

GAPS AND EFFECTIVENESS IN MONITORING OF EXPORT PROMOTION SCHEMES IN INDIA:

Introduction:

Government-supported national trade promotion programs are common around the world and universal in all the economies. Typically trade promotion programs are government-funded or subsidized public policy, attempts to increase the total value of export sales of a nation's firms. The philosophy behind such schemes is that increased exports will add to employment in a nation, they will improve the availability of foreign exchange, offer the opportunity for local firms to generate economies of scale and deliver related spin-off effects such as the transfer of technology and management knowledge from export destinations. Thus, it is argued, the benefits will justify the costs associated with government export promotion expenditure.

Arguments to justify the Need for Government supported Export Promotion Schemes in India:

- 1) To Earn Foreign Exchange:
- 2) To Motivate Organizations to Export:
- 3) To Promote Interests of Indian Exporters and Keeping Commitment of WTO:
- 4) To Import Capital Goods:
- 5) To Reduce Bureaucratic Hurdles:
- 6) To Correct Unfavorable Balance of Trade:
- 7) To Reduce Foreign Loans:
- 8) To Achieve the Objective of Self-Reliance:
- 9) To Sell Surplus Production:
- 10) To Finance Imports:
- 11) For the Defence:
- 12) To contribute Economic Development of Country:

The facilities and incentives which can benefit the exporting firms are as follows:

- i) When the domestic market is small, foreign market provides opportunities to achieve economies of scale and growth.
- ii) The supply of many commodities, as in the case of a number of agricultural products in India, is more than the domestic demand.

iii) Exports enable certain countries to achieve export-led growth. Fourthly, export markets may help to mitigate the effects of domestic recession.

iv) A country may need to boost its exports to earn enough foreign exchange to finance its imports and service its foreign debt. It may be noted that many countries are suffering from trade deficit and foreign debt.

v) Even in the case of countries with trade surplus export promotion may be required to maintain its position against the international competition and the level of domestic economic activity.

Types of export promotion schemes:

The list of major incentives administered by DGFT is as under:

- Export Promotion Capital Goods (EPCG) Scheme:
- Duty Exemption/Duty Remission Schemes
- Schemes for EOUs/EPZs/SEZs/EHTPs/STPs

The list of major incentives administered by CBEC is as under:

- Duty Drawback

Details of the Major export promotion schemes:

EPCG Scheme: The rationale behind the Export Promotion Capital Goods (EPCG) Scheme is to facilitate technological up gradation while respecting the need to preserve scarce foreign exchange resources. Under this scheme an exporting producer (i.e., every manufacturer who exports) or merchant/exporter (i.e., traders) is required to provide the details of the type and the value of capital goods to be imported and the company is allowed to import the capital good at concessional customs duty of 5%. The export obligation is 5 times the CIF value of the capital good on FOB basis or 4 times CIF value of capital goods on Net Foreign Exchange Earnings (NFE) basis. The export obligation is to be fulfilled over 8-year period. In order to meet the export obligation, goods exported must have been produced with the imported capital goods. Customs shall verify the use of Capital Goods by the exporter by taking installation certificate from the exporter with in stipulated time and also ensures that the exporter is exporting the goods within timelines as specified in the Scheme. Further, Customs shall cancel the bond/Bank Guarantee executed by the exporter based on the EODC issued by the DGFT or execute the same to collect revenue foregone in case export obligation is not fulfilled or imported capital goods is used for other than the export purpose.

Duty Exemption/Duty Remission Schemes:

While duty exemption scheme enables import of inputs required for export production, the duty remission scheme enables post export replenishment/remission of duty on inputs used in the export product. DGFT currently has the Advance Licence Scheme, which is the major duty exemption/duty remission scheme.

Advance Licence: Advance Licence is issued for duty free import of inputs and is subject to actual user condition. Advance Licence can be issued for physical exports, intermediate supplies or deemed exports. These licences are issued to manufacturer exporter (main contractor in case of deemed exports) or merchant exporter with the endorsement of the supporting manufacturer(s). Such licences (other than Advance Licence for deemed exports) exempts the inputs from payment of Basic Customs Duty, Additional Customs Duty, Anti Dumping Duty and Safeguard Duty, if any. The quantity of raw materials is determined on the basis of government provided Standard Input-Output Norms (SIONs). These norms specify the proportion of inputs used in the production of final product. Both the quantity and the value of inputs allowed to be imported are specified in the licence. Under advance licence, neither the licence nor the materials imported with the licence is transferable even after completion of export obligation. The licence is valid for a period of 18 months whereas the Agreement allows two-year period for the import of inputs under such licences. Customs shall ensure that the imported raw material is as per the licence. Customs shall cancel the bond/Bank Guarantee executed by the exporter based on the EODC issued by the DGFT or execute the same to collect revenue foregone in case export obligation is not fulfilled or imported raw material i.e. inputs is diverted.

Schemes for EOUs/EPZs /SEZs/EHTPs/STPs: These are schemes for export production units that are isolated from domestic production units such as EOUs and EPZs. For the purpose of customs and excise these units are considered as outside domestic tariff area. These units or units located in these zones produce primarily for export market. However, they are allowed to sell certain percentage of their product in domestic tariff region as well after payment of excise, subject to their fulfilment of their export obligation. The export obligation is in terms of minimum Net Foreign Exchange Earning as a percentage of Exports and Export performance. The difference in schemes for these zones/units/parks is in terms of their export obligation, sale in domestic tariff area, and other procedural details. Broadly, benefits accorded to units located in EOUs/EPZs/SEZs/EHTPs/STPs are (a) suspension of collection of duties due on purchases of capital goods used in production of exports during the

period of bonding (b) exemption of customs duties due on purchases of raw materials and consumables (c) exemption from excise duty on indigenous goods, and (d) reimbursement of central sales taxes.

Duty Drawback: The Duty Drawback Scheme is provided to exporters by the MOF. Exporters or processors, who are unable to avail of various schemes like EOUs/EPZs or to obtain refund of duties paid on inputs, can avail duty drawback. Under Duty Drawback excise duty and customs duty paid on inputs is refunded to the exporter of finished products. Section 75 of the Customs Act (CA) 1962 allows for the reimbursement to exporters of the duties of Customs and Central excise borne by imported and indigenous raw materials used in the production of exports. State levies and octroi, however, are not included in this. The Central Board of Excise and Customs administers the Duty Drawback Scheme. Duty Drawbacks are made on the basis of either All Industry Rates or Brand Rates. All Industry rates are fixed for broad categories of products and these rates represent average incidence of duty. These rates are revised annually worked out using prices of inputs (on the basis of SION) given by exporters, custom houses, and markets. Given the average value of inputs, incidence of duties (both customs and excise) is calculated. The duty incidence then becomes Duty Drawback Rate. This rate is expressed in either (a) quantity terms, for example, rate per kilogram or per unit or (b) as percentage of FOB value of exports or both (a) and (b) when the rate is expressed in quantity terms with a value cap. Brand Rate of Drawback is determined on the actual input utilization basis depending on the data furnished by an exporter manufacturer (and not on the basis of SION) and its verification. These rates are decided on a case by case basis and are therefore exporter-and-shipment specific. The brand rates are fixed for products for which there are no industry rates or for which the All Industry Rates provides substantially lower benefits than actual incidence of duty.

The Compatibility of the Major Indian Export promotion Schemes under WTO:

The practice of giving export incentives is near universal, and India is no exception. However, the extent and the form of export incentives vary from country to country depending on the country's economic structure (including its fiscal structure), its overall resource availability, its export potential, and the effectiveness of export incentives in realising its export potential. Within its overall budget constraint, each WTO Member country must decide how best to structure its export incentives that are consistent with the WTO rules and at the same time achieve the objective of export promotion. Not all export incentives are regarded as subsidies under the WTO Agreement. The Agreement on Subsidies and Countervailing Measures

(SCM Agreement), framed in the most recent round, namely Uruguay Round (also the longest round 1986-94) governs the conduct of Member countries with respect to all subsidies. The SCM Agreement clearly specifies what export incentives constitute a subsidy and hence subjected to the disciplines of the SCM Agreement. This Agreement is a considerable improvement over the plurilateral Agreement on Subsidies and Countervailing Measures agreed in the Tokyo Round (1973-79). In the SCM Agreement, the disciplines over subsidies and countervailing duties were made stronger and clearer, and the term “subsidy” was clearly defined

Effectiveness of export promotion Schemes:

Though there may be many ways to measure the effectiveness of the export promotion schemes. The easiest and direct way of assessing effectiveness of the export promotion schemes would be on the basis of export growth happened during the period. The following table shows the growth of export happened during the last 65 years.

Export trend from India (1950-51 to 2014-15)

Year	Export (Rs. In Crore
1951 - 1960	602
1961 - 1970	953
1971 - 1980	3770
1981 - 1990	13175
1991 - 2000	94066
2001 - 2010	470489
2010 - 2011	1142922
2011 - 2012	1465959
2012 - 2013	1634319
2013 - 2014	1892892

The trend shows that export growth has picked up its pace from 1990’s. This period also coincide with India’s liberalisation policies. From the above, one can conclude that the export is growing. It is possible that the growth in export is linked to export promotion schemes. Hence the effective implementation of the export promotion schemes may further contribute to the better export growth in coming years.

The cost of export promotion schemes:

The cost benefit analysis is the scientific economic tool for the policy makers to determine the efficacy of the programmes/schemes. In this case though there is growth in export, one has to see how much of money government has to spent for bringing growth. Realising the same, Government of India has started preparing Revenue foregone statement as part of Union Budget since 2007. The scheme wise revenue foregone is being shown in the following table:

Revenue Foregone on Account of Export Promotion Schemes (Rs. In crore)

Name of the Scheme	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
ALS/AAS	13261	17928	17654	12389	10089	19355	18306	18971	20956
EOU/EHTP/STP	10277	14386	18978	13401	8076	8579	4555	5881	5840
EPCG	5332	9152	10521	7833	7020	10621	9672	11218	8990
DEPB	5650	4842	5341	7092	8028	8756	10409	2709	434
SEZ	1070	2194	1804	2324	3987	8630	4560	4491	6198
DFRC	815	845	607	111	62	43	40	21	2
DFIA	-	699	1359	1268	1399	1404	1244	1735	3365
DFCEC	585	1416	740	418	234	156	190	142	235
TPS	500	2619	923	1220	267	374	436	592	884
VKGUY	60	548	538	2059	2869	1788	2263	2382	2442
SFIS	40	444	642	531	515	542	556	590	639
FMS/FPS	-	-	41	408	829	1757	3951	6178	10182
DBK	3235	6057	9015	12116	9219	8859	12331	17422	21799
Total	40825	61130	68163	61170	52594	70864	68513	72332	81966

From the table it can be seen that revenue foregone is on the increasing trend since 2005.06, except for the years 2008-2010. It may be that in the

said years Government brought stimulus package, whereby effective excise duty on the domestically manufactured goods were brought down from 14% to 8%. It appears that this lead to reduced duty foregone in the Drawback scheme and advance license schemes.

Cost and benefit analysis:

Correlating revenue foregone and export growth is difficult task. It is more so that both export growth and revenue foregone are influenced by lot of other factors like global demand, effective duty etc.,. In spite of the said limitation, it is very much necessity to know the correlation, if any exist between revenue foregone and export growth. It is also a fact that revenue foregone and export growth may be correlated but it may not be reflected on the same financial year. This is due to the fact that duty free goods would have been used for export goods after the lapse of considerable time.

For the purpose of the correlation EOU scheme has been taken. The growth in EOU export and revenue forgone on the EOU scheme is as under:

Export performance of EOUs vs India's Export

(Rs. In crore)

Year	EOUs export	India's export	EOU's share in India's export (%)	Revenue foregone in EOU Scheme	EOU share in Total revenue foregone (%)
1998-99	12058	139753	9	2178	14
1999-00	13701	159561	9	2938	16
2000-01	15912	203571	8	3537	17
2001-02	18743	209018	9	4219	16
2002-03	23590	255137	9	4820	17
2003-04	28827	293367	10	9422	24
2004-05	39228	375340	10	8266	21
2005-06	49462	456418	11	10277	25
2006-07	69964	571779	12	14386	24
2007-08	163838	655864	25	18978	28
2008-09	176923	840755	21	13401	22
2009-10	71083	845125	8	8076	15
2010-11	76031	1142922	7	8579	12
2011-12	85201	1465659	6	4555	7

2012-13	90180	1634315	6	5881	8
2013-14	89643	1905011	10	5840	7

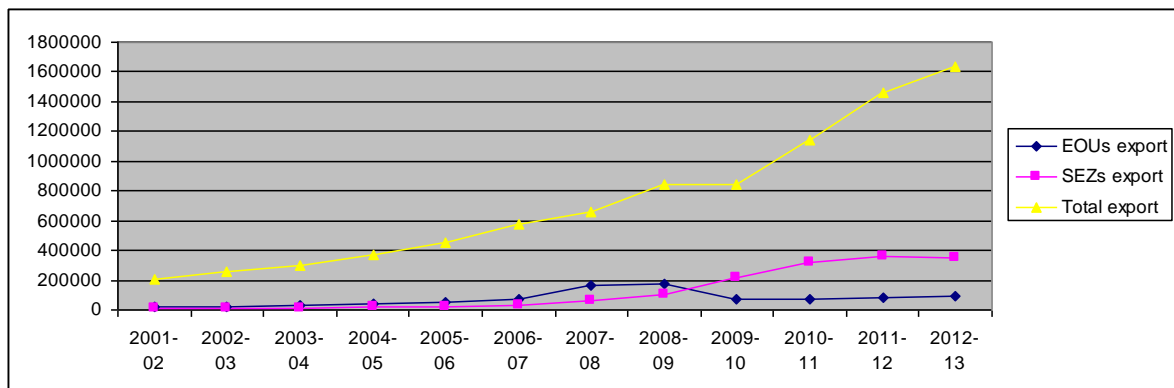
Source: RSQ No. 336 dt 03.08.2011;LSQ No. 336 dt 29.11.2010; 6176 dt 14.05.2012 and 353 dt 20.03.2015

The above table indicates that there is positive correlation between the share of EOU's export to total exports vis a vis share of EOU's revenue foregone to total revenue foregone. Further, it throws interesting aspect that revenue foregone percentage for EOU's are almost twice that of its contribution to total exports till 2006-07. It shows that the revenue foregone in EOU's is higher than the other schemes. Further, when the share of EOU's exports has come down to 6% in 2011-12 from 25% in 2007-08, its share in revenue foregone has fallen to 7% . In fact the last three years average i.e. 2011-12 to 2013-14 is the 7% for both EOU's share in exports and revenue foregone. This shows that the drop in exports were slower than the steep drop happened in revenue foregone. This means that during this period EOU monitoring was streamlined or the fraudsters had moved to another safe haven.

EOU Vs SEZ:

The study of reason for the decline in the EOUs share after 2007-08 has revealed another interesting story i.e. competition between EOU and SEZ.

The following graph shows the trend of EOU export, SEZ Export and Total export for the year 2001-02 to 2012-13. The graph shows that when SEZ exports started picking up, EOU exports started declining. This may be due to migration of units from EOU to SEZ.



SEZ schemes has started taking of since 2005-06, the growth in SEZ exports and revenue foregone on account of SEZ Schemes coupled with decline in growth of EOU's exports and its share in total revenue foregone, shows that the units has shifted from EOU to SEZ. This also means that

these units has visualised larger incentives at SEZ than what is being offered at EOU. The migration from EOU to SEZ is not on the basis of competitiveness of the new scheme but on the potential for mis-using of SEZ. Unfortunately, the actual revenue foregone on account of SEZ could not be estimated due to the absence of data in respect of clearance made for SEZ.

Pre-export and Post- export schemes:

From the exporters perspectives as well as from the implementation agency perspective, export promotion schemes can be broadly classified in to two categories:

1. Pre-Export
2. Post-Export

Pre-Export:

Pre-Export schemes, are such schemes where the benefit like duty exemption is being given even before the export takes place. This has following advantage.

- (a) Certainty on the cost of goods to calculate the competitiveness
- (b) No cash flows problem

But it also has certain dis-advantage. The same is as under:

- (a) Stringent condition for availing duty exemption like bond, Bank Guarantee, installation certificate, audit, etc., to prove that duty free goods indeed were used in the manufacture of exported goods;
- (b) No choice for changing the nature and source of inputs.
- (c) In case of failure to meet the export order due to unforeseen circumstances, the exporter has to pay the duty foregone along with interest.

Popular pre-export schemes are SEZ, EOU, Advance authorisation.

Post-Export:

Pre-Export schemes, are such schemes where the benefit like duty remission is being given after the export takes place. This has following advantage.

- (a) Compliance of the condition relating to obtaining duty remission is relatively easy.
- (b) Exporter has liberty to choose any kind of inputs or process for making goods for export.

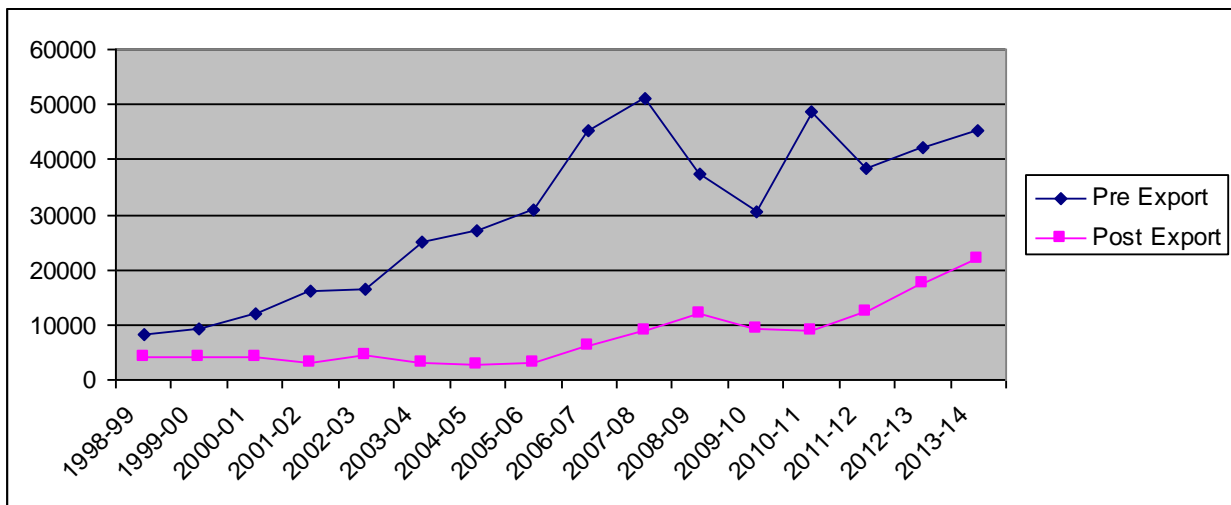
But it also has certain dis-advantage. The same is as under:

- (a) Cash flows problem. The duty paid on inputs would be refunded after the export is over.

Popular Post-export schemes are Duty Drawback. The popular pre-export scheme, DEPB has been discontinued.

Preference of the pre-export and post-export schemes:

To know the preference of the exporter, a comparative study on the trend of



revenue foregone was done. The above graph shows that there is more preference to pre-export schemes than post-export schemes. This also shows that the monitoring in pre-export schemes has to be more focused than the post-export schemes.

The need for identification of gaps:

There is a misconception that the identification of the gaps in monitoring of the export promotion schemes is to avoid revenue leakages only. In this regard, many a times, exporter fails to appreciate that when the better monitoring mechanism are put in place, the importing country does not initiate any counter veiling investigation. Hence it is also in the interest of

the exporter, gaps have to be identified, before the importing country points out those gaps. Further, there is a saying that 'bad money takes good money out of market'. In other words, if the gaps are not bridged, the good schemes would be eliminated from the system.

Compliance cost and better monitoring:

Now the focus of the government is to invite many foreign investments in to India and also do initiatives like make in India. These schemes rely on the principle of 'ease of doing business in India'. There is already World Bank report stating that in India compliance cost is more than the developed countries. Hence, any suggestion in plugging of the gap should not increase the compliance cost rather the suggestion should reduce the compliance cost.

IT solution is the way for reducing compliance cost:

Throughout the world it has been proved that Information Technology can increase the monitoring without increasing the compliance cost. E-governance is the easy governance and efficient governance. Hence the gaps identified should be monitored through IT so that the compliance cost of the exporter does not increase.

Major gaps in the selective Export promotion schemes:

General Gaps:

(i) No iota of knowledge about the importer/exporter - As of now, in India, PAN is very basic document for obtaining any registration/certificate etc.,.But for PAN the verification adopted is less than required. Import Export Code issued by the DGFT is based on the PAN. Though DGFT issues IEC certificate through speed post, the fraudster manages that and he gets identity/license to do fraud without getting caught. What is required is that Customs should know, much more about the importer/exporter than what it knows about him.

(ii) License section, the key section, is manned by the computer illiterate officer or by an officer who does not take pride in his job. Very recently in ICD,TKD it was found that license amount was amended without the knowledge of Customs officer. This is because of the posting of computer illiterate officer to the license section.

(iii) No IT where IT is must - in the Export promotion schemes Monitoring cell does not have wherewithal to monitor the defaulters.

(iv) Heavy focus to assessment and no focus to Risk Management- Today, Indian Customs mainly employs its human resources and infrastructure in

assessment and examination of the goods. In countries like Singapore and South Korea, the focus is not on assessment, but on risk assessment. For instance, in South Korea, one third of its total staff is employed in RMD. However, in India, the number will be less than 1%.

(v) Lack of coordination among agencies-Most of the export promotion schemes are formulated by DGFT, Department of Commerce but implemented by CBEC, Department of Revenue. The above said agency does the same in silos. Hence there is a room for interpretation. The fraudster exploits this scenario. This is more so in the schemes like SEZ, where both the departments take extreme position and the fraudster are having their day.

Other than these general gaps, there exist some specific gaps unique to the schemes. The same is listed as under:

(i) Duty Drawback:

- (a) Mis-declaration of export goods for value and description.
- (b) Non-receipt of export proceeds
- (c) Routing of laundered money as export proceeds
- (d) delay in verification and fixation of Brand rate
- (e) no clarity in calculation of Present Market Value
- (f) no duty drawback/refund of duty on the goods purchased by the foreigners

(ii) EPCG:

- (a) Delay in /Non installation of Capital Goods
- (b) use of third party shipping bills
- (c) use of forged shipping bills
- (d) diversion of capital goods.

(iii) EOU/STPI/SEZ

- (a) Clandestine removal of inputs to DTA to evade duty
- (b) Diversion of imported goods meant for SEZ
- (c) Non-payment of duty on the clearance from SEZ/EOU

(iv) Advance authorisation /DEEC/DFIA

- (a) Non-payment of duty in cases where export obligation is not fulfilled even after lapse of export obligation period.
- (b) Diversion of imported goods for other than intended purpose
- (c) Import of non bona-fide items under the scheme.

SUGGESTION FOR BRIDGING THE GAPS:

(a) Capturing details of Banks by CBEC : DG (System) has to capture details of Banks that was used or to be used for receiving/sending forex by the exporter/importer while filing shipping bill /bill of entry as the case may be. This detail would be useful to know whether remittance has been received as stated in the shipping bill or not.

(b) One bank one company: As of now, there is no bar for the exporter to have different accounts for different purposes. For example one account for receiving duty drawback, one other account for buying inputs and third account for receiving export remittance. This choice allows the exporter to manipulate the facts to the Customs and Banks. If a bank or Customs knows that the customer has not purchased any goods which he is exporting, the duty drawback claim can be scrutinised better. Further, there are many instances, where RBI has intimated to the Customs that remittance has not come to India. When Customs starts investigation, it finds that remittance has been received in another bank account. This fact is not reconciled at RBI level. This leads to erroneous report by RBI and wastage of resources by Customs and increase in compliance cost to the genuine exporter. Further, there are many merchant exporters, who buys cheap item, and overvalue the said items for the purpose of getting higher duty drawback. If Customs have the access/knowledge about the price of the purchased items, the duty drawback can be limited to the entitled amount.

In view of the above, it is suggested that the bank account mentioned in the IEC code alone should be used for receiving remittance, duty drawback and buying exported goods/inputs by the exporter.

(c) Separate section in the Custom House/RMD:

An agency should be created and made responsible with in CBEC which would verify the address of the IEC code, ability to import/export, facility available to do the declared business and based on threat perception associated with the firm, risk level should be intimated to the IEC holder

also. Based on the IEC risk level, RMS should scrutinise their import/export clearance. If the IEC holder is not satisfied with the risk level identified, importer/exporter can take steps that would reduce his/her threat level. Similar, kind of risk identification and communicating it to the stakeholder is followed in South Korea.

(d) Increase the facilitation to free staff from assessment for other more important jobs:

Today, Indian Customs mainly employs its human resources and infrastructure in assessment and examination of the goods. In countries like Singapore and South Korea, the focus is not on assessment, but on risk assessment. For instance, in South Korea, one third of its total staff is employed in RMD. However, in India, the number will be less than 1%. This is because our facilitation percentage is not going beyond 70%. We shall reduce our strength on assessment and divert them to pre-assessment and after assessment stages like post clearance audit. This will go in long way in knowing the KYC also.

(e) Networking – Coordination of the stakeholders:

All the license details from DGFT have to be disseminated to CBEC on the real time basis and similarly, all the shipping bills and bill of entry details should be disseminated to DGFT on real time basis. It is the experience of FIU that when MoU are signed the coordination improves. MoU between DGFT and CBEC may be considered for exchange of data.

(f) Increase the facilitation level slowly and steadily:

Our average facilitation percentage is around 50%, which is a matter of concern. This is not sustainable model. In south Korea 70%-80%of the import declaration are not assessed or examined. But the amount of staff involved in the selection of 20% of the import declaration is 30-33%. We should also decrease the number of documents to be subjected for assessment and examination slowly and steadily. Efficient and knowledgeable officers should be shifted from assessment to Risk assessment and Post import/export monitoring activities. This will go in long way in knowing the KYC also.

(g) Involving Central excise officers/audit wing for export monitoring:

Pendency of application for Brand rate of duty drawback is unimaginable in bigger Customs Houses. Customs house has to outsource this to audit. Brand rate can be cleared subject to audit by central excise officers. Similarly, verification of exporter premise, inputs availability etc can be given to central excise wing.

(h) Singapore's 'TradeNet' to India:

In Singapore, though Tradenet, exporter and importer can have two way communications with Customs. In India through ICES, importer/exporter and Customs officer communicate only in respect to Bill of entry and shipping bill. However, relating to other areas, ICES has no facility. It is suggested that exporter/importer and Customs officer should have the facility to communicate to each other on monitoring of export promotion schemes also.

(i) e BRC for Duty Drawback shipping bills:

ICES should have the facility to get electronic copy of BRC. Currently DGFT is getting all e BRC in respect of shipping bills where export incentives are sought, except Duty Drawback. However, for the duty Drawback shipping bills, no e BRC being sent by banks to CBEC. System should receive the e BRC and tally it with shipping bill. Only cases, where no e BRC has come within stipulated time, should be sent to XOS cell for monitoring.

(j) Training and sensitizing of Bank officials dealing in forex: In the banking system, forex department is heavily automated, so much so, any money received by the bank having only 'reference number will be treated as export proceeds. However, RBI categorically says that forex remittance has to come from the person whose name figures in the export document to consider the said receipt as export proceeds. It is also true that Customs Act also says that export proceeds received should be in relation to goods exported for availing duty drawback. But neither Customs nor Banks have taken the position that third party remittance i.e. the remittance received from other than the buyer as not 'export proceeds'. Only after sensitisation of the senior banking official, the third party remittance is not treated as export proceeds. This sensitisation is very much required to the bank officials who otherwise think that it is the Customs mandate to check. Like FIU, NACEN should train the bank official posted in forex department about the duty drawback, valuation of the goods by customs and third party remittance.

(k) Single server/interface to all the importer/exporter:

Custom Houses are not aware about the containers being released by the SEZ to them. Similarly, SEZ does not know, about the container being released from Customs House. This lack of coordination between the different authorities is being exploited by the smugglers. There should be online transmission of release order from SEZ to Customs House and vice versa. Further, the office should talk to each other directly not through trade.

Conclusion:

In any well designed schemes, mis -use is bound to happen. What is important is the ability of the systems to rectify the cracks before it becomes the gap. The system set out for stopping mis-use should be changing with time. Otherwise the reaction to the mis-use would be predictable and it would not have any deterrence to stop mis-use.
