and others. Since these agencies charge a high fee, SMERA (rating agency under Ministry of MSME and SIDBI) may also be designated as an agency for credit rating of the MSME export sector.
15	Finance - Banking	Banks compulsorily charge exporters ECGC premium on pre-shipment credit, which is a risk that banks should cover (or claim from ECGC) and not recover from exporters, unlike the post-shipment credit.
16	Finance - Banking	Banks should declare the Inter-Bank rate (IBR) and the applicable margins levied on the exporter while purchasing foreign bills.

S No	Ministry	Issue
17	Finance - Banking	There should be no restriction on the bank customers in shifting their account from one bank to another. At present, many banks are imposing a penalty clause when their customer closes his limit and goes to another banks where he is getting more favorable terms.
18	Finance - Banking	RBI stipulates that Form 15 CA and Form 15 CB should be filed for all transactions requiring payment to foreign suppliers. Submission of this CA certified form leads to increase in transaction time and costs and its submission should be required only if transactions cross a designated amount in a year.
19	Railways	CONCOR freight rates (for inland rail transport of import/export goods) are quite high as compared to other countries and need to be rationalized.
20	Shipping	Port charges need to be reduced in line with international norms and made uniform across all ports.
21	Environment & Forests	Wild Life officials may be made available on all working days at important customs houses for clearances.

This mitigation of transaction cost is significant in the sense that it would be a permanent reduction in costs incurred by exporters and would thus, contribute to enhancing the export competitiveness in a longer run.

CONCLUSION

The priority of this taskforce was to identify elements of transaction costs that could be addressed in the short-term and lead to immediate benefits for the Indian exporter. In light of this the recommendations of the Task Force have tried to address areas where positive impact can be realized relatively easily and quickly, as compared to the longer times initiatives that are already underway to reduce transaction costs in the long run. However, the report also highlights the importance of such longer run initiatives and stresses on the need for implementation of such longer-term initiatives. The integration of several agencies through a single-window eTrade initiative providing an unified interface with the government to exporters and developments in port and hinterland infrastructure are key areas of reforms that need to be addressed to make the India up to par with its close competitors in Asia and elsewhere in the world in terms of export facilitation.

The proposed recommendations of the Task Force, focusing on short-term measures, if implemented, would be able to reduce the transaction cost by approximately Rs. 6500 crore, or US$ 1.5 billion. As has been detailed in the report, implementation of 23 issues (21 already implemented and 2 to be implemented in near future) would mitigate the transaction cost to an extent of Rs. 2100 crores approximately. This is approximately 25% of the addressable transaction cost. Over the next several months and years, efforts would be continued on an ongoing basis to address the remaining 75% of the addressable transaction cost.

The Task Force sincerely hopes that the government would accept the recommendations in this report and also initiate the implementation of the corresponding interventions. Further, we believe that a major initiative that would go a long way in further reducing the addressable transaction cost is effective and complete automation of the export process across various agencies. At the very least, this would require **timely implementation of the eTrade Mission Mode Project** being undertaken by the government. This should be supplemented with an online **one-stop portal that would provide a single-window facility** to the business users, instead of the need for going to independent systems of each partner agency in the eTrade project. Such systems are already functional in countries like Singapore and Denmark. Finally, for successful implementation of eTrade and future related initiatives, **a much stronger and larger organization is required,** headed by a full-time senior official, **on the lines of countries like Denmark** that has an organization of over 200 to manage the export-related IT systems. This would provide the much-needed effective inter-ministerial management of the ongoing implementation and the future maintenance of the automated systems.

Annexure 1

Ministry-wise Recommendations

MINISTRY OF AGRICULTURE

ISSUE–1 Need to upgrade Plant Quarantine facilities at Airports/Seaports

Problem: Exports/imports of all agricultural products including floriculture, viticulture requires Plant Quarantine Certificate before exports/imports. There are 35 Plant Quarantine Stations (PQS's) through out the country and all major ports have PQS's to cater to the need of exporters. However, the number of plant quarantine/phytosanitary certification laboratories in the country is quite limited due to which samples have to be sent to far off locations for testing. This leads to increase in the transaction cost.

Suggestion: The Task Force recommends that to begin with laboratory testing facility be upgraded at 4 major Air Cargo complexes at Delhi, Mumbai, Chennai and Bangalore. Further, additional ports where plant quarantine facilities are required should be identified and facilities provided in a time bound manner.

ISSUE -2 Expediting issuance of Phytosanitary Certificates

Problem: (a) Presently, the phytosanitary certificates are issued during normal working hours and only in exceptional cases, until around 7.00 pm. In order to get custom clearance and phytosanitary certificates issued, the exporters are expected to bring the consignment to the airport at-least 6 hours prior to departure of the flight. This implies that the consignment should reach the airport during mid day. Since fruits, vegetables and flowers are perishable products, this results in a decline of around 10% in the value of the goods which is substantial. (b) The application and certification procedure is through manual process which also adds to avoidable increase in the transaction cost.

Suggestion: (a) The Task Force recommends that if phytosanitary certificate issuance is carried out on 24x7 basis for air shipments, this will enhance the export realization by about 10% since quality deterioration will not occur and there will also be a saving in time. To begin with, phytosanitary certification facilities be set up at the 4 Air Cargo complexes i.e. Delhi, Mumbai, Chennai and Bangalore and operated on a 24x7 basis. (b) Further, an online application and certification facility be provided at plant quarantine stations.

ISSUE -3 Dispensing with requirement of No Objection Certificate (NOC) for import of semi finished/finished leather

Problem: At present import of raw hides and skins require a sanitary import permit at the time of Customs clearance of consignment. However, semi processed / finished leather requires an NOC from Animal Quarantine Certification Services (AQCS) even in cases where importer furnishes a sanitary certificate from the supplier which usually incurs several days of delay.

Suggestion: The Task Force, therefore, recommends that the requirement for NOC should be dispensed with, for import of semi-finished/finished leather if the sanitary certificate from supplier is available.

ISSUE-4 Permitting import of raw materials for leather industry at additional ports

Problem: At present, import of raw hides, semi processed/finished leather is only allowed at Customs station of Delhi, Kolkata, Chennai, Mumbai, Bangalore and Hyderabad. Exporters at Kanpur and Jalandhar are, therefore, required to import at any of the permitted locations and after Customs clearance take them to their factory by rail/road which add to increase in the cost of such inputs and add to transaction time.

Suggestion: The Task Force recommends that since Kanpur and Jalandhar are the hubs of leather manufacturing, they should also be included in the locations for direct imports of raw hides/leather. For this, animal quarantine facilities need to be set up at these locations.

MINISTRY OF CIVIL AVIATION

Issue -1	Rationalizing charges levied by Airport operators

Problem: The compulsory X- Rays charges at Mumbai, Delhi, Chennai express terminals are Rs 6 per kg as against Rs 0.80 per kg at the Cargo Terminals. The rent charged by private airport operators is also higher than the General Cargo rates without any sound logic behind the discrimination.

Suggestion: The Task Force recommends that the rates being charged by the Airport Operators should be rationalized in line with General Cargo Warehouse rates.

MINISTRY OF COMMERCE AND INDUSTRY

Issue – 1 Improving trade facilitation through EDI

Problem: (a) While online facility has been provided, no offline facility exists. Offline facility is required as sometime due to high work load at the server, the connection is lost and all the filled in data gets wiped off; (b) Advance Authorisation, Duty Entitlement Passbook Scheme (DEPB) and Export Promotion Capital Goods Scheme (EPCG) are fully operational with Customs which facilitates faster online import and export clearances at designated EDI ports. However, the EDI does not cover all schemes of Foreign Trade Policy (FTP) 2009-14, primarily the incentive schemes under Chapter 3 of the FTP 2009-14; (c) Online facility for post authorization work like ARO/Invalidation letter, Redemption etc need to be incorporated.

Suggestion: (a) The Task Force recommends that better EDI facilitation could be provided by DGFT by strengthening and including additional processing facilities like offline software for filing Advance Authorization and EPCG applications on DGFT server; (b) Online status holder application facility; message exchange with Customs for Chapter 3 schemes (VKGUY, FPS and FMS); message exchange with Customs for Annual Advance Authorisation and DFIA schemes; Licence needs to be operationalised; (c) Redemption information to be made available on DGFT server for tracking status information regarding Advance Authorization and EPCG cases; information regarding ARO/Invalidation issued by Regional Authority to be made available on DGFT server, so that in case of non-receipt of hard copy of ARO/Invalidation letter by RA of intermediate supplier, data available on DGFT server can be used for providing FTP benefits.

Issue - 2 Dispensing with Chartered Engineer Certificate for Ad-hoc norms under Paragraph 4.7 of Hand Book of Procedure Vol.1

Problem: For the purpose of obtaining Advance Authorization on Ad-hoc norms under Para 4.7 of HBP Vol.1, a Chartered Engineer Certificate is to be submitted. However, the norms are not ratified based on Chartered Engineer Certificate but on the opinion of technical authorities.

Suggestion: The Task Force recommends that Advance Authorization under Ad-hoc norms should be issued without the present requirement of submission of Chartered Engineer Certificate to save transaction cost and time for exporters.

Issue - 3 Extending applicability of Ad-hoc norms ratified by Norms Committee to with in 1 year earlier cases

Problem: Ad-hoc norms ratified by Norms Committee at present under Para 4.7 of Hand Book of Procedure Vol.1, Foreign Trade Policy, 2009-14 cover only prospective authorizations. Therefore, the applicant is required to get norms fixed again for authorization obtained in the past which add to transaction time and cost for exporter and repetitive work at the end of DGFT.

Suggestion: The Task Force recommends that since the intent of the present policy provisions is to cover all prior cases also filed within the one year limit, Ad-hoc norms once approved should apply to all cases for the same export product up to one year i.e. even earlier authorisations issued within one year from the date of approval of the Ad-hoc norms should be covered.

Issue - 4 Dispensing with requirement of proforma invoice for issue of import license

Problem: At present a copy of proforma invoice is required to be submitted for issue of import authorization even though an import authorisation (except for SCOMET items) is not buyer specific and proforma invoice serves no purpose in decision making.

Suggestion: The Task Force, therefore, recommends that for issue of Import License for Restricted items (except for SCOMET items), the requirement of submission of Proforma Invoice should be removed.

Issue - 5 Dispensing with requirement of proforma invoice for issue of export license

Problem: At present a copy of proforma invoice is required to be submitted for issue of export authorization even though an export authorisation (except for SCOMET items) is not buyer specific and proforma invoice serves no purpose in decision making.

Suggestion: The Task Force, therefore, recommends that for issue of export License for Restricted items (except for SCOMET items), the requirement of submission of Proforma Invoice should be removed.

Issue - 6 Dispensing with hard copy of shipping bill requirement while availing DEPB benefit

Problem: At present hard copies of DEPB EDI Shipping bills are required to be submitted for issuance of DEPB though such shipping bills are transmitted on line from Customs to DGFT and it only adds to avoidable paper work.

Suggestion: The Task Force recommends that since digitally signed DEPB EDI shipping bills are being sent by customs to DGFT server and DGFT process DEPB applications based on digital data, the need of hard copy of shipping bill is redundant, and therefore, need this be dispensed with.

Issue - 7 Restructuring MDA benefit as company specific rather than individual specific

Problem: Presently, there is a requirement of advance intimation of 14 days by an applicant who wishes to avail Market Development Assistance (MDA) from EPCs/FIEO and such intimations are individual specific and not company specific. Since, many a times, it is not possible for a firm/company to furnish/finalize individuals who will be participating in the exhibitions in advance and with the present stipulation any change in individual name leads to denial of MDA benefits.

Suggestion: The Task Force recommends that the MDA benefits should be company/firm specific and not individual specific.

Issue - 8 Upgrading Azo dyes testing facility at Kolkata

Problem: Many countries require Azo Free Certification for textile and leather garments. At present the eastern region leather garment exporters have to obtain Azo free certificates from Pune as such facility is non existent in Eastern India which adds to the transaction cost.

Suggestion: The Task Force recommends up-gradation of Azo dye testing facilities at CLRI-Kolkata under the Assistance to States for Infrastructure Development of Export (ASIDE) scheme.

Issue - 9 Establishing tracking software for redemption of Advance Authorizations/EPCG Authorizations

Problem: At present, redemption of licences under Advance Authorization/ Export Promotion Capital Goods scheme requires manual cross checking of export data from shipping bills and bank realization certificate. While the handbook prescribes a time limit for such types of cases but the same is rarely adhered to due to manual process involved. This increases the transaction cost, especially in cases where bank guarantee is involved.

Suggestion: The Task Force recommends that adherence to present time period stipulated in FTP for redemption of Advance Authorization and EPCG needs to be closely monitored by all RAs. For this purpose, tracking software may be devised for monitoring the time period taken by RAs in redeeming Advance Authorization and EPCG authorizations.

Issue - 10 Abolishing application fee for Export Promotion Schemes

Problem: At present application fee for other export promotion schemes i.e. DEPB, Advance Authorization, EPCG is charged on ad-valorem basis which increases the transaction cost.

Suggestion: The Task Force recommends that the application fee levied by DGFT for issuance of authorizations under various export promotion schemes should also be abolished.

Issue - 11 Clubbing of Advance Authorization and Annual Advance Authorization

Problem: At present the facility of clubbing of Advance Authorizations under Paragraph 4.20 of Handbook of Procedure Vol.1 (2009-14) is only applicable to the Advance Authorizations issued under similar custom notifications.

Suggestion: The Task Force recommends that since Annual Advance Authorization is only a specific variant of Advance Authorization, clubbing of Annual Advance Authorization with Advance Authorization should also be allowed.

MINISTRY OF RAILWAYS

Issue -1 Rationalizing high freight charges for inland Rail Transport

Problem: The freight rates charged by CONCOR are one of the highest in the world. As per White Paper on Indian Railways (December 2009) freight earnings today account for over 66% of its total traffic earnings. Freight tariff on Indian Railways is among the highest in the world as would be seen by a comparison with the freight rates per tone kilometer of the other world railways. Particularly, as compared to the major freight railways like US Railroads, Chinese and Russian Railways, the freight rates of Indian Railways are extremely high. In fact, the rates on US Railroads are one-fourth that of Indian Railways as seen below in Exhibit 12:

EXHIBIT 12

Country	Average Freight Revenue per Tonne Kilometre in US dollar
India	395
Spain	327
S Africa	281
Italy	273
France	218
China	185
Russia	122
Canada	112
USA	100

(White paper on Indian Railways, December, 2009)

CONCOR has increased freight rates by 5-6% in January 2010. There has been an increase of Rs 1100 per 20 feet container (ICD- Tukghlakabad to JNPT-Mumbai; freight cost for 20 feet normal container has increased to Rs 20600 from the earlier Rs19500). CONCOR had carried 1.9 million TEUs (international cargo only) in 2009-10. This will mean an increase of Rs 190 crores with this tariff increase.

Suggestion: The Task Force recommends that the freight rates being charged by CONCOR should be rationalized to make exports more competitive.

MINISTRY OF SHIPPING

Issue - 1 Rationalizing High Port Charges

Problem: The port charges payable to the port authorities are one of the highest in the world. Moreover, as shown below in Exhibit 13, there is a wide variation between the charges levied by different ports within India.

EXHIBIT 13

PORT	COCHIN	JNPT	CHENNAI	COLOMBO	SHANGHAI	HONG KONG	JEBEL ALI	SINGAPORE
GRT	50000	50000	50000	50000	50000	50000	50000	50000
NRT	30000	30000	30000	30000	30000	30000	30000	30000
LOA	292	292	292	292	292	292	292	292
Port stay Hrs	24	24	24	24	24	24	24	24
Port Call Cost US$	26,330	31,727	50,634	9,552	18,946	9,733	6,958	2,387

(Data pertaining to 2009-10)

Suggestion: The Task Force recommends that standardization of port charges across all ports and reduction of port charges across the board be done to bring them at par with other countries.

MINISTRY OF ENVIRONMENT AND FORESTS
(WILDLIFE AUTHORITY OF INDIA)

ISSUE -1	Availability of wildlife officials for clearances at major customs houses on all working days

Problem: Shipments of hides and skin/semi-tanned/tanned/finished leather requires an NOC from wildlife authorities. The wildlife officials are available for only 3 days a week for half a day at important places like Delhi and Chennai. At some other ports, wildlife officials are available for only one day a week. Further, at some other ports/ICDs, there are no wildlife officials available currently. Non-availability of the concerned officers causes avoidable clearance delays and affects exports.

Suggestion: The Task Force has recommended that wildlife officials should be made available at major customs ports / express ports at least at a specified time on all working days, at least on ports handling high volume of leather shipments. Suggested locations are Chennai (Air and Sea), JNPT, Mumbai, Kolkata (Air and Sea), Petrapole, Delhi (Air, ICD TKD, and ICD Patparganj), ICD Ludhiana, ICD Jalandhar, ACTL Faridabad, ICD Tuticorin, ICD Bangalore, Cochin Sea Ports, Kandla Sea Port. ICD Chakeri, ICD Garhi (Haryana) and ICD Dadri.

In case it is not possible to place wildlife officials at these locations, they should be placed at least at Delhi (IGI Airport), Chennai (Air and Sea Port), Mumbai (JNPT and Air Port) and Kolkata (Air and Sea Ports).

DEPARTMENT OF REVENUE, MINISTRY OF FINANCE

ISSUE-1 Single running bond for EP Scheme for all custom locations to reduce financing cost

Problem: A bond/BG is required to be submitted at Customs, for each authorization separately. This adds to paper work and transaction time both at the end of the unit as well as Customs. Also, a manufacturer exporter has to file a bond/LUT with excise authorities for clearing goods without payment of duty or claiming rebate if goods are being exported on payment of duty, irrespective of the DGFT scheme under which goods are being exported.

Suggestion: The Task Force recommends that a single bond by the exporter with one government agency, with a value equal to the sum of the values of individual bonds or bank guarantees should be sufficient to cover all risks. At least within the Department of Revenue, the transaction costs can be reduced if the bonds for duty exemption schemes are also filed with the same excise officer instead of the customs officer. A similar practice is being followed for 100% EOUs. These would require online EDI connectivity between Excise and Customs.
Till the time, EDI connectivity between Customs and Excise is put in place, a system as prevalent in Excise may be introduced for EP schemes to enable filing of a single running bond for all Custom locations.

ISSUE -2 Providing working system for import/export work on weekends to reduce transaction time

Problem: Excise officials are not available for stuffing after office hours and on weekends. Additionally, at Customs locations, exporters are required to pay for the overtime of custom officials for work beyond scheduled working time. This involves huge cost and reduces the competitiveness of exports.

Suggestion: The Task Force recommends that since factory and transportation operations are usually round-the-clock, a shift-wise working system should be developed for customs and excise officials particularly to cater to import/export workload on weekends. This can be done initially, on a trial basis, for some identified locations i.e.Customs locations, Mumbai (JNPT and Airport), Chennai (Seaport and Airport), Delhi (Airport and ICD TKD), Kolkata (Seaport), Bangalore (Airport), Tuticorin (Seaport), Ludhiana (ICD), Excise locations, Gurgaon, Ahmedabad, Tirupur, Hyderabad and Pune.

ISSUE -3 Drawback admissibility without filing of EGM to facilitate quicker disbursement

Problem: Currently, drawbacks are processed by Customs only after Export General Manifest (EGM) is filed by the shipping / airlines. There are often delays in filing of the EGM and in clearing EGM errors, which holds back the payment of drawback claims, sometimes even up to three months. In addition, time lag between Let Export Order (LEO) date and EGM filing leads to blockage of funds as drawback is only released after EGM is filed.

Suggestion: The Task Force recommends that Drawbacks should be processed without the filing of EGM. All DGFT schemes are based on LEO date of Shipping Bills only. In very few (less than 0.5%) cases, consignments are returned without being exported, after the LEO has been issued, that too after the permission of Customs.

As a trade facilitation measure and to reduce transaction costs, drawback should be released after LEO only and should not be linked with EGM filing. In such cases where drawback has been released on LEO basis but goods are found to have not been exported, DoR may proceed with recovery proceedings as is done in cases where realisation of export proceeds has not taken place but drawback has been released. Once this is agreed by DoR, amendments in software used for drawback processing will also be required. There may be no requirement for any amendment in Customs Act also as Section 75 only talks of release of drawback on export goods 'in respect of which an order permitting the clearance and loading thereof for exportation has been made under Section 51 by the proper officer.

ISSUE-4 Relaxing eligibility criteria under ACP to expedite import / export clearances

Problem: (a) Accredited Client Programme (ACP) of CBEC has only approx. 500 firms listed under it, due to stringent eligibility criteria. Present eligibility criteria for ACP requires (i) no cases of Customs, Central Excise or Service Tax booked against them in the previous three financial years. Cases booked would imply that there should be at least a show cause notice, invoking penal provisions, issued to an importer; (ii) should also not have any cases booked under any of the Allied Acts being implemented by Customs; (iii) should have no duty demands pending on account of non-fulfillment of Export Obligation.
(b) Further, the Risk Management System (RMS) of Customs is only applicable for the Import Module and has not been implemented for Export Promotion (EP) schemes as a result of which exporters are denied the benefit of the programme.

Suggestion: (a) The Task Force recommends that the eligibility criteria for ACP should be relaxed by amending ACP guidelines stating that there should be no Show Cause Notice issued to firms for mis-declaration, forgery etc. and Show Cause Notice issued for procedural irregularities will not be a criteria for ineligibility under ACP. This will help in enlisting greater number of firms under ACP thereby, expediting import/export clearances and help in decongestion at Ports and reduce transaction costs. (b) RMS should be made available for EP schemes and in addition, export status of the firm i.e Export House / Trading House etc. should be included as one of the parameters in the RMS eligibility (as has been done in case of norms regarding Bond/BG by Customs).

ISSUE-5 Issuing single consolidated stuffing permission to reduce transaction time

Problem: Process of scheduling the factory stuffing inspection by Excise authorities is currently manual which at times, leads to delays in fixing the schedule and also has costs associated with travel/manpower. Power scheduling in most States also necessitate functioning of factories on Saturdays/Sundays which are otherwise non-working days for Excise authorities.
In addition, each Custom House gives a separate factory stuffing permission for export goods i.e. the exporter (IEC holder) needs a factory stuffing permission for export goods individually from all Custom Houses (if he is exporting from different Custom Ports), and individually for different factories and supporting manufacturers.

Suggestion: The Task Force recommends that process of scheduling factory stuffing inspection should be EDI enabled by Excise. Further, at the Customs end, a single consolidated factory stuffing permission (and not Custom House wise) should be given for the exporter for all manufacturing locations of the exporter and its supporting manufacturers specified in the permission. The exporter may approach any of the EDI Custom Houses for obtaining this permission and any delinquent behaviour of the exporter may be assessed by the Custom House issuing factory stuffing permission from the online information available with them in the ICES 1.5.

ISSUE-6 Accepting email / fax of export documents from SEZ

Problem: Original export documents are required to be sent from the SEZ Customs to Gateway Port Customs. In cases, where original export documents get delayed the shipment cannot board the vessel leading to detention charges and even delay in delivery of consignment.

Suggestion: The Task Force recommends that EDI connectivity between SEZs and Customs needs to be established on priority for seamless flow of import/export documents. However, in the interim, till EDI is implemented, clearances by gateway ports based on electronic transmission (email/fax) of export documents received from SEZ should be permitted.

ISSUE-7 Permitting short shipment export from SEZ

Problem: In case of exports from SEZ where the gateway port is different from the SEZ, short shipment is not allowed by the gateway port authorities. This happens in cases where one shipping bill has more than one container of export cargo. In certain cases, the gateway port is located more than 300 kms away from SEZ port. On account of transport bottlenecks, even if one of the many containers in a shipping bill fails to arrive in time at the gateway port, the balance containers are also not allowed to be exported till the complete consignment has arrived at the gateway port. This leads to delay, detention and missing of delivery schedules.

Suggestion: The Task Force recommends that EDI connectivity between SEZs and Customs needs to be established on priority for seamless flow of import/export documents. However, in the interim, till EDI is implemented, short shipment of consignment from SEZ should be permitted at gateway port and the exporter may be asked to file amended shipping documents to the SEZ port for short-shipped quantity within a stipulated period of time.

ISSUE-8 Refund of unutilized CENVAT credit in respect of exports

Problem: Credit Balance in Central Excise CENVAT account is not being refunded by Excise officials in the absence of clear instructions, when predominant portion of production is exported (exempted from Excise) which reduces the competitiveness of exports.

Suggestion: The Task Force recommends that a large number of cases exist where such unutilized CENVAT credit has not been refunded to the exporter by the Excise, clear procedures and guidelines need to be prescribed by CBEC for grant of refund of credit balance laying in CENVAT Credit (beyond a period of say 3 months); and a system of monitoring where refunds are not granted on time may be institutionalized.

ISSUE-9 Dispensing with Mate receipt requirement for establishing actual date of export

Problem: Mate receipt, which is an archaic and redundant document (with Bill of Lading) is required by Central Excise to establish the actual date of export when the goods are being exported through an ICD, as the confirmation from the Customs authorities at the gateway port takes time. Obtaining mate receipt from shipping lines involves cost/time and leads to delay in initiating process for claiming rebate on export goods or bond cancellation from Excise authorities.

Suggestion: The Task Force recommends that mate receipt can be dispensed with, if the LEO date mentioned on the shipping bill is taken as the date of actual shipment by Central Excise, along with the 'Onboard Bill of Lading'; which should be sufficient for establishing actual date of export by Excise authorities.

ISSUE-10 Lay down all industry service tax rate

Problem: The refund of service tax paid on output services is provided only on the actual incidence of service tax suffered. This requires submission of large number of supporting documents. Most of the exporters do not get the refund even within 6-12 months of exports.

Suggestion: The Task Force recommends that a scheme should be formulated to provide refund of service tax in the form of All Industry Service Tax Rate refund like AII Industry rate of Duty Drawback. Those exporters who are not satisfied with the All Industry Service Tax rate may opt for a brand rate of Service Tax, as in the case of fixation of brand rate of Duty Drawback for export goods.
A timetable to operationalise All Industry Service Tax rate may be outlined.

ISSUE-11 Allowing specific write-off by RBI/payments from ECGC/GIC on account of buyer default for duty drawback benefit

Problem: Under Para 2.25.1, 2.25.2 and 2.25.4 of Handbook of Procedures Vol1, payment received through ECGC cover, General Insurance cover and specific write-off by RBI (and not for self write-off cases) is counted for export benefits under various export promotion schemes specified in Foreign Trade Policy.

However, payment received from ECGC Cover / General Insurance Cover and specific write-off from RBI on account of default by buyer (for not remitting export proceeds) is presently not counted for Duty Drawback benefit, and drawback is required to be surrendered in such cases.

Suggestion: The Task Force recommends that on lines of FTP, payments received through ECGC/General Insurance Companies and specific write-off from RBI should be counted for providing Duty Drawback benefits also. Amendments, if required, u/s 75 of Customs Act may also be carried out to operationalise this.

ISSUE-12 Permitting duty free commercial shipments through courier mode under EDI

Problem: Duty free commercial shipments (like trimming and embellishments) are not allowed to be cleared through courier mode, and are mandatorily passed through cargo mode. Bills of Entry for such imports need to be processed manually.

Present 'Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010' issued in May 2010 specify that these regulations shall not apply to (i) import or export of goods under any export promotion scheme other than Export Oriented Unit (EOU) scheme and similar schemes referred to in Chapter 6 of the Foreign Trade Policy 2009-14.; and (ii) goods where the value of the consignment is above rupees twenty five thousand and transaction in foreign exchange is involved.
Denial of the facility is detrimental to exports.

Suggestion: The Task Force recommends that courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010 need to be amended so as to allow duty free commercial shipments (as listed in Chapter IB of Foreign Trade Policy) to be processed/cleared in EDI mode through courier mode.

ISSUE-13 Extending EDI connectivity and strengthening interfaces between DGFT, Customs and Central Excise

Problem: Most interfaces between Excise department and the business users and also other departments are presently manual, and the Excise Department is not connected electronically with Customs and other departments like DGFT.

Suggestion: The Task Force recommends that EDI connectivity between Excise, Customs and DGFT should be made on a priority basis. This will enable electronic flow of trade documents like ARE, Shipping Bill, bond information etc. to various user departments and do away with delays associated with manual transmission of documents. A time table to establish this EDI connectivity may be established. Specifically, the provision of scheduling of factory stuffing visit and exchange of information relating to bond filing should be made online on a priority basis at the Excise end.

ISSUE-14 Liberalizing verification process on Monitoring of Export Obligation

Problem: Department of Revenue has issued Circular No. 5/2010-Cus dated 16 March 2010 laying down the guidelines for verification mechanism and monitoring of export obligation for various duty exemption and reward schemes.

The circular mentions that the EPCG notifications stipulate fulfillment of at least 50% of export obligation within the first block. This shall be verified in detail. This would require the exporter to arrange the presentation of documents at the port of registration of EPCG license, which would involve considerable cost/time to the exporter.

Suggestion: The Task Force recommends that DGFT has been entrusted with the primary responsibility of monitoring of fulfillment of export obligation. Therefore, the Customs Circular mandating detailed verification of export obligation fulfillment in the 1st block in detail should be amended and, instead of detailed verification, a statement of exports made against EPCG license which is submitted by the exporter at the Customs Port of Registration should suffice. Only in exceptional cases, random detailed verification may be done by Customs.

DEPARTMENT OF FINANCIAL SERVICES (BANKING) MINISTRY OF FINANCE

ISSUE-1	Reducing processing charges for annual renewal of limits

Problem: Banks are charging processing fee of Rs 400 per lac subject to a maximum of Rs 20 lacs on renewal of limits. If an exporter goes for renewal of a limit of Rs 50 crore, he has to pay Rs 20 lacs as processing charges. While renewing the limit of exporters, banks heavily rely on his past track record in approving or disapproving such limits. Such huge banking charges add to transaction cost.

Suggestion: The Task Force, therefore, recommends that there is no reason to impose such high charges and they may be reduced to Rs 100 per lac subject to a ceiling of Rs 5 lacs. Moreover, these charges should only be levied on grant of a new limit and not on its renewal.

ISSUE-2	Reducing mark up on transaction cross currency

Problem: Banks are presently levying their own mark up on the margins between the spot and forward rate for quoting forward quotation. As a result, a bank earns 4 bips (0.0004) on each transaction of a dollar be it buying or selling which adds on to 8 bips [1 Euro = 1.3600 US$ +/- 0.004 while buying/selling in a Euro / US$ transaction] at the cost of exporters.

Suggestion: The Task Force recommends that 1 bip per transaction may be charged by banks in order to cut down the transaction cost in case of cross currency transactions.

ISSUE-3	Reducing negotiation Charges

Problem: Banks are levying 0.15% as the negotiation charges while negotiating the documents which are quite high.

Suggestion: The Task Force recommends that these charges need to be reduced to 0.05%.

ISSUE-4	Lowering of booking Charges

Problem: Banks are levying Rs 750 as booking charges and Rs 750 as cancellation charges against every booking of FOREX with them.

Suggestion: The Task Force recommends that these charges need to be lowered to Rs 250 from Rs 750.

ISSUE-5	Easing pre-shipment credit in foreign currency to MSME export sector

Problem: PCFC is being released in contravention of the recent RBI circular DBOD DIR (Exp) No. 76/04.02.001/2009-10 dated February 19, 2010 wherein credit in foreign currency is available at LIBOR plus 2%. Some banks are adding other costs such as Rs 0.25 per US$ whereas circular clearly specifies "subject to the express condition that the banks will not levy any other charges viz. service charge, management charge etc., except for recovery towards out of pocket expenses incurred. Similar changes may be effected in interest rates in cases where EURO LIBOR/EURIBOR has been used as the benchmark". Further, availability of PCFC continues to be difficult.

Suggestion: The Task Force recommends that RBI may issue directives to banks to provide PCFC loans to MSME export sector without fail and on priority basis.

ISSUE-6 Rationalizing penal rate of interest

Problem: Banks charge interest 3% to 4% p.a. for payments received beyond due date. This problem has become more acute because of delay in export realizations from foreign buyers. With liquidity crisis, the same has become a burden on exporters.

Suggestion: The Task Force recommends that the penal interest should not exceed 1% over and above the normal rate of interest being extended to MSME export sector. (Although RBI permits 360 days but if there is a clause in the L/C stating DA 120 days then in such cases, if the export realization comes on the 130th day then banks charge additional interest of 3% to 4% over and above the existing rate from the date of shipment).

ISSUE-7 Designating SMERA as credit rating agency for MSME export section

Problem: Basel II norms have made it mandatory that clients get themselves rated through accredited credit rating agencies like CRISIL and others. These rating agencies charge a fee, which adds to the overhead cost. SMERA caters to MSME and thus should be allowed credit rating at reasonable cost.

Suggestion: The Task Force recommends that SMERA (rating agency under Ministry of MSME and SIDBI) be designated as the sole agency for credit rating of the MSME export sector to cut down transaction costs.

ISSUE-8 Rationalizing ECGC premium on preshipment credit

Problem: Banks compulsorily charge exporters ECGC premium on pre-shipment credit, which is a risk that banks should cover (or claim from ECGC) and not recover from exporters, unlike the post-shipment credit. This increases the financing cost to the exporters.

Suggestion: The Task Force recommends that there should be a complete review of this scheme, and option should be devised wherein exporters with good track records can save this premium.

ISSUE-9 Enhancing transparency in IBR and margin during purchase of export bills by banks

Problem: Normally banks charge a difference in exchange rate when they purchase export bills and this margin is linked to the IBR (Inter Bank Rate) of the foreign currency. However, there is no transparency in this process to the exporters.

Suggestion: The Task Force recommends that Banks may be asked to declare the IBR and the applicable margin to the exporter when they purchase foreign bills.

ISSUE-10 **Removing restriction on closing of limits by a customer with a bank should not be penalized**

Problem: Many banks impose a penalty clause when their customer closes his limit and goes to another bank. This is unhealthy and prevents competition which can benefit the customer.

Suggestion: The Task Force recommends there should not be any restriction on the customer in going to other banks especially when he is getting more favorable terms from other banks.

ISSUE-11 **Mandatory requirement of Forms 15 CA and 15 CB only for transactions greater than a certain value**

Problem: RBI has mandated the filing of Form 15 CA and Form 15 CB for all transactions requiring payment to foreign suppliers. The form requires to be certified by a Chartered Accountant for every transaction, who charges Rs 2000 for each certificate. Therefore, the expense of getting the certification can run into several lakhs for a typical exporter and add to transaction time and cost.

Suggestion: The Task Force recommends that a limit be imposed for the use of Form 15 CA and Form 15 CB. It is highly unlikely that for small amounts of, say, even US$ 2000, money laundering would be happening. Thus, if the transactions cross a certain limit, say, US$ 50,000 per year, then the requirement of Form 15 CA and Form 15 CB can be made compulsory.

Annexure 2

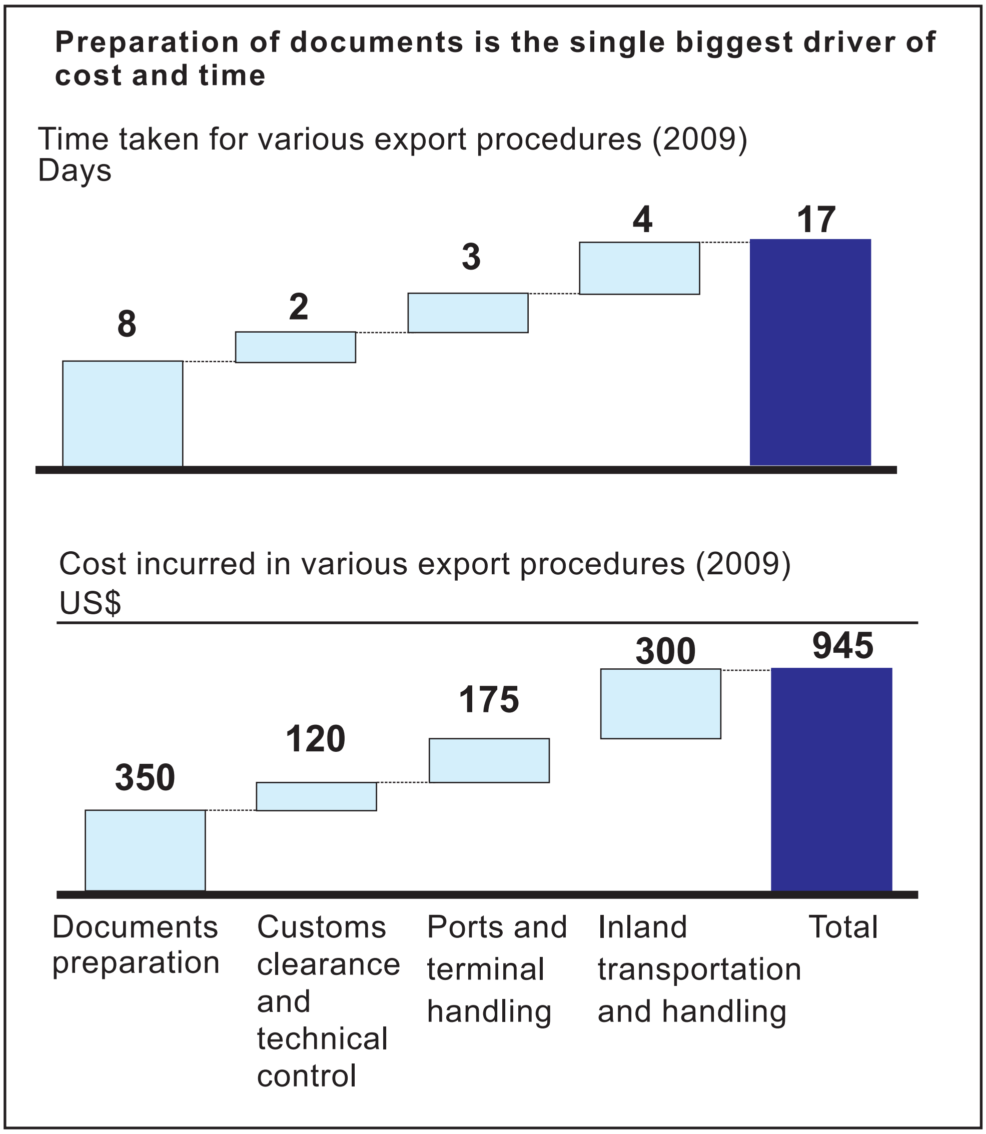
ESTIMATES OF TRANSACTION COST

ESTIMATES OF TRANSACTION COST

The breakup done by the Doing Business 2010 World Bank report regarding the total cost (and time) in terms of documents preparation; customs clearance and technical control; ports and terminal handling; and inland transportation and handling is shown below in Exhibit 14. The average volume of containerized exports from India is approximately 3.4 million Twenty-foot equivalents (TEUs). This translates to a transaction cost for containerized exports of approximately US$ 3.2 billion (3.4 million TEU x US$ 945). Assuming that the non-containerized sea cargo incurs the same transaction cost per unit, this translates to total transaction cost of US$ 16.3 billion. Further extrapolating to air cargo gives us a total figure of transaction cost of US$ 17 billion.

The Methodology adopted by the Task Force took into consideration various parameters that lead to the overall transaction cost for every export consignment. On the basis of secondary data analysis and expert opinion the various indicators that were factored in include, the manpower cost, cost of money locked as a result of Bank Guarantees, Drawback amount etc,

EXHIBIT 14



and various fixed costs. The Task Force arrived at the final quantification of the various issues on averaging the data related to the above-mentioned parameters.

Transaction Cost for each issue was calculated on the basis of the following parameters:

a) Manpower and Administrative Cost

b)Cost of Money Locked (i.e. Bank Guarantee and Drawback Money)

c) Other direct costs

Exhibit 15 below shows the basis on which (i) Manpower and Administrative Cost and Cost of Money Locked for all Exports i.e. (ii) Bank Guarantee and (iii) Drawback Money was calculated:

EXHIBIT 15

(i) Manpower and Administrative Cost

Sl No	Parameter	Value	Unit
1	Average Manpower Cost per Container Shipment	5000	Rupees (Rs)
2	Total Containerized Cargo	3.4	Million TEUs
3	Total Annual Manpower Cost for Containerized Exports (1) X (2)	0.38	Billion US$
4	Percentage of Containerized Exports in Total Exports	19%	
5	Total Annual Manpower Cost for all Exports (3) / (4)	2.0	Billion US$
6	**Manpower Cost per Day for all Exports (5) / (365)**	**5.4**	**Million US$**

(ii) Cost of Bank Guarantee = Value of Time Lost (money locked up in the system)

Sl No	Parameter	Value	Unit
1	Value of BG (BCD, ADC, Cess etc.)	20%	Rupees (Rs)
2	Incidence of BG	20%	Million TEUs
3	Applicability (AA / EPCG)	33%	Billion US$
4	Average bank interest rate	10%	
5	Interest cost for each day of delay (1) x(4) / 365	0.0004	US$ per 100 US$ FOB value
6	Total exports out of India	180	Billion US$
6	Interest cost for each day of deay for all exports (5) x (6)	0.7	Million US$

(iii) Value of Drawback money locked up

Sl No	Parameter	Value	Unit
1	Total Exports out of India	180	Billion US$
2	Applicability of Drawback	40%	of all exports
3	Drawback Rate	10%	of FOB
4	Cases which cause delay	15%	of all cases
5	Value of Drawback money locked up (1) x (2) x (3) x (4)	1.08	Billion US$

**** 1 US$ = Rs 45***

DETAILED WRITE-UP ON THE ISSUES IMPLEMENTED

ISSUE # 1	Need to Upgrade Plant Quarantine Facilities at Airports/Seaports	Ministry of Agriculture

(I) PROBLEM

At present, the number of Plant Quarantine/Phytosanitary Certification Laboratories in the country is quite limited due to which goods' samples for testing have to be sent to locations which are away from the ports. As a result, the process which can be completed in a day takes long and increases the transaction time and adds to the exporter's cost.

(II) TRANSACTION COST

a)Manpower and Administrative Costs for Issue # 1

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
3	10%	24.5	7.4

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 3 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 73.5 Crore.
- Since, this particular issue impacts only 10% of exports, the total Manpower Cost comes out to Rs 73.5 Crore x 0.1 = **Rs 7.4 Crore.**

b) Cost of Money Locked for Issue # 1

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
3	10%	15300	7.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, affecting 10% of exports, comes out to Rs. 41.91.
- This amount of locked up money at an interest rate of 12% for 15 days comes to Rs. 7.5 Crore.

c) Other direct cost for Issue # 1

Direct cost	% of Exports Affected	Total cost (Rs. Crore)
1000	10%	73

- Since 20,000 shipments are affected per day in the country and 10% of them are subjected to this certification, it affects 2000 shipments per day.
- During a year, the number of shipments affected would be 2000 x 365 = 7,30,000
- With Rs. 1000 as the cost of certification, the amount comes out to Rs 7,30,000 x 1000 = Rs 73,00,00,000 = **Rs 73 Crore.**

Total Transaction Cost = Rs 7.4 Crore + Rs 7.5 Crore + Rs 73 Crore = Rs 87.9 Crore

(III) PROCESS POSITION TODAY

Plant Quarantine laboratories at five major Regional Quarantine Stations i.e. Amritsar, Chennai, Delhi, Kolkata and Mumbai have been adequately equipped to perform plant quarantine function.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D.O. No. 35-2/2010-PP-II dated 18/10/2010 of Minister of Agriculture & Consumer Affairs, Food & Public Distribution

ISSUE # 2	Expediting issuance of phyosanitary Cerifiates	Ministry of Agriculture

(I) PROBLEM

Presently, the phytosanitary certificates are issued during normal working hours and in order to get custom clearance and phytosanitary certificates issued, the exporters are expected to bring the consignment to the airport at-least 6 hours prior to departure of the flight, i.e. by mid-day. Since the goods involved, such as fruits, vegetables and flowers are perishable products, a delay in shipment deteriorates their quality and also results in a decline of around 10% in their value. Another factor because of which the transaction cost further increases is that entire application and certification procedure is through manual process.

(II) TRANSACTION COST

a)Manpower and Administrative Costs for Issue # 2

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
3	10%	24.5	7.4

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 3 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 73.5 Crore.
- Since, this particular issue impacts only 10% of exports, the total Manpower Cost comes out to Rs Rs 73.5 Crore x 0.1 = **Rs. 7.4 Crore.**

b)Cost of Money Locked for Issue # 2

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
3	10%	15300	1.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, affecting 10% of exports, comes out to Rs. 4.2.
- This amount of locked up money at an interest rate of 12% for 1 day comes to Rs. 0.5 Crore and accordingly, for 3 days, it amounts to Rs 1.5 Crore.

C) Other direct cost for Issue # 2

- There are no other direct costs involved in this case.

Total Transaction Cost = Rs 7.4 Crore + Rs 1.5 Crore = Rs 8.9 Crore

(III) PROCESS POSITION TODAY

The Directorate of Plant Protection, Quarantine & Storage, Faridabad under the Department of Agriculture & Co-operation has operationalised round the clock plant quarantine services at international Airports of Chennai and Mumbai for expediting issue of Phytosanitary certificates.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D.O. No. 35-2/2010- PP-II, dated 18/10/2010 of Minister of Agriculture & Consumer Affairs, Food & Public Distribution

ISSUE # 3	AQCS facility should be made available at Kanpur and Jalandhar	Ministry of Agriculture

(I)PROBLEM

At present, import of raw hides, semi processed/finished leather is only allowed at Customs station of Delhi, Kolkata, Chennai, Mumbai, Bangalore and Hyderabad. Exporters at Kanpur and Jalandhar are, therefore, required to import at any of the permitted locations and after Customs clearance take them to their factory by rail/road which add to increase in the cost of such inputs and add to transaction time.

(II) TRANSACTION COST

There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct costs for Issue # 3

- Total containers meant for Kanpur and Jallandhar = 10,000
- Additional cost incurred while clearing and transporting from Mumbai = Rs 15,000
- Total Cost: Rs 15,000 x 10,000
- Value in Rs = 1500 Crore
- Transaction Cost Involved: **Rs 15 Crore**

Total Transaction Cost = Rs 15 Crore

(III) PROCESS POSITION TODAY

The Department of Animal Husbandry, Dairy & Fisheries has constituted a committee of experts on this issue. It is, however, understood that though decision in principle to allow imports of raw leather at Kanpur has been taken, implementation modalities are yet to be notified.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D.O. No. 35-2/2010- PP-II, dated 18/10/2010 of Minister of Agriculture & Consumer Affairs, Food & Public Distribution

ISSUE # 4	Rationalizing Airport operator charges	Ministry of Agriculture

(I) PROBLEM

The compulsory X- Rays charges at Mumbai, Delhi, Chennai express terminals are Rs 6 per kg as against Rs 0.80 per kg at the Cargo Terminals. The rent charged by private airport operators is also higher than the General Cargo rates without any sound logic behind the discrimination. This increases the cost manifold.

(II)TRANSACTION COST

There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct cost for Issue # 4

Direct cost (Rs.)	% of Exports Affected	Total Cost (Rs. Croce)
1200/Shipment	5%	43.8

- The charges being levied by the airport operator for X-ray screening of courier based exports impacts 5% of India's total exports, or exports.
- Since number of export shipments from India in a day estimated at 20,000, this means on average, 20,000 X .05 = 1000 shipments are impacted by such charges every day. In a year this amounts to 1000 X 365 = 3,65,000 shipments.
- Since the charges levied for x-ray screening are Rs. 1.5 per kg, and working with the assumption that an average air-cargo shipment is about 800 kgs, the cost per shipment works out to Rs. 1200
  per shipment on average.
- This works out to 1200 X 3,65,000 = Rs. 43.8 Crore of total transaction cost imposed on exporters due to this requirement.

(III) PROCESS POSITION TODAY

Total Transaction Cost = Rs 43.8 Crore

Charges for the screening of express cargo and courier shipments have been examined and Delhi International Airport Private Limited has revised the rate from Rs. 6/- to Rs. 1.65 per kg for export courier at the Express Courier Terminal, IGI, Airport.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Express Industry Council of India's No. EICI/ DEL-XPT /001,dated 01/04/2010

ISSUE # 5	Dispense with requirement of Chartered Engineer Certificate for para 4.7 authorisation	Ministry of Commerce & Industry

(I) PROBLEM

For the purpose of obtaining Advance Authorization on ad-hoc norms under Para 4.7 of HBP Vol.1, a Chartered Engineer Certificate is to be submitted. However, the norms are not ratified based on Chartered Engineer Certificate but on the opinion of technical authorities. Removal of this condition would help in reducing transaction cost and time for exporters.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 5

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
1	10%	24.5	2.5

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 1 day = US$ 5.4 Million @ Rs.45 exchange rate = Rs 24.5 Crore.
- Since, this particular issue impacts only 10% of exports, the total Manpower Cost comes out to Rs 24.5 Crore x 0.1 = **Rs 2.5 Crore**

b)Cost of Money Locked for Issue # 5

- Refer to Exhibit 15 (ii) & (iii)

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
1	10%	15300	0.5

- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, comes out to Rs. 41.91 Crore. Further, for 10% of exports, it comes down t o Rs 4.19 crore
- This amount of locked up money at an interest rate of 12% to **Rs.0.5 Crore.**

c) Other direct cost for Issue # 5

Direct cost (Rs.)	% of Exports Affected	Total Cost (Rs. Croce)
1000	10%	73

- Since 20,000 shipments are affected per day in the country and 10% of them are subjected to this certification, it affects 2000 shipments per day.
- During a year, the number of shipments affected would be 2000 x 365 = 7,30,000
- With Rs. 1000 as the cost of certification, the amount comes out to Rs 7,30,000 x 1000 = Rs 73,00,00,000 = **Rs 73 Crore.**

(III) PROCESS POSITION TODAY

Total Transaction Cost = Rs 2.5 Crore + Rs 0.5 Crore + Rs 73 Crore = Rs 76 Crore

The requirement of submitting Chartered Engineer's Certificate along with application for Advance Authorisation under para 4.7 of HBP has been done away with.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Department of Commerce Public Notice No. 3/ (RE: 2010)/2009-2014, dated 23/08/2010

ISSUE # 6	Ad-hoc norms applicability to past one year cases	Ministry of Commerce & Industry

(I) PROBLEM

Ad-hoc norms, ratified by Norms Committee at present under Para 4.7 of Hand Book of Procedure Vol.1, Foreign Trade Policy, 2009-14 cover only prospective authorizations. Therefore, the applicant is required to get norms fixed again for authorization obtained in the past which add to transaction time and cost for exporter and repetitive work at the end of DGFT.

(II) TRANSACTION COST

Other direct cost for Issue # 6

Direct cost (Rs.)	% of Exports Affected	Total Cost (Rs. Crore)
1000	5%	36.5

- Assuming that 20,000 shipments are exported per day from the country, total number of shipments per year are 20,000 x 365 = 7300000.
- During a year, the number of shipments affected would be 20,000 x 365 = 73,00,000.
- Changes in Ad-hoc norms governing exports affect 5% of total shipments, this equals; 73,00,000 x .05 = 365000 shipments in a year.
- Assuming that cost per shipment to deal with changed norms is Rs 1000, total cost works out to; 365000 x 1000 = **Rs 36.5 Crore.**

Total Transaction Cost = Rs 36.5 Crore

(III) PROCESS POSITION TODAY

The Norms ratified by the Norms Committee for same export and import products in respect of an authorisation obtained under paragraph 4.7 of the FTP 2009-14, shall be valid for a period of one year (both past and future) reckoned from the date of ratification. Authorisation issued by Regional Authority in such cases need not be forwarded to Norms Committee for fixation/ratification.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Para 4.7.1. of Handbook of Procedure under Foreign Trade Policy 2009-14 (released on 23.08.2010)

ISSUE # 7	Ad-hoc norms applicability to past one year cases	Ministry of Commerce & Industry

(I) PROBLEM

At present a copy of proforma invoice is required to be submitted for issue of import authorization even though an import authorisation is not buyer specific and proforma invoice serves no purpose in decision making.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 7

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
2	5%	24.5	2.5

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 2 days = US$ 5.4 Million @ Rs.45 exchange rate x 2 = Rs 49 Crore.
- Since, this particular issue impacts only 5% of exports, the total Manpower Cost comes out to Rs 49 Crore x 0.05 = **Rs 2.5 Crore.**

b) Cost of Money Locked for Issue # 7

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
2	5%	15300	0.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, comes out to Rs. 41.91 Crore. Further, since it affects only 5% of exports, the value further goes down to Rs. 2.09 Crore.
- This amount of locked up money at an interest rate of 12% for 2 days comes to **Rs. 0.5 Crore.**

c) Other direct costs for Issue # 7

- No direct costs involved.

Total Transaction Cost = Rs 2.5 Crore + Rs 0.5 Crore = Rs 3 Crore

(III) PROCESS POSITION TODAY

The requirement of submitting a Proforma invoice for obtaining an import Authorisation has been dispensed with.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Public Notice No. 24/2009-2014 (RE-2010) dated 17.01.2011

ISSUE #8	Dispense with requirement of submission of Export Invoice for Export Authorisation	Ministry of Commerce & Industry

(I) PROBLEM

At present a copy of proforma invoice is required to be submitted for issue of export authorization even though an export authorisation (except for SCOMET items) is not buyer specific and proforma invoice serves no purpose in decision making.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 8

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
2	75%	24.5	36.8

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 3 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 49 Crore.
- Since, this particular issue impacts 75% of exports, the total Manpower Cost comes out to Rs 49 Crore x 0.75 = **Rs 36.8 Crore.**

b)Cost of Money Locked for Issue # 10

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
2	75%	15300	7.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- Since this issue affects 75% of exports, it comes down to Rs 11,475 Crore.
- The cost for one day, affecting 75% of exports, comes out to Rs. 31.4 Crore.
- Assuming an interest rate of 12% p.a., the opportunity cost of money for 1 day amounts to Rs. 3.77 Crore, thus for 3 days it amounts to Rs. 7.5 crore.

c) Other direct cost for Issue # 8

- No other direct cost involved.

Total Transaction Cost = Rs 36.8 Crore + Rs 3.77 Crore= Rs 44.3 Crore

(III) PROCESS POSITION TODAY

The requirement of Proforma invoice for export Authorisation of (except for SCOMET items) has been dispensed with.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Public Notice No.20 (RE-2010) / 2009-14 dated 5th January, 2011

ISSUE # 9	Requirement of submission of hard copies of DEPB EDI shipping bills should be done away with	Ministry of Commerce & Industry

(I) PROBLEM

Even though DEPB Shipping Bills are transmitted online from Customs to DGFT, hard copies of the same are still required to be submitted for issuance of DEPB which unnecessarily increases paper work and adds to the cost.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 9

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
1	50%	24.5	12.3

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 1 day = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 24.5 Crore.
- Since, this particular issue impacts 50% of exports, the total Manpower Cost comes out to Rs 24.5 Crore x 0.5 = **Rs 12.3 Crore.**

b) Cost of Money Locked for Issue # 9

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
1	50%	15300	2.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- This particular issue affects 50% of exports, which comes out to Rs. 7650 Crore.
- Since this has to be calculated for one day, the amount has been further divided by 365 which comes to Rs. 21 Crore.
- This amount of locked up money at an interest rate of 12% for 1 day comes to **Rs. 2.5 Crore.**

c) Other direct cost for Issue # 9

- There are no other direct costs involved in this case.

Total Transaction Cost = Rs 12.3 Crore + Rs 2.5 Crore = Rs 14.8 Crore

(III) PROCESS POSITION TODAY

In case of an on-line digitally signed application, no hard copy of application, including shipping bill is required to be filed.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

In form ANF 4G (DEPB application) under the "Guidelines for Applicants" (Paragraph 4.43 of HBP Vol 1 under FTP 2009-14 released on 23.08.2010)

ISSUE # 10	Grant of MDA assistance for participation in international fairs/ exhibitions should be made company-specific and not individual-specific	DGFT

- No Transaction Cost Mitigation involved.

ISSUE # 11	Clubbing of annual advance authorization with advance authorisation	DGFT

(I) PROBLEM

Clubbing of annual advance authorization with advance authorization is not permitted for regularization though both authorizations settle case based on same input output norms.

(II) TRANSACTION COST

Other direct cost for Issue # 11

- Value of annual advance authorization pending for clubbing = Rs 100 Crore
- Value of excess exports eligible for clubbing(over the export obligation)=10 Crore
- Average duty @ 7.5% plus interest @15% for 2 years = 10%
- Duty and interest involved in clubbing = 10% of **Rs 10 Crore**

Benefit accruing on clubbing = Rs. 1 Crore

(III) PROCESS POSITION TODAY

- Para 4.20 of the Handbook of Procedure Volume-I (2009-14) has been amended to provide for clubbing of advance and Annual Advance Authorisation.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Para 4.20 of HBP Volume 1 under FTP 2009-14 released on 23.08.2010

ISSUE # 12	Better EDI facilitation to be provided by DGFT	Ministry of Commerce & Industry

(I) PROBLEM

(a) While online facility for filing of application has been provided, no offline facility exists. Offline facility is required as sometime due to high work load at the server, the connection is lost and all the filled in data gets wiped off; (b) Advance Authorisation, Duty Entitlement Passbook Scheme (DEPB) and Export Promotion Capital Goods Scheme (EPCG) are fully operational with Customs which facilitates faster online import and export clearances at designated EDI ports. However, the EDI does not cover all schemes of Foreign Trade Policy (FTP) 2009-14, primarily the incentive schemes under Chapter 3 of the FTP 2009-14; (c) Online facility for post authorization work like ARO/Invalidation letter, Redemption etc need to be incorporated.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 12

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
10	75%	24.5	183.9

- Refer to Exhibit 15 (i)
- This will facilitate clearance of Export consignments and will save about 10 days. The cost has been arrived on the basis of manpower cost of all exports per day x 10 x exchange rate affecting 75 % of exports. Therefore, the same is calculated as follows: US$ 5.4 Million(Total man power cost of all exports per day) x10 x Rs.45 = Rs 245 Crore.
- 75% of the same comes to **Rs 183.9 Crore.**

b) Cost of Money Locked for Issue # 12

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
10	75%	15300	37.7

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, affecting 75% of exports, comes out to Rs. 11,475 Crore.
- Since this has to be calculated for 10 days, the amount has been further divided by 365/10 which comes to Rs. 314.36 Crore
- This amount of locked up money at an interest rate of 12% for comes to **Rs. 37.7 Crore.**

c) Other direct cost for Issue # 12

• Other direct cost are almost insignificant as same internet and personnel infrastructure can be used by exporters to file their requests. For e.g 75% of about 200000 authorisations per year would imply a direct cost of at best Rs 1.5 Crore presuming an incidence of Rs.100 per application of internet/data entry charge. The total net cost saved is thus Rs 220 Crore.

Total Transaction Cost = Rs 183.9 Crore + Rs 37.7 Crore = Rs 220 Crore

(III) PROCESS POSITION TODAY

• An off-line data entry package of Advance Authroisation and EPCG application to facilitate speedier on-line filing of such applications on DGFT's Server has been initiated on 23.08.2010. New software initiatives like on-line filing/issuance of status holder certificates, message exchange with customs for DFIA, Annual Advance Authorisation and reward Schemes of Chapter-3 of Foreign Trade Policy 2009-14 and availability of information related to ARO/Invalidation on direct import are under advance stage of preparation for implementation. The status holder package is under final stage of audit.

[IV] NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

The offline data entry facility is embedded in the filing module on DGFT's website

ISSUE # 13	24 X 7 customs operations	Department of Revenue, Ministry of Finance

(I) PROBLEM

• Excise officials are not available for stuffing after office hours and on weekends. Additionally, at Customs locations, exporters are required to pay for the overtime of custom officials for work beyond scheduled working time. This involves huge cost and reduces the competitiveness of exports.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # 13

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
3	20%	24.5	14.7

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 3 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 73.5 Crore.
- Since, this particular issue impacts only 20% of exports, the total Manpower Cost comes out to Rs 73.5 Crore x 0.2 = **Rs 14.7 Crore.**

b) Cost of Money Locked for Issue # 13

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
3	20%	15300	3

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- Since this issue affects only 20% of exports, it comes down to Rs 3600 Crore.
- The cost for one day, affecting 10% of exports, comes out to Rs. 41.91.
- Assuming an interest rate of 12% p.a., the opportunity cost of money for 1 day amounts to Rs. 1 Cr, thus for 3 days it amounts to **Rs. 3 crore.**

c) Other direct cost for Issue # 13

Direct cost	% of Exports Affected	Total Cost (Rs. Croce)
2000	20%	292

- The additional cost of storage for extra days is taken as Rs 2000 per shipment on average.
- Since 20,000 shipments are affected per day in the country and 20% of them are subjected to waiting due to unavailability of 24/7 services by customs and excise, 4000 shipments in the country per day is affected.
- During a year, the number of shipments affected would be 4000 x 365 = 1460,000
- With Rs.2000 as the direct cost of delay per shipment per day due to non-availability 24/7 services, the amount comes of Rs 14600,000 x 2000 = **Rs 292 Cr**

Total Transaction Cost = Rs 14.7 Crore + Rs 3 Crore + Rs 292 Crore = Rs 309.7 Cr

(III) PROCESS POSITION TODAY

• CBEC has informed that since factory and transportation operations are usually round the clock, a shift wise working system of Customs & Excise officials to cater to import/export work load on weekends has been initiated. Initially, a Pilot for 24x7 Customs Clearances has begun at eight identified locations (Vishakahapatnam, Kolkata, Jamnagar, Mangalore, JNPT, Mumbai, Bhubenaswar, Chennai) to increase the operational efficiency.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

CBEC's OM No. 77463/ FM/ VIP/ 2010, dated 15/09/2010

ISSUE # 14	Extension of ACP to Status Holder and removal of issuance of SCN as ground of non entitlement for ACP	Department of Revenue, Ministry of Finance

(I) PROBLEM

(a) Accredited Client Programme (ACP) of CBEC has only approx. 500 firms listed under it, due to stringent eligibility criteria. Present eligibility criteria for ACP requires (i) no cases of Customs, Central Excise or Service Tax booked against them in the previous three financial years. Cases booked would imply that there should be at least a show cause notice, invoking penal provisions, issued to an importer; (ii) should also not have any cases booked under any of the Allied Acts being implemented by Customs; (iii) should have no duty demands pending on account of non-fulfillment of Export obligation.

(b) Further, the Risk Management System (RMS) of Customs is only applicable for the Import Module and has not been implemented for Export Promotion (EP) schemes.

(II) TRANSACTION COST

a) Manpower and Administrative Cost for Issue # 14

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
3	70%	24.5	51.5

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 3 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 73.5 Crore.
- Since, this particular issue impacts 70% of exports, the total Manpower Cost comes out to Rs 73.5 Crore x 0.7 = **Rs 51.5 Crore.**

b) Cost of Money Locked for Issue # 14

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
3	70%	15300	10.6

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US$ (3400 x 45) =Rs 15,300Crore.
- Since this issue affects only 70% of exports, it comes down to Rs 10,710 Crore.
- Since this has to be calculated for 3 days, the amount has been further divided by 365/3 which comes to Rs.88.02 Crore
- This amount of locked up money at an interest rate of 12% for 3 days comes to **Rs. 10.6 Crore.**

c) Other direct costs for Issue # 14

- The other direct cost which is for the requirement of certification by Chartered Accountants or Chartered Engineers which normally is issued at a service charge of Rs.1000 ,which is not applicable in the case and thus treated as zero.

Total Transaction Cost = Rs 51.5 Crore + Rs 10.6 Crore = Rs 62 Crore

(III) PROCESS POSITION TODAY

- Recognized Status holders under the Foreign Trade Policy have been extended the benefit of Accredited Clients Programme (ACP) to provide them assured facilitation.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Circular No. 29/ 2010-Customs, dated 20.8.2010

ISSUE # 15	Issuing single consolidated stuffing permission to reduce transaction time	Department of Revenue, Ministry of Finance

(I)PROBLEM

Process of scheduling the factory stuffing inspection by Excise authorities is currently manual which at times, leads to delays in fixing the schedule and also has costs associated with travel/manpower. Power scheduling in most States also necessitate functioning of factories on Saturdays/Sundays which are otherwise non-working days for Excise authorities. In addition, each Custom House gives a separate factory stuffing permission for export goods i.e. the exporter (IEC holder) needs a factory stuffing permission for export goods individually from all Custom Houses (if he is exporting from different Custom Ports), and individually for different factories and supporting manufacturers. Scheduling of factory stuffing is not available online, and a single factory stuffing permission is not given, requiring multiple visits.

(II) TRANSACTION COST

(a)Manpower and Administrative Cost for Issue # 15

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
5	50%	24.5	61.25

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 5 days = US$ 5.4 Million @ Rs.45 exchange rate x 5 = Rs 122.5 Crore.
- Since, this particular issue impacts only 50% of exports, the total Manpower Cost comes out to Rs 122.5 Crore x 0.5 = **Rs 61.25 Crore.**

b) Cost of Money Locked for Issue # 15

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
5	50%	15300	12.6

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US$ (3400 x 45) = Rs 15,300 Crore.
- 50% which comes to Rs. 7650 Crore.
- Assuming an interest rate of 12% p.a., the opportunity cost of money for 1 day amounts to Rs. 2.51 Crore.
- thus for 5 days it amounts to **Rs. 12.6 Crore.**

(c) Other direct costs for Issue # 15

- There are no other direct costs involved with reference to this issue

Total Transaction Cost = Rs 61.25 Crore + Rs 12.6 Crore = Rs 73.9 Crore

(III) PROCESS POSITION TODAY

- The Central Board of Excise & Customs has agreed to grant a single factory stuffing permission valid for all the customs stations instead of custom station wise permission, subject to certain conditions.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

Circular No. 20/ 2010-Customs, dated 22.7.2010

ISSUE # 16	Delayed Refund of CENVAT Credit Balance on Exports	Department of Revenue, Ministry of Finance

(I) PROBLEM

Credit Balance in Central Excise CENVAT account is not being refunded by Excise officials in the absence of clear instructions, when predominant portion of production is exported (exempted from Excise) which reduces the competitiveness of exports.

In a large number of cases where such unutilized CENVAT credit has not been refunded to the exporter by the Excise, clear procedures and guidelines need to be prescribed by CBEC for grant of refund of credit balance laying in CENVAT Credit (beyond a period of say 3 months); and a system of monitoring where refunds are not granted on time may be institutionalized.

(II) TRANSACTION COST

a) Manpower and Administrative Cost for Issue # 16 -Not Applicable

b) Cost of Money Locked for Issue # 16

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
180	25%	8100	119.8

- Refer to Exhibit 15 (ii) & (iii)
- In the instant case referred to above, which affects 10 % of the exports with average excise duty of 10%.
- The value of money locked up is 8,10,000 (Yearly exports in Rs Crore.) x 10% = Rs. 81,000 Crore
- 10% of the same = Rs 8,100 Crore per year
- Since about 25% cases are delayed beyond six months or so, the amount affected is 25% of 8,100 = Rs 2,025 Crore on yearly basis.
- As this has to be calculated for 180 day, the amount has been further divided by 365 and multiplied by 180 i.e. 2,025x180/365= 998.6
- This amount of locked up money at an interest rate of 12% comes to Rs.119.8 Crore or **Rs 120 Crore.**

c) Other direct costs for Issue # 16 - Not Applicable

Total Transaction Cost = Rs 120 Crore.

(III) PROCESS POSITION TODAY

CBEC has issued necessary administrative instruction to ensure timely refund of credit balance in CENVAT account to exporters.

[IV] NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

CBEC Office Memorandum No 77463/FM/VIP/2010, dated 15.9.2010

ISSUE # 17	Dispensing with Mate receipt requirement for establishing actual date of export	Department of Revenue, Ministry of Finance

(I) PROBLEM

Mate receipt, which is an archaic and redundant document (with Bill of Lading) is required by Central Excise to establish the actual date of export when the goods are being exported through an ICD, as the confirmation from the Customs authorities at the gateway port takes time. Obtaining mate receipt from shipping lines involves cost/time and leads to delay in initiating process for claiming rebate on export goods or bond cancellation from Excise authorities.

(II) TRANSACTION COST

a) Manpower and Administrative Cost for Issue # 17

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
1	100%	24.5	24.4

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 1 day = US$ 5.4 Million @ Rs.45 exchange rate x 1 = Rs 24.5 Crore.
- Since, this particular issue impacts only 100% of exports, the total Manpower Cost comes out to **Rs 24.5 Crore.**

b) Cost of Money Locked for Issue # 17

Days	% of Exports Affected	Value of money locked for all exports	Total cost (Rs. Crore)
15	10%	15300	7.5

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is US $ (3400 x 45) = Rs 15,300 Crore
- The cost for one day, comes out to Rs. 41.91.
- This amount of locked up money at an interest rate of 12% for 1 day comes to **Rs. 5 Crore.**

c) Other direct cost for Issue # 17

- There are not other direct cost involved in this case.

Total Transaction Cost = Rs 24.5 Crore + Rs 5 Crore = Rs 29.5 Crore.

(III) PROCESS POSITION TODAY

- CBEC has issued necessary administrative instruction to dispensing with submission of mate receipt to establish the date of export subject to necessary conditions.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

CBEC Office Memorandum No 77463/FM/VIP/2010, dated 15.9.2010

ISSUE # 18	Rationalising charges of penal interest rates	Department of Financial Services

(I) PROBLEM

Banks are levying interest of 3% to 4% on payments received after due dates. The problem has compounded on account of financial crisis leading to slow down which is impacting remittances for exports.

(II) TRANSACTION COST

There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct cost for Issue # 18

- Total credit availed by exporters = Rs 1,24,000 Crore
- Percentage of payments received after due date=5 %
- Total amount of payments after due date= Rs 6,200 Crore
- Average percentage of penalty imposed = 3%

Value of penalty amount collected = Rs 6,200 x 0.03 % = Rs 186 Crore

(III) PROCESS POSITION TODAY

- Reserve Bank of India has reiterated relevant instructions to all Banks to ensure that post shipment credit at centralized rates was made available in case of overdue bills up to 180 days as stipulated.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

RBI has issued a master circular dated 1st July 2010 reiterating the instructions

ISSUE # 19	Processing charges for renewal of annual limit	Department of Financial Services

(I) PROBLEM

Banks are charging processing fee of Rs 400 per lac subject to a maximum of Rs 20 lac for renewal of annual limits. While renewing the annual limits, banks rely heavily on past track record in approving or disallowing such limits. Therefore, such heavy charge is not warranted and only adds to the heavy transaction cost.

(II) TRANSACTION COST

- There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct cost for Issue # 19

- Total credit availed by exporters = Rs 1,24,000 Crore
- Percentage of exporters who avail credit ,seek renewal of annual limit=30%
- Total amount of credit for which renewal sought = Rs 37,200 Crore
- Renewal fee charged for aforesaid credit @ Rs 400/lac = Rs 37,200,00 x 4

Total Renewal fee = Rs 148.80 Crore

(III) PROCESS POSITION TODAY

Leading banks like Union Bank of India, Bank of Baroda, Canara Bank, Punjab National Bank have reduced these processing charges.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D.O No. 7/43/2010-BOA, dated 3.11.2010 from Department of Financial Services, Ministry of Finance

ISSUE # 20	Lowering of booking charges for foreign currency	Department of Financial Services

(I) PROBLEM

Banks are charging Rs 750 as booking charges and Rs 750 as cancellation charges against every booking /cancellation of foreign exchange with them. Such heavy charge adds to the transaction cost.

(II) TRANSACTION COST

- There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct cost for Issue # 20

- Total credit availed by exporters = Rs 1,24,000 Crore
- Percentage of FOREX Credit =20%
- Total amount of FOREX credit = Rs 24,800 Crore
- Average transaction size= Rs 25 lac
- Total number of transactions= Rs24,800,00/25=Rs 99,200

Value of booking charges collected= Rs 99,200 x 750 = Rs 7.44 Crore

(III) PROCESS POSITION TODAY

Leading Banks like Union Bank, Bank of Baroda and Canara Bank have reduced these charges.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D.O No. 7/43/2010-BOA, dated 3.11.2010 from Department of Financial Services, Ministry of Finance

ISSUE # 21	Additional charges levied on PCFC Loans	Department of Financial Services

(I) PROBLEM

Contrary to RBI instruction to provide PCFC at LIBOR + 200 basis points, Banks are levying additional charge of 0.25% raising credit cost for exporters.

(II) TRANSACTION COST

• There are no Manpower & Administrative Cost and Value of Money Locked components in this particular issue.

Other direct cost for Issue # 21

- Total credit availed by exporters = Rs 1,24,000 Crore
- Percentage of FOREX Credit =20%
- Total amount of FOREX credit = Rs 24,800 Crore
- Additional charges= 0.25%

Value of additional charges collected= Rs 24,800x0.25%= 62 Crore

(III) PROCESS POSITION TODAY

• Leading Banks like Punjab National Bank, State Bank of India and Bank of Baroda have confirmed extending Pre-shipment credit in Foreign Currency (PCFC) and (PBOR) +2% with no other charges being levied.

(IV) NOTIFICATION / ORDER ISSUED BY THE CONCERNED DEPARTMENT

D. O. No. 7/ 43/ 2010-BOA dated 03.11.2010 from Department of Financial Services

ISSUES TO BE IMPLEMENTED SHORTLY

ISSUE # I	Single running bond for EP Scheme for all custom locations to reduce financing cost	Department of Revenue, Ministry of Finance

(I) PROBLEM

For each Authorization, a separate bond/BG is required to be submitted at Customs which adds to the paper work and increases the transaction time both at the end of the unit as well as the Customs. Also, a manufacturer exporter has to file a bond/LUT with excise authorities for clearing goods without payment of duty or claiming rebate if goods are being exported on payment of duty, irrespective of the DGFT scheme under which goods are being exported.

(II) TRANSACTION COST

a) Manpower and Administrative Costs for Issue # I

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
10	33%	24.5	81.7

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 10 days = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 245 Crore.
- Since, this particular issue impacts 33% of exports, the total Manpower Cost comes out to Rs 245 Crore x 0.33 = **Rs 81.7 Crore.**

b) Cost of Money Locked for Issue # I

Days	% of Exports Affected	Value of money locked for all exports (Rs. Crore)	Total cost (Rs. Crore)
120	75%	10800	319.6

- Refer to Exhibit 15 (ii) & (iii)
- In this particular, the value of money locked up is based only on the cost of bank guarantee executed with the Government as no Drawback is involved, which comes to US $ (2400 x 45) = Rs 10,800 Crore.
- Calculating the same for one day, the amount has been further divided by 365 which comes to Rs. 29.9 Crore
- Since it affects 75% of exports, the value comes out to Rs. 22.2 Crore.
- Further, the amount of locked up money at an interest rate of 12% for 1 day comes to Rs. 2.67 Crore. Therefore, the value of money locked up for 120 days is **Rs 319.6 Crore.**

c) Other direct cost for Issue # I

There are not other direct costs involved in this case.

Total Transaction Cost = Rs 81.7 Crore + Rs 319.6 Crore = Rs 401.3 Crore

(III) PROCESS POSITION TODAY

The issue has been taken up with the Department of Revenue and is likely to be implemented in couple of months.

ISSUE # II	Lay down All Industry Service Tax Rate	Department of Revenue, Ministry of Finance

(I) PROBLEM

The refund of service tax paid on output services is provided only on the actual incidence of service tax suffered. This requires submission of large number of supporting documents. Most of the exporters do not get the refund even within 6-12 months of exports.

(II) TRANSACTION COST

a) Manpower and Administrative Cost for Issue # II

Days	% of Exports Affected	Cost for all exports per day (Rs. Crore)	Total cost (Rs. Crore)
5	100%	24.5	122.6

- Refer to Exhibit 15 (i)
- Manpower Cost of all exports for 5 days affecting 100% of exports = US$ 5.4 Million @ Rs.45 exchange rate x 3 = Rs 122.6 5 Crore.

b) Cost of Money Locked for Issue # II

- Refer to Exhibit 15 (ii) & (iii)
- The cost of money locked in this case is 0.5% of the India's total exports, i.e. Rs 810,000 Crore x 0.5% = Rs 4050 Crore
- Therefore, the money locked for one day would be Rs 11.1 Crore.
- Taking an interest rate of 12% on this amount for 180 days, the Total Cost of Money locked would be Rs 1.33 Crore x 180 days = **Rs 239.7 Crore.**

Total Transaction Cost = Rs 122.6 Crore + Rs 239.7 Crore = Rs 362.2 Crore

(III) PROCESS POSITION TODAY

The issue has been taken up with the Department of Revenue and is likely to be implemented in couple of months.

Annexure 3
Salient Features of Documentation and Clearance System in Singapore and Denmark

Salient Features of Documentation and Clearance System in Singapore and Denmark

SINGAPORE

- Trade Net' is the Singapore Customs Import & Export Web based documentation and processing system. Customs and Immigration & Checkpoint Authority are the authorities responsible for trade, customs and immigration controls. Immigration & Checkpoint Authority (ICA) is responsible for physical border controls and is available 24x7 at the ports for physical examination of cargo, wherever required. Singapore Customs is responsible for both customs and trade regulatory functions (i.e. both functions are performed by a single agency). No other agency is physically present at the ports except the ICA.

- Basic Customs duty on most items is zero in Singapore and there is no excise duty element also. Singapore Customs does not have any check, including examination, at the time of exports (except for controlled goods, which are very few in number mainly relating to strategic concerns). The system is mainly based on post-audit controls and there is zero rating of GST on exports. Under the 'major exporter scheme', GST is not paid on inputs for export production at the time of importation. However, after exports, returns need to be filed with Inland Revenue department for reconciliation. The quantity of inputs required for export products is based on trust and no SION is stipulated.

- 100% of Customs declarations are processed and approved via Trade Net. In 2007, Singapore Customs upgraded the Trade Net capabilities (version from 3.1 to 4.0) and are operating the Trade Net on PPP model. Provision of infrastructure and software development is looked after by the private operator running Trade Net. Back end is run by NCS (a Singapore Govt controlled entity) who looks at various issues like technical up-gradations, software logic, down time, security concerns etc.

  100% of the money (duty and other charges) is debited electronically through' Inter Bank deductions using Trade Net connectivity.
  Only a single submission is made to multiple agencies through Trade Net and 34 agencies are maintaining connectivity with this web based online system. Presently, Trade Net requires a single UEN registration (Unique Entity Registration - a business identifier number for carrying on business activities) with ACRA – a Singapore agency. Singapore Government did away with the requirement of individual registration with multiple agencies 2 years back. Any individual permission required from the 34 associate agencies are processed by the specific agencies and thereafter fed into the Trade Net system.

90 per cent of the declarations are processed within 10 minutes of submission of Customs declaration on the Trade Net. Pending declarations are only those cases that require human intervention in Trade Net. Pending or Query cases are communicated online to the declarant through Trade Net only.

Level of physical examination is very low and is largely non-intrusive and is technology driven i.e. based on X-Ray and risk based parameters. Intrusive inspections are few and are based on specific intelligence only.

Trade Net receives about 30,000 declarations per day (both import and export) and about 90 lakh declarations per year. A user fee of S$ 1.98 per transaction is charged by the Trade Net operator.

A 'Call Centre' is being run by the Singapore Customs on a 24X7 basis to facilitate Trade Net users. This CallCentre is the heart of the Trade Net system and has been outsourced to a private operator – Crimson. The Call Centre operators have been trained extensively on common queries and function largely on the FAQ principle. Specialised questions received by Call Centre are referred to Trade Division authorities. Singapore Customs, on a regular basis, monitors the response time and activities of the call centre.

In essence, Singapore import/export clearance system has a high degree of automation and integration between various Government agencies; single point of data entry to operate multiple transactions with the Government; 24x7 availability of the web based online Trade Net system and 24 X 7 Call Centre facility. System is largely trust based and relies on Risk Management parameters.

DENMARK

- Danish Customs (SKAT) has launched a new electronic Customs module for processing import/export declarations. Manual processes have been integrated into the e-Customs system through process re-engineering. At present, 99.3% declarations are electronically filed (up from the earlier 75%).

- Duty structure of Denmark is similar to India. In general, weighted average customs duty is 5% and general VAT rate is 25%. Excise Duty is levied on oil, waste processing, tobacco, liquor and cars. In certain cases, 'Green taxes' are also levied. At present there are 4,50,000 VAT companies registered in Denmark out of which about 90,000 are engaged in import/export activity.

  SKAT e-Customs system is primarily based on trust and the electronic system has built in validation checks and risk parameters to process online declarations. In addition, physical examination is also resorted to in some cases. About 2-5% of goods are physically examined which include agricultural goods. Post audit check is the preferred system of ensuring compliance with various rules/regulations.E-Customs system does not require any paper documents like invoice etc. and these are only called for in exceptional cases and can be requested from the importer/exporter, if required.

- E-Customs system (e-Clearance.dk) has an elaborate Risk Management System (RMS) built into the module and is fine tuned on a regular basis based on need and past experiences. The module works on a 24 X 7 basis and recognizes 'approved company' concept (similar to ACP program of Indian Customs). The module has a two-way communication between the Customs and the importer/exporter. For trade facilitation purposes, a Call Centre is operational (like in Singapore). About 2 million transactions per year are handled by the electronic module. No user charges are levied by the EDI system. For enhanced secured access and data privacy, the e-Customs system has a 128 bit SSL encryption and a number of agencies & databases (VAT registration number, past trade profile of individual companies etc) are linked into the system for an integrated approach. The e-system therefore provides high security, high availability and quick response.

- E-Customs system has a facility of filing Pre–declarations (this is similar to the system of advance filings in the Indian Customs module for Bills of Entry and Shipping Bills). However, there is no time limit (like 15 days or 30 days before arrival of cargo at the Port) for filing pre-declarations and the pre-declaration is automatically deleted by the e-system if goods do not arrive by the designated date (as has been specified by the importer/exporter in the e-system).

- Risk Management System (RMS) is applicable to both import and export declarations and is a three tier system comprising of Dynamic parameters, Fixed parameters and Random sampling.

- ❖ **Dynamic parameters:** Risk Profiles in this category are built on commodity code, country of origin and other relevant criteria
- ❖ **Fixed parameters:** Risk Values in this category contain procedure code (re-import, job work etc), CBR number (company registration number) etc. Every item in the declaration has a 'risk score' and based on range values, the e-system identifies risk in three zones i.e. green, yellow and red. Thereafter, a decision is taken by the local Customs officer.
- ❖ **Random sampling:** In addition to the above, a system of random check has been built into the e-system. 'Customs Station' is also a risk parameter i.e. different Custom Stations spread across the country have different risk levels. Sampling criteria has been defined for Customs House and type of Declaration and the e-system identifies the nth consignment which requires a physical examination e.g. say every 200th export consignment going to Dubai irrespective of the risk score.

By screening all declarations and selecting the high-risk shipments, the e-system optimally utilizes the available Customs staff for effective control.

E-Customs system of Danish authorities is, therefore, a web based open platform system having flexible procedures and relies on extensive automated risk analysis for clearances.

Customs duty payment is on aggregate basis by the 16th of next month instead of being on consignment basis.

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