[F. No. AERA/20010/MYTP/EICI/C/Mum/2011-12/Vol-I]

**Airports Economic Regulatory Authority of India**

**Order No. 26/2013-14**

**AERA Building,**
**Administrative Complex,**
**Safdarjung Airport,**
**New Delhi - 110 003.**

**Date of Order: 4th April, 2013**
**Date of Issue: 16th July, 2013**

**In the matter of Multi Year Tariff Proposal (MYTP) for the First Control Period and the Annual Tariff Proposals ATP(s) for the First, Second and Third Tariff Years submitted by M/s Express Industry Council of India for providing Courier Cargo Handling Services at CSI Airport, Mumbai.**

Express Industry Council of India (EICI), vide application dated 29.06.2011 and subsequent communications vide letter dated 06.08.2011, 18.11.2011 and 07.02.2012 submitted their Multi Year Tariff Proposal (MYTP) for the first Control Period of 5 years commencing w.e.f. 01.04.2011, for providing courier cargo services at the Cargo Terminal at CSI Airport, Mumbai. Further, EICI, vide subsequent submission(s) dated 23.02.2012, 28.03.2012, 06.06.2012 and 23.07.2012, submitted their Annual Tariff proposals (ATPs) for the first tariff year (2011-2012), second tariff year (2012-2013) and third tariff year (2013 -2014) of the first five control period.

2.1 As stipulated in the Airports Economic Regulatory Authority of India [Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling, and Supply of Fuel to the Aircraft Guidelines, 2011 (the Guidelines)], the Authority shall follow a three stage process for determining its approach to the regulation of a regulated service:

a) Materiality Assessment;
b) Competition Assessment;
c) Assessment of reasonableness of the User Agreements between the service providers and the users of the regulated services.

2.2 EICI handles express/courier cargo shipments at CSI Airport, Mumbai which are part of the cargo handling operations. The service being provided by EICI at Cargo Terminal, CSI Airport, Mumbai has a materiality index of 29.4 % which is greater than 2.5% materiality index fixed for the subject service, hence the service is deemed as 'material' in terms of clause 4.4 of the Guidelines.

2.3 As per the information furnished by EICI in Form 1 (b) on competition assessment, they have mentioned that "*EICI is a non profit Section 25 company which aggregates services provided by other Airport Services Providers. The users of services, in a co-operative efforts, setup EICI so that all express/courier companies could avail of the services provided by EICI. While EICI is unique as it provides services for express or courier shipments similar but not the same services are provided by Cargo Services Providers such as Mumbai International Airport (P) Limited (MIAL), and Cargo Service Centre (P) Limited (CSC).*"

2.4 The Guidelines provide that where a regulated service is being provided at a major airport by two or more service provider(s), it shall be deemed 'competitive' at that airport. In the instant case with the total number of players being more than two (MIAL & Air India are also providing cargo service at CSI Airport, Mumbai), the service is deemed 'material but competitive'.

2.5 It was observed that in the instant case the courier services at CSI Airport, Mumbai being provided by EICI is "material but competitive" and hence may be regulated under light touch approach for tariff determination.

2.6 The Authority, considered the submissions made by EICI and issued Consultation Paper No. 30/2012-13 on 23.11.2012 for considering MYTP and ATP(s) for first, second and third tariff years submitted by EICI.

2.7 In response to the proposal contained in the Consultation Paper, MIAL vide letter dated 06.12.2012 (**Annexure-I**) offered its comments. MIAL stated that they agree to the Authority's proposal to adopt "Light Touch Approach" for determination of tariff. However MIAL further stated that they have given concession to EICI on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import express courier. Further MIAL only provided infrastructure facilities to EICI for X-ray and no X-ray services are provided by MIAL to the end users and no manpower is deployed by MIAL for the X-ray infrastructure and hence EICI must seek approval for such charges. MIAL also stated that the charges towards providing any Express Courier/X-ray services are purely towards concession fee and infrastructure charges and accordingly proposed cargo tariff card submitted by MIAL excludes such charges to be collected from EICI.

2.8 EICI, vide letter dated 17.12.2012 (**Annexure-II**) submitted the clarifications on the comments offered by MIAL. EICI submitted that MIAL is charging EICI for use of the X-ray machines at the rate of Rs 3.25 per kg which EICI collects from its users and pays to MIAL without retaining any sum and hence MIAL should be asked to include X-ray charges in their MYTP submission for approval.

2.9 EICI further, vide letter dated 11.01.2013 (**Annexure-III**) submitted that... *"the x-ray screening charges comprise of use of the x-ray machine and the manpower charges for screening. These are being collected by EICI and being paid to MIAL and CSC and no additional fee is collected or charged by EICI and hence these revenues do not accrue to EICI. These rates are to be approved by AERA as MIAL and CSC are service providers of services at airports."*

2.10 EICI vide further letter dated 18.02.2013 (**Annexure-IV**) submitted that ...*"the x-ray machines in the EICI Terminal are owned by MIAL and the charges levied are by MIAL for the service of providing x-ray machines which is mentioned in their MYTP proposal at the rate of Rs 3.25 per kg. This fact can be verified from the Invoice. Hence it is unfathomable how the same can be denied by MIAL even though the nomenclature of the Invoice indicates "Revenue Share Invoice" when no revenue on account of x-ray screening is retained by EICI and the entire sum collected from users is transferred to MIAL..."*

2.11 Thereafter, MIAL, vide its letter dated 19.02.2013 (**Annexure-V**) submitted that-

a) MIAL has given concession to EICI on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import Express

Courier and has also provided infrastructure facilities to EICI for X-ray and no services are being provided by MIAL either to EICI or the end users.

b) No personnel is engaged/deployed by MIAL for the above X-Ray infrastructure since MIAL is not authorized by BCAS to provide this service. Required manpower for providing X-ray services is engaged either by EICI, Airlines or Regulated Agent and not by MIAL.

c) Invoice i.e. Revenue share Invoice clearly states that it is for the revenue share payable by EICI and nowhere mentions that it is towards courier x-ray screening services.

d) EICI's contention about MIAL charging service tax under the airport services is irrelevant and does not lead to provision of x-ray service by MIAL. At airport, service tax is paid under umbrella of airport service which also includes land lease rentals, space lease rentals and obviously infrastructure charges. EICI, without a valid reason, is unnecessarily trying to prove a wrong contention through irrelevant arguments.

e) The different rates of Rs. 2.60 per kilogram and Rs. 3.25 per kilogram referred by EICI is very well known to it which is purely depending upon the fact whether the services are provided by EICI/Airlines directly or through a Regulated Agent.

f) It may be noted that, Authority in its Order No. 32 dated 15.01.2013 has clearly mentioned that once an aeronautical activity is concessioned out completely by the Airport operator, then the revenue (in the form of rental, revenue share etc) would be regarded as non-aeronautical in the hands of airport operator. The Authority would then regulate the services of Independent Service Provider as is being done for ground handling services wherein MIAL has concessioned out ground handling services to Celebi NAS Airport Services India Pvt. Ltd. and Cambata Aviation Pvt. Ltd. and these ISPs are approaching the Authority for the tariffs approval.

2.12 MIAL in their letter dated 18.03.2013 (**Annexure-VI**), reiterated its stand and attached submitted a copy of the letter dated 11.12.2008, signed by MIAL, Cargo Service Center (CSC) and EICI wherein it is mentioned that "*...Pursuant to the appointment of CSC as a Regulated Agent at Express Terminal, Chhatrapti Shivaji International Airport, Mumbai International Airport Limited (MIAL) hereby appoints and authorizes CSC to provide security screening of export cargo to all the airlines operating at Express Terminal with effect from 01.01.2009, alongwith Air India. CSC shall sign a service agreement with the Individual Airline customers and/or Express Industry Council of India (EICI) in order to provide the security screening services....*"

2.13 MIAL provided a copy of agreement entered into by EICI with Turkish airlines and also a copy of sample invoice raised by CSC on EICI stated to confirming that CSC is providing screening services on behalf of EICI.

2.14 Further, EICI vide letter dated 19.03.2013 (**Annexure-VII**), reiterated their stand and submitted that..."*we have already submitted substantial written evidence on record which leaves little room for ambiguity that MIAL is indeed the provider of the x-ray machine for which it is charging a sum of Rs 2.60/per kg to Rs 3.25 per kg which were provided to you in our earlier letters dated 17.12.2012, 11.01.2013 and 18.02.2013..*"

2.15 Further, EICI vide letter dated 04.04.2013 (**Annexure-VIII**) forwarded copies of two report i.e. 'Task Force on Transaction Cost in Exports - A Report' of Department of Commerce Ministry of Commerce and Industry Government of India, New Delhi and 'Air Cargo Logistics in India – Working Group Report dated 07.05.2012' issued by Ministry of Civil Aviation, Govt. of India.

2.16 EICI attached the above reports stating the need for adoption of a non-discriminatory policy with respect to usage of equipment at airports including inter-alia x-ray machines and to bring about parity in charges for x-ray screening with the cargo charges in accordance with the public policy in accordance with the Foreign Trade Policy tabled in Parliament by the Commerce Minister.

2.17 EICI submitted that in year 2010 the Government of India set up a Task Force for implementing measure to reduce transaction costs in India's exports. The Task Force on Transaction Cost comprising a High Level Committee was headed by the Minister of State for Commerce and had representation from various Ministers including the Ministry of Civil Aviation. The Task Force was set up to assess the procedural cost based bottlenecks affecting India's exports and imports under the aegis of Ministry of Commerce in 2009.

3.1 The Authority considered all the above facts, and observed that the cargo service at CSI Airport, Mumbai is "material and competitive". Hence, the tariffs for this service merit to be determined under "Light Touch Approach".

3.2 In response to the Consultation Paper No. 30/2012-13 dated 23.11.2012 MIAL and EICI have submitted comments/response on the issue of levy of x-ray charges. EICI has stated that these charges need to be determined as part of MIAL's tariff, however, MIAL has stated that it has provided only the infrastructure for x-ray and is charging revenue share towards the same.

3.3 The Authority, after considering the submissions by EICI & MIAL, observed that MIAL has provided the infrastructure for x-ray of courier consignments, including the x-ray machine, and is charging for the same. EICI is providing the courier cargo service at CSI airport, and is charging the users for all the components of the overall courier cargo service - including that for x-ray.

3.4 Vide letter dated 22.04.2013, EICI was asked to submit the overall maximum tariff that it proposed to levy - inclusive of all the components that it proposed to charge from its customers for the courier handling facility services at the cargo terminal at CSI Airport, Mumbai for the consideration of the Authority.

3.5 In response, EICI, vide letter dated 25.04.2013 (**Annexure-IX**), reiterated its earlier submission stating that MIAL is providing the x-ray machine at Mumbai and charging Rs. 2.60/ per kg to Rs 3.25 per kg. and that their Tariff Proposal in Delhi was also cleared on similar lines and the basic objective of ensuring that the Tariff is split as per each service is to ensure transparency in pricing.

3.6 Ministry of Civil Aviation (MoCA), vide letter no. AV.24032/13/2010-AD dated 22.05.2013, had informed that a meeting would be held on 04.06.2013 under the Chairmanship of Secretary, MoCA to discuss the concern expressed by Express Industries Council of India regarding reduction in the charges for screening of express cargo at the airports,

3.7 The Ministry of Civil Aviation, vide letter dated 17.06.2013, (**Annexure – X**), forwarded the Minutes of the Meeting.

3.7.1 The Authority has noted that in the minutes at para 8, the following decision has been conveyed :-

"(i) *X-ray screening charge should be the same both for general cargo and courier cargo.*

(i) *AERA may be advised to consider 8(i) while fixing the tariff."*

4.1 The Authority noted the above, and observed that EICI is providing Express Courier Cargo Service at CSI Airport, Mumbai. This service is material but competitive at Mumbai Airport. Thus, the Authority may adopt light touch approach for determination of tariffs in respect of this service - for the first control period. Further, in its ATP, EICI had proposed to revise x-ray charges based on some conditions. In this regard, it is noted that the tariffs determined by the Authority are maximum tariffs that the service provider may charge from the service users. Thus the same cannot be increased on suo moto basis by the service provider. Accordingly, in case, any component of the tariffs determined by the Authority is to be revised (increased), then EICI will be required to get the same determined under Section 13 (1)(a) of the AERA Act 2008. Further, as conveyed by MoCA vide letter no. AV.24032/13/2010-AD dated 17.06.2013, the Authority has also considered that the x-ray screening charges may be the same both for general cargo and courier cargo. In this regard, it was observed that as per the Order No. 32/2012-13 dated 15.01.2013, in the matter of determination of aeronautical tariffs in respect of CSI Airport, Mumbai, the x-ray charges are :

| Sl. No. | Charges (X-Ray Charges (International Cargo - Exports) | Rate-Rs. per kg | Minimum Charges per AWB/CTM/IGM/FLIGHT |
|---|---|---|---|
| 1. | X- ray charges - If screening done by airlines (minimum charges applicable per AWB) | Rs. 1.38 | Rs. 167 |
| 2. | X- ray charges - If screening not done by airlines (minimum charges applicable per AWB) | Rs. 1.70 | Rs. 225 |

4.2 In view of the above, the Authority observed that the x-ray charges for express courier cargo service may be determined at the same level as for general cargo warehouse.

## ORDER:

5. Upon careful consideration of material available on record, the Authority, in exercise of powers conferred by Section 13 (1) (a) of the Airports Economic Regulatory Authority of India Act, 2008, hereby orders that:

(i) The service for courier cargo handling facility, being provided by M/s Express Industry Council of India at CSI Airport, Mumbai, is "material but competitive". Hence the Authority will adopt "Light Touch Approach" for determination of tariffs for the first Control period commencing w.e.f 01.04.2011.

(ii) The tariff for the express courier cargo handling facility provided by M/s Express Industry Council of India at CSI Airport, Mumbai are determined for the first tariff year (w.e.f. 01.04.2011 to 31.03.2012), second tariff year (w.e.f. 01.04.2012 to 31.03.2013) and third tariff year (w.e.f. 01.04.2013 to 31.03.2014) as per **Annexure – XI, XII** and **XIII** respectively.

(iii) Customs recovery charges are charges towards provisioning of the aeronautical service being provided by EICI and is paid to Customs Authorities. Any revision in customs recovery charges will be approved by the Authority without further consultation, based on auditors' certificate certifying that proposed increase, if any, is only to recover increases in the customs recovery charges and are restricted only to such recovery/demand made by the Customs, as and when applied for by EICI.

(iv) These tariffs will be maximum and Demurrage free period (if any) shall be as per Government Orders issued from time to time. In case any tariff is to be revised, on account of increase in any component thereof, M/s EICI may approach the Authority for such revision.

**By the Order of and in the Name of the Authority**

**[Capt. Kapil Chaudhary (Retd.)]**
**Secretary**

**To**

**M/s Express Industry Council of India (EICI)**
**501, Crystal Centre, Raheja Vihar,**
**Off. Chandivali Farm Road,**
**Powai, Mumbai-400072**
**(Through: Shri Vijay Kumar, Chief Operating Officer)**

Annexure- I

GVK

MIAL/CFO/377

December 6, 2012

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110 003.

Dear Madam,

**Sub: - Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai**

**Ref: - AERA D.O.No. AERA/20010/MYTP/EICI/C/Mum/2011-12 dated 23.11.2012**

First of all, we would like to thank the Authority for issuing the Consultation Paper and giving us an opportunity to give our comments on the same.

We agree and support the Authority's proposal (a) to adopt a "Light Touch Approach" for determination of tariff for courier handling services being provided by EICI at CSI Airport, Mumbai, for the first control period commencing with effect from April 1, 2011, (b) to approve the tariff for courier handling services as per Annexure 1, 2 & 3 of the Consultation Paper for the first, second and third tariff year respectively and (c) revision in custom recovery charges based on auditors certification

With respect to (d) viz.to approve X-ray charges to be paid to Airport Operator / CSC, it is to be noted that MIAL has given a concession to EICI on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import Express Courier. Further MIAL has only provided infrastructure facilities to EICI for X-ray and no services are provided by MIAL to the end users. It may also be noted that no personnel is deployed by MIAL for the above X-Ray infrastructure. Accordingly, it is EICI which must seek approval for such charges.

Therefore, charges towards providing any Express Courier / x-ray services are purely towards concession fee and infrastructure charges and accordingly proposed cargo tariff card submitted by MIAL excludes such charges to be collected from EICI.

Thanking you,

Yours sincerely,
For Mumbai International Airport Pvt. Ltd.

For

Vinod Hiran
CFO & Company Secretary

**Mumbai International Airport Pvt Ltd**
Chhatrapati Shivaji International Airport
1st Floor, Terminal 1B, Santacruz (E), Mumbai 400 099, India

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Annexure - II

Express Industry Council of India

EICI/AERA/1125
17th December 2012

To,

1. Mr. C.V. Deepak
   **OSD-II**
   **Airports Economic Regulatory Authority of India**
   **AERA Building, Administrative Complex**
   **Safdarjung Airport**
   **New Delhi**

2. **The Secretary**
   **Airports Economic Regulatory Authority of India,**
   **AERA Building, Administrative Complex,**
   **Safdarjung Airport,**
   **New Delhi – 110003**

Sub: **Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai.**

Sir,

We are in receipt of your letter dated 12th December 2012 bearing File No. AERA/20010/MYTP/EICI/C/Mum/2011-12/2129 enclosing a copy of letter No. MIAL/CEO/377 dated 6th December 2012 of Mumbai International Airport Pvt. Ltd. offering their comments on the proposal contained in Consultation Paper No.30 dated 23rd September 2012 on the above subject seeking our views/clarifications on the comments offered by MIAL. M/s. MIAL have supported our MYT proposal with respect to points (a), (b) and (c), hence required no comments.

**With respect to (d) we have noted that MIAL has taken a stand that they do not provide any service with respect to x-ray screening, which appears to be contrary to the factual position which is vehemently opposed and we wish to provide the following clarifications and facts which would establish the true factual position with respect to the role of MIAL in levying the x-ray screening charges:**

The text of the MIAL comment is as under and a para wise reply to the same follows:

*"With respect to (d) viz. to approve X-ray charges to be paid to Airport Operators / CSC, it is to be noted that MIAL has given **a concession to EICI on BOT basis to construct and operate an** integrated courier terminal facility for processing of export and import Express Courier."*



**Express Industry Council Of India**
501, Crystal Centre, Raheja Vihar,
Off. Chandivali Farm Road, Powai, Mumbai - 400 072.
Tel. : +91 22 4057 1111 Fax : +91 22 4057 1100 www.eiciindia.org

Express Industry Council of India

**Comments:** It may be appreciated that x-ray machines do not fall within the ambit of BOT basis as BOT stands for "built, operate and transfer" and x-ray machines do not require any building or construction but are required to be purchased and a fee is charged for their use. **The x-ray machines in the EICI Terminal are owned by MIAL and the charges levied are by MIAL for the service of providing x-ray machines which is mentioned in our MYTP proposal at the rate of Rs 3.25 per kg. This fact can be verified from the Invoice ( copy enclosed).** Hence it is unfathomable how the same can be denied by MIAL even though the nomenclature of the Invoice indicates "Revenue Share Invoice" when no revenue on account of x-ray screening is retained by EICI and the entire sum collected from users is transferred to MIAL. The approval sought is for Rs 3.25 per kg and the Invoice from MIAL is for Rs 3.25 per kg hence the assertion that MIAL does not charge for x-ray screening is not sustainable and is contrary to facts.

**As AERA has indicated that it will be regulating the Tariff for x-ray screening, and the tariff as charged by MIAL and CSC has been mentioned in the MYTP proposal submitted, AERA may accordingly decide on the tariff being charged by MIAL.**

On the contrary, it is submitted that EICI had taken the stand with MIAL that as EICI is an industry body and is running the express facility, **EICI be permitted to install its own x-ray machine and charge a nominal fee to its users which was many times lower than what MIAL was charging and at par with the cargo x-ray screening rates.** In fact EICI had purchased x-ray machines and wanted to provide x-ray screening services to its users at rates at par with cargo x-ray screening rates.

**MIAL at that point disagreed and informed EICI that revenue from the use of x-ray machines is the sole preserve of MIAL as an Airport Operator and hence cannot be provided by EICI.** MIAL thereafter exerted pressure and purchased the x-ray machine from EICI and started sending invoices for the services for providing x-ray machines which continues till date and copies of such Invoices are enclosed herewith. The only difference was that when it was clearly established that x-ray screening services can be offered at the courier terminal at rates at par with the cargo terminal, MIAL grudgingly reduced the rate from Rs 6 per kg to Rs 3.25 per kg. For shipments screened by M/s CSC the rate was Rs 2.60 per kg.

The correspondence leading up to this development and evidencing the stand of MIAL is enclosed for ready reference and a specific extract is reproduced below.

*From: Govindarajan K [mailto:Govindarajan.K@gvk.com]*
*Sent: Friday, April 30, 2010 12:57 PM*
*To: Vijay Kumar*
*Subject: RE: Xray Machines at EICI Express Terminal*
*Dear Mr. Vijay Kumar,*
*Refer your message dated 30th April 2010, on the subject. We have never discussed the matter and you have also not mentioned the same in various communications with us so far.*

***<u>Regret we cannot agree to your suggestion to discontinue the usage of MIAL x-ray machines from Integrated courier terminal. The existing arrangements with respect to tariff and security screening is very much in place and will continue.</u>***

*Regards*
*Govind"*

In another mail the arrangement for asking for data for Invoicing was discussed and the said mail is reproduced below:

*" **From:** Paresh Vaidya [mailto:Paresh.Vaidya@gvk.com]*
***Sent:** 14 May 2009 17:05*
***To:** EICI Corporate Accounts*
***Cc:** Farrokh M Morena; 'vijay kumar'; Shoeb Khan; Govindarajan K; Mukesh Devpura*
***Subject:** FW: X-Ray Details*
***Importance:** High*
*Dear Mr Bhojappa*
*Refer our telecon on date and my email to you yesterday, can we please have a mechanism like the one stated below:*

1. *Tonnage data to be shared by EICI with MIAL on fortnightly basis within 5 working days from the end of each fortnight.*
2. *Pl send the file in excel format. You may also send the file in PDF and in case of any difference between the two, PDF will be treated as final by us.*
3. *Pl give the break-up of the file in the following format:*
   a. *Airline-wise Tonnage where Screening is done by NACIL,*
   b. *Airline-wise Tonnage where Screening is done by CSC,*
   c. *Airline-wise Tonnage where Screening is done by Others / Airlines by themselves.*
4. *Pl send the file to myself and Mukesh Devpura, Asst Mgr Fin Cargo MIAL (<u>Mukesh.Devpura@gvk.com</u>) within the above timelines.*

***<u>Please also confirm that your payment for April will include payment @ Rs 6 per kg for FedEx for the period 15th Mar'09 to 30th Apr'09. (Refer mail from Mr Shoeb to Mr Farrokh on 21st April and previous discussions on the subject from Feb'09 onwards).</u>***
*Regards,*

*Paresh Vasant Vaidya*
*Manager - Finance*
*Mumbai International Airport Pvt. Ltd.*
*Office: +91 22 66852018*
*Cell: +91 99301 44158"*

Express Industry Council of India

In yet another email MIAL from the Vice President, Cargo MIAL, was adamant on continuing to charge at the rate of Rs 6.00 per kg even though EICI was willing to use its own x-ray machines and offer the same service at Rs 1.75 per kg as offered in the cargo terminal. In fact the email reiterates that the charges are levied by MIAL –" ***MIAL will be charging EICI Rs 6 per kg for screening of Courier Cargo from Integrated courier facility".*** The relevant email is reproduced below.

*"**From:** Govindarajan K [mailto:Govindarajan.K@gvk.com]*
***Sent:** 03 May 2010 10:56*
***To:** Vijay Kumar*
***Cc:** Paresh Vaidya; Shoeb Khan*
***Subject:** RE: Xray Machines at EICI Express Terminal*

*Dear Mr. Vijay Kumar,*
***We have clarified MIALs stand vide our message dated 30th April, 2010. We would like reiterate, MIAL will be charging EICI Rs 6 per kg for screening of Courier Cargo from Integrated courier facility, as we have not discussed and agreed on any revised rate.***
*Kindly be guided accordingly.*
*Regards*
*Govind."*

The above and the enclosed correspondence clearly establishes that MIAL indeed charges for use of the x-ray screening machines. Hence it is odd that they maintain before a quasi judicial regulatory authority in an official submission that they do not do so. It would be up to AERA to take a stand on such representations of MIAL.

We are extracting below a copy of the Invoice raised by MIAL in September, 2012 which clearly establishes certain facts.

Express Industry Council of India

**Mumbai International Airport Pvt Ltd**

Finance & Accounts Department,1st Floor,Terminal 1B,CSIA,Santacruz(E), Mumbai 400 0...
Tel.: +91 22 66852200(B),66850619/66850641(D) Fax: +91 22 66850652 Web : www....

REVENUE SHARE INVOICE

PARTY CODE : 5000025

PARTY REF./CUST.CD.:

INVOICE NO. : 1200013932
DATE : 08.10.2012
DUE DATE : 17.10.2012

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** **FROM 01.09.2012** **TO 30.09.2012**

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | |
| **Minimum Rent** | REDACTED |
| **Balance Rent** | |
| Service Tax @ 12 % | |
| Education Cess Tax @ 2 % on Service Tax | |
| Higher Ed. Cess Tax @ 1 % on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

**PAN NO.: AAECM6285C**
**SERVICE TAX NO.: AAECM6285CST001 Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B.1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

The above Invoice clearly establishes the following:

1. That MIAL is charging EICI for use of the x-ray machines at the rate of Rs 3.25 per kg which EICI collects from its users and pays to MIAL without retaining any sum as can be seen from our tariff proposal submission.
2. That the above rates are much higher than what is charged by MIAL at the cargo terminal.
3. **That MIAL charges lower rates at the cargo terminal i.e. Rs 1.38 per kg and Rs 1.70 per kg for the use of the x-ray machines for which it is seeking approval from AERA in its MYTP submission** as extracted below, however it now takes the stand that even though it is charging more than twice that sum and in the First Regulatory Control period has charged as much as Rs 6.00 per kg which has been paid by users under protest, they now maintain that the current charges may not be regulated by AERA as they should now be treated as infrastructure as the machines are in the courier/express terminal.
4. That the fact that what MIAL providing x-ray machines is a service is established by the fact that they are **charging service tax on it and are depositing it under the head of Airport Services.**

Express Industry Council of India

5. The invoice also shows differential pricing and lack of clarity as different shipments carried on board **different airlines are charged at different rates ranging from Rs 2.60 per kg to Rs 3.25 per kg.**
6. There are cryptic references to Rule 4,5 and 6 while no explanation has been provided as to what these rules are.

**The extract of the MIAL MYTP proposal which clearly seeks approval for x-ray charges is reproduced below and which clearly evidences that x-ray charges are subject to AERA control** and ironically are lower than what they are charging users at the Express Terminal:

**Schedule of charges.**
**(Effective from 1st April 2009)**

**International Cargo - Payable by Airlines**

| S.No | Function | Description of Service | Present Charges | |
|---|---|---|---|---|
| | | | Rs per Kg | Minimum Charges |
| 1 | Export | Carting/Palletisation/Containerisation/Bulk Cargo Handling | | |
| 2 | Export | Unitization of Bonded cargo | | |
| 3 | Export | Carting of Cargo from Domestic airport to MIAL International Warehouse or return from MIAL International Warehouse to Domestic Airport | | |
| 4 | Export | Carting of Export using other Gateways Airports in India (Jet Airways Domestic Bonded warehouse) (per kg) | | |
| 5 | Export | Carting Export Cargo using other Gateways Airports in India (Domestic airlines warehouse to MIAL Bonded warehouse) | | |
| 6 | Export | Carting charges to /from aircraft (per kg) | | |
| 7a | Export | Aircraft loading charges (bulk) (per kg) General cargo | REDACTED | |
| 7b | Export | Per/HZ/VAL cargo | | R |
| 8a | Export | Storage Chgs. - If uplifted beyond free period of 48 hours (per Kg) General cargo (rate per kg per day | | E |
| 8b | Export | Special cargo (rate per kg per day | | D |
| 9 | Export | Supervision and Coordination for export courier at ICT and export perishable at APEDA. Minimum charges applicable per AWB) | | A C |
| 10 | Export | Document Handling. (Additional applicable per AWB only for DGR/SPL/VAL cargo) | | T |
| 11 | Export | X ray charges (minimum charges applicable per AWB) | | E |
| 12 | Export | X ray charges done through Regulated agent (minimum charges applicable per AWB) | | D |

We have several other communications with MIAL which establish the above and can be provided in case AERA so desires.

In conclusion we wish to submit that the charges levied by MIAL which have been correctly mentioned in our MYTP submission be approved by AERA by asking MIAL to include the x-ray screening charges in their own MYTP submission. It is also submitted that EICI being an industry body had no say in the fixation of charges and on account of MIAL's dominant position and further given that no obligation has been cast on MIAL under OMDA, we were left with no option but to accept the directions of the airport operator i.e. MIAL.

We trust the above clarifies the correct factual position and our MYTP proposal for Mumbai will be approved without any further delay.

Thanking you,

Yours sincerely,
**For Express Industry Council of India**

Vijay Kumar
**Chief Operating Officer**

Annexure - III

Express Industry Council of India

EICI/AERA/1156
11 January 2013

Mr. Anil Saxena
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Sir,

**Sub: Submission of additional documents in support of stand of EICI with respect to MYTP for the First Control Period and request for approval of Tariff as per Form 14(b) for Mumbai**

We have the honor to refer to our submission for MYTP approval for Mumbai airports. Pursuant to the discussions on the 8 January, 2013 we are enclosing herewith the following additional documents which clearly establishes that the x-ray screening charges are levied and appropriated by MIAL and EICI is only involved as a pass through agency :

1. A copy of the contracts with MIAL which have no reference to x ray screening charges and are only for the license fee, rent for land and the through put charges respectively. **X-ray screening charges-**
2. The x-ray screening charges comprise of use of the x-ray machine and the manpower charges for screening. These are being collected by EICI and being paid to DIAL/MIAL and CSC respectively at Delhi and Mumbai and no additional fee is collected or charged by EICI and hence these revenues do not accrue to EICI. These rates are to be approved by AERA as DIAL, MIAL and CSC are service providers of services at airports and we presume that their tariff will be approved by AERA.
3. In addition CSC also raises invoices on airlines directly which CSC renders such as stuffing in which EICI has no role in collection or invoicing and hence the approval for the same should also be sought by the respective entity levying the charges. Whilst EICI has agreements with Airlines based on the rates agreed with the Board of Airlines Representatives (BAR India) the invoicing and collection of these charges is done by CSC directly.

While strictly speaking x-ray screening charges are not charges accruing to EICI, they have still been separately mentioned in Annexure 14 (b) so that the same may be seen separately and approved if required as long as flexibility is provided to vary the same based on the demand by the Government and the respective service provider after approval by AERA.

Express Industry Council of India

Please note that while these charges are not part of the Facilitation charges levied by EICI and also variable in nature, we still deemed it appropriate to place the same on record. In the final tariff approval, these re-imbursement of Customs charges and X ray charges may not be included if deemed appropriate as it may not be practically possible to seek your quick approval with the changing dynamic of the rates. It is for this reason that we have not provided any future projections for the Customs charges and x-ray charges. In case EICI is permitted to do x-ray screening on its own without paying any royalty or fee to DIAL/MIAL we shall reduce the charges recouped from the users accordingly.

We hence request that the MYTP Proposal for the First Control Period for Mumbai be kindly approved accordingly on an urgent basis as a delay in the same is threatening the financial viability of EICI as a body.

Kindly acknowledge receipt.

With high regards,
For **EXPRESS INDUSTRY COUNCIL OF INDIA**

**BHOJAPPA S SHEELWANT**
**MANAGER (ACCOUNTS)**

Annexure-IV

EICI/AERA/1183
18th February, 2013

Express Industry Council of India

To,

The Secretary
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

**Sub: Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai and our discussions held at your office in the presence of MIAL on the 13 February, 2013.**

Madam,

We thank you for giving us the opportunity to clarify the contentions of MIAL with respect to the inordinately high x-ray screening charges that they are charging and which they now appear to be trying to justify by classifying them as a usage charge rather than an x-ray screening charge for which they should rightly seek your approval for levying the high tariff.

<u>What constitutes x-ray screening.</u>

As the entire controversy appears to stem around what constitutes x-ray screening charges which the Authority is required to regulate, it is essential to discuss the same.

X-ray screening is an essential security function for export shipments and essentially involves the following elements:

i) Use of x-ray machine, its maintenance
ii) Operator who is BCAS certified

It will be appreciated that the major cost component of x-ray screening is the cost of providing the service of an x-ray machine which is clearly a service which is offered. As far as the x-ray machine operator is concerned, it is a rather miniscule cost and that too as per BCAS regulations can be performed by a BCAS certified screener. Typically airlines staff performs such screening.

Hence the major component of the x-ray screening service is the provision of an x-ray machine. As AERA is required to control the x-ray screening charges, in case we were to assume even for the sake of argument that the provision of x-ray machines is not a service, and then the same would amount to AERA abdicating its right to regulate a regulated service. Clearly such an argument is neither acceptable not tenable as it will amount to AERA not regulating x-ray screening services.



**Express Industry Council Of India**
501, Crystal Centre, Raheja Vihar,
Off. Chandivali Farm Road, Powai, Mumbai - 400 072.
Tel. : +91 22 4057 1111 Fax : +91 22 4057 1100 www.eiciindia.org

Whether such services are provided directly or indirectly is inconsequential as in case such a view is taken then every airport operator will charge a huge fee for use of the x-ray machine or form Joint ventures and claim that only infrastructure is being provided or that the service has been outsourced just in order to escape falling within the regulatory ambit and control of AERA. Such a view would not only be illogical but will go against he stated objectives of AERA which is the protection of the interests of the consumers so that they get quality services at reasonable rates and so that airport operators do not abuse their dominant position to charge higher rates. More so when EICI was providing the same service at rates at par with the rates being charged by the Cargo Terminal.

Moreover as MIAL has already sought approval of their Tariff for export x-ray screening of cargo, considering that the same x-ray machine is provided at the Express Cargo Terminal it is unfathomable as to how they can charge more than twice the charges that they charge at the cargo terminal, just by changing the nomenclature of the service and calling it infrastructure.

Apart from the above, there are strong arguments which clearly substantiate that x-ray screening services provided by MIAL are required to be regulated and the same are elaborated herein below.

We also wish to reiterate our earlier comments in our letter dtd 18 December, 2012.

**We have noted that MIAL has taken a stand that they do not provide any service with respect to x-ray screening, which appears to be contrary to the factual position which is vehemently opposed and we wish to provide the following clarifications and facts which would establish the true factual position with respect to the role of MIAL in levying the x-ray screening charges:**

The text of the MIAL comment is as under and a para wise reply to the same follows:

*"With respect to (d) viz. to approve X-ray charges to be paid to Airport Operators / CSC, it is to be noted that MIAL has given a concession to EICI on BOT basis to construct and operate an Integrated courier terminal facility for processing of export and import Express Courier."*

Comments: It may be appreciated that x-ray machines do not fall within the ambit of BOT basis as BOT stands for "built, operate and transfer" and x-ray machines do not require any building or construction but are required to be purchased and a fee is charged for their use. **The x-ray machines in the EICI Terminal are owned by MIAL and the charges levied are by MIAL for the service of providing x-ray machines which is mentioned in our MYTP proposal at the rate of Rs 3.25 per kg. This fact can be verified from the Invoice (copy enclosed).** Hence it is unfathomable how the same can be denied by MIAL even though the nomenclature of the Invoice indicates "Revenue Share Invoice" when no revenue on account of x-ray screening is retained by EICI and the entire sum collected from users is transferred to MIAL. The approval sought is for Rs 3.25 per kg and the Invoice from MIAL is for Rs 3.25 per kg hence the assertion that MIAL does not charge for x-ray screening is not sustainable and is contrary to facts.

Express Industry Council of India

**As AERA has indicated that it will be regulating the Tariff for x-ray screening, and the tariff as charged by MIAL and CSC has been mentioned in the MYTP proposal submitted, AERA may accordingly decide on the tariff being charged by MIAL.**

On the contrary, it is submitted that EICI had taken the stand with MIAL that as EICI is an industry body and is running the express facility, **EICI be permitted to install its own x-ray machine and charge a nominal fee to its users which was many times lower than what MIAL was charging and at par with the cargo x-ray screening rates.** In fact EICI had purchased x-ray machines and wanted to provide x-ray screening services to its users at rates at par with cargo x-ray screening rates.

**MIAL at that point disagreed and informed EICI that revenue from the use of x-ray machines is the sole preserve of MIAL as an Airport Operator and hence cannot be provided by EICI.** MIAL thereafter exerted pressure and purchased the x-ray machine from EICI and started sending invoices for the services for providing x-ray machines which continues till date and copies of such invoices are enclosed herewith. The only difference was that when it was clearly established that x-ray screening services can be offered at the courier terminal at rates at par with the cargo terminal; MIAL grudgingly reduced the rate from Rs 6 per kg to Rs 3.25 per kg. For shipments screened by M/s CSC the rate was Rs 2.60 per kg.

The correspondence leading up to this development and evidencing the stand of MIAL is enclosed for ready reference and a specific extract is reproduced below;

*From: Govindarajan K [mailto:Govindarajan.K@gvk.com]*
*Sent: Friday, April 30, 2010 12:57 PM*
*To: Vijay Kumar*
*Subject: RE: Xray Machines at EICI Express Terminal*

*Dear Mr. Vijay Kumar,*

*Refer your message dated 30th April 2010, on the subject. We have never discussed the matter and you have also not mentioned the same in various communications with us so far.*

*Regret we cannot agree to your suggestion to discontinue the usage of MIAL x-ray machines from integrated courier terminal. The existing arrangements with respect to tariff and security screening is very much in place and will continue.*

*Regards*

*Govind"*

Express Industry Council of India

In another mail the arrangement for asking for data for invoicing was discussed and the said mail is reproduced below:

*" From: Paresh Vaidya [mailto:Paresh.Vaidya@gvk.com]*
*Sent: 14 May 2009 17:05*
*To: EICI Corporate Accounts*
*Cc: Farrokh M Morena; 'vijay kumar'; Shoeb Khan; Govindarajan K; Mukesh Devpura*
*Subject: FW: X-Ray Details*
*Importance: High*

*Dear Mr Bhojappa*

*Refer our telecon on date and my email to you yesterday, can we please have a mechanism like the one stated below:*

*1. Tonnage data to be shared by EICI with MIAL on fortnightly basis within 5 working days from the end of each fortnight.*

*2. Pl send the file in excel format. You may also send the file in PDF and in case of any difference between the two, PDF will be treated as final by us.*

*3. Pl give the break-up of the file in the following format:*

*a. Airline-wise Tonnage where Screening is done by NACIL,*

*b. Airline-wise Tonnage where Screening is done by CSC,*

*c. Airline-wise Tonnage where Screening is done by Others / Airlines by themselves.*

*4. Pl send the file to myself and Mukesh Devpura, Asst Mgr Fin Cargo MIAL (Mukesh.Devpura@gvk.com) within the above timelines.*

*Please also confirm that your payment for April will include payment @ Rs 6 per kg for FedEx for the period 15th Mar'09 to 30th Apr'09. (Refer mail from Mr Shoeb to Mr Farrokh on 21st April and previous discussions on the subject from Feb'09 onwards).*

*Regards,*
*Paresh Vasant Vaidya*
*Manager - Finance*
*Mumbai International Airport Pvt. Ltd.*
*Office: +91 22 66852018*
*Cell: +91 99301 44158"*

Express Industry Council of India

We had informed MIAL that we will be willing to x-ray screen our all courier shipments at a much lower rate of Rs 1.75 per kg and the relevant email is extracted below:

"From: Vijay Kumar [mailto:vijay@eicindia.org]
Sent: 03 May 2010 10:28
To: 'Govindarajan K'
Subject: RE: Xray Machines at EICI Express Terminal

Dear Govind,

Kindly note that we had taken the decision to install the screening machines based on the requirement of our users and in order to ensure the industry gets a mandatory regulatory service at reasonable rates. They have been paying very high machine usage charges and with the installation of our own machines we had communicated to the trade that the rates would Rs1.75/kg (on par with Mumbai cargo rates).

Since we would not be using the X ray machines which were installed by AAI, we would not be in a position to make any payments to MIAL for the same.

Regards,
Vijay"

In response thereto via email from the MIAL Vice President, Cargo MIAL, he was adamant on continuing to charge at the rate of Rs 6.00 per kg even though EICI was willing to use its own x-ray machines and offer the same service at Rs 1.75 per kg as offered in the cargo terminal. In fact the email reiterates that the charges are levied by MIAL –*" MIAL will be charging EICI Rs 6 per kg for screening of Courier Cargo from integrated courier facility".* The relevant email is reproduced below.

*"From: Govindarajan K [mailto:Govindarajan.K@gvk.com]*
*Sent: 03 May 2010 10:56*
*To: Vijay Kumar*
*Cc: Paresh Vaidya; Shoeb Khan*
*Subject: RE: Xray Machines at EICI Express Terminal*

*Dear Mr. Vijay Kumar,*

*We have clarified MIALs stand vide our message dated 30th April, 2010. We would like reiterate , MIAL will be charging EICI Rs 6 per kg for screening of Courier Cargo from integrated courier facility, as we have not discussed and agreed on any revised rate.*

*Kindly be guided accordingly.*

*Regards*
*Govind."*

Express Industry Council of India

The above and the enclosed correspondence clearly establish that MIAL indeed charges for use of the x-ray screening machines. Hence it is odd that they maintain before a quasi judicial regulatory authority in an official submission that they do not do so. It would be up to AERA to take a stand on such representations of MIAL.

We are extracting below a copy of the invoice raised by MIAL in September, 2012 which clearly establishes certain facts.

**Mumbai International Airport Pvt Ltd.** GVK
Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz(E), Mumbai 400 099, India
Tel.: +91 22 66852200(B), 66850619/66850641(D) Fax: +91 22 66850652 Web.: www.csia.in

**REVENUE SHARE INVOICE**

PARTY CODE : 6000025
PARTY REF./CUST.CD.

INVOICE NO. : 1200013932
DATE : 08.10.2012
DUE DATE : 17.10.2012

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

REVENUE SHARE FOR THE PERIOD FROM 01.09.2012 TO 30.09,2012

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ) ( Rule 5 - Cargo service center ) | |
| per KG of 3 ( Rule 6 - Jet airways ) | |
| Total Sales Rent<br>Minimum Rent<br>Balance Rent | REDACTED |
| Service Tax @ 12 %<br>Education Cess Tax @ 2 % on Service Tax<br>Higher Ed. Cess Tax @ 1 % on Service Tax | |
| Total | |

In Words (Rs) : REDACTED

PAN NO.: AAECM6285C
SERVICE TAX NO.: AAECM6285CST001 Airport Services

For Mumbai International Airport Pvt. Ltd.

N.B. 1 Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of Mumbai International Airport Pvt. Ltd.
3. No outstation cheques will be accepted
4. E &O.E.

Authorised Signatory

The above invoice clearly establishes the following:

1. That MIAL is charging EICI for use of the x-ray machines at the rate of Rs 3.25 per kg which EICI collects from its users and pays.

Express Industry Council of India

2. That the above rates are much higher than what is charged by MIAL at the cargo terminal.

3. **That MIAL charges lower rates at the cargo terminal i.e. Rs 1.38 per kg and Rs 1.70 per kg for the use of the x-ray machines for which it is seeking approval from AERA in its MYTP submission** as extracted below, however it now takes the stand that even though it is charging more than twice that sum and in the First Regulatory Control period has charged as much as Rs 6.00 per kg which has been paid by users under protest, they now maintain that the current charges may not be regulated by AERA as they should now be treated as infrastructure as the machines are in the courier/express terminal.
4. That the fact that what MIAL providing x-ray machines is a service is established by the fact that they are charging service tax on it and are **depositing it under the head of Airport Services.**
5. The invoice also shows differential pricing and lack of clarity as different shipments carried on board **different airlines are charged at different rates ranging from Rs 2.60 per kg to Rs 3.25 per kg.**

**The extract of the MIAL MYTP proposal which clearly seeks approval for x-ray charges is reproduced below and which clearly evidences that x-ray charges are subject to AERA control** and ironically are lower than what they are charging users at the Express Terminal:

Schedule of charges
(Effective from 1st April 2009)

International Cargo - payable by Airlines

| S.No | Function | Description of Service | Present Charges | |
|---|---|---|---|---|
| | | | Rs per Kg | Minimum charges |
| 1 | Export | Carting/Palletisation/Containerization/Bulk cargo Handling | | |
| 2 | Export | Utilisation of Bonded cargo | | |
| 3 | Export | Carting of cargo from Domestic airport to MIAL International Warehouse or [illegible] from MIAL International Warehouse to Domestic Airport | | |
| 4 | Export | Carting of Export using other Gateway Airports in India (Jet Airways Domestic Bonded Warehouse) (per kg) | | |
| 5 | Export | Carting Export cargo using other Gateway Airports in India (Domestic airlines warehouse to MIAL - Bonded warehouse) | | |
| 6 | Export | Carting charges to/from aircraft (per Kg) | | |
| 7a | Export | Aircraft loading charges (bulk) (per kg) General cargo | REDACTED | |
| 7b | Export | Per/HZ/VAL cargo | | |
| 8a | Export | Storage Chgs. - if shifted beyond free period of 48 hours (per kg) General cargo (rate per kg per day) | | |
| 8b | Export | Special cargo (rate per kg per day) | | |
| 9 | Export | Supervision and coordination (a) export cargo at ICT and export per [illegible] APTOA (Minimum charges applicable per AWB) | | RE |
| 10 | Export | Document Handling. (Additional applicable per AWB only for DGR/SPL/VAL cargo) | | DA |
| 11 | Export | X ray charges (minimum charges applicable per AWB) | | CT<br>ED |
| 12 | Export | X ray charges done through Regulated agent (minimum charges applicable per AWB) | | |

We have several other communications with MIAL which establish the above and can be provided in case AERA so desires.

Express Industry Council of India

In conclusion we wish to submit that the charges levied by MIAL which have been correctly mentioned in our MYTP submission be approved by AERA by asking MIAL to include the x-ray screening charges in their own MYTP submission. **It is also submitted that EICI being an industry body had no say in the fixation of charges and on account of MIAL's dominant position and further given that no obligation has been cast on MIAL under OMDA, we were left with no option but to accept the directions of the airport operator i.e. MIAL.**

We trust the above clarifies the correct factual position and our MYTP proposal for Mumbai will be approved without any further delay.

Thanking you,

Yours sincerely,
For Express Industry Council of India

Vijay Kumar
**Chief Operating Officer**

# Mumbai International Airport Pvt Ltd

Address for correspondence: 2nd Floor, Corporate Centre, Opp. Hotel VITS,
Andheri-Kurla Road, Andheri (East), Mumbai 400 069.
Tel (Direct): 6671 4639 / 6671 4670 / 6671 4620 Fax: (022) 6671 4611.

## REVENUE SHARE INVOICE

PARTY CODE : 5000025

INVOICE NO.: 1000002699

DATE : 30.04.2010

DUE DATE : 09.05.2010

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

400072 Mumbai

**REVENUE SHARE FOR THE PERIOD** **FROM 01.04.2010** **TO 30.04.2010**

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 1 - Foreign airlines ) | |
| per KG of ( Rule 2 - Cargo service center ) | |
| per KG of ( Rule 3 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 10% | |
| Education Cess Tax @ 2% on Service Tax | |
| Higher Ed. Cess Tax @ 1% on Service Tax | |
| **Total** | |

In Words (Rs) : REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001** **AIRPORT SERVICES**

FOR MUMBAI INTERNATIONAL AIRPORT PVT. LTD.

N.B. 1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **MUMBAI INTERNATIONAL AIRPORT PVT. LTD.**
3. No outstation cheques will be accepted.
4. E.&O.E.

AUTHORISED SIGNATORY

Please return this portion with your payment in favour of **MUMBAI INTERNATIONAL AIRPORT PVT. LTD.** (TO BE FILLED BY PAYEE)

- 138 -

... 2nd Floor, Corporate Centre, Opp. Hotel VITS,
Andheri Kurla Road, Andheri (East), Mumbai - 400 059.
Tel (Direct): (022) 6671 4639 / 6671 4670 / 6671 4620 Fax: (022) 6671 4611.

**REVENUE SHARE INVOICE**

PARTY CODE : 5000025

INVOICE NO. : 1000005883
DATE : 17.07.2010
DUE DATE : 26.07.2010

Express Industry Council Of India
Raheja Vihar, 501, crystal centre
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** **FROM 01.06.2010** **TO 30.06.2010**

| DETAILS | | SALES RENT |
|---|---|---|
| per KG of | ( Rule 4 - Foreign airlines ) | |
| per KG of | ( Rule 5 - Cargo service center ) | |
| per KG of | ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | | REDACTED |
| **Minimum Rent** | | |
| **Balance Rent** | | |
| Service Tax @ 10% | | |
| Education Cess Tax @ 2% on Service Tax | | |
| Higher Ed. Cess Tax @ 1% on Service Tax | | |
| Total | | |

In Words (Rs) : REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001** **Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B.1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

Please return this portion with your payment in favour of **Mumbai International Airport Pvt. Ltd.** (TO BE FILLED BY PAYEE)

1070 | 5176

# Mumbai International Airport Pvt Ltd

GVK

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641 (D) • Fax: +91 22 66850652 • Web: www.csia.in

REVENUE SHARE INVOICE

PARTY CODE : 5000025

INVOICE NO. : 1000013367
DATE : 23.11.2010
DUE DATE : 02.12.2010

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** **FROM 01.10.2010** **TO 31.10.2010**

| DETAILS | | SALES RENT |
|---|---|---|
| per KG of | ( Rule 4 - Foreign airlines ) | |
| per KG of | ( Rule 5 - Cargo service center ) | |
| per KG of | ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | | REDACTED |
| **Minimum Rent** | | |
| **Balance Rent** | | |
| Service Tax @ 10% | | |
| Education Cess Tax @ 2% on Service Tax | | |
| Higher Ed. Cess Tax @ 1% on Service Tax | | |
| Total | | |

In Words (Rs) : REDACTED

PAN NO.: AAECM6285C
SERVICE TAX NO.: AAECM6285CST001 Airport Services

For Mumbai International Airport Pvt. Ltd.

N.B.1. Revenue share fee must be paid by 10th of every month failing which interest @ 18%
2. Cheque should be made in favour of Mumbai International Airport Pvt. Ltd.
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

Please return this portion with your payment in favour of Mumbai International Airport Pvt. Ltd. (TO BE FILLED BY PAYEE)

-140-

# Mumbai International Airport Pvt Ltd

GVK

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641(D) • Fax: +91 22 66850652 • Web: www.csia.in

## REVENUE SHARE INVOICE

PARTY CODE : 5000025

INVOICE NO. : 1000022482
DATE : 14.03.2011
DUE DATE : 23.03.2011

PARTY REF./CUST.CD.:

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

REVENUE SHARE FOR THE PERIOD FROM 01.02.2011 TO 28.02.2011

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 10% | |
| Education Cess Tax @ 2% on Service Tax | |
| Higher Ed. Cess Tax @ 1% on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001 Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B. 1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

Please return this portion with your payment in favour of **Mumbai International Airport Pvt. Ltd.** (TO BE FILLED BY PAYEE)

# Mumbai International Airport Pvt Ltd

GVK

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641 (D) • Fax: +91 22 66850652 • Web: www.csia.in

**REVENUE SHARE INVOICE**

PARTY CODE : 5000025

517/6212

INVOICE NO. : 1100007605
DATE : 18.07.2011
DUE DATE : 27.07.2011

PARTY REF./CUST.CD.:

Express Industry Council Of India
Raheja Vihar, Jol Crystal Centre
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** **FROM 01.06.2011** **TO 30.06.2011**

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 10% | |
| Education Cess Tax @ 2% on Service Tax | |
| Higher Ed. Cess Tax @ 1% on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001 Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B. 1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

Please return this portion with your payment in favour of Mumbai International Airport Pvt. Ltd. (TO BE FILLED BY PAYEE)

# Mumbai International Airport Pvt Ltd

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641 (D) • Fax: +91 22 66850652 • Web: www.csia.in

[illegible] REVENUE SHARE INVOICE [illegible]

PARTY CODE : 5000025 — INVOICE NO. : 1100015284
DATE : 22.11.2011
PARTY REF./CUST.CD.: — DUE DATE : 01.12.2011

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** **FROM 01.10.2011** **TO 31.10.2011**

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 10% | |
| Education Cess Tax @ 2% on Service Tax | |
| Higher Ed. Cess Tax @ 1% on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001** **Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B. 1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

Please return this portion with your payment in favour of **Mumbai International Airport Pvt. Ltd.** (TO BE FILLED BY PAYEE)

# Mumbai International Airport Pvt Ltd

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641(D) • Fax: +91 22 66850652 • Web: www.csia.in

## REVENUE SHARE INVOICE

PARTY CODE : 5000025

INVOICE NO. : 1100023711
DATE : 07.03.2012
DUE DATE : 16.03.2012

PARTY REF./CUST.CD.:

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

REVENUE SHARE FOR THE PERIOD FROM 01.02.2012 TO 29.02.2012

| DETAILS | | SALES RENT |
|---|---|---|
| per KG of | ( Rule 4 - Foreign airlines ) | |
| per KG of | ( Rule 5 - Cargo service center ) | |
| per KG of | ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | | REDACTED |
| **Minimum Rent** | | |
| **Balance Rent** | | |
| Service Tax @ 10% | | |
| Education Cess Tax @ 2% on Service Tax | | |
| Higher Ed. Cess Tax @ 1% on Service Tax | | |
| **Total** | | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001 Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B. 1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of Mumbai International Airport Pvt. Ltd.
3. No outstation cheques will be accepted.
4. E&OE

Authorised Signatory

# Mumbai International Airport Pvt Ltd

Finance & Accounts Department, 1st Floor, Terminal 1B, CSIA, Santacruz (E), Mumbai 400 099, India
Tel.: +91 22 66852200 (B), 66850619 / 66850641 (D) • Fax: +91 22 66850652 • Web: www.csia.in

## REVENUE SHARE INVOICE

PARTY CODE : 5000025

PARTY REF./CUST.CD.:

INVOICE NO. : 1200004485
DATE : 07.06.2012
DUE DATE : 16.06.2012

Express Industry Council Of India
Raheja Vihar, Sol Crystal Centre
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

**REVENUE SHARE FOR THE PERIOD** FROM 01.05.2012 TO 31.05.2012

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 12 % | |
| Education Cess Tax @ 2 % on Service Tax | |
| Higher Ed. Cess Tax @ 1 % on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001** **Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B.1. Revenue share fee must be paid by 10th of every month failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

6

# Mumbai International Airport Pvt Ltd

GVK

Finance & Accounts Department,1st Floor,Terminal 1B,CSIA,Santacruz(E), Mumbai 400 099,India
Tel.: +91 22 66852200(B);66850619/66850641(D) Fax: +91 22 66850652 Web : www.csia.in

## REVENUE SHARE INVOICE

PARTY CODE : 5000025

INVOICE NO. : 1200023299
DATE : 07.02.2013
DUE DATE : 21.02.2013

PARTY REF./CUST.CD.:

Express Industry Council Of India
Raheja Vihar,
Off.Chandiwali Farm Road,
Powai

Mumbai 400072

REVENUE SHARE FOR THE PERIOD FROM 01.01.2013 TO 31.01.2013

| DETAILS | SALES RENT |
|---|---|
| per KG of ( Rule 4 - Foreign airlines ) | |
| per KG of ( Rule 5 - Cargo service center ) | |
| per KG of ( Rule 6 - Jet airways ) | |
| **Total Sales Rent** | REDACTED |
| **Minimum Rent** | |
| **Balance Rent** | |
| Service Tax @ 12 % | |
| Education Cess Tax @ 2 % on Service Tax | |
| Higher Ed. Cess Tax @ 1 % on Service Tax | |
| **Total** | |

**In Words (Rs) :** REDACTED

PAN NO.: **AAECM6285C**
SERVICE TAX NO.: **AAECM6285CST001 Airport Services**

For Mumbai International Airport Pvt. Ltd.

N.B. 1. Revenue share fee must be paid within due date failing which interest @ 18% per annum will be charged.
2. Cheque should be made in favour of **Mumbai International Airport Pvt. Ltd.**
3. No outstation cheques will be accepted.
4. E.&O.E.

Authorised Signatory

***** This is a computer generated invoice hence requires no signature *****

Please return this portion with your payment in favour of **Mumbai International Airport Pvt. Ltd.** (TO BE FILLED BY PAYEE)

| | | | |
|---|---|---|---|
| Invoice No. | 1200023299 | Gross Amount of Bill | Rs. REDACTED |
| Date | 07.02.2013 | Less: Deductions: | |
| Party Code | 5000025 | 1) Income Tax deducted@ (-) | Rs. |
| Name | Express Industry Council Of | 2) Others (-) | Rs. |
| | | Amount paid by Cheque | Rs. |
| | | Cheque No.: | Date: |
| | | Bank Name: | Signature |

Chhatrapati Shivaji
INTERNATIONAL AIRPORT
MUMBAI

Regd. Office:
Mumbai International Airport Pvt Ltd,
1st Floor, Terminal 1B,CSIA,
Santacruz(E),Mumbai 400 099,India

EICI/NCT/163
20th April 2010

**Users of the EICI Export Terminal, Mumbai**

**X-Ray Screening Charges for Export**

We have reviewed the X-Ray Screening charges and would like to inform you that the X-Ray Screening charge for Exports at EICI Express Terminal have been revised and would be @ Rs. 1.75 per kg. This is on account of EICI having installed its own X-Ray Machines.

**For EXPRESS INDUSTRY COUNCIL OF INDIA**

**VIJAY KUMAR**
**CHIEF OPERATING OFFICER**

Express Industry Council of India
501, Crystal Centre, Raheja Vihar,
Off Chandivali Farm Road, Powai, Mumbai - 400 072.
Tel : +91 22 4057 1111 Fax : +91 22 4057 1100 www.eiciindia.org

Annexure - V

GVK

MIAL/CFO/465

February 19, 2013

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110 003.

Dear Madam,

**Sub: - Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai**

**Ref: - AERA D.O.No. AERA/20010/MYTP/EICI/C/Mum/2011-12 dated 23.11.2012**
**MIAL's letter no. MIAL/CFO/377 dated 06.12.2012**
**AERA Order no. 32/2012-13 dated 15.01.2013**
**AERA's letter no. AERA/20010/MYTP/EICI/C/Mum/2011-12/3093 dated 23.01.2013**

With reference to the above, Authority had asked MIAL to provide details of third party independent service providers providing X-ray service in respect of Cargo Facility at CSI Airport, Mumbai. Please find enclosed **Annexure 1** for the same.

Further with respect to letter from EICI dated December 17, 2012 addressed to AERA, MIAL would like to re-iterate that, it has given a concession to EICI on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import Express Courier and has also provided infrastructure facilities to EICI for X-ray and no services are being provided by MIAL to either EICI or the end users. Refer **Annexure 2** for chronology of events of courier operations at CSIA. **It may also be noted that no personnel is engaged / deployed by MIAL for the above X-Ray infrastructure since MIAL is not authorized by BCAS to provide this service. Required manpower for providing X-ray services is engaged either by EICI, Airlines or Regulated Agent and not by MIAL.** Accordingly, it is EICI, as a concessioner, should seek approval for such charges and not MIAL. We fail to understand how MIAL could provide any service related to x-ray screening of couriers when it has not engaged a single person for the same. MIAL would like to further clarify the comments made by EICI as under:

GVK

1. EICI has quoted selectively some of the e-mails exchanged earlier with them. While EICI has quoted the e-mail response of MIAL, it has not referred to its e-mails. We would like to reproduce an e-mail dated May 3, 2010, in which EICI itself has accepted the fact that it has been paying for machine usage charges which means it is not for providing any x-ray screening services. Reference e-mail is reproduced below:

   "**From:** Vijay Kumar [mailto:vijay@eiciindia.org]
   **Sent:** Monday, May 03, 2010 10:28 AM
   **To:** Govindarajan K
   **Subject:** RE: Xray Machines at EICI Express Terminal

   *Dear Govind,*

   *Kindly note that we had taken the decision to install the screening machines based on the requirement of our users and in order to ensure the industry gets a mandatory regulatory service at reasonable rates. **They have been paying very high machine usage charges** and with the installation of our own machines we had communicated to the trade that the rates would Rs1.75/kg (on par with Mumbai cargo rates).*
   *Since we would not be using the X ray machines which were installed by AAI, we would not be in a position to make any payments to MIAL for the same.*

   *Regards,*

   *Vijay"*

2. EICI has enclosed a copy of MIAL invoice mentioning that this fact can be verified from the invoices that MIAL is providing services for X-ray screening. This is completely wrong. The invoice raised by MIAL very clearly states that it is for the revenue share payable by EICI and nowhere mentions that it is towards courier x-ray screening services. Further, neither we are aware nor we are privy to the contract what EICI has with its various users for charges regarding x-ray screening. We have never told EICI to charge only Rs. 3.25 per kilogram to its users for x-ray screening. It is a sole decision of EICI to charge same rate what it is liable to pay MIAL for use of this infrastructure facility and not to charge more. Mode of calculation of charge cannot change the fundamental nature of the charge.

2

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GVK

Further, we have been given to understood that EICI is billing to the end customers for the X-ray charges which can be independently verified by Authority from the invoices being issued by EICI.

3. EICI has mentioned about differential charges for x-ray screening which is being charged by MIAL at its cargo terminal viz-a-viz charges from EICI. EICI's contention that discriminatory x-ray changes are being levied is factually incorrect. We would like to mention as follows:

   At EICI facility, MIAL has provided the infrastructure, while X-ray procedures are being undertaken by airlines or their appointed regulated agent. MIAL is charging towards use of infrastructure while in case of cargo MIAL is providing X-ray services through its own Regulated Agent and accordingly is charging for the same. Hence, there is no discrimination as alleged by EICI. Facts are different in both the cases. While in case of charges from EICI it is towards providing infrastructure while in another case it is for providing X-ray services through Regulated Agent.

   Express freight being a highly time bound product compared to air freight, it is always considered as a separate business, though the mode of transport remains the same as of air freight. Due to the very definition of the product, express freight requires a completely different set of handling requirement as it involves huge amount of consolidation and requires strict timelines for delivery. Therefore express product is considered a separate business globally by regulators and the operators as from the traditional air freight. Express freight is priced at premium by the operators compared to the traditional air freight and the price variation is applicable in totality and not limited to any of a specific handling activity. Listed below are some of the reasons due to which, price charged for express freight is higher, compared to normal cargo.

   a) Time-bound handling
   b) Dedicated handling
   c) Round the clock services
   d) High value of shipments
   e) Highly effective and time consuming screening activity
   f) Highly sophisticated infrastructure and automation
   g) Highly qualified and skilled staff
   h) Tedious handling requirements due to huge amount of consolidations, small packages and lot of documentation
   i) Real-time and reliable tracking



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j) Huge investments in the form of automation, IT, bar-coding, tracking and security arrangements
k) Door to Door services
l) Effective supply chain dwell times (Express Freight= 1-2 days, Air Freight= 4-5 days)
m) Effective handling dwell times( Acceptance cut off[Express Freight= D-1 Hr, Air Freight= D-6 Hr], Clearance Dwell time[Express Freight= 4 to 6 hours, Air Freight= 6 to 7 days])
n) Same day clearance (Express Freight= 80%, Air Freight = 40%)
o) Faster regulatory clearance through prior assessments and online filings

4. EICI's contention about MIAL charging service tax under the airport services is irrelevant and does not lead to provision of x-ray service by MIAL. At airport, service tax is paid under umbrella of airport service which also includes land lease rentals, space lease rentals and obviously infrastructure charges. EICI, without a valid reason, is unnecessarily trying to prove a wrong contention through irrelevant arguments.

5. The different rates of Rs. 2.60 per kilogram and Rs. 3.25 per kilogram referred by EICI is very well known to it which is purely depending upon the fact whether the services are provided by EICI/Airlines directly or through a Regulated Agent.

6. Reference to Rules such as 4, 5, 6, is only an internal reference of MIAL in the SAP to categorize whether billing is related to foreign airlines / domestic airlines and whether these services are provided by EICI directly or through a Regulated Agent etc.

7. Further, during the course of meeting with Authority dated 14.02.2013, Authority had asked MIAL to explain the process of X-ray screening in case of cargo operations. X-ray screening in cargo is either done by Airlines itself or by the Regulated Agent appointed by MIAL i.e. Global Airport and Ground Services Pvt. Ltd (Global). MIAL has permitted Global to use the Security Infrastructure of MIAL to provide services to aircraft operators as Regulated Agent. Global is acting as MIAL's authorized service provider and performing X-ray services only for MIAL's customers. Global would carry out its activities strictly in accordance of the directions, instructions and requirements of MIAL's authorized representatives, as per clause 4.1(i) of attached agreement with Global **(Annexure 3)**. Authority is requested to redact and not to make ~~its~~ this agreement with Global public due to sensitive commercial information contained therein.

4

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8. It may be noted that, Authority in its Order No. 32 dated 15.01.2013 has clearly mentioned that once an aeronautical activity is concessioned out completely by the Airport operator, then the same would become non-aeronautical in the hands of airport operator. The Authority would then regulate the services of independent service provider. For eg. MIAL has concessioned out its Ground Handling services to Celebi Nas Airport Services India Private Limited and Cambata Aviation Private Limited (Ground Handlers). Therefore, the Authority is regulating the services of Ground Handlers and approving their tariffs. Similarly, for courier services, MIAL has concessioned out the entire operations to EICI and accordingly EICI should get the approval of charges from the Authority. A flowchart showing the sequence of events in case of courier X-ray services is enclosed as **Annexure 4.**

From the above it is absolutely clear that MIAL is not providing courier x-ray screening services and has only provided infrastructure for x-ray screening by EICI / Airlines or Regulated Agent who are alone subject to regulation for this service and not MIAL.

Thanking you,

**Yours sincerely,**
**For Mumbai International Airport Pvt. Ltd.**

**Vinod Hiran**
**CFO & Company Secretary**

**Encl: As Above**

**Mumbai International Airport Pvt Ltd**
Chhatrapati Shivaji International Airport
1st Floor, Terminal 1B, Santacruz (E), Mumbai 400 099, India

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**Annexure 1**

**Mumbai International Airport Pvt. Ltd.**

**List of Third Party Service Providers providing X-ray service at CSI Airport, Mumbai**

| No. | Agency Name | Address | Contact No |
|---|---|---|---|
| **Cargo Terminal Operators** | | | |
| 1. | National Aviation Company of India Ltd. | Transport Complex Building, First Floor, CSI Airport, Ville Parle (E), Mumbai – 400 099 | 26156788 |
| 2. | Express Industry Council of India | 501, Crystal Centre, Raheja Vihar, Off. Chandivali Farm Road, Powai, Mumbai – 400 072 | 40571111 |
| 3. | Cargo Service Centre India Private Limited | B-201, Polaris, Off Marol Maroshi Road, Marol, Andheri (E), Mumbai – 400 059 | 40433900 |

MUMBAI ITNERNATIONAL AIRPORT PVT. LTD.
MUMBAI
400 099.

**Annexure 2**

**Chronology of events for Courier screening at CSIA**

1. AAI was charging EICI Rs 6 per kg for Courier X ray screening.
2. MIAL took over from AAI in year 2006 and continued the same charges.
3. An agreement was signed between MIAL & EICI to start integrated courier terminal for processing both Export & Import courier on BOT basis.
4. The facility was started from 01.03.2010
5. EICI installed their own X ray machines and stop paying charges to MIAL wef 19.04.2010.
6. There was no payment done by EICI for period 19.04.10 to 31.05.2010
7. Subsequent discussions were done between MIAL & EICI.
8. MIAL reimbursed the cost of X machines to EICI on the condition that EICI will continue revenue sharing with MIAL.
9. The billing started from 01.06.10 with the revised rate Rs 3.25 per kg which was agreed between both the parties.

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**Annexure 4**

**Flowchart showing the sequence of events in case of courier X-ray services**

Courier operations from end to end handled by EICI

↓

Xray screening performed by EICI/ Airlines/ Regulated Agent

↓

EICI raises invoices to the end customers based on its service agreement with them

↓

EICI sends details of tonnage handeled by EICI/ Airlines/ Regulated Agent during the month to MIAL

↓

MIAL raises invoice to EICI for infrastructure usage based on tonnage handled

MUMBAI INTERNATIONAL AIRPORT PVT. LTD. MUMBAI 400 099.

Annexure - VI

GVK

MIAL/CFO/507

March 18, 2013

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110 003.

Dear Madam,

**Sub: - Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai**

**Ref: - AERA D.O.No. AERA/20010/MYTP/EICI/C/Mum/2011-12 dated 23.11.2012**
**MIAL's letter no. MIAL/CFO/377 dated 06.12.2012**
**AERA Order no. 32/2012-13 dated 15.01.2013**
**AERA's letter no. AERA/20010/MYTP/EICI/C/Mum/2011-12/3093 dated 23.01.2013**
**MIAL's letter no. MIAL/CFO/465 dated 19.02.13**
**AERA's letter no. AERA/20010/MYTP/EICI/C/Mum/2011-12/Vol-I/3477 dated 11.03.2013**

With reference to the above, Authority had asked MIAL to provide details regarding who is providing the x-ray screening services at the courier terminal at CSI Airport, Mumbai and copies of relevant agreements / communications, if any.

MIAL would like to re-iterate that, it has given a concession to EICI on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import Express Courier and has also provided infrastructure facilities to EICI for x-ray and no services are being provided by MIAL to either EICI or the end users. It may also be noted that no personnel is engaged / deployed by MIAL for the above x-ray infrastructure. **Required manpower for providing x-ray services is engaged either by EICI, Airlines or Regulated Agent and not by MIAL.** Accordingly, it is EICI, as a concessioner, should seek approval for such charges and not MIAL. We fail to understand how MIAL could provide any service related to x-ray screening of couriers when it has not engaged a single person for the same.

In this regard, please find enclosed the following:

1. Copy of letter dated 11.12.2008 (**Annexure 1**) duly signed by EICI confirming that it would pay REDACTED per ton of cargo to MIAL **for usage of MIAL infrastructure at Express Terminal**. This amount was subsequently reduced to REDACTEDper ton as per emails exchanged with EICI. Having agreed specifically that it would pay for use of MIAL infrastructure it is totally wrong on EICI's part to say now that it is towards providing screening services.

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2. Copy of agreement entered into by EICI with Turkish Airlines (**Annexure 2**)
   a) Clause 1.1.1 of the Agreement clearly states that EICI would provide the courier handling services. Section 7-7.2.1(a) or (b), (1),(2),(3),(4),(5) under this clause is in relation to security and screening of cargo services.

      Copy of Annexure A to the Standard Ground Handling Agreement (SGHA) of 2004 as published by IATA is enclosed as **Annexure 3** (page 130) which clearly confirms that section 7.2.1 (a) or (b)(2) refers to screening of cargo and or mail.

   b) Clause 1.1.2.4 of the above Agreement clearly mentions that charges for services under Section 7.2.1(b) (2) & (3) will be paid by the carriers or their shipper directly to agency providing the service at the rate specified by that agency from time to time. The fact that EICI is charging and collecting x-ay screening charges directly from all airlines confirms that it is EICI which is providing this service to airlines.

   c) Clause 2.5 of the above Agreement mentions in clear terms that EICI has appointed CSC its sub-contractor for providing cargo handling services but it shall be responsible for proper rendering of cargo handling services as if they had been performed by EICI itself.

3. Copy of sample invoice raised by CSC on EICI is enclosed as **Annexure 4**, which confirms that CSC is providing screening services to airlines on behalf of EICI for which EICI is paying REDACTEDper ton to CSC and collecting REDACTEDper ton from airlines for the same.

From the above it is clear that it is EICI which is providing x-ray screening services to airlines, may be through CSC and collecting charges for the same directly from airlines and paying to CSC its charges and to MIAL for using its infrastructure at Express Terminal.

Thanking you,

**Yours sincerely,**
**For Mumbai International Airport Pvt. Ltd.**

**Vinod Hiran**
**CFO & Company Secretary**

**Encl: As Above**

Mumbai International Airport Pvt Ltd
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ENERGY
AIRPORTS
TRANSPORTATION
REALTY
HOSPITALITY
LIFE SCIENCES

Annexure 1



# Mumbai International Airport Pvt Ltd

Dated: 11th December'08

To,
Mr. Vijay Kumar,
Chief Operating Officer,
Express Industry Council of India
Mumbai

**Sub: Screening of Export express Cargo under Regulated Agent Status at Express Terminal, Mumbai**

Dear Mr. Vijay,

This is further to the discussion our president Mr. Rajeev Jain had with Mr. R. G. Panicker, CEO, Cargo Service Center India (CSC) with regard to the above subject.

Pursuant to the appointment of CSC as a Regulated Agent at Express Terminal, Chhatrapati Shivaji Int'l Airport, Mumbai International Airport Limited (MIAL) hereby appoints and authorizes CSC to provide security screening of export cargo to all the airlines operating at Express Terminal with effect from 1st Jan'09, alongwith Air India.

CSC shall sign a service agreement with the individual Airline customers and/or Express Industry Council of India (EICI) in order to provide the security screening services. For performing the security screening services, CSC shall be paid REDACTED per ton of cargo screened or physically examined, on a monthly basis. Currently, there is no service tax leviable on the screening services provided in relation to Export. However, if the same is introduced in future, the same shall be charged additionally. Further, the said screening service charges do not include any other taxes or levies payable to any authorities; and shall be charged additionally if and when levied.

In order to simplify administrative procedure, CSC shall raise the monthly invoice to EICI for the said services rendered as per the specified charge.

For usage of MIAL infrastructure at the Express Terminal, EICI shall pay REDACTED REDACTED per ton of cargo screened or physically examined to MIAL plus taxes and levies as applicable.

It is also made clear that the risks arising out of performance of screening services shall totally rest with CSC and EICI in their capacity as the Regulated Agent and the Custodian of the Express Terminal respectively. CSC and EICI shall at all times keep MIAL indemnified against any claims made by any entity / entities with respect to screening services. CSC and EICI shall take appropriate insurance (both statutory and otherwise) and shall submit copies of the policies to MIAL by December 27th, 2008.

Further, CSC shall also submit a copy each of the agreement/s entered by them with EICI and the other trade bodies (including airlines) availing screening services of CSC at the Express Terminal.

For Mumbai International Airport Pvt. Ltd.,

Authorised Signatory

We hereby confirm the above arrangements

Authorised Signatory
CSC India
CARGO SERVICE CENTER (I) PVT. LTD.
CHIEF EXECUTIVE OFFICER

Authorised Signatory
EICI
For Express Industry Council of India
Authorised Signatories

c.c. Cargo Service Center

Chhatrapati Shivaji International Airport

GVK

Air Cargo Complex, Sahar Road, Andheri (East), Mumbai - 400 099 • Tel +91 22 2682 8400 • Fax +91 22 2682 8401
EPABX +91 22 2681 3211, 2681 3320, 2681 3806, 2681 3394 • 24 x 7 +91 22 2682 8431 & 2681 3733

Annexure



CARGO SERVICE CENTER

To

| | | |
|---|---|---|
| Express Industial Council Of India | **Invoice No :** | BCT/SCR/EXP/FEB13 |
| Accounts Department. | **Period :** | 01-FEB-13 TO 28-FEB-13 |
| 501, Crystal Centre, Raheja Vihar, | **Invoice Date :** | 02-Mar-13 |
| Chandivali Farm Road, | **Service Tax No. :** | AAACC4945M/ST001 |
| Mumbai - 400 072. | **PAN No. :** | AAACC4945M |
| | **Category :** | Airport Services |
| | **Station** | Mumbai |

| **Service Description** | **Quantity in kgs.** | **Amount in Rs.** |
|---|---|---|
| Courier Handling - Export Screening Charges | | |

Total ( Excl.Taxes / Levy ) :

**Service Tax on Export Services @ 12%** REDACTED
**Education Cess @ 2%**
**Secondary & Higher Education Cess @ 1%**

**For Cargo Service Center India Pvt. Lt Total in our favour:** **INR**

**Authorised Signatory**

Terms & Conditions :

Interest @ 14% per annum will be charged for payment made after 30 days of the bill date.
Please pay by crossed cheque favouring Cargo Service Center India Pvt. Ltd., payable at Mumbai.

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Express Industry Council of India

EICI/ACCT/1209
19th March 2013

The Secretary
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Madam,

Sub: Multi Year Tariff Proposal and Annual Tariff Proposals Submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai

We are in receipt of your aforesaid letter bearing File No. AERA/20010/MYTP/EICI/C/Mum/2011-12/Vol-I/3478 dated 11 March 2013 which was received by us just before closing hours on the evening of 15 March 2013, directing us to submit certain further clarifications, based on a reply received by AERA from MIAL.

At the outset we wish to submit that the letter written by MIAL based on which clarifications have been sought has not been provided to us. We request you to kindly forward us a scanned copy by return email at my email id vijay@eiciindia.org to enable us to effectively respond and place our submissions before you for an effective stake holder consultation process.

We also wish to submit that we have already submitted substantial written evidence on record which leaves little room for ambiguity that MIAL is indeed the provider of the x-ray machine for which it is charging a sum of Rs 2.60/ per kg to Rs 3.25 per kg which were provided to you in our earlier letters dated 17th December 2012, 11th January 2013 and 18th February 2013 along with copies of supporting documents.

We are however filing this brief reply and shall send a detailed response as soon as we receive the correspondence with MIAL from you.

At the meeting referred to by you in your said letter, we had explained the reasons as to why MIAL should be seeking the tariff approval for providing x-ray machines and while concluding the meeting, no further documents were requested from us. At the meeting the following issues and questions which were germane to the issue at hand i.e. MIAL and its role in charging for x-ray machines emerged for which MIAL had been asked to provide answers and which included the following:

1. Whether the x-ray machines at EICI, Mumbai are owned by MIAL ?
2. Whether these x-ray machines were purchased from EICI as MIAL did not permit EICI to use its own x-ray machines?



Express Industry Council Of India
501, Crystal Centre, Raheja Vihar,
Off. Chandivali Farm Road, Powai, Mumbai - 400 072.
Tel. : +91 22 4057 1111 Fax : +91 22 4057 1100 www.eiciindia.org

Express Industry Council of India

3. Why did MIAL not permit EICI to use its own machine when EICI was offering the use of the machine to its users at the rate of Rs 1.75 per kg inclusive of the (a) use of the x-ray machine and (b) the screening and operation of the x-ray machine and instead did not permit EICI to offer these services on its own?
4. Why MIAL levied a charge for use of the x-ray machine at Rs 2.60 per kg for shipments screened by CSC and a charge of Rs 3.25 per kg for shipments screened by users engaging entities other than CSC i.e. by the airlines themselves when EICI was willing to offer the same service at Rs 1.75 per kg at a flat rate and in fact provided the services at that rate for the period from 20 April, 2010 to 31 May, 2010?
5. Is it true that MIAL appointed and authorized CSC to provide screening i.e. operation of the x-ray machine at EICI and was hence the one who appointed and authorized CSC and also fixed the tariff for screening at Rs 650 per ton or Rs 0.65 per kg for screening export cargo vide their letter dated December 11,2008
6. MIAL was required to explain that while their Invoices to EICI are titled Revenue share invoice, was it true that the revenue share was a misnomer and mis-representation as the actual revenue retained by EICI was 0% and that taken by MIAL was 100%? Hence how the same could be construed as a revenue share?
7. MIAL was also asked to explain certain references to Rule 4, Rule 5 and Rule 6 in their Invoices which were cryptic?
8. MIAL was asked to explain how it could maintain that it was not the service provider of x-ray machines when it was paying service tax as a service provider and also mentioned its service tax number on the Invoice which mentioned that the same was for Aeronautical Services?
9. MIAL was also asked to explain why it was charging differential tariffs for the same service i.e. provision of x-ray machines at the cargo terminal as compared to the EICI terminal as it was charging Rs 1.75 per kg at the Cargo Terminal and Rs 3.25 per kg at the EICI terminal?
10. Was the tariff for x-ray screening set by MIAL or by EICI?
11. If it was set by MIAL then how could EICI be expected to seek tariff approval for a tariff that it had neither set nor had any control on nor it was permitted to offer to users when MIAL itself was responsible for the same?

We are sure that MIAL would have provided answers to the above questions, however we request you to kindly provide us a copy of the reply to understand why you deem the issue to be inconclusive given the strong evidence on record which clearly establishes that MIAL is the entity which is providing the x-ray machine and deciding the tariff for the use of the same. The supporting documents which establish our stand have already been placed on record, however we will file the same again once we know what specific issues need a clarification.

Express Industry Council of India

We hence most humbly and earnestly submit and request you to:

(a) **Please take cognizance of the fact that it is now almost 2 years since we filed our proposal and despite repeated pleas to AERA to approve our tariff at Mumbai, the same is yet to be approved even when we have requested that the tariff as filed excluding x-ray screening be approved as it can be approved later.** While MIAL does not stand to lose by this delay EICI as an industry body is bleeding with every passing day and this fact has been reiterated in almost every submission to AERA for the past 6 months. **Hence we request that our MYTP be approved without any further delay as it will be meaningless to approve the tariff after most of the control period has elapsed and will neither be fair on the users nor on the service provider.**

(b) Ensure that we are given an **adequate opportunity to respond and clarify to ensure that transparent and effective stakeholder consultation takes place and are provided a copy of the answers to the questions and issues raised during the meeting with AERA as listed above.**

(c) **To give us an opportunity for personal hearing** in case any decision contrary to our stand is taken as it appears that certain documents placed on record have not been considered?

**We do hope that you will approve our tariff immediately for Mumbai excluding the x-ray screening tariff as well as the MYTP for Bengaluru which has also been pending now for a while.**

Thanking you,

Yours sincerely,
**For Express Industry Council of India**

**Vijay Kumar**
**Chief Operating Officer**

Annexure - VII

Express Industry Council of India

EICI/AERA/018
04th April 2013

The Secretary
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Sub: Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai – reg.

Madam,

In furtherance of our letter dated 19th March 2013, EICI would like to draw your kind attention to the need for adoption of a non-discriminatory policy with respect to usage of equipment at airports including inter-alia x-ray machines and to bring about parity in charges for x-ray screening with the cargo charges in accordance with the public policy in accordance with the Foreign Trade Policy tabled in Parliament by the Commerce Minister.

We place on record for your reference and record the relevant documents laying down the public policy.

In 2010 the Government of India set up a Task Force for implementing measures to reduce transaction costs in India's exports. The Task Force on Transaction Cost comprising a High Level Committee was headed by the Minister of State for Commerce and had representation from various Ministries including the Ministry of Civil Aviation. The Task Force was set up to assess the procedural cost based bottlenecks affecting India's exports and imports under the aegis of Ministry of Commerce in 2009.

The rationale of setting up the task force was summed up by the Minister of State for Commerce in his foreward to the repost which is reproduced hereunder:

> *"4.....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."*
>
> *"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."*



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The recommendation for Ministry of Civil Aviation included ra[illegible] charges levied by airports for x-ray screening in line with General Cargo Warehouse rates. The Hon'ble Minister while tabling the report in Parliament indicated that the issue relating to rationalizing of x-ray charges by the Ministry of Civil Aviation has been closed and implemented as highlighted at serial number 4 of issues implemented, hence any tariff approved differentiating between these costs will violate the policy.

The relevant recommendation of the Task Report is reproduced hereunder for ready reference:

*"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 8 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."*

This report of the Task Force which became a part of Chapter 3 of the Foreign Trade Policy tabled in Parliament observes that the Ministry of Civil Aviation had resolved this issue and brought about parity by ensuring reduction in the rates for x-ray charges for courier cargo to bring them at par with the rates for x-ray screening of general cargo.

The Working Group Report for Air Cargo Logistics in India set up under the aegis of the Ministry of Civil Aviation and published on 07.05.2012, also recommended the requirement for ensuring that discriminatory treatment with respect to usage of equipment at airports including inter-alia x-ray charges should not be permitted. The relevant extract of the same is reproduced hereunder for ready reference:

*"8.5 Initiatives needed from Airports Economic Regulatory Authority of India*

*8.5.1 Non-discriminatory treatment to all users*

*8.5.1.1 ICAO principle requires non-discriminatory charges for access and charges for that access. Discounts of 15% landing charges applicable on domestic flights for prompt payment of airport charges are not extended to Scheduled Cargo operators. Most of the airport operators including AAI are said to be providing facilities treating Express delivery companies at par with duty free shops as they are required to undergo a system of bidding for space rather than direct allotment. While such a system would be considered appropriate for non aeronautical facilities, it is important to appreciate the role of air express operations and express cargo as a whole being a key aeronautical activity and not an ancillary*

Express Industry Council of India

*non aeronautical activity akin to duty free shops.* ***<u>There</u>*** [illegible] ***<u>need for regulatory intervention with a solid regulatory framework recognizing Express Cargo as an integral aeronautical activity with due importance being given to it based on its role as a catalyst. Discriminatory charges for x-ray screening: Charges for using the equipments such as X ray machines cannot be discriminatory. Differential rates for using the equipments may have to be reviewed specifically to ensure that discriminatory treatment is not allowed to continue.</u>***

It is accordingly requested that AERA while approving the tariff for x-ray screening should ensure that the same is in accordance with the public policy adopted by the Government of India in the Indian Foreign Trade Policy. (AERA is clearly required to exercise their right and perform their statutory duty as a Regulator to regulate the tariff for x-ray screening for courier express shipments to bring them at par with the rates of general cargo as per the public policy and in the public interest.

We have already in our submissions clearly stated that we had implemented parity in the cost of x-ray screening at the courier terminal by reducing rates and making them at par with the rates at the cargo terminal. As already explained during our meetings and written submissions MIAL insisted on maintaining higher rates for courier x-ray machine usage. As we have already explained we have no control over these rates charged by MIAL. At the same time we also understand that AERA is still deciding the approval of this tariff and hence we deemed it appropriate to bring this policy to your kind notice. The same may kindly be considered while approving the tariff.

We once again urge you to kindly expedite the approval of our tariffs as this process has been pending for 2 years now. We once again reiterate that in case the x-ray screening issue is delaying the approval the same may be de-linked and the rest of the tariff approved.

Thanking you,

Yours sincerely,
**For Express Industry Council of India**

**Authorised Signatory**

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Encl:

1. Task Force Report on Transaction Costs
2. Foreign Trade Policy
3. Working Group Report for Air Cargo Logistics in India

-255-

सत्यमेव जयते

# Task Force on Transaction Cost in Exports
# A Report

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

# Task Force on Transaction Cost in Exports

# A Report

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

प्रणब मुखर्जी
PRANAB MUKHERJEE

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

# 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

## 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.

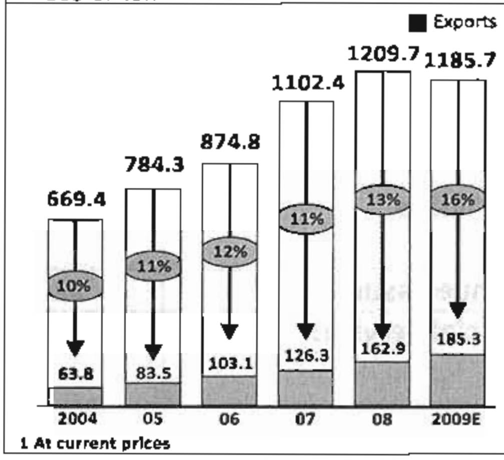
# CONTENTS

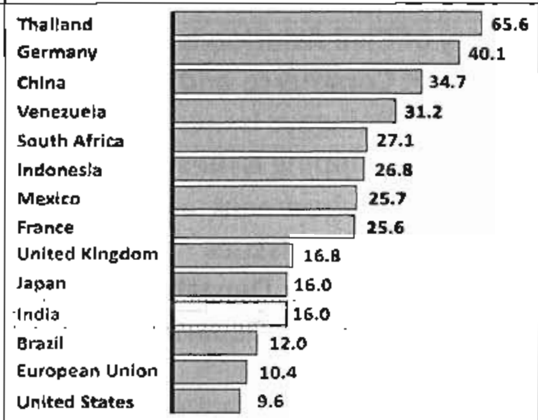
# INTRODUCTION

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 |

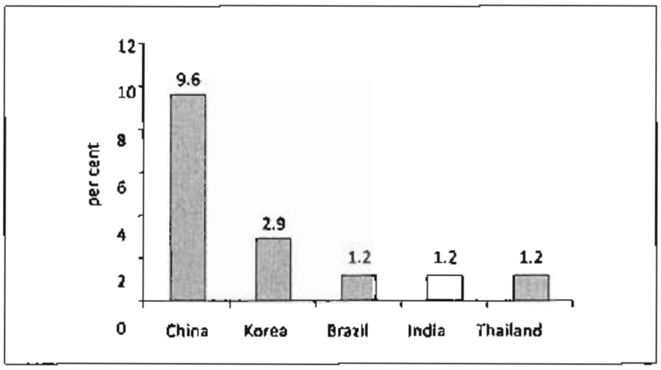



***Source: Ministry of Commerce & Industry***

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.

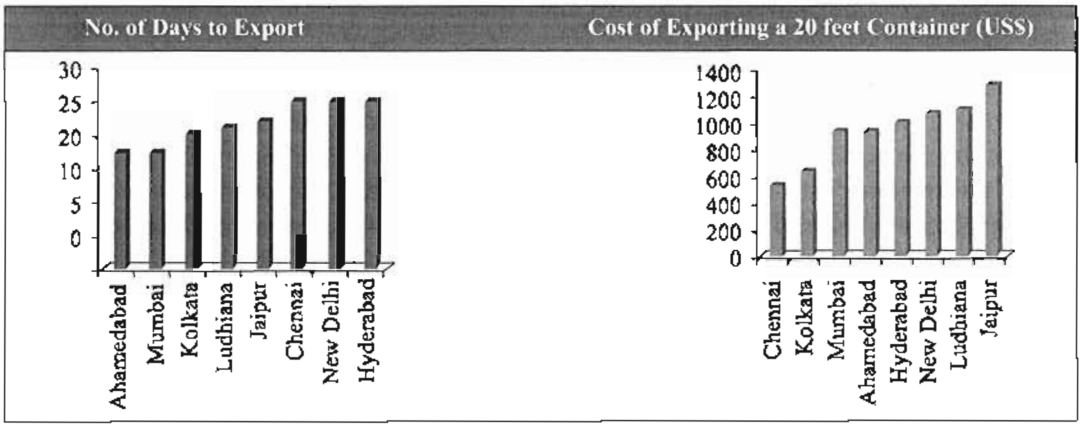
To boost exports and FDI, the government has given renewed emphasis on trade facilitation by providing appropriate changes in trade policies and procedures from time to time so that exporters can compete in a competitive global environment. A shift from a rigidly administered export administration to 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.

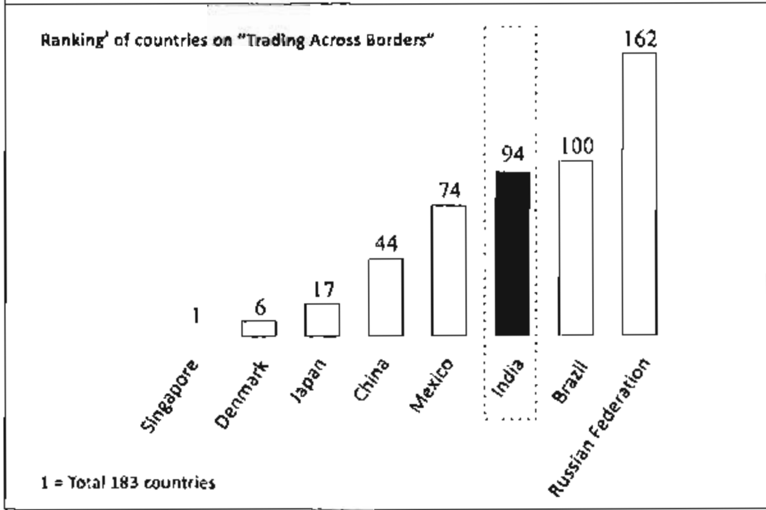
**EXHIBIT 3**




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**



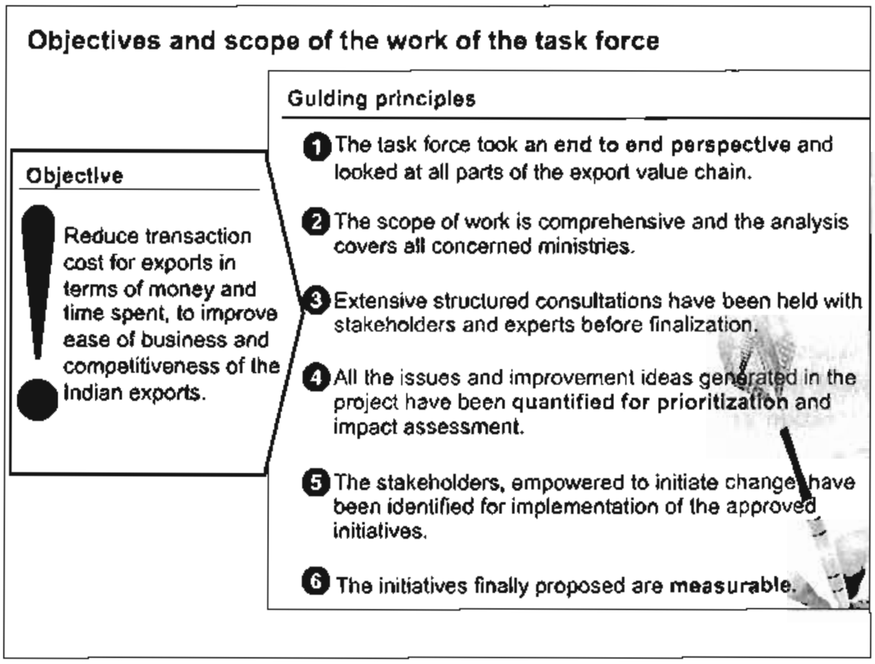

Another key concern for export related transaction costs is that compliance and trade facilitation issues often impact different sectors with different degrees. For example, the exports of fruits, vegetables and organic products face a far greater challenge in meeting health and safety issues than say, 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).

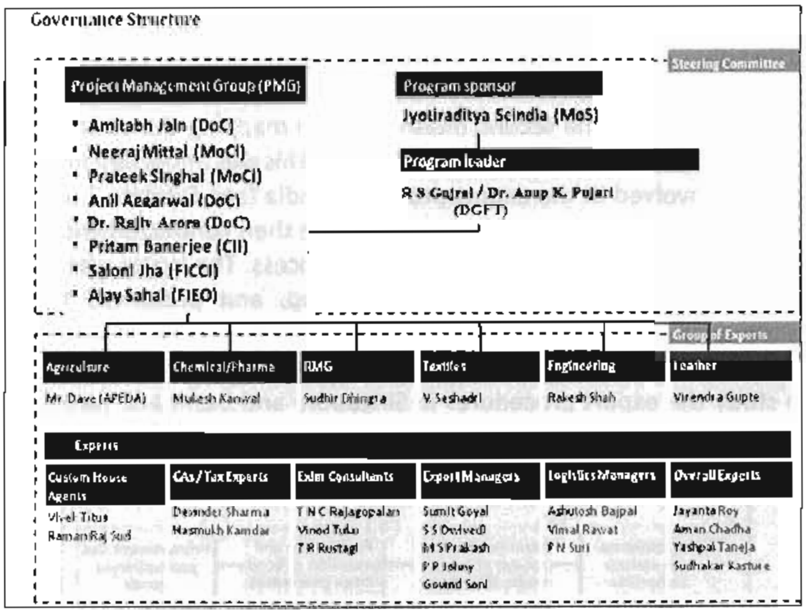
**EXHIBIT 5**




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

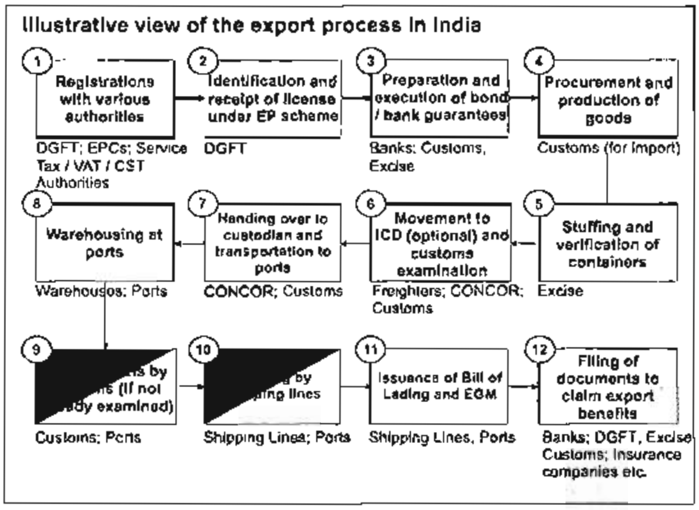
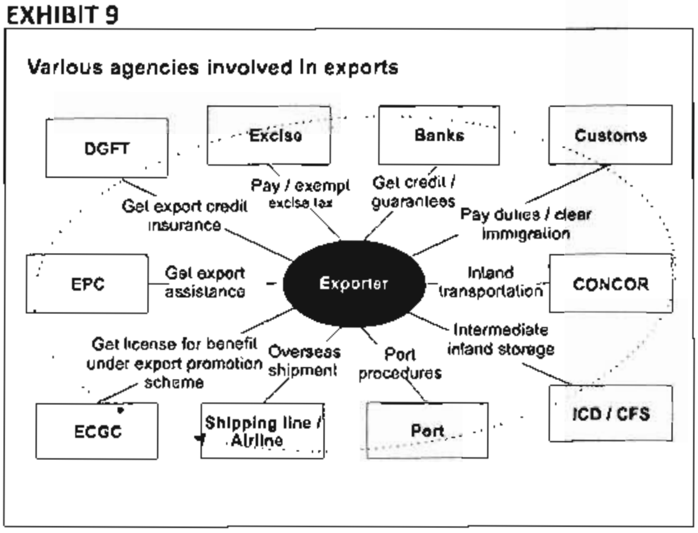



**EXHIBIT 9**



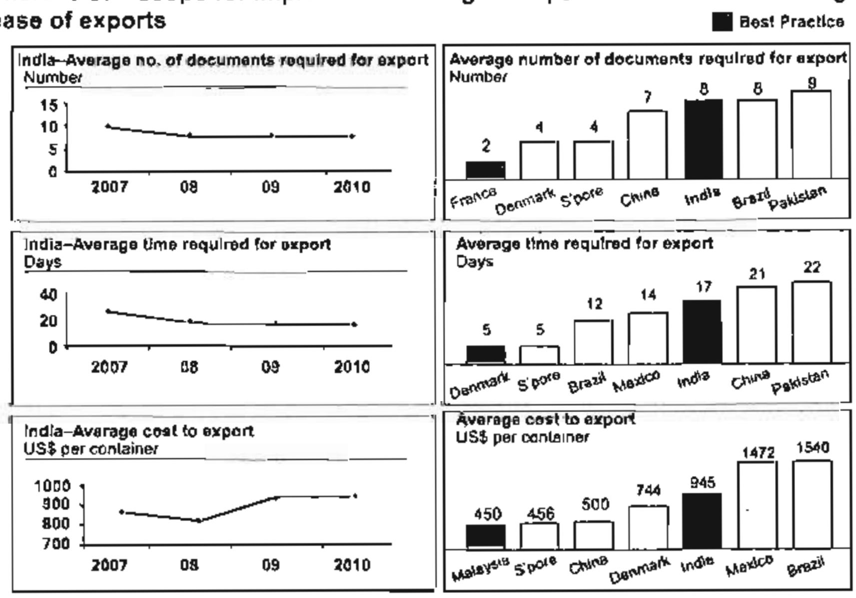

Thereafter, the leadership of the Task Force took up the proposed solutions with the concerned officials of the other ministries. The issues and proposed solutions were then discussed by Hon'ble Minister of State for Commerce & Industry and DGFT with other concerned Administrative Ministries. Feedback 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**

**There is still scope for improvement along most parameters characterizing ease of exports**




***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<br>? 34 agencies are maintaining connectivity with this web based online system<br>? Single UEN registration number required | ? Single-window service provided through e-Customs<br>? 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<br>? Level of physical examination is also minimal and is largely non-intrusive and is technology driven | ? Only 2-5% goods are physically examined<br>? 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<br>? Revenue<br>? Banking | 25<br>? 14<br>? 11 | 15<br>? 10<br>? 5 | 9<br>? 5<br>? 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.<br>- offline software for filing advance authorization and EPCG applications on DGFT server,<br>- 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 - 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.

# 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 All 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

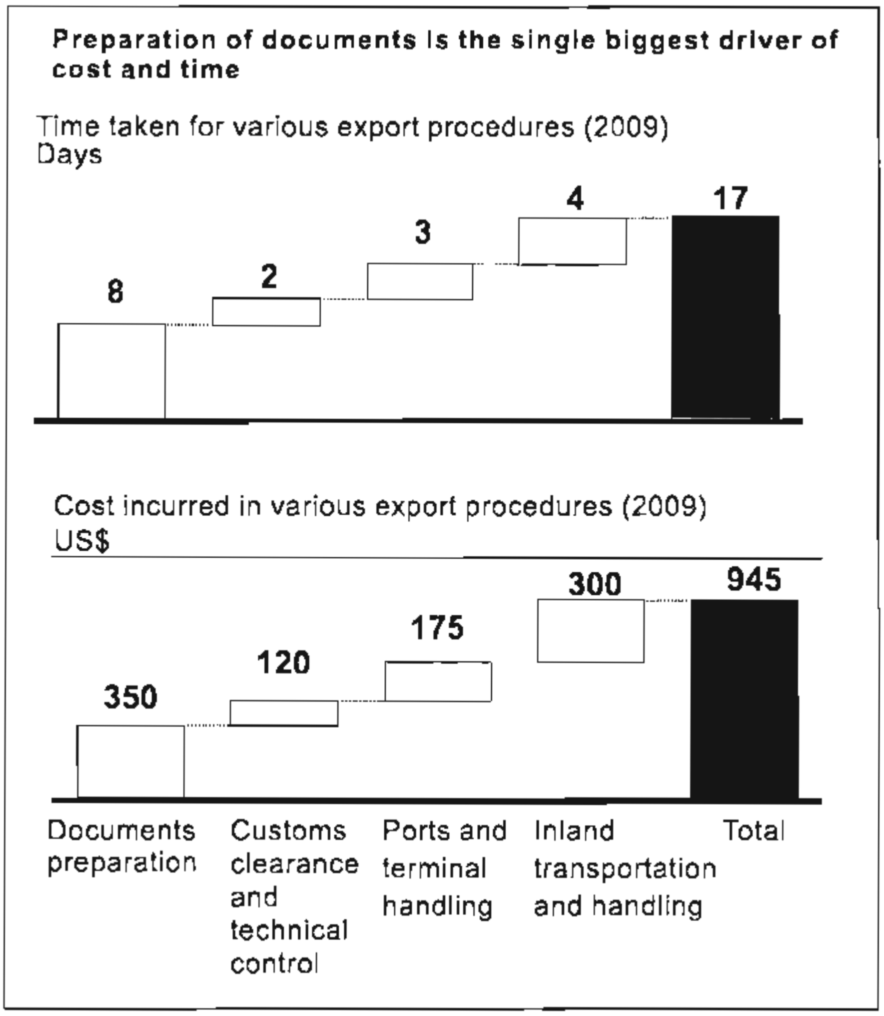
## ESTIMATES OF TRANSACTION COST

# 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**



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

**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**

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| 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)**

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

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| 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 |

| 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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Directorate General of Foreign Trade
Ministry of Commerce & Industry
Government of India

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# Air Cargo Logistics in India

## Working Group Report

**7th May, 2012**

**Ministry of Civil Aviation,**
**Government of India**

## Foreword

Air Cargo Logistics play a vital role in the economic development of a nation. Airlines, Air Cargo terminal operators, Ground Handling service providers, Integrated Express Service Providers, Forwarders, Domestic Cargo Transport service providers and Custom House Agents are the key players in the entire Air Cargo supply chain. Thus the Air Cargo industry presents a wide variety of service providers coming together to move goods both domestically and internationally with a single minded purpose of faster and efficient delivery. These business entities in Air Cargo logistics industry in turn interact with a number of cross-border regulatory agencies the principal among them is the Customs establishment. Speedier services in the Air Cargo supply chain facilitate large number of business entities to become more competitive. Globally, more than one – third of the value of goods traded internationally is transported by air and therefore Air Cargo industry is considered as a barometer of Global Economic Health. From the point of view of Airline industry, Air Cargo Services contribute near about 20% of their revenue. India's international Air Trade to GDP ratio has doubled from 4% to 8% in the last twenty years.

Keeping in view the significance of Air Cargo to the economic growth of the country, it was decided to set up a Working Group on Air Cargo / Express Service Industry in the Ministry of Civil Aviation to recommend policy initiatives to address important issues considering the long term perspective and future growth potential in India. The Working Group was chaired by Economic Adviser, Ministry of Civil Aviation and represented by members from all the key stakeholders of the Air Cargo Logistics industry in India. I have had the pleasure of chairing two sessions of the Working Group meetings myself. The Working Group in fact brought together all the key stakeholders of the industry in one platform to discuss and deliberate the challenges of growth opportunities in the context of faster pace of economic growth in India and to identify areas that require further improvement.

Forecast of Air Cargo volume for India made in the report suggests that the domestic and international Air Cargo throughput is expected to grow by eight to ten times the present level in the next twenty years. Catering to the growth of this magnitude would involve expansion of infrastructure facilities, simplification of procedures and adoption of Information Technology / Automation besides development of Human Resources in the sector.

Having gone through seven meetings since its formation and a number of other meetings by the sub groups under the Working Group and field visits to Air Cargo terminals, the Working Group has now come out with a comprehensive report. I am aware that two drafts of the report were circulated earlier to all the members to seek their suggestions / comments. These have been appropriately incorporated and addressed in this final version of the report. The report contains vital evidences on global best practices governing the Air Cargo Logistics operations. In depth analyses of issues and comprehensive coverage of key aspects of the Air Cargo business leading to specific actionable points with timelines for implementation are the key highlights of this report. Perhaps, for the first time Air Cargo Logistics has been identified to be a key industry as part of Civil Aviation Sector and its role duly recognized.

Recommendations made in the report require action needed from (a) Ministries / Departments of Government of India (b) Central Board of Excise and Customs (c) Bureau of Civil Aviation Security (d) Airport Operators / Custodians (e) Carriers, Air Freight Operators, Custom House Agents and Trade.

One of the major recommendations made in the report pertains to setting up of Air Cargo Logistics Promotion Board, which would be an Inter-Ministerial Group that can steer through the reforms suggested in this report for achieving the goals and objectives set out for the future of the Air Cargo Logistics sector in India.

I am sure that the respective agencies would accord due priority to the action points arising out of the recommendations made in this report.

Nasim Zaidi

(Dr. Nasim Zaidi)

Secretary, Civil Aviation

# 2 Introduction

## 2.1 Overview

2.1.1 The strong relationship between growth in international trade and logistics infrastructure is widely acknowledged. Growth in trade induced requirement for supporting infrastructure while availability of infrastructure at competitive rates promotes trade and improve global competitiveness of the country. Availability of infrastructure is also a key determinant of foreign direct investment (FDI) inflows. In developing countries like India an efficient logistics infrastructure can reduce cost of transportation which in turn can contribute directly to global competitiveness of the country. Efficient logistics industry acts as an economic catalyst by opening up new market opportunities, moving products and services with speed and efficiency.

2.1.2 The demand for air cargo transportation has increased significantly over the last few years, because product life cycles have shortened and demand for rapid delivery has increased. Changing business models such as Just- in-Time Manufacturing and Global out sourcing models have contributed to the rapid growth of air cargo logistics business. In such a changing business environment, where speed-to- market is a competitive imperative, movement of inventory is no longer viewed as a compartmentalized process. Rather, the sourcing of inputs, parts and components and the delivery of final product are all viewed as a continuous value-adding chain. Efficient supply chain management therefore offers significant benefits including lower inventory and intermediary costs; and simplicity in order placement, delivery and management of suppliers and customers. These benefits directly contribute to making businesses more competitive.

2.1.3 Evidence from the 2007 and 2010 Logistics Performance Index (LPI) indicates that, for countries at the same level of per capita income, those with the best logistics performance experience an additional growth of 1% in Gross Domestic Product and 2% in trade. These findings are especially relevant today, as developing countries need to invest in better trade logistics to emerge in a stronger and more competitive position. India's LPI rank in 2010 was 47 down from 39 in LPI 2007. In comparison to India, China's 2010 LPI rank was 27 and Brazil was ranked at 41[1] . This should be a matter of grave concern to India.

[1] Logistics Performance Index and Its Indicators 2010 World Bank Report

2.1.4 Air cargo represents about 10% of the airline industry's revenues. As 35% of the value of goods traded internationally is transported by air, air cargo is a barometer of global economic health[2].The fortunes of the transport and logistics industry are closely connected to the economic cycle. When economic activity is buoyant, demand for transport and logistics services is equally strong. Consumer and business demand for goods and services inevitably translates into higher demand for transport and logistics services3.

2.1.5 Indian Economy is on the higher trajectory of growth. Forecasts suggest that the growth prospects are likely to continue for more than two decades. That means, requirements for augmentation of infrastructure facilities in the logistics space to cater to the growing needs of the trade and industry will be immense. Opportunity cost of not meeting such requirements in a timely manner is very high. While improving efficiency is a continuous process, international bench marks help us in assessing the current state of affairs. Based on best practices, and based on concept of proof, what needs to be done in the Air Cargo sector, by whom and how, could be identified for preparing a road map for implementation This is the primary focus of this report which is a culmination of discussions in a large number of meetings of the Working Group and the Sub-groups formed on various issues, feedback received from trade/industry and other stakeholders.

## 2.2 Air Cargo Logistics Operations

2.2.1 The air cargo industry incorporates an industrial supply chain, which includes airlines, customs, ground services, air cargo forwarders, brokers, domestic transportation, air cargo terminals, distribution centers and integrated international express services. Of these, air cargo terminals are critical in the air cargo supply chain. A typical air cargo terminal has three main users – airlines, air cargo terminal operators and forwarders/cargo-agents who are the principal contributors to the revenue of air cargo terminals.[4]

[2] IATA
[3] Q Finance Transport and Logistics
[4] Chih-Hsien Chen and Dr. Shuo-Yan Chou, " A BSC Framework for Air Cargo Terminal Design: Procedure and Case Study" Journal of Industrial Technology, January - March 2006

2.2.2 The demand for air freight is limited by cost, typically priced 4–5 times that of road transport and 12–16 times that of sea transport. These values differ from country to country, season to season and from product to product and for different volumes also. Cargo shipped by air thus have high values per unit or are very time-sensitive, such as documents, pharmaceuticals, fashion garments, production samples, electronics consumer goods, and perishable agricultural and seafood products. They also include some inputs to meet just-in-time production and emergency shipments of spare parts. As the volume of air freight grows, there is a natural progression from passenger aircraft to chartered cargo planes of increasing size and ultimately to scheduled cargo services.[5]

## 2.3 Stakeholders

2.3.1 It is important to understand business models of different entities and various processes involved in the entire business of Air Cargo as these are not the same for everyone that are involved in the Air Cargo / Express Delivery service industry in India. International air cargo business is concerned with the transportation of goods by air on International flights both for import of cargo into and export of cargo out of India. Domestic air cargo business is concerned with carrying goods by air through the domestic flights operating within the country. Within that, cargo that is transported by passenger flights through the belly space of aircraft is one and by dedicated freighter aircraft is another variant.

2.3.2 At another level, Express Delivery Services have emerged as a key product in recent times as compared to the conventional General air Cargo services. Express delivery services when rendered through the Scheduled passenger Flights, are known as Air Express operators. Express airlines, both domestic and foreign, operate dedicated freighters and have their own unique requirements based on customer demand, the growth in volumes handled etc.

2.3.3 In the conventional model of International air cargo business, while air carriers draw the lion's share of attention, freight forwarders and other allied services fill critical roles in the development of air cargo operations. In many developing markets, freight forwarders either supplement or wholly replace the carrier's own in-country sales efforts, while also performing customs agency and other critical functions on behalf of shippers.

[5] "Air Freight - A Market Study with Implications for Landlocked Countries Market Study", Transport Papers, World Bank, August 2009, Washington DC

2.3.4 Forwarders are critical to carriers in markets in which foreign carriers are less inclined to maintain their own sales forces. Although a large market with increasing presence from global cargo operators (often through acquisitions and partnerships with national entities), India still has a substantial presence of national forwarders. National forwarders are said to often enjoy uniquely strong relationships with national carriers, thereby gaining access for their customers to the precious limited capacity of such carriers during peak seasons.6 This business again is highly fragmented in India like the other related business activity being discussed here.

## 2.4 Express Delivery Services

2.4.1 Globalization of business transactions, shift to just in time manufacturing and inventory control methods and, growing requirement of industries of all types to ship products quickly by air to distant customers are the key driving forces in the development of Express Delivery Services. The Air Express industry worldwide is both domestic and international. The main features of the Air Express industry include: Speed of Service, Door-to-door Delivery including completion of all cross border regulatory requirements, Tracking Systems, Proof of Delivery, Security and Reliability and access to global connectivity to their customers.

2.4.2 The size of India's express service industry in 2006 was pegged at around Rs.7, 100 crores and in 2010 it is estimated at Rs 10,000 crores[7]. India's express service industry is largely fragmented with more than an estimated 2,500 entities. In terms of strength, the organised segment consisting of a few players control about two-third of the industry revenues. The organised segment includes Key global Integrators DHL, FedEx, TNT and UPS. While, FedEx, TNT and UPS operate their own international freighters, DHL has tie ups with commercial cargo airlines. In the domestic segment, the key players include Blue Dart, First Flight, DTDC, Skypak, Overnight, Professional Couriers and many others. [8] Blue Dart Aviation is an important player in the Express Aviation sector in India. It follows that the air cargo industry has three primary types of carriers; combination carriers (passenger airlines that use a portion of their "belly-hold" capacity to carry cargo and may also operate separate air cargo fleets), conventional all-cargo carriers operating both scheduled and charter services, and integrated (express) carriers operating their own fleet of aircraft and delivery vehicles providing overnight, door-to-door service.[9]

[6] ibid
[7] Express Industry Council of India's Submission to Working Group
[8] ibid
[9] ibid

2.4.3 Thus, we have a range of stakeholders in this crucial business of Air Cargo logistics operations in India. While most of the discussions in the report will be common, wherever required, distinction will be made to highlight key problems that are unique only to one segment. Unless otherwise specified, reference to Air cargo logistics operations in this report would also include the Express Delivery Service industry and domestic cargo.

### 2.5 Domestic Cargo

2.5.1 Strong macroeconomic fundamentals, growth in retail driven by rising levels of disposable income in the hands of more and more people, expansion in domestic air Network by Indian Carriers, End to End solutions by Express Service Providers, growth of new time sensitive verticals like Pharmaceuticals, Healthcare, Electronics, wireless telephony, and Automotive Spares etc. are said to be the factors responsible for the rapid growth of Domestic Air cargo logistics business. There are in all, 500 plus Air Cargo Players in the Domestic Sector with 75 at National and regional level providing direct and indirect employment of about a million on pan India basis.[10] The industry was valued at Rs. 2015 crores in 2007 – 2008. 82% of cargo transported as belly cargo in Domestic Airlines. Interline Cargo from International Line haul for Domestic Carriage grew from a share of 4.78% in 2007 – 2008 to 6.55% in 2009 – 2010 of the total Domestic Air Cargo business.[11]

[10] Submissions by Domestic Air Cargo Agents Association of India to the Working Group
[11] ibid

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## 8.5 Initiatives needed from Airports Economic Regulatory Authority of India

### 8.5.1 Non-discriminatory treatment to all users

8.5.1.1 ICAO principle requires non-discriminatory charges for access and charges for that access. Discounts of 15% landing charges applicable on domestic flights for prompt payment of airport charges are not extended to Scheduled Cargo operators. Most of the airport operators including AAI are said to be providing facilities treating Express delivery companies at par with duty free shops as they are required to undergo a system of bidding for space rather than direct allotment. While such a system would be considered appropriate for non aeronautical facilities, it is important to appreciate the role of air express operations and express cargo as a whole being a key aeronautical activity and not an ancillary non aeronautical activity akin to duty free shops. There is thus a clear need for regulatory intervention with a solid regulatory framework recognizing Express Cargo as an integral aeronautical activity with due importance being given to it based on its role as a catalyst. Discriminatory charges for x-ray screening: Charges for using the equipments such as X ray machines cannot be discriminatory. Differential rates for using the equipments may have to be reviewed specifically to ensure that discriminatory treatment is not allowed to continue.

### 8.5.2 Need for Consistent policy on allotment of facilities

8.5.2.1 There is no consistent policy for allotment of common user and dedicated facilities and they are leased facilities for a short timeframe of 3 to 5 years and given short extensions annually with demands for huge escalations. This leads to lack of clarity and inability to budget future investments for development of world class infrastructure. Lease rentals are said to be arbitrary and demands are made for an increase in rentals contrary to all norms. The lease rentals for dedicated and common user facilities given to EDS operators should be regulated and subject to tariff control orders.

### 8.5.3 Monitoring and enforcement of service levels

8.5.3.1 Service levels to be mandated by MoCA, as envisaged in the AERA Act, need to be monitored by AERA.

Annex: I.

F. No. AV. 13011/13/2011-ER
Government of India
Ministry of Civil Aviation

"B" Block, Rajiv Gandhi Bhawan,
Safdarjung Airport, Aurobindo Marg,
New Delhi, Dated 17.01.2011

**ORDER**

Subject: **Setting up of a Working Group on Air cargo/Express Service Industry under CAEAC.**

In pursuance of the decision taken in the First meeting of Civil Aviation Economic Advisory Council held on 13.12.2010 and keeping in view the projected rapid growth in the air freight, it has been decided to set up a **Working Group** on Air Cargo/Express Service Industry under Civil Aviation Economic Advisory Council (CAEAC) in the Ministry of Civil Aviation to address the issues related to Air Cargo/Express Service Industry.

2. The Working Group on Air Cargo/Express Service Industry is constituted hereby with the following composition:

| | |
|---|---|
| 1. Representative from Air India Ltd. | Member |
| 2. Representative from Jet Airways | Member |
| 3. Representative from Singapore Airlines | Member |
| 4. Representative from Lufthansa Cargo | Member |
| 5. Shri J. Krishnan, President ACAAI | Member |
| 6. Shri Snehal Parikh, Past President ACAAI | Member |
| 7. Shri Cyrus Guzder, Chairman AFL Group | Member |
| 8. Ms. Tulsi Nowlakha Mirchandaney, Managing Director, Blue Dart Aviation Ltd. | Member |
| 9. Shri R. K. Saboo, Chairman, Express Industry Council of India | Member |
| 10. Shri Vijay Kumar, CEO Express Industry Council of India | Member |
| 11. Representative from Air Bus | Member |
| 12. Representative from Boeing Company | Member |
| 13. Shri Y. K. Goel, General Manager (Cargo), AAI | Member |
| 14. Shri Rajiv Jain, MIAL | Member |
| 15. Representative from DIAL | Member |
| 16. Representative from FIEO | Member |
| 17. Representative from Customs | Member |
| 18. Shri Alok Sekhar, Director, M/o Civil Aviation | Member |
| 19. Shri M. Kannan, Economic Adviser, M/o Civil Aviation | Chairman & Co-ordinator |

3. The Terms of Reference for the Working Group are as under:

1. The Group shall prepare and present the current snapshot of the industry and assess its future growth potential in India.
2. The Group shall study the existing system of Air Cargo/Express Delivery Services handling in India and identify areas that require further improvements to seize the emerging opportunities in the international trade and in the context of faster pace of economic growth in India.
3. The Group shall establish priorities of issues and recommend policy initiatives to address issues of significant importance to the Air Cargo/Express Service industry in India.
4. The Group shall advise on the action plans to aid implementation and monitor impact of implementation.

4. This Working Group will be serviced by the Ministry of Civil Aviation.

5. The Working Group shall keep the long term perspective in view and not guided by the day-to-day issues of some stakeholders while making recommendations to the Ministry of Civil Aviation. While making recommendations, the Working Group shall also document the best international practices in the Air Cargo/Express Service Industry and their suitability in the Indian context.

6. The Working Group may co-opt any other experts/authorities to contribute to the Working Group as per requirement under intimation to the Ministry.

7. The Working Group shall submit its first report on this subject by 17.03.2011 to the Ministry of Civil Aviation.

8. This issues with the approval of Secretary, Civil Aviation.

(Sarwesh Kumar Arya)
Under Secretary to the Govt. of India

To

1. **Chairman and Members of the CAEAC**
2. **Members of the Working Group**

Copy forwarded to-
- (i) PS to HMCA
- (ii) PS to Secretary
- (iii) AS & FA/JS (N)/ JS (P)/JS(S)
- (iv) Director, Media and Communication
- (v) NIC with a request to upload on the website of Ministry of Civil Aviation

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Annex: II

# List of Members of Working Group on Air Cargo / Express Service Industry & other Experts / Special Invitees

| S.No | Name & Designation | Organization | I Meeting* | II Meeting* | III Meeting* | IV Meeting* | V Meeting* | VI Meeting* | VII Meeting* |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Ajay Mehra, Managing Director | AirBus | √ | √ | x | √ | √ | x | √ |
| 2 | Alok Sekhar, Director | MoCA | x | √ | √ | x | x | x | x |
| 3 | Amitabh Khosla, Country Director | IATA | x | x | √ | √ | x | √ | √ |
| 4 | Anita Khurana, SBU Head Cargo | Air India | √ | x | √ | x | x | x | x |
| 5 | Arvind M. Nayak, President | DACAAI | x | x | x | √ | √ | x | x |
| 6 | Avik Bhattacharya, Director | Boeing | √ | √ | √ | x | √ | √ | x |
| 7 | S.K. Bhatnagar, CA | BCAS | x | x | x | x | √ | √ | x |
| 8 | Cyrus Guzder, Chairman | AFL Group | x | x | x | x | x | x | x |
| 9 | Gaurav Ghuwalewala, Vice President | DACAAI | x | √ | √ | √ | x | √ | √ |
| 10 | Gauri Shankar Sinha, OSD (Customs) | Customs | x | √ | √ | √ | √ | √ | x |
| 11 | Y.K. Goel, General Manager (Cargo) | AAI | √ | √ | √ | √ | √ | √ | √ |
| 12 | K. Govindarajan, Vice President Cargo | MIAL | √ | x | √ | √ | √ | x | √ |
| 13 | Jay Shelat, Vice president | Jet Airways | √ | √ | x | x | x | x | x |
| 14 | J. Krishnan, Past President | ACAAI | √ | √ | √ | √ | √ | √ | x |
| 15 | Piyush Singhal, Manager Sales & Services | Singapore Airlines | √ | √ | x | √ | √ | √ | x |
| 16 | R. G. Panicker, CEO | Cargo Service Center | x | √ | √ | √ | √ | √ | √ |
| 17 | Raghu Shankar, Expert on Customs | ACAAI | x | x | √ | √ | √ | x | √ |
| 18 | Rajiv Jain, President | MIAL | x | x | √ | x | x | x | x |
| 19 | H. Rana, E.D. (Cargo) | Air India Ltd. | x | √ | √ | √ | √ | √ | √ |
| 20 | Ranjit S. Walia, Aviation Law Expert | FEDEX | √ | √ | √ | √ | √ | x | √ |

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Annex: II

| S.No | Name & Designation | Organization | I Meeting* | II Meeting* | III Meeting* | IV Meeting* | V Meeting* | VI Meeting* | VII Meeting* |
|---|---|---|---|---|---|---|---|---|---|
| 21 | R.P. Singh, Director (Customs) CBEC | Department of Revenue | √ | X | X | X | X | X | X |
| 22 | Sanjiv Edward, Head of Cargo | DIAL | √ | √ | √ | √ | √ | √ | √ |
| 23 | Shakti Yadav | Jet Airways | X | X | √ | √ | √ | √ | √ |
| 24 | Snehal Parikh, Past President | ACAAI | √ | √ | √ | X | X | X | √ |
| 25 | Taarok Hinedi, Managing Director | FEDEX | √ | X | X | X | X | X | X |
| 26 | Tirthankar Ghosh, Managing Editor | Cruising Heights | X | X | √ | √ | √ | X | X |
| 27 | B.S. Tiwary, Deputy Commissioner | BCAS | X | X | X | √ | X | X | X |
| 28 | Tulsi Nowlakha Mirchandaney, MD | Blue Dart Aviation | √ | X | √ | √ | √ | √ | √ |
| 29 | Vijay Kumar, COO | EICA | √ | √ | X | √ | √ | X | √ |
| 30 | Vipan Jain, Regional Manager | Lufthansa Cargo | √ | √ | √ | √ | X | √ | √ |
| | **Experts / Special Invitees** | | | | | | | | |
| 31 | Deepa Das, Sr.International Legal Adviser | Federal Express | √ | √ | √ | √ | √ | √ | √ |
| 32 | Arun Ahlawat, | Blue Dart | X | √ | √ | X | √ | √ | X |
| 33 | Puneet Walia | Kale Logistics | X | √ | √ | X | X | X | X |
| 34 | Amar More, Vice president | Kale Logistics | X | X | √ | X | X | X | X |
| 35 | Dushyany Mulani, | BACHAA | X | X | √ | X | X | X | X |
| 36 | Suraj Aggrawal, General Secretary | DACAAI | X | X | X | √ | √ | X | √ |
| 37 | S. Hari, | Indigo Airlines | X | X | X | √ | X | X | √ |
| 38 | Sunil Chopra | IATA | X | X | X | √ | X | X | X |
| 39 | Paul J. Kocheril | CIAL | X | X | X | √ | √ | √ | X |
| 40 | Will Yko | AISATS | X | X | X | √ | X | X | X |
| 41 | Rajiv Ramanathan | SATS | X | X | X | √ | X | X | X |
| 42 | Keshav Tanna | ACAAI | X | X | X | √ | √ | X | √ |
| 43 | Poupard Maththieu | AirBus | X | X | X | X | √ | X | X |
| 44 | Deixonne Olivier | AirBus | X | X | X | X | √ | X | X |
| 45 | Mathachan P.J., Manager | CIAL | X | X | X | X | √ | X | X |

Annex: II

| S.No | Name & Designation | Organization | I Meeting* | II Meeting* | III Meeting* | IV Meeting* | V Meeting* | VI Meeting | VII Meeting |
|---|---|---|---|---|---|---|---|---|---|
| 46 | R.D. Gupta | BCAS | X | X | X | X | X | √ | X |
| 47 | Sanjay khanna, CEO | Celebi Delhi Cargo Terminal | X | X | X | X | X | √ | X |
| 48 | Prithviraj Rautela, Regional Air Freight Manager | DHL Lemu Logistics | X | X | X | X | X | √ | √ |
| 49 | Sanjeev Sikka, Chairman (N.R.) | ACAAI | X | X | X | X | X | √ | X |
| 50 | Venu Bangera | CSC | X | X | X | X | X | √ | √ |
| 51 | S.P. Singh, Deputy Commissioner | BCAS | X | X | X | X | X | X | √ |

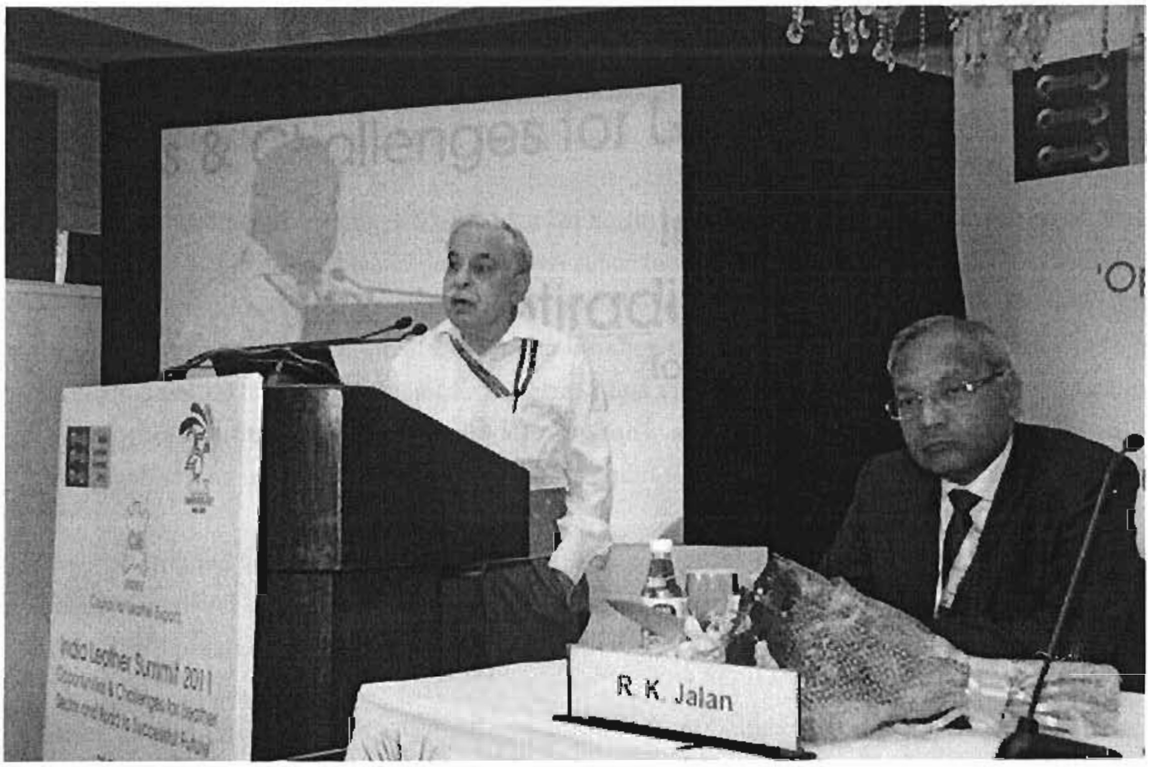
# Chapter-3

# Foreign Trade Policy

## Export Performance and the Foreign Trade Policy (FTP)

Global economic outlook is a major determinant of export performance of any country. India's output and exports were not completely immune to the global economic slowdown of 2008-09. India's exports declined by 3.5% in 2009-10. Export growth rate was 40.5% in 2010-11 and it was around 25.8% during April - December 2011-12 over the same period last year. The immediate and the short term objective of FTP 2009-14 policy was to arrest and reverse the declining trend of exports which was successfully achieved by providing additional support especially to those sectors which were hit badly by recession in the developed world. The Policy envisaged an annual export growth of 15 per cent with an annual export target of US $ 200 billion by March 2011 and to come back on the high export growth path of around 25 per cent per annum in the remaining three years of this Foreign Trade Policy i.e. up to 2014.

The long term policy objective for the Government was to double India's share in global trade by 2020.




Dr. Rahul Khullar, Secretary, Department of Commerce speaking about the export target

## Foreign Trade Policy (FTP) 2009-14

As an immediate relief, the Government provided 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. Towards achieving these objectives, several steps were announced in the Policy. Some of the important steps included addition of new markets under the Focus Market Scheme, coverage of Africa, Latin America and large part of Oceania under Focus Market Scheme (FMS) and the Market Linked Focus Product Scheme (MLFPS), increase in incentives available under the Focus Market Scheme from 2.5% to 3% and for Focus Product Scheme (FPS) and MLFPS from 1.25% to 2%, introduction of EPCG Scheme at zero duty for specified sectors, and the grant of additional duty credit scrip to status holders. Important Trade Policy Measures announced under FTP 2009-14, January / March, 2010 and in Annual Supplement, 2010-11 are given in Box 3.1.

**Box 3.1**
**Trade Policy Measures taken under Foreign Trade Policy 2009-14 , January / March, 2010 and in Annual Supplement, 2010-11**

- 27 new markets added under Focus Market Scheme (FMS) with incentive of duty credit scrip @ 3% of exports.
- Market Linked Focus Product Scheme (MLFPS) with incentive of duty credit scrip @ 2%, has been significantly broadened by inclusion of a large number of products linked to their markets.
- Full Africa, Latin America and large part of Oceania covered under FMS & MLFPS (13 countries added in MLFPS at the time of release of FTP, 2009-14 in August, 2009 and 2 countries added in January, 2010).
- The incentive available under FMS has been raised from 2.5% to 3%; and for Focus Product Scheme (FPS) & MLFPS from 1.25% to 2%; and Special Focus Products Scheme @ 5%.
- Additional benefit of 2% bonus, over and above the existing benefits of 5% / 2% under FPS, allowed for about 135 existing products, which had suffered due to recession in exports. Major sectors include all Handicrafts items, Silk Carpets, Toys and Sports Goods (all of which were earlier eligible for 5% benefits), Leather Products and Leather Footwear, Handloom Products and some of the Engineering Items including Bicycle parts and Grinding Media Balls (all of which were earlier eligible for 2% benefit).
- 256 new products added under FPS (at 8 digit level), which became entitled for benefits @ 2% of FOB value of exports to all markets. Major Sectors / Product Groups covered are Engineering, Electronics, Rubber & Rubber Products, Other Oil Meals, Finished Leather, Packaged Coconut Water and Coconut Shell worked items.
- Instant Tea and CSNL Cardinol included for benefits under Vishesh Krishi and Gram Udyog Yojana (VKGUY) @ 5% of FOB value of exports.
- Grapes fresh or dried included for additional VKGUY benefit @2% with effect from 23.12.2010.
- Nearly 300 products (8 digit level) from the readymade garment sector incentivised under MLFPS for further 6 months from October, 2010 to March, 2011 for exports to 27 EU countries.

Thereafter, as promised in FTP, to continue regular interaction with stakeholders to maintain a close watch on the performance of the policy in the field, a number of interactions were held with members of Board of Trade, Open Houses with exporters and sectoral reviews with EPCs. Constant dialogues were held with all key stakeholders in industry and the exporting community for sectoral assessment of exports at regular intervals. The Sectoral assessment was undertaken in December 2010 and thereafter in July 2011, which demonstrated that some sectors were still facing difficulties. Need-based additional support measures were announced in 11th February, 2011 and on 13th October, 2011 for certain product groups / products. Box 3.1 gives a panoramic view of these additional Trade Policy measures.

**Box 3.2**

**Trade Policy Measures announced on 11th February, 2011**

- Under Market Linked Focus Product Scheme (MLFPS):-

1. 335 New Products incentivised under MLFPS at 8 digit level, eligible for benefits @ 2% of FOB value of exports to 15 specified markets like Agricultural Tractors of more than 1800 cc, all inorganic chemicals and inorganic / organic compounds of metals, Flexible Intermediate Bulk Containers and Narrow Woven Fabrics;
2. 71 new products of Chapter 63 (Textile Made ups) at 8 digit level for exports to EU (27 Countries).

- Under Focus Product Scheme (FPS):-

1. 147 products incentivised for Bonus Benefits (additional 2%) under FPS at 8 digit level, henceforth eligible for benefits @ 4% or 7% of FOB value of exports to all markets. These includes Engineering items, Electronic items, Stationery items, Handmade carpets and other Floor Coverings under Chapter 57 (7%);
2. 57 New products incentivised under FPS at 8 digit level, eligible for benefits @ 2% of FOB value of exports to all markets. These include products from Sectors viz. Engineering, Chemical, paper products etc.

- Under Special Focus Products Scheme (SFPS), Egg powder included for benefit @ 5% of FOB value of exports.
- Under Vishesh Krishi and Gram Udyog Yojana (VKGUY), 6 New products (Castor Oil Meal– Defatted Variety and Instant Coffee) incentivised under VKGUY at 8 digit level, eligible for benefits @ 5% of FOB value of exports to all markets.

**A. Support for Technological up-gradation**

- Zero duty Export Promotion Capital Goods (EPCG) scheme and Status Holder Incentive Scrip (SHIS) scheme introduced in 2009 for limited sectors and valid for only 2 years initially, extended by one more year till 31.3.2012 and the benefit of the scheme expanded to additional sectors.
- 3 Additional Towns of Export Excellence (TEEs) announced, bringing the list upto 24.

**B. Availability of concessional Export Credit:**

- Interest subvention of 2 per cent extended upto March 2011 for certain labour-intensive sectors of exports namely handloom, handicrafts, carpet, SMEs and a few products from the sectors namely engineering, textiles, leather and jute.
- Interest rates on export credit in foreign currency reduced to LIBOR + 200 basis points in February 2010 from the earlier LIBOR+350 basis points.

**C. EOUs / STPIs:**

- Section 10A and 10B (Sunset clauses for STPI and EOU schemes respectively), extended for the financial year 2010-2011. Anomaly removed in Section 10AA relating to taxation benefit of 'unit vis-à-vis assessee'.

**D. Services:**

- FTP also provided fillip to services sector (Hotels) by doubling duty free entitlement under Served from India Scheme (SFIS) from 5% to 10% of foreign exchange earnings.

**E. Others:**

- Duty Entitlement Passbook (DEPB) scheme extended beyond 31.12.2010 till 30.06.2011.
- Time period of export realization for non-status holder exporters increased to 12 months, at par with the Status holders. This facility has been extended upto 31.03.2011.
- Advance Authorization for Annual Requirement now exempted from payment of Anti-dumping & Safeguard duty. The Scheme has been made more flexible for import of required inputs.
- Value limit on duty free import of commercial samples enhanced from ₹1 lakh to ₹3 lakh per annum.
- Export Obligation Period under Advance Authorization Scheme enhanced from 24 months to 36 months without payment of composition fee.
- To facilitate tracing and tracking of pharmaceutical products and hence to provide assurance about the quality of Indian pharma products to prospective importers, requirement of affixing bar codes has been made mandatory w.e.f. 01.07.11.
- A new facility of Input combination for pharma products manufactured trough Non-Infringing process, allowing actual quantum of duty free inputs required for manufacturing such export product, has been introduced. This will facilitate pharma manufacturers to work towards getting a major share of exports of such products to potential regulated markets such as US or EU.
- Facilitation of Trade through various Electronic Data Interchange (EDI) initiatives taken on online message exchange facility.
- Additional facility of filing "online" application for obtaining IEC introduced.

Box 3.3 gives a glimpse of the additional Trade policy Measures announced in the backdrop of Euro zone crisis and slowdown in World Economy in 2011.

**Box 3.3**

**Trade Policy Measures announced on 13th October, 2011**

- Introduced a new scheme to provide special assistance to specified sectors such as Engineering, Pharmaceutical and Chemical covering 49 products under these sectors for 6 months w.e.f 1st October 2011 upto 31.3.2012. The rate of duty credit is 1% of FOB value of exports.
- Introduced a Special Focus Market Scheme (SFMS) with a view to increase the competitiveness of exports with a geographical targeting. The markets are categorized into three groups, namely Latin American, African and CIS countries. The total number of countries included under the scheme is 41. The list includes Cuba and Mexico as new entrants. If a item covered under FMS is exported to the countries listed under SFMS, then the total duty credit available would be @ 4%. Therefore, exports under SFMS would be entitled to duty credit scrip @4% of the FOB value of exports.
- It has been decided to extend MLFPS for exports of Apparel items to USA and EU under chapter 61 and 62 from 1.4.2011 to 31.3.2012 @ 2 % of FOB value of exports.
- The list of items under FPS has been expanded to include 130 additional items. These items are mainly in the sectors of Chemical/ Pharmaceuticals, Textiles, handicrafts, Engineering and electronics sector. This Scheme has also been extended to printing on cartons, boxes, cases, bags and other packing containers, erasers and pencil sharpeners. The items covered under FPS are entitled to get duty credit scrip @ 2% of FOB value of exports.

- It has been decided to extend MLFPS for exports of Agricultural tractors greater than 1800cc capacity which would now be eligible for duty credit for exports made to Turkey. Sugar machinery & high-pressure boilers would be eligible for Brazil, Kenya, South Africa, Tanzania and Egypt. The scheme has also been extended to all existing MLFPS Countries for printing inks, writing ink etc. The items covered under MLFPS mnare entitled to get duty credit scrip @ 2% of FOB value of exports.
- The towns of Firozabad for glassware, Bhubaneswar for marine products and Agartala for bamboo and cane products have been notified as town of export excellence.
- Advance Authorization, EPCG and DFIA are completely EDI enabled.
- 'Niryat Bandhu' - A scheme for International Business Mentoring.
- Import of Radioimmunoassay Kits is being liberalized to 'Free' subject to prior permission of Atomic Energy Regulatory Board.
- The procedures for Transfer/ sale of imported firearms have been simplified.
- The procedure for clubbing of Advance Authorizations has now been simplified and the powers have been delegated to the Regional Authorities of DGFT.
- Process of simplifying the Redemption /No Bond Condition of Advance Authorization has been started.
- Status Holders Incentive Scrip (SHIS) extended for the year 2012-13.

### Scheme-wise details

Duty neutralization / remission schemes are based on the principle and the commitment of the Government that "Goods and Services are to be exported and not the Taxes and Levies". Purpose is to allow duty free import / procurement of inputs or to allow replenishment either for the inputs used or the duty component on inputs used. There are two categories of these schemes namely, pre-export schemes and the post-export schemes. Brief of these schemes alongwith the amendments carried out during the current year are given below.

## Pre Export Schemes

### Advance Authorisation Scheme

Scheme allows duty free import of Inputs, along with Fuel, Oil, Catalyst etc., required for manufacturing the export product. Inputs are allowed either as per Standard Input Output Norms (SION) or on adhoc Norms basis under Actual User condition. Norms are fixed by Technical Committee i.e., Norms Committee. This facility is available for physical exports (also including supplies to SEZ units & SEZ Developers) and deemed exports including intermediate supplies. Minimum value addition prescribed is 15%, except for certain items. Exporter has to fulfil the export obligation over a specified time period, both quantity and value wise. This year the facilities to club authorizations have been simplified and powers have been decentralized to RAs.

### Duty Free Import Authorisation (DFIA)

DFIA Scheme has been made operational from 01.05.2006. One of the objective of the scheme is to facilitate transfer of the authorisation or the inputs imported as per SION, once export is completed. Provisions of DFIA Scheme are similar to Advance Authorisation scheme. A minimum value addition of 20% is required under the scheme.

### Schemes for Gems & Jewellery Sector

Gems & Jewellery exports constitute a major portion of our total merchandise exports. It is an employment oriented sector. Exports from this sector suffered significantly on account of the global economic slowdown.

Duty free import / procurement of precious metal (Gold / Silver / Platinum) from the nominated agencies is allowed either in advance or as replenishment. In addition, exporters of Gems & Jewellery items are allowed access to duty Free Import of consumables for export production upto a certain specified percentage of FOB value of previous years' export. List of Items allowed for duty free import by Gems & Jewellery sector has been expanded by inclusion of additional items such as Tags and labels, Security censor on card, Staple wire, Poly bag. This will reduce the cost of the product to some extent.

During the period, the Monitoring mechanism for import of Gold by Nominated Agencies was reviewed as it was found to be cumbersome. The new guidelines were issued to simplify the monitoring mechanism with an additional role to the Gems & Jewellery Export Promotion Council.

## Post Export Schemes

### Duty Entitlement Pass Book (DEPB) Scheme

DEPB scheme neutralises the basic customs duty on inputs with the assumption that all inputs, mentioned in the SION for a product are imported. Duty credit Scrips are allowed at a notified rate of FOB value of Exports. These scrips are freely transferable and are valid for imports within 24 months of its issuance. These scrips can be used for payment of customs duty for clearance of import consignment or for payment of customs duty in case of default in fulfillment of export obligation under various schemes. DEPB benefit is available on physical exports with realisation in free foreign exchange or supplies to SEZ units / SEZ developers.

In its constant endeavor to provide a stable Foreign Trade Policy and to remove uncertainty about the future of the most popular exporter friendly scheme i.e., the DEPB scheme, Government extended the validity of the scheme till 30th September, 2011. The scheme has been withdrawn w.e.f. 01.10.2011.

### Duty Drawback Scheme

Duty Drawback scheme allows refund of customs duty and the excise duty on the inputs used in the manufacture of the export product at a specified percentage of FOB value of exports. Service Tax on the input services has also been factored in the All Industry rate of Duty Drawback. Duty drawback scheme for physical exports is being administered by the Department of Revenue and that of deemed exports, by the DGFT.

Duty drawback rates for a number of products have been reduced on account of reduction in tariff and roll back of adhoc increase effected earlier.

The products which were in the DEPB scheme are given appropriate rates of duty drawback so that taxes suffered by the inputs which go in the manufacture of the export product are rebated. The Duty Drawback Scheme announced on 20.09.2011 for the year 2011-12 contained 1096 new items which have moved from the DEPB scheme.

### Other Policy Initiatives:

- Interest subvention of 2 per cent extended upto March 2012 for certain labour-intensive sectors of exports namely handloom, handicrafts, carpet, SMEs.
- Time period of export realization for non-status holder exporters increased to 12 months, at par with the Status holders. This facility has been extended upto 30.09.2012.

## Vishesh Krishi and Gram Udyog Yojana (Special Agriculture and Village Industry Scheme) [VKGUY]

Keeping in view the objective of Foreign Trade Policy 2009-14 to promote employment generation in rural and semi urban areas, Vishesh Krishi And Gram Udyog Yojana has been expanded to include export of Agricultural Produce and their value added products; Minor Forest Produce and their value added variants; Gram Udyog Products; and Other Products, as notified from time to time.

Duty Credit Scrip benefits are granted with an aim to compensate high transport costs, and to offset other disadvantages. Exporters, of products notified in Appendix 37A of Hand Book of Procedures Vol.1, shall be entitled for Duty Credit Scrip equivalent to 5% of FOB value of exports (in free foreign exchange) for exports made from 27.8.2009 onwards. However, reduced rate of 3% is applicable in such cases where exporter has also availed benefits of Drawback, at rates higher than 1%; or Specific DEPB rate (i.e. other than Miscellaneous Category – Sr.Nos. 22D & 22C of Product Group 90); or Advance Authorization or Duty Free Import Authorization for import of inputs (other than catalysts, consumables and packing materials) for the exported product for which Duty Credit Scrip under VKGUY is being claimed. Additional 2% rate, over and above the 5% or 3%, is admissible for products specified in Table 2, Appendix 37A of Hand Book of Procedures Vol.1.

Higher Incentive for Status Holders is available in the form of duty credit scrip equal to 10% of FOB value of agricultural exports, limited to ₹100 crore per annum, for products covered under ITC HS Chapters 1 to 24, to permit Import of Capital Goods/equipments like Cold Storage Units; Pre-cooling Units and Reefer Van/Containers etc. For import of Cold Chain Equipment, this incentive Scrip shall be freely transferable amongst Status Holders as well as to Units in the Food Parks.

### Focus Market Scheme [FMS]

For offsetting high freight cost and other externalities to select international markets with a view to enhance India's export competitiveness in these countries, "Focus Market Scheme" has been launched w.e.f. 1.4.2006. Exporters of all products to notified countries (as in Appendix 37C of HBP vol.1) shall be entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports. So far, the Scheme covers a total of 112 markets. However, additional duty credit scrip @1% FOB value of exports given to 41 markets listed in Table 3 of Appendix 37C with effect from 1.4.2011 under Special Focus Market Scheme.

### Focus Product Scheme [FPS]

To incentivise export of such products which have high export intensity / employment potential, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products, a Scheme called Focus Products Scheme, has been introduced w.e.f. 1.4.2006.

Exports of notified products (as in Appendix 37D of HBP vol.1) to all countries (including SEZ units) shall be entitled for Duty Credit Scrip equivalent to 2% of FOB value of exports (in free foreign exchange) for exports made from 27.8.2009 onwards. However, Special Focus Product (s), covered under Table 2 and Table 5 of Appendix 37D, shall be granted Duty Credit Scrip equivalent to 5% of FOB value of exports. Further, Bonus Benefits @2% of FOB value of exports is given over and above the existing benefit for products covered under Table 7 of Appendix 37D for exports made from 1.4.2010 onwards. So far, over 1000 products have been covered at 8 digit level under the Scheme, which include leather products and footwear, handloom products, handmade carpets and other textile floor covering, handicrafts, coir and jute products, technical textiles, engineering products, green technology products, electronic products, etc.

A new scheme viz. Special Bonus Benefit Scheme has also been introduced to provide special assistance @1% of FOB value of exports to 49 items from Engineering, Pharmaceutical and Chemical sectors listed in Table 8 of Appendix 37D for exports made from 1.10.2011 upto 31.3.2012.

### Market Linked Focus Products Scrip [MLFPS]

To give significant boost to market penetration of specific product in specified markets, a variant under Focus Product Scheme called Market Linked Focus Products Scrip has been introduced from 1.4.2008. Export of products / sectors of high export intensity / employment potential (which are not covered under present FPS List) would be incentivised @ 2% of FOB value of exports (in free foreign exchange) under FPS when exported to the Linked Markets (countries), which are not covered in the present FMS List, as notified in Appendix 37D of HBP vol.1, for exports made from 27.8.2009 onwards. Further, all Garments covered under Chapter 61 and Chapter 62 of ITC HS Classification of Export and Import Items have been extended the benefit of duty credit scrip @2% of FOB value of exports to USA and EU from 1.4.2011 till 31.3.2012.

Presently the products covered under the scheme include Motor vehicles, auto-components, bicycles and parts, apparels, knitted and crocheted fabrics, pharma products, value added plastic and rubber goods, glass products, dyes and chemicals, household articles, Machine Tools, Earth Moving equipments, Transmission towers, electrical and power equipments, steel tubes, pipes and galvanized sheets, Compressors, Iron and Steel Structures, Auto components, Three wheelers and cotton woven fabrics etc. The countries covered under the Scheme include Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Ukraine, Australia, New Zealand, Cambodia, Vietnam, Japan and China. There are over 4500 products so far covered at 8 digit level.

### Served From India Scheme [SFIS]:

The objective of the Scheme is to accelerate growth in export of services so as to create a powerful and unique 'Served From India' brand, instantly recognized and respected the world over. Indian Service Providers, of services listed in Appendix 41 of HBP vol. 1, who have free foreign exchange earning of at least ₹10 lakhs in preceding financially year / current financial year shall qualify for Duty Credit Scrip. For Individual Indian Service Providers, minimum free foreign exchange earnings would be ₹5 lakhs. Service Providers are entitled to Duty Credit Scrip @10% of the free foreign exchange earned. However, Services and Service Providers listed in Para 3.6.1 of Hand Book of Procedures vol.1 are not eligible. Import are allowed with actual user condition for import of capital goods, office equipments, consumables, vehicles which are in the nature of professional equipment to the service provider, etc.

### Status Holders Incentive Scrip (SHIS):

With an objective to promote investment in upgradation of technology of some specified sectors such as leather, textiles, Jute, handicrafts, plastics, basic Chemicals, rubber products, glass and glassware, paper and books, paints and allied products, plywood and allied products, electronics products, sports goods and toys, engineering products viz. iron and steel, pipes and tubes, ferro-alloys etc., Status Holders shall be entitled to incentive scrip @ 1% of FOB value of exports made during 2009-10 for six sectors, viz: Leather Sectors (excluding finished leather); Textiles and Jute Sector; Handicrafts; Engineering Sector (excluding Iron & Steel, Non-ferrous Metals in primary or intermediate forms, Automobiles & two wheelers, nuclear reactors & parts and Ships, Boats and Floating Structures); Plastics; and Basic Chemicals (excluding Pharma Products), and expanded for exports in 2010-11 and 2011-12 of additional sectors listed in para 3.10.8 of Hand Book of Procedures vol.1, in the form of duty credit [subject to prescribed exclusions as specified in Policy] for procurement of capital goods for technology upgradation, with actual user condition. This shall be over and above any duty credit scrip claimed/ availed under Chapter-3 of FTP. This facility is available upto 31.3.2013.

**Export Promotion of Capital Goods Scheme: (EPCG):-**

At present, there are two EPCG Schemes, that is, 3% concessional duty scheme and Zero duty concessional EPCG Scheme. The salient features of 3% concessional duty scheme are as under.

(i) The Scheme was initially introduced in the Import and Export Policy 1990-93 for import of Capital Goods at a concessional rate of Customs Duty @ 25%. The concessional rate of duty has been reduced gradually to 3% since 1.4.2008.

(ii) The scheme allows import of capital goods for pre-production, production and post production as well as for computer software systems subject to an export obligation equivalent to 8 times of duty saved amount ( 50% of Export Obligation in case of import of spares), to be fulfilled in 8 years reckoned from Authorization issue-date.

(iii) The scheme also requires maintenance of average level of exports achieved by the exporter in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, except for categories mentioned in Para 5.7.6 of Hand Book of Procedure.

(iv) To encourage exports from the tiny and cottage sector, an export obligation period of 12 years is granted for fulfilment of export obligation.

(v) Issue of EPCG authorization for import of spares, tools, refractory for initial lining & Catalyst for initial charge is also allowed for existing imported plant and machinery (imported earlier under EPCG Scheme or otherwise).

(vi) In case of agro units, the export obligation is equivalent to 6 times duty saved on imported capital goods to be completed within a period of 12 years.

(vii) In case of SSI Units, the EO is equivalent to 6 times duty saved to be fulfilled over a period of 8 years provided the cif value of such imported capital goods does not exceed ₹ 50 lakh and total investment in plant and machinery after such imports does not exceed the SSI limits.

(viii) For EPCG authorizations with a duty saved amount of ₹100 crore or more, the export obligation period is 12 years.

(ix) Import of second hand capital goods is allowed without any age restriction.

(x) Import of motor car, sports utility vehicles/ all purpose vehicles is allowed only to hotels, travel agents, tour operators or tour transport operators and companies owning / operating golf resorts whose total foreign exchange earning from their respective sectors in the current and preceding three licensing years is ₹1.5 crore or more.

(xi) Vehicles imported under EPCG Scheme are to be so registered that the vehicles are used for tourist purpose only. Parts of cars, such as chassis, cannot be imported under EPCG Scheme.

(xii) EPCG Authorization can also be issued for import of capital goods under Scheme for Project Imports notified by the Central Board of Excise and Customs under S. No.441 of Customs Exemption Notification No.21/2002 dated 01.03.2002. Export obligation for such EPCG authorizations would be eight times of duty saved. Duty saved would be the difference between the effective duty under aforesaid Customs Notification and concessional duty under the EPCG Scheme.

(xiii) The scope of the EPCG scheme has been extended to Common Service Providers (CSP) who are designated / certified as a Common service Providers by the DGFT, Department of Commerce or State Infrastructural Corporation in a Town of Export Excellence.

(xiv) A person holding an EPCG licence may source the capital goods from a domestic manufacturer instead of importing them. The domestic manufacturer supplying CG to EPCG authorization holder shall be eligible for deemed export benefits under Para 8.3 of the Policy.

(xv) EPCG licence may be issued for retail sector for import of capital goods required by the retailer to create modern infrastructure in the retail sector.

(xvi) EPCG Authorizations holders can opt for Technological up-gradation of existing Capital goods imported under EPCG authorizations' subject to conditions stipulated in Para 5.8 (i) to (v) of FTP

**EPCG authorization for annual requirement**

EPCG Authorization can also be issued for annual requirement to Status Certificate Holders and all other categories of exporters having past export performance (in preceding two years), both under zero duty and 3% duty Schemes. The annual entitlement in terms of duty saved amount shall be upto 50% of FOB value of Physical Export and / or FOB (Free on Board) value of Deemed Export, in preceding licensing year

**Export Obligation (EO) conditions under EPCG Scheme**

- EO to be fulfilled by export of goods manufactured/service rendered by applicant.
- Upto 50% of EO may be fulfilled by exports of other goods manufactured or services provided by the same firm/ company/ group companies.
- Exports shall be physical exports. Certain deemed exports will also be counted towards fulfillment of EO.
- The export obligation under the Scheme shall be over and above, the average level of exports achieved by the EPCG authorization holder in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, other than the categories exempted for this purpose.
- No average EO condition for certain sectors like handicraft, handlooms,

cottage, tiny sector, agriculture, aqua-culture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture.

- Extension in EO period may be granted for a period of 2 years + 2 years subject to certain conditions specified in Para 5.1 of HBP.
- For BIFR units, EO period may be extended as per BIFR package or 12 years, if not specified by BIFR. Import of Capital Goods shall be subject to Actual User Condition till EO is completed.

Capital Goods imported (excepting tools) for manufacturing of export products relating to handicraft, handlooms, cottage, tiny sector, agriculture, aqua-culture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture are not transferable for a period of five years from date of import even if EO is fulfilled. However, transfer of capital goods is allowed within group companies within five years from the date of import after fulfillment of EO under intimation to RA and jurisdictional Central Excise Authority.

### Zero Duty EPCG Scheme

The scheme has been introduced in the new Foreign Trade Policy 2009-14 for specified sectors, viz for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products; subject to exclusions as provided in HBP vol. I. New sectors included under zero duty EPCG Scheme w.e.f 23.08.2010 are paper & paperboard and articles thereof, ceramic products, refractories, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys added.

(i) Under zero duty EPCG Scheme, export obligation equivalent to 6 times of duty saved amount on capital goods is required to be fulfilled in 6 years from authorization issue date.

(ii) The validity period for import of capital goods under zero duty EPCG Scheme is nine months;

(iii) Export obligation period of 6 years can be extended for a maximum period of 2 years only.

All other provisions pertaining to 3% duty EPCG scheme, to the extent they are not inconsistent with the above provisions of zero duty EPCG Scheme, are applicable to the zero duty EPCG Scheme also. The zero duty EPCG Scheme will be in operation till 31.3.2012.

### Export Oriented Units

A Committee under the Chairmanship of S.C. Panda was constituted to review and revamp the EOU Scheme. The Committee has submitted its report in July 2011 which is under consideration with the Department of Commerce.

### Deemed Exports

Paragraph 8.5 of the FTP and paragraph 8.3.1 (i) of HBP vol.1 have been amended respectively to make it clear that supply of goods will be eligible for refund of Terminal Excise Duty provided recipient of goods does not avail CENVAT credit and a declaration to this effect is given in Annexure II of ANF 8 from recipient of goods. Similarly supplies will be eligible for deemed export drawback provided CENVAT credit has not been availed by supplier of goods and a declaration to this effect is given in Annexure III of ANF 8 from supplier of goods. The declaration form of Annexure II and Annexure III have also been suitably amended to make the above stated intent very clear.

A Committee under the Chairmanship of DGFT has been constituted on 3.5.2011 to Review the Deemed Export Scheme.

**Policy Initiatives Taken:**

- Filing of applications for various authorizations through EDI mode has been made mandatory in almost all schemes.
- DEPB scheme is completely online. The message exchange between DGFT and Customs for Advance and EPCG Authorization has been implemented for all EDI ports for authorizations issued after 1.4.2009.
- 28 out of 37 EPCs have registered on DGFT's website for uploading of RCMC data. Complete online uploading of RCMC data is expected to be completed by the end of this financial year.
- Two additional banks namely (i) Bank of Baroda (ii) United Bank of India, have also been included for Electronic Fund Transfer (EFT) facility for DGFT users in addition to the existing 11 banks.
- An offline data entry module has been provided for Advance Authorization and EPCG applications in August, 2010 to provide flexibility in filing applications by exporters, and reducing online server time which would improve efficiency and reduce cost.
- 'On-line' filing of IEC application and processing has been initiated w.e.f. 1.1.2011. Online validation of PAN through message exchange with NSDL has been implemented.
- Message exchange of DFIA authorization has been implemented from 13.10.2011 between DGFT and Customs.
- A Software system for 'on-line' filing of PRC cases, processing and thereafter tracking has been developed.
- A web based tracking and monitoring software for export obligation under Advance Authorization and EPCG has been uploaded on DGFT's website.
- DGFT has also become India's first digital signature enabled department in government of India, which has introduced a higher level of Encrypted 2048 bit Digital Signature. Digital certificate provides a high level of security for online communication such that only intended recipient can read it. It provides authentication, Privacy, non-repudiation and Integrity in the virtual world. 2048 bit DSC's has been issued to all offices.

## Grievance Redressal Committee

A Grievance Committee headed by DGFT in Headquarters and by the Joint DGFTs i.e. Regional Authorities at all the regional offices is constituted as per provisions of the para 2.49 of FTP 2009-2014 and para 9.9 of the Handbook of Procedures (Volume-I). These committees can be approached for redressal of the grievances of Trade & Industry.

For any decisions relating to non-statutory matters of Foreign Trade Policy which have caused grievances to the exporters/importers are also considered by another grievance redressal mechanism, i.e Grievance Redressal Committee headed by an Additional Secretary in the Department of Commerce An opportunity for a personal hearing with GRC is also available, if requested. During the period from April, 2011 to December, 2011; four meetings of GRC were held and 116 cases were settled.

Import of sensitive items

**Box:3.4**
**Amendments/ Changes made in item-wise import policy during the year 2011-12 (after 3.1.2011)**

- The sale of vehicles imported by Foreign Diplomats and Other Privileged Persons permitted to other non privileged persons also in the manner specified in Foreign Privileged Persons (Regulation of Customs Privileges) Rules, 1957. (Notification No. 39, dated 31.3.2011).
- The import of "Radioimmunoassay kits" (Medical equipments containing radioactive isotopes) permitted freely subject to prior permission of AERB.(Notification No. 80. dated 17.10.2011).

Import of sensitive items during April-September 2011

Total import of sensitive items for the period April-September 2011 has been ₹ 48274 crores as compared to ₹.34516 crores during the corresponding period of last year thereby showing an increase of 39.9%. The gross import of all commodities during same period of current year was ₹1055339 crores as compared to ₹811773 crores during the same period of last year. Thus import of sensitive items constitutes 4.3% and 4.6% of the gross imports during last year and current year respectively.

Imports of pulses, milk & milk products and food grains have declined at broad group level during the period. Imports of all other items viz. edible oil, automobiles, fruits & vegetables (including nuts), rubber, cotton & silk, products of SSI, spices, marble & granite, alcoholic beverages and tea & coffee have increased during the period under reference.

In the edible oil segment, the import has increased from ₹.13367.3 crores last year to ₹21852.8 crores for the corresponding period of this year. The imports of both crude oil as well as refined oil have gone up by 63.8% and 60.8% respectively. The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions.

Imports of sensitive items from Indonesia, China P RP, Malaysia, Germany, Korea RP, Ukraine, United States of America, Canada, Japan, Thailand, Benin, Ghana, Cote D' Ivoire, United Kingdom, Guinea Bissau etc. have gone up while those from Argentina, Myanmar, Australia etc. have gone down.

Commodity Specific Measures – Exports

Box 3.5 depicts export provisions for agricultural products which are sensitive in nature due to their direct impact on the public as well as domestic trade and industry are monitored regularly by the Government and suitable modifications are made from time-to-time in order to ensure adequate availability for domestic consumption and to keep the prices under check.

**Box:3.5**
**Commodity Specific Measures-Exports**

Chronological changes upto 29.2.2012

**(1) Edible oil**

(i) The export of all edible oils prohibited w.e.f. 17.03.2008.

(ii) Vide Notification No. 77(RE-2010)/2009-14 dated 28.09.2011 ban on export of edible oils has been extended upto 30.09.2012.

(iii) Vide Notification No. 92 dated 01.04.2008 and Notification No. 33 dated 19.08.2008, certain exports of edible oil were granted exemption from this prohibition, namely (a) export of Castor Oil (b) export of coconut oil from Cochin Port (c) Deemed export of edible oils(as input raw material) from DTA to 100% EOUs for production of non-edible goods to be exported and (d) export of oil produced out of minor forest produce even if edible, ITC(HS) Code 15159010, 15159020, 15159030, 15159040, 15179010 and 15219020.

(iv) Export of edible oils was permitted in branded consumer packs of upto 5 Kgs with a limit of 10,000 tons from custom EDI Ports. This was first notified on 20.11.2008 and extended from time-to-time. Presently as per Notification No. 77(RE-2010)/2009-14 of 28.09.2011 such export of edible oil is permitted upto 31.10.2012.

(v) Through Notification dated 03.6.2011, exemption has been given for export of 10,000 MTs per annum of Organic Edible Oils, duly certified by APEDA.

**(2) Non Basmati Rice**

(i) Export of non-basmati rice was prohibited vide Notification No. 38 dated 15.10.2007 and was completely prohibited vide Notification No. 93 dated 1st April, 2008. Exemption was given for export under Food Aid Programme and export to Maldives under Bi-lateral Trade Agreement between Government of India and Republic of Maldives. However, export of PUSA-1121 variety of non-basmati rice was allowed w.e.f. 3.9.08.

(ii) Exemption has been given for export of 10,000 MTs per annum of Organic Non Basmati Rice, duly certified by APEDA.

(iii) Export of 1,00,000 MTs of Sona Masuri (from Chennai & Vishakhapatnam port with MEP of USD 850), 25,000 MTs of Ponni Samba (from Tuticorin port at MEP of USD 850) and 25000 MTs of Matta rice (from Kochin port with MEP of USD 850) has been permitted for export Vide Notification 21 dated 10.02.2011. The MEP of USD 850 has been reduced to USD 600 per MT vide Public Notice No. 72 dated 12.08.2011.

(iv) Export of 10 lakh MTs of non-basmati rice on private account has been permitted by Notification No. 60 of 19.07.2011 subject to MEP of USD 400. Allocation is to be made on first come first served basis.

(v) Export all varieties of non-Basmati rice made free w.e.f. 09.09.2011. Such export to be made by private parties from privately held stocks only through EDI ports and also through non – EDI Land Customs Stations (LCS) on Indo-Bangladesh & Indo-Nepal border (this will be subject to registration of quantity with DGFT).

**(3) Basmati Rice**

(i) Minimum Export Price for export of Basmati rice was reduced from US$ 1100 PMT to US $ 900 per ton or ₹ 41,400/- per ton FOB vide Notification No. 5 dated 7.9.2009 & now reduced to US$700 per M.T.

(ii) Grain length of 6.61 mm and length to breadth (L/B) ratio of 3.5 mm has been notified for export of Basmati rice vide Notification No. 57/2009-14 dated 17.08.2010. (This was earlier Grain length of 7 mm and length to breadth(L/B) ratio of 3.6 mm)

(iii) PUSA-1121 variety of non-basmati rice was categorized as 'Basmati rice' and it became exportable as basmati rice subject to applicable MEP with effect from 5.11.08 and other conditions.

(iv) Export of Basmati rice is permitted through all EDI ports.

**(4) Pulses**

(i) Vide notification No. 15 (RE-2006)/2004-2009 dated 27th June, 2006 export of pulses had been prohibited initially for a period of six months but extended till 31.3.2007 vide Notification No. 17 dated 3.7.2006.

(ii) Export of pulses except Kabuli Chana is prohibited till 31.3.2012 (Vide Notification No.35 dated 23.03.2011)

(iii) Export of pulses to Sri Lanka under specific permission granted by DGFT is exempted from ban.

(iv) Through notification dated 3.06.2011, exemption has been given for export of 10,000 MTs per annum of Organic Pulses, duly certified by APEDA.

**(5) Wheat**

Export of wheat and wheat products was prohibited vide Notification No. 33 dated 8th October, 2007.

(i) Vide Notification No. 116 dated 3.7.2009 (amended by Notification No. 41 dated 18.05.2010) export of Wheat Flour (Maida), Samolina (Rava / Sirgi), Wholemeal atta and Resultant Atta was permitted freely subject to a limit of 6,50,000 MTs from 3.7.2009 to 31.3.2011 only from Customs EDI Ports. This permission has been extended upto 31.3.2012 through Notification No. 61 dated 20.07.2011.

(ii) Exemption has been given for export of 10,000 MTs per annum of Organic Wheat, duly certified by APEDA.

(iii) Export of wheat made free w.e.f. 09.09.2011. Such export will be only through EDI ports and also through non-EDI Land Customs Stations (LCS) at Indo-Bangladesh and Indo-Nepal border (this will be subject to registration of quantity with DGFT).

**(6) Cotton Yarn**

(i) Export of cotton yarn was subjected to registration of contracts with the Textile Commissioner prior to shipment through Notification No. 38 dated 09.04.2010.

(ii) Expórt of Cotton Yarn (Tariff code 5205, 5206 & 5207) was "Restricted" vide Notification No. 14 dated 22.12.2010.

(iii) Export of Cotton Yarn (Tariff code 5205, 5206 & 5207) has been made free subject to registration of contracts with DGFT with effect from 1.4.2011 through Notification No. 40 dated 31.3.2011.

**(7) Cotton:**

(i) Export of cotton was made free w.e.f. 01.11.2010 subject to a cap of 55 lakh bales during the cotton season 2010-11(from 01.10.2010 to 30.9.2011).

(ii) It was decided that the export contracts for cotton will now be registered by the DGFT instead of

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Textile Commissioner. Accordingly, Notification No. 12 dated 16.12.2010 has been issued through which DGFT will be the registering authority for export of cotton (Tariff code 5201, 5202 & 5203).

(iii) Cap on export of cotton during current cotton season was raised to 65 lakh bales through Notification No.57 of 09.06.2011.

(iv) Vide Notification No.62 dated 02.08.2011, cap on export of cotton was removed for the remaining part of cotton year 2010-11 and it became freely exportable subject to registration of contract with DGFT.

(v) Export of cotton under ITC (HS) code 5201 & 5203 has been made free for the year 2011-12 subject to registration of contract with DGFT as per Notification No cotton. 74 dated 12.09.2011.

(vi) Export of cotton waste ITC (HS) code 5202 has been made free w.e.f. 01.10.2011 as per Notification No. 78 dated 10.10.2011. Requirement of registration of contract for export of cotton waste has been dispensed with.

**(8) Sugar**

(i) With effect from 01.01.2009 export of sugar is free subject to release order from the Directorate of Sugar, Department of Food & PD, GoI.

(ii) Exemption has been given from the requirement of obtaining release orders from Directorate of Sugar for export of 10,000 MTs per annum of Organic Sugar, duly certified by APEDA.

**(9) Onion**

(i) Upto December, 2010, the export of onion including Bangalore rose onion and Krishnapuram onion was allowed for export through 13 National/State level cooperative marketing federations subject to MEP fixed by NAFED.

(ii) Export of onion including Bangalore rose onion and Krishnapuram onion was prohibited through Notification No. 13 dated 22.12.2010.

(iii) Through Notification No. 24 dated 18.2.2011, the ban on export of onion including Bangalore rose onion and Krishnapuram onion was removed and was allowed for export through 13 National/State level cooperative marketing federations subject to Minimum Export Price (MEP) fixed by DGFT from time to time.

(iv) Export of all varieties of onions including Bangalore rose onion and Krishnapuram onion was prohibited w.e.f. 09.09.2011.

(v) Through Notification No. 75 dated 20.09.2011, ban on export of onion including Bangalore rose onion and Krishnapuram onion has been removed and now it is allowed for export through 13 National/State level cooperative marketing federations subject to MEP fixed by DGFT from time to time.

**(10) Milk & Milk Products**

(i) Export of milk and milk products was free till 18.02.2011.

(ii) Export of milk powders (Skimmed Milk Powders, Whole Milk Powders, Dairy Whitener, Infant Milk Foods etc.), Casein and Casein Derivative have been prohibited till further orders vide Notification No. 23 of 18.02.2011. Transitional arrangements under para 1.5 of Foreign Trade Policy have also been made inapplicable on export of milk powders (Skimmed Milk Powders, Whole Milk Powders, Dairy Whitener, Infant Milk Foods etc.), Casein and Casein Derivative through Notification No. 25 of 24.02.2011.

Annexure - IX

Express Industry Council of India

EICI/AERA/042
25th April, 2013

**Mr C.V. Deepak,**
**OSD 2**
**Airports Economic Regulatory Authority of India,**
**AERA Building, Administrative Complex,**
**Safdarjung Airport,**
**New Delhi – 110003**

Sub: **Multi Year Tariff Proposal and Annual Tariff Proposals submitted by Express Industry Council of India for providing Courier Handling Services at Cargo Terminal, CSI Airport, Mumbai – reg.**

**Sir,**

We have the honor to refer to your letter bearing File No. AERA/20010/MYTP/EICI/C/Mum/2011-12jVol-I/3969 dated April 22, 2013 on above subject in response to our various letters referred therein, directing EICI to "**submit the overall maximum tariff that it proposes to levy for courier cargo services-inclusive of all the components that it proposed to charge from its customers** for the services being rendered at the Courier handling facility at the Cargo Terminal at CSI Airport, Mumbai, for the Authority's consideration, latest by 30.04.2013."

1. We wish to submit that we have already submitted substantial written evidence on record which leaves little room for ambiguity that **MIAL is indeed the provider of the x-ray machine at Mumbai** for which it is charging a sum of Rs 2.60/ per kg to Rs 3.25 per kg which were provided to you in our earlier letters dated 17th December, 2012, 11th January 2013 and 18th February 2013 along with copies of supporting documents.

2. We also wish to submit that our proposal in Delhi was also cleared on similar lines and the basic objective of ensuring that the Tariff is split as per each service is to ensure transparency in pricing.

3. The recent proposal for removal of customs cost recovery charges vindicates this point. All tariffs which have been approved on a consolidated basis as being suggested would provide substantial benefits to the service providers as they would only be governed by the price cap approved and they will continue to charge the users the approved consolidated tariff with no obligation to reduce or eliminate cost recovery charges as may happen. As the charges for customs cost recovery would be subsumed in other charges and there would be no transparency in the pricing mechanism, even if the charges are reduced in a token manner, it will be impossible to co-relate the actual reduction from the revised charges.

**Contd. ...2...**

**Express Industry Council Of India**
501, Crystal Centre, Raheja Vihar,
Off. Chandivali Farm Road, Powai, Mumbai - 400 072.
Tel. : +91 22 4057 1111 Fax : +91 22 4057 1100 www.eiciindia.org

4. Further as x-ray screening is a substantial activity in itself and as AERA has passed standalone orders only for the tariff of x-ray screening ( Order No 10 of 2010-2011 approving the Tariff of M/s DIAL for x-ray screening charges), we see no reason why it should be clubbed into one charge mixed with other charges for EICI.

5. Furthermore as pointed out before it would also make it impossible for AERA to implement the Commerce Ministry's Foreign Trade Policy of bringing about equity in x-ray screening charges between courier and cargo service providers. It may be noted that on the cargo side too AERA has always approved x-ray screening charges tariff separately and hence there is no reason why there should be a different treatment for courier cargo x-ray screening services.

Hence this approach will be against the interest of users of such services and will set a wrong precedent as comparisons will be made at different airports for similar services which will reflect a wrong picture.

**While had we been a private company working for profit such a proposal of consolidated tariff would have been readily acceptable as it would permit us to continue charging high charges even if one of the components were to be reduced.** As we are a "not for profit body" which is run by the users themselves, it would be against the interest of the users to seek approval for such a consolidated proposal.

In view of the above it is once again requested that our MYTP for Mumbai be approved based on our tariff proposal already submitted. As we have already placed on record all our submissions a decision may be taken accordingly. Also as indicated in our earlier letters as the regulatory control period for which the approval was sought has almost come to an end, we request that AERA take a just and fair decision based on the merits regarding the matter in a manner it deems fit without any further delay for which we shall be deeply obliged.

Kindly acknowledge receipt.

Thanking you,

Yours sincerely,
For Express Industry Council of India

Vijay Kumar
Chief Operating Officer

**Cc.: 1) The Chairman, AERA, New Delhi**
**2) The Secretary, AERA, New Delhi**

Annexure-X

No.AV.24032/13/2010-AD
Government of India
Ministry of Civil Aviation
*******

'B' Block, Rajiv Gandhi Bhavan
Safdarjung Airport
New Delhi, Dated 17th June, 2013

Subject:- Reduction in charges for screening of express cargo at the airports.

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Reference is invited to the meeting held on 4.6.2013 at 11.00 AM in the second floor conference room of this Ministry under the Chairmanship of Shri K.N. Shrivastava, Secretary (Civil Aviation) on the above subject.

2. Minutes of the meeting are forwarded herewith for information and necessary action

(Sunil Pant)
Under Secretary to the Government of India
Telephone: 24619282

To

1. The Chairperson, AERA, Safdarjung Airport, New Delhi.
2. The Chairman, AAI, Rajiv Gandhi Bhavan, New Delhi.
3. The Managing Director, Mumbai International Airport Private Limited, D.104, 10th floor, Himalaya House, 23, K.G. Marg, New Delhi.
4. The Managing Director, Delhi International Airport Private Limited, Udaan Bhavan, near Terminal-3, IGI Airport, New Delhi.
5. The Managing Director, Bangalore International Airport Limited, Alpha-2, Devanahalli, Bangalore -560300.
6. Shri Vijay Kumar, Chief Operating Officer, Express Industry Council of India, 501, Crystal Centre, Raheja Vihar, Off. Chandivali Farm Road, Powai, Mumbai – 400 072.

Internal Distribution
Sr.PPS to Secretary/PPS to JS(AS)/PPS to Dir(LR)/US(SP

## Minutes of the Meeting taken by Secretary (Civil Aviation ) on 4.6.2013 at 11.00 AM on the concerns expressed by EICI regarding reduction in charges for screening of express cargo at the airports.

A meeting was held under the Chairmanship of Secretary, Ministry of Civil Aviation on 4.6.2013 at 11.00 AM on the concerns expressed by EICI regarding reduction in charges for screening of express cargo at the airports.

2. The list of officers who attended the meeting is at Annexure.

3. The Chairman welcomed the participants and stated that the meeting has been convened since EICI has sought reduction in charges for screening of express cargo at Mumbai and Chennai airports.

4. Chairman then asked the EICI representatives to start the discussion, EICI representative stated that the Express Industry Council of India has requested to bring the x-ray screening charges levied at the courier terminals at par with the charges levied at cargo terminals of the airports. He said that a shipment package is x-ray screened at the cargo terminal using an x-ray machine, the charges levied for this service is Rs.0.80 per kg and when the same shipment package is taken to the express cargo terminal, a charge as high of Rs.8.00 per kg to Rs.3.25 per kg is charged at Chennai and Mumbai respectively. He also stated that the issue was taken up with AERA but no action has been taken.

5. The AERA representative informed that the charges levied at the cargo terminal and the courier terminal cannot be compared since the the consignments are different.

6. The MIAL representative stated that the cargo and courier shipments cannot be charged the same rate since both are different products handled at different terminals under different business models and the airlines themselves charge different tariff for Courier and General Cargo. He also stated that MIAL reduced the x-ray screening charges from Rs.6.00 to Rs.3.25.

7. The Chairman asked Member (Ops), AAI about Chennai Airport. Member (Ops) informed that the x-ray screening at the airport is done by a private party and who pays space rental charges and royalty charges to AAI.

8. After a brief discussion, the following decisions were taken:-

(i) X-ray screening charges should be the same both for general cargo and courier cargo.
(ii) AERA may be advised to consider 8(i) while fixing the tariff.

9. The meeting ended with a vote of thanks to the Chair.

********************

Annexure

# List of participants

Ministry of Civil Aviation

Shri K.N. Shrivastava, Secretary
Shri L.R.S. Reddy, Director

Airports Authority of India

Shri G.K. Chaukiyal, Member (Ops)
Shri P.K. Ratti, GM

Airports Economic Regulatory Authority

Capt. Kapil Chaudhary, Secretary

Mumbai International Airport Private Limited

Shri Manoj Singh

Bangalore International Airport Limited

Shri Sunil Joshi

EICI

Shri Vijaykumar
Shri Ranjit S. Walia

Annexure- XI

MUMBAI

**Express Industry Council of India**
**Tariffs for Mumbai Terminal: Facilitation Fees, Storage & Processing Charges at EICI Express Terminal Built, Managed and Operated by Express Industry Council of India at Mumbai Airport**
**April 2011 to March 2012 (w.e.f. 01.04.2011 to 31.03.2012)**

| Sl. No. | Charges | Rate Rs. | Remarks |
|---|---|---|---|
| 1. | International Imports | | |
| | Facilitation Fees | Rs. 5.00 Per Kg. | |
| | | | |
| | Detention Fees | | |
| | 0-3 Days | Free | |
| | From 04-10 Days | Rs. 2/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 11-20 Days | Rs. 3/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 21-30 Days | Rs. 4.50 Per Kg. | |
| | Form 31st Day | Rs. 6/- Per Kg | |
| | | | |
| | Demurrage Charges | Rs. 5/- Per Kg. | Demurrage free period shall be as per Government Orders issued from time to time |
| | | | |
| 2. | International Exports | | |
| | Facilitation Fees | Rs. 4.50 Per Kg. | |
| | | | |

The above tariffs are all inclusive charges charged for facilitating Import and Export Shipments.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India

| | | | | |
|---|---|---|---|---|
| 3. | X-Ray Charges (International Cargo-Exports) | Rate – Rs per kg | Minimum Charges per AWB/CTM/IGM/FLIGHT | - As per Ministry of Civil Aviation letter no. AV.24032/13/2010-AD dated 17.06.2013, the x-ray screening charges should be the same both for general cargo and courier cargo. |
| 3.1 | X- ray charges- If screening done by airlines (minimum charges applicable per AWB) | Rs. 1.38* | Rs. 167* | |
| 3.2 | X- ray charges- If screening not done by airlines (minimum charges applicable per AWB) | Rs. 1.70* | Rs. 225* | |
| 4. | EDI Clearance Charges | | —— | As per MoU signed with Customs, there would be a certain levy on the shipments cleared through EDI. The CAPEX for these charges are not included in the MYTP proposal. These charges would be levied once it is approved by Customs |

Note:

- The charges are on per kg basis. For a 1 kg shipment the per kg rate is applicable.

* As per Order No. 32/2012-13 dated 15.01.2013 issued in the matter of determination of aeronautical tariffs in respect of CSI Airport, Mumbai, rates for x-ray charges are effective from 1st April, 2009.

Annexure- XII

## MUMBAI

**Express Industry Council of India**
**Tariffs for Mumbai Terminal: Facilitation Fees, Storage & Processing Charges at EICI Express Terminal Built, Managed and Operated by Express Industry Council of India at Mumbai Airport**
**Effective from April 2012 (w.e.f. 01.04.2012 to 31.03.2013)**

| Sl. No. | Charges | Rate Rs. | Remarks |
|---|---|---|---|
| 1. | International Imports | | |
| | Facilitation Fees | Rs. 6.00 Per Kg. | |
| | | | |
| | Detention Fees | | |
| | 0-3 Days | Free | |
| | From 04-10 Days | Rs. 2/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 11-20 Days | Rs. 3/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 21-30 Days | Rs. 4.50 Per Kg. | |
| | Form 31st Day | Rs. 6/- Per Kg | |
| | | | |
| | Demurrage Charges | Rs. 5/- Per Kg. | Demurrage free period shall be as per Government Orders issued from time to time |
| | | | |
| 2. | International Exports | | |
| | Facilitation Fees | Rs. 5.50 Per Kg. | |
| | | | |

The above tariffs are all inclusive charges charged for facilitating Import and Export Shipments.

| | | | | |
|---|---|---|---|---|
| 3. | X-Ray Charges (International Cargo-Exports) | Rate – Rs per kg | Minimum Charges per AWB/CTM/IGM/FLIGHT | - As per Ministry of Civil Aviation letter no. AV.24032/13/2010-AD dated 17.06.2013, the x-ray screening charges should be the same both for general cargo and courier cargo. |
| 3.1 | X- ray charges- If screening done by airlines (minimum charges applicable per AWB) | Rs. 1.38* | Rs. 167* | |
| 3.2 | X- ray charges- If screening not done by airlines (minimum charges applicable per AWB) | Rs. 1.70* | Rs. 225* | |
| 4. | Customs Charges (Imports) | Rs. 1.50 Per Kg. | | Once Customs stop demanding the Cost Recovery, EICI will also stop collection of these charges. |
| 5. | Customs Charges (Exports) | Rs. 0.50 Per kg. | | |

| | | | |
|---|---|---|---|
| 6. | Customs Cost Recovery Arrears charges | Rs. 0.40 Per Kg. | Due to 6th Pay Commission Arrears demanded by Customs, EICI has proposed to levy a surcharge of Rs. 0.40/-per kg. till total recovery of arrears of Rs. 94,85,658/- w.e.f. 01.03.2012. The charge will not be levied once the arrears are collected and paid. |

| | | | |
|---|---|---|---|
| | EDI Clearance Charges | — | As per MoU signed with Customs, there would be a certain levy on the shipments cleared through EDI. The CAPEX for these charges are not included in the MYTP proposal. These charges would be levied |

| | | | |
|---|---|---|---|
| | | | once it is approved by Customs |

Note:

- The charges are on per kg basis. For a 1 kg shipment the per kg rate is applicable.

* As per Order No. 32/2012-13 dated 15.01.2013 issued in the matter of determination of aeronautical tariffs in respect of CSI Airport, Mumbai, rates for x-ray charges are effective from 1st April, 2009.

Annexure- XIII

**MUMBAI**

**Express Industry Council of India**
**Tariffs for Mumbai Terminal: Facilitation Fees, Storage & Processing Charges at EICI Express Terminal Built, Managed and Operated by Express Industry Council of India at Mumbai Airport**
**Effective from April 2013 (w.e.f. 01.04.2013 to 31.03.2014)**

| Sl. No. | Charges | Rate Rs. | Remarks |
|---|---|---|---|
| 1. | International Imports | | |
| | Facilitation Fees | Rs. 6.00 Per Kg. | |
| | | | |
| | Detention Fees | | |
| | 0-3 Days | Free | |
| | From 04-10 Days | Rs. 2/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 11-20 Days | Rs. 3/- Per Kg, or part thereof or Rs. 30/- whichever is higher | |
| | From 21-30 Days | Rs. 4.50 Per Kg. | |
| | Form 31st Day | Rs. 6/- Per Kg | |
| | | | |
| | Demurrage Charges | Rs. 5/- Per Kg. | Demurrage free period shall be as per Government Orders issued from time to time |
| | | | |
| 2. | International Exports | | |
| | Facilitation Fees | Rs. 5.50 Per Kg. | |
| | | | |

The above tariffs are all inclusive charges charged for facilitation Import and Export Shipments.

Airports Economic Regulatory Authority of India

| | | | | |
|---|---|---|---|---|
| 3. | X-Ray Charges (International Cargo-Exports) | Rate – Rs per kg | Minimum Charges per AWB/CTM/IGM/FLIGHT | - As per Ministry of Civil Aviation letter no. AV.24032/13/2010-AD dated 17.06.2013, the x-ray screening charges should be the same both for general cargo and courier cargo |
| 3.1 | X- ray charges- If screening done by airlines (minimum charges applicable per AWB) | Rs. 1.38 * | Rs. 167* | |
| 3.2 | X- ray charges- If screening not done by airlines (minimum charges applicable per AWB) | Rs. 1.70* | Rs. 225* | |
| 4. | Customs Charges (Imports) | Rs. 1.50 Per Kg. | | Once Customs stop demanding the Cost Recovery, EICI will also stop collection of these charges. |
| 5. | Customs Charges (Exports) | Rs. 0.50 Per kg. | | |
| 6. | Customs Cost Recovery Arrears charges | Rs. 0.40 Per Kg. | | Due to 6th Pay Commission Arrears demanded by Customs, EICI has proposed to levy a surcharge of Rs. 0.40/- per kg. till total recovery of arrears of Rs. 94,85,658/- w.e.f. 01.03.2012. The charge will not be levied once the arrears are collected and paid. |

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| | | | |
|---|---|---|---|
| | EDI Clearance Charges | — | As per MoU signed with Customs, there would be a certain levy on the shipments cleared through EDI. The CAPEX for these charges are not included in the MYTP proposal. These charges would be levied once it is approved by Customs |

Note:

- The charges are on per kg basis. For a 1 kg shipment the per kg rate is applicable.

* As per Order No. 32/2012-13 dated 15.01.2013 issued in the matter of determination of aeronautical tariffs in respect of CSI Airport, Mumbai, rates for x-ray charges are effective from 1st April, 2009.

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