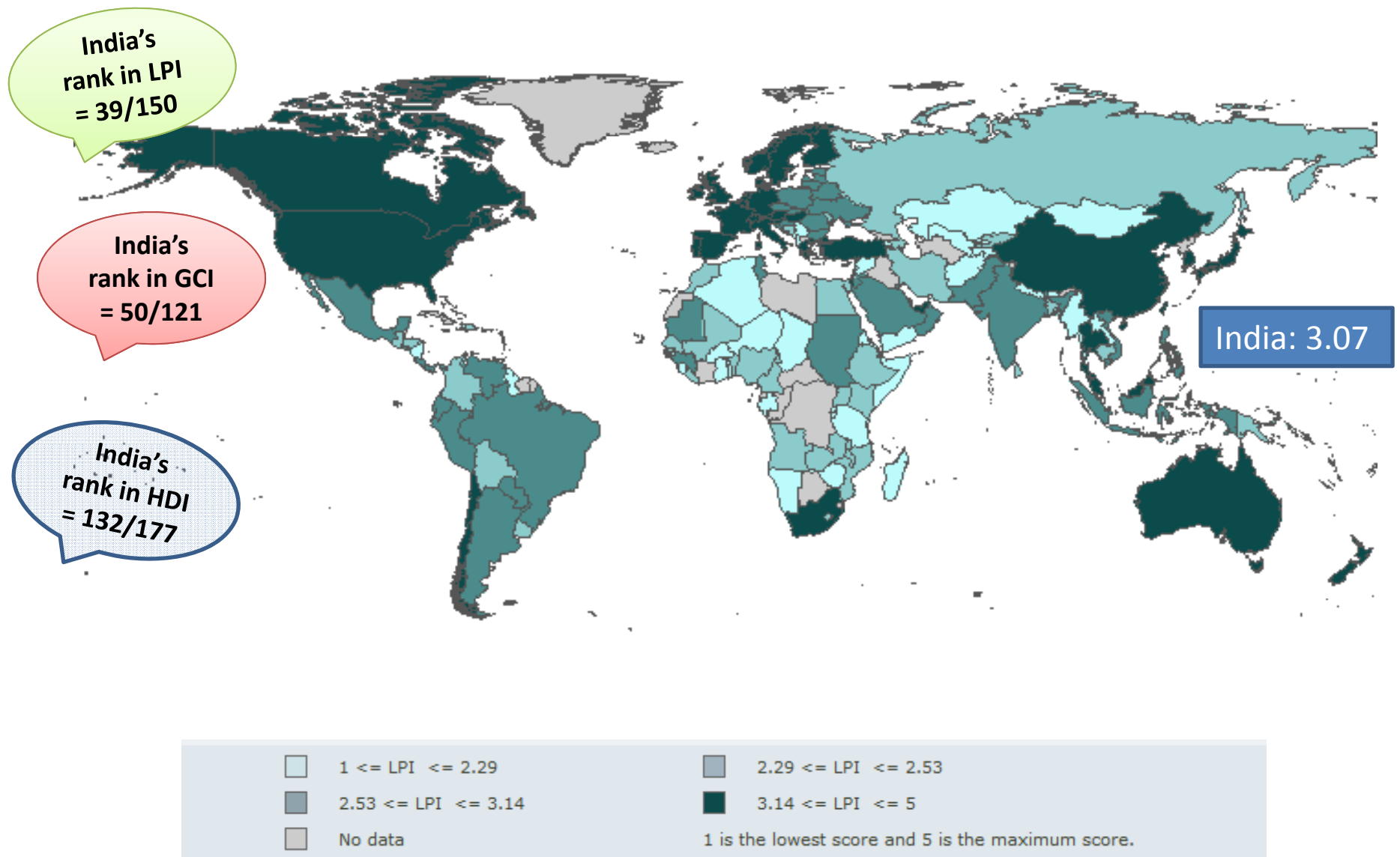


STATE AND LOCAL LEVEL ISSUES AND CONCERNS FOR THE EDS INDUSTRY

Parthapratim Pal

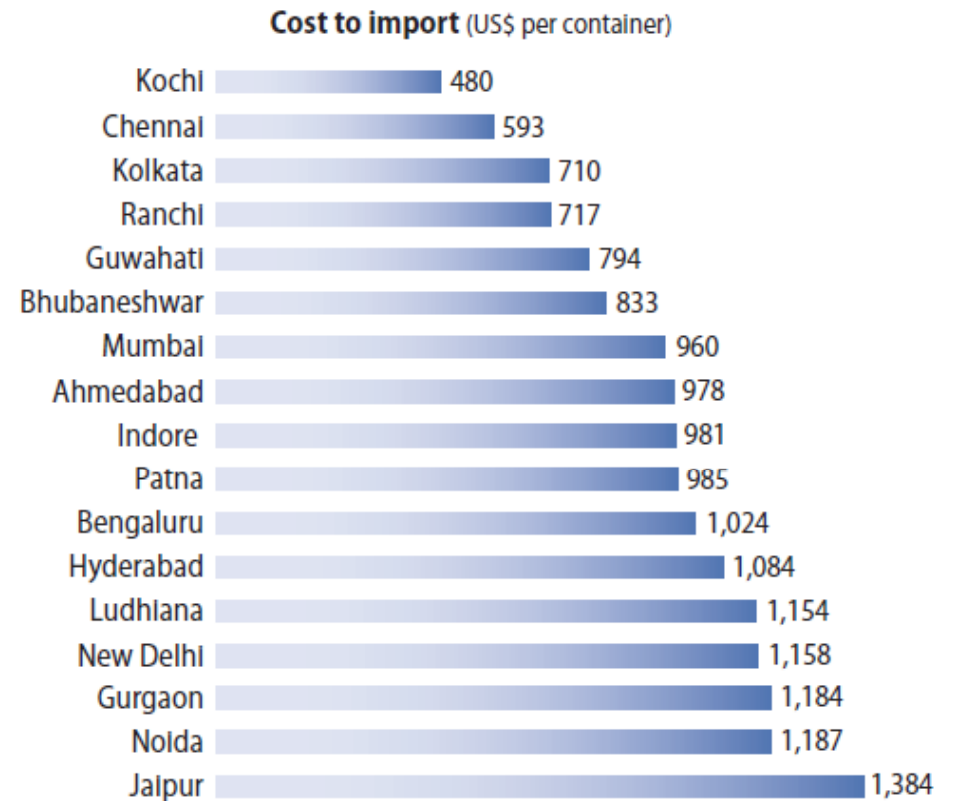
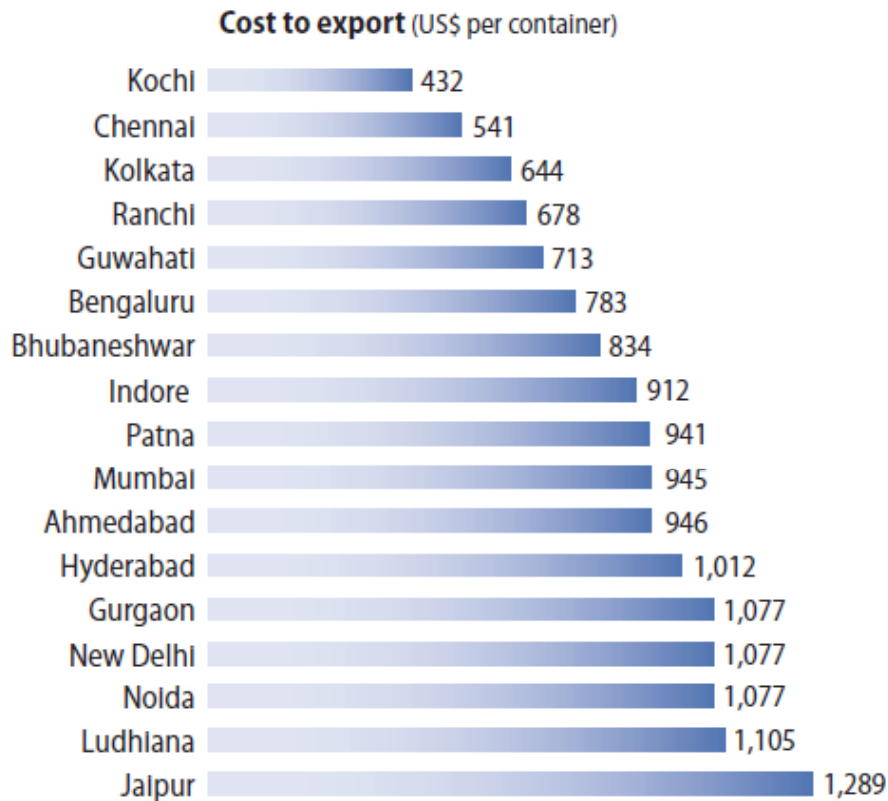
Indian Institute of Management Calcutta

India's Logistic Performance Index



But there is considerable variation across states...

Cost to export and import in India



Source: Doing Business database.

Let us define Express Delivery once again...

- The 'Express Delivery Services' (EDS) industry provides services which include integrated door-to-door transport and quick delivery of **time-definite shipments** of documents, parcels and merchandise goods.
- In more formal terms, EDS can be defined as services which involve 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.

Some results from our surveys...

Definitions:

Respondents were identified according to their sizes as defined in the Micro, Small, Medium Enterprises (MSME) Development Act, 2006 of Government of India . The definition is in terms of investments in equipment for the service sector –

Micro: Not exceeding Rs. 10 lakh,

Small: More than Rs. 10 lakh but not exceeding Rs. 2 crore, and

Medium: More than Rs. 2 crore but not exceeding Rs. 5 crore.

The remaining will fall in the “large” category.

Issues Faced by Express Delivery Service Providers/Courier Companies

	Micro & Small	
Issues faced by the sector	Rank	%*
Inadequate airport infrastructure	7	33.94
Poor rail/road infrastructure	5	42.20
Poor communications infrastructure	9	21.10
Cumbersome customs procedure	6	39.45
Bureaucracy, red-tapeism, paperwork	2	72.48
Corruption at offices and on roads	1	80.73
Inconducive government policy	4	65.14
High costs of operations/low margin	3	70.64
Various taxes making pricing high	8	27.52
Availability and quality of staff	10	13.76

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

Issues Faced by Express Delivery Service Providers/Courier Companies

	Medium	
Issues faced by the sector	Rank	%*
Inadequate airport infrastructure	7	53.33
Poor rail/road infrastructure	4	60
Poor communications infrastructure	7	53.33
Cumbersome customs procedure	4	60
Bureaucracy, red-tapeism, paperwork	4	60
Corruption at offices and on roads	1	80
Inconducive government policy	2	66.67
High costs of operations/low margin	2	66.67
Various taxes making pricing high	9	40
Availability and quality of staff	10	26.67

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

Issues Faced by Express Delivery Service Providers/Courier Companies

	Large	
Issues faced by the sector	Rank	%*
Inadequate airport infrastructure	1	100
Poor rail/road infrastructure	2	88.89
Poor communications infrastructure	10	44.44
Cumbersome customs procedure	5	77.78
Bureaucracy, red-tapeism, paperwork	2	88.89
Corruption at offices and on roads	7	66.67
Inconducive government policy	2	88.89
High costs of operations/low margin	5	77.78
Various taxes making pricing high	7	66.67
Availability and quality of staff	9	55.56

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

Major Conclusions from our Survey

- Clear Segmentation showing among the service providers
- Bigger players are more worried about airport and customs related issues
- For smaller service providers, state level issues and issues relating to bureaucracy and corruption are more important
- Poor rail/road infrastructure is a major problem for all the segments
- Corruption affects smaller players more
- Inconducive government policies affect all the segments

Issues Faced by Express Delivery Service Providers/Courier Companies

	Cluster					
	Micro & Small		Medium		Large	
Issues faced by the sector	Rank	%*	Rank	%*	Rank	%*
Inadequate airport infrastructure	7	33.94	7	53.33	1	100
Poor rail/road infrastructure	5	42.20	4	60	2	88.89
Poor communications infrastructure	9	21.10	7	53.33	10	44.44
Cumbersome customs procedure	6	39.45	4	60	5	77.78
Bureaucracy, red-tapeism, paperwork	2	72.48	4	60	2	88.89
Corruption at offices and on roads	1	80.73	1	80	7	66.67
Inconducive government policy	4	65.14	2	66.67	2	88.89
High costs of operations/low margin	3	70.64	2	66.67	5	77.78
Various taxes making pricing high	8	27.52	9	40	7	66.67
Availability and quality of staff	10	13.76	10	26.67	9	55.56

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

Some Specific State level Issues

Kerala: The biggest problem is the **Walayar** check post which is the main entry point to this state.

According to service providers it takes 6 to ten hours due to the time taken to do the paperwork. This state started off with innovative methods of e-filing but nothing has progressed so far.



- **Corruption Free Walayar Check Post**
 - Corruption free Walayar check post is a concerted and phased programme of the Government to reform the deplorable state of Walayar check post where cargo vehicles and traffic have experienced a nightmare day and night. The programme was inaugurated by Chief Minister at Walayar in March 2007. In the first phase all the old practices in the check post were scrapped one by one. The time required for each type of vehicle to pass through the check post was streamlined and set down and this was to be strictly observed in practice. The long waiting hours of vehicles were to be thus reduced. Details of cargo vehicles were to be passed on to sales tax offices without delay. Redeployment of employees, rearrangement of procedures, suppression of mafia groups were to be undertaken”
- *From the website of Thomas Issac, Minister of Finance, Kerala*

Some Specific State level Issues

- **West Bengal:** The biggest problem is the Way Bill in which the consignee has to attach a form to each shipment entering the state.
 - Major discouragement for B2C trade and E-commerce for the state
 - My Experience with Way Bill (Road Permit Form 50)
 - The officials are aware of the problems

Original

THE WEST BENGAL VALUE ADDED TAX RULES 2005
FORM 50
Waybill for transport of consignment of goods despatched from Outside West Bengal to any place inside West Bengal
[See rule 100, rule 103 and rule 104]

Serial No. 1 0000000

1. Office and Date of Issue

2. Name and Address of the Dealer / Person importing the Goods

Trade Name :
Address :
State :

2A. Dealer's Registration No. (TIN) (if any)
VAT RC No. :
CST RC No. :
PAN No. :

3. Name and Address of the Dealer / person from whom the goods are purchase / imported

Trade Name :
Address :
State :

3A. Dealer's Registration No. (TIN) (if any)
VAT RC No. :
CST RC No. :
PAN No. :

4. Description, Quantity and Value of Goods:
(a) No. of Services: (b) Total Value of Goods: Rs.

Sl. No.	Commodity Code	Service No. & Date	Quantity	Value of Goods (Rs.)
1.	Name			
2.	Name			
3.	Name			
4.	Name			
5.	Name			

[Stamp]

5. Name and address of the Transporter / Owner of the Vehicle by which the goods are consigned

Name :
Address :
State :

5A. Vehicle Number
5B. Consignment Note No.

Declaration - "I/We declare that "I/We "am/are registered dealer under the West Bengal Value Added Tax Act, 2005, holding Registration Certificate No. (TIN) and the statements are correct to the best of my/our knowledge and belief."

Name of the Dealer
Signature of Proprietor/Partner/Authorized person
Status Designation

[Stamp]

4. Description, Quantity and Value of Goods -- *Contd.*

Sl. No.	Commodity Code	Service No. & Date	Quantity	Value of Goods (Rs.)
1.	Name			
2.	Name			
3.	Name			
4.	Name			
5.	Name			

Name of the Dealer
Signature of Proprietor/Partner/Authorized person
Status Designation

[Stamp]

Name of the Notified Place/Station/Area

Date of Endorsement

Signature of endorsing Sales Tax Officer/ Asst. Sales Tax Officer

Octroi and related Issues: Feedbacks Received

1. N form requirement for International Transit courier shipments

- a) The issue is critical for export of sample shipments that are picked up in locations like Pune and Vashi and need to be brought into Mumbai for export. For international transit courier shipments there should be no requirement of N form as these shipments are samples
- b) Currently we are paying octroi for international export shipments which is a huge cost on companies especially in these tough times

2. Requirement of R form Special Economic Zone shipments

- a) For shipments that are escorted by customs to the special economic zone there should be no requirement of an R form to be opened and closed as these shipments are positively being sent to SEZ under customs escort

3. Levy of octroi on import sample shipments

- a) Octroi rules were framed in 1958 and there has been a lot of change in the trade since then. It is critical that the rules are amended considering the change in the trade. Sample shipments imported should not attract any octroi and should be octroi free

4. N form requirement for domestic transit courier shipments

- a) The same issues remain for domestic transit shipments as that for international transit shipments. For e.g. Ahmedabad shipments will land in BOM to be cleared and forwarded to AMD. If BMC insists that there needs to be a single N form for all shipments, these shipments will be delayed and there will be a service impact on these shipments

Pre clearance of octroi based on online payment

- a) With the volume of courier shipments being high it is imperative that there be pre-clearance of octroi permitted
- b) There is only one naka currently functional for online payment of octroi. Naks at domestic airport, international airport (courier cell) and Air Cargo Complex need to be made functional for online payment of octroi
- c) Permission should be granted to courier companies to pay octroi before arrival of shipments and move the loads based on the payment receipt proof

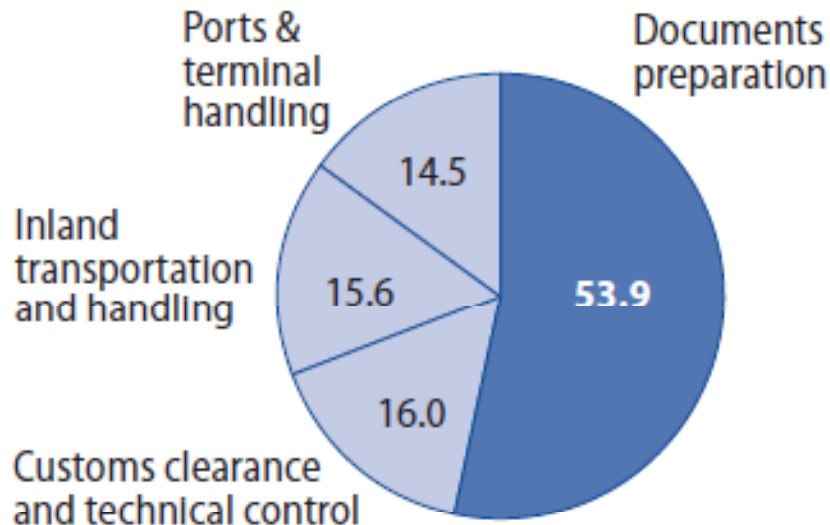
Octroi taxes have a respectable antiquity, which can be traced back to the Roman period!!

According to Wikipedia, as of 2008, octroi is levied in Ethiopia and in only one state of India, (Maharashtra)

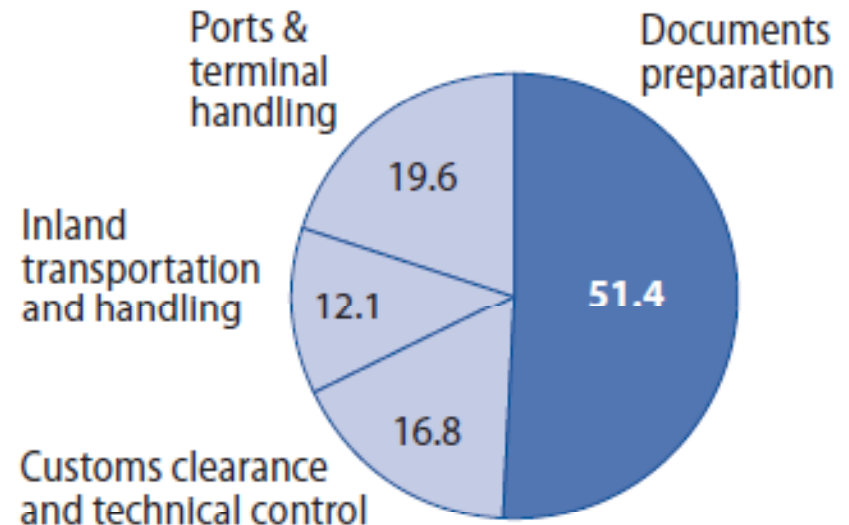
From the Doing Business Database 2009 Estimates...

Exporters spend most time on paperwork

Share of total export time
Inland city average (%)



Share of total export time
Coastal city average (%)



Source: Doing Business database.

Some Specific State level Issues...contd.

- In UP too there are huge delays at the border due to manual paperwork. There is shortage of manpower and the work gets accumulated. The check process is cumbersome - Sometimes the officials check the entire load. Bribes and corruption is a big problem. Filling form 38/39 is a major problem.
- The biggest problem in Maharashtra apart from Octroi is that if the paper work for a particular consignment is incomplete the whole consignment is held back.
- Solution – if GST is implemented can there be a national VAT network so that electronic filing is possible and vehicles can pass through state borders easily.
 - Are we prepared to introduce GST by 2010??

Sales Tax

Problem : Multiple sales tax check-posts

- A goods vehicle is answerable to different types of check points. A typical truck operator has to normally face six different agencies for either obtaining clearances for carrying goods or paying certain charges at the check post.
- These agencies are mainly:
 - 1. Sales Tax
 - 2. Regional Transport Officer (RTO)
 - 3. Excise
 - 4. Forest
 - 5. Municipal tax like Octroi
 - 6. Civil Supplies (for check on the movement of essential commodities, black marketing, weights and measures, food adulteration)

Some Examples of inter-state movements and related Costs of such movements

- Take an example of a journey from Mumbai to Delhi. The vehicle has to pass through
 - Thane (octroi check post) and three sales tax check posts at Bilad, Shyamalaji & Ratanpur in different states.
 - Each check post takes an average of 1 hour to 1 ½ hours to clear the vehicle leading to wastage of 4 to 6 hours of transit time.
 - This is further compounded by the state of our road conditions in certain sectors and not to forget toll-nakas.
 - Hence a total distance of 1410 kilometers is covered in around 41 hours with a dismal average of 35 kms per hour.
- **Doing Business in India 2009** mentions that exporting a container of textiles from Guwahati through the port of Kolkata requires on average
 - 8 documents
 - 22 days and
 - Costs US \$ 713
- Importing silk from Thailand to Guwahati requires:
 - 9 documents
 - 28 days
 - Costs US\$ 794

More Issues Related to State

- Condition of state highways vary across states. This fall under state subject.
- State level infrastructure issues such as power, water, telephone impacts establishment of cold chains
- All these create major problems for developing a good supply chain

Road and transport related Issues: from our survey of transports

- In many cities there is a 24 hours bar for movement of goods carriage vehicle.
- Many roads are in poor condition which hampers the speed and the longevity of the vehicle.
- Bribe on the road is a common feature.
 - In Maharashtra police personnel won't accept anything below Rs. 50/- even though the vehicle have all relevant papers in the proper form. In West Bengal the policemen are satisfied with a bribe of Rs. 10/- even.
- At the Octroi check post in Maharashtra no modern technology is used. All are done manually. If not bribed properly then the authorities go for physical verification of the goods carried by the vehicle and this take a lot of time. Moreover the persons at those posts are not well trained in their job so take a long time to verify the documents and assess the Octroi tax to be paid.
- At every check post, whether it is border check post or Octroi check post, there is a shortage of manpower due to which a lot of time is taken to give clearance to the vehicles.
- No check post is computerized or have a scanning machine. All of them are technologically backward.
- Toll taxes are also adding to the cost of transport

Municipal Issues...

- Municipal Issues:
 - In many cities commercial vehicles are not allowed in the city. This is creating problems for EDS companies as pick-up and drop services are being affected.
 - EDS companies can only use smaller vehicles for such activities.
 - Warehouses are becoming part of the city as municipal limits have increased in many cities
 - Trucks can't access warehouses for a significant part of the day
 - *Trucks should be allowed to access warehouses- lack of urban planning*
 - *Follow the “China Model” ?*

City Access: What China Does

Rationale

- City access during working hours is not a need of EDS firms. Instead it is a need of customers and economic development.
- If EDS vehicles are clean, small and flexible. Their impact on environment, safety and traffic is very limited.
- The movement of goods is relevant to the development of local economy and daily life of people. It is as important as the move of personnel. In many developed countries, goods vehicles enjoy the same treatment as public transport vehicles.
- The punishment on EDS vehicles not only increases the operation cost of EDS companies but also causes the delay of shipments that may lead to the big loss for customers. It may hurt all stakeholders harder during economic crisis.

Action

- Tianjin issued special permits for EDS vehicles owned by firms registered with local PB. With the permits, EDS vehicles began to have full city access.
- Guangdong Provincial Government released GD Postal Industry Management Measures that recognized the legal status of EDS vehicles. They are working on detailed implementation rules which will allow EDS vehicles with logos of registered EDS firms full city access.
- Shanghai will increase the number of special permits issued for EDS vehicles of branded EDS firms. Shanghai Road Transport Authority has made the technical standards of EDS vehicles and will push the EDS firms to change the vans into lorries that can meet the standards and will have full city access.

Consequences of the state/local level barriers:

- 1. Loss of time, higher direct costs**
- 2. Unnecessary detention leading to service failures**
- 3. Lower utilization of vehicles due to idling**
- 4. Higher fuel consumption**
- 5. Miscellaneous expenses**
- 6. Higher operating costs, reduced efficiency, trade facilitation issues**
- 7. Major implications for competitiveness of a country**

Some Suggestions: Policy Coherence

- Development of road network should be accompanied by improving the functionality at the checkpoints. The benefits of a well-connected road network will be more if it is Integrated through a domestic EDI network.
- Under VAT document checking is more important but checking is being done manually which results in time consumption. E-filing of VAT/Octroi can save time
- However, the Tax Information Exchange System (TINXSYS) did not work due to lack of participation from states (Rao 2009)
- Overall, integration of national markets ideally should be done in sync with integration with International market
- ***Recent literature suggests that Poor Trade facilitation is holding back growth of regional trade in South Asia more than any other forms of trade barriers***

Some Suggestions: Domestic Issues

- If domestic taxation and inspection system is to be continued then an domestic system equivalent to ICEGATE (Indian Customs and Excise Gateway) can be thought of
- During our interview, some EDS providers suggested the idea of a Green Channel for specific cargos. One can explore the possibility of a Green Channel system for some commodities (like perishable commodities) to start with
- In case of any seizure of shipment of one shipper, the entire vehicle should not be detained, paperwork can be seized and vehicle should be allowed to go
- **The number of Inland Container Depots (ICDs) should be increased to facilitate cargo movement and dry dock facilities should be extended to all ICDs.**

Concluding Observations...

- This report indicates that state and municipal laws are in some cases causing major hindrance to EDS and logistics, which in turn, is affecting India's competitiveness
- Most of these issues are solvable without too much technical problem.
- Systems like domestic EDI and ICEGATE can be possible solutions
- However, solving some of these issues may need strong political will
- There will be gainers and losers from such reforms. Losers tend to be the rent seekers of today. Managing them will be the challenge



THANK YOU

*FEEDBACKS, COMMENTS AND VIEWS ARE MOST
WELCOME...*