



Presentation Speech:

I wish to thank UNCTAD for giving me this opportunity to participate in this Conference and benefit from the wisdom and knowledge of this illustrious group.

I would like to present the key findings of a recent primary survey of Indian exporters to understand the trade facilitation problems in major destinations, relating to Article V, VIII and X, in order to provide a private sector view point to support the negotiations.

This study was commissioned by UNCTAD India/DFID and finished very recently, in August 2005. It included a detailed primary survey of about 300 exporters, more than 40 logistics service providers, industry associations and export promotion agencies. In terms of products and sectors, the survey covered items representing more than 80% of India's exports.

The focus of the study was to examine border-out issues, mainly because, we can all agree without rigorous research that developing countries will have greater challenges in terms of border-in issues, relating to infrastructure, information systems and other hardware aspects. This study focussed on issues that arise at the export destinations. A lot of data has emerged from the study and the detailed version of this presentation and the text is expected to be available at the UNCTAD website. I would like to share with you the salient details.

Exporter Profile:

In most sectors, the average Indian export processor:

- Is an SME (less than 10 persons, less than 200,000 euro capital investment)
- Undertakes small export orders, often ships in small LCL consignments
- Outsources all customs and border clearance documentation to intermediaries (many of them are small enterprises as well)
- Does not have direct representation in the destination, and

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Therefore, an average exporter has a limited capacity to comprehend and intervene directly in case of any problems occurring upon arrival.

Destinations:

The principal destinations of Indian exports are the US and EU, followed by Middle East, South East Asia and Japan. It is therefore logical that incidence of destination specific problems follow a similar pattern. 28% of the enterprises surveyed reported problems that can be classified under Article V, VIII and X at export destinations. The US appeared as the principal destination in terms of incidence of problems, while the EU and Middle East appeared as the main destinations in terms of costs and losses associated with the problems. About 9% of the exporters reported incidents involving losses while exporting to the EU and 7% to the Middle East.

Interestingly, the difficulties appear to be concentrated in a few sectors: food/ agriculture and in the miscellaneous handicraft goods sectors, and to a lesser extent in textiles/clothing, indicating the presence of sector-specific issues in key destinations.

Key issues faced:

- Inadequate dissemination of regulations, procedures
- Lack of clarity in process descriptions for detention
- Lack of confirmatory procedures and appeal
- Use of discretionary and arbitrary actions in disposal
- High costs for complying with security initiatives
- Problems of classification for purposes of tariff rebates and concessions

Destination-specific issues:

Nearly all problems reported in the US emerged from the security-related aspects: Advance cargo declaration, declaration under the Bioterrorism Act, and supplier chain compliances under the CTPAT. The problems were particularly in case of transshipment cargoes, and LCL shipments. Information of detention and clearance status of random inspection cargoes is reported to be unsatisfactory, and cargoes are reported to be held for 7-10 days in some ports. Also, exporters report being frequently presented with unilateral demands for security-related



charges/screening fees, etc., without prior agreement or knowledge.

In the EU, clearance and detention related problems arise mostly on account of the overlap between member state regulations and common EU regulations. This is particularly true in agriculture and food products, and results in different procedures for the same goods in different member states, all part of the same customs union. Secondly, while import procedures are often very clear, precise directions and information on the processes and procedures to be followed in case of detention are not available at the points of detention and the treatments and methods vary considerably among entry points. Thirdly, the simultaneous imposition of an import alert is not matched by a simultaneous withdrawal or denotification, but requires specific withdrawal of the alert status by each member state, under its own rules. Fourthly, there are no provisions of a confirmatory test arrangement and appeal at the common EU level, following decision at the level of a member state.

In some countries, particularly in Africa and Middle East, arbitrary changes in regulations without due notice, non-transparent application of import measures, high consular fees, and inadequate provisions to ensure cargo safety while in transit and under clearance are issues that add to costs.

Stiff penalties for minor and inadvertent errors in documentation, stipulation of exact freight values even for transshipments, and excessive documentations (for banks) are the principal complaints reported in South American destinations, while in Japan, the unreliable quality of English translations of important regulations and procedures is cited to be the chief cause of problems, even for Japanese-joint venture companies operating in India and exporting to Japan.

Exporters face significant costs toward meeting new security-related requirements:

- Even small freight forwarders incur costs ranging from US\$ 5-20,000 per year (including software licence fees) to file advance cargo declarations online, and these costs are not fully claimed from exporters;

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- Large wholesale stores in the US levy screening charges of US\$ 0.5 per piece, for clothing items arriving into their warehouses, citing enhanced security concerns.
- International Ship and Port Facility Security (ISPS) charge ranging from US\$ 6 to 14 per container can represent annual revenue of US\$ 42 million to 98 million (and significant profits) at a single location like Antwerp, occasioned by the US security regulations, but claimed by private operators from exporters and importers.

With similar security-related requirements emerging in other countries, there is likely to be a further increase in such costs in international trade.

On another aspect, the study finds that, contrary to popular hypothesis, small enterprises are affected less by such requirements than the larger, organized players. This is because smaller players tend to be risk-averse:

- In many sectors, small enterprises do not export directly, or export on FOB basis under L/C terms, which minimizes financial risks especially deductions on account of destination charges
- Small operators prefer not to export to destinations involving complex regulations and requirements

On the other hand, the larger players, especially if part of global supply chains, face high compliance costs, in terms of systems and procedures imposed by importers that are part of international security initiatives such as CTPAT. Large players also share a part of destination charges for screening of consignments, some of which are debited long after the shipments have been received and payments cleared.

The survey also confirmed the view of exporters that overall, trade facilitation issues inside India are more significant than those at destinations, which is expected to be generally true for most developing and less-developed countries. However, the large share of responses indicating problems relating to Article VIII and X even in developed countries indicates the need for due representation of these experiences in the WTO negotiations.



Based on the field survey and the several case studies that emerged in the study, the private sector expectations would be to ensure:

- Information dissemination standards for regulations and trade information
- Sector level trade enquiry points
- Uniform application of procedures by members of customs union
- Imposition of trade alerts and de notifications under similar procedures and time lines
- Provisions and procedures for confirmatory tests and single appeal mechanisms, and
- Normative charges for facilities provided by authorized private service providers

Thank you

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