EXECUTIVE SUMMARY

Introduction

The Indian economy is one of the fastest growing economies among the emerging markets today. One important cause is the rapid growth in international trade. In order to sustain the current pace of export growth in a highly competitive global market, there is a need to reduce the associated costs.

Trade Facilitation is aimed at ensuring the movement and clearance of goods across borders at the minimum cost. It is a term used to denote all steps for simplification of procedures and reduction of costs in the course of international trade. Reduction in idle time in any segment of the trading process would reduce transaction costs and would facilitate trade in general and enhance the price competitiveness of Indian goods in international market. Delays increase not only the cost of compliance but also lead to impediments to efficient trading across borders like congestion at the ports.

As a measure of trade promotion, trade facilitation has come to occupy a significant place in the multilateral discussions on trade in the recent past due to the importance given by the international community in liberalizing trade.

Over the years, the Department of Revenue (DoR) had initiated various trade facilitation measures like simplification of rules and procedures, IT initiatives, e-governance, Accredited Client Programme (ACP), 24x7 clearance facility, Authorised Economic Operator (AEO) Programme etc.

The objective of this performance audit was to assess the adequacy of regulatory framework, policy implementation, operational issues and internal controls.

Our audit was conducted from June through September 2014 involving analysis of data for the period 2010-11 to 2012-14 from various stakeholders located throughout the country.

Transaction cost of Trade Facilitation

There is a good scope to improve efficiency by streamlining procedures. India's performance needs improvement in the indicators of trade-infrastructure efficiency. In overall logistic performance index, although India's score has improved over time, it has room for improvement. Strategic Plan of Department of Commerce estimated the impact on the transaction cost to the tune of ₹ 42000 crore (US$ 6-7 billion) due to poor facilitation.

DoC had regularly constituted committees (2005, 2009 and 2013) and task forces concomitant with the Foreign Trade Policies to address the issue of high transaction cost in India and suggest measures to reduce transaction cost and time impacting the country's Foreign Trade transactions.

A task force on 'Transaction Costs in Exports' was constituted in 2009 by MoC to look into various issues affecting the competitiveness of Indian exports and initiate a set of "executable" remedial measures towards reducing the costs associated with trading across borders. The committee had made 44 recommendations pertaining to seven ministries, out of which 32 recommendations were agreed upon. Out of the 32 recommendations, 21 recommendations were reported to have been implemented in the task force report published in 2011.

The Second Task force on 'Reduction in Transaction Costs in Exports' was constituted in 2013 to examine and identify such difficulties that the exporters face and make actionable recommendation to reduce or eliminate them. The committee made 46 recommendations pertaining to nine ministries and 7 separate recommendations relating to Land Border crossing and other miscellaneous issues.

Recommendations were yet to be implemented by the related departments fully.

Governance, risk and compliance

Specific cases of lapses in implementation of trade facilitation measures have been observed in the process of imports, exports, interpretation of extant provisions, internal control and infrastructure etc. both in EDI and manual environment.

Audit is of the view that an assurance framework needs to be developed internally for concurrent audit of various information systems in DoC/DoR. Additionally impact assessment of the trade policies and transaction analysis of simplified procedure needs to be initiated.

Implementation of Trade Facilitation measures

Dwell time is the measure of the time elapsed from the time the cargo arrives in the port to the time the goods leave the port premises after all permits and clearances have been obtained and is an important indicator of the extent to which trade facilitation measures are beneficial for the trade.

A time release study was conducted to identify inordinate delays in the various stages of import clearances for the BEs given out of charge (OOC) during the period 2010-11 to 2013-14. The study revealed that there was downtrend in dwell time and the decrease was from 13.94 days during 2010-

11 to 10.95 days during 2013-14. This could be further improved by implementing the trade facilitation measures initiated by CBEC more effectively. The study further revealed that almost 65 per cent of the total time taken in imports is attributed to the filing of the BEs and payment of duty while in exports filing of the EGM constituted nearly 90 per cent of the total time taken.

Delays were observed in allotment of berths by Port Authorities, in clearing the goods by the importers at Ports, in rectification of errors in Import General Manifests (IGM), in filing of BEs by the Importers, non mandatory filing of BEs through ICEGATE, manual registration of licences with the custom houses and in furnishing reply to the queries raised by the department, examination by other Agencies, payment of duty/refund and or drawback, in filing of Export General Manifests (EGM) and rectification of errors etc.

The department initiated few measures like ICEGATE facility for filing of BEs/SBs, facilitation through Risk Management System (RMS), facility of examination of Export goods at the factory premises, creation of Permanent Trade Facilitation Committee, 24x7 customs clearance procedure, ACP, AEO programme, OSPCA and Advance Ruling Mechanism.

Lack of infrastructure facilities like examination of Import goods by Customs, Port to Road Connectivity, Rail infrastructure to move containers to ICDs, Issues dogging check posts, lack of feeder network facility at International Container Trans-shipment Terminal, additional levy of stamp duty by governments, problems plaguing Container Freight Stations (CFSs), EDI Issues, re-export of Containers, lack of patronage for Indian trans-shipment ports and non co-ordination between stake holders for improving the infrastructure are also contributing adversely to the trade facilitations initiated by the department(s).

Conclusion

Trade facilitation gained currency with the agreement by the member countries including India at the Bali Ministerial conference of the World Trade Organization (WTO) members in December 2013. This necessitated India making binding commitments on facilitating customs and other border procedures which includes among others, publication and availability of information to members, providing for an Advance ruling mechanism, an appeal and/or review mechanism, regulating the fees and charges other than duties, faster release and clearance of goods, border agency cooperation between the members, minimizing the incidence and complexity of import, export and transit formalities and to decrease and simplify document requirements.

The focus of the PA was in identifying the bottlenecks in reduction of the transaction cost and port related facilitation involving clearance of the import/export cargo where it was seen that the procedural complexities and consequent delays in import clearance are of a much higher order than in the case of export clearances.

Incomplete facilitation process mapping, weak target setting, inadequate monitoring of the implementation of the recommendations of the Task Forces and committees on transaction cost have compromised the achievement of envisaged benefits.

Recommendations

1. *The department may consider reaching out to importers to file error free BEs, to reduce time delay, allow online amendments to the minor errors in BE, adjustment of excess duty paid due to short landing.*
2. *Department may explore the possibility of permitting minor amendments to EGM online and allow frequent monitoring of uploading of EGMs by Service Centres at ICDs.*
3. *Department may examine and address the reasons for nonutilization of the facility of examination at the factory premises, by the exporters.*
4. *Department may consider improving interconnectivity with other agencies such as acceptance of certificate of analysis of food items by accredited laboratories, introduction of a system to furnish all RMS bill in advance to CFS for stacking the containers, integration of customs system with GSS system etc.*

Performance of
Import and Export Trade Facilitation
through Customs Ports