



Express Industry in India Constraints and The Way Forward

Prof. Arpita Mukherjee

August 26, 2009

Outline of the Presentation

- Definition
- Global Overview
- Areas of Concerns
- Express Delivery In India
- Survey
- Issues and Way Forward
 - Express *versus* Post : Postal Bill
 - Infrastructure
 - Ground Handling
 - Custom Clearance



Definition

- ***Express Delivery Services*** are the collection, transport, and delivery, of documents, printed matter, parcels, and/or other goods on an expedited basis, while tracking and maintaining control of these items throughout the supply of service
- Increasing trade in goods and services led to the emergence of global supply chains, created demand for just-in-time deliveries
- This sector witnesses high growth due to off-shoring/outsourcing, demand for value added logistics
- Generally refer to low-weight, high-value shipments, but requirements of fast deliveries often overrules weight limits
- No clear definition of Express Delivery under GATS
- GATS classification: Postal and Courier (ownership based: national postal administration and private operators)
- With privatization of post the definition is undergoing changes (universal service provider and private operator)

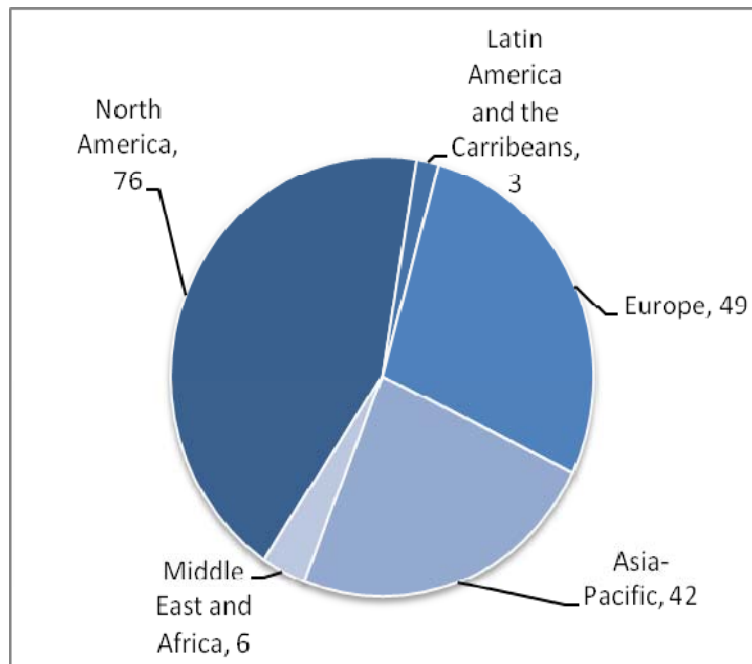


The US Communication to the WTO, 18/12/2000(S/CSS/W/26)

- **Express Delivery Services** are time-sensitive, utilize advanced technologies for communication, and are integrated or controlled from end-to-end. Express delivery services consist of the expedited collection, transport, and delivery of documents, printed matter, parcels, and/or other goods, while tracking the location of, and maintaining control over, such items throughout the supply of the service. Services provided in connection with express delivery services include, but are not limited to, **customs facilitation** and **logistics management**. Customs facilitation consists of practices and procedures used to avoid delay of customs processing or to obtain rapid release of shipments, while satisfying customs requirements. Logistics is the process of planning, implementing, managing, and controlling the flow and storage of goods, services, and related information from the point of origin to the point of consumption. Express delivery services may include one or more value added elements, such as collection from an address designated by the sender; release upon signature; guarantee of delivery within a specified time; electronic and/or other advanced technologies; and ability of the sender to confirm delivery.
- Express delivery services do not include (1) services to which the Annex on Air Transport Services applies; (2) services supplied in the exercise of government authority, as defined in GATS Article I:3; or (3) maritime transport services.



Global Overview



**Regional Distribution of Turnover in 2008
(in billion US\$)**

- Turnover in 2003: US \$135 billion
- Turnover in 2008: US\$175 billion
- US the largest market
- Latin America fastest growing market, followed by Middle East and Africa and Asia Pacific
- Bulk of the trade is intra-regional
- Employment: Direct: 1.25m, Indirect: 2.65m
- The Industry
 - Four large integrators-DHL, TNT, UPS, Fedex (Turnover US\$ 98 billion in 2008)
 - National Postal Service providers
 - Smaller firms: limited geographical coverage, niche clients



Areas of Concerns

- Slowdown and trade contraction
- Increasing protectionism
- Unfair competition from Postal Agency
 - Cross subsidization
 - Reserved areas
 - FDI/local partnership conditions
- Security and safety
- Customs procedures
- Infrastructure



Express Delivery In India

- Organized courier started in 1980s
- Global integrators and their partners, large Indian companies, small/medium regional companies, local companies (Total around 2500) and India Post (EMS)
- Turnover US\$1.4 billion in 2005-06
- Medium to large companies contribute 76% of the revenue
- Employment : 1million
- Non-document is growing faster than documents
- Some key clients: IT, banking, telecommunication, textile, pharmaceutical, auto-component, organized retail
- Fragmented logistic chain: From couriers to logistic service providers



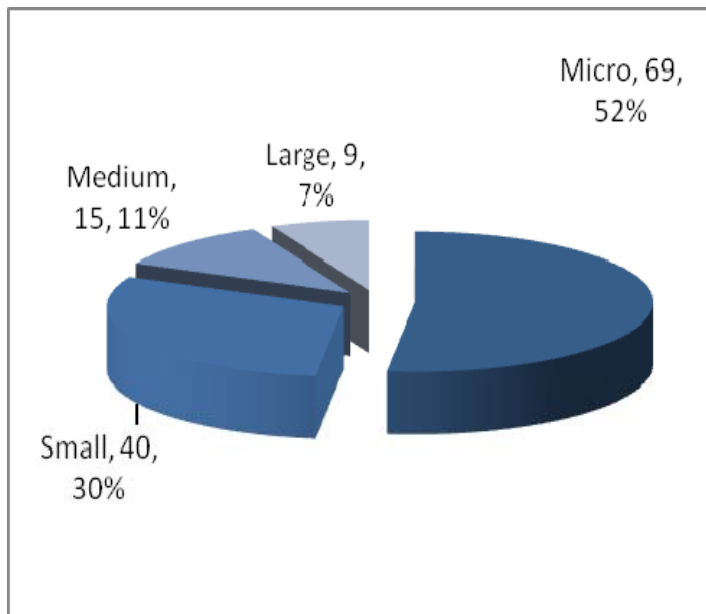
Sampling Frame

Service Providers	133	Cities	Delhi, Gurgaon, Mumbai, Pune, Chennai, Bangalore, Hyderabad, Kolkata
Clients	90		
Employees of India Post	33		
Employees of Express Courier Companies	92		

- Stakeholders consultation
- Indepth interviews with government officials, express companies, clients, freight forwarders, sector experts, etc.



Service Providers Survey



Distribution of respondents by size

Size as defined in MSME Development Act 2006

- Micro: Less than Rs. 10 lakhs
- Small: Rs. 10 lakhs to Rs. 2 cr
- Medium: Rs. 2 cr to Rs. 5 cr
- Large: Exceeding Rs. 5 cr

Locations

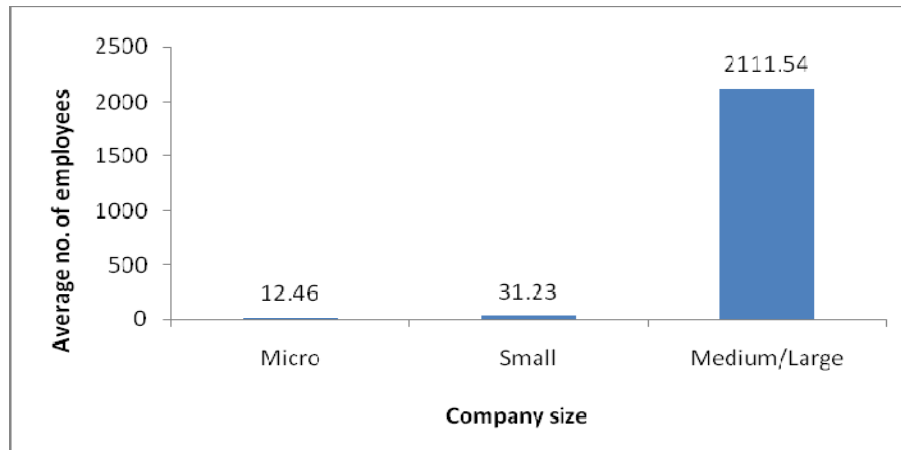
- North, West: 57%
- South: 31%
- East: 12%

Average Age

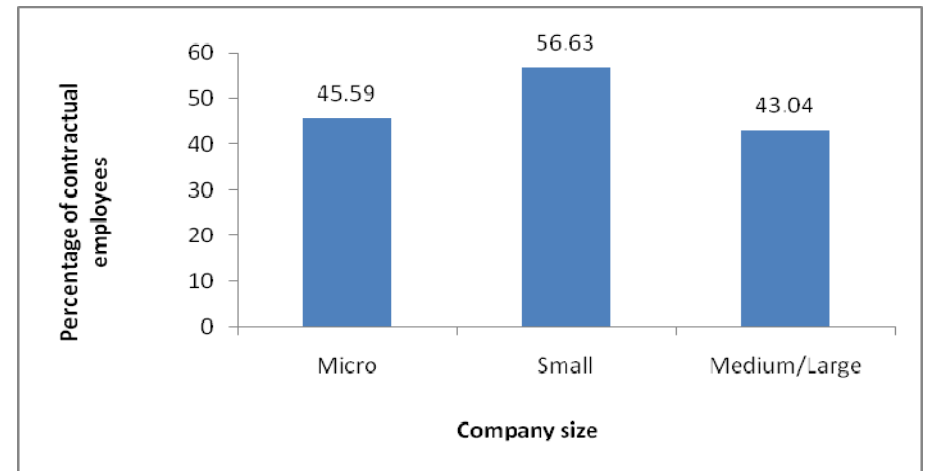
- Micro: 12.32 years
- Small: 16.3 years
- Medium / Large: 16.83 years



Employees



Average Number of Employees



Percentage of Contractual Employees



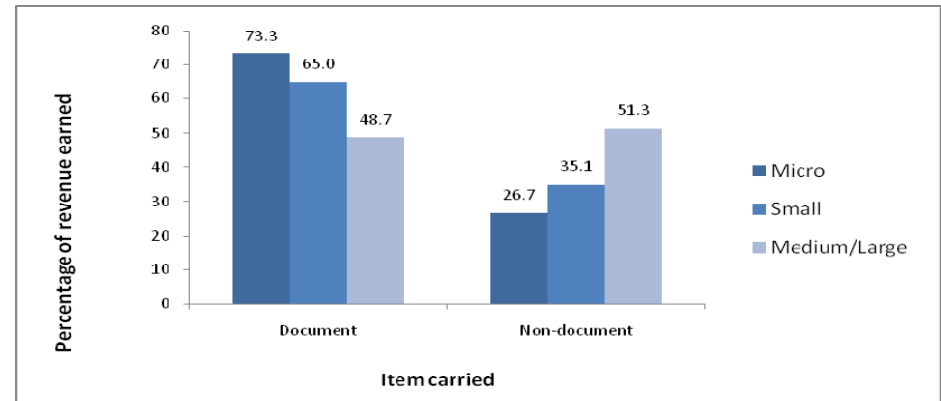
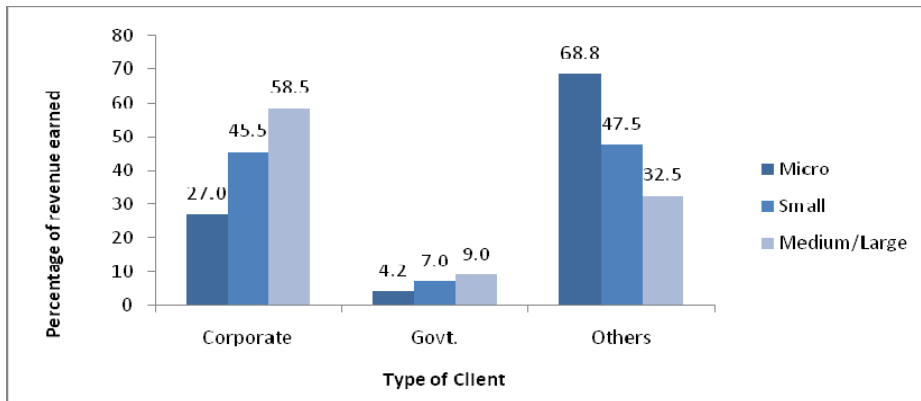
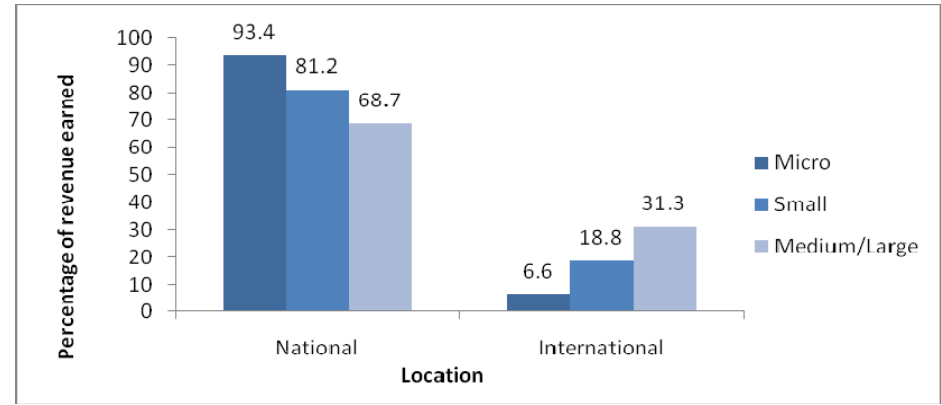
Growth Projections

Company size	Growth rate (%) in net revenue in		
	2007-08	2008-09 (projected)	2006/07 – 2008/09 (projected CAGR)
Micro	18.78	4.63	11.48
Small	12.43	7.23	9.8
Medium/Large	21.71	14.27	17.93
Overall	19.82	12.79	16.25

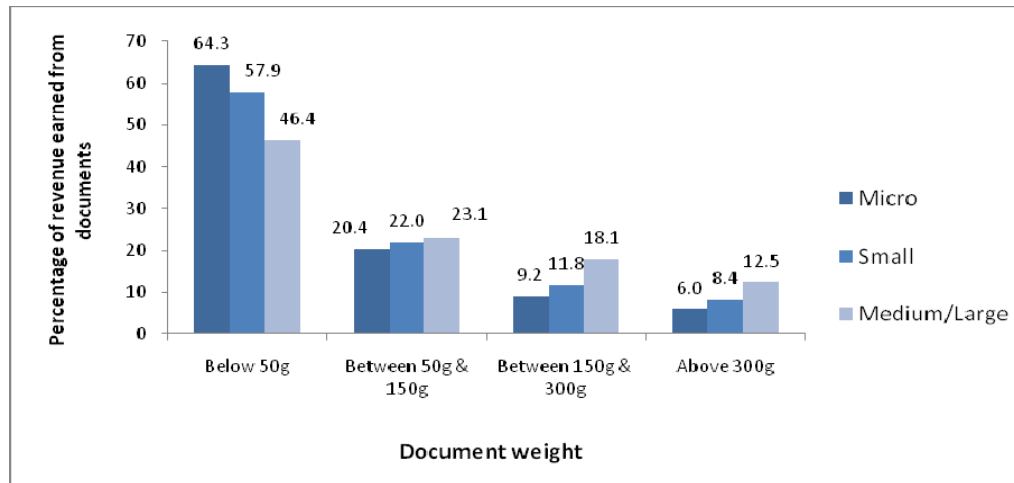
Impacted by the slowdown: Expected growth rate is 10-15%
in next two years, down from 20-25%



Revenue Earned



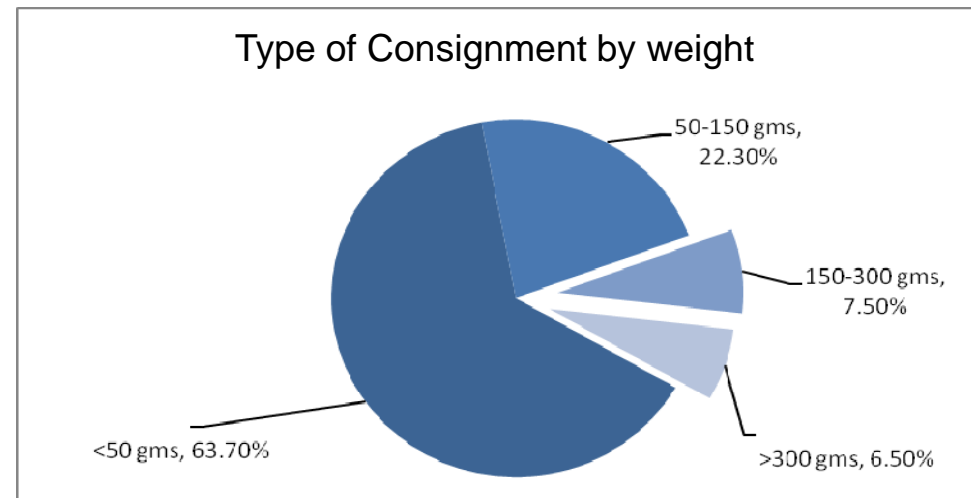
Documents by Weight



Service providers

Percentage of revenue earned from documents by Weight

Clients



Ranking of Key Success Factors

	Cluster					
	Micro & Small		Medium		Large	
No. of observations	78		15		7	
Key Success Factor	Rank	%*	Rank	%*	Rank	%*
Door-to-door service	1	97.44	1	100	8	85.71
On-time delivery & reliability	1	97.44	2	93.33	1	100
Coverage (National/International)	6	55.13	7	80	1	100
Breadth of service offerings	11	15.38	9	60	1	100
Focus on specific industries	12	11.54	14	6.67	13	57.14
Experience of service provider	5	88.46	2	93.33	11	71.43
Reputation of service provider	3	93.59	2	93.33	1	100
Competitive pricing of services	4	92.31	8	73.33	8	85.71
Extension of credit facilities	6	55.13	12	40	14	28.57
Relationship with customers	8	53.85	5	86.67	8	85.71
Investment in assets	12	11.54	11	46.67	1	100
Investment in information system	9	38.46	5	86.67	1	100
Quality of human resources	9	38.46	10	53.33	11	71.43
Integration of services	14	5.13	13	26.67	1	100



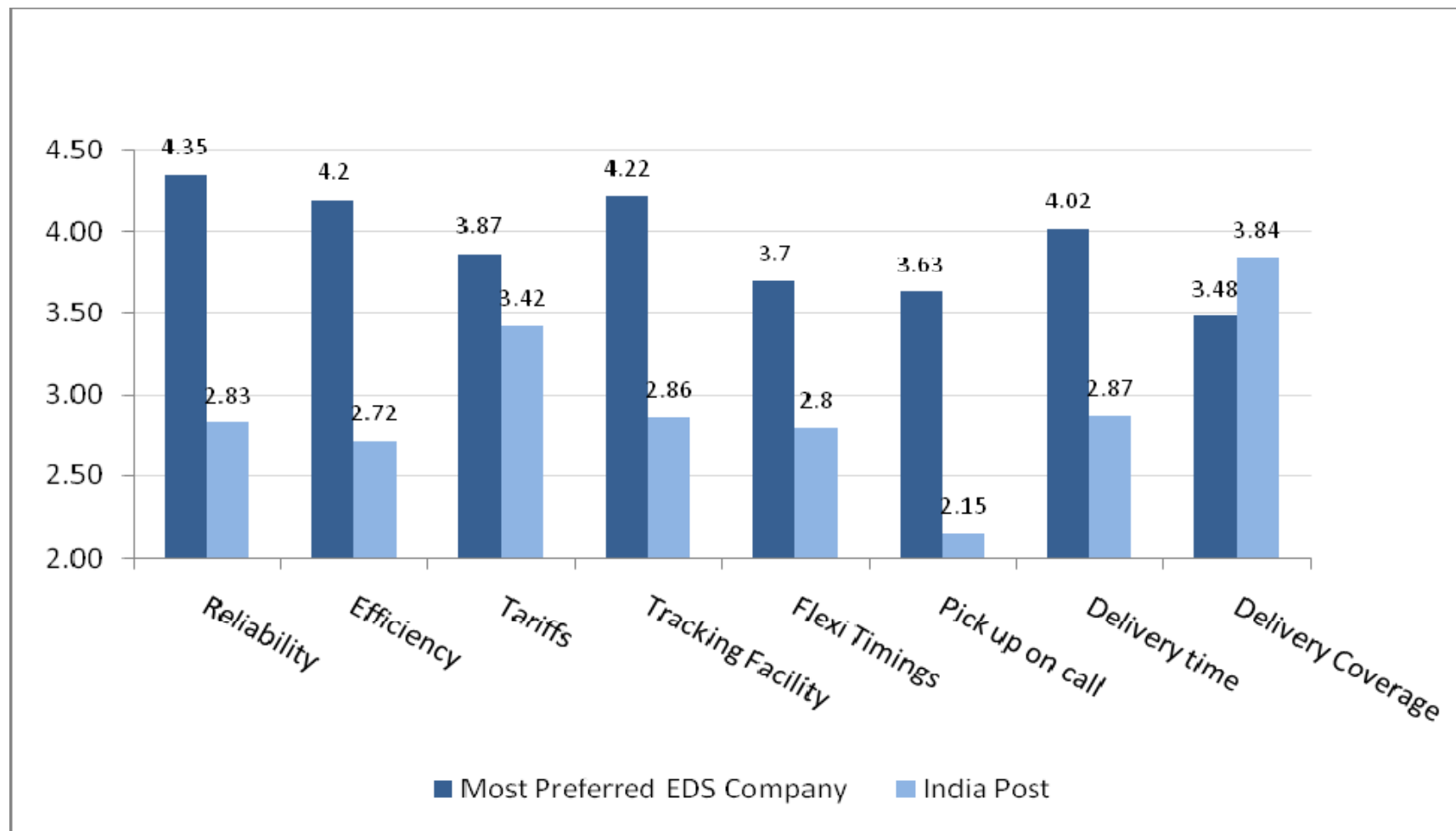
* % of responses which marked either “high” or “very high” on factor importance ratings

Key Findings

- Both service providers and users felt that the most important key success factors are on-time delivery and reliability, door-to-door service, experience and reputation
- Service providers felt that clients are price sensitive, corporate clients do not think price is important
- Significant gap in performance:
 - Micro and small companies: On-time delivery and reliability, coverage, breadth of service offerings, pricing of services, investment in assets, investment in information systems and integration of services
 - Medium companies: Investment in information systems and integration of services
- Transparent Price List
- Export destination determine the choice of couriers/express companies (DHL/TNT in EU, UPS/Fedex in the US)
- Out of 132 service providers, 107 mentioned 10-40% decline in business

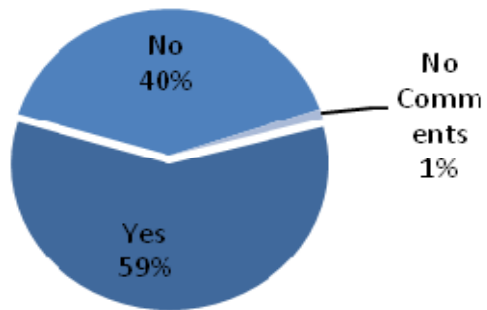


Perception Ranking of India Post and the Most Preferred EDS provider

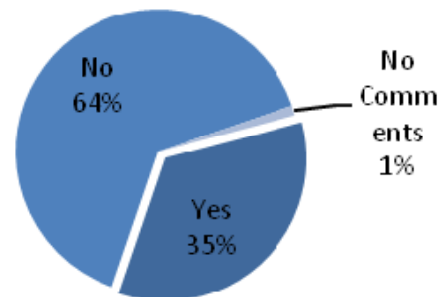


Client Survey

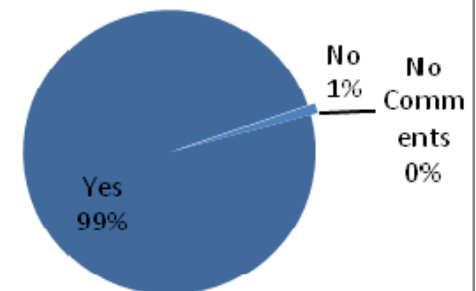
There Should be Licensing of private players in this sector



There Should be USO charges in this sector



There Should be Security related restrictions on this sector



There should be independent regulator: 74%



Client Survey

- 78.89% of the clients would continue using the private courier companies even if the Postal Bill comes into effect.
- 85.56% of the clients are against the reservation of letters by India Post.
- The Bill will increase the cost of operations for 58.89% of the clients, lower the profit margins and affect the overall competitiveness of Indian businesses.



Employee Survey

Age Distribution	Private Companies	India Post
between 20 – 24 Years	16	0
between 25-29 Years	30	0
between 30 – 39 Years	32	7
between 40 – 49 Years	13	17
between 50 – 59 Years	1	9
Total	92	33

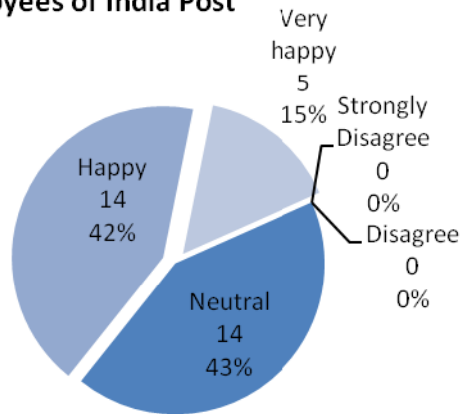
- Employees of India Post earn more at lower levels
- Express/courier companies : performance linked pay
- Employees of express companies work longer hours
- Express/courier- Mix of permanent and contractual employees
- 70% of postal revenue goes in paying salaries



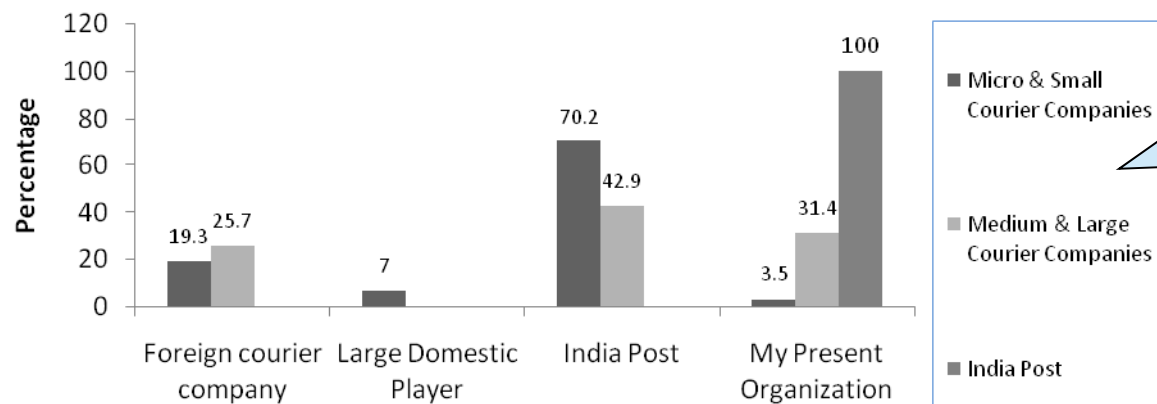
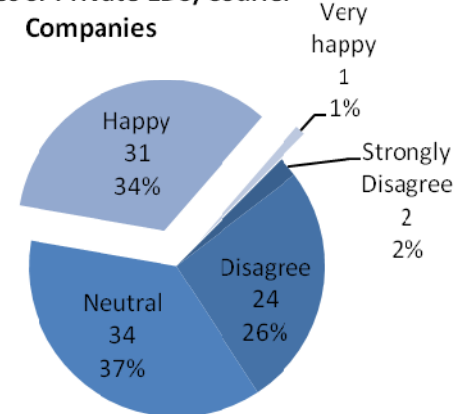
Employee Survey

How satisfied are you with your current job?

Employees of India Post



Employees of Private EDS/Courier Companies



Given an option where do you want to work?



Express *versus* Post: Postal Bill

- Indian Post Office Act 1898 is outdated. In 2006, the government came up with the Indian Post office Amendment Bill, it went through several rounds of revisions and then withdrawn in January 2009, will come back
- **Regulatory Uncertainty**
- There is need for a new regulation
- Reserved area will help to define letter : weight 50 gms and 2.5 times the cost of the ordinary letter rate
 - Maintain product segmentation
- EMS is competitive service: no reserved area
- USO – Definition, USO requirement and existing sources of funds (budgetary grants, reserved area, certain services reserved for post)
- Mail Development Regulatory Authority is required only if the postal sector/mail is privatized
- Independent Regulator – Conflict of interest between regulator and postal department (for example, US)
- No FDI restriction – (Bill proposed a roll back from 100% to 49% FDI)
- **Anti-competitive** practices should be under the Competition Commission



Our Findings

- The weight and price restrictions may not increase the market size of Post
 - The published price list of almost all major companies show that they are charging more than 2.5 times the basic letter rate
 - Document business is reducing
 - Clients are less price sensitive
 - Problems of enforcing the reserved area, penalty



Postal
Reforms



Gateway: What Infrastructure Can Do?

Before



After



Dedicated space in Mumbai, Delhi, Bangalore

Infrastructure

- Logistic cost in India is high, chain is fragmented
- Issues relating to airport privatisation / modernisation
 - Dedicated space, cost of space
 - Warehousing, cold chains facilities
 - Covered space in domestic terminal
 - High charges of equipments
- Other barriers
 - Access to ICDs
 - No dedicated courier vans in railways and as a consequence documents are carried in passenger luggage compartments, loss and theft
 - High fuel prices
- Suggestions
 - The airport master plan should include dedicated space for express/logistics
 - There should be facilities for 24*7 transfer of cargo between domestic and international terminals and from terminals to ICDs - emergency status in China



Nagpur as a Hub?

- Express industry works on hub and spoke model
- Airport hubs act as a catalyst – encourages development of other industries
- Factors determining the location of Hub:
 - Airport connectivity, volume of traffic, availability of land and other infrastructure
 - **Company policy**
 - Government policy (concessional land, self handling, single window clearance) and international agreements (China-US Bilateral)
- Nagpur is centrally located, but India's trade is not equally spread across the country – traffic volume is more in North, West and South
- Cost of operation will be higher, fuel wastage, more flying time – flights from US, EU will bring cargo to Nagpur and then it will be transported to Mumbai
- EMS is shifting hub to Nagpur, private companies have raised objection



Ground Handling

- In September 2007, the policy was announced, implementation has been deferred
- Limits to three service providers in Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad (a) airport operator or its JV (b) Subsidiary companies of national carrier or their joint ventures and (c) any third party providers selected through competitive bidding
- Concern of express companies: competitive ground handling, right pricing, service quality, how to address the specialized needs of this sector (time-bound deliveries), existing investment on equipments,
- Employment issues
- Very few airlines are currently doing self-handling – third party handling
- Security, safety and capacity are primary reasons for limiting the number of service providers
- Ground handling is curved out of WTO negotiations, but is covered by some bilateral



Ground Handling: Suggestions

- Globally, most countries have limited the number of ground handling agents but express companies can do self handling in their hubs
- Passenger airlines are bargaining for retaining the terminal operations, express industry wants the right to self handle airside operations
- The number of Ground handling agents in airports like Delhi will have to be limited
- However, the survey showed that no feasibility study was conducted before the policy was announced
- At any particular airport, 3-4 express service providers can be allowed to self handle
- The selection of express company will depend upon volume of traffic, number of years of operation and safety records, number of own flights per day, etc.
 - Very few companies in India meet this requirement
- The ground handling charges should be same for domestic and foreign companies
- Ground handling policy in Hubs?



Custom Clearance

- Regulations
 - Custom Act 1962
 - Custom Tariff Act, 1975
 - Courier Imports (Clearance) Regulations, 1995
 - Courier Imports and Exports (Clearance) Regulations, 1998
 - **Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2009**
- EDI: PPP between Custom and EICI
- Present practice: Goods that can be cleared through courier mode includes documents, samples and gifts – weight and value restrictions

Current Courier Shipments Clearances
Documents : Form III
Non Dutiable, Non Documents Gifts and Samples below Rs. 10,000 : Form IV
Dutiable Non Documents between Rs. 10,000 to Rs. 1,00,000 : Form V
Dutiable Non Documents above Rs. 1,00,000 : Regular Bill of Entry.



Proposed Act and the EDI

- Restrictions on transshipment
- Merger of Form V with Regular Bill of Entry: will affect 50% of express shipment (low-value dutiable)
- 3kg weight restriction on import: will affect the imports of computer parts, auto-component, sports goods sample
- Too many data elements for risk management
- No provision for e-filing of refunds
- Samples: value restrictions on exports to Rs 50,000 per consignment: affects Indian exporters/manufacturers of high-value, high-end products
- Imports: Value restrictions of Rs 10,000 per consignment for gifts and samples, above Rs10,000 have to pay duty
- Indian exporters/manufacturers pointed out that import and export of samples are time sensitive and any measure which increases delay affect trade
- Registration fee for Authorized courier has increased, period of registration has reduced



Other Custom Related Issues

- Clearance from other departments, wild life protection department, drug controller, etc.
- Multiple tariffs/duties, FTA (rules of origin)
 - Moreover tariffs and duties are through notifications and are not available in a compiled format
- Shortage of custom officers, especially inspectors, at gateways
- Lack of consistency in implementation of regulation
- Lack of inter-ministerial coordination
- Refunds – it takes 6 months to a year
- Freight forwarders also face similar problems
- Freight forwarders face more bribes related issues than express companies



Suggestions

- No restrictions on transshipment
- As Indian companies are moving up the value chain to manufacturing of high-end products, there should not be restrictions on export/import samples
- Risk management system is required – it should have enough data elements to capture leakages but should not be so cumbersome that monitoring is difficult and operation is delayed.
- Over restriction on courier mode will lead to shift to passenger baggage – to avoid high import duties and custom harassment this has been common for jewellery and accessories.
- Consignee authorization and physical imaging of invoice – not difficult but time consuming
 - Consignee authorization can be selectively sought for high value consignment or consignments that are detained for not meeting specific requirements



Suggestions

- With automations there will be no requirement of physical invoicing
- Any weight limit will force shippers/exporters to split the shipment
- As is the global practice, MOU should be signed between customs and express companies whereby express companies will work together with customs to identify frauds and leakages. Express companies have ION scanners, X Ray etc. installed in their gateways to check for presence of narcotics and explosives.
- The EDI system should be imposed in all major and other selected airports
- Tariff/duty structure should be rationalized
- 24x7 single window clearance, Electronic filing of no-objection certificate
- The number of inspectors should increase, they need training in the EDI system



Recommendations

- More inter-ministerial coordination
- Uniform process across customs
- Retain the four forms as per WCO guidelines, until the logistic chain improves
- The role of Customs should change from revenue earner to trade facilitator
- Lessons from other countries
- Reforms is a necessity
- Negotiating strategies in WTO/FTAs – bind existing regime



Thank You

