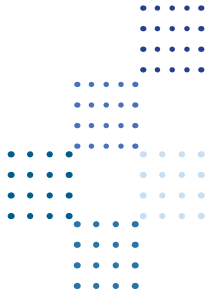


# Expanding India's E-commerce Exports: Focus on SMEs

Federation of Indian Micro and  
Small & Medium Enterprises (FISME) and  
IKDHVAJ Advisers LLP



# Foreword



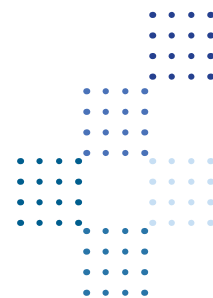
The Micro, Small & Medium Enterprises (MSME) occupy a prominent place in discourse on Indian economy. Their contribution to industrial production, employment and exports has remained stellar. But less than 1% of MSMEs participate in exports because Micro enterprises constitute 99% of MSME universe registered at Udyam portal. These enterprises find exporting their small consignments through traditional channels not only onerous but infeasible. Exporting through E-commerce route brings a shining ray of hope for millions.

That is why all key stakeholders- the retailers and their representative associations, e-commerce platforms and the Government, agree that MSMEs should be enabled to adopt exporting through E-commerce. However, numerous obstacles in the way of sending small export consignments through E-commerce route continue to frustrate exporters.

FISME consistently raised the issue of exports via E-commerce with Government. We emphasized that the opportunity had become big enough to deserve a separate chapter in the Foreign Trade Policy. It is heartening that FTP 2023 now has a distinct section devoted to E-commerce. While enabling provisions have been provided in the FTP, the granular details of specific reforms and interventions needed to realize e-commerce potential are still nebulous.

The FISME-IKDHVAJ study aims to fill this gap. The study analyzed both the supply and demand side factors, policy constraints and issues related to logistics, taxes, payment systems, post office and related export infrastructure, among others. It posits a set of specific recommendations to address each of these constraints.



I am confident that the report will be well received by the policy makers and the industry and would help expand the rise of E-commerce exports in years to come.





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## Executive Summary



India trade-related objectives include achieving a major increase in its exports, a manifold rise in India's participation in global supply chains, and an inclusive growth of exports involving a larger participation of MSMEs and others similar stakeholders. Data shows that most e-commerce exporters are micro or small enterprises, with a small proportion from medium enterprises. The e-commerce platform has a much wider reach than conventional exports, enabling linking up producers in smaller towns and villages with exports. It provides the possibility of work-from home, facilitates the participation of women in exports, and is a platform which creates opportunities for both traditional and new products with an increasing and large global market place. Though the current base of e-commerce exports is low, it has a large potential for growth.

Since the largest group of E-commerce exporters is MSMEs, the obstacles faced by them are the primary concerns to be addressed for growth of e-commerce exports. These include inadequate information, compliance burden due to processes and procedures, and the disproportionate burden of any fee or charge on their net receipts.

The discussion in this Report focuses on B2C e-commerce exports. Chapter 1 summarises the main features of e-commerce exports, including the difference between e-commerce goods and services exports. The discussion also shows the likely high potential for growth of India's e-commerce exports. An important feature of the policies relevant for e-commerce goods exports is that they include both those relevant for offline exports as well as those which are specific to e-commerce or online exports. Chapter 1 identifies some key areas of focus for addressing concerns relevant primarily to e-commerce exports. They include the specific issues related to the compliance burden on MSMEs, smaller export packets than for offline

exports, need to improve digital maturity among exporters, quick customs clearances, timely delivery to the customers abroad, reconciling payments received from abroad in terms of the specified regulatory conditions, and a relatively larger incidence of returns of the exported product than for offline exports.

Chapter 2 discusses the demand-related information for e-commerce exports. It identifies the key e-commerce markets in terms of size and high growth of the markets.<sup>1</sup> Summary information is provided on the e-commerce imports of key markets,<sup>2</sup> the size of the market, the major products traded through e-commerce,<sup>3</sup> payment mechanisms, and logistics options. Such information is provided for the US, UK, China, Germany, Canada, Mexico, Japan, and UAE (of special interest for India). An illustrative list of relevant regulatory conditions in a number of these markets is provided to show the nature of regulations that apply to cross-border e-commerce exports. The discussion also shows some interesting features of specific relevance to these markets. For example, Germany has a very large share of the population shopping through e-commerce, but the customers have an expectation of quick delivery time, such as 3 to 5 days. Thus, Germany may be specifically important for e-commerce exports because of the size of the market, but quicker delivery mechanisms would be needed to tap this market.

An important difference between e-commerce sales and offline sales is that for the latter, a customer can assess the product in a shop while with e-commerce that process takes place only when the product is delivered. Therefore, the extent of returns is larger for e-commerce exports. Further, since customers are keen to get deliveries quickly, e-commerce exporters often send expected exports to warehouses for sales as and when the product is demanded. This creates conditions that lead to problems with reconciliation of export receipts with the amount mentioned on the shipping bill, as explained by the discussion in subsequent chapters.

Chapter 3 discusses the supply side issues that arise for India's e-commerce exports. Evidence suggests that with appropriate policy support, e-commerce exports provide a wider reach and greater stability than offline exports, a phenomenon observed even during the COVID-19 period. For instance, Chinese e-commerce exports managed an average annual growth rate of 30% even during the pandemic years, much higher than the 10% growth rate of offline foreign trade transactions. Similarly, eBay found that 60 to 80% of SMEs using IEC can survive the first year of their business, whereas traditional export enterprises have a survival rate of 30% to 50%.

Chapter 3 also identifies the major policy-related issues common for offline and online exports, and those which are specific to online exports (summarized in Annex 3.1).<sup>4</sup> It shows that solutions to the concerns of e-commerce exports come through both policy initiatives as well as through development of private service providers that fill a gap by providing solutions to specific concerns such as for logistics and financial transactions. Chapter 3 also provides some examples of the initiatives in different countries to address supply side concerns. These include, for example, solutions adopted by Thailand for promotion of MSMEs in e-commerce, threshold levels specified by countries below which customs duty is exempted for imports (including on e-commerce exports from India), payment systems adopted by Singapore, Switzerland and UK, Mexico, the Arab Central Bank Governors, and the single Euro Payment System. One of the payment related solutions is a closed loop system which could be implemented especially as the scale of INR payment related trade rises.

Chapter 4 brings together the different areas of concern specific to e-commerce exports, including payments, reconciliation of payments, returns, bank charges which are a high burden especially for e-commerce exporters, digital maturity and e-commerce readiness, Foreign Post Offices established by the Indian Department of Posts, and a need for consistent definitions of e-commerce across different departments of the Government.

Chapter 4 also provides a summary of the large number of policy steps taken by the Government that facilitate exports, including e-commerce exports. These initiatives cover those recently announced by the Foreign Trade Policy 2013-28, and several specific facilitative steps taken by the Department of Customs summarised in the Annex to this Chapter.

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- 1 Ranked by retail e-commerce size, the markets are China, USA, UK, Japan, South Korea, Germany, France, India, Canada, Brazil. High growth e-commerce countries are India, Brazil, Russia, Argentina, Mexico, UK, Philippines, China, Vietnam, and the USA.
  - 2 Top countries cross border e-commerce imports 2022: USA, UK, China, Germany, Canada, Australia, Mexico, Japan
  - 3 Apparel & accessories and consumer electronics account for over 40% of the global cross-border B2C e-commerce market.
  - 4 The issues specific to e-commerce exports include: improving e-commerce readiness or digital maturity; additional documents and processes involved in receipt of payments and reconciliation of payments with the shipping bill for exports; difficulty to assess how many items would be sold within a given period; the relatively large number of returns by customers and the consequent loss in revenues; access to benefit provided by the Government through its incentive schemes; and, a comparatively high cost of closing the shipping bill due to relatively larger number of banking transactions for monies received for the exported items.

Particularly noteworthy is a process established to address the concerns of returns for jewellery items. This provides a basis for establishing similar facilitative procedures for other e-commerce exports items. Chapter 4 also identifies some key areas which remain to be addressed, several of them identified by a recent Report of the Rajya Sabha Committee.<sup>5</sup>

Chapter 5 discusses the concerns of MSMEs as they are the primary stakeholders in e-commerce exports. A very important feature of MSMEs is that regulatory requirements or a delay due to procedural requirements imposes a higher burden on these enterprises compared to the larger enterprises. Thus, the compliance burden is of specific concern to MSMEs. A careful scrutiny is needed to simplify and facilitate the operational conditions, with consistent and easy regulatory requirements (including for VAT/GST), moving to the electronics mode, spreading digital literacy and competence, treating e-commerce at par with other low value exports, addressing the issue of returns, increasing the number of locations for customs clearance for e-commerce export courier packages, easier procedures for claiming export benefits, easier processes and lower burden linked to bank charges, addressing logistics related concerns including costs of transport and tracking of export packages, and factors which create obstacles for MSMEs to access foreign markets.

Chapter 6 provides case studies from tea, spices, jewellery, apparel and selected other sectors, to illustrate the issues that are important to address for promoting e-commerce exports. These case studies give practical illustration of the various obstacles faced by e-commerce exporters, several of which are discussed in the previous Chapters.

Chapter 7 provides the conclusions summarising the main points in the paper. In this context, the main problems faced by Indian e-commerce exporters are: Low awareness about, and the ability to conduct, the end-to-end e-commerce export process (need for a single place which provides information on all procedural requirements); low digital maturity to conduct digital transactions; compliance burden due to mandatory Licenses - AD Code Letter from bank and AD Code registration at the port; need for easier shipping and documentation, customs process simplification, including a Green Channel for e-commerce exports; standard operating practice for product returns, so as to avoid levy of import tariffs on returns; lack of information about benefits available under the Government schemes, and enabling access to the benefits by e-commerce exporters; and concerns relating to the cross-border payments received for e-commerce exports. The last-mentioned concern relate to closure procedure and charges for Export Data Processing and Monitoring System (EDPMS), steps that will facilitate reconciliation of remittances for export receipts from abroad. In this context, it is important to address the mismatch arising due to difference between importer on record, the difficulty in correlating the e-FIRC and OPGSP transactions, and to examine the factual conditions faced by e-commerce exporters to assess the need to extend the 25% variation and the 9-month limit that is currently in place on reconciling export revenues with the amount on the Export Bill.



# Chapter 1

## Introduction

### Background

On 6<sup>th</sup> August 2023, in a speech to the Heads of Indian Missions abroad, the Hon'ble Prime Minister of India emphasised some key priorities for international trade.<sup>6</sup> They include achieving a major increase in India's exports, a manifold rise in India's participation in global supply chains, an inclusive growth of these exports that involves participation of MSMEs and others stakeholders, and raising competitiveness through improvements in quality, application of technology, innovation and Brand building.

E-commerce exports are an important part of achieving these major objectives. Data shows that most e-commerce exporters are micro or small enterprises, with a small proportion also from medium enterprises. The e-commerce platforms provide a greater possibility of extending export activities to smaller towns, districts and even villages. It creates opportunities to connect exports with work-from home, increases the possibility of participation of women in the workforce. It opens up an additional mechanism to link up with new markets, while expanding the base of exporters from India.



This Chapter provides background information on the key features of e-commerce that need to be considered to improve the growth and scope of India's e-commerce exports. The Chapter begins with a summary explanation of some features of e-commerce export transactions. Among the main insights for e-commerce exports are those policy areas relevant to offline and on-line exports of goods and issues that are specific only to e-commerce exports. Exports both off-line and on-line from India show an increasing trend, with an expected sustained increase in their value and share in global exports. The discussion in this Chapter shows that the potential growth rate for India's e-commerce exports is even larger than its overall exports. This is followed by a section on the characteristics of e-commerce exports that can help identify the relevant policies required for promoting e-commerce exports. In summary, there are two types of policy initiatives. One which address both offline and online exports, and the others which are specific to e-commerce exports.

### 1.1. E-commerce Export Transactions

The scope of e-commerce exports cover different kinds of transactions,<sup>7</sup> including both goods and services and different modes of ordering and delivery. Payment received for e-commerce exports are in general through digital means. E-commerce exports are Business to Business (B2B) and Business to Consumer (B2C). While B2B exports are a larger portion of these exports, the policy focus and assessments focus on e-commerce B2C. Sellers under B2C are potentially more extensive, their capacities to address the requisite processes and procedures are lower than those conducting B2B. Further the potential for inclusive growth of B2C exports, especially by involving small and medium enterprises (SMEs) is significantly larger. Improving policy conditions for B2C exports positively impacts the conditions relevant for both B2B exports too.

Table 1.1 shows that the digital part of exports arises in terms of ordering, delivery of the product, and digital payment. Each of these three parts of e-commerce exports raise policy related issues that differ from those relevant for offline exports. Several processes and procedures are common for both offline and online exports. However, e-commerce exports also face certain policy issues specific to them that do not apply to offline exports, as shown by Chapter 3.

6 <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1743434>

7 See Figure 2 on page 17 of [https://one.oecd.org/document/SDD/CSSP/WPTGS\(2019\)4/En/pdf](https://one.oecd.org/document/SDD/CSSP/WPTGS(2019)4/En/pdf)

**Table 1.1 Some Important Features of E-commerce Exports**

Exports			
	Digital Ordering Possible	Digital Delivery Possible	Digital Payment
<b>Goods</b>	Yes	No	Yes
<b>Services</b>	Yes	Yes	Yes

### 1.1(i) E-commerce Services Exports

E-commerce services also provide an important export opportunity for analysis. However, three important aspects distinguish them from goods. One, cross-border services transactions are relatively more streamlined as they are often dominated by large enterprises with well-established international practices. Two, additional policy related issues arise for goods exports because services exports can be delivered digitally while goods need a physical delivery. Three, the underlying data on services trade transactions is not as detailed as for goods and more effort is needed to get the relevant insights on the steps required to promote their exports. To get greater clarity on the requisite policy related concerns, a separate study would be required on services e-commerce exports, including on key service sectors identified for specific focus.

### 1.2. Major Potential for India's E-commerce Exports

India is now the fifth largest economy in the world, on its way to become the third largest economy by 2027.<sup>8</sup> However, India's global rank as an exporter is much lower, being the 18<sup>th</sup> largest merchandise or goods exporter and 13<sup>th</sup> largest exporter of goods and services in 2021.

Table 1.2 shows the top ten economies in 2021, and their rankings in terms of goods exports. It shows that India has the lowest share of merchandise exports in global exports, in the group of top ten economies. However, this situation is likely to change. India has focused on improving its export potential, for example, through improving the ease of doing business. This has led for instance to a rising trend of its exports (Figure 1.1 below). This trend is likely to continue with an expected export level of US\$ 1 trillion for goods and US\$ 2 trillion for goods and services by 2030-31.<sup>9</sup> Thus, India's goods and exports in 2030-31 would be about 2.7 times the present level. This will result in an increase in India's share of global exports over this decade and the next.<sup>10</sup> For example, a study of the developments in world trade till 2050 shows India's share in total world exports rising from 2.3% in 2021 to 3.3% in 2035, and further to 5.3% in 2050.<sup>11</sup> This study also shows that from its present 13<sup>th</sup> rank as a global exporter, by 2035 India would become the fourth largest exporter in the world.<sup>12</sup>

These developments show India has a large potential for increase in its export performance. As discussed below, the potential for growth of e-commerce exports is even higher than total exports which include offline and online exports.

8 This is based on the IMF projections of GDP growth of different economies up to 2027.

9 <https://pib.gov.in/PressReleasePage.aspx?PRID=1747398>

10 In 2021, global merchandise exports (including re-exports) were about US\$ 22.3 trillion according to WTO. Global merchandise exports are expected to be in the range of about US\$ 30 trillion in 2030. <https://www.sc.com/en/media/press-release/global-trade-will-grow-by-70-to-usd30-trillion-by-2030/>

11 Page 74 of [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1139093/global-trade-outlook-february-2023.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1139093/global-trade-outlook-february-2023.pdf)

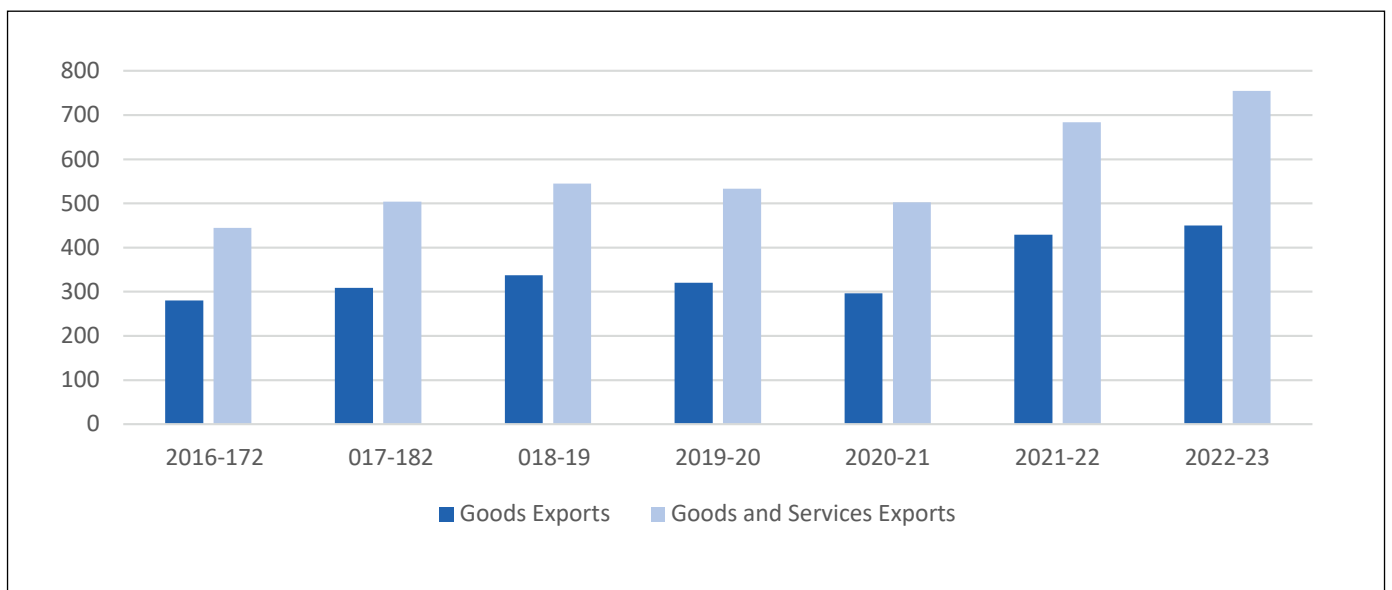
12 Based on estimates on pages 73 and 74 of *ibid.*



**Table 1.2. Top Ten Economies and The Share of Their Merchandise Exports in Global Exports, 2021**

Global Ranking		Country	Share of Merchandise Exports in Global Exports (%)
GDP	Merchandise Exports		
1	2	USA	7.9
2	1	China	15.1
3	5	Japan	3.4
4	3	Germany	7.3
5	18	India	1.8
6	14	United Kingdom	2.1
7	9	France	2.6
8	8	Italy	2.7
9	11	Canada	2.3
10	7	South Korea	2.9
		<b>Average of Above</b>	<b>4.8</b>

Source: World Bank and WTO

**Figure 1.1 India's Exports During Financial Years 2016-17 to 2022-23 (US\$ Billion)**

Source: Table 128 of Reserve Bank of India, Handbook of Statistics on the Indian Economy, 2021-22

Note: The exports for 2022-23 are estimated based on the exports during April 2022 to February 2023.



### 1.3. The Potential Growth Rate of E-commerce Exports is Higher than Total Exports

India's current B2C e-commerce exports are estimated at US\$ 2 billion,<sup>13</sup> i.e., about 0.45% of India's merchandise trade in 2022-23. Table 3 shows the value of cross border B2C sales and the share of these sales in merchandise exports of the top ten merchandise exporters in the world in 2019.<sup>14</sup> The average share on B2C cross-border sales to the merchandise exports of the top ten exporters is 3.4%. Eight of the top ten e-commerce exporters are also among the top ten economies shown in Table 1.2, and their average share of B2C cross-border sales to merchandise exports is 3.3%. With a corresponding ratio of 0.45%, India's performance with respect to e-commerce exports is much more below average than for its merchandise exports (Figure 1.1). The gap between India's current performance for e-commerce exports and the average level for top economies is thus larger than that for its merchandise trade. There are a number of factors which suggest that the potential growth of e-commerce is likely to be much higher than for exports as a whole for India.

**Table 1.3. Cross-Border B2C E-commerce Sales for Top Ten Merchandise Exporters, 2019**

E-commerce Exports (Ranking)	Merchandise Exports (Ranking)	Country	Cross-Border B2C E-commerce Sales (US\$ billion)	Share Cross-Border B2C E-commerce Sales in Merchandise Exports (%)
1	1	China	105	4.2
2	2	USA	90	5.5
3	10	UK	38	8.2
4	8	Hong Kong (China)	35	6.2
5	5	Japan	23	3.3
6	3	Germany	16	1.1
7	6	France	12	2.2
8	7	South Korea	5	0.9
9	9	Italy	5	0.9
10	4	Netherlands	1	0.2
		<b>Top 10 Countries</b>	332	3.4
		<b>World</b>	440	2.3

Source: Table 5 of [https://unctad.org/system/files/official-document/tn\\_unctad\\_ict4d18\\_en.pdf](https://unctad.org/system/files/official-document/tn_unctad_ict4d18_en.pdf); WTO for global ranking of merchandise exporters.

Comparing India's export performance with the average of the top ten economies, India's share in global B2C e-commerce exports is much lower than its share of global merchandise exports. Its share of global merchandise exports is about 38% of the average for the top ten economies. For B2C e-commerce exports, it is only about 14% of the average for the top ten economies, showing a considerable potential for India's B2C e-commerce exports to increase.

Global cross border e-commerce purchases are rising after COVID-19 due to greater use of digital means for purchases, both inland and cross-border. World retail e-commerce sales have been growing rapidly, with estimates indicating a five time increase between 2015 and 2025.<sup>15</sup> In this background, the number of cross-border online shoppers has been increasing even before 2019, in terms of both their absolute numbers and their share in the total online shoppers in the world.<sup>16</sup> Therefore, both the base of online shoppers and those purchasing from external markets is rising. Combining the relatively low coverage of e-commerce exports of India at present, and the special focus being given to e-commerce exports through facilitating policy initiatives (as shown for example by the recent Foreign Trade Policy of India), indicates that several demand and supply side factors will positively impact the growth of India's e-commerce exports. This suggests that the growth rate of e-commerce exports will likely be even higher than the growth of total exports.

13 <http://gtri-in.com/gtriRep8.pdf>

14 2019 was the year before COVID-19 disrupted global trade performance in a major way

15 <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>

16 This share has increased from 20.5% in 2017 to about 24.5% in 2019. See Figure 2 of [https://unctad.org/system/files/official-document/tn\\_unctad\\_ict4d18\\_en.pdf](https://unctad.org/system/files/official-document/tn_unctad_ict4d18_en.pdf)

## 1.4. Characteristics of E-commerce Exports for Identifying the Relevant Policy Focus

Three important characteristics of e-commerce exports provide a basis to identify the major issues that need to be addressed for promoting them.

**(a) Issues arising due to the small scale of e-commerce firms:** More than 90% of the e-commerce export firms are micro or small enterprises. They need more information and training to effectively participate in e-commerce. MSMEs have lower ability to face risks or meet the compliance burden for exports. This difficulty compounded by the fact that they do not have clarity on, or complete knowledge of, the relevant processes and documents required, and it is difficult for them to make their products (and their quality) known and accepted in the export markets. Three of the major gaps faced by MSMEs are in terms of information, access to markets, and access to timely finance for their operations especially as payments from exports take time to be realised. Furthermore, any fee or charge imposed on them has a larger impact in terms of costs or reduction of net revenues.

**(b) Lack of familiarity with digital methods of conducting e-commerce business:** Empirical evidence shows that large firms in India have high digital maturity compared to other economies. In contrast, India's MSMEs have much lower digital maturity and familiarity with digital processes. This needs to be addressed through spread of information, training and providing support schemes to facilitate entry and initial operations of e-commerce exports.

**(c) Some key differences between e-commerce and offline exports:** Conventional or offline exports involve exports being sold to enterprises whose customers would in general be able to examine a product before purchasing it. The time period between purchase order and delivery is short, usually the two occurring simultaneously. Offline exporters receive the total payments for their exports with the delivery of the export consignment.<sup>17</sup>

For e-commerce, the situation is different. Unlike purchases made in a shop, e-commerce customers are unable to see the product prior to purchasing it. The first time the customer sees the product is when he/she receives it. Hence, there is a larger likelihood of returns of e-commerce exports compared to offline exports.<sup>18</sup>

Since B2C exports are provided to consumers, the nature of efforts to advertise and link up with the large set of customers is more extensive than conventional offline trade. In many cases, e-commerce exporters rely on established platforms to spread information about their products and connect them with potential customers.

After giving the order through e-commerce, customers expect quick delivery. In order to reduce the time period of delivery, e-commerce exporters send their expected exports in bulk to be stored in a warehouse in the territory of their major markets. Sales revenue through e-commerce is received when specific orders are made by customers. Therefore, there could be a long time gap between the time when the export consignment is sent abroad and the receipt of revenues from sale of these exports. In contrast to the payment for offline exports that is fully received within a short period, e-commerce export payments are received when individual sales take place from the warehouse. This implies that payment receipts for a large part of the e-commerce export consignments are made in parts and over an extended period of time. In the Indian system, there is a need to match the export shipping bill on record with the export receipts for the consignment.

## 1.5. Two Types of Policy Concerns

A summary of the various concerns that need to be addressed for improving e-commerce exports is provided in Annex 1 of Chapter 3. It shows that two categories of policy related concerns faced by e-commerce exports:

- (a) those which are the same as for offline exports; and,
- (b) others which are specific to e-commerce.

The issues specific to e-commerce exports include: improving e-commerce readiness or digital maturity; additional

<sup>17</sup> At times, these exporters receive some payment in advance as well.

<sup>18</sup> Other factors which result in a high percentage of returns include that the product content must correspond to local requirements which differ, and that selling takes place across different digital platforms with different specifications and the requirements.

documents and processes involved in receipt of payments and reconciliation of payments with the shipping bill for exports; difficulty in assessing how many items would be sold within a given period; the relatively large number of returns by customers and the consequent loss in revenues; access to benefit provided by the Government through its incentive schemes; and, a comparatively high cost of closing the shipping bill due to relatively larger number of banking transactions for monies received for the exported items.

Since several concerns are common for both online and offline exports, the solutions for them would be one which is systemic or impacts all exports. For the issues that are specific to e-commerce exports, policy solutions would need to be focused only on e-commerce exports. This implies a need to identify and establish systems primarily for e-commerce exports, to address for instance, expediting their border clearance for timely delivery, or resolution of payment related concerns that are specific to these exports.

Empirically, these solutions have been provided in two different ways, one through Government policy initiatives, and another due to development of private service providers in areas such as logistics or payments related issues. In certain cases, such as returns, solutions are provided by the private sector in the market to which the export takes place.

## 1.6. Conclusions

The points discussed in this Chapter provide the background for the discussion on e-commerce exports of India. Chapter 2 provides a discussion of the demand side factors relevant for these exports, and Chapter 3 discusses the supply side factors, namely, the domestic operational context for e-commerce exports. The Government has focused on a number of initiatives, mostly in the context of offline exports, but now a higher focus is also provided to boost e-commerce exports of India. Chapter 4 discusses these issues and identifies some important areas for improving the impact of policy measures. Chapter 5 discusses the issues that arise particularly in the context of MSMEs. Chapter 6 provides examples from selected sectors on the problems faced by Indian e-commerce exports. Chapter 7 gives the overall conclusions of the Report.



## Chapter 2

# Landscape of Global E-commerce

### Introduction

The effort to enhance the potential for e-commerce exports requires taking into account both the countries with a large e-commerce market as well as those with a high growth rate in their e-commerce markets. This Chapter takes a look at the top economies in terms of size and growth of e-commerce. This will provide a good background to examine the initiatives that promote the potential of India's e-commerce exports. For this purpose, each country profile outlines basically four features:



- (1) The size of e-commerce and cross border e-commerce as it indicates potential markets for India.
- (2) The main payment mechanisms, as India must also adopt them, where necessary, to reduce price realization period and costs for its exports.
- (3) The main products traded as India's competing products can be bench marked against these.
- (4) Regulatory mechanisms, if any, as Indian e-commerce exports may be affected by these.
- (5) Logistics, as this will have a bearing on last mile delivery issues faced by e-commerce exporters.

While there are many other factors that affect e-commerce exports, these are the ones that are the focus of this chapter. Other issues, which are purely domestic in nature, have been analyzed in chapters 3 and 4 of this report while this Chapter concentrates on factors which affect the demand for India's e-exports.

The top products which are purchased globally through e-commerce are the following<sup>19</sup>:

- Entertainment & Education
- Apparel & Accessories
- Consumer Electronics
- Home Furnishing
- Personal Care & Beauty
- Healthcare & Nutrition
- Footwear
- Food & Beverage

The most important mechanisms used for cross-border e-commerce purchases are the following:<sup>20</sup>

- Credit/Debit Cards
- Digital Wallets
- Internet Banking

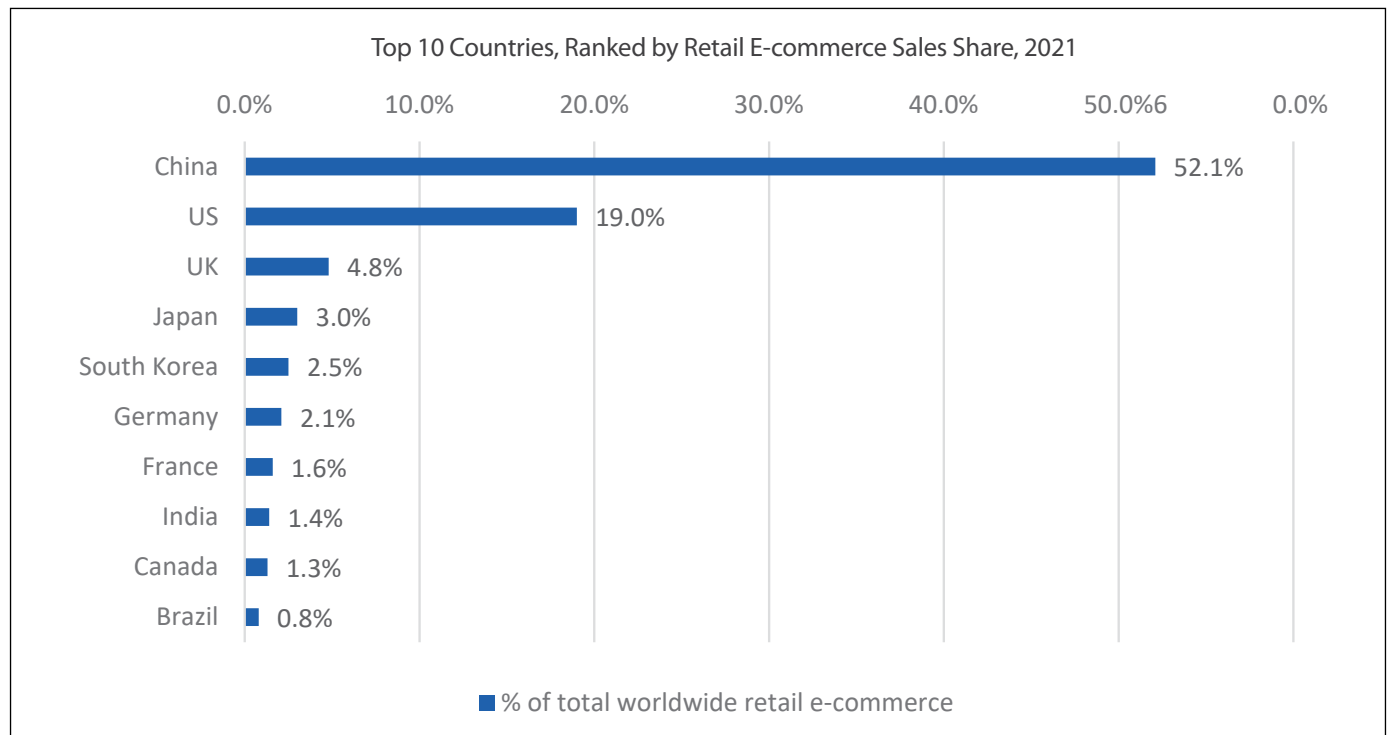
19 [file:///C:/Users/admin/Downloads/New%20folder/Cross-Border%20B2C%20E-commerce%20Market%20\[2022\]1%20Size,%20Share%20-%20Global%20Industry%20Future%20Growth,%20Revenue,%20Expansion%20Plans,%20Demand,%20Business%20Challenges,%20Opportunities,%20Key%20Players,%20Recent%20Developments%20and%20Forecast%202029%20-%20Market%20R.html](file:///C:/Users/admin/Downloads/New%20folder/Cross-Border%20B2C%20E-commerce%20Market%20[2022]1%20Size,%20Share%20-%20Global%20Industry%20Future%20Growth,%20Revenue,%20Expansion%20Plans,%20Demand,%20Business%20Challenges,%20Opportunities,%20Key%20Players,%20Recent%20Developments%20and%20Forecast%202029%20-%20Market%20R.html)

20 Ibid

## 2.1 Top and High Growth E-commerce Markets

Although COVID-19 led to a fall in overall retail, e-commerce registered double digit growth worldwide. For example, in 2021 compared to 2020, Latin America e-commerce sales increased by 21%.<sup>21</sup> The global **e-commerce Market** was valued at USD 11.9Tn in 2021 and is anticipated to grow at a CAGR of 14.8% and is expected to reach USD 41.2Tn by 2030.<sup>22</sup> India's e-commerce market is expected to grow to \$111.4 billion by 2025 from \$46.2 billion in 2020, growing at a CAGR of 45%.<sup>23</sup> Russia, UK, and the Philippines experienced at least 20% e-commerce growth in 2021.<sup>24</sup>

**Fig 2.1: Top E-commerce Countries in 2021**



Note: Includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling, and other vice goods sales. Source: eMarketer, May 2021.

Apart from these countries there are some high growth countries for e-commerce. These would constitute the markets of interest to India.

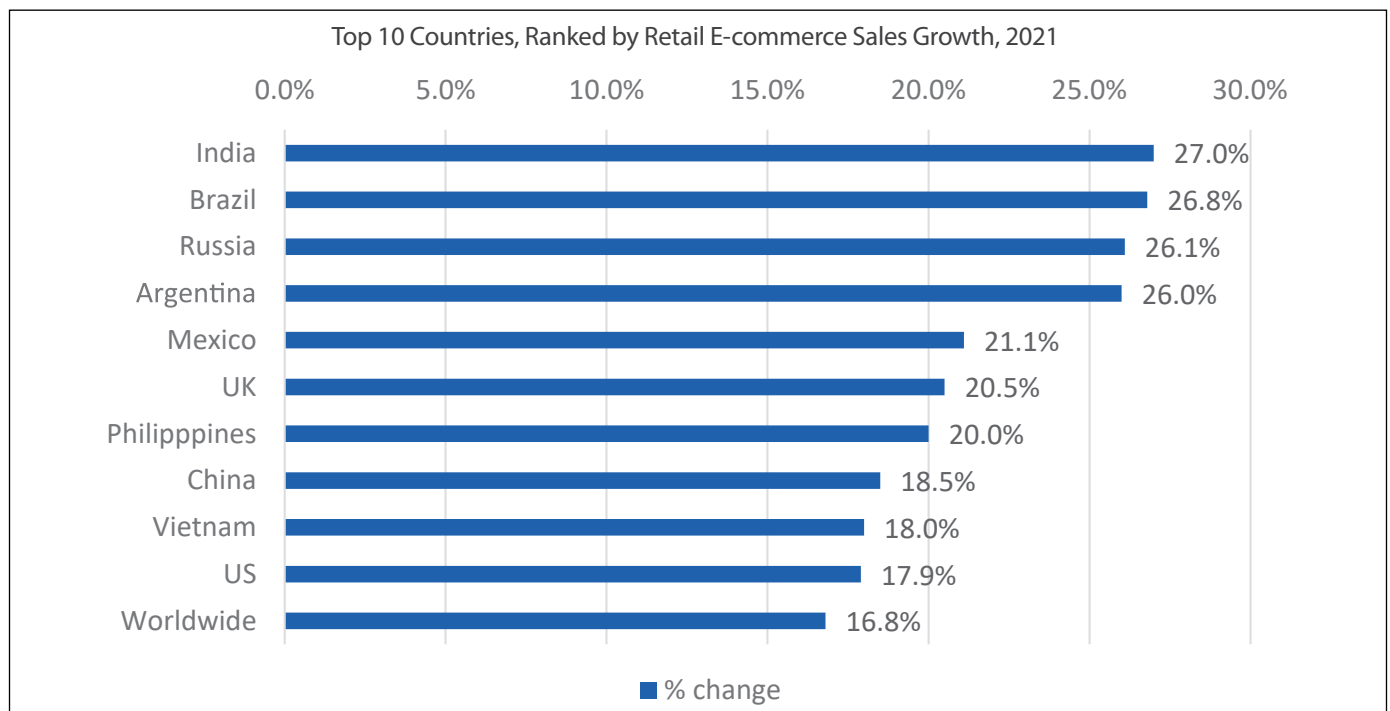


21 <https://www.statista.com/statistics/445860/retail-e-commerce-sales-latam/>

22 <https://marketresearchcommunity.com/e-commerce-market/?gclid>

23 <https://www.ibef.org/industry/e-commerce>

24 <https://www.insiderintelligence.com/content/top-global-e-commerce-markets>

**Fig 2.2: High Growth Countries in E-commerce in 2021**

Note: Includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling, and other vice goods sales. Source: eMarketer, May 2021.

However, while these countries may be important markets for India, it only provides a partial picture. What is of more relevance is the Cross Border e-commerce (CBEC) imports as these would provide an accurate picture of where India should target its e-Exports.

**Table 2.1 Cross Border E-commerce Imports by the top 8 countries in 2022**

Country	Cross-border Purchases	CB Imports from % China	CB Imports from % U.S.	CB Imports from % U.K.	CB Imports from % Japan
U.S.	\$ 270.1	49%		12%	
U.K.	\$ 81.2	45%	21%		
China	\$ 34.5		17%		28%
Germany	\$ 33.9	43%	13%		
Canada	\$ 24.7	32%	49%		
Australia	\$ 22.4	41%	24%		
Mexico	\$ 14.7	35%	43%		
Japan	\$ 14.1	32%	30%		

Sources: eMarketer, Statista, J.P. Morgan

While products of domestic e-commerce were listed above, CBEC may or may not involve the same products. Fig 2.3 below shows the most popular products in CBEC.

Fig 2.3 Products Popular in Cross-border B2C E-commerce

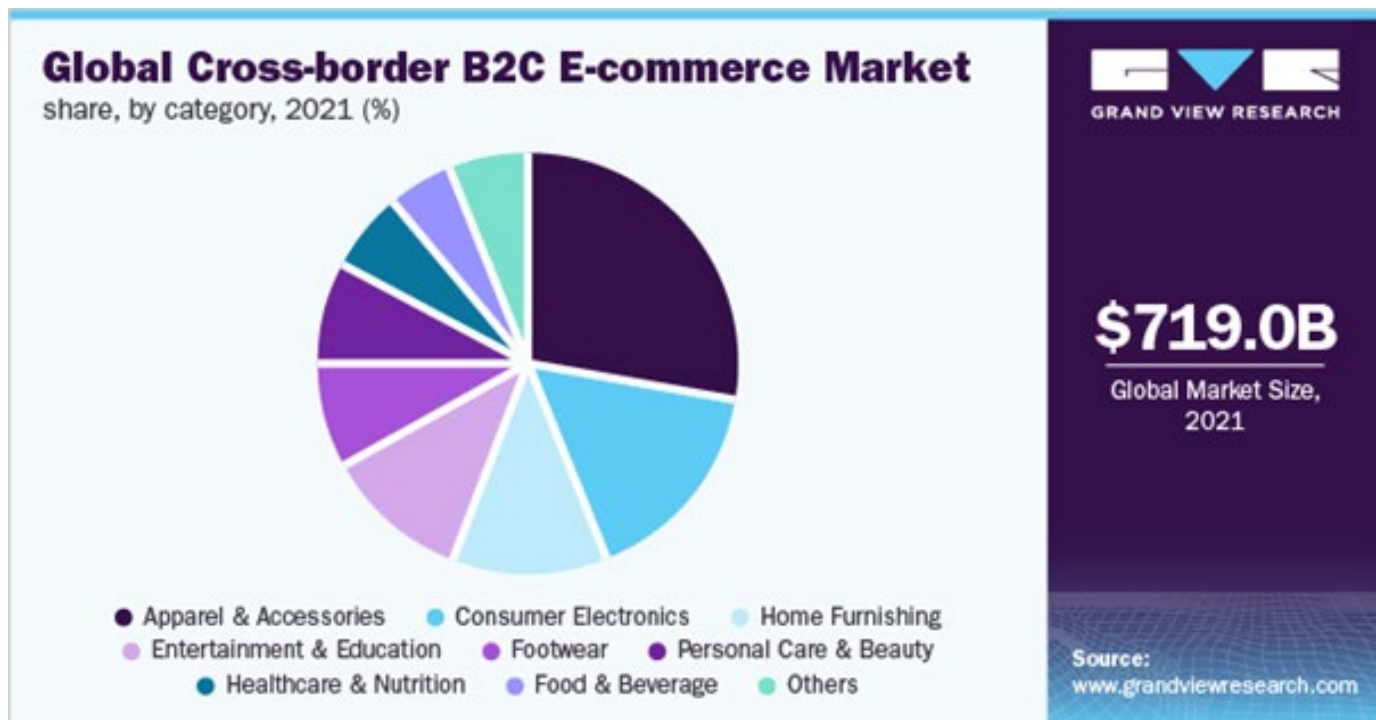


Figure 2.4 provides a bird's eye view of most of the issues surrounding cross-border E-commerce markets.

Fig 2.4 Bird's eye View of Global Cross-border E-commerce





Fig 2.5: Major Platforms Used for E-commerce in Major Countries



Fig 2.5 maps the major platforms for CBEC in some of the major global players. The presence of local players and platforms is increasing and co-exists with global platforms.

## 2.3 Country Specificities of Cross-border E-commerce in the Top Ten Markets

### 2.3.1 The United States

#### Size of the market

E-commerce accounts for just 14 percent of total retail sales, though 77 percent of the population shops online. Major companies such as Amazon (38.1%), Walmart (5.3%) and eBay (4.7%) along with other companies in the shopping mall such as Kroger, JC Penny, Target etc. dominate the US market.<sup>25</sup> Cross-border shopping accounts for only 7% of the total e-commerce market covering a mere 33% of consumers, but even this is a US \$76.9 billion market.<sup>26</sup>

#### Products shipped through e-commerce

In the US, the top performing e-commerce segment was fashion with 31% of the market share. Electronics and media were the second-best performing segments with 21%, and toys, hobbies and DIY was third with 20%.<sup>27</sup>

#### Payment mechanisms

Some 45 percent of total e-commerce is made via mobile phones, and is expected to grow at a CAGR of 18.2 percent by 2024. Most growth is expected through social sites (34.8% year on year growth) with Instagram and Pinterest. In the U.S., credit cards (58%) and digital wallets, especially paypal (26%) are important, go-to payment options. The growth of digital wallets at 14% is expected to outstrip that of cards at 11% **by 2024**.<sup>28</sup> Buy now, pay later brands, while already well established in European e-commerce, are shifting their focus to the U.S. A global leader, Klarna, is making good gains in this market, with

25 2021 E-commerce Payments Trends Report: U.S. Country Insights: Data provided by WPL, 2021.

26 Ibid

27 <https://www.airwallex.com/blog/top-cross-border-e-commerce-markets-2022>

28 E-commerce Payments Trends Report, op. cit.

users doubling year-on-year to 17 million consumers in April 2021 from 2018.<sup>29</sup> The safest option for smaller brands is still to join a mega-platform as a seller and take advantage of its reach and infrastructure, especially in the e-commerce market space.

## Regulations

To lawfully enter the U.S., imported products must arrive inside the port of entry, delivery of the product must be approved by Customs and Border Protection (CBP) and assessed duties must be paid. The importer is liable for the analysis and delivery of the goods.<sup>30</sup>

There are specific gaps and challenges for CBP to obtain complete and accurate data of cross-border e-commerce shipments, such as: (i) data held by intermediaries; (ii) seller or intermediary without physical presence; (iii) fragmented data; and (iv) low data quality. All these result in insufficient data for Customs authorities to achieve efficient processing of cross-border e-commerce import transactions and shipments. However, the US government regulations on cross-border e-commerce are generally facilitative as is shown in Table 1.5 below. The ranking of the different factors is on a scale of 1-5. A 5/5 value indicates the highest ranking of the measure for facilitation of e-commerce imports into the US.

**Table 2.5: US Regulations for Entry<sup>31</sup> :**

Measure	Comment
Ease of doing business 5 / 5	- The U.S. is considered cross-border friendly due to its <u>14 trade agreements</u> .
Landed cost fairness 5 / 5	- No import taxes are applied, whereas the average duty rate is low, which helps keep the landed cost low.
- The U.S. has a high de minimis value threshold of \$800, which is beneficial to importers.	
Flexibility of legal regulations 4 / 5	- Customs and Border Protection (CBP) does not require sellers/importers to register for an import permit or license.
- Other government offices (FDA, FCC, etc.) may demand a license, permit, or other certification, based on the category of imported product(s).	
Availability and accessibility of shipping 5 / 5	- There are many shipping services and carrier options due to the U.S.' large population (accounts for 4.25% of the world's population (2020)), many of whom are cross-border online shoppers.
Accessibility and variety of payment methods 5 / 5	- Available payment methods include VISA, Mastercard, American Express, ewallets, Discover, Apple Pay, PayPal, and Affirm.

29 reuters.com, May 2021. 'Klarna's quarterly transaction value nearly doubles in Q1.'

30 <https://docs.zonos.com/country-guides/north-america/united-states#:~:text=Legal%20regulations%20for%20businesses,and%20delivery%20of%20the%20goods>.

31 <https://docs.zonos.com/country-guides/north-america/united-states#zonos-grade-for-the-united-states-ease-of-importing-goods-a-Score-of-5/5-etc-indicate-implementation-of-regulations>

Measure	Comment
Market opportunity 4 / 5	- 80% of the U.S. population shops online, giving sellers the potential for high e-commerce success.
- U.S. shoppers can easily purchase goods from across the globe without having to worry about any duty or tax on imports unless they exceed the \$800 de minimis.	

Source: <https://docs.zonos.com/country-guides/north-america/united-states#zonos-grade-for-the-united-states-ease-of-importing-goods->

## Logistics

Cross-border e-commerce parcels in the US<sup>32</sup> can travel via three different channels. The postal (or postal-parcel) channel, regulated by the exchange system of the Universal Postal Union (UPU), is the dominant mode in terms of shipment volume: it is responsible for routing close to two-thirds of lightweight international parcels weighing up to two kilograms. International express shipments, which make up 5 to 10 percent of the total volume, guarantee fast delivery speeds of one or two days, high reliability, and excellent service quality. Commercial-parcel operators handle the remainder of shipments. Ranging from postal spin-offs to asset-light start-ups, these operators capitalize on the need of shoppers and shippers for reasonably priced but reliably quick and quality shipping. They offer "track-and-trace" visibility for parcels in transit and services such as insurance, which is not provided in the postal channel ( would be better to cross-check the two facts).

US Logistics Companies prioritise the following five key execution priorities:-

- 1. Local partnerships and customer ownership-* Parcel companies need to build up a sales force and marketing capability in the country of origin to acquire clients, establish a brand name, and understand and address the shipping needs of e-commerce merchants for export sales.
- 2. Transportation partnerships-* Owning huge fleets of aircraft, trucks, and ships in multiple jurisdictions is out of reach for most cross-border parcel delivery providers, so transportation partnerships are crucial for seamless operations.
- 3. Capabilities and customs-* To expand capacity in key gateways and make delivery flows smoother, two things are necessary. First, parcel delivery providers acquire an intimate understanding of inbound customs requirements: filling in the necessary forms and documentation, as well as the habits and processes of customs agents. Postal providers have an edge in this area. Second, these companies effectively manage their relationships with customs authorities (including data integration and tech innovation). Pitney Bowes is one example of a US shipping company that offers a comprehensive cross-border product (which includes landed costs and compliance solutions) by combining AI and manual checks to screen packages and minimize airlift and customs delays.
- 4. Last-mile options-* US logistics providers therefore offer reliable granular and local tracking, time window options, and out-of-home deliveries. Now that flexible returns are becoming the norm for e-tailers, commercial-parcel delivery providers offer solutions across value chain steps (such as tracking, customer refunds, tax withdrawals, and operational follow-ups). Landmark Global, for instance, gives e-tailers a choice of what to do with returned products. Through the online shipping platform Mercury, e-tailers can decide to consolidate returned products, get products returned to the shipper, or have them destroyed.
- 5. Overall technology capability.* It is important for companies to integrate their data stacks with trusted partners across the entire chain to enhance efficiency and reduce the number of bottlenecks. Of course, in addition to tracking and optimizing the delivery process, companies are now expected to communicate this information to customers and to offer them options for customizing the delivery service according to their needs.

## 2.3.2 UK

### Size of the market

With 84 percent of citizens shopping online, e-commerce accounts for 27.9 percent of all retail sales in the UK.<sup>33</sup> Cross-border e-commerce accounts for a quarter of all e-commerce sales with 55 percent of British online consumers making international purchases. The most popular countries which export to the UK are China (43 percent), the U.S. (20 percent) and Germany (9 percent).<sup>34</sup>

### Products preferred

While CBEC includes almost all products such as tea, apparel, skincare, home gadgets etc secondhand products in the luxury and designer clothing markets are gaining ground.<sup>35</sup> E-commerce rental marketplaces are being used by physical retailers to enhance their multi-channel offerings, e.g. online clothing rental site Hurr now has physical sites in the retail department store chain Selfridges.<sup>36</sup>

### Payment mechanisms

**Credit cards such as** Mastercard, VISA, American Express and wallets such as Stripe, PayPal, and Shopify are the most popular payment methods.

### Regulations

Merchants selling orders valued at or less than £135 must pre-collect VAT, register for a UK VAT number, and remit quarterly to His Majesty's Revenue and Customs (HMRC). Landed Cost is the total price of getting a purchase to the customer's door: product price, shipping, duties, taxes, and fees (currency conversion, shipping carrier, broker, customs, or government fees.)

### Logistics

Top carrier services such as Royal Mail, DPD, CollectPlus, UPS, FedEx, and DHL are commonly used. Depending on the carrier, possible shipping fees include tracking, insurance, fuel surcharge, rural service delivery charge, overweight or dangerous goods fee, or security charge. Last mile delivery is established through conventional infrastructure, especially using the Royal Mail.

## 2.3.3 China

China is the world leader in e-commerce, with huge sales volumes and high levels of innovation, particularly in mobile and social commerce.<sup>37</sup> Some 64 percent of the Chinese population have shopped online. China's e-commerce is based on 'super-apps', which allow users to socialize, shop, bank and pay for products within a single ecosystem. WeChat and Alipay dominate in this.<sup>38</sup>

### Size of the market

Cross-border e-commerce accounts for 13.5 percent of total e-commerce, with Japan (24 percent), Australia (14 percent) and the U.S. (12 percent) being the most popular overseas destinations to shop from.

### Products

The most popular products imported into China through cross-border e-commerce were cosmetics, fashion, luxury goods, and household appliances.<sup>39</sup>

33 2021 E-commerce Payments Trends Report: UK Country Insights: Data provided by WPL via ONS, 2021.

34 Ibid

35 8 bbc.com, June 2021. 'Etsy snaps up Gen-Z focussed shopping app Depop for \$1.6bn.' Drapers.com, May 2021. 'Selfridges to launch rental powered by Hurr.'

36 Drapers.com, May 2021. 'Selfridges to launch rental powered by Hurr.'

37 2021 E-commerce Payments Trends Report: China Country Insights: Data provided by WPL via Statista, 2021

38 Ibid

39 <https://www.trade.gov/market-intelligence/china-cross-border-e-commerce-channels>

### Payment mechanism

Roughly 64 percent of e-commerce is completed on a mobile device. Of these transactions, 64 percent are carried out on an app such as WeChat, Pinduoduo and Douyin. Digital wallets account for 59 percent of all completed transactions— for example, WeChat Pay within WeChat, and Alipay within Alibaba, which allow for one-click e-commerce payments. Cards (21%) and bank transfers (15%) are the next most preferred options.<sup>40</sup>

### Regulations

China has a 'positive list' for approved e-commerce product categories that can be imported into the country with minimal customs and compliance requirements, and a preferential tax rate of 9.1 percent. To qualify, these items must be shipped to a bonded warehouse, before they are sent on to the buyer.<sup>41</sup> For e-commerce exporters too, similar facilities are available.

### Logistics

China has developed a new cross border e-commerce-led "line-haul + regional distribution center + last mile delivery" model, which was booming in 2022. This had a positive impact on the national line-haul and express providers, thus driving the e-commerce logistics market and promoting warehouse and last mile delivery services.

In addition to the rapidly growing e-commerce market, cross-border e-commerce activity is also expanding in parallel. Amazon has recently announced its plans to set up operations in Shanghai's new Free Trade Zone, a move that will allow more merchandise from abroad to be sold in China and help boost competition against rivals like Alibaba, Tencent and JD.

## 2.3.4 Germany

### Size of the market

Germany is the third-largest e-commerce market in Europe with a share of 11.2% in total retail sales. Around 74% of the German population shop online. It has the highest product return rate in the world. Large marketplace sites dominate the sales. The top three e-commerce sites by revenue are Amazon, and local competitors Otto and Zalando. Otto is investing in infrastructure upgrades to rival Amazon – for example, teaming up with Google to develop voice shopping technology. The e-commerce market is expected to grow at 10% per annum to 2024. Almost 35% of e-commerce takes place on mobile devices, of which 49% use apps and 51% use browsers.<sup>42</sup>

Cross-border e-commerce makes up 17.1 percent of total e-commerce sales in Germany, covering about 55 percent of online consumers. Most e-commerce imports are from China (40 percent), the UK (11 percent) and neighboring Austria (11 percent).<sup>43</sup>

### Products

Most commonly purchased e-commerce products are travel (21%), electronics and media (18%) and fashion (18%).

### Payments

It primarily uses an open invoice payments system (30%) which is based on buy now and pay later. Digital wallets (27%) and debit cards (20%) are other popular means of payment.

### Regulations

#### 'Ease of doing business 5/5

- Germany has a mature e-commerce market and savvy online shoppers.
- Germany is the fifth biggest e-commerce market in the world.

40 ibid

41 tmogroup.asia, January 2021. 'TMO's 2021 China e-commerce Insights.'

42 2021 E-commerce Payments Trends Report: Germany Country Insights: Data provided by WPL via BEVH, Interaktiver Handel in Deutschland, IMRG, Statista, Fevad, 2021.

43 Ibid

- Landed cost fairness 1/5
- The duty and VAT rates are high, which are unfavourable for landed cost.
- Germany's de minimis is fairly low, which is also not favourable for landed cost.
- Duty and tax are charged only on imports into Germany where the total CIF value of the import exceeds Germany's minimum value threshold (de minimis), which is a duty de minimis of 150 EUR and a tax de minimis of 0 EUR. Anything under the duty de minimis value will be a duty-free import, but because the tax de minimis is zero, every import is subject to tax.
- Value-added tax (VAT)
- Average VAT rate: 19%
- Reduced rate: 7%
- Import VAT is charged on the CIF value of the order. VAT is charged at the standard rate of 19%, but certain products, such as food, books, hotel accommodation, cultural services, and more, receive a reduced rate of 7%. The EU employs IOSS44 (Import-One-Stop-Shop) as their method for collecting VAT.

### Average duty rate

- Average duty rate: 4.2%
- Applied to the CIF value of the order
- Like VAT, duty is charged on the CIF value of the order. The duty ranges from 0-17%, with an average rate of 4.2%.

### Flexibility of legal regulations 5/5

- Germany's customs regulations fall under the European Union's (EU), which are reasonable and allow for easier trade.
- e-commerce companies are focusing more on environmental sustainability. In 2021, 47% of retailers adapted their package size to the product size and 46% did not use plastic as filling material.<sup>45</sup>

### Availability and accessibility of shipping 5/5

- All major couriers ship to Germany.

### Accessibility and variety of payment methods 5/5

- Germany accepts a variety of popular payment options, such as Paypal, ewallets, invoice, credit card, Paydirekt, direct debit etc.

### Market opportunity 5/5

- Over 80% of Germany's population shops online, giving sellers the potential for high e-commerce success.
- Germany's market is favorable to expand into because it has the fifth biggest e-commerce market in the world.<sup>46</sup>

### Logistics

Germany is a difficult export market because most customers expect a delivery time of 3-5 days. The most popular delivery method is daytime home delivery (41 percent), followed by mailbox delivery (36 percent) and evening at-home delivery (8 percent).<sup>47</sup> In addition to well-known companies such as DHL, Hermes, UPS, DPD, or GLS, online retailers also rely on other carriers. For example, the share of Trans-o-flex, Dachser, Rhenus, or TNS has increased by 11 percentage points to almost 21% in 2021 compared to 2020.<sup>48</sup>

44 Import One-Stop Shop (IOSS) is an electronic portal in the European Union which serves as a point of contact for the import of goods from third countries into the European Union. The scheme aims to simplify the declaration and payment of value-added tax when importing goods into the European Union (EU).

45 <https://cross-border-magazine.com/e-commerce-2021-shipping-in-germany/>

46 <https://docs.zonos.com/country-guides/europe/germany>

47 postnord.se, 2020. 'E-commerce in Europe 2020.'

48 <https://cross-border-magazine.com/e-commerce-2021-shipping-in-germany/>

## 2.3.5 Canada

### Size of the market

e-commerce accounts for 8% of total retail sales, with seventy percent of its population shopping on-line.<sup>49</sup> Retail giants dominate the market. Amazon, Walmart and Costco are the top three online stores by net sales. Cross-border shopping is largely from two English-speaking nations, the U.S. and the UK.<sup>50</sup> Mobile e-commerce accounts for only 35% of total transactions but is growing. Only **three percent** of Canada's e-commerce revenue is expected from cross-border transactions in 2022.<sup>51</sup> Traditional social media platforms such as Facebook (24.5%), Instagram (17.1%) and Youtube (16.5%) are used for making purchases. In contrast, just 1.1 percent would be likely to shop on TikTok.<sup>52</sup>

### Products

Travel (20%) may rise in line with the post-pandemic removal of travel restrictions. Electronics and media (18 percent) and fashion (17 percent) are the second and third most popular e-commerce spending categories.<sup>53</sup>

### Payment mechanisms

Credit Card is the most popular payment mechanism (64%), followed by Digital wallets (19%). PayPal is most widely used, and is expected to rise to take a 23 percent share of payments by 2024. Bank transfers are the third-most popular payment option (11 percent), with its use expected to remain static at 11 percent by 2024.<sup>54</sup>

### Regulations<sup>55</sup>

#### Ease of doing business 4/5

- Canada has a diverse workforce and a sophisticated, growing economy.
- Canada has a strong trading relationship with the U.S.
- Canada's strong homegrown technology sector promotes a technologically oriented market.
- Canada's prime location provides easy access to the U.S, Europe, and the rest of the world.
- Canada exercises federal laws, regulations, and taxes but also province-specific laws, regulations, and taxes.

#### Landed cost fairness 4/5

- Canada has relatively low GST and duty rates, which is favorable for landed cost.
- Canada has a low de minimis, which is unfavorable for landed cost.

#### Flexibility of legal regulations 5/5

- Canada has a robust and transparent legal system.
- Canada's import regulations are reasonable and pose no limitations for trade.

#### Availability and accessibility of shipping 5/5

- All major couriers ship to Canada.

#### Accessibility and variety of payment methods 5/5

- Canada uses various digital payment methods, including credit cards, debit cards, payment gateways, and PayPal.

49 2021 E-commerce Payments Trends Report: Canada Country Insights: Data provided by WPL via Statcan & eMarketer 2021.

50 Ibid

51 <https://www.statista.com/statistics/731055/canada-markets-origin-online-cross-border-purchases/#:~:text=Cross%2Dborder%20e%2Dcommerce%20accounts,cross%2Dborder%20transactions%20in%202022.>

52 emarketer.com, March 2021. 'What's the state of social commerce in Canada?'

53 Ibid.

54 Ibid

55 <https://docs.zonos.com/country-guides/north-america/canada>

## Market opportunity 5/5

- Canada's high internet penetration and a large portion (about half) of its e-commerce sales being international, provide a potentially successful economy for retailers.

### Logistics

Free shipping is expected by 84 percent of Canadian online consumers.<sup>56</sup> Canadian consumers look at logistics carriers, which have policies to reduce their carbon footprint.<sup>57</sup>

## 2.3.6 Mexico

### Size of the market

E-commerce accounts for just 9 percent of total retail sales.<sup>58</sup> Around 53 percent of sales are completed on a mobile device, and it is projected to grow at around 20% to 2024.<sup>59</sup> Mercado Libre followed by Amazon are the most popular e-commerce sites.<sup>60</sup> Cross-border B2C occupies 15% of total e-commerce retail sales with the US (51%), China (27%) and Japan (7%) being the major import markets. Around 66% of Mexican e-consumers do cross-border shopping. Recognizing this, Alibaba assigned new thrice-weekly charter flights between China and South America in 2020. This has brought down delivery times from a week to three days.<sup>61</sup>

### Products

Fashion brands Louis Vuitton and Boss are among those launching domestic e-commerce sites in 2021, as are jewelers Cartier and Bulgari.<sup>62</sup> Mexican online beauty and cosmetics market revenues jumped 1,410 percent in 2020.<sup>63</sup>

### Payments

Many payments are made using prepaid cards. Amazon, for example, sells prepaid cards in convenience stores, allowing shoppers to load up with cash to spend on its site without a debit or credit card. The top three sites are Facebook, WhatsApp and Instagram.<sup>64</sup> Social media users tend to be younger citizens; more than 56 percent of Facebook's Mexican users are aged between 18 and 34.<sup>65</sup> Credit and debit cards account for 46% of payments, though digital wallets (21%), bank transfers and cash are commonly used, especially as 63% of the population do not have a bank account. Mexico's Oxxo convenience store allows payment of online orders with cash.<sup>66</sup>

### Regulations

#### Ease of doing business 4/5

- With a sophisticated and efficient e-commerce industry, not to mention being the second-largest economy in Latin America, Mexico is favorable for doing business.
- Mexico is a member of several trade agreements and has a very competitive market. Mexico has deep trade and investment ties with the US, which makes it favorable to do business in Mexico for a firm located in the US
- The State Department does a security assessment for every state in Mexico, and the American Chamber of Commerce in Mexico (AmCham) directs a survey of security trends that affect businesses annually.

56 canadapost-postescanada.ca, 2021. '9 Canadian consumer trends that could define e-commerce in 2021.'

57 ibid

58 2021 E-commerce Payments Trends Report: Mexico Country Insights: Data provided by WPL via Statista, 2021.

59 Ibid

60 statista.com, February 2021. 'Most popular e-commerce websites in Mexico as of July 2020, based on number of monthly visits.' Accessed July 2021.

61 25 jingdaily.com, June 2021. 'How Alibaba Won Latin American E-commerce.'

62 [wwd.com](http://wwd.com), July 2021. 'Louis Vuitton Launches Mexican E-commerce.'

63 finextra.com, June 2021. 'E-commerce opportunities: tapping into Latin American markets.'

64 statista.com, February 2021. 'Reach of leading social networks in Mexico as of January 2021.'

65 Ibid

66 Ibid



### Landed cost fairness 3/5

- The duty and VAT rates are relatively low, which are favourable for landed cost.
- Mexico's tax de minimis is low, which is not favourable for landed cost.
- Their duty de minimis is very high, which is beneficial for imports.

### Flexibility of legal regulations 3/5

- Mexico's legal regulations require several forms of documentation and procedures. All regulations must be followed to ensure that goods are smoothly and successfully cleared into the country.

### Availability and accessibility of shipping 5/5

- There are many carrier and shipping options due to Mexico's relatively large landmass and relatively large population.

### Accessibility and variety of payment methods 5/5

- Available payment methods include credit cards, international cards, local debit cards, cash, online processors, e-wallets, etc.

### Market opportunity 3/5

- Under half of Mexico's population shops online. However, with the size of the Mexican market and population, there is a market opportunity for nearly every product.
- Mexico has the 15th largest economy in the world.
- Mexico has a relatively low tax de minimis, which can make shoppers more hesitant to purchase goods from across the globe because those imports will incur duties and/or taxes if the shipment exceeds the tax de minimis.

### De minimis value

- Duty and tax will be charged only on imports into Mexico where the total CIF value of the import exceeds 100 USD. If the CIF value of an order to Mexico is over 1,000 USD, then duty will be charged [This sentence will need to be redrafted to avoid confusion]. Shipments with a CIF value under the tax and duty de minimis will be considered as tax-free and duty-free imports; if the CIF value is over both of the de minimis values, duty and tax will be charged.

### Import tax

- Mexico has a tiered tax-based structure ranging from 16% to 20%

The value-added tax (VAT)/Impuesto al valor agregado (IVA) in Mexico varies from 16%-20% for U.S. and Canadian imports. For the rest of the world, the IVA rate is 19%-20%.

### Import duty

- Average duty rate: 5.8% applied to the CIF value of the order, except for goods originating from the U.S. and Canada for which the FOB value is used.

### Other taxes and fees

#### Excise

- Alcohol: The tax rate depends on the amount of alcohol, but the most common tax rates are 26.5%, 53% and 60%.
- Tobacco: The tax rate depends on the type of tobacco product. Homemade tobacco products attract a 30.4% tax, while the others commonly attract a 160% tax.
- Pesticides: The excise tax rates for pesticides are 6%, 7%, and 9%.
- Gambling and lotteries: The excise tax rate for gambling and lotteries is 30%.
- Junk food: Foods above 275 kilocalories per 100 grams attract an excise tax of 8%.

## Countervailing and antidumping duties

- Countervailing duty (CVD) and antidumping (AD) duties are extra duty charges to offset what the country (in this case, Mexico) believes to be subsidising or dumping of certain imported products that compete with their domestic industry, by using WTO inconsistent measures.
- The International Trade Administration's (ITA) Enforcement and Compliance division calculates the antidumping (AD)/ countervailing duty (CVD) rates and to what imports the duties apply to. The Customs and Border Protection (CBP) carries out these decisions and collects the AD/CVD imposed on the imports. The importer is responsible for paying the AD/CVD charges, which are passed on to the consumer. These resources outline how to determine if certain imports are subject to AD/CVD rates in Mexico:
  - ◇ Federal register notices from Commerce
  - ◇ Written instructions from Commerce to CBP
  - ◇ ITA's website
  - ◇ How to request a scope ruling
  - ◇ All AD/CVD cases by description and case number
  - ◇ Import specialist at the appropriate Center of Excellence and Expertise

## Simplified tax regime

- Mexico operates a "simplified" tax regime where shipments with a customs value under 1,000 USD are assessed in a way in which duty and taxes are listed as one line item on an invoice. For orders under 1,000 USD, the import duty is calculated and listed in the tax line of the invoice, but for orders over 1,000 USD, the duty is listed separately.

## Logistics

Much of the **logistics challenges** regarding distribution and last-mile deliveries in Mexico are related to the management of **land transportation**. 75% of carriers operating in southern Mexico have access to an average of one hundred trucks or less, which in many cases are family owned. For this reason, they also do not have the financial resources to invest in the purchase of new vehicles and thus be able to keep pace with the increase in demand for their services.

In the national services for deliveries, there are four categories:

1. Determined time of the following day (7:45 am, 8:30 am, 11:00 am, etc.)
2. The next day
3. Specific day (2 days, 4 days, etc.)
4. Reissues (once a week or every fifteen days, depending on the destination).

In turn, there are two international services:

1. Express (from 1 to 3 days, depending on the destination country)
2. Deferred (from 2 to 6 days, depending on the destination country)

## 2.3.7 Japan

### Size of the market

Cross-border shopping accounts for 9.5 percent of its total e-commerce market. The top three import destinations are the U.S., China and Korea for cross-border e-commerce. While the Japanese e-commerce market is one of the largest in the world by value, only 10% of its total retail sales are online.<sup>67</sup> However, nearly 76% of its population had shopped on-line in 2021.

### Products imported through cross-border e-commerce

The most popular online product categories are travel (16 percent), food and personal care (16 percent), fashion and digital media (15 percent respectively).<sup>68</sup> The top three sites are marketplaces: Amazon, Rakuten and Yahoo! Shopping.<sup>69</sup>

### Payment mechanisms

Desktop and laptops are preferred over mobile shopping with the latter accounting for roughly 35% of total shopping. Cards are popular payment mechanisms (68%), followed by bank transfers (13%), cash (5%) and digital wallets (5%).<sup>70</sup> Bank transfers are likely to grow by nearly 17% in this decade followed by digital wallets at 7%.<sup>71</sup> Buy now, pay later is growing in Japan. Domestic buy now, pay later brand Paidy partnered with PayPal in 2021 to enable Japanese online shoppers to access Paidy directly via their digital wallets. This may also increase cross-border spending, as it will allow Japanese shoppers to use Paidy at any international site that accepts PayPal. Japan has 16 national holidays a year which are now branded as key online shopping events, with participation from luxury brands and Western giants such as Apple and IKEA.<sup>72</sup>

### Regulations

In May 2020, Japan's Diet passed a new law, the [Act on Improvement of Transparency and Fairness in Trading on Specified Digital Platforms](#), that will require e-commerce platforms to submit an annual report to METI on their business practices. METI will subsequently solicit comments from merchants, conduct reviews and publish the results. U.S. firms Google, Amazon, Facebook and Apple, as well as Japanese firms Rakuten and Yahoo-Japan, are among those affected. The Japan Fair Trade Commission (JFTC), will assess antitrust issues in B2C e-commerce. It conducted and - in 2019 - released an online trade practices survey, which included a perspective on manufacturers, distributors, retailers, online shopping malls, and other players.<sup>73</sup>

### Logistics

Delivery and logistics firms are beginning to deploy autonomous delivery methods for e-commerce parcels, with Japan Post set to introduce drone delivery from 2023.

## 2.3.8 UAE – of Special Interest to India

### Size of the market

Total e-commerce in the UAE amounted to about \$5bn in 2021 and is projected to cross \$8bn by 2025.<sup>74</sup> Cross border e-commerce (UAE consumers purchasing outside of the country) rose from 23 per cent of total e-commerce sales in 2019 to 26 per cent in 2021.<sup>75</sup> Cross border e-commerce purchases are predicted to increase to 32 per cent of total e-commerce sales by 2025.<sup>76</sup> The leading countries from which cross-border e-imports come are the US, India and China.

### Products

The fastest-growing sectors by industry from 2021-2025 are predicted to be homewares and home furnishings, food and beverage, and media products. The leading imported products are apparel and footwear, and beauty and personal care products.<sup>77</sup>

68 2021 E-commerce Payments Trends Report: Japan Country Insights: Data provided by WPL via IMF, World Bank, UN and Eurostat, 2021.

69 Ibid

70 export.gov, August 2018. 'Japan – e-commerce.'

71 thepaypers.com, 2021. 'Payment Methods Report 2020.' ppro.com, May 2020. PPRO Launches Leading Japanese Payment Methods, Propels APAC Expansion. tokyocheapo.com, June 2021. 'Contactless Payments and Apps in Japan.'

72 soranews24.com, January 2020. 'Ikea hot dog lucky bag is one of the most unusual fukubukuro available in Japan this year.'

73 [https://www.jftc.go.jp/en/pressreleases/yearly-2019/April/190409\\_1.html](https://www.jftc.go.jp/en/pressreleases/yearly-2019/April/190409_1.html).

74 <https://gulfbusiness.com/uae-e-commerce-market-valued-at-over-5bn-in-2021/>

75 Gulf business.co, op. cit.

76 ibid

77 ibid

## Payments

In the UAE, credit and debit cards are the preferred modes of payment. Amazon and Noon top the charts as the most popular sites among online shoppers across all key product categories.<sup>78</sup>

## Constraints on cross-border e-commerce

These include the prevalence of cash on delivery over other electronic payment methods, consumer wariness of the safety of e-commerce system, security concerns, inadequate logistics, a lack of a unified address system which creates challenges for last-mile delivery, and the inability to touch and test products before purchasing them.

## Regulations on e-commerce Imports

Dubai Customs released guidance (Customs Notice no. 13/2021) concerning the import of goods between companies via e-commerce channels. The notice applies to commercial companies—including free zone companies and customs warehouses—and has an effective date of 14 November 2021. According to the guidance:

- Companies seeking to enrol in e-commerce activity must register with Dubai Customs customer registration system without needing to add the activity to their trade license.
- Logistics companies may clear goods on behalf of companies registered under the Dubai Customs customer registration system.
- The import/export of goods for e-commerce purposes must be processed as a customs declaration through the Dubai Trade portal in accordance with regular procedures.
- Customs declarations for goods having a value not exceeding AED 30,000 will be exempt from relevant customs service charges.
- Companies are required to obtain necessary approvals from competent authorities for importing restricted goods or goods subject to special procedures.
- Electronic documents and invoices are acceptable for customs clearance and the records must be retained and provided to Dubai Customs upon request.

## Logistics

By several accounts, the logistics infrastructure in the UAE is developing and transforming significantly, rivaling if not surpassing, that of many developed markets. The government here has prioritized the development of strong air and ground transportation, particularly in Dubai.

## Conclusions - Looking Forward

Cross-border e-commerce is set to grow and accounts for more than 10% of total e-commerce retail sales in most high growth e-commerce countries. Products in which India is competitive in overall trade need not coincide with the export of products in e-commerce. For example, there is a lot of room for handicrafts, apparel and personal care products produced in small and medium enterprises. Furthermore, e-commerce does not require a large scale of production, rather customized products produced by small and medium enterprises have a real opportunity to expand their exports, provided payment and other advertisement mechanisms can be streamlined.

It has been described above that services such as travel, entertainment, software etc. occupy a dominant position in e-commerce including cross-border e-commerce. However, this study will be confined to goods and especially those produced by SMEs. This is because cross border e-commerce in services is already streamlined and dominated by large companies with well-established international practices.

While there are country level specificities, some clear trends are emerging in e-commerce for 2022 and beyond.<sup>79</sup>

1. Cross border e-commerce (B2C) is set to grow and it is critical to localize for every country, and personalize a shopping experience for every consumer.

<sup>78</sup> <https://www.zawya.com/en/press-release/research-and-studies/new-report-finds-that-74-of-uaes-online-shoppers-expect-to-spend-more-online-in-2022-vxggzmmwz>

<sup>79</sup> 5 Cross-Border E-commerce Trends for 2022 | Flow Commerce

2. Social media channels and shopping through them are expanding most rapidly. The new trends are towards an increasing reliance on Artificial Intelligence (AI). Self-support, smart chatbots, and real-time A/B testing are just some of the ways AI currently improves e-commerce.
3. Services like Instagram, Pinterest, and TikTok have introduced new ways for users to shop in-app. Reviews and recommendations from friends in other countries and international content creators help shoppers discover international brands. Companies looking to fully leverage social commerce as a sales channel should increase their international ad spend and invest the time to localize ad content for each country.
4. Interactive shopping will grow. New augmented reality features and interactive shopping events like live shopping are especially valuable for cross-border shoppers for whom returns and exchanges are more time-consuming and problematic.
5. It is important to diversify payment methods. Accepting multiple forms of local payment methods for cross-border shoppers, vastly increases the likelihood of completing a sale. More shoppers also seek out buy now, pay later options at checkouts in many markets. Alternative payment methods vary by country, making research essential when localizing sales channels. New payment methods and digital wallets may surge in 2022 as the fintech sector matures and shoppers want the convenience of placing orders and making payments through any and every device.
6. Logistics companies are proliferating but costs may rise. Regulations on cross border e-commerce are evolving. While thresholds for duty and tax exemption may change in future, small players may be able to meet thresholds. It is important for India Post to integrate with other postal systems as that may be the most cost-effective system for last mile delivery.

## Annex 2.1

### Documentation and paperwork required at destination markets:

The following Import Documentation is needed:

- Bill of lading
- Packing list
- Commercial invoice: The original + 5 copies (Requirements are as follows.)
  - ◇ Seller's full name, address, and contact information
  - ◇ Buyer's full name, address, and contact information
  - ◇ Order number
  - ◇ Order date
  - ◇ Invoice number
  - ◇ Invoice date
  - ◇ Package details (description of what it is, weight, quantity)
  - ◇ Cost of each item
  - ◇ Total cost of items
  - ◇ Discounts
  - ◇ Additional costs mentioned in the buyer/seller contract (insurance, etc.)
  - ◇ Terms - time and mode of delivery as well as terms, time, and mode of payment
  - ◇ Country of origin of the goods (manufacturer name is helpful, but not required.)
  - ◇ Transport route
  - ◇ Means of transport used to move the goods
  - ◇ Sales contract number and date

## Chapter 3

# Challenges for E-commerce Exporters: Supply Side Issues

## Introduction

E-commerce export offer businesses more control and independence over decision making as it connects sellers directly to the consumer. The small quantities of export that is possible through e-commerce also means that the cost of failure may be small. The seller has direct access to feedback from consumers on multiple parameters. But for advertising through websites, brand building is essential for securing consumer bases. China's small and medium-sized foreign trade enterprises used cross-border e-commerce for import and export transactions to maintain an average annual growth rate of 30%, even during the Pandemic years. This is much higher than the 10% growth rate of offline traditional foreign trade transactions. eBay found that 60 to 80% of SMEs using IEC can survive the first year of their business, whereas a traditional export enterprises only have a survival rate of 30 to 50%.<sup>80</sup> Like all trade, e-commerce exports entail high cost of logistics, high cost of reverse logistics to deal with returns from e-commerce exports, remittances reconciliation issues, and limits set on the value of an e-commerce export package permissible for courier or express delivery services.



Some problems of e-commerce exporters are also common with those of traditional exporters. In addition, small exporters face some specific challenges especially relating to e-commerce exports. This Chapter provides an overview of the general problems faced by e-commerce exporters and those specifically by small exporters. The pain points identified in this Chapter will be taken up for further study in the later chapters of this report. Section 1 of this Chapter identifies the major pain points for e-commerce exporters and Sections 2-6 delve deeper on these pain points drawing on the experience of other countries in dealing with similar problems. Wherever possible, there is a specific focus on small and micro enterprises. Section 7 outlines some conclusions on the insights gained.

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## 3.1. Factors Affecting E-commerce Exports and the Challenges

Exporting as part of globalization and international engagement is positively correlated with e-commerce transactions implying the higher the level of exports the higher the e-commerce transactions.<sup>81</sup> For India it was found that an increase in overall exports and increase in e-commerce exports went hand in hand as e-commerce helped minimize export costs.<sup>82</sup> A positive association across countries was found between globalization, international exposure, and e-commerce adoption.<sup>83</sup> Likewise, increased adoption of cross border e-commerce also leads to an increase in traditional trade in those products.<sup>84</sup> In addition, exporting firms can benefit from the knowledge acquired from their foreign counterparts and hence increase their e-commerce.<sup>85</sup> The experience of Thai MSME exporters also showed that they can realize and reap the

80 [file:///C:/Users/User/Downloads/jtaer-16-00142%20\(3\).pdf](file:///C:/Users/User/Downloads/jtaer-16-00142%20(3).pdf)

81 Kraemer, K.L.; Gibbs, J.; Dedrick, J. Impacts of Globalization on E-commerce Use and Firm Performance: A Cross-Country Investigation. *Inf. Soc.* 2005, 21, 323–340.

82 Gautam, V. Exports and E-commerce in India; ORF Occasional Paper (October); Observer Research Foundation: New Delhi, India, 2017.

83 Kraemer et al, op.cit.

84 Terzi, N. The impact of e-commerce on international trade and employment. *Procedia Soc. Behav. Sci.* 2011, 24, 745–753.

85 Atkin, D.; Khandelwal, A.K.; Osman, A. Exporting and Firm Performance: Evidence from a Randomized Experiment. *Q. J. Econ.* 2017, 132, 551–615.

benefits of e-commerce adoption by linking with conventional exporters.<sup>86</sup> Gautam found a positive relationship between e-commerce adoption and export sustainability for Indian manufacturing firms, as e-commerce can minimize export costs.<sup>87</sup>

### 3.1.1. Challenges for E-commerce Exporters from India

As discussed above, normally e-commerce and conventional exports go hand in hand. Hence several challenges that apply to conventional exporters also apply to e-commerce. Table 2.1 identifies those challenges which are specific to e-commerce exporters and those that are common for all exporters. The challenges that are specific to e-commerce exporters relate to digital maturity, payments, product returns, digital platforms and few other issues. This Chapter will focus on these issues rather than the whole gamut of issues that are common to conventional exporters too. See Annex 1 for a full description of Challenges. The main challenges include:

1. Digital Maturity
2. Documentation and Regulation
3. Payment Problems
4. Product Returns
5. Logistical problems
6. Tax Laws

Annex 1 of this Chapter provides a summary list of the major areas to be addressed for improving e-commerce exports. The annex also shows that while the concerns are similar for offline and online exports in most cases, there are certain issues which are relevant only for online exports. A number of the issues summarised in Annex 1 are discussed in more detail below.

## 3.2 Digital Maturity

While India topped the list of digitally mature countries for large businesses in 2022, small businesses in India are still not digitally transformed.<sup>88</sup> The top five digitally mature countries were Japan, Denmark, France, Belgium, and Singapore, and the lowest five were India, Brazil, Thailand, Mexico, and Columbia.<sup>89</sup> The sectors studied were financial services, manufacturing, public sector, construction, infrastructure, retail and wholesale, and more. In these segments, SMEs from China, Hong Kong, Taiwan, South Korea, Australia, New Zealand, Singapore, and Japan ranked higher than Indian SMEs in digital maturity. SMEs from Malaysia, Thailand, Philippines, Indonesia, and Vietnam ranked lower than Indian SMEs in digital maturity.<sup>90</sup> In January 2019, it was found that in India out of 2,700 MSMEs studied, **only five percent have fully embraced digital adoption.**<sup>91</sup> The research considered full-scale technology adoption as the use of **cloud services, ERP, CRM, account management software, digital banking**, and more. Of the MSMEs surveyed, 63 percent said they were planning to go digital, while only 50 percent perceived profitability and operational efficiency as benefits of going digital. However, over 80 of digitised MSMEs indicated overall positive digital experiences.

In order to follow the roadmap of the digital future, Indian companies need to address the entry barriers to digital transformation. Businesses in India face challenges such as data privacy, security concerns, lack of a skilled talent pool, and weak digital governance. If Indian businesses address these barriers, the remaining population of the country will also join the bandwagon of digital transformation.

86 Ueasangkomsate, P. Adoption E-commerce for Export Market of Small and Medium Enterprises in Thailand. *Procedia Soc. Behav. Sci.* 2015, 207, 111–120.

87 Gautam, 2017, op. cit.

88 <https://content.techgig.com/technology/india-tops-the-list-of-digitally-mature-countries-in-the-world-research/articleshow/67988472.cms>

89 Ibid

90 ourstory.com/smbstory/only-5-pc-of-msmes-have-adopted-digitisation-50-pc-g8mrvm00e/amp

91 ourstory.com/smbstory/only-5-pc-of-msmes-have-adopted-digitisation-50-pc-g8mrvm00e/amp

### *The experience of Thailand in increasing the digital maturity of SMEs*

Thailand increased the digital maturity of its SMEs by nearly 50% in 5 years.<sup>92</sup> A study which maps how this took place first looked at digital transformation and conducted several regression analyses to identify the most important factors. The study included technological hardware such as computers, smartphones, and websites as the most important technological barriers. Only smartphones were significantly and positively associated with the e-commerce intensity of Thai MSMEs. Computer ownership was not statistically significant for increasing e-commerce intensity. For the firms' internal e-commerce tools, websites were significantly and positively related to the e-commerce intensity of Thai MSMEs.<sup>93</sup>

For technological barriers, the SMEs agreed that "inadequate security measures to prevent hacking and malware", "inadequate security for online transactions and payments", and "the company's technological infrastructure (including its website) does not support e-commerce" were found to be statistically significant barriers.

### *Solutions provided by Thailand*

The Thai government promoted more accessible, affordable, and reliable e-commerce platforms for Thai MSMEs.<sup>94</sup> This needed strong upstream-downstream linkages of e-commerce transactions. For instance, good infrastructure and logistics such as high internet speeds and more advanced information communication technology (ICT) tools were promoted to increase e-commerce transactions. Older owners (CEOs) and firms may lack the IT knowledge and e-commerce literacy necessary for adopting e-commerce. Hence, IT and e-marketing knowledge were targeted to older owners to adopt and increase their e-commerce. Public e-commerce knowledge and one-stop service counselling centers were established to promote comprehensive knowledge of e-commerce for Thai MSMEs, especially for the less experienced and new e-commerce users who are MSMEs<sup>95</sup>. Promoting cross-border e-commerce was prioritized for Thai MSMEs keen to internationalize their operations. In particular, the government vigorously enforced all laws pertaining to illegal e-commerce transactions.

India could possibly use some of the same mechanisms. The Ministry of MSME has established 52 Export Facilitation Centers (EFCs) across the country 'to provide requisite mentoring and handholding support to MSMEs in exporting their products and services'. In addition, 102 Enterprise Development Centers (EDCs) have been setup to build a network of entrepreneurial leaders by providing professional mentoring and handholding support services.<sup>96</sup> These could also be extended to improve the digital maturity of MSMEs especially for e-commerce exporters.

## **3.3 Cross Border Payment Challenges**

Strategies for overcoming barriers differs across countries. Overcoming legal and regulatory barriers can be especially relevant in cases where expanded payment system access is considered for entities that were previously not active in financial services such as Fintechs. These introduce competition in the e-payment marketplace and thus reduce transaction costs especially of cross border e-payments. A number of countries have reduced the risk of using Fintechs through legislation and technology. While the introduction of these Payment Service Providers (PSPs) may ease payment conditions in general for e-exports for SMEs there are specific pain points which need to be addressed in the current banking scenario in India. A relatively simpler one relates to awareness raising on cross-border payments for e-transactions.

### **3.3.1 What is EDPMS and eBRC**

Surveys conducted by Amazon have shown that there is little awareness among the MSMEs on the procedural requirements for registering as an e-commerce exporter. For payment reconciliation, RBI guidelines specify that reconciliation must be done within 9 months and up to 25% price variation is allowed. This proves difficult for a seller to reconcile as the price variation limit may not be met due to marketing/discounts and in case of the seller being unable to sell his products within the time limit stipulated by the RBI. Box 2.1 elucidates what is EDPMS and eBRC in a circular issued by the Reserve Bank of India.

92 <https://www.adb.org/sites/default/files/institutional-document/826606/adou2022bp-thailand-digital-entrepreneurship-health.pdf>

93 <https://www2.deloitte.com/content/dam/Deloitte/th/Documents/technology/th-tech-the-thailand-digital-transformation-report.pdf>

94 <https://www.mdpi.com/2076-0760/11/4/180/htm>

95 [https://www.researchgate.net/publication/361957383\\_Barriers\\_and\\_Factors\\_Affecting\\_the\\_E-commerce\\_Sustainability\\_of\\_Thai\\_Micro-Small-and-Medium-Sized\\_Enterprises\\_MSMEs](https://www.researchgate.net/publication/361957383_Barriers_and_Factors_Affecting_the_E-commerce_Sustainability_of_Thai_Micro-Small-and-Medium-Sized_Enterprises_MSMEs)

96 <https://pib.gov.in/PressReleasePage.aspx?PRID=1811827>



**Box 3.1****Export Data Processing and Monitoring System (EDPMS)  
Issuance of Electronic Bank Realisation Certificate (eBRC)**

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to the provisions contained in the [Master Direction No. 16/2015-16 dated January 01, 2016](#) related to implementation and operationalisation of Export Data Processing and Monitoring System (EDPMS) of RBI as also provisions contained in [A P \(DIR Series\) Circular No. 15 dated July 28, 2014](#) in terms of which reporting of data related to realisation of export proceeds i.e. ENC and Schedule 3 to 6 files was discontinued with effect from the first fortnight of September 2014 after implementation of EDPMS. Attention of AD Category-I banks is also invited to the provisions contained in [A P \(DIR Series\) Circular No. 74 dated May 26, 2016](#) in terms of which they were advised to carry out appropriate changes in their IT system / operating procedure immediately, report subsequent export transactions in EDPMS and also capture the details of advance remittances (including old outstanding inward remittances) received for exports in EDPMS.

2. AD Category-I banks are directed to update the EDPMS with data of export proceeds on "as and when realised basis" and, with effect from October 16, 2017 generate Electronic Bank Realisation Certificate (eBRC) only from the data available in EDPMS, to ensure consistency of data in EDPMS and consolidated eBRC.

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. Aforesaid [Master Direction No. 16 dated January 01, 2016](#) is being updated to reflect the changes.

5. The directions contained in this circular have been issued under Section 10 (4) and Section 11 (1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully

J K Pandey  
Chief General Manager

According to the RBI, it is the responsibility of the relevant banks to raise awareness about the two systems. However, as reported by surveys of Amazon, awareness of these requirements is poor among small exporters. Top of Form

Foreign Inward Remittance Certificate (FIRC) or Bank Realization Certificate (BRC) is not required to be submitted by exporters now to claim benefits from the Director General of Foreign Trade. As per the new developments, the details of inward remittance are linked with the software system of DGFT, wherein the details are electronically transferred.<sup>97</sup> Hence the exporter need not wait for a hard copy from the bank to submit it to DGFT to claim benefits. This update of systems has been available since June 1, 2022. However, awareness about it or its efficacy is yet to be addressed for e-commerce exporters.

Normally, eBRC is issued by a bank to its customers on each shipment of export proceeds. One of the proof of exports other than the export promotion copy of the shipping bill (EP copy of shipping bill) is the Bank Realization Certificate (BRC) issued by the relevant bank which had received the foreign exchange for an exporter. The exporter thereupon approaches his bank and submits the proof of exports and FIRC details (Foreign Inward Remittance Certificate) to obtain a BRC against each shipment. This Bank Realization Certificate (BRC) is submitted with the various authorities as proof of shipment or proof of exports along with the customs document of EP copy of shipping Bill, receipt issued by the carrier of goods and central excise document of ARE – 1<sup>98</sup>, where ever applicable.

This level of multiple documentation is onerous for small producers and it is necessary to automate and link these processes so that the bank can take care of it. It is also necessary to keep banking fees to a minimum. Banks and other partners should also raise awareness of small e-exporters on these processes. The Ministry of Small and Micro enterprises (MSME) can also

97 <https://howtoexportimport.com/No-Bank-realization-Certificate-BRC-required-for-I-192.aspx>

98 Form ARE-1 is an application for removal of excisable goods for export by Air, Sea, Post or Land.

play a role in raising awareness on eBRC and EDPMS through its centres. Other private sector partners such as Amazon can also be involved in these awareness campaigns. This is the process followed in other countries such as the US and Switzerland, which has a large number of small e-exporters.

### 3.3.2 FIRA Documents

Foreign Inward Remittance Advice (FIRA) is a document that acts as a proof for all inward remittances and payments received from abroad. Previously, Indian sellers and freelancers had to send a manual request to partner banks and also pay a fee for the service. The bank would then issue FIRA as a physical statement which could take up to 10 days and required the seller to visit the bank to collect the same. PayPal, a global digital payments company, has introduced an automated process for receiving Foreign Inward Remittance Advice (FIRA) — a key document for Indian MSME exporters and freelancers that establishes proof of receipt of export proceeds in foreign currency from outside the country.<sup>99</sup> Other Payment Service Providers (PSPs)<sup>100</sup> in India are also now offering these services.

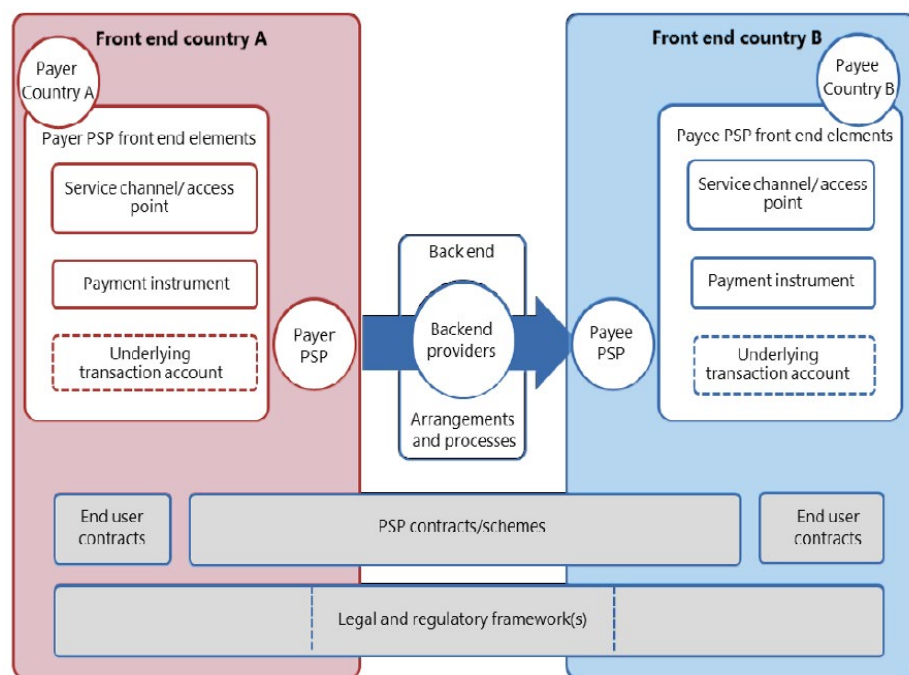
Merchants will now be able to download their monthly digital FIRA issued by the bank at zero cost, by simply logging into their PayPal account. This FIRA was otherwise costing ₹2,000 for every 20 international transactions. This initiative is aimed at empowering Indian MSME exporters to seamlessly grow their business internationally.

While the process of obtaining a FIRA needs to be simplified, competition among PSPs would reduce the cost. However, to mitigate the risk related to PSPs, it is important to regulate their operation. Some examples from other countries are provided below.

## 3.4 Cross Border Payment Systems Challenges Especially for Small E-commerce Exporters

To understand the payment challenges, it is first necessary to understand the different stages that a cross-border payment goes through. Figure 3.1 below provides a stylised picture of the various transactions and players involved in such transactions. Typically, the problems involved with reconciliation and costs could have technology-based solutions.

Fig 3.1 Stylised Overview of Cross Border Payments Market



Source: Bank of International Settlements

<sup>99</sup> <https://timesofindia.indiatimes.com/business/india-business/paypal-introduces-digital-foreign-inward-remittance-advice/articleshow/82570936.c>

<sup>100</sup> PSPs are companies which help the exporters to accept the payments received from customers.

Best practices from a few countries show how these steps have been made faster. Singapore's real-time electronic funds transfer retail payment system called FAST (fast and secure transfers), was expanded in early 2021 to include non-bank Payment Service Providers (PSPs.) The Payment Services (PS) Act of 2019 established an activity-based, risk-focused licensing framework that authorises the Monetary Authority of Singapore (MAS) to consistently regulate seven types of payment services (with three types of licences available, so that non-bank financial institutions can provide these services). For example, the PS Act subjects non-bank financial institutions to the same standards as banks regarding Anti Money Laundering (AML) and Combating of Financial Terrorism (CFT). Applying the same standards creates a level playing field for all PSPs who want to access FAST.<sup>101</sup>

In Switzerland, Swiss National Bank's (SNB) access policy for the Swiss Interbank Clearing (SIC) system was opened to banks domiciled abroad in 1998. In 2019, with the creation of a new licensing regime in the Swiss Banking Act, fintech companies regulated and licenced under this regime were added to the entities eligible for access to the SIC system. The new licence is a dedicated regime for fintech companies and imposes no minimum financial requirements (capital, liquidity), taking into account that investment of deposits received and interest payment liabilities are not foreseen.<sup>102</sup>

In U.K., in June 2017, the Bank of England (BoE) announced its policy framework to expand access to RTGS accounts for non-bank PSPs seeking to join the UK payment systems. The Payment Services Regulations 2017 (PSR 2017) also came into effect in January 2018, putting in place new obligations, backed by an enforcement regime. Amendments to legislation were made to ensure that non-bank PSPs could still meet their safeguarding requirements after becoming a direct participant. This included changes to client funds safeguarding rules in order to allow non-bank PSPs to safeguard client funds at the BoE and allow client funds to be used to prefund client payments.<sup>103</sup>

## Challenges for SMEs

Typically, SME e-commerce involves a Person-to-business (B2C) payments: the payer is an individual/customer and the payee a business. Partly due to increasing expectations, surveys and workshops of 100 payment jurisdictions<sup>104</sup>, including India, conducted by the Bank of International Settlements, revealed the following:

Transparency – users had problems in tracing cross-border payments, especially in predicting when funds would be available to the person or business they were paying.

Speed – whereas fast, same day domestic payments are becoming more widespread but are restricted to closed-loop systems where both payer and payee are participants.<sup>105</sup>

Costs – cost is a concern to users of cross-border retail payments in two ways: (i) fee transparency (i.e., the ability to know how much a payment will cost before making it) and (ii) the amount charged (i.e., the price charged for services).

In e-commerce exports, the marketplace platforms and the Payment Service Providers (PSPs) address these challenges to a significant extent.

## Solutions

Innovations such as mobile technologies, use of e-wallets and e-money, the emergence of blockchain/distributed ledger technologies and digital currencies; and innovations supporting "know your customer" (KYC) and anti-money laundering (AML) or combating the financing of terrorism CFT compliance are some solutions to cross-border payments. In particular, card schemes allow individuals to make payments for goods and services in a much simpler way than in previous years, as their use for e-commerce increases and card companies design new products for B2C payments.

Among the innovations most frequently used is digitised ledger technologies (DLT). The technology in this domain is evolving and has yet to prove that it is sufficiently robust to achieve wide scale operation. However, there are two other notable back-end models: (i) initiatives to link domestic payment infrastructures and (ii) closed-loop systems. Links

101 [https://compliance.waystone.com/services/apac-solutions/licensing/payment-services-act/?gclid=CjwKCAjwkaSaBhA4EiwALBqQaJ\\_jBncQ4iNR5vXhn9sybdAYXyed9uDpoL-WnMNSxXwiYolhnhUchABoCydIQAvD\\_BwE](https://compliance.waystone.com/services/apac-solutions/licensing/payment-services-act/?gclid=CjwKCAjwkaSaBhA4EiwALBqQaJ_jBncQ4iNR5vXhn9sybdAYXyed9uDpoL-WnMNSxXwiYolhnhUchABoCydIQAvD_BwE)

102 <https://www.mondaq.com/financial-services/587334/regulation-of-electronic-payment-service-providers-in-switzerland>

103 <https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2017/june-2017.pdf>

104 Bank for International Settlements, 2018, Cross-Border Retail Payments, [www.bis.org](http://www.bis.org)

105 See CPMI (2016b) or Bech et al (2017).

between domestic retail payment infrastructures have already been established in some jurisdictions, and several others are planned worldwide. For example, the Directo a México initiative, involving linkages between the United States and Mexico, has processed more than 4.9 million ACH payments, worth more than USD 2.6 billion, since its launch in 2003.<sup>106</sup>

Some efforts to integrate national payment systems have only partially delivered their expected benefits, and other projects remain non-operational despite the amount of time and money invested in them.

The results of the survey conducted by BIS indicate that the majority of cross-border retail payments are cleared and settled through correspondent banks, and that this arrangement perpetuates the issues related to cost, transparency and speed that users experience in making such payments. Despite the initiatives and efforts currently focused on improving correspondent banking and interlinking payment systems, the back-end arrangement via PSPs is reportedly growing faster than any other. Another system that is evolving is the closed-loop proprietary system. Such a system relies on both payer and payee opening an account in the same closed-loop system. If such networks ultimately increase efficiency and offer cheaper, faster and more transparent payments whilst maintaining risk management and compliance standards, then their growth would be positive.

One example of a closed loop system is the Arab Payments system. The Council of Arab Central Bank Governors<sup>107</sup> approved in 2014 a project to integrate the clearing and settlement of cross-border payments in the Arab world, with a view to establishing an Arab Regional Payment System (ARPS), and called on Arab central banks to coordinate with the Arab Monetary Fund (AMF). Among its high-level objectives, ARPS is expected to: (i) lower the costs of making payments and transfers among Arab countries as well as the range of liquidity, variability and volume of operating requirements; (ii) shorten transaction processing times (by substituting a single system for multiple correspondent banks); and (iii) lower transaction fees (from a current estimated average of USD 33 to around USD 10). The Single Euro Payments Area, or SEPA, is an area in which consumers, companies and all other users of payment services, can make and receive payments in euros under the same conditions and with the same rights and obligations, regardless of their location within Europe. SEPA covers 34 European countries: the 27 Member States of the European Union as well as Iceland, Norway, Liechtenstein, Switzerland, Monaco and San Marino. SEPA is aimed at removing the legal, commercial and technical barriers that currently separate national payments markets.<sup>108</sup>

India has established the possibility of INR trade with other countries,<sup>109</sup> and a number of nations have shown interest in this system. India could also develop closed loop payment schemes with its major trading e-commerce partners. This would avoid the reconciliation problems and also that of costs as digital solutions would mean that remittances are as per actuals on e-commerce transactions. New technology has reduced the cost as well as simplified the task of building a network that can link payers and payees that both have accounts in or otherwise use the same closed-loop system. As fixed costs for setting up a network have decreased but risk management and compliance costs have risen with each currency and country added, closed-loop systems generally offer services for a limited number of “payment corridors”.

While these are systemic solutions for mitigating cross-border e-commerce payment problems and require technological solutions which other countries are using, the government and the RBI can use some specific directives to address these immediate problems. These have been discussed in the next chapter.

### 3.4 E-commerce Cross-Border Product Returns

The major challenge in cross-border e-commerce, especially for SMEs is **returns management of unsold inventory and high cost of reverse logistics**. For example, the industry standard average profit for an online sale is 10%. In the case of a \$50 pair of shoes that ends up being returned, the e-retailer earns \$5 but may pay roughly \$15 in return costs, resulting in a net loss of \$10. In the USA alone, Statista estimates returns will cost retailers \$550 billion by 2020, up 75.2% over a four-year

106 See <https://www.swift.com/our-solutions/global-financial-messaging/paymentscash-management/swift-gpi>. Bank of Mexico and Federal Reserve System, EACHA, [www.eacha.org](http://www.eacha.org), IPFA, [www.ipf-a.org](http://www.ipf-a.org)

107 Arab Monetary Fund (2017); Arab Monetary Fund (2017) and Carvalho (2017)

108 Regulation (EU) No 260/12 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (OJ L 94, 30.3.2012, p. 22).

109 <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1896727>

period.<sup>110</sup> According to figures, at [least 30% of all products ordered online are returned](#), in contrast to 8.89% in brick-and-mortar stores.<sup>111</sup> As far as returns in the US are concerned, the US market is oversupplied with goods for sale. Often these goods do not sell through on the first try for a variety of reasons –

- Poorly written descriptions
- Bad feedback from a random consumer
- Overestimating consumer demand

Other challenges that complicate cross-border e-commerce include –

- **Content localization** – keywords must match the preferences of the importing country. Listing, content creation and communicating in the local language are the challenges faced by the e-retailers.
- **Liquidating returns** – Liquidating, reselling or getting back the items in the customer's cart. In the US, around 20-30% of cross-border returns get thrown away in landfills.
- **Selling across multiple channels** – In the USA, over 50% of e-commerce sales happen outside of Amazon, the major e-commerce platform there. E-retailers struggle to sell on multiple channels, as each channel has different requirements.

Companies like Returns USA provide returns management and reverse logistics services. They can liquidate or resell returned products. These products are checked for damages, re-bagged and re-tagged if needed, given a Returns USA certification and put away. It also has a retail liquidation website, fulfils conditions for a new sale, or can send back to something like an Amazon FBA once a group of returns are received. Returns USA's marketplace focuses on smaller groups of products for bargain hunting shoppers. Product returns can be done through mail or post. The returned goods can also be prepared for sale through Amazon, eBay or other online sales platforms. Other such companies can also manage product returns in the target market.

### Some issues related to Handling Cross-Border Returns

There are some best practices for handling product returns, which are described briefly below:

#### Review processes

Challenges such as language barriers, cultural differences and varying attitudes can all vary depending on a country. SMEs must pick, pack and check processes. In order to achieve 0% picking errors, SMEs must know about labelling, warehousing issues, barcode scanning and staff training. It might also be worthwhile implementing an inventory management software which allows bulk printing of shipping labels, invoices, picking lists and packing slips.

#### Making sure the returns policy is accessible and clear

Statistics show that 67% of customers check out the returns policy first, before deciding who to buy from. Important items of a return policy are:

- What can be returned and in what condition
- How long they have to return an item
- Who pays for return shipping
- How quickly returns are processed
- How money is refunded — i.e., credit card, store credit

International selling makes returns challenging. The preferred option is for customers to be able to return products locally. Cross-border return policies must also take jurisdictional and regional laws into account. For example, the European Union currently enforces a mandatory period of 14 days within which goods purchased online may be returned or exchanged without incurring charges. But there are local variations on this, notably in Germany, where customers enjoy the right to return goods up to 30 days after delivery, unconditionally.

<sup>110</sup> <https://www.vinculumgroup.com/returns-management-in-cross-border-e-commerce/>

<sup>111</sup> [aara.io/important-e-commerce-returns-statistics-of-2021/#:~:text=The%20return%20rate%20varies%20significantly,purchased%20in%20a%20physical%20store.](https://aara.io/important-e-commerce-returns-statistics-of-2021/#:~:text=The%20return%20rate%20varies%20significantly,purchased%20in%20a%20physical%20store.)

Issues like VAT and customs duties paid by cross-border buyers also need to be addressed, especially in cases where these additional charges can be claimed back by customers returning merchandise. Achieving supply chain visibility for multiple sales channels requires knowing where the goods are, how efficiently they are being moved around, and whether the time-frames involved in shipping them from distribution or consolidation centres are satisfactory for order fulfilment. Merging inventories from all outlets (physical and virtual) on a single software/analytics platform may be one way of doing this.

The gathering and analysis of data on returned items has the potential to greatly inform decisions on how to prevent or reduce the return of items in the first place. It is impossible to cover every eventuality for returns- for example some customers purchase several items online for the express purpose of selecting a few and rejecting the others. However, evaluating customer feedback and a study of the merchandise may reveal quality control issues, usability problems, or market trends which may be addressed via a redesign of a product, improved documentation, or the promotion of product lines having more traction in specific regions.

Logistics and quality control aside, putting in place a transparent and convenient returns process is crucial to maintaining customer satisfaction and loyalty for domestic and cross-border sales. Establishing a web-based returns process eliminates complications which cross-border customers may have when calling customer support lines in different time zones, or juggling the physical aspect of packaging labels for return shipment.

### 3.5 Logistics Problems for SMEs in E-commerce

Logistics costs have been increasing recently especially for cross border e-commerce. A [recent estimate of global shipping prices](#) revealed that the average cost of shipping a 40-foot freight container was close to \$10,000 as of March 2022 – almost seven times higher than what it would have cost in March 2020.<sup>112</sup> **Express air freight** is typically handled by one company (such as DHL, UPS, or FedEx) that manages the entire shipment lifecycle and ships door to door in under five days. Express air freight shipments are usually smaller than air freight ones (less than one cubic meter and 200 kilograms). **International air freight** shipments can be significantly larger and may move across multiple carriers during shipment. [\*Only one Antonov 225 was ever built and it was unfortunately destroyed during the Ukraine Russia conflict in 2022]

Pre-COVID-19, international air cargo rates typically ranged from approximately \$2.50-\$5.00 per kilogram, depending on the type of cargo and available space. Costs rose sharply in February 2020 when COVID-19 began a period of severe disruptions in ocean freight and consumer demand, with air cargo rates reaching a range of \$4.00-\$8.00 per kilogram. As of early 2023, rates have dropped to around \$3.00-\$7.00 per kilogram, which is still higher than pre-pandemic rates, likely due to increased fuel and labour costs.

There is a clear shortage of warehouse space. Reasons for this include the boom in e-commerce retail spurred on by the pandemic, paired with the propensity of many businesses to stockpile inventory in a bid to evade delays caused by supply chain shortages. While this lack of space is not as worrying an issue for larger companies, who have the capital to buy or even build excess storage facilities, the issue is compromising the scalability of SMEs. Labour shortage is also delaying logistics.

Recruiting the services of a third-party logistics (3PL) company can improve profit margins. Such companies can offer space, technology and stock management systems to keep track of inventory. Major platforms and couriers, both can help SMEs improve the scope and quality of the logistics service available to them, leading to an upsurge in sales opportunities. They can alleviate several pain points, such as lack of warehouse space, improved courier efficiency and faster returns processes. Recruiting the services of an order fulfilment partner to cover all angles will naturally lead to less capital expenditure, thanks to the application of a single minimised cost, with a flat monthly fee.

**However, it may be necessary to negotiate special fees with such companies for SMEs.** This negotiation can be done by the platform owners or they themselves can act as an order fulfilment company.

The last leg of the process concerns the transport of the purchased product(s) from the shipper's warehouse to the final destination, i.e., the address of the end user – which for B2C e-commerce transactions is usually the home address. For cross-border e-commerce, the most common forms of delivery are postal or parcel delivery, express mail, private package

delivery services and truckload shipping. Properly written and easily traceable street names, access to postal and express delivery services with tracking ability and modernization of national postal services, can be crucial to ensuring efficient, cheap and timely delivery of goods to end users.

### 3.6 Tax Laws

Compared to the domestic realm, international e-commerce logistics is more expensive, convoluted and time-consuming because it requires firms to determine the most cost-efficient delivery and warehousing solutions, incorporate shipping information into their website, and manage delays, damages and return policies. Customs and VAT administration rules can differ greatly from country to country, a variation that affects the ability of e-traders to understand and determine all the paperwork required, estimate the time for clearance and calculate all duties and taxes. It is a problem that affects the cost and timing of delivery, as well as customer relations. Indeed, a lack of adequate information on customs procedures and duties can lead e-traders to misinform customers, for example by not taking into account sales tax or import duties, a mistake that can lead to costly return shipments or even a loss of business.

Authorization to cross the border is granted only after customs clearance, which requires the shipper to execute all customs procedures, including payment of customs duties and other taxes and, in some circumstances, customs inspections. Customs are a particularly critical aspect of logistics because they can have a remarkable impact on the cost and timing of a transaction, going far beyond the simple collection of a tariff or duty. The simpler, more transparent and clearer customs procedures are, the less time it takes goods to clear customs.

#### VAT and GST Exemptions for e-commerce

Issues relating to GST in India:

- Sellers on e-commerce marketplaces do not get the advantage of GST threshold exemption (of Rs 40 lakh) for intra-state supplies that offline sellers enjoy because the online sellers have to “compulsorily register” even though their turnover is low.
- MSMEs operating through online platforms are burdened with cumbersome and time-consuming periodical compliance needs like registration and the monthly filing of returns, which further dissuades them from registering under the GST Network.
- The discrepancy between registration thresholds for online and offline sellers, coupled with a complex GST registration process, can prove a major deterrent for small businesses keen to venture into e-commerce platforms to expand their businesses. This also results in an indirect tax revenue loss for the government.

Other Challenges:

- **Physical Principal Place of Business (PPoB):** In e-commerce, it is **not quite practical for online sellers to have a physical PPoB.**
  - ◇ This leads to increased complexities for MSMEs in registering in e-commerce marketplaces.
- **Lack of Access to Appropriate Infrastructure and Technology:** Buying the latest smart devices, best internet services, retaining skilled employees to manage digital systems and **maintaining physical and digital infrastructure** is also an **expensive affair for small, nascent companies.**
- **Lack of Awareness:** There are still many small and medium scale enterprises which are **unaware of the impact of digital transformation** and **fail to build customer loyalty** and retention as other e-businesses.

Several countries have evolved different best practices in customs duty and VAT collection. Annex Table 3.2 lists some examples of duties and taxes. Generally, countries have specific thresholds below which duties are exempted. The US and the EU have the highest thresholds of 150 euros and 200 USD. Information on thresholds and taxations policies have been summarised in Annex 2 of this Chapter.

MSMEs in particular should be made aware of these procedures in their major markets for exports of their goods. As far as IGST on exports is concerned, MSMEs should be exempt from it.

### 3.7 Conclusion

E-commerce has clearly played a phenomenal role in the rise in exports of economies such as China. India must catch up fast with its domestic and export potential. In its quest to achieve a \$5 trillion economy, the Government of India should **boost digitalization, push inclusivity in ways that support MSMEs, ensure GST parity** and empower small businesses to venture into the online ecosystem and diversify their operations.

India should learn from the experience of other countries in simplifying the processes of cross-border payments and registration requirements for small exporters. India should use its existing infrastructure for awareness raising and addressing the other pain points identified above. In particular, a review is required about whether the 9-month payment reconciliation period is sufficient and whether the limit of 25% payment flexibility of the RBI is enough to cover the high product returns in this area. Besides new technologies, PSPs and regulatory frameworks need to adapt to rapidly changing payment scenarios on e-commerce as is shown by the experiences of Singapore and Switzerland. Closed loop systems with its major markets should be explored for India.

Product returns need to be streamlined and logistics costs should be reduced. Last mile logistics appears to be covered by postal services or platform owners in several cases. The mechanisms need to be understood and costs need to be reduced.

Lastly taxation and duties especially tariffs and VAT or GST should be transparently explained. Overall awareness on different regulations needs to be improved, especially for small e-commerce exporters.

#### Annex 3.1

**Table 2.1 Challenges Specific to E-commerce Exporters**

Theme	Issue	Offline exports	B2C e-commerce exports	Comments
Awareness	Low awareness regarding end-to-end exports process. Complicated documentation requirements for different products and destinations.	Y	Y	Applicable to new exporters
	Lack of awareness about destination market procedures and laws and import procedure.	Y	Y	Applicable to new exporters/ exporters who want to expand to other countries.
Digital Maturity/ E-commerce readiness	Low awareness regarding e-Commerce platform, require hand-holding to navigate on the platform.	N	Y	Applicable for sellers who are not tech-savvy.





Theme	Issue	Offline exports	B2C e-commerce exports	Comments
<b>Compliance Information and Documentation</b>	Mandatory documents: Although the process of the documents is now online (IEC code available on DGFT, AD on ICEGATE) - the awareness and adoption levels of these portals among sellers is low. They rely on agents/ 3rd party service providers to obtain these licenses by paying high fees (5-6 times the govt. fee).	Y	Y	Applicable to new exporters.
	Mandatory documents - AD code: The process to get the AD code letter from a bank is completely offline (except for ICICI, which gives it by email). While the online portal for AD code registration is available, the applications are not filed successfully due to low awareness and technical glitches on the e-Sanchit portal.	Y	Y	Applicable to new exporters.
	Product Specific/ Target Marketplace Documentation and License: Long lead time required to get licenses and High cost of the licenses.	Y	Y	Applicable to certain product categories such as consumables, etc. May also be due to less availability of labs which provide these licenses.
	The compliance requirements of different countries are dynamic in nature.	Y	Y	
	There is no single place where a seller can obtain information on the type of licenses/documents required to export to any country based on HS code.	Y	Y	Data about benefits available on DGFT, shipment on ICEGATE, data not in an easy-to-understand format.
<b>Shipping and Customs</b>	High shipping charges due to lack of logistic providers in certain regions.	Y	Y	More acute for CBEC due to low shipment size; in bulk transport, economies of scale come into play.
	Customs delays due to missing/ incorrect information & ad-hoc requests for additional documents during shipping.	Y	Y	
	MSMEs have found it difficult to understand the paperwork requirements. This results in additional man hours to support sellers one-on-one for each shipment pick-up.	Y	Y	

Theme	Issue	Offline exports	B2C e-commerce exports	Comments
Payment	Low awareness of the EDPMS system, of how to reconcile, sellers unaware that they need to obtain eBRC to be compliant.	Y	Y	
	Seller needs to provide FIRA document as he/she gets paid in INR for e-Commerce exports (unlike offline exports where exporters get paid in foreign currency).	N	Y	Not applicable for offline as they have an option to get paid in USD.
	Seller has no visibility on how many products will be sold and at what price when he/she is shipping in B2C mode. For reconciliation, RBI guidelines specify that reconciliation must be done within 15 months and up to 25% price variation is allowed. This proves difficult for a seller to reconcile as the price variation limit may not be met due to marketing/ discounts offered by the wholesaler-importer and in case of seller unable to sell products within the time limit stipulated by RBI.	N	Y	Not applicable for offline as they get a PO for every shipment.
	Even if the seller is able to estimate the price and number of products he can sell, the reconciliation process is complicated, especially for a seller with high frequency shipments (multiple shipping bill entries and consignment sold on piecemeal basis).	N	Y	Not applicable for offline as they get a PO for every shipment.
	High cost of closure of shipping bill (service charges of banks 1500-2000 INR per shipping bill) which makes exports unviable, especially for exporters with low value high frequency shipments.	N	Y	More acute for B2C CBEC due to low shipment size; in bulk transport, economies of scale come into play.
Tax Filing	India: Long lead time to get IGST refund.	Y	Y	
	India: Complicated process to close LUT.	Y	Y	
	VAT - EU/US: Complicated process to file for VAT every month. Long lead time for VAT license. The process is more complicated especially in the EU as compared to the US.	Y	Y	

Theme	Issue	Offline exports	B2C e-commerce exports	Comments
Returns	In case of returns, the goods are reused or destroyed. Reused goods affect seller ratings, destruction of goods leads to losses. The return to originating country is unviable due to high import duty (as return good treated as import in India) and in B2C, the size of the return shipment itself is small.	N	Y	More acute for B2C CBEC due to low shipment size; in bulk transport, economies of scale come into play. If the seller has a local address to accommodate returns, the losses are less.
Benefits	Most sellers not aware about benefits.	Y	Y	
	Sellers find that claiming benefits is a complicated process.	Y	Y	
	Size/ impact of benefit is too low for sellers in some product categories (low value shipments).	Y	Y	More acute for B2C CBEC, considering low volume and value shipment.
E-commerce Platform Issues	Return policies are usually customer friendly (nature B2C – may affect seller experience negatively).	N	Y	More acute for B2C CBEC assuming in offline exports the rate of return may be lower (Offline returns may be due to damage; not due to 'I do not like the product').
	Product simplification, customer service support, platform charges (referral, advertisement).	N	Y	

Source: Based on primary research and interview with e-commerce platforms

### Annex 3.2

Country	Customs Procedure	References
Brazil	<p><u>CUSTOMS DUTY:</u></p> <p>The importation of goods through the mail, including purchases through the Internet, is subject to a special regime (with the exception of alcoholic beverages and tobacco products).</p> <p><b>The regime applies to imports of up to USD 3,000 that are subject to 60% import duties on the invoice price, including transportation and insurance costs.</b> Goods transported by international courier are also subject to an 18% services and merchandise circulation tax.</p> <p><b>Imports up to a value of USD 50, including medicines, books, journals and newspapers, are exempt from duties.</b></p> <p><b>When the value of the imported goods does not exceed USD 500, a simplified tax note is used to pay the customs duties;</b> if the value exceeds USD 500, a simplified import declaration form must be filled in.</p>	<p>Trade Policy Review Brazil.</p> <p>WT/TPR/S/140-WTO</p> <p><a href="http://www.wto.org/english/tratop_e/tpr_e/s140-3_e.doc">www.wto.org/english/tratop_e/tpr_e/s140-3_e.doc</a></p>

Country	Customs Procedure	References
China	<p><u>CUSTOMS DUTY:</u></p> <p><b>Articles with import duties of less than CNY 50.00 (pprox.. USD 7) are exempt from duties.</b> This includes samples and advertising articles valued at CNY 400, that were previously duty-free.</p> <p>General tariff rates apply to imports originating in countries with which the People's Republic of China has not concluded any agreements or treaties, and to imports whose places of origin are not known. General tariff rates for importation range from 0% and 8% to 270%, with over 20 different rates. Preferential tariff rates vary from 0% and 1% to 121.6%, with over 50 different rates. <b>Lowered duty rates include: Most favoured nation duty rates, conventional duty rates, special preferential duty rates, tariff quota rates and temporary duty rates.</b></p> <p>Tariff schedule: <a href="http://www.cbp.gov/sites/default/files/documents/merchandise_pdf_table_0.pdf">www.cbp.gov/sites/default/files/documents/merchandise_pdf_table_0.pdf</a>.</p> <p><u>VAT:</u></p> <p>There are two types of VAT payers: general VAT payers and small- scale VAT payers. Small-scale VAT payers are entities engaged in manufacturing or that provide processing, repair and replacement services with sales not exceeding RMB 0.5 million per year, and firms engaged in wholesale or retail trade with sales not exceeding RMB 0.8 million per year. The VAT rate for a general VAT payer is 17% and is applied on importation of goods into China. <b>A lower rate of 13% applies primarily to essential goods</b> such as books, newspapers and tap water. <b>A 3% VAT rate is applicable to small- scale taxpayers and certain supplies</b>, such as tap water, specific construction materials and specific biological products.</p>	<p>DHL Express in China Overview and China Customs regulations. DHL <a href="http://www.iesingapore.gov.sg/~media/IE%20Singapore/Files/Events/iAdvisory%20Series/China/3_Exporting_into_China_DHL.pdf">www.iesingapore.gov.sg/~media/IE%20Singapore/Files/Events/iAdvisory%20Series/China/3_Exporting_into_China_DHL.pdf</a></p> <p>A guide to China Import Customs. DHL <a href="http://www.dhl.ie/content/dam/downloads/gb/express/customs_regulations_china/import_guidelines_to_china.pdf">www.dhl.ie/content/dam/downloads/gb/express/customs_regulations_china/import_guidelines_to_china.pdf</a></p> <p>Taxation and Investment in China 2015 Reach, Relevance and Reliability- Deloitte <a href="http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinaguide-2015.pdf">www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinaguide-2015.pdf</a></p> <p>Ministry of Economy and Industry of Israel: Foreign Trade Administration. <a href="http://itrade.gov.il/china-en/2013/11/12/import-export-taxes-duties-china/">http://itrade.gov.il/china-en/2013/11/12/import-export-taxes-duties-china/</a></p>

Country	Customs Procedure	References
EU	<p><u>CUSTOMS DUTY:</u></p> <p>A customs declaration must be submitted to customs officers who determine, impose and collect customs duties that are due. Customs duty is calculated as a percentage of the customs value of the goods, depending on the type of goods.</p> <p><b>Goods with a value equal to or less than EUR 150 are exempt from customs duty.</b> The exemption does not apply to perfumes and toilet waters, tobacco or tobacco products, or alcoholic products.</p> <p>Tariff schedules: <a href="http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en">http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en</a></p> <p><u>VAT:</u></p> <p>The import VAT is calculated as a percentage of the taxable amount, which is made up of the customs value plus the duty paid</p> <p>and the transportation and insurance costs up to the first place of destination within the EU.</p> <p><b>Goods having a total value below a threshold are granted an exemption from VAT, with the exception of certain products such as tobacco products and alcoholic products. The threshold varies between EUR 10 and EUR 22,</b> depending on the EU member country. Some countries, however, exclude mail orders from the exemption.</p> <p>A commercial shipment valued between EUR 22 and EUR 150 is duty-free, but VAT is collected on it.</p>	<p>European Commission <a href="http://ec.europa.eu/taxation_customs/common/buying_online/buying_goods_within_n_eu_en.htm">http://ec.europa.eu/taxation_customs/common/buying_online/buying_goods_within_n_eu_en.htm</a></p> <p>EUR-Lex : Access to European Union Law <a href="http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0132">http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0132</a></p> <p>Europa.eu : Your Europe <a href="http://europa.eu/youreurope/business/vat-customs/excise-duty/index_en.htm">http://europa.eu/youreurope/business/vat-customs/excise-duty/index_en.htm</a></p>

Country	Customs Procedure	References
United States	<p><u>CUSTOMS DUTY</u></p> <p><b>If shipped by international postal services, packages whose declared value is under USD 200 will generally be cleared without any additional paperwork prepared by CBP.</b></p> <p>A good valued between USD 200 and USD 800 is classified as “informal entry”, requiring only the submission of a simplified reporting form.</p> <p>The Low Value Shipment Regulatory Modernization Act of 2015 sought to increase the de minimis exemption level on imported items to USD 800. The bill has not been passed. If the item’s value is less than USD 2,000 and more than USD 200, a CBP official will usually prepare the paperwork for importing it, assess the proper duty and release it for delivery. If the item’s value is more than USD 2,000, it may be held at the mail facility until a formal entry is arranged.</p> <p>Tariff schedules  <a href="http://export.gov/fta/ftatarifftool/TariffSearch.aspx">http://export.gov/fta/ftatarifftool/TariffSearch.aspx</a></p> <p><u>VAT:</u></p> <p><b>There is currently no federal VAT in the United States on goods or services.</b>  A sales and use tax is common in most states of the United States, and some imported goods may be subject to state taxes, but CBP does not collect taxes on behalf of the state. It collects federal taxes and fees on behalf of other federal agencies and under the Consolidated Omnibus Budget Reconciliation Act (COBRA).</p> <p><u>USER FEES</u></p> <p>In addition to duty and possible excise tax, goods imported into the United States are subject to user fees. The amount of user fee collected by CBP depends on the type of entry and mode of transportation used for the imports. For instance, formal and informal entries are subject to a merchandise processing fee (MPF).</p> <p><b>Certain goods that enter the United States under a free trade agreement or trade preference programme may also be exempt from paying the MPF</b></p> <p>MPF exemptions  <a href="http://www.cbp.gov/sites/default/files/documents/merchandise_pf_table_0.pdf">www.cbp.gov/sites/default/files/documents/merchandise_pf_table_0.pdf</a></p>	<p>KPMG  <a href="http://www.kpmg.com/us/en/issue_sandinsights/articlespublications/taxnewsflash/pages/2015-1/kpmg-report-q-and-a-on-proposal-to-increase-de-minimis-threshold-for-low-value-imports.aspx">www.kpmg.com/us/en/issue_sandinsights/articlespublications/taxnewsflash/pages/2015-1/kpmg-report-q-and-a-on-proposal-to-increase-de-minimis-threshold-for-low-value-imports.aspx</a></p> <p>U.S CBP  <a href="https://help.cbp.gov/app/answers/detail/a_id/810/~/_/other-taxes-or-fees-required-to-import-goods-into-the-u.s.-other-than-duty">https://help.cbp.gov/app/answers/detail/a_id/810/~/_/other-taxes-or-fees-required-to-import-goods-into-the-u.s.-other-than-duty</a></p>

Country	Customs Procedure	References
Japan	<p><u>CUSTOMS DUTY:</u></p> <p>Japan maintains a de minimis level of JPY 10,000. <b>Goods with a total customs value of JPY 10,000 or less are exempt from customs duty and consumption tax.</b></p> <p><b>When the total customs value of commercially imported goods is 200,000 yen or less per importation, the simplified tariff schedule is applicable</b> (e.g., wine: 70 yen/l, coffee: 15%, rubber: free). These duty rates do not include consumption tax or other internal taxes. Consumption tax is imposed at the rate of 8% on, in general, all goods imported into or manufactured in Japan.</p> <p><b>Temporary rates are laid down for certain kinds of goods under the Temporary Tariff Measures Law and are applicable for a certain period of time, in place of general rates. They are lower or higher than general rates depending on the circumstances or products</b></p> <p><b>Economic partnership agreement rates are applicable to goods originating in Singapore, Malaysia and Mexico.</b></p> <p><b>Most Favoured Nation rates are applicable to certain countries with which Japan has concluded bilateral agreements to grant most favoured nation treatment, even though they are not Members of the WTO.</b></p> <p>Tariff schedule:  <a href="http://www.kanzei.or.jp/english/book/ebook.htm">www.kanzei.or.jp/english/book/ebook.htm</a></p> <p><u>CONSUMPTION TAX (VAT equivalent):</u></p> <p>Consumption tax is imposed at the rate of 8% on, in general, all goods imported into or manufactured in Japan</p> <p><b>Goods are exempt from consumption tax when the sum of the value of the goods, shipping and insurance cost does not exceed JPY 10,000, or when the amount of consumption tax payable does not exceed JPY 100.</b></p> <p>The duty and consumption tax exemption does not apply to imports of the following products: leather goods, leather footwear, and knitted apparel</p>	<p>Japan Customs  <a href="http://www.customs.go.jp/english/c-answer_e/imitsukan/1006_e.htm">www.customs.go.jp/english/c-answer_e/imitsukan/1006_e.htm</a>  <a href="http://www.customs.go.jp/english/summary/tariff.htm">www.customs.go.jp/english/summary/tariff.htm</a></p>

Country	Customs Procedure	References
Canada	<p><u>CUSTOMS DUTY</u></p> <p>Duty rates in Canada range from 0% to 35%, with an average rate of 8.56%. <b>Some goods are not subject to duty (e.g. certain electronic products, antiques etc.). Goods are exempt from duty if their free on board (FOB) value – i.e. the value of goods excluding shipping and insurance – is less than CAN\$ 20.</b></p> <p><b>Goods originating from most favoured nation (MFN) beneficiary countries use the MFN rate of duty. Preferential tariffs are reduced rates of duty for goods based on trade agreements or rates of duty based on special tariff provisions</b></p> <p>Tariff schedules:  <a href="http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2014/html/tblmod-eng.html">www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2014/html/tblmod-eng.html</a>.</p> <p><u>TAXES</u></p> <p><b>If the FOB value of the item is worth less than CAN\$ 20, goods and services tax (GST), harmonized sales tax (HST) and provincial sales tax (PST) are not charged.</b></p> <p>Some Items do not qualify for the CAN\$ 20 exemption, e.g. tobacco, books and alcoholic beverages.</p> <p><u>POST CHARGES</u></p> <p>To process goods imported as mail that are subject to duty and/or tax, Canada Post charges the recipient CAN\$ 9.95. <b>If the item is duty-free and tax-exempt, no amount is charged.</b></p>	<p>Justice Laws website- Government of Canada  <a href="http://laws.justice.gc.ca/eng/regulations/SI-85-181/page-1.html">http://laws.justice.gc.ca/eng/regulations/SI-85-181/page-1.html</a></p> <p>Canada Border Services Agency  <a href="http://www.cbsa-asfc.gc.ca/import/postal-postale/duty-droits-eng.html">www.cbsa-asfc.gc.ca/import/postal-postale/duty-droits-eng.html</a></p>

Source: WTO





## Chapter 4

# Main Concerns of E-commerce Exporters from India Especially for SMEs

## Introduction

This Chapter addresses the main points of concern for e-commerce exports from India. The Chapter first provides a short section on the definition of e-commerce. It continues with a discussion of the problems which e-commerce exporters face in India, beginning with the most significant concerns. This is followed by a more detailed list of concerns which need to be addressed if India's e-commerce exports have to take off in a major way to achieve their large potential. The policy solutions in several cases will impact both e-commerce exports as well as regular exports.

The Indian Government has taken many steps to address the prevailing concerns. They are creditable initiatives, but these are relatively early days for focused policy-making to support e-commerce exports. The efforts need to be consolidated and sustained at a much higher level. This is also evident from a recent Report on "Promotion and Regulation of E-commerce in India" by the Rajya Sabha's Department Related Parliamentary Standing Committee on Commerce,<sup>113</sup> which has made many policy recommendations that will make India's e-commerce exports more competitive and easier to conduct.

A very important feature of e-commerce exports is the role of e-commerce platforms such as Amazon, eBay, Flipkart etc. These platform owners as well as the service providers such as Logistics or Payment Service Providers that work with them or independently have also played a major role in facilitating and boosting the operations of e-commerce exports from India. In an increasing number of cases, the platform owners have worked as active partners of the Government agencies and Departments, as well as associations of industry and exporters/importers to provide solutions and tools for addressing the operational problems faced by e-commerce exporters. These efforts need to be sustained through larger policy efforts as well. In particular, policy initiatives need to facilitate and reduce operational costs of exporters working with platforms as well as through Foreign Post Offices or couriers.

In this background, Section 4.1 first looks at definitions of e-commerce and points to a certain lack of clarity. Hence the best estimate of e-commerce is obtained through the platform owners, exporters, service providers, and banks. Section 4.2 discusses the main areas of concerns which primarily impact e-commerce exports. Section 4.3 analyses several efforts by the Government to address the concerns and also gives examples of a number of initiatives of the platform owners such as Amazon, eBay and others to improve e-commerce export opportunities and its momentum so that a large-scale increase in these exports from India is possible. It also recommends solutions to some of these problems.



## 4.1 Definitions of E-commerce in India: Overlap Between E-commerce Exports and Regular Exports

The definition of e-commerce in India is laid out by the RBI. As measurement and targets are set using a specific definition, it is useful to examine the definition, which is as below.<sup>114</sup>

- (a). 'E-commerce' means buying and selling of goods and services including digital products over digital and electronic network.
- (b). 'E-commerce entity' means a company incorporated under the Companies Act, 1956 or the Companies Act, 2013 or a foreign company covered under section 2 (42) of the Companies Act, 2013 or an office, branch or agency in India as provided in Section 2 (v) (iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.
- (c). 'Inventory based model of e-commerce' means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
- (d). 'Market place model of e-commerce' means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller."

Another set of definitions for e-commerce are contained in the CGST Act 2017.<sup>115</sup>

### Section 2(44): Meaning of Electronic Commerce

**Electronic Commerce** means the supply of goods or services or both, including digital products over digital or electronic network.

### Section 2(45): Meaning of Electronic Commerce Operator

**Electronic Commerce Operator** means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce.

These definitions are ambiguous as the transport or supply of electronically ordered products is generally through conventional means. Also, large orders can also be placed on-line and then followed up through regular logistics and trade-related processes. This suggests that with increasing digitalisation, what was earlier classified as exports may now be classified as e-commerce. What would be specific to e-commerce is the e-commerce trade through platform owners, and hence a more accurate estimation of e-commerce can be obtained through the platform owners, banks and other related service providers.

## 4.2. Issues Specific to E-commerce Exports

To summarise, these issues relate to payments, returns of products sold, awareness/ digital maturity/ e-commerce readiness of exporters (especially MSMEs), and charges paid by exporters for specific services.

The various substantive points discussed in this Chapter are based on the feedback from Platform owners, exporters, and other service providers. In addition, in June 2022, a very important Report on "Promotion and Regulation of E-commerce in India" was presented by Rajya Sabha's Department Related Parliamentary Standing Committee on Commerce.<sup>116</sup> This detailed Report has addressed a number of issues, and made a number of recommendations as well, which have been either acted upon or are works in progress of various Departments of the Government directed towards addressing these issues.

The discussion below is divided in three parts. The first part focuses on the main concerns arising for e-commerce exporters under these categories, i.e., concerns which are relatively lower for non-e-commerce exports. This discussion includes sub-sections with a summary of the main efforts being made by the Government to address specific issues. The other issues which are also of some concern are logistics especially with reference to foreign post offices, digital maturity and some problems with the definition of e-commerce.

114 Reserve Bank of India Foreign Exchange Department Central Office Mumbai – 400 001, Notification No. FEMA.387/2017-RB March 09, 2017, Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Fourth Amendment) Regulations, 2017

115 <https://caclub.in/section-241-to-250-of-the-cgst-act-2017-definitions/>

116 [https://rajyasabha.nic.in/rsnew/Committee\\_site/Committee\\_File/ReportFile/13/159/172\\_2022\\_6\\_14.pdf](https://rajyasabha.nic.in/rsnew/Committee_site/Committee_File/ReportFile/13/159/172_2022_6_14.pdf)

## 4.2.1. Main Concerns Which are Specific to E-Commerce Exports

For addressing the main issues specific to e-commerce exports, the relevant primary agencies are the Reserve Bank of India (RBI), Customs, Banks and the Central and State agencies which are involved in outreach, training and skill development. The issues relevant for these main concerns are as follows.

### 4.2.1.a. Payments

- (i) An e-commerce exporter ("seller") needs to provide FIRA document as he/she gets paid in INR for e-commerce exports (unlike offline exports where exporters get paid in foreign currency). The process of obtaining a FIRA document is time-consuming and involves a cost as well.
- (ii) The efficient process of e-commerce exporting is to send several items together for storage in a warehouse abroad instead of single units of exports as and when an order from the consumer is received for B2C sales. The seller has no possibility to accurately assess how many products will be sold within a specified period and at what price, when shipping in B2C mode. The RBI guidelines specify that reconciliation must be done within 9 months and up to 25% price variation is allowed for the uncertainty in revenues earned. This proves difficult for the seller to reconcile as the price variation limit may be exceeded due to marketing costs and discounts offered by the seller or importer-wholesaler.

### EDPMS closure procedure and problems relating to reconciliation

Sending a consignment for exports under e-commerce is usually not equal to a sale, which is traditionally the case in offline exports. At the time of sending the shipment, the seller has to guess the average price that the goods will be sold over a long period of time (many weeks) during which the seller may choose to run promotion events, or if a lack of sale happens, then run liquidation events instead of bringing the inventory back to India.<sup>117</sup>

As per the RBI guidelines, the amount received in the seller's account must match the value declared in the shipping bill in order to close the entry on EDPMS portal. After EDPMS closure, a bank issues an electronic Bank Realisation Certificate (eBRC) indicating closure of the entry, which is further utilized by a seller to claim benefits. The process must be completed within 9 months of the shipping bill generation. In case of price changes, unsold inventory or discounts, up to 25% reduction in amount is allowed, which needs to be approved by the bank.

A problem in reconciliation arises because exporters need to declare the remittance value of goods being exported, at the time of effecting a shipment. However, declaring remittance value becomes difficult considering sellers do not know at what price the products will be sold ultimately due to deals, discounts etc.

Another problem in reconciliation arises because e-commerce exporters ("sellers") get multiple remittances against one shipping bill. A seller needs to match one shipping bill with multiple invoices. Some sellers have over 1,000 invoices, which makes reconciliation a cumbersome process. Authorised Dealer (AD) banks personnel go to EDPMS systems to manually view aged shipments (more than 9 months) that have not gone through EDPMS closure and warnings are created and sent to the sellers.

### RBI's allowance of 25% variation for remittances is at times not enough

There are several instances when the discounts or the loss due to returns is in aggregate more than 25%. Additionally, deductions of platform services fees, especially in case of low value exports, can result in a value of remittance dipping more than 25%.

### A longer than nine-month limit for reconciliation of remittances may be needed

Exporters need to work with the AD bank for reconciliation of all export payments. This needs to be done within 9 months post shipment, but the sellers may not be able to sell within 9 months of shipping their inventory. This issue is much more acute for new e-commerce sellers. Without this closure, sellers cannot get eBRC to claim incentives and benefits for exports.

117 Indian Customs Electronic Gateway (ICEGATE) and EDPMS (RBI's Export Data Processing and Monitoring System) communicate through electronic daily updates where the RBI system gets details of shipping bills. The CSB-V shipping bill entries in the Express Courier Customs Clearance System (ECCS) system is not yet fully synced with the EDPMS portal, though feedback from banks show that CSB-V is shown for some cases currently. The plan is to ensure that it shows up for 100% cases soon, an existing gap at present which needs to be monitored and fully addressed.

Further, they face the risk of being caution-listed which may lead to their import-export code (IEC) license being revoked.

#### 4.2.1.b. Charges for Specific Services (e.g., Banks) High on Most e-commerce Exporters

The charges for specific services add to the cost of exporting, which becomes a significant burden for MSMEs given their low revenue base. For example, when a seller receives a payment in his AD Bank account in Foreign Currency, the seller goes to the bank physically with the shipping bill and payment invoice and submits it to the bank to close its EDMPS entry. The seller pays the bank about INR 1,500 to 2,000 per shipping bill to close this entry.<sup>118</sup> Further, the eBRC certificate issued by the Bank to the seller is required for closure of the shipping bill, which the seller utilizes to claim export benefits.

The high cost of closure of a shipping bill (service charges of banks INR 1500-2000 per shipping bill) makes exports unviable, especially for fledgling exporters with low value low frequency shipments. An example of the charges by one specific bank is:

- INR 500 for realization of each payment received against the shipping bill.
- INR 1000 for closure of each shipping bill.

There are other costs such as for issuance of product specific licenses, which increase the cost burden for small exporters, for instance:

- Toys: Children's Product Safety Certificate (CPSC)/ Children's Product Certificate (CPC) license (cost USD 100 to 1000, based on material, component, colour, etc.); American Society for Testing of Materials (ASTM) certificate (cost USD 200-1500) for exporting to the US, and the EU toy directive (EN71), if the exports are to the EU.
- Health and Personal care products: The US Food and Drug Administration (FDA) charges USD 175 for the first certificate and USD 100 for subsequent certificates. High in fat, sugar and salt (HFSS) certificate is required for the UK, which is also expensive.

#### 4.2.1.c. Returns

Return of merchandise policies are oriented towards making the e-commerce process customer-friendly. This requires product simplification, customer service support, and platform charges (referral, advertisement), which increase the cost of operations for e-commerce exporters. In the case of returned products, the goods are either reused or destroyed. Reused goods affect seller ratings, while destruction of goods leads to a loss. The return to origin country is unviable especially for low value products, due to high import duty and the cost of logistics. For some e-commerce exports, such as apparel the extent of returns is high and this affects the cost of operations and revenue earned.

Data from sample analysis based on volume not value (i.e., quantity not unit price) shows that the return rate (based on volume not value) varies across different seller groups and product categories. Rough estimates show that the return rate is spread over a range of 0% to 40%, with the average being around 20-22%.<sup>119</sup> The return rate is higher for categories such as apparel and home products. Particularly high value returns take place for gems and jewellery.

The returns cost is high due to high logistics cost and import duties levied on returns.<sup>120</sup> As per UNCTAD, expensive returns in e-commerce are one of key challenges faced by sellers and is an entry barrier for e-commerce.<sup>121</sup> Due to high returns cost, in several cases the sellers opt for liquidating the returned goods at the destination marketplace leading to write-offs.

As per Government guidelines, re-import duty for returned goods is zero. However, the process of proving that the goods are only being re-imported due to non-acceptance by the customer and are not fresh imports is not well-defined and a transparent Standard Operating Procedure (SOP) does not exist for establishing a case of re-imports.

#### 4.2.1.d. Digital Maturity/ E-commerce readiness

Digital maturity and e-commerce readiness relate to two different aspects. One relates to the process of clearance and

118 <https://www.hdfcbank.com/sme/trade/export-services/fees-and-charges>

119 <https://www.invespcro.com/blog/ecommerce-product-return-rate-statistics/>

120 Cost to return goods back to origin country (IN) is key challenge faced by all seller groups. The cost can be high due to logistics cost and/or duty paid. The seller has option to a) Ship returned goods to local address, b) Destroy / liquidate the goods, or c) Return back to origin country (IN). The seller usually opts for destroying the shipment leading to write-off as other options are expensive.

121 [https://www.unido.org/sites/default/files/2017-10/WP\\_15\\_2017\\_.pdf](https://www.unido.org/sites/default/files/2017-10/WP_15_2017_.pdf)

approval systems of the government, and the other relates to the preparedness of the current and potential exporters.

At present, sellers shipping cross border find it difficult to identify and understand the complicated documentation required for different products and destinations. The information is spread across multiple websites such as government portals like India trade portal, compliance information portal and private websites such as Drip capital, Cogoport, etc. and is not in easy-to-understand format. In this situation, given the low awareness regarding e-commerce platforms, e-commerce exporters (predominantly MSMEs) require hand-holding to navigate the platform. Further, offline exporters, especially MSMEs, often hesitate to use digital methods because of lack of exposure to digital options, and scarcity of information on the tools that are available to facilitate operations.

To realize the high potential for e-commerce exports, specific steps are needed to improve digital maturity and e-commerce readiness in India. Niryat Bandhu is one such scheme which the Government of India has undertaken. (See below).

#### **4.2.1.e. Foreign Post Offices of the Indian Department of Posts**

Several small e-commerce exporters send their products by courier through Foreign Post Offices (FPOs). There are very few FPOs, and though the Department of Posts has planned to increase the number of FPOs, the process needs to be expedited. Meanwhile, e-commerce exporters operate in multiple places where FPOs are not established yet. They need to send their products to the FPOs in the nearest cities where they are present. Logistics connecting these places and processes need improvement to meet the expectations of e-commerce exporters of getting their orders dispatched within a short period of time and at reasonable cost.

#### **4.2.1.f. Need for consistent definition of e-commerce exports by different Government agencies**

A hallmark of effective and efficient policy-making is consistency across Government Departments for the definition of any specific entity or practice. E-commerce definition as showed above is ambiguous and not consistent between different government entities. This needs to be resolved.

### **4.3. Summary of the Main Steps Being Taken by the Government/ Platform Owners/ Specialized Service Providers, and Other Possible Solutions**

The Government, platform owners and other service providers have taken a number of initiatives to ease the concerns mentioned above. The Report on e-commerce by the Rajya Sabha Committee on Commerce has also mentioned a number of steps that the Government has taken, or should be taking in the period ahead. The Committee's recommendations include:<sup>122</sup> "a dedicated chapter on promotion of e-commerce export should be included in the upcoming Foreign Trade Policy. ... creation of an E-commerce Export Zones (EEZs), based on the Special Economic Zone (SEZ) model, as a one-stop shop for storage, certification, testing, customs clearance, expedited processing of export incentives, Input Tax Credit (ITC) refunds, and duty drawbacks warrant serious consideration in view of the increasing importance of e-commerce in global trade. This will create a comprehensive ecosystem with world class infrastructural and regulatory facilities, and could help India leapfrog as a significant player in e-commerce exports. The Committee, therefore, recommends the Department for Promotion of Industry and Internal Trade, in consultation with Department of Commerce and other stakeholders to undertake a study on the feasibility and practicality of setting up EEZs in the top export clusters in India."

In the new Foreign Trade Policy released on 31<sup>st</sup> March 2023, all FTP benefits are to be extended to e-commerce exports. The IT systems in Department of Commerce, Post, CBIC are to be improved in the next six months. Guidelines on e-commerce export facilitation will be formulated in consultation with other ministries. Special outreach and training activities for small e-commerce exporters will be held through industry and knowledge partners. Facilitation for E-Commerce exports Dak Ghar Niryat Kendras shall be operationalised throughout the country to work in a hub-and-spoke model with Foreign Post Offices (FPOs) to facilitate cross-border e-Commerce and to enable artisans, weavers, craftsmen, MSMEs in the hinterland and land-locked regions to reach international markets. Dak Niryat facilitation designated hubs with warehousing facility will be developed to help e-commerce aggregators for easy stocking, customs clearance and returns processing. Processing facility to be allowed for last mile activities such as labelling, testing, repackaging etc.<sup>123</sup> Based on feedback from exporters, these policy measures could be refined further to address some of the concerns of e-commerce small exporters.

<sup>122</sup> The text quoted below is from paragraphs 17.2 and 17.3 of the Report.

<sup>123</sup> DGFT, 2023, Key Highlights of Foreign Trade policy, slide number 4.

A number of facilitating steps have been taken also by the Department of Customs, including some which address the concerns noted in the above-mentioned Report of the Rajya Sabha Committee. Annex 4.1 provides a list of these measures to show the initiatives taken till 9<sup>th</sup> April 2023.

#### 4.3.a. Payments

RBI has issued a circular clarifying how banks can close the transactions on Export Data Processing and Monitoring System (EDPMS) for payments received through Amazon/ Paypal etc.<sup>124</sup> A number of initiatives have been taken by Payment Service Providers (PSPs) or Online Export Import Facilitators (OEIF) to facilitate the payment transfers.

Nonetheless, the problems relating to inadequacy of 25% variation in inward remittances and of the 9-month period for reconciliation are still relevant and would require a solution based on easier conditions that recognise the ground reality for these parameters. One option could be to treat these returns over a period of at least a one-year period, with a possibility of some additional time as well, similar to other financial periods such as the period for income tax calculations. In a number of cases, a period of much more than one year would be relevant, based on a survey of the actual experience of e-commerce exporters. Therefore, a change in policy should be considered to increase the duration for storage of goods in warehouses overseas to one year, and more if the data suggests that the period should be longer.

Likewise, to the extent that the sample data for average returns shows a rate of return ranging up to 40%, there seems to be a basis for considering a variation above 25%. This number could be decided based on data from e-commerce platforms or PSPs to consider the increase in the margin beyond 25%. Some feedback suggests that the relevant variation may be with a range as large as 50% decrease from the specified value. Similar to some other countries, India could also waive off the need for EDPMS/eBRC for remittances below a specified value threshold. This could be combined with the efforts of the CBIC to have a focused initiative for select identified product sectors where the rates of return are relatively high.

Further, to the extent that there are multiple revenue returns on any single billing document, an identifier such as the FIRA number linked to the bill could be used in the process to link different returns to a specific bill. This method is already being used in certain transactions and could be made the standard practice to facilitate reconciliation.

#### 4.3.b. Charges for specific services, e.g., banks, impose a high burden on most e-commerce exporters:

The fact that charges for various services “eat into the slim profits of MSMEs” is valid for several charges, particularly the regular charges such as those imposed by Banks for the closure of shipping bills. A careful consideration of these charges is required to ensure that they are reasonable and do not result in a burden too large for MSMEs. This also applies to platform user charges for MSMEs.

#### 4.3.c. Returns

As per Govt. guidelines, re-import duty for returned goods is zero. The Rajya Sabha Committee Report has specifically addressed the issue of returns, and states that:<sup>125</sup>

“The Committee takes note of the fact that returns and thereby re-import of products is a regular feature of e-commerce model of business. The Committee opines that restriction in re-import of gems and jewellery will adversely affect the seller’s return policy and subsequently the confidence of buyer to purchase the product through e-commerce platforms. **The Committee, therefore, recommends the CBIC<sup>126</sup> to look into the matter and suitably amend the Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010 to allow re-import of gems and jewellery in courier mode. The Committee further recommends the CBIC to formulate and notify a Standard Operating Procedure (SOP) regarding the same to provide clarity to all stakeholders.**”

“The Committee, while interacting with stakeholders, was informed that sellers have to pay duty and undertake compliance twice for e-commerce based goods which are sold and then returned, i.e., first on export at the time of sale and then on re-import at the time of return. The reason being, under the current legal regime, no distinction on whether the goods being imported have discharged duties at an earlier stage and they are being re-imported after export. This discourages sellers

124 <https://rbidocs.rbi.org.in/rdocs/content/pdfs/FED14122017.pdf>

125 The text quoted below is from paragraphs 17.16 to 17.18 on page 34 of the Report.

126 CBIC stands for Central Board for Indirect Taxes and Customs.

from selling to global markets.”

**“The Committee recommends the CBIC to re-examine the customs rules and procedures and to remove the duplicity in compliance process in e-commerce exports. The Committee further recommends the CBIC to streamline the customs system and procedure, and formulate a mechanism to differentiate between imported products and products which are being returned after exports.”** (emphasis added)

The CBIC has implemented some of these recommendations or is in the process of implementing them. A summary of various specific steps taken by CBIC is provided in Annex 4.1 of this Chapter.<sup>127</sup> With reference to returns, CBIC has already notified a special process for gems and jewellery,<sup>128</sup> and this could serve as a model for the other sectors as well. The CBIC has suggested that it could work with e-commerce exporters to identify the specific sectors for which higher percentage of returns take place, and suitable mechanisms could be devised for the sectors concerned. This is important because there is a need to allow duty free re-import of returned/ unsold goods, instead of considering them as fresh imports.

#### 4.3.d. Digital Maturity/ e-commerce readiness:

As mentioned above, digital maturity and e-commerce readiness relate to two different aspects. One relates to the process of the government, and the other to the digital preparedness of the current and potential exporters. Government has launched the Niryat Bandhu scheme to educate exporters, but cross-border e-commerce is not in scope of the training programmes. Nonetheless, this is an area where the maximum effort has been focused through various Government departments at the Centre and States,<sup>129</sup> platform owners, and industry associations to develop/facilitate availability of information, skills, logistics, warehousing and other facilities and links with markets that would help spread and boost e-commerce exports.

The DGFT and others have focused in a big way on digitising various processes. A major outreach and training effort is made by the major platform owners such as Amazon, to identify potential exports and products for exports, train them and/or link them with specialists that help meet all the process requirements (including those required for specific foreign markets). They have publications which provide information and guidance, and others linked to exports, in order to develop outreach and training programmes. Examples of such partnership initiatives by Amazon Global Selling (AGS) include for instance: (a) structured discussions on e-commerce exports (E-commerce Exports Immersion series); (b) drive e-commerce exports from the State with which the platform owner has an MOU, including by linking MSME exporters to a huge number of Amazon customers across 200+ countries and territories; and (c) train and onboard MSMEs on AGS, including through for example, boot camp for about a fortnight for exporters which provides dedicated handholding for the exporters, and workshops that focus on sharing knowledge and imparting training to MSMEs about B2C e-commerce exports for selling worldwide.

In addition, a number of tools have been developed to help e-commerce exporters. They include Amazon's Global Selling Propel Accelerator, Export Compliance Dashboard, and Cross-Border Partnered Carrier Program (CBPB). The Accelerator includes a rigorous eight-week program to help early-stage start-ups in the consumer products space to become international brands. In this program, a cohort of select start-ups receive 1-on-1 mentorship from leaders, a platform to interact with investors and receive handholding support for global launch and expansion. The Dashboard assists sellers with compliance, offers assistance in getting key licenses and documents required to sell globally. It provides a list of documents and also connects sellers to third-party service providers to obtain these documents. It assists sellers for export registration, product documentation, shipping documentation, payment reconciliation and tax documentation requirements for exporting from India to the US. Additional countries of export are being added to the Dashboard. Amazon's CBPB connects with a cross-border partner carrier shipping solution, to help ship the exporter's inventory through a third-party partner carrier to international warehouses. This tool includes provision of competitive pricing, shipment tracking, customs support and delivery.

Further there are other facilities such as ICICI trade emerge portal, Stelcore's bCompliance tool, and other facilities provided

127 For other examples of CBI steps to improve ease of doing business, see for instance <https://courier.cbic.gov.in/advisory/2022/Adv-05-2022.pdf> and <https://www.eiciindia.org/frontSite/Advisory%20on%20IDPMS%20-EDPMS%20dt%2020.07.21.pdf>

128 For gems and jewellery related process see item V in the document [https://www.cbic.gov.in/resources//htdocs-cbec/deptt\\_offcr/circular9-01072022.pdf](https://www.cbic.gov.in/resources//htdocs-cbec/deptt_offcr/circular9-01072022.pdf). This document also provided facilitating solutions for a number of other e-commerce export related issues.

129 See for example, paragraphs 15.11 to 15.13, 18.3, 18.6, 18.8, 19.2,

by logistic providers. ICICI's **'Trade Emerge'**<sup>130</sup> makes cross border trade hassle-free, expeditious and convenient, as it offers an array of services in one place, which eliminates the need for companies to coordinate with multiple touchpoints. The list of banking services includes current / saving account offerings, comprehensive trade services (Letter of Credit / Bank Guarantee / Trade Credit etc.), digital solutions like Corporate Internet Banking and Trade Online, state-of-the-art foreign exchange solutions, payment & collection solutions and credit cards. The list of value-added services includes incorporation of trade business, access to global trade database of nearly 15 million buyers and sellers across 181 countries, verification reports of potential customers through reputed credit bureaus, logistics solutions for shipment booking and last mile tracking, and insurance services like marine insurance, all available online through a single window, and many more. These services are offered through partners having expertise in their respective fields.<sup>131</sup>

Stelcore bCompliance tool<sup>132</sup> introduced an app which will feature various business and commercial Acts, rules, circulars, notifications, cases, forms, tax calendar, answers to queries and general news/ updates. This assists the seller by providing awareness about compliance documents required, custom duty rates, identify product HSN code and get insight into product pricing.

The Report of the Rajya Sabha Committee has addressed the issue of digital maturity and e-commerce readiness in quite some detail, and has made several recommendations.<sup>133</sup> These Include:

- Charting out a clear time-based road map in collaboration with industry players for identifying output and financial outlays for skill development projects, focusing on transportation, warehousing and cold chain sectors.
- Accelerating road and railway infrastructure projects in rural and remote areas to provide seamless logistics movement”;
- The establishment of dedicated customs clearance lanes, equipped with barcode system of clearance, for e-commerce exports at all international courier terminals.
- CBIC to ensure end-to-end digitisation of the clearance process to bring about efficiency, repeatability and traceability of transactions, including through land border.
- Creation of awareness and handholding the MSMEs to navigate through the complex customs Export Promotion Councils, Trade Promotion Organisation, and apex trade bodies to create awareness on the benefits e-commerce exports brings to businesses.
- Dedicated e-commerce exports promotion cells within these entities at District level should be created to disseminate relevant knowledge on destination market, collate demand data and conduct training on e-commerce exports procedure, brand building and digital marketing”;
- Partnering with e-commerce platforms in imparting the required digital and marketing skills in e-commerce business should be included in the upcoming e-commerce policy.
- To enable more MSMEs to be onboard on the Government Electronic Marketplace (GeM) platform.

Some of these issues have been flagged for action in the FTP 2023.

The Rajya Sabha Committee also points out in its Report that:<sup>134</sup>

1. Lack of comprehensive policy governing critical areas such as data and automation technology, and non-standardisation of procedures in logistics process, has hindered the development of the e-commerce export sector.
2. The quality of storage infrastructure including specialised warehouses, and increasing warehousing capacity by identifying areas of standardisation and optimisation need to be identified.
3. A single window clearance facility with stipulated timeline of approval and also allow relaxations in regulatory approvals would accelerate the pace of warehousing construction.

130 <https://trade-emerge.icicibank.com>

131 Ibid.

132 [https://www.business-standard.com/article/pti-stories/stelcore-launches-legal-and-compliance-mobile-app-115121800204\\_1.html](https://www.business-standard.com/article/pti-stories/stelcore-launches-legal-and-compliance-mobile-app-115121800204_1.html) and <https://stelcoregroup.com/selfcomply>

133 The quoted text is from paragraphs 15.1, 15.3, 17.4, 17.5, 17.8, 18.8 and 19.2 of the Rajya Sabha Report.

134 The text quoted here is from paragraphs 15.1, 15.6, 15.7, 15.9, 17.9, 17.10 and 17.11 of the Report.



4. Capital subsidies for construction of Grade-A warehouses in small towns,
5. Facilitate better credit facilities and low-interest rates in warehousing sector and provide tax rebate in procurement of cement and steel for warehouse construction.

#### 4.3.e. Foreign Post Offices (FPO) of the Indian Department of Posts

The CBIC informed that the present architecture for exports through post requires an exporter to come to one of the notified Foreign Post Offices (FPOs) to file the postal bill of export (PBE) and handover the consignment for shipment. The file Postal Bill of Export (PBE) online should be accessible from his workplace, and then visit any nearby post office to drop the export parcel. The PBE would then be forwarded through the electronic system to one of the 28 FPOs for customs clearance. The parcel would also be transported to the same FPO for customs examination and export. The innovative hub and spoke model, if implemented efficiently, has the potential to enable the MSMEs to access global markets and boost e-commerce exports from remote areas. This issue has already been taken up in the current FTP and needs to be refined further.

#### 4.3.f. Need for consistent definition of e-commerce exports by different Government agencies

The issue of policy consistency should be ensured by different Departments when making policy. If there is a gap. An example of such a discrepancy is that the RBI allows e-commerce shipments from India against credit cards up to a limit of USD 10,000 whereas Customs procedures stipulate that the shipments by courier/ through Foreign Post Offices can only be up to Rs. 5 lakhs.

### Annex 4.1

#### Measures taken by CBIC for promotion of E-Commerce Sector

(As on 09.04.2023)

There are several aspects of E-commerce that fall within the domain of Customs. These include simplified documentation requirements and faster clearances preferably using electronic clearance systems and risk management techniques. CBIC has, over the last few years, brought in multiple improvements by way of amending the law and regulations, and simplifying and automating the procedures to facilitate and promote E-Commerce Sector.

##### (a) Courier mode:

2. CBIC has made an impressive progress in digitizing E-commerce clearance through courier mode. It issued [the Courier Imports and Exports \(Electronic Declaration and Processing\) Regulations, 2010](#) thus enabling the electronic processing of import and export declarations for goods transported through courier mode.

2.1 The [Electronic Cargo Clearance System \(ECCS\)](#) is an application on which courier shipments cleared electronically. For ensuring faster clearance, a risk management system is used to ensure that scrutiny of declarations and examination of packages are limited to risky consignments.

2.2 The ECCS, which was earlier hosted on a platform owned by the Express Industry Council of India, was migrated to CBIC data centre in July 2020. At the time of migration, ECCS was operational only at three courier locations i.e. Bangalore, Mumbai and Delhi. Since then, the ECCS has been rolled out at 6 additional locations, namely Chennai, Cochin, Ahmedabad, Jaipur, Kolkata and Hyderabad. All the [International Courier Terminals \(ICTs\)](#) having courier work load, have now been brought under electronic clearance mode.

##### 24x7 operations at ICTs:

2.3 ECCS is operational 24x7 round the clock at the aforesaid 9 ICTs. ECCS helpdesk is also operational 24x7, where issues can be raised through email, toll free no. or webform. In addition, onsite resources of technical team (L1 resources) have been stationed at ICT for assistance and handholding to ECCS users.

##### Integration of ECCS with IDPMS / EDPMS of RBI:

2.4 As advised by RBI, the Express Cargo Clearance System (ECCS) has been integrated with IDPMS/EDPMS of RBI w.e.f. 27.01.2022. The data in respect of commercial courier import / export, with validated AD code is being shared with ICEGATE, for further transmission to IDPMS / EDPMS modules of RBI through an auto upload utility.

2.5 After roll out of integration, some grievances have been received that, some Courier Bills of Entry (CBEs) are not reflecting in IDPMS of RBI. It has been noticed that, in cases, where CBEs are not reflecting in IDPMS of RBI, either invalid AD code has been entered or data has been entered in invalid data formats. In order to avoid rejection of CBEs from IDPMS of RBI, the authorized couriers have been advised *vide* advisory dated 01.02.2023 (<https://courier.cbic.gov.in/advisory/2023/Adv-03-2023.pdf>) to enter valid AD code and data in valid formats at the time of filing of CBE.

#### Special measures to facilitate Jewellery exports through E-commerce:

2.6 In the budget speech of 2022, Hon'ble Finance Minister has announced that in order to facilitate export of jewellery through e-commerce, a simplified regulatory framework shall be implemented by June this year. Accordingly, a simplified regulatory framework for e-commerce exports of jewellery through courier mode has been issued *vide* Circular 09/2022-Customs on 30.06.2022. The SOP details the handling, movement and procedural aspects for such exports, based on electronic declarations, through International Courier Terminals. The framework keeps in view the need for uniformity of action by Customs that brings certainty for the trade. It also addresses a unique requirement of the e-commerce ecosystem for re-import of rejects in certain cases to the prescribed extent.

#### Further facilitation using pre-arrival customs data:

2.7 In order to further expedite clearances through courier, CBIC has initiated a dialogue with E-commerce operators for sharing of shipment data with CBIC on pre-arrival basis. The prior receipt of data, such as description of goods, classification, value etc., would enable CBIC to further facilitate customs clearance of such consignments using risk management techniques. This initiative is aligned with WCO recommendations.

#### **(b) Postal mode:**

3. Prior to 2017, Foreign Post Offices (FPOs) were notified under the Customs Act as Land Customs Stations. Section 7 of the Customs Act was amended in the year 2017, so that FPOs can be notified separately. Due to concerted efforts of CBIC and Department of Posts, the network of FPOs has rapidly expanded from 19 in 2017 to 28 in 2021.

3.1 In order to promote E-commerce exports further, particularly of small and medium enterprises, CBIC has issued the Exports by Post Regulations, 2018 and Circular 14/2018-Customs both dated 04.06.2018. All IEC holders have been permitted to export goods through Foreign Post Offices or FPOs. Any IEC holder exporting goods through FPOs, is eligible for zero rating by way of IGST refund or discharge of Letter of Undertaking (LUT). CBIC has also introduced multiple consignment Shipping Bill for postal export so that multiple documents are not required to be filed for multiple consignments sent by one exporter in a day, which is quite common on E-commerce exports.

3.2 CBIC is working in collaboration with the Department of Posts for automating import-export customs clearances through FPOs. In the interim, an offline facility of capturing export data has been made available so that exporters can avail export related benefits. CBIC has also allowed customs brokers to operate at all FPOs for the ease of operations of exporters.

#### Electronic filing and clearances in Postal exports and imports:

3.3 The present architecture for exports through post requires an exporter to come to one of the notified FPOs to file the postal bill of export (PBE) and hand-over his consignment for shipment. Many of the important commercial hubs do not have proximate FPO, constraining the exporter to travel long distances to reach the nearest FPO for exporting an E-commerce shipment. Exports would be more difficult for MSMEs who are in remote places.

3.4 Therefore, CBIC and Department of Posts are working very closely and have devised an innovative "hub and spoke" system to facilitate postal exports. In the new system, an exporter is not required to visit an FPO. He is rather enabled to file Postal Bill of Export online from his workplace, and then visit a nearby booking post office to drop the export parcel. The Postal Bill of Export would be forwarded on the electronic system to one of the 28 FPOs for customs clearance. The parcel would be also transported to the same FPO for customs examination and export.

3.5 To operationalize the system, CBIC has issued the Postal Export (Electronic Declaration and Processing) Regulations, 2022 and Circular 25/2022-Customs both dated 09.12.2022. In addition, *vide* Circular 06/2023-Customs dated 01.03.2023, 122 post offices, spread across the States of Andhra Pradesh, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, J & K, Jharkhand, Karnataka, Kerala, M.P., Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttarakhand,

U.P. and West Bengal, have been authorized as Booking Post Offices to accept and book postal packages for export. More Booking Post Offices will be authorized in due course in a manner to cover each district of India.

3.5 CBIC is also developing an import module for electronic processing of postal imports in consultation with Department of Posts.



## Chapter 5

# Constraints on Small E-commerce Players

## Introduction

Indian MSMEs need to take advantage of marketing platforms to enter foreign markets that bear high e-commerce potential. B2C e-commerce Cross Border Trade (CBT) enablers such as Amazon and eBay expedite the process of B2C trade by eliminating certain impediments that MSMEs face via the traditional mode of commerce. These e-commerce giants have over 25 million registered customers. MSMEs consider marketing to be a tremendous amount of investment

as a part of their business overheads. With reliability and the cost of adopting e-commerce posing significant challenges for traditional MSMEs, solutions empowering MSMEs can come from intermediaries that can develop approaches to aggregate cross-border shipments and deliveries, specialize in regional shipments, provide translation skills, international tracking and solutions on overcoming international shipment challenges such as country-specific government regulations, identify means to overcome currency barriers and familiarize with local consumer behaviour.



## 5.1. Constraints and Solutions for SMEs Not Applicable to Large E-commerce Players

### 5.1.1 Limitations Under Courier Regulations

For SME e-commerce exports, foreign exchange is received by Online Payment Gateway Service Providers (OPGSPs), who transfer the corresponding amount in Indian Rupees to the exporter's bank account. However, such transactions could create payment resolution-related difficulties for small exporters, who receive forex payment via bank transfer and wish to export via courier. The small exporters who rely on courier services for exports face other difficulties as well. A number of policy steps could facilitate courier exports:

- 1. Uniform guidelines:** Courier exports in India are still done on manual mode. For clearance of small consignments, Customs sometimes requires a No Objection Certificate (NOC) from organizations like the Forest Department, which delays the whole process of sending e-commerce shipments. In the absence of any clear guidelines for such cases, a small exporter is left with the only option to wait and track their consignment on websites of courier companies. Such agencies should have fixed time lines for clearances as e-commerce exporters are required to meet strict timelines to meet the expectations of their customers.
- 2. Immediate need to move on electronic data interchange (EDI):** Movement of exports to the EDI platform allowing use of courier services on electronic mode is important. This will allow exporters to file their documents in a user-friendly and smooth manner, mostly on self-declaration basis. Customs examination should also be risk-based and minimal for faster clearances.
- 3. Treating e-commerce exports at par with low value exports:** Small exporters, as well e-commerce exporters, mostly send small-value consignments via courier. The difference between the two is payment realization. In case of e-commerce, it is received through OPGSPs, and in other cases via bank transfer. There is an immediate need to facilitate

such transactions so that they can be recognized as exports, especially if their value is below a threshold.

4. **Return of goods back to India sold through e-commerce:** The existing ceiling of 25% may not cover the actual product return rates.

### 5.1.2. Absence of Mechanism for Returned Consignment

The problems associated with return of goods by e-commerce exports have already been enumerated above. In such a scenario, MSMEs have two choices: either to allocate their administrative resources to reclaim those amounts or to absorb it themselves. Both mean a rise in business cost, which would put Indian exporters at a disadvantage compared to their international competitors. Some additional critical questions in this context are:

1. **Is the limit of INR 25,000 per consignment sufficient for the Indian exporters?** Maintaining a lower than the required adjustment threshold negatively impacts small e-commerce exports businesses in India. On the other hand, particularly for small export consignments, the government earns less on account of these restrictions than it spends on enforcing them.
2. **No Refund on VAT or Service Tax:** Exports sent through India Post using CN22 or through any other commercial courier mode are often denoted as samples or gifts. As per VAT authorities, such customs-stamped documents are not recognised or acknowledged by them, and they do not support any commercial shipment despite proof of a forex receipt.
4. **Absence of Provision for any Commercial Shipment in CN-22 Form:** Customs CN22 form available at India Post Offices does not contain any option for commercial shipment. Options available are only gifts, samples and documents.
5. **Need to Simplify Documentation for Commercial Small Value Single Item:** Shipment in CSB 2 or Current Courier Shipping Bill CSB-2 Form has multiple fields requiring detailed information to be furnished even for small value single items, making it a hugely cumbersome process. Rationalization of the CSB-2 Form needs to be considered.
6. **Mandatory Licenses - AD Code Letter from Bank:** The process of obtaining AD code letter from a bank is offline for all banks. For e-commerce exports, banks do not know/ recognize the fund flow as an export transaction, which causes delay in the AD code letter generation. The process could take anywhere between 1 day to 1 week. In some cases, banks are not aware of AD code requirement for exports, which further delays the process.

**Mandatory Licenses - AD Code registration at Port:** AD code registration at a single port takes as long as 3-4 weeks even though the process is now online. Additionally, a seller has to do a new registration every time the export has to take place from a new port. Thus, after the AD Code letter is obtained, an exporter has to register the AD code at all ports from where the export has to take place.<sup>135</sup>

7. **Factors Preventing Foreign Market Access:** Indian MSMEs suffer from lack of competitiveness in the international market due to poor exposure to foreign competition and lack of information on quality requirements, buyers and the market in an importing country. More often than not, these barriers require long hours of paperwork and impede the growth opportunities for MSME cross-border e-commerce. For Indian MSMEs, exporting goods online to a target country, which has an FTA with a competing country, increases the competition.

### 5.1.3. Challenges for Electronic Payment

The emergence of e-payment has paved the way for many MSMEs to rely on digital opportunities available via e-commerce to expand their customer reach, compete in the global market, accumulate higher revenues, introduce new products and enhance their productivity. However, since traditional Indian MSMEs are trapped in their cash ecosystem, there are numerous factors that act as impediments to their e-payment acceptance. Some factors identified in this context are as follows:

1. **Poor Knowledge and Awareness:** A majority of MSMEs' workforce, especially in the rural region, are illiterate and ignorant when it comes to the use of internet. Surprisingly, a majority of urban population also suffers from a lack of functional knowledge to undertake online business transactions.

- 2. Entrepreneur Characteristics:** Age, type of skills and level of education of an entrepreneur play a pivotal role in migration to e-commerce options. Lack of skilled workforce also inhibits the transition from traditional payment methods to online payment methods.
- 3. Lack of Financial Inclusion:** Despite a number of schemes being designed to cater to the financial needs of MSMEs, a majority of MSMEs still lack the knowledge to utilise their bank accounts for e-exports, indicating a lack of awareness on their part.
- 4. Reluctance to try out online Mode of Trade:** The traditional method of trade involves a real-time transfer of funds between the consumer and an MSME, making it a preferred way of trading, whereas the online payment system is considered complicated and risky.
- 5. Privacy and Security of Transactions:** MSMEs that possess the knowledge of e-payment methods still do not prefer trading via this method owing to the need of keeping the information private and perceived lack of security of payment methods.
- 6. Costly and Time-Consuming:** Since online payment methods demand a bigger infrastructure and setup than business-as-usual, and tend to have larger administrative costs due to higher skill requirements, many traditional MSMEs consider this mode of payment as costly and time-consuming.
- 7. E-payment Transaction Failure:** On account of low-speed and narrow bandwidth and recurring snags in payment gateway technology, the e-commerce industry in India has witnessed higher transaction failure rates as compared to other countries, resulting in low acceptance of e-payment options.
- 8. Lack of Usability:** E-payment system entails an enormous amount of transfer of information from end-users and makes transactions complex as they demand personal information and details in a web format.

#### 5.1.4. Logistics Related Challenges

##### *Logistics related Challenges*

As discussed earlier, logistics is one of the leading challenges in promoting cross-border e-commerce in India. Express delivery is usually the preferred mode opted by most international purchasers, which India Post is unable to provide at many locations. The ability to develop an end-to-end logistics system will define the future direction of cross-border e-commerce growth in India. Barriers to having a competitive e-commerce logistics are as below:

- 1. Long Distance:** Delays in sending products to customers over a long distance, due to poor logistic systems, results in lowering the competitiveness of Indian MSMEs in the international market.
- 2. High Shipping Cost:** The high cost of shipping makes it a challenge for the MSMEs to remain competitive in the international market.
- 3. Problems in Tracking the Goods:** Some business owners feel that the lack of tracking options creates trust and confidence issues for many cross-border e-commerce consumers.
- 4. Small Volume of E-commerce Exports:** E-commerce volumes are not yet large enough to depend exclusively on global logistic firms like DHL, UPS, FedEx and run their operations profitably.
- 5. Weak and Inefficient Local Supply Chain Infrastructure:** Poor infrastructure, high cost of road transportation and lack of courier facilities make it a challenge for e-commerce products from smaller towns and rural areas of the country to compete in international markets.

#### 5.1.5: Documentation Related Challenges

Sellers face several challenges during the shipment of their goods because of missing documents and other documentation challenges. As per a logistic provider in India, about 4% of shipments get delayed due to missing documents. The adverse impact of this on overall profits is relatively large, especially for an MSME exporter.

Sellers have to generate documents for every shipment. While the number of mandatory documents required by Indian

customs is 3 to 4 (commercial invoice cum packing list, shipper letter of instruction, export value declaration, product specific documents), the actual number of documents required to be submitted with each shipment is higher (total 10 to 12 documents) which includes KYC documents, AD code letter, IEC certificate, LUT letter etc. Uploading these documents on the logistic provider's website for each shipment causes challenges such as:

- (a). New exporters do not know what precisely to fill in the documents which affects the time to launch a business, incorrect information being filled leads to customs delays and results in additional manhours (~20% effort) to support sellers for each shipment pick-up.
- (b). Many of the documents needed to be provided for every shipment, are the same. The process varies with each logistic partner - some logistic partners require hard copies of the documents while some ask for a one-time uploading. The latter practice requires less time and also results in cost savings.
- (c). High burden for sellers with large number of shipments. For shipments above INR 5 Lakhs, a seller can ship only in cargo mode which takes time and is not appropriate for e-commerce. This limit has been raised to INR 10 lakhs in FTP 2023. With a Courier Shipping Bill (CSB) mode, the customs clearance and documentation processes are easier and faster as compared to the cargo mode, but the seller is unable to claim any export benefits.

## 5.2. Some Suggested Solutions for Specific Entities

### 5.2.1. Banks

As shipping bills are not generated in the case of exporters using e-commerce, and payments are received via OPGSPs, banks do not issue e-BRCs to the exporters when they receive payments, but rather to the OPGSPs<sup>136</sup>. There is a need to link the transaction ID of OPGSPs as proof of payment for e-commerce exports. In addition, normal payments received from abroad for small-value export orders generally e-commerce exporters sent through courier are rejected by banks. This is because the exporter is unable to demonstrate that the purpose of transaction was export remittance as they do not have shipping bill for exports made via courier. Such transaction related issues on the Bank's side need to be reviewed and simpler procedures need to be put in place.

### 5.2.2. Third Party Education Platforms

For traditional MSMEs, moving to cross-border e-commerce is a complicated business. It is vital to educate MSMEs on services available for their assistance. Government websites can be helpful in communicating steps on cross-border e-commerce processes. Some e-commerce players like Amazon, eBay and Flipkart have already collaborated with the local associations to sensitize MSMEs on important e-commerce issues. E-Bay worked with the Delhi Hindustan Merchants Association, Maliwada Jewellers Association- Delhi, Jaipur Jewellery Association and EPCH (Export Promotion Council for Handicrafts) to spread awareness and conduct workshops on retail e-commerce for MSMEs at cluster level. Amazon worked with FIEO (Federation of Indian Export Organizations), CLE (Council of Leather Exports), Spice Board, and others to educate MSMEs about the potential of retail e-commerce exports in India.

### 5.2.3. Some solutions to Logistics Problems

Encouraging public-private logistics integration between India Post and an international logistics companies can be beneficial. For example, to cater to the rapidly growing e-commerce business across the Asia-Pacific, Alibaba and Singapore Post have designed new initiatives to increase e-commerce logistic collaboration and build a leading e-commerce logistic platform. In Peru, the Serpost's Exporta Fácil program allows MSME owners to export goods to the US and other global markets through a convenient online system by using a website to fill forms and to retrieve valuable delivery and pricing options. There are some similar developments in India, like eBay has partnered with India Post to open dedicated counters for retail e-commerce exporters. India Post locations across 11 cities, including a village near Jaipur today offer dedicated counters for eBay sellers.

## Conclusions and recommendations

### Summing up the challenges

The challenges include: Lack of Market Intelligence; Branding and Marketing; Inadequate Infrastructure; Resistance to Change; Geographic Location; Lack of Trust; Standardization and Quality Issues; Ignorance about Government Policies; Little Access to Necessary Information and Consultancy Services; Failure and delay in receiving payments, resulting in Secondary Financial Insolvency; and, Low level of Export Readiness. In this context, it would be useful to collect a list of ongoing initiatives that aim at providing solutions for addressing these challenges, and provide that list online.

## RECOMMENDATIONS TO BOOST MSMEs' EXPORT PRESENCE

- 1. Implementation of Digital Single Window System:** Through the introduction of Digital Single Window System, goods can move faster through customs, thereby cutting down the delivery time. Actions such as reducing and rationalizing paperwork, overcoming the physical in-queue waits to get through to customs and so on can be made less time-consuming and more user-friendly by making the entire process electronic. In the case of Japan, import processing time has fallen from 25.7 hours to 13.4 hours through the introduction of a digital Single Window system in 2010.
- 2. Local Industry Association:** Mainstreaming local industry associations into digital commerce is essential. It is imperative to devise steps to create the relationship with Industry Associations and local/cluster level organizations for better mobilization of the MSMEs. Associations need to use channels like publications and easy to access web-links, to reach out to a larger audience and connect with the relevant global audience.
- 3. Local Support Organizations:** A strategy needs to be devised for linkages with technical and support organizations for product diversification and quality. This strategy could identify and outline of a strategy for linkages with major Computer Based Training institutes and organizations for wider policy impact. The one district one product (ODOP) initiative is a step in the right direction. Templates to improve the impact of such initiatives could be developed and be part of initiatives such as agreements between State Governments and e-commerce exports platforms to improve e-commerce export opportunities.
- 4. Identification of MSMEs in Technology- Enabled Trade:** Recognition of SMEs' engagement in the international trade market and the numerous unique barriers faced by them, is an imperative primary step to help SMEs overcome the obstacles that many of them face.
- 5. As India has Free Trade Agreements with many countries,** a special provision could be introduced to recognize the global nature of internet enabled trade, especially the export transactions below certain mutually agreed facilitative threshold levels. In addition, training modules could be developed to provide information on e-commerce export opportunities that could be availed on account of India's FTAs.
- 6. Raising the De Minimis Threshold for e-commerce trade transactions:** Expanding the de minimis threshold is likely to boost trade opportunities for MSMEs by considerably reducing the cost, time and the uncertainty involved in the movement of packages across borders. In February 2016, the US increased the de minimis level on international shipments from USD 200 to USD 800 per shipment.<sup>137</sup>
- 7. Provision for the Returned Goods:** Although, the customs provision exists, the practical implementation needs to be strengthened to promote B2C exports through an e-commerce mode. As of now there is no specific means of identification of returned goods by customs.
- 8. Modernization of the Indian Postal System:** Development of postal services can prove to be extremely beneficial for exporting MSMEs, as they can utilize the postal service to move their goods around the world. India Post needs to improve its cross-border logistic management by partnering with private logistics companies (initiatives have begun in this regard), move to adopt IT enabled services that leverage efficiencies in scale and aggregation to provide volume discounts, and work more closely with other countries in order to harmonize shipping platforms between them. Finally, India Post could collaborate with the private sector to create inter-operable tracking systems that both the public and



the private sector can utilize. Creating inter-operable tracking systems would enable merchants and consumers to keep track of their packages throughout the shipping process and will also improve reliability of delivery. Some of these issues have been addressed by the FTP though details are still to follow.

9. **Comprehensive National E-commerce Strategy:** There is a strong need to develop a comprehensive e-commerce strategy. The strategy should identify the gamut of policy areas that affect technology-enabled trade like ICT, customs, tax policy and payment policy. It should highlight opportunities present in the e-commerce sector and devise a comprehensive strategy to improve the ease of doing e-commerce exports. In addition, it should illustrate the initiatives taken by individual institutions/ entities together or singly to provide solutions for addressing the difficulties faced by MSME e-commerce exporters.



## Chapter 6

# Case Studies from E-commerce Exporters

## Introduction

The Indian e-commerce export market consists largely of SMEs mainly deals with exports of apparel, gems and jewellery, home furnishing and textiles, and some other primary products such as spices and tea. India's key competencies also lie in finished/unfinished jewellery manufacturing, diamond polishing, and cutting. However, e-commerce exporters face various challenges which are also sectoral in nature. Through the use of primary surveys and secondary information this Chapter analyses some case studies which give a practical insight to the problems identified in earlier chapters. Section 6.1 highlights some cross-cutting sectoral issues. Section 6.2 provides some specific case studies. Finally, section 6.3 draws some conclusions and recommendations.



## 6.1. Selected Sectoral issues

A primary survey of e-commerce exporters conducted by FICCI<sup>138</sup> brought to the foreground challenges associated with:

1. ICT infrastructure;
2. E-payment; and,
3. Logistics problems.

A number of respondents across MSME sectors, like apparel, leather, handicraft, gems and jewellery were included in the survey.

Apart from the above-mentioned three concerns, a major problem identified by the survey was inadequate supply capacity to cater to export orders to meet international quality standards. Respondents felt poor Information and Communication Technology (ICT), especially low bandwidth, speed, and reliability of the network, and power failure in rural areas as factors that added to the obstacles. Lack of availability of skilled workforce, privacy and security concerns, and inaccessibility to finance also prevented Indian MSMEs to successfully transition to e-commerce exports.

On the external front, while global platforms like eBay, Amazon and Alibaba are engaging with MSMEs to push their products in the global market by helping them list on their respective platforms, there are still constraints. The challenges, include customs duty levied on return of goods, and lack of regulatory provisions for commercial shipment of small-value single items in the current courier shipping bill which leads to payment reconciliation problems. These findings have been validated by this report.

### 6.1.a: Problems Identified by Platform Owners

Some barriers to e-commerce exports have been specifically identified by platform owners. These are more in the nature of case studies or anecdotal evidence, but nevertheless serve to highlight issues of concern.

**Table 1: Concerns of Exporters**

Problem	Anecdotes
<b>Low awareness about end-to-end export process</b>	<p>"I did not know that we also require a LUT certificate until my shipment was held at customs. It took over 1 week till I got the certificate to clear the shipment" - New seller</p> <p>"We hired an agency to handle all the documentation part" – New seller</p> <p>"I have not heard of IEC Code, AD code" – Offline seller who wants to export</p>
<b>Shipping &amp; Fulfillment: Custom Delay</b>	<p>"The customs clearance went smoothly the first time I shipped 10 units of my product. However, the next time I shipped 10 units of the same product, customs demanded 4 more documents which delayed shipment" - Seller with 1 year experience</p> <p>"8-15 shipment/day held at Delhi port customs due to missing and/or incorrect information. The percentage of ad-hoc requests is low" - Logistic provider</p>
<b>Payment: Low Awareness</b>	<p>"I have never heard about FIRC &amp; BRC. The banks also have never asked me" – New seller</p> <p>"My goods are ready to be shipped, but I am not able to sell, as my CA and myself are trying to figure out how to do payment reconciliation in e-commerce exports" - New seller</p> <p>"The new sellers have a lot of queries on how to do reconciliation" - Tax Consultant Firm</p>
<b>Payment: Reconciliation</b>	<p>"It is very tedious to analyze the reports for reconciliation" – Experienced seller (&gt; 3 years)</p> <p>"Bank do not give FIRC immediately plus they charge high commission 3.5-4% which is very high." – Experienced seller (&gt; 3 years)</p> <p>"Payment reconciliation is very expensive! My product cost is INR 5000. After deduction of e-commerce marketplace charges and logistic provider fees, I am left with 2000-3000 INR. To comply with RBI regulations for payment reconciliation, banks charge INR 2500 for EDPMS closure. Deducting those charges, I am hardly left with any margin for my business." – New seller</p>

## 6.2 Case Studies

### 6.2.1. Spices

The compliance requirements of a spice exporter are listed below:

- Initially in order to export from India an Importer Exporter Code was obtained from DGFT for which a government fee of INR 500 was paid. After that the Authorized Dealer (AD) Code was registered with the customs authorities by sending the documents physically to a Customs House Agent (CHA), for which an additional cost was charged by the agent.
- As the product was spices, a Certificate of Registration as an Exporter of Spices (CRES) with the Spices Board of India had to be obtained. A government fee of INR 15000+GST (18%) was paid for this. Around 35 days after the application, the Spices Board of India conducted an inspection of the manufacturing unit. A license was issued after 15 days of the inspection, which ultimately resulted in a major delay in the launch process. Now every quarter, export returns have to be filed as part of the compliance process.
- The exporter already had a Food Safety and Standards Authority of India (FSSAI) State License, but an FSSAI Central License had to be obtained for export, for which a government fee of around INR 7500+GST (18%) was paid for a one-year license. The process took around 31 days which delayed exports further. An annual return will have to be filed for the same as a part of the compliance process.

4. The logistics costs of a shipment weighing 138 Kg, valued at INR 285,000 was INR 112,000, or roughly 40% of the value of the shipment.

### Description of Problems Faced

1. In order to initiate the first export out of India, a government fee of INR 23,000 is high for a first-time exporter which ultimately discourages exporters who are not financially strong.
2. The CRES application took more than a reasonable period of time, which lead to a major delay in the completion of the export process.
3. There was no single document present at any government website which could guide exporters to the comprehensive list of documents that are required for spices to be exported.

## 6.2.2 Tea

### In order to initiate tea exports electronically, the following processes were required:-

1. Initially in order to export from India, an IEC Code with DGFT with a government fee of INR 500 was needed. After this, an AD Code had to be registered with the customs authorities by sending the documents physically to a CHA for which the agent charged an additional fee.
2. As the export was of Tea, an export permit from the Tea Board of India had to be obtained by paying a government fee of INR 2800+GST (18%). The license took around 10-15 days to come which slowed down the process. An export return has to be filed monthly as a part of the compliance process.
3. As in spices, an FSSAI Central license for one year at a fee of around INR 7500+GST (18%) had to be obtained. The process took around 46 days, which delayed exports. Further an annual return has to be filed every year for the same as a part of the compliance.
4. A shipment weighing 120 kg and valued at around INR 135,000, had to pay a logistics cost of approx. INR 97,000 or around 70% of shipment value.
5. The product "**Turmeric Tea**" had a trace of Turmeric spice due to which the shipment was held by the Indian customs and the exporter was asked to apply for a Certificate of Registration as an Exporter of Spices with the Spices Board of India. An additional government fee of around 10,000+GST had to be paid and the export process was delayed by an additional of 15 days. Now quarterly export returns have to be filed as a part of the compliance process.

### Description of Problems Faced

1. In order to initiate the first export, a government fee of INR 20,800 was required. This is high for a first-time exporter and hinders exporters who are not financially strong.
2. There was no single document present at any government website which could guide exporters to the comprehensive list of documents that are specifically required for tea to be exported.
3. During the time of shipment, various documents were demanded by the logistics team which were in fact not even required.

## 6.2.3. Simplified Framework for Returns – The Case of Jewellery

The Government of India has implemented a simplified framework to facilitate export of jewellery through e-commerce in the Budget for 2022-2023. Accordingly, vide Circular No. 09/2022-Customs dated 30.06.2022, CBIC has laid down a simplified procedure for e-commerce exports of jewellery via International Courier Terminals (ICTs). Simultaneously, Courier Regulations have also been amended (Notification No. 57/2022-Customs (N.T.) dated 30.06.2022) to enable re-import of returned jewellery under an e-commerce transaction.

### Key aspects of the Standard Operating Procedure (SOP):

- a. To facilitate e-commerce related exports, certain fields have been added in the Courier Shipping Bill (CSB) as markers

including, inter alia, the website name/URL of the e-commerce operator, payment transaction ID and Jewellery item specifications (for example- SKU No., precious metal content or dimension, origin, cut, clarity, colour in the case of studded jewellery, etc.)

- b. Express Cargo Clearance System (ECCS) provides the facility of document upload. For uniformity and to facilitate processing for export, a prompt has been created on ECCS for uploading supporting documents while filing a Courier Shipping Bill (CSB) for jewellery such as invoice/ invoice-cum-packing list, photos of the export item and product package and image of the product listing on the e-commerce platform etc.
- c. A provision has also been made for additional support to the customs clearance process by way of uploading other documents that aid identification/ valuation of the jewellery item under export such as Hallmark Certification, if available, to enable speedier clearances.
- d. A Courier Shipping Bill or the package may be selected for verification and/ or examination based on risk assessment by the Risk Management System (RMS). If required, examination of the selected jewellery package shall be conducted under CCTV, preferably in a designated secure area.
- e. Auto Let Export Order (LEO) facility also stands extended to eligible consignments in terms of Circular No. 41/2020-Customs dated 07.09.2020.

#### Other Facilitative measures:

- a. Permitting re-import of returned e-commerce jewellery items through an amendment to Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010. The conditions required to be met for such re-imports include a ceiling on number and value of such returns and filing of Courier Bill of Entry (CBE) for the re-import not later than 45 days from the corresponding LEO of the subject export. Further, duty exemption may be claimed on re-import of the returned jewellery item in accordance with exemption notification, for example Notification No. 45/2017-Customs dated 30.06.2017, as appropriate.
- a. For secure handling and movement of jewellery consignments at an ICT, creation of necessary infrastructure by the Custodian, such as strong room for safe keeping and separately earmarked secure area for examination, appropriate equipment such as karat meter, lenses, weighing scale, microscope, bulbs and other such equipment as maybe required for aiding the examination and assessment and CCTV cameras, has been mandated.
- a. Customs formations would provide an enabling environment and where necessary empanel expert valuers as well as impart requisite training to the customs officers for proper handling and facilitation of e-commerce exports of jewellery under Courier.

Subsequently stakeholder consultations, including those with the Express Industry Council of India (EICI), Gems and Jewellery Export Promotion Council (GJEPC), e-commerce operators, members of the trade, officers working in the Directorate General Of Export Promotion, Directorate General of Systems and Customs field formations, have been held.

However, the new rules stipulate that jewellery export through courier mode is permitted only after receipt of full advance and photos of the export jewellery, product package/outer covering, product listing on the e-commerce platform and Hallmark certificate are uploaded on the customs system.

Re-imports of physically damaged or defective Jewellery exported through courier mode are permitted subject to several conditions to keep menace makers at bay. This may prove a difficult task for e-commerce exporters, and could be examined for further facilitation while combining it it relevant risk assessment procedures.

### 6.2.4. Apparel

Addressing returns in the case of apparel is an important issue, because of the relatively high case of returns, the low revenues earned by selling the returned product and the relatively large cost of transporting it back to the exporter. As stated by an e-commerce exporter, "When the product gets discarded, we need to pay 50 cents per product for every discard. It is almost a tough job to **have the material back. When we give it to the bank saying that this much material has been discarded** or the customer would have returned it and it is not being in the condition to be used, then

the Reserve Bank of India ([RBI](#)) wants proof of it".<sup>139</sup> Platform owners may not send us the proper bill for pick up and drop charges.

### 6.3. Recommendations from the Federation of Indian Micro and Small & Medium Enterprises (FISME)

In April 2022, FISME suggested a dedicated policy framework in the Government's Foreign Trade Policy (FTP) for promoting e-commerce exports, as part of the inputs shared by FISME with the government to support MSMEs selling goods online. The case studies highlight a number of these suggestions, such as simplifying returns in e-commerce exports. Among the key asks to boost e-commerce exports were exempting online sellers from GST registration, and digitising the process of AD code registration (a 14-digit code provided by the bank and required at the port from where the goods are cleared by customs). FISME had also suggested automating the processes relating to eBRC (electronic Bank Realisation Certificate for exporters by the bank as payment confirmation from the buyer for goods exported) and consolidating and making it easier to get eFIRC, i.e., the electronic Foreign Inward Remittance Certificate that acts as a proof of inward remittance to India. [FTP 2023](#) has emphasised large-scale digitisation of procedures. The areas suggested by FISME could be among the priority concerns to be addressed in this context. The importance of this aspect was also confirmed by exporters. This would be part of the approach to address the key concerns of small e-commerce players through a more comprehensive approach for boosting e-commerce exports from India.

### 6.4. Conclusions: Evidence from Case Studies

The case studies show that while there is some sector specificity, the general problems explained in earlier chapters remain. In several cases e-commerce may not be a financially viable proposition because of the additional costs and delays incurred in the process. At the same time, there is an example of a special effort by the Government to address a specific important concern, namely, the issue of returns for jewellery exports. The [FTP 2023](#) has announced some other initiatives which would improve the situation. Addressing the additional concerns mentioned in this Report should pave the way for more dynamism and growth in e-commerce exports from India.



## Chapter 7

# Conclusions and Recommendations

## Introduction

Cross-border e-commerce is set to grow and accounts for more than 10% of total e-commerce retail sales in most high growth e-commerce countries. Products in which India is competitive in overall trade need not coincide with the export of products in e-commerce. For example, there is a lot of room for handicrafts, apparel and personal care products produced in household related enterprises which do not account for a high share of overall exports. Furthermore, e-commerce does not require a large scale of production. Rather customized products produced by small and medium enterprises have a real opportunity to expand their exports provided payment and other mechanisms can be streamlined.

Services such as travel, entertainment, software etc. occupy a dominant position in e-commerce including cross-border e-commerce. However, this report is restricted mainly to goods, especially those produced by SMEs. This is because cross border e-commerce in services is already streamlined and dominated by large companies with well-established international practices. E-commerce has clearly played a phenomenal role in the rise of economies such as China's. India has a high potential for growth of e-commerce exports, and compared to other large economies, it must catch up fast with its domestic and export potential. In its quest to achieve a \$5 trillion economy, the Government of India should **boost digitalization, push inclusivity in ways that support MSMEs**, and empower small businesses to venture into the online ecosystem and diversify their operations in the global marketplace. These, together with some other policy initiatives mentioned below, are the key to moving e-commerce exports to a higher growth trajectory.

Section 7.1 summarises the challenges, what has already been done by the government and what remains to be done in a tabular format. Section 7.2 draws some conclusions from the report and section 7.3 draws up some recommendations.

## 7.1. Problems Government Action and the Remaining Issues

The problems faced by e-commerce can be considered in terms of the following issues:

- Low awareness about, and the ability to conduct, the end-to-end e-commerce export process and low digital maturity to conduct digital transactions;
- Mandatory Licenses - AD Code Letter from bank and AD Code registration at the port;
- Easier shipping and documentation, customs process simplification and need for a Green Channel for e-commerce exports;
- Standard operating practice for product returns, including avoiding levy of import tariffs on these returns;
- Information about benefits available under the Government schemes, and enabling access to the benefits by e-commerce exporters; and,
- Issues relating to the cross-border payments received for e-commerce exports,
  - ◇ Closure procedure and charges for Export Data Processing and Monitoring System (EDPMS);
  - ◇ Easier reconciliation of remittances for export receipts from abroad,
    - \* A need to reassess and extend the 25% variation and the 9-month limit that is currently in place;
    - \* Addressing the difficulty in correlating the e-FIRC and OPGSP transactions,<sup>140</sup>

Annex 7.1 provides more discussion of these issues, including the government action to address these concerns and the nature of policy ask by the exporters.

## 7.2. Conclusions

### 7.2.1. The Evolving Future of E-commerce

While there are country level specificities, some clear trends are emerging in e-commerce for 2022 and beyond<sup>141</sup> are summarised below:

1. Cross border e-commerce B2C is set to grow and it is critical to localize for every country, with a need for a personalized shopping experience for every consumer.
2. Social media channels and shopping through them are expanding most rapidly. The new trends are towards an increasing reliance on Artificial Intelligence (AI). Self-support, smart chatbots, and real-time A/B testing are just some of the ways AI is improving e-commerce.
3. Interactive shopping will grow. New augmented reality features and interactive shopping events like live shopping are especially valuable for cross-border shoppers for whom returns and exchanges are more time-consuming and problematic.
4. It is important to diversify payment methods. More shoppers also seek out 'buy now pay later options' at checkouts in many markets. Alternative payment methods vary by country, making research essential when localizing sales channels. New payment methods and digital wallets may surge in this decade as the fintech sector matures and shoppers want the convenience of placing orders and submitting payments through any and every device.
5. Logistics companies are proliferating but costs may rise. Regulations on cross-border e-commerce are evolving.

### 7.2.2. Challenges, Especially for India

There are multiple challenges in e-commerce exports- policy related as well as operational. Briefly, they are as follows:

#### Policy Related

- Inconsistency in the e-commerce definition between the RBI and the Foreign Trade Policy.
- Burdensome regulatory requirements, some of which are the same as required for offline exports.
- Submission of a large number of documents, many of which are the same, for each shipment separately.
- Standard Operating Procedure not laid down for the treatment of returns, leading to many returns being considered as fresh imports and being subjected to full import duty.
- Price variation of 25% only allowed between invoice price and realized price.
- Price realisation to be effected within 9 months.
- Comparatively high transaction costs (for smaller exporters) and reconciliation issues between consignment value and price realisation in several tranches.

#### Operational Problems

- Lack of digital maturity and information gap relating to regulatory requirements and how to comply with them; absence of a single portal which can provide all the information at one place.
- Lack of market intelligence and quick transmission of inputs relating to evolving changes in consumer preferences in different markets.



- Issues relating to standardisation and quality.
- Inability of small exporters to follow up on held up payments, including facing secondary insolvency and losing their registration as exporters.
- High courier charges for exporting from the hinterland; Foreign Post Offices network of India Post, though expanding rapidly, still unable to cater to the requirements of remoter locations.

India has begun to improve and simplify its procedures. In this regard, it will benefit from the experience of other countries in simplifying the processes of cross-border payments and registration requirements for small exporters. India should use its existing infrastructure for awareness building and addressing the other pain points identified in this report. In particular, a review is required about whether the 9-month payment reconciliation period is sufficient and whether the limit of 25% payment flexibility of the RBI is enough to cover the high product returns, discounting in specific product segments. Besides new technologies, Payment Service Providers (PSPs) and regulatory frameworks need to adapt to the rapidly changing payment scenarios on e-commerce as was discussed in this report for instance by sharing the experience of Singapore and Switzerland. Closed loop systems with its major markets should also be explored for India, particularly as India is embarking on INR trade with a number of countries.

Product returns need to be streamlined and logistics costs reduced. Last mile logistics appears to be covered by postal services or platform owners in several cases. The mechanisms need to be understood and costs need to be reduced. The ongoing initiatives under PM Gati Shakti and the National Logistics Policy would be important frameworks for expediting work on these issues.

Significantly, taxation and duties, especially tariffs and VAT or GST should be transparently explained. Overall awareness on different regulations needs to be improved, especially for small e-commerce exporters. It would be useful to have a single point of information which provides a comprehensive list of all requirements. Over time, this would also help in reducing and improving the operations of the processes.

### 7.3. Recommendations to Boost E-commerce Exports Especially for MSMEs

1. **Implementation of Digital Single Window System:** Through the introduction of Digital Single Window System, goods can move faster through customs, thereby cutting down the delivery time. As in the case of Japan, where import processing time has fallen from 25.7 hours to 13.4 hours, through the introduction of a digital Single Window system in 2010.
2. **Local Industry Association:** Mainstreaming local industry associations into digital commerce is essential. In the case of India such efforts should include FISME.
3. **Local Support Organizations:** A strategy needs to be devised for linkages with technical and support organizations for product diversification and quality. The one district one product initiative is a step in the right direction.
4. **As India has Free Trade Agreements with many countries,** a special provision could be introduced to recognize the global nature of internet enabled trade, such as payment loop systems and rapid logistics for e-commerce.
5. **Raise the De Minimis Threshold:** Expanding the de minimis threshold for product returns is likely to boost trade opportunities for MSMEs by considerably reducing the cost, time and the uncertainty involved in the movement of packages across borders
6. **Provision for the Returned Goods:** MSMEs should not be burdened with payment of import duties on cross-border returns. As of now there is no specific means of identification of returned goods at the customs. An indicator such as a code linked to the export bill could be used to link the returns with the returned consignment.
7. **Modernization of Indian Postal System:** Development of postal services can prove to be extremely beneficial for MSMEs that export, as they can utilize the postal service to move their goods around the world. Useful steps in this context include the Indian Post partnering with private logistics companies, greater adoption of IT-enabled services that leverage efficiencies in scale and aggregation to provide volume discounts, and working closely with other countries in order to harmonize shipping platforms between them. An example includes the possibility of India Post

collaborating with the private sector to create inter-operable tracking systems that both the public and the private sector can utilize. Creating inter-operable tracking systems would enable merchants and consumers to keep track of their packages throughout the shipping process and will also improve reliability of delivery.

**8. Comprehensive national e-commerce Strategy:** There is a strong need to develop a comprehensive e-commerce strategy by the government.

The Federation of Small and Medium Enterprises (FISME) in April 2022 suggested a dedicated policy framework for the government's Foreign Trade Policy (FTP) to promote e-commerce exports. Those suggestions would help address the major concerns of MSMEs and promote e-commerce exports. Likewise, the recommendations of a recent report on "Promotion and Regulation of E-commerce in India" by the Rajya Sabha's Department Related Parliamentary Standing Committee on Commerce are also important (more detail is in Chapter 4).<sup>142</sup> Given the present low participation of exporters in e-commerce, a wider scale of training opportunities to improve capacities of MSMEs to participate more extensively in e-commerce would expand the reach and scope of these exports. While the government and platform owners such as Amazon do provide such training, it needs to be done on a more widespread basis in each district through Industry Associations under the one product one district initiative.

These conclusions take account of the points raised during detailed discussions as well assessment of the policy measures used in various countries to address concerns relating to e-commerce exports. These inputs include the detailed insights from a survey of Indian e-commerce exporters that sought information on their concerns and suggestions that they provided for possible solutions. The results of the survey, which has identified 10 issues of concern, are summarised in Annex 7.1.



## Annex 7.1. Results from a Survey of E-commerce Exporters of India

### (10 issues Identified by exporters)

#### 1. Issue: Low awareness about end-to-end export process

**Problem Statement:** Currently, there is no dedicated portal that focusses on providing all the required information pertaining to exports documentation: (1). Complicated documentation required for different products and destinations, and it is spread across multiple websites. (2). Two groups of documentation: Mandatory documents (IEC, AD, etc.) required by origin country (IN); and Product specific documents (usually mandate of destination marketplace based on HS code of the product).

**How does the e-Exporter tackle this problem:** No comprehensive solution yet.

**Government Policy:** Government launched the Niryat Bandhu scheme to educate exporters. FTP 2023 has announced extensive programmes for e-commerce. Implementation of the policy would need to take account of the policy ask (see below).

**What is the policy ask:** One portal/ a single source. Sellers need only enter HS code and they get all the details relevant to the product category (export requirements, recent notifications, benefits, etc.) with a click.

#### 2. Issue: Mandatory Licenses - AD Code Letter from bank

**Problem Statement:** The process of obtaining AD code letter from bank is offline for all banks (except ICICI). For e-exports banks do not know/ recognize the fund flow as an export transaction which causes delay in the AD code letter generation. This is because the fund flow is through the Platform's account, which Banks do not recognize.

**How does the e-Exporter tackle this problem:** Exporter goes to the bank in person to obtain the letter. The process takes anywhere between 1 day to 1 week.

**Government Policy:** No Action yet.

**What is the policy ask:** Eliminate the need for AD code letter, or RBI mandates issuance of e-AD code letter by banks through a self-serve online portal.

#### 3. Issue: Mandatory Licenses - AD Code registration at Port

**Problem Statement:** AD code registration at a single port takes as long as 3-4 weeks even though the process is now online. After the letter is obtained, an exporter has to register the AD code at all ports from where he/she wants to export.

**How does the e-Exporter tackle this problem:** The following challenges may still exist: 1) Technical glitches on the portal; 2) Approval/ Rejection of the AD code registration on the portal takes too long 3) Port to port difference in implementation of the AD code registration process. 4) Sellers find applying for AD code on ICEGATE is too complicated.

**Government Policy:** In 2022, the CBIC made the AD code registration process on the Port online. Unlike previous years where an exporter had to visit each port in person to register their AD code, the new process only requires a seller to register their AD code on the ICEGATE platform.

**What is the policy ask:** The following can be adopted: 1. Issue a mandate to have only one registration across all ports, and 2. To fix technical glitches on the ICEGATE portal and/or expedite AD code registration on the portal.

#### 4. Issue: Shipping and Documentation, Customs process simplification/ Green Channel

**Problem Statement:** Sellers face the following challenges in shipping their goods: (1). About 4% of shipments get delayed due to missing documents; (2). Documentation challenges: Exporters have to generate documents for every shipment. While the list of mandatory documents required by customs is 3-4 documents, the actual number of documents supplied with each shipment is higher (about 10 to 12). (a) New exporters do not know what to fill in the documents; incorrect information being filled leads to delay at customs and results in additional manhours (~20% effort) to support sellers 1 on 1 for each shipment pick-up; (b) Avoidable replication in the process as the same set of documents need to be provided for every shipment. This process varies with each logistics partner - some logistics partners require hard copies of the

documents while some ask for 1-time uploading of documents; (c) High-cost burden for sellers with a large number of shipments.

**How does the e-Exporter tackle this problem:** (1). For shipments above INR 5 Lakhs, a seller can ship only in cargo mode. For shipment below INR 5 Lakhs, a seller can choose to ship in either CSB mode or Cargo mode. In CSB mode, the customs clearance process and documentation are easier and faster as compared to cargo mode, but the seller is unable to claim any export benefits. (2) Based on the shipment type, a seller shares 3-4 documents to a logistics pickup agent in paper format/pre-uploads on the logistics partner's website- (i) Commercial invoice cum packing list (ii) product specific compliance licenses (iii) Shipper's letter of instructions (iv) Export Value declaration. (3). Based on the HS code of the product, the logistics partner checks the documents required, based on checklist issued by the customs portal via intermediate software. Logistics partner uploads these documents on ICEGATE portal by using an intermediate software and opens an entry on the portal. When the goods reach the customs port, customs authorities check the entry ID and validate the relevant documents as inputs and creates a shipping bill in the ICEGATE (customs) system for cargo shipments. All CSB shipments are tracked through ECCS system. (4). Based on Product code, a sample QA check may happen or auto clearance of shipment happens in ICEGATE. The sample QA check is mandatory for shipments above INR 10 lakh. (i.e., 100% of shipments above INR 10 lakh are subject to physical inspection which can take 24 hrs or more, based on product type and documentation. (5). Once ICEGATE indicates that the shipment is cleared, customs create Let Export Order in ICEGATE. The ICEGATE system then generates the shipping bill, which is made available to the seller and logistics partner in ICEGATE for shipment tracking and further remittance reconciliation. After the generation of the shipping bill, customs give a Bill of Lading / Airways Bill at the point of loading onto a ship/or aircraft. In ocean freight, customs authorities create an EGM document in ICEGATE to indicate that the shipment has sailed; this document is more for use by the logistics partner, but is available to the shipper also in ICEGATE

**Government Policy:** No Action yet.

**What is the policy ask:** (1). Integration between ICEGATE portal and platform owners to set-up Green Channel for e-commerce exports - facilitate paperless trade, auto-shipping bill creation and pre-emptive clearance of e-commerce shipments. (2). Simplify the number of export documents required by making only Commercial Invoice mandatory. No need for additional documents irrespective of mode of clearance. Only Product specific (destination based) additional documents should be sought. (3). Eliminate the need to provide the same set of documents by adoption of the government portal e-Sanchit for online uploading of all documents to facilitate paperless trade.

## 5. Issue: Returns are subjected to customs duty

**Problem Statement:** Import duties are levied on a broad category of products that are returned. Due to high returns cost, the sellers opt for liquidating the returned goods at destination marketplace leading to write-offs. The returns cost is high due to: (1). High logistics cost; and (2). Import duties levied on returns.

**How does the e-Exporter tackle this problem:** For the e-commerce seller, bearing the costs of getting the returned goods back to origin country (IN) is the key challenge faced by all sellers. The cost can be high due to logistics cost and/or duty paid. The seller has the option to: (a) Ship the returned goods to a local address; (b) Destroy/ liquidate the goods; and (c) Return the goods back to the originating country (IN). The seller usually opts for destroying the shipment leading to a write-off as the other options are expensive.

**Government Policy:** As per Govt. guidelines, re-import duty for returned goods is zero. However, the process of proving that the goods are re-imported and not freshly imported is not well-defined and a transparent SOP to establish re-imports, does not exist at ports. Customs has notified a specific regime in the context of jewellery re-imports.

**What is the policy ask:** Customs formalize an SOP for re-import of goods, and simplify the re-import process by: (1). Issuing a clear directive that e-commerce returns are re-imports and are to be zero rated; (2). Provide clarity on timelines for re-imports (currently takes 3 months at IN ports for clearance); (3). Clarify the documentation needed in order to establish that a shipment is re-import.

## 6. Issue: Access to benefits provided by the Government

**Problem Statement:** Challenges: (1). Sellers are unaware about export benefits which leads to missed revenue opportunities; (2). Sellers are aware, but do not claim benefits as they find the process of claiming benefits to be very

complicated; (3). Sellers are aware, but do not claim benefits as the % age of benefit is not worth the operational overhead to claim the benefit, and (4) sellers shipping through CSB-V mode do not have access to export incentives.

**How does the e-Exporter tackle this problem:** The exporters can avail these benefits by applying online on the DGFT portal and submitting documents such as shipping bill, eBRC certificate etc. The process of availing benefits for each shipping bill is cumbersome.

**Government Policy:** The information and application for different benefit schemes is now available on the DGFT portal. Additionally, the FTP 2023 mentioned all e-commerce exporters will get access to FTP benefits.

**What is the policy ask:** Enable access to export incentives for CSB-V shipments. Govt. could promote greater adoption of the DGFT portal through awareness programs and training, and co-branded marketing campaigns with e-commerce platform owners. E-commerce export-specific benefits to be given to sellers (rebate to be offered to sellers if exported through e-commerce channel)

## 7. Issue: Cross-border payments - EDPMS closure procedure and charges

**Problem Statement:** As per the RBI guidelines, exporters need to work with their AD bank for reconciliation of all export payments i.e., amount declared in the shipping bill must match the inward remittance in their AD bank account. (1). ICEGATE and EDPMS (RBI system) communicate through electronic daily updates where RBI system gets the details of a shipping bill. The CSB-V shipping bill entries in the ECCS system were not synced with EDPMS portal. However, credible sources (banks) have said that CSB-V also shows for some use cases today, and the plan is to ensure it shows up for 100% use cases soon. (2). When a seller receives payment in his AD Bank account in Foreign Currency, he goes to the bank physically with the shipping bill and payment invoice and submits it to the bank to close the EDMPS entry. A seller pays the bank ~1-4k per shipping bill to close an entry. (3). AD bank personnel go to EDPMS system to manually view aged shipments (>9months) that have not gone through EDPMS closure and warnings are created and sent to the sellers.

**How does the e-Exporter tackle this problem:** Challenges: (1). Sellers have to get e-FIRC document which serves as a proof for banks to recognize the INR payment as export transaction. This is an additional step for an e-commerce exporter. While the process is streamlined by aPSP such as Payoneer, the process of obtaining e-FIRC is cumbersome for bank transactions. (2). Sellers get multiple remittances against one shipping bill. A seller needs to match 1 shipping bill with multiple invoices. Some sellers have over 1000 invoices, which makes reconciliation a cumbersome process. (3). EDPMS closure charges are issued for each shipping bill. This increases the compliance burden on sellers with a large number of shipments and low value of shipments.

**Government Policy:** No Action yet

**What is the policy ask:** (1). RBI could exempt payment reconciliation process for e-commerce sellers because their transactions involve a very small amount. (2). If this is unacceptable, RBI could change the payment reconciliation process to consider bulk reconciliation of shipping bills and invoices over a period of xx months rather than reconciling every single shipping bill separately. (3). If this is unacceptable, RBI could issue guidelines for banks to allow seller/trading partners access to EDPMS portal for self-payment reconciliation of export transactions. (4). If this is unacceptable, RBI could waive off EDPMS closure charges for e-commerce sellers. (5). Or RBI could mandate banks to cap charges for EDPMS closure at a total of 0.25% of inward remittance

## 8. Issue: Cross-border payments - Remittance 25% variation

**Problem Statement:** Declaring remittance value becomes difficult considering sellers do not know at what price the products will be sold due to deals, discounts, etc. Additionally, deductions of platform fees, in case of low value exports, can be higher than 25%, and banks will be unable to reconcile these. As per RBI guidelines, the amount received in the sellers account must match the value declared in the shipping bill in order to close the entry on EDPMS portal. After EDPMS closure, a bank issues an eBRC certificate indicating closure of the entry which is further utilized by a seller to claim benefits. The process must be completed in 9 months post shipping bill generation. In case of e-commerce fee charges, unsold inventory or discounts, up to 25% reduction in amount is allowed, which needs to be approved by the bank.

**How does the e-Exporter tackle this problem:** At the time of sending a shipment, a seller has to 'guess' the average price that the goods will be sold at, but the goods are sold over a long period of time (many weeks) during which a seller

may choose to run promotion events, or liquidation events instead of bringing the inventory back to India. Dispatch of a shipment is not equal to a sale, which is traditionally the case in offline export.

**Government Policy:** No action yet.

**What is the policy ask:** Policy ask is at three levels: (1). RBI could eliminate the 25% threshold for e-commerce payment reconciliation procedure, because the final price depends on various factors (promo pricing, liquidation etc.). (2). If this is unacceptable, then the shortfall in revenue realisation be allowed to the level of 50%; (3) All e-commerce export sales, where sellers receive an amount lower than the invoice value should be permitted with no % caps., as long as the sellers can submit valid reports showing that these deductions were made towards e-commerce fees or discount sales or unsold inventory.

### 9. Issue: Cross-border payments - Remittance 9 months limit

**Problem Statement:** Exporters need to work with the AD bank for reconciliation of all export payments. This needs to be done within 9 months of effecting a shipment. Without this closure, sellers face 2 challenges: (1). They cannot get an eBRC to claim incentives and benefits for exports, and, (2). They face the risk of being caution-listed which may lead to IEC license being revoked. Sellers, especially new ones, do not know when their products will be sold.

**How does the e-Exporters tackle this problem:** Sellers may not be able to sell within 9 months of shipping their inventory. The issue is more acute for new sellers.

**Government Policy:** No action yet.

**What is the policy ask:** RBI to increase the reconciliation window automatically to 15 months. While there is a provision, where a seller can ask for an extension of 6 months to reconcile his payments, the process for applying for extension is cumbersome as it requires submission of multiple documents to justify the need for an extension.

### 10. Issue: Cross-border payments – eFIRC for OPGSP transactions

**Problem Statement:** Banks need an e-FIRC for export payments received in INR to formally recognize a remittance as an export transaction. The e-FIRC document is issued by the converting entity (banks or other PSPs). However, several small exporters find it difficult to get an e-FIRC and may need awareness raising and handholding.

**How does the e-Exporters tackle this problem:** Platform owner cannot generate the eFIRC. (1). The international payment, where funds are converted from USD to INR, is made into the OPGSP account, which belongs to platform owners. Hence, if the bank issues an eFIRC, they would do so in the platform owner's name and not the seller's name. (2). The payment received into the OPGSP account is at an aggregate level (for multiple transactions) and NOT at a seller/transaction level. Hence, if the bank issues an eFIRC, it would do so for the aggregate amount. Besides, the details such as buyer name, buyer country etc. can also not be captured, since the payment is at an aggregate level.

**Government Policy:** RBI has recognized some of these challenges and issued a circular clarifying how banks can close EDPMS entries for payments received through platform owners.

**What is the policy ask:** For marketplace e-commerce exports, RBI could clarify that issuance of eFIRC should not be mandatory, as long as the marketplace is able to share the purpose code with the seller's bank to identify the export transactions. As per the RBI prescribed flow, payments are collected into the platform owner's OPGSP account in INR, and subsequently made to sellers in INR as well. The purpose code P0103, can be used by the seller's bank to identify this as an export transaction, and complete EDPMS requirements.



