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BENEFITS OF BBIN MOTOR VEHICLE AGREEMENT TO THE NORTHEAST REGION: A SUPPLY CHAIN ANALYSIS

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EXECUTIVE SUMMARY

This paper examines how the BBIN MVA can benefit the North eastern region especially in terms of improving the export competitiveness of the region. The study maps the possible BBIN routes through the NER, highlights the possible benefits of the MVA and examines how export competitiveness of products in the NER can be improved. A detailed examination of supply chain of two key items – pharmaceuticals and fresh and processed pineapple is undertaken to understand the impediments in the inbound and outbound supply chains. The efficiency of current supply chains is measured in terms of time and cost incurred in various stages of the supply chains and indicative costs on alternative routes are obtained to assess how the sectors could benefit and improve their export competitiveness.

A large proportion of exports from the northeast region is destined to the neighbouring countries. In 2021-22 only two neighbouring countries- Bangladesh and Bhutan accounted for 87% of exports from NER (up from 65% in 2017-18) while the remaining 13% was accounted for by a wide range of countries which included UK, UAE, Ireland, Poland, USA, Netherlands

and others. The export products are also segmented between the neighbouring countries and markets located in the rest of the world. All tea is exported to the rest of the world from only one Inland Container Depot located in Amingaon, Assam while a diversified range of items are exported from other Land Customs Stations (LCS).

Key insights from pharmaceutical supply chain

Pharmaceuticals industry located in the northeast has a complex supply chain. The inbound supply chain comprises of a one-time cost incurred in sourcing machinery to setup the plant and a recurring cost to source the raw material. The machinery is imported mostly from European countries through Kolkata port while the basic raw material for Pharmaceuticals – Active Pharmaceutical Ingredient (API) is sourced largely from China through ports in Gujarat or Maharashtra. The finished pharmaceutical products manufactured in the northeast are then exported to the rest of the world from the Northeast. The consignments are sent in containerised trucks to JNPT, Mumbai from where they are shipped to the final destinations.

- The Pharmaceuticals sector in the northeast is dependent on sourcing raw materials and machinery either from the Indian hinterland or from foreign markets. The key raw material API is not produced in the northeast region even though this sector can avail of the PLI scheme. In fact, even empty containers have to be sourced from Kolkata. Hence, better connectivity to sea ports and to the Indian hinterland is key to improving export competitiveness.
- Only Sikkim and Assam manufacture pharmaceuticals. Even though all North eastern states are entitled to similar incentives, Sikkim has a major advantage in terms of connectivity and therefore accounts for 88% of the pharmaceutical products in the Northeast.
- All export cargo from the Northeast region moves as domestic cargo until it reaches a port in the Indian hinterland. Hence these exports are recorded as originating from the state from where the cargo is being shipped. The shipping bill and the bill of lading mention the point of origin of cargo which is used for collecting trade data.
- While BBIN MVA will open up shorter routes for exports from Guwahati to Kolkata and Chittagong, there is only one transit point to access Chittagong while there are two transit points to access Kolkata. Similarly import cargo would move through only one transit point from Chittagong and two transit points from Kolkata. In balance, the combined effect of transit times and port efficiency will determine which route would be preferred.
- The already existing rail route from Amingaon ICD if made operational for all commodities would be the best option for exporters as this route is cheaper than the road routes. An added advantage would be that exports of these commodities would be recorded as originating from Amingaon as the shipping bill and bill of lading would record exports as originating from the point of origin at Amingaon.
- The CHAs lack requisite skills to handle exports of commodities other than tea. All logistic operations are handled by the manufacturing firms.

Key insights from fresh and processed pineapple supply chain

The state of Tripura cultivates two varieties of pineapple – Kew and Queen. The Kew variety accounts for 90% of the pineapple cultivation in the state and therefore

we focus on the Kew variety in this study. We identify the impediments faced in exporting fresh pineapples and also on the challenges faced by the pineapple processing sector.

Fresh Pineapples:

- There is no Mandi in Agartala. Due to the absence of a price discovery mechanism enabled through a Mandi, farmers cannot demand their market price. Hence, they get unfair remuneration.
- Post-harvest losses at the farm level are 7% to 10% while losses from farm level to the retailer range between 30% to 35%.
- The pineapples are heaped in open fields on the roadside from where they are loaded on to trucks and moved to the aggregation point in Agartala. This aggregation point is demarcated by locals and is basically an open space with no infrastructure.
- There is no packaging, sorting and grading facilities, and the cold storage facilities are missing. During transportation, no reefer containers are used as the cost of using reefer trucks outweighs the marginal increase in shelf life of the pineapple.
- There are five distribution channels for pineapple from Agartala (i) local consumption in Tripura, (ii) transported to Guwahati for consumption in northeast, (iii) transported by road to other states e.g., Kolkata, (iv) airlifted to other states, (v) informally traded to Bangladesh because its import is not permitted by Bangladesh.

Processed Pineapple:

- There are two options for pineapple produce in Tripura (i) set up processing plants in Tripura and (ii) export formally to Bangladesh.
- In recent months, fruit processors in the hinterland have shown an interest in setting up manufacturing facilities in Tripura. Machinery and other packaging material are sourced from the hinterland and processed pineapple is sold back to the domestic market in the hinterland.
- These processing plants set up in Tripura are likely to gain immensely from the BBIN MVA. The distance from Agartala to Kolkata through Siliguri is currently 1600 km and would reduce to just 450 km through the BBIN route through Dhaka which is likely to result in a huge reduction in cost and time by 40% and 63% respectively.
- The processed fruit can either be sold domestically

in the hinterland or it can be exported through Kolkata port or Chittagong port. Under the BBIN route, exports through Kolkata port would result in cost and time reduction of 50% and 71.5%, respectively compared to the existing route through Siliguri while for exports through Chittagong port, the reduction in cost and time would be 62.5% and 73%, respectively. Overall efficiency of the Kolkata and Chittagong port will be important once BBIN MVA becomes operational.

Recommendations

The recommendations are based on the study of only two sectors but have overall implications for the agriculture and manufacturing sectors.

Pharmaceuticals

- ICD at Amingaon should be improved with additional functions: Necessary procedures should be put in place so that pharmaceutical and other items can be exported from Amingaon ICD. This would mean enabling of issuing a through bill of lading and shipping bill from Amingaon for all items. ICD should be made functional for road cargo as well so that consignments can move through Bangladesh when BBIN MVA becomes operational.
- Recording trade data from the Northeast region: Enabling ICD at Amingaon for items other than tea will automatically ensure collecting trade data on exports from Amingaon. All other exports to the rest of the world originating in Assam and in other North eastern states are being shipped from ports in the hinterland and are being recorded in the state's trade data from where the exports are being shipped.
- Improving the Logistic Ecosystem: Containerised trucks should be made available. Customs will need to provide training to CHAs so that the required skill base can be developed in the region. Unless the requisite training is given to CHAs, Amingaon even if made operational for other commodities will remain under-utilized. A dedicated rail track is required for movement of containerised cargo in order to improve rail connectivity through Amingaon ICD. Efficiency of Kolkata port needs to be improved and release times need to be reduced substantially to bring it on par with the best performing ports such as JNPT.

- Creating backward linkages: Assam can set up a bulk drugs park as are being set up in Andhra Pradesh and Gujarat. Production of API under the Production Linked Incentive scheme can help create backward linkages for the pharmaceutical industry.

Fresh and processed pineapple

Improving Infrastructure: A Mandi should be set up in Agartala so that price discovery mechanism is established formally. This will help farmers in getting their due remuneration for their produce. A more formal aggregation and collection method needs to be put in place in consultation with the Farmer Producer Organisations. Basic infrastructure should be provided at aggregation points. Customs need to build capacity of CHAs so that they can undertake the document processing tasks related to trade.

Improving Logistics: Since Agartala is likely to gain tremendously from the BBIN MVA, the Government may consider setting up an Inland Container Depot (ICD) in Agartala.

Reefer trucks should be made available to improve shelf life of fresh pineapples during transportation.

Attracting more firms to avail the PLI scheme: The processed food sector has the potential to expand if domestic firms from all over India can avail of the incentive and set up manufacturing facilities in the northeast. Domestic investment from within the state also needs to be encouraged. State Government can spread awareness on the benefits of the PLI Scheme.

Addressing trade policy distortions: Bangladesh does not permit all items to be imported from the land ports in the Northeast region. In particular, fresh fruits are not permitted. Pineapple and other items should be removed from Bangladesh's negative list of import from the Northeast so that informal trade can shift to formal channels.

Capacity Building: Farmers need marketing assistance and technical assistance and training so that they can adopt modern methods to reduce post-harvest losses. Assistance is required to set up more Farmer Producer Organisations (FPOs). Domestic firms located in Tripura also need technical assistance to set up manufacturing facilities.