

A FUNCTIONAL STUDY OF INDIA'S CUSTOMS PORT

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Abstract: Customs is a gateway from where trade in bound and out bound executed, lots of traditionally practice is in practice which is manual in nature and without system interface, paper is attempt to know those hurdles and solution of same.

Keywords: (Customs and Central Excise Service (IC & CES), Indian Customs and Excise Gateway, or ICEGATE), Accredited Client Programmed (ACP), Container Freight Stations (CFS).

Introduction

Customs is wing of The Indian Revenue Services. It deals with mainly Customs under The Indian Customs and Central Excise Service (IC & CES). Customs is concerned with the applicability and tariff of duty on taxable consignment brought into the country. In the 1990s, Central Board of Excise and Customs (CBEC) adopted Information Technology in right earnest with the launch of the Indian Customs EDI system, or ICES, which automated the workflow process related to clearance of import and export consignments. Remote filling of import and export documents, and manifests was also enabled. Subsequently, in 2002, an electronic commerce portal (Indian Customs and Excise Gateway, or ICEGATE), was implemented for transacting regular business with taxpayers over the Internet. The Risk Management System or RMS, launched in 2005, provided for clearance of low-risk consignments without assessment or physical checking.

The Accredited Client Programmed (ACP) is a major element of the risk management strategy. Under this program, the RMS give clients who are assessed as highly compliant assured facilitation. The ACP is designed to provide recognition and the incentive of facilitation to clients who maintain high levels of compliance and a clean track record with customs.

Through the facility of ICEGATE, the department has offered a host of services including electronic filing of the import and export documents and related electronic message between Customs and the trade, using a choice of communication facilities. Apart from transactions relating to manifests, transshipment and release advices, ICEGATE provide helpdesk function on a 24 X 7 basis. Customs response to trade is communicated electronically, and a document tracking system enables the clients to know the latest status of their documents. There has been a constant rise in filing customs documents through ICEGATE since its introduction.

Review

“Inter Ministerial Group” (2007) studied “Simplification of Customs Procedures in Air cargo and Airports”. This Report is gone for streamlining customs methods at India's major airports with a view to diminishing the abide time of payload and related expenses. This paper makes proposals in important regions, for instance, risk management based screening, Electronic Data interchange based frameworks, transshipment. The objective is to coordinate global standards.

WTO (2013) studied “Trade Facilitation Gap Analysis for Border Clearance Procedures in India”. The goal of the Investigation was to complete an examination of the domestic trade measures attempted, distinguishing proof of the proceeding with bottlenecks, assuming any, and likewise to analyze the parts of exchange assistance arrangements in WTO.

CAG India(2012-13) studied “Indian customs electronic data interchange system”. The Report was made under Article 151 (1) of the Constitution of India for year ended March 2013 and has been presented in Parliament house 18.07.2014, before that it was signed by Principal Director- Customs and CAG of India. This report contains results of performance audit on “Indian Customs Electronic Data Interchange System” (ICES 1.5). Current Audit reviewed and had revealed deficiencies. The Ministry accepted all the recommendations. This Audit report has find out various gaps.

Objectives:

Main Objectives are:

- To create awareness among exporter about Customs working pattern.
- To propose solution of current Issues related to customs working.

Methodology

Research methodology is a systematic way to search or research a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research.

This study is an explanatory research. This study is based on secondary data. The required data have been collected from various sources i.e. Customs Manual, Tariff, Circulars etc.

Initiatives of Customs

Handling of Cargo in Customs Area Regulations, 2009- In order to improve the functional efficiency in Customs areas like ports /Inland Container Depots (ICDs) / Container Freight Stations (CFS) / airports / Land Customs Stations (LCS). A regulation called Handling of Cargo in Customs Areas Regulations - 2009 framed to set out the terms and conditions, to provide all requisite facilities in customs area. The Regulations are aimed to provide an effective mechanism for regulating the activities of the ports /ICD/CFC/ airports/LCS in so far as it related to receipt, storage, delivery and dispatch of imported / export goods in Customs Area are concerned.

Post Clearance Audit Scheme – This system of transaction is based on Post Clearance Audit (PCA), has been operational since implementation of Risk Management System (RMS) in 2005. Under this system of PCA, a few Bills of Entry are selected for audit after clearance of imported goods. This system of auditing Bills of Entry involves verification of the correctness of declarations for a particular transaction only and does not result in comprehensive scrutiny of documents, financial records and accounting system of importers so as to detect any possible undervaluation or misuse. Therefore, a Scheme of On Site Post Clearance Audit is envisaged which shall provide a system of verifying correctness of declarations at the premises of importer after clearance of goods. This system while providing expeditious clearance of goods depending on risk associated with the consignment and thereby reducing the dwell time,

Customs EDI system - The share of India's export to world export was only 0.5 percent in 1991 -1992. Though the export growth of India was negative in 1991-92, 1998-99, 2001-02 and 2009 -10, the share of India's export to world export had shown an increasing trend excepting for the year 2005-06. Till the year 2006 -07, the share of India in world export was less than one percent. From 2006-2007 onwards, the percentage share had exceeded one percent. It had reached 1.7 percent in 2010-2011, the highest share. There was a slight decline in the share to 1.6 percent in 2011-2012.

The Indian Customs Electronic Data Interchange System (ICES) was developed as the core ICT system through which import and export documents {Bills of Entry, Shipping Bills, Import General Manifests (IGMs) and Export General Manifests (EGMs)} were to be processed.

The main objectives of ICES were to ensure uniformity of assessments and valuations; ensure faster processing; reduce transaction cost, interaction of the Trade with government agencies, and provide quick and accurate import/export statistics for compilation by the DGC&IS. ICES Ver 1.0 was initially launched as a Pilot project at Delhi Custom House in 1995. It was gradually made operational at other customhouses from 1997.

ICES 1.5, an upgrade of the original ICES 1.0 Version was rolled out in a Phased manner across various customs locations from June 2009. The main features of the upgraded version were a migration from Oracle database 8i to 10g, which runs in an environment with a centralized application having:

- I. Multi locational functionality;
- II. Single database with partitions for users to access data only for their location;
- III. Centralized maintenance and updating of software;
- IV. Faster and better communication with external stakeholders, banks, PAO, etc.
- V. Integration with ICEGATE in central environment leading to better response time.

Current Issues at Customs Ports:-

Import

The average time taken at each stage of clearance of import cargo, based on the detailed description provided in this Study, is summarized in the table below. The total time taken for clearance from the time of arrival of import cargo at the port, to the receipt of goods at importers premises is about **9 to 10 days** in respect of consignments cleared under RMS.

Activities	Responsible Agencies / Stakeholders	Time taken
1. Time taken for allotment of berth	Port Operator	1 day
2. Time taken for unloading	Port Operator	-
3. Filing of Manifests, including rectification of errors	Shipping Agent	½ day
4. Filing of Bill of Entry	Importer / CHA	1 day
5. Issue of Delivery Order	Shipping Agents or sub-agents such as NVOCCs and Consolidators	1 day
6. Shifting of cargo to CFS / Warehouse	Shipping Agents	12 hours
7. Procedures at the CFS a. Security check b. Unloading	CFS Operator	30 minutes 1 hour

Activities	Responsible Agencies / Stakeholders	Time taken
8. Assessment, including resolution of queries in documentation Average time	Customs	1 to 3 days 1.5 days
9. Payment of Duty	Importer / CHA	1 to 2 days
10. Customs Examination	Customs	3 hours (8 to 10 days for special cargo)
11. Out of charge and Delivery	Customs/ CFS Operator	6 hours
12. Arrival goods at the importers' premises	Importer / CHA	12 hours
Total		9 to 10 days

Sources: - Customs Internal working paper

The average time taken at each stage of clearance from the time of arrival of export cargo at the port to stuffing at the CFS is about 6 days.

Procedure	Responsible Agencies / Stakeholders	Time taken
1. Filing and registration of Shipping Bills	Exporters / CHA	-
2. Assessment	Customs	1 day
3. Examination a. At factory b. At CFS c. Average time taken	Central Excise Customs	2 days 1 day 1.5 days
4. Stuffing and Transportation	CFS Operator Shipping Line	1 day
Total		3.5 days

Sources: - Customs Internal working paper

- Infrastructure related issues particularly port related are the major issues affecting exports and imports. Even the best of our ports do not have state-of-the-art technology as in Singapore, Rotterdam and Shanghai. Port Infrastructure issues include - Frequent EDI server down/ maintenance, poor road conditions & port connectivity, congestions, vessel berthing delays, poor cargo handling techniques and equipment, lack of access for containerized cargo, etc., resulting in multiple

handlings, increased lead time, high transaction costs and thus loss of market competitiveness. Some examples are as follows.

- Other procedural and documentation reforms include abolishing the system of printing and certifying Export Promotion(EP) Copies of shipping bills as EDI.
- Interface already exists; accurate and quick filing of Export General Manifests (EGMs) as EGM errors are the major obstacles holding up disbursements of duty drawback and timely transmission of export data between Customs and DGFT for claiming export benefits.
- Problems in EDI system as Shipping Bills are not being shown online due to problems with EDI systems at the ports and DGFT.
- Annual Average Export Performance condition under EPCG Scheme as the Export Obligation (EO) commitment already exists besides Actual User (AU) condition even after EO fulfilment.
- A list prepared by the exporters of the documents and procedures needed in the Indian case shows that on an average an exporter is required to sign at about 130 places to complete an export transaction. The details are given below in table

(i) <u>EPCG Application</u> : To be filed on EDI Mode with digital signature but required to submit one hard copy of EDI application and two copies of manual application with requisite enclosures. Every page of the application and enclosures are to be sealed and signed by the Applicant.	
Hard copy of EDI Application	5 pages
Two hard copy of manual	10 pages
Enclosures	
IEC	1 page
RCMC	2 pages
EM / IL/ IEM	5 pages
Proforma Invoice	2 pages
Catalog	4 pages
Justification	1 page
Declaration	2 pages
Total	<u>32 pages</u>
(ii) <u>Advance Authorisation:</u>	
By and large, same as EPCG requirements.	<u>32 pages</u>
(iii) <u>Central Excise:</u>	
ARE documents, Bond / LUT etc.	<u>8 pages</u>
(iv) <u>Application for benefits on Promotional Schemes:</u>	
Application copy	5 pages
Enclosures	7 pages
Total	<u>12 pages</u>
(v) <u>Duty Drawback Brand Rate :</u>	
Application with DBK I, II, III statements with other enclosures	<u>20 pages</u>
(vi) <u>Import Clearance:</u>	
Bill of Entry & Declaration	<u>2 pages</u>
(vii) <u>Export Clearance:</u>	
Shipping Bill	4 pages
Invoice ,Packing List and other enclosures	6 pages
Total	<u>10 pages</u>
(viii) <u>Sales Tax Purpose:</u>	
Declaration , true copies etc	<u>6 pages</u>
(ix) <u>CFS to ICTT and vice versa:</u>	
Request letter and other enclosures	<u>7 pages</u>
Grand TOTAL	<u>129 pages</u>

Sources: - DGFT appendixes and annexures

Some port-specific issues where trade facilitation is needed are the following

Chennai Port - Restriction in access points to Chennai port. The city of Chennai has grown around Chennai Port and this has had a major impact on expansion and access to the port. Though the port had initially 14 gates for entry and exit, over the years, urbanization has led to a situation where effectively, only two entry and exit points are available on a round the clock basis. This restriction in access points has been compounded by the inadequate road access to Chennai Port.

Ennore-Manali Road Improvement Project (EMRIP) slow progress - The ambitious EMRIP – a connectivity project - envisaged over a decade at the cost of Rs 100 crores developed by a Special Purpose Vehicle (SPV) formed by National Highway Authority of India (NHAI), Chennai Port Trust (CPT), Ennore Port Ltd. (EPL) and Tamilnadu Government is progressing slowly and revised cost estimates are `600 crores. One of the reasons attributed for this delay is due to traffic and unauthorized parking of trucks along the Manali Oil Refinery Road (MORR) and Inner Ring Road (IRR). EMRIP project needs close monitoring to become operational before the end of 2012 and in particular, the first 1.6 Kms of the access road from zero gate should be made operational at an early date.

Mumbai Port - Port Congestion: Imports are held up due to port congestion at the JNPT Port at Mumbai as the infrastructure is inadequate. Export consignments are held up and the entry gates close prematurely resulting in export consignments being dumped in the buffer yard at a very high cost and delay in shipments. The exporters miss their deadlines to the annoyance of the importers in foreign lands. For the first time, congestion charge is levied @ \$ 150/- for 20 ft TEU and is being collected from importers on import consignments due to this severe congestion. Also many vessels are by-passing the port carrying containers to be delivered at their next voyage thereby delaying vital raw materials for the industry

Indo-Bangla Border Infrastructure - Road congestion and Infrastructure bottlenecks around Petrapole and Benapole Border area are major problems to exporters trading with Bangladesh. Most of the times, trailers need to wait 10 to 12 days for clearance even after submission of all necessary documents in time. These delay time increase to 15 to 20 days if holidays fall during or half year closing period i.e. Sept and March ending. During such delays, detention fees need to be paid to ICD which increases the transaction costs. There is thus a need for a relook at the Infrastructure development schemes and their progress around Indo-Bangla Border. As an alternative, exporters started bulk shipping via Narayanganj, and Hemnagar. Here also there are difficulties in getting clearance and delays. Therefore, automatic clearance system is required.

Suggestion & Recommendation

- The Customs department may consider examining its core application (ICES 1.5) audited periodically for detecting deficiencies and suggesting improvements in the application. The strategic control must necessarily be with the Government and accordingly, the SLAs may be urgently reviewed.
- The Customs Department may consider mapping the serial numbers of the Retail Sale Price notification with the Tariff line items and put in place necessary validations in the application to ensure that the importer declares the Retail Sale Price, if there are any imports under a tariff line item, covered under the Retail Sale Price notification.
- The department may consider the introduction of appropriate validations in ICES Application and RMS to detect the related cases. The facilitation accorded to ACP clients by RMS may also be re-examined, in view of the large volumes of goods cleared at RSPs declared below import cost.
- To ensure correct assessment, validation checks for declaration of same CETH/CTH may be provided for in ICES 1.5 application, for all goods classifiable under chapters 1 to 98 of the Customs and corresponding Central Excise Tariff Schedules.
- The proposed Export Obligation Discharge Certificate (EODC) message Exchange between the DGFT and ICEGATE has not materialised. The manual transmission of EODCs and their monitoring has not been found to be efficient. However, the data available in the application database may be used to generate EODC discharge failure reports and the licencees as well as DGFT may be pursued, for timely initiation of the revenue recovery procedures related to the EODC.
- The information regarding provisional assessments, action taken in cases of short levy of duty and duty paid through manual challans may be provided for in the application, to allow updation of the data relating to each of import/export assessment record.
- Supervisory checks prescribed in docks area to ensure proper examination of goods as determined by the EDI System. This ensures that the system-based checks are followed and there is no arbitrariness in Customs examination of goods.
- Disputes in export valuation to be examined by a group of officers so as to sort out the issue expeditiously and to avoid subjectivity.
- Use of EDI System extensively for purposes of effective monitoring of time taken in Customs assessment and examination of goods.
- Development of software to implement standardized measurement of dwell time for import and export of goods for continuous evaluation.

- Ensuring that importers having accredited status pay duties and taxes within 8 working hours of assessment to reduce delay in clearance.
- Increasing the use of E-filing. Customs House Agents Importers Exporters filing more than 5 documents per working days at any place to file the documents only through ICE GATE and not through service centers. This is a progressive move towards automated on line filing of customs declarations.
- Removing Annual Average Export Performance condition under EPCG Scheme: Para 5.5 of Foreign Trade Policy (FTP) for EPCG Scheme calls for maintenance of 3 years average export performance. Regarding duty benefit availed, the Export Obligation (EO) commitment already exists besides Actual User (AU) condition even after EO fulfillment. Therefore the Annual Average Performance condition could be removed. This will simplify the procedural hassles like fixing average export performance, reporting, etc., and help in quick redemption of authorizations.
- Direct clearance facility of containers from the ports, without the need for transshipping them to CFS/Customs areas provided to Importers availing Green Channel facility.
- Licenses issued by DGFT under various export schemes should be in electronic format. These licenses should have data in a format, which is compatible with Customs EDI system, and the Shipping bills should form the basis for generating such licenses.

Conclusions:

Above study shows, that Customs department need to focus on Electronic mode more than manual mode. As an example department of Director General of Foreign Trade which also comes under Ministry of Finance, has progressed a lot, regarding online allocation, data updating, E-BRC etc. But Customs under same wing has not progressed that much and need to implement all activity like Scheme Bond cancellation, Market retail price etc.

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