

Chapter 1: 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. However, 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 within the shortest time 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 leads 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.

1.1 Prelude

Elaborate assessment procedures relating to import and export, poor infrastructure, onerous documentary requirements and unreliable EDI environment contributed to the inefficiencies and complicate the compliance environment. 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 a vibrant domestic business.

India has been part of the public discourse on trade facilitation since December 1996 when WTO Ministerial Conference was held in Singapore. Over the years Government of India had taken initiatives to liberalize trade by simplifying and rationalizing the procedural complexities. Several steps taken during the last decades to facilitate trade are (i) simplification of rules and procedures, (ii) IT initiatives, like the Indian Customs Electronic Data Interchange System (ICES), launching of an electronic commerce portal (Indian Customs and Excise Gateway (ICEGATE), Risk Management System (RMS), GrapeNet, an internet based electronic software systems developed by APEDA¹, SEZ online, DGFT (EDI), electronic bank realisation certificate (e-BRC) and port community system (PCS). A summarised statement of these facilitation measures are enclosed as Appendix 1.

¹ Agriculture & Processed Food Products Export Development Authority

India's performance in terms of 'Trading Across Borders'² is not encouraging and it ranks a distant 126 out of 189 countries, according to the World Bank Report for 2015. The number of documents required to import and export, the time taken and cost to import and export has more or less remained the same in the past 4 years in spite of the IT initiatives and various facilitation measures introduced by the government (Appendix 2). This report has been relied upon by DoC's 2nd Task Force Committee on transaction cost for impact assessment of implementation of earlier transaction cost studies by DoC.

1.2 Trade facilitation agreement –World Trade Organization

Further, 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 in culmination of the discussion initiated in WTO Singapore Ministerial Conference in December 1996. This necessitates India making binding commitments (Appendix 3) 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.

Though India is already in the process of implementing several of these measures, a review of the existing facilitation measures is necessary to straighten out the short comings, for India to meet its obligations on trade facilitation. Effectively implementing these provisions and disciplines within an internationally agreed time frame may be much more challenging.

The issues involved had direct bearing on the competitiveness of the Indian producers, exporters and importers which impacted their product costing. Exports and other subsequent obligation/net foreign exchange earnings had casual linkages corresponding to the duties forgone while availing the custom duty remission/exemption schemes of Government of India. Import facilitation affected market access and domestic competition whereas Export facilitation affected productivity, tax revenue, growth etc.

² Doing Business, World Bank 2015

DoC may prepare a detailed timeline for implementation of the commitments obligated in the WTO agreement for optimal Trade gains and related economic growth.

DoR in their reply (January 2015) stated that DoC will respond for timelines for implementing WTO Trade facilitation.

Reply is awaited from DoC.

1.3 Framework of Trade Facilitation

Main stakeholders in the trade facilitation process are:



The framework for trade facilitation involves reduction in transaction cost and time through.

- I. Integration of related stakeholders, regulators and infrastructure providers.
- II. Online clearance of Exports and Imports.
- III. Accreditation of Entities.
- IV. Harmonization of Tariff information.

V. Risk based internal controls and audit.

1.4 Audit scope, methodology and criteria

This PA covered the various measures initiated by the Department of Commerce and Department of Revenue to streamline the customs procedures in reducing the latencies and costs associated with trading across borders and in implementing the various trade facilitation measures. As the legal and procedural complexities and consequent time involved in import clearance are of a much higher order than in the case of export clearance, the main focus and thrust of the PA was on the implementation of the certain trade facilitation measures.

Entry meeting with DoR, CBEC, DoC and DGFT was conducted on 4 June 2014. The audit objectives and methodology of audit was discussed during the entry meeting. Performance audit was carried out from June 2014 to September 2014 involving data for the period 2010-11 to 2013-14 from DoR, DoC and stake holders. A questionnaire was issued to DoC on Trade Facilitation before the closure of the audit. DoC did not give any response on the issues pertaining to coordination of the transaction cost matters, obligations committed on trade facilitation etc. The draft report of the audit findings and recommendations were issued to DoR/DoC on 12 December 2014. Initial replies were received from DoC/DoR on 13 January 2015 and 15 January 2015 respectively. Exit conference was held on 16 January 2015. The draft PA report was again sent to DoC/DoR for final comments on 21 January 2015. Further replies were received on 30 January 2015 and 10 February 2015 from DGFT and DoR respectively.

A questionnaire based feedback survey of the producer, importer and exporters was also got conducted through Federation of Indian Export Organisation (FIEO) and PHD chamber of Commerce during audit period to examine similar methodologies adopted by MoC&I and its Task Forces to work out transaction cost. The anomalies, deficiency in methodologies and the implementation of the transaction cost reports have been highlighted in the performance audit.

The PA examined the implementation of the trade facilitation measures communicated through Foreign Trade Policy, circulars, instructions, Public Notice and minutes of meetings etc by the DoC/DoR and by analyzing the data gathered for the period 2010-11 to 2013-14 from the various stake holders.

A time release study was also conducted during the course of this PA by analyzing the overall time taken at the various stages in Customs and ports in the clearance of import and export consignments.

1.5 Audit objectives

The Performance Audit has been conducted to gain an assurance that corresponding to the FTP (2009-14):

1. the various Import and Export trade facilitation measures implemented by the Board had yielded the intended results.
2. the various stakeholders viz., Port, Airport, Customs Dept, Department of Commerce (DoC), Bank and other organization work in a co-ordinated manner towards enhancing trade facilitation.
3. the mechanisms in place are effective in monitoring the implementation of the trade facilitation measures.
4. the Board's circulars/instructions have been effectively implemented and whether the targets set by the Board have been achieved.
5. there exists appropriate and effective mechanism for timely and effective redressal of grievances relating to facilitation.

1.6 Audit coverage

Records of trade facilitation measures at ten Sea Commissionerates, seven Air Commissionerates, seven Inland Container Depots (ICDs) were examined during the PA. This PA report benchmarked its observations on the systemic macro and transactional issues evidenced from the Foreign Trade Policies 2004-09/2009-14, Govt. of India (Allocation of Business) Rules; Strategic Plan; Outcome budget; Result Framework Document; facilitation report of MoC&I,; RBI report on transaction cost; report of Planning Commission, three reports on transaction cost prepared by DoC/DGFT in the last ten years; background notes on Trade Facilitation and obligations committed to WTO. Besides, the following stakeholders were also covered in this PA viz.:

1. Container Freight Stations (CFSs)
2. O/o the Commissioner of Food Safety and Standard Authority of India.
3. O/o the Quarantine Officer, Plant Quarantine and Certification Service
4. O/o the Quarantine Officer, Animal Quarantine and Certification Service
5. Assistant Drug Controller, O/o the Central Drug Standard Control Organisation
6. Office of the Traffic Manager, Port Trust
7. Office of the Senior Manager (Cargo), Airport Authority of India
8. Selected importers/exporters
9. Wild Life Office
10. Department of Commerce